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Challenges Ahead, Opportunities ABOUND

By **Robin L. Wiessmann**, Secretary of Banking and Securities

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Learn more



Cybersecurity Task Force Announced

Will help businesses reduce vulnerability; prevent and defend against cyberattacks; and minimize damage to consumers and investors after a cyberattack.

Learn more



Charities Cautioned: Unlicensed Money Transmitters

The department has issued an advisory to nonprofit and religious communities about possible risk with unlicensed donation processors.

Learn more



Acting Deputy Secretary of Securities Appointed

Joseph J. Minisi, Esq., has been appointed as Acting Deputy Secretary of Securities.

Learn more

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Challenges Ahead, Opportunities Abound

by **Robin L. Wiessmann**, Secretary

Since joining the Department of Banking and Securities in January, I have been reacquainting myself with all the current, core regulatory functions that define our agency: examination, investigation, licensing, compliance, and enforcement activities in diverse, often segmented financial services industries. At the same time, I have been busy establishing relationships with our agency's stakeholders, including members of the General Assembly, regulatory counterparts in other states and the federal government with whom we collaborate, and the trade organizations in Pennsylvania that represent the businesses we supervise.

My colleagues and I have also been working to position this agency to meet the challenges facing Pennsylvania's financial services marketplace, as well as seizing several opportunities to benefit Pennsylvania consumers and businesses:

Challenges

This is an interesting time in financial services because of several trends, including: 1) "fintech"; 2) industry consolidation; and 3) regulatory "right-sizing."

First, we are seeing the fundamental relationships between consumers and businesses and money change in front of our eyes. Terms like Bitcoin, marketplace lending, and crowdfunding seemed to be part of science fiction just a few years ago, but they are now standing on our doorstep, demanding our attention under the rubric "fintech."

Regarding any form of financial transactions, when circumstances for the consumer are good – good health, secure job, stable personal life – the relationship between consumer and business is good. When things go sour in this relationship due to change in personal circumstance or the economy, it is our job as a regulator to help ensure the consumer is protected under the law.

The most important question for business, then, is whether or not they are working to meet the challenge of fintech. Whatever the outcome of these challenges to traditional borrowing, lending, and investing, we can be assured that the marketplace will determine that your customers will benefit from more convenient, more efficient, and less expensive ways to access capital and pay for things.

Second, we are seeing industry consolidation, especially in the world of banks and credit unions. As an illustration, 20 years ago, the FDIC insured nearly 400 institutions based in Pennsylvania. By 2008, that number had shrunk to less than 300, and today the number stands at less than 225.

This trend has been playing out across the country. While 92 percent of banks in this country are defined as "community banks" (less than \$1 billion in assets), exactly four U.S. banks exceed \$1 trillion in assets and hold more than 40 percent of deposits.

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Some view these trends as foretelling the demise of the small, community-based lender, with the large “too big to fail” institutions and fintech rushing to dominate the market. We cannot ignore these trends or increased competition in the marketplace. However, as an experienced financial services observer, I think there is something of a pendulum effect in play. The trend today is toward bigger, faster, and more frictionless access to capital. We have seen this trend before, ultimately balanced by the need for smaller, personalized, “hand-crafted” business relationships.



This is no time for businesses to be complacent or continue to rely upon pre-recession business models. However, I think the days of the community-based lender are far from over.

Third, five years after the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, we find ourselves in the midst of the debate on how to “right-size” financial regulation. Several of my counterparts in other states have pointed out – and I agree -- that Dodd-Frank was designed to address systemic problems of our nation’s largest institutions, and that this design has created undue burdens for our smaller institutions.

Instead of imposing a global regulatory regime on all institutions, I think we need to take a more flexible, local regulatory approach. The role of state financial regulators is key to achieving this goal, especially in our partnership with federal regulators on the Financial Stability Oversight Committee (FSOC) and the Federal Financial

Institutions Examination Council (FFIEC). It is worth mentioning an important collaboration between the Conference of State Bank Supervisors and the Federal Reserve in the recent publication of the **Community Banking in the 21st Century National Survey** [PDF]. A total of 974 community bankers, including 37 in Pennsylvania, participated in the survey. The survey provides a national view of how bankers are thinking about key issues facing the industry and how they are responding to market conditions (**see Page 7**).

As we continue to discuss and debate the issues of “right-sizing” financial regulation, I recommend the *Community Banking in the 21st Century* to help us better understand the opportunities in the marketplace, as well as help regulators better understand the challenges facing the community financial services providers they supervise.

