



Presentation to:

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October 18, 2017

Agenda

- TBS Overview
- Trends impacting risk management in financial services firms
- FinTech: A unique position
- Enterprise Risk Management: Compliance or Competitive advantage?
 - Two examples that influence our thinking
 - TBS Case Study
- Looking toward the future

Mission Statement

- At Total Bank Solutions (TBS), our mission is to create a platform leveraging proprietary technology to facilitate the interaction between deposit-taking institutions and financial intermediaries.
- By providing participants with *secure* access to innovative and customized products and services, we seek to deliver solutions to help our customers meet their unique funding, investment and lending needs today and position their firms for future success.

Overview of TBS

- Privately held technology and financial services firm focused on the needs of banks and financial intermediaries
- Founded in 2004, consistent and stable ownership structure
- Provides deposit and lending solutions to broker-dealers, banks, registered investment advisors and trust companies
- Experienced team of industry professionals with unparalleled knowledge and experience in cash management, operations, technology, investments, credit research and finance

Products and Services

Insured Deposit Program

FDIC insured program with \$60B+ in deposits

Diversified Funding Program

Customized deposit management solutions

TBS Bank Monitor

Leading surveillance and analysis service

TBS CUSIP-FDIC Cert.

Service to provide a complete history of FDIC Cert data mapped to security CUSIP number

TBS Securities Based Loan Platform*

Integrated end-to-end collateralized lending application

Customer Segments

Source Institutions

- Broker-dealers
- Trust companies
- Municipalities
- Clearing firms
- Investment advisors
- Banks

Deposit Institutions

- National banks
- Regional banks
- Community banks

Trends Impacting risk management in financial services firms (McKinsey & Company)

Regulation will broaden and deepen	Pressure from external forces to limit risk exposure and increase disclosure
Customer expectations are rising with changing technology	The desire for seamlessly integrated services with immediate response time challenges the current business models
Technology and advanced analytics are evolving	Opportunity for risk managers to leverage new tools and techniques
New risks are emerging	Model Risk, Cybersecurity, contagion etc.
Pressure for cost savings will continue	Increased automation, digitization

The current environment is forcing organizations to re-evaluate the strategic impact of risk management

The Regulatory Framework

MAJOR US FINANCIAL REGULATORS AND ORGANIZATIONS

Prudential Bank Regulators	Securities and Derivatives Regulators	Other Regulators	Coordinating Forum
Office of the Comptroller of the Currency (OCC)	Securities and Exchange Commission (SEC)	Federal Housing Finance Agency (FHFA)	Financial Stability Oversight Council (FSOC)
Federal Deposit Insurance Corporation (FDIC)	Commodities Futures Trading Commission (CFTC)	Consumer Financial Protection Bureau (CFPB)	Federal Financial Institutions Examinations Council (FFIEC)
National Credit Union Administration (NCUA)	Financial Industry Regulatory Authority (FINRA)	Financial Crimes Enforcement Network (FINCEN) (Department of the US Treasury)	President's Working Group on Capital Markets (PWG)
Federal Reserve Board (the Fed/FRB)			

The Unique Position of FinTech

- Not directly regulated (For now)
- Bound by the same risk management and regulatory requirements of our clients
- The burden of compliance continues to increase
- To address a similar problem, the *ability* and *approach* often differs between traditional financial services and FinTech firms

Financial Services Firms

- Advantages
 - Resources
 - People
 - Industry Knowledge
- Disadvantages
 - Legacy Systems
 - Inertia
 - Scope of business
 - Complexity



FinTech

- Advantages
 - Smaller/Agile teams
 - Current Systems/ Emerging technologies
 - Flexibility
- Disadvantages
 - Industry Knowledge
 - Resources
 - Untested Systems
 - Size/ Counterparty

Examples of increased risk exposure for TBS

- Vendor Management
 - Compliance with SLA's
- Legal
- Operations
- Cybersecurity
 - PII
 - Data Protection
 - Touchpoints, where displayed, transmitted etc)
- Insurance
 - E&O
 - Cyber-insurance

Enterprise Risk Management: Example #1

- The Titanic
- **Compliance** does not equal effectiveness, efficiency, nor security.



- The misperception of risk regarding adhering to compliance standards did not reveal the true risk to the passengers (exceeded life boat capacity).
- Titanic owners exceeded compliance but ultimately failed to protect their passengers and the business.
 - TBS recognizes ERM exists to enable the business. “Figure out how to say yes and think creatively about how to manage risk.”
 - In managing our risk, TBS has taken a more proactive approach in managing client relationships.

Enterprise Risk Management: Example #2

- The Space Shuttle Challenger
- Minimizing a known risk for the sake of the relationship



- The misperception of risk regarding honest assessment of risk (short-term risk to the business vs relationship – long term).
- The ultimate failure was a risk analysis ignored for the sake of the relationship without influence to the risk to the business – ultimately people died and the billions of dollars of investment in the space shuttle Challenger was lost.

TBS Example

- What have we done/ how are we changing?
- ERM as a *sustainable competitive advantage*
 - Senior Management Commitment
 - Recognized an opportunity to differentiate from competition
 - Supports customer segmentation strategy
 - Positions TBS well to collaborate with other FinTech companies
 - Allocation of resources
 - Created Senior Risk Management Office
- Key areas of focus
 - Initial assessment (Wolf) / structure
 - Top-down as well as bottom-up organizational analysis
 - Engagement with key department managers and staff
 - Business Process evaluations
 - Created an “organizational structure & design” chart

TBS Example

- ❑ Organizational Structure and Design Chart:
- ❑ Designed to provide our organizational shape and control and how it performs based on:
 - **Functions**; core areas or activities it must engage in to accomplish its strategy (e.g. sales, customer service, marketing, accounting, finance, operations, CEO, admin, HR, legal, PR, R&D, engineering, etc.).
 - **Location**; of each function is where it is placed in the organizational structure and how it interacts with other functions.
 - **Authority**; of a function refers to its ability to make decisions within its domain and to perform its activities without unnecessary encumbrance.
- ❑ Reveals places where we do not want functions focused on effectiveness (sales, account management, strategy) reporting to functions focused on efficiency (operations, quality control, customer service).
- ❑ Reveals places where we do not want functions focused on long-range development (branding, strategy, R&D) reporting into functions focused on short-range results (sales, current marketing campaigns).
- ❑ Develop internal metrics that more closely align incentives by function, firm strategy and risk

TBS Example

- Key initial findings
 - Early success?
 - Building a stronger technology foundation for future growth
 - New opportunities revealed?
 - New product initiatives
- Ongoing commitment
 - A Continual process, not a one time exercise

Looking forward

- Looking forward...how do we see landscape continuing to evolve?
 - Vendor management
 - What started as a general five-question assessment has evolved into a standards-based 100-questionnaire.
 - Assessment evolving to audits.
 - Third-party and fourth-party relationships incorporated into vendor risk assessments.
 - Goal: ISO 27000 Certification



Questions?