Opportunities

Amidst these challenges, I am pleased about the development of two initiatives within the Department of Banking and Securities.

Last month, we announced the formation of a Cybersecurity Task Force (**see Page 5**). We are one of the first state financial regulators to create such a task force, whose mission is focused on promoting cybersecurity awareness and identifying cybersecurity trends, developments, and best practices. I strongly recommend that all businesses we regulate visit our **Cybersecurity Task Force website** to help ensure they have the information they need to protect themselves and their customers.

In addition, we have reorganized all of our department outreach efforts into a new, single unit, Financial Services for Consumers and Businesses, under the leadership of Deputy Secretary Brian LaForme. This new unit contains:

- Consumer Services, which responds to nearly 6,000 consumer inquiries and complaints each year through our website and hotline (**1.800.PA.BANKS**);

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- Investor Education, which presents non-commercial, educational programs on basic and advanced investment principles, as well as ways to protect investors from fraud;
- Community Outreach, which provides information on consumer financial topics at senior citizen expos, community center functions, schools, and other public events; and
- Business Outreach, which meets with businesses in a non-regulatory setting to provide assistance and information.

This new unit improves our ability to identify issues of concern to consumers and businesses; provides needed and targeted outreach to individuals, communities, and groups; and enhances our collaboration with other government and nonprofit agencies to provide more effective outreach across Pennsylvania.

As our economy continues to expand and grow, I am pleased by the diversity of financial options for consumers and confident in the integrity of Pennsylvania's marketplace. Governor Wolf and I are continuing our work to make Pennsylvania a desired destination for financial transactions.



Department Welcomes Two Banking Institutions to State Charter

The Department of Banking and Securities welcomes **First Federal Savings and Loan Association** of Bucks County, which converted from a federally chartered mutual savings and loan association to a Pennsylvania state-chartered mutual savings bank in the third quarter of 2015. The department also welcomes **Phoenixville Federal Bank & Trust**, Chester County, which converted from a federally chartered mutual savings association to a Pennsylvania state-chartered mutual savings bank with trust powers.

FSCB Reaches Out to Seniors

Staff members in the Financial Services for Consumers and Business unit (FSCB) recently met with senior citizens at legislative expos across Pennsylvania to discuss how to protect their money (left to right): Consumer Services chief Chris Hodge (r) with Rep. Pam DeLissio at the Good Neighbor Day Health Fair in Philadelphia; business outreach staffer Felix Zorrilla at Senator Christine Tartaglione's Senior Expo in Philadelphia; and consumer outreach staffer Becky MacDicken at Rep. Dan Miller's Senior Expo in Mt. Lebanon.



Cybersection

Cybersecurity Task Force Announced

The department has announced the formation of a Cybersecurity Task Force designed to educate and inform companies and individuals under its regulatory supervision about information security, with a focus on cybersecurity issues and challenges. The task force is comprised of regulatory, legal, and information technology staff, whose goal is to help businesses reduce vulnerability; prevent and defend against cyberattacks; and minimize damage to consumers and investors after a cyberattack.

The task force launched a **website** in September aimed at offering a variety of resources that may be useful in adopting a more vigilant attitude toward cybersecurity. Two examples of resources available on the website:



- The Federal Financial Institutions Examination Council (FFIEC) **self-assessment tool** to guide financial institutions in evaluating their cybersecurity risks; and
- A **guidance** [PDF] released by the Securities and Exchange Commission's Division of Investment Management emphasizing best practices and warning compliance officers of the potential securities law violations that could occur due to failure to address deficiencies in cybersecurity programs.

The department's task force efforts are an extension of the Commonwealth of Pennsylvania's **approach** to protecting the security of its digital resources.

"As cybersecurity threats to businesses and institutions continue and increase, the need for the financial services industry to implement effective cybersecurity measures is more pressing than ever," stated Secretary of Banking and Securities Robin L. Wiessmann.

The department strongly encourages all of its regulated entities to develop cybersecurity attack prevention and mitigation plans, including:

- Identifying and assessing their own cybersecurity risks, and evaluating means and methods for protecting their networks and data;
- Regularly running vulnerability assessments and penetration tests of their networks;
- Using encryption for customer and investor data;
- Keeping their operating systems up-to-date; and
- Employing and frequently updating anti-virus and anti-malware software.

In addition to implementing technical measures, businesses should recognize that the weakest links in a secure system may be an employee, a third-party vendor, or even a customer. Businesses should train and evaluate their staff and vendors, and educate their customers, to ensure that they understand the risks presented by cybersecurity threats. All parties should be vigilant in protecting their data, and the networks and data of their counterparties.

For more information, visit the department's cybersecurity website at www.dobs.pa.gov/businesses/cybersecurity

Acting Deputy Secretary of Securities Appointed

Joseph J. Minisi, Esq., has been appointed as Acting Deputy Secretary of Securities.

He brings significant legal, regulatory, and securities experience to this role. Early in his career, Minisi served as in-house counsel to two Philadelphia area commercial real estate companies. He began his state government service as counsel and supervisory counsel at the Pennsylvania Department of Labor & Industry.

From 1998 until the merger of the PA Securities Commission and the Department of Banking in 2012, Minisi served as Assistant Counsel, Supervisory Counsel, and later Senior Counsel and Legal Advisor to the Division of Licensing with the commission. Following the merger, he was appointed Deputy Chief Counsel for Securities Litigation.

Minisi is a graduate of the University of Pennsylvania, and received a law degree from Widener School of Law.



Investment Fraud Bingo Helps Seniors Protect Their Money

The department's Investor Education program offers senior citizen groups an innovative and fun way to help their members protect their money from unsuitable investments and financial scams – Investment Fraud Bingo.

"You play the game just like you would regular Bingo but with an added twist," says Investor Education coordinator Tina Kotsalos. "Each time the game caller announces a square, participants read aloud an accompanying investment protection message found on their bingo card. If they have filled an entire row, the winner shouts 'Fraud Bingo!'"



Players learn how to detect investment fraud by identifying common "red flags," local scams affecting their own city or town, and techniques to protect themselves from this financial abuse.

The Investment Fraud Bingo program is free of charge. Call the Pennsylvania Department of Banking and Securities at 717.783.4247 or download the two versions (**beginner** and **advanced**). The Investor Education program can accommodate groups of 15 or more and will also provide prizes to the winners free of charge to your group.

PA Banks Participate in National Community Bank Research

While attending the third annual Community Banking in the 21st Century Research and Policy Conference at the Federal Reserve Bank of St. Louis, Secretary of Banking and Securities Robin L. Wiessmann praised the publication of the *Community Banking in the 21st Century National Survey*, conducted for the second time and published jointly by the Conference of State Bank Supervisors (CSBS) and the Federal Reserve.

The *Community Banking in the 21st Century National Survey* was administered by state financial services regulators in 39 states to community banks, defined as having less than \$10 billion in assets. A total of 974 community bankers, including 37 in Pennsylvania, participated in the survey. The survey provides a national view of how bankers are thinking about key issues facing the industry and how they are responding to market conditions.

The key findings of the survey include insights and data concerning community bank regulatory compliance costs, the breadth of their mortgage lending, and their expansion of financial product offerings, including mobile banking services.

"I am pleased that 37 of our community banks participated in the survey this year," stated Wiessmann. "Pennsylvania banks are beginning to recognize the importance of this kind of industry-related research."

The survey results are available on the Community Banking in the 21st Century Research Conference website, www.communitybanking.org.



Federal Reserve Bank of St. Louis

"Making \$ense" - Financial Education in Erie



Holly Petraeus (second from left), widely known for her work strengthening consumer financial protection for members of the armed forces, hosted a town hall meeting during the "Making \$ense of Finance" conference in Erie in August. These conferences are designed specifically towards addressing the financial and investing challenges faced by members of the military and veterans, and are co-sponsored by the PA Military Finance Alliance. With Petraeus (l-r): Deputy Secretary Brian LaForme, the department's Investor Education Coordinator Tina Kotsalos, Army OneSource's State Community Support Coordinator Stephanie Grimes, and Assistant Investor Education Coordinator Doug Hassenbein.

Department Issues Advisory to Charities About Unlicensed Money Transmitters

The department has issued an advisory to nonprofit and religious communities about the possible risks to their organizations, members, and stakeholders through the use of unlicensed electronic payment service companies for the purpose of collecting charitable donations.

"Nonprofit organizations and religious communities in Pennsylvania have been approached by companies that promise to electronically collect and process contributions easily and seamlessly for a low fee," stated Secretary Robin L. Wiessmann. "While we are pleased to see this kind of technological innovation developed and implemented for the benefit of donors and charitable causes in Pennsylvania, we also stress that companies offering these services for a fee are required by law to be licensed as money transmitters by the Department of Banking and Securities."



Electronic payment service companies collect banking information from businesses, organizations or communities, as well as banking and other personal information from consumers. In order to protect businesses, organizations, and consumers, Pennsylvania law requires that electronic payment service companies, along with other money transmitters, maintain a minimum net worth of \$500,000 and carry a \$1 million bond. Proper licensure of all money transmitters assists state and federal governments with ensuring compliance with the federal Bank Secrecy Act, thereby preventing the use of the banking system to support illegal or criminal activities.

"I encourage all electronic payment service companies and their partner banking institutions doing business in Pennsylvania to ensure that they are in compliance with Pennsylvania law," said Wiessmann. "Additionally, for their protection, we encourage all individual donors and their charitable organizations to strongly consider using properly licensed money transmitters or legitimate agents of a money transmitter licensed to do business in Pennsylvania to ensure consumers are properly safeguarded."

Administrators, organization representatives, banking institutions, consumers, and others who wish to find out if their payment processor is properly licensed to do business in Pennsylvania can visit NMLS Consumer Access online (www.nmlsconsumeraccess.org) or contact the department's Consumer Services hotline: **1.800.PA.BANKS** (800.722.2657).

A Secretary's Letter ([here](#)) advising religious and nonprofit communities on this matter was issued this month.



DoBS Twitter Switches Handle

The Twitter account for the Department of Banking and Securities has switched handles to **@PAFinancialReg**. Follow us on Twitter to learn more about the department's community and public events, department news, press releases, industry news and trends, and more!

ComplianceCorner

3rd Quarter 2015 Enforcement Orders

The Department of Banking and Securities issued 11 enforcement orders during the third quarter of 2015. Fines and assessments for these orders totaled **\$281,300**, including:

- One Consent Agreement and Order issued for violations of the Pennsylvania Securities Act of 1972;
- One Final Order issued for violations of the Pennsylvania Securities Act of 1972, under which one individual was barred permanently from the industry;
- Two Consent Agreement and Orders issued for violations of the Consumer Credit Code;
- One Consent Agreement and Order issued for violations of the Money Transmitter Act;
- Three Suspension Orders issued for violations of the Mortgage Licensing Act, under which the licenses of one company and one individual were terminated, and the licenses of two companies were suspended;
- One Cease and Desist Order issued for violations of the Mortgage Licensing Act;
- One Consent Agreement and Order issued for violations of the Mortgage Licensing Act; and
- One Consent Agreement and Order issued for violations of the Check Casher Licensing Act.

Comprehensive lists of enforcement orders administered by the Department of Banking and Securities are available online at www.dobs.pa.gov. Consumers can make inquiries or file a complaint against any company or individual regulated or licensed by the Department of Banking and Securities online or by calling **1.800.PA.BANKS** (800.722.2657).

ResearchRegion

Rethinking Financial Innovation

“The world we are charged with supervising is changing, and changing rapidly. The fundamental relationships between consumers and businesses and money are changing in front of our eyes. As regulators, we must stay informed and be ready to react as the markets move.”

- Robin L. Wiessmann
 Secretary of Banking and Securities

The diagram illustrates the following trends and their impacts:

- Payments:** Emerging Payment Rails (Crypto Currency, P2P FX, Mobile Money), Cashless World (Integrated Billing, Mobile Payments, Streamlined Payments), Smarter, Faster Machines (Artificial Intelligence / Machine Learning, Machine Readable News, Social Sentiment, Big Data).
- Insurance:** Insurance Disaggregation (Sharing Economy, Autonomous Vehicles, Digital Distribution, Securitization and Hedge Funds), Connected Insurance (Internet of Things, Advanced Sensors, Wearable Computers).
- Deposits & Lending:** Alternative Lending (P2P Lending, Alternative Adjudication), Shifting Customer Preferences (Virtual Technologies, Mobile 3.0, Third-Party API).
- Capital Raising:** Crowdfunding (Virtual Exchanges & Smart Contracts, Alternative Due Diligence, Customer Empowerment).
- Investment Management:** Empowered Investors (Social Trading, Retail Algorithmic Trading), Process Externalisation (Advanced Algorithms, Cloud Computing, Capability Sharing, Open Source IT).
- Market Provisioning:** New Market Platforms (Market Information Platforms, Automated Data Collection & Analysis), Automation of High-Value Activities.

Source: World Economic Forum