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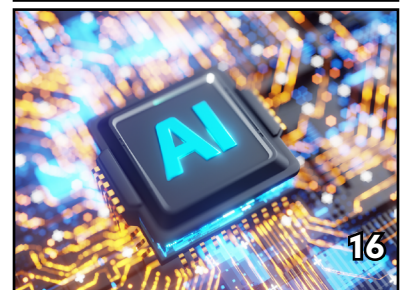
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message from the chair.....

BY DAVE NELSON | President/CEO | First Fidelity Bank, Burke
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Fraud, Scam, and Cybersecurity Risks and Education

As you read this article, summer will be winding down, schools have opened for the new school year, and families are getting back into their normal school year routines. I hope everyone had a great summer and are looking forward to the fall season. It is one of my favorite times of the year and it is getting into full swing. I look forward to the excitement of the new school year and all the activity it brings into our small towns. The increase in activity is a tremendous boost for our communities. Our three daughters send us pictures of our grandkids on their first day of school and it is fun to see the excitement in their eyes as the new school year gets underway and the expectations of learning new things. Education is a continual process throughout our lives.

In regards to education, banks are always looking for ways to continue to help educate our customers regarding fraud, cybersecurity risk, and scams. Criminals are always looking for ways to take advantage of our customers to gain access to their accounts and money, and are always coming up with new ways to try to achieve their goals. Banks depend on IT to deliver services. This also makes banks the continual target of criminals. Banking is one of the most regulated industries in the country. We are required to have sophisticated IT systems in place to protect the highly confidential data we maintain on our customers. Because of the increasing volume and sophistication of fraud, scams, and cyber threats, banks must continue to be diligent in identifying, assessing, and mitigating fraud and cybersecurity risks. Banks must follow standards for developing and implementing

administrative, technical, and physical safeguards to protect the security, confidentiality, and integrity of customer information.

Employees play a key role in protecting private and sensitive customer and bank data. That is why we continually have fraud and cybersecurity education and training for our employees. However, banks can't do it all. Customers also play a key role in protecting their personal private information. Therefore, we have to continue to help educate our customers as well. Both employees and customers can fall victim to fraud, cyber-intrusions, and scams. Taking the right security measures and being alert and aware are key ways to prevent fraud, cyber-intrusions, and scams.

People fall victim to fraudulent calls, emails, and text messages from scammers every day. No one is immune from this activity and you never know when it will occur. To assist in combating this issue, the ABA has developed a campaign called "Banks Never Ask That." This campaign has been very popular and is in its fourth year. There are all new videos, social media graphics, and a refreshed website. This campaign is free for all banks, whether you are an ABA member or not. The materials for this campaign are now available and this year's kickoff is October 2. You can incorporate these materials into your bank's website, social media platforms, advertising materials, etc. to help educate customers. I encourage you to go to the ABA website and register to take advantage of this resource for your bank. It will assist in educating your customers and it may just keep them from being the next victim of a scam or fraud. They will appreciate it. Thank you. 🌈



from the executive office.....

BY KARLTON ADAM | President | South Dakota Bankers Association
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Leveraging Your Engagement

Greetings SDBA members and happy September! It's hard to believe we have only a dozen weeks or so left in 2023. It seems that as every year passes, it passes a little faster than the year before. Before we know it, we'll be preparing for the holiday season, and soon the 99th session of the South Dakota Legislature.

Last month, I carved out a few days to hit the road and make stops at several banks in the northeastern and eastern regions. Thank you to all of you for welcoming me and sharing your banking industry perspectives with me.

It's my hope that before the snow flies that I'll make it west river for a few visits, as well. It's always a pleasure to sit down with our member banks to hear firsthand how things are going, what's coming up from the SDBA, chat about the banking industry at large and the upcoming legislative session. It comes as no surprise, but our South Dakota banks and bankers are some of the most humble, genuine and community-minded people you'll ever meet. And while the banking industry has had some twists and turns this year, South Dakota's banking industry, banks and bankers are strong. Keep up the good work and together, we'll continue to advocate and serve the people who truly matter: our families, friends, students, neighbors, communities, ag producers and small businesses. Your engagement matters and I can't thank you enough for your continued support and friendship to the SDBA.

On that note, I do want to plug a couple very timely banking topics. First, the Credit Card Competition Act (CCCA). If you have an active SDBA member profile (and if you don't, let's visit!) then you likely recently received an urgent CALL TO ACTION from me to contact South Dakota's U.S. Senator, Mike Rounds, to hear our strong opposition to this legislation. Senator Rounds serves on the important Senate Committee on Banking, Housing and Urban Affairs, and members are currently being overwhelmed by proponents of this legislation. Senator Rounds needs to hear our strong opposition to this legislation from "his constituents and bank executives and friends in the industry."

If you already contacted Senator Rounds, thank you for your involvement and advocacy. However, if you haven't and would like to participate in representing South Dakota's banking industry, this is a critical time for our industry and your voice makes a difference. Below are key speaking points and directions for how you can voice your opposition directly to Senator Rounds:

- Senator Rounds, Washington D.C. office phone number is **(202)-224-5842**
- Email Kathleen Gayle, Senator Rounds Senate Banking legislative liaison at **Kathleen_Gayle@rounds.senate.gov**

Key talking points:

- Identify yourself from your bank and location.
- Tell him you are contacting him because you understand there is an effort underway to attach the Credit Card Competition Act (CCCA) to unrelated must-pass legislation in the Senate, and you are urging him to oppose that effort, and to communicate their opposition to the appropriate Senate leadership.
- The Credit Card Competition Act is a government mandate that transfers wealth from bank customers to big box retailers, undermining credit card reward programs and forcing payment transactions onto less secure networks.
- The Credit Card Competition Act is bad policy, and even voting on attaching it to must-pass government funding bills is an inappropriate process that circumvents the careful scrutiny the bill requires.

The other topic I want to remind you of and turn your attention to is ACRE, or the Access to Credit for our Rural Economy (ACRE) Act. We continue to gain momentum in Washington, garnering support from both sides of the aisle. It goes without saying but I'll say it anyway: this is HUGE and doesn't happen very often. As our voices continue to be heard, we want to build as much industry support for ACRE as possible. So, if you are involved in or acquainted with ag groups such as the South Dakota Corn Growers, Wheat Growers, Soybean, Farm Bureau, Cattlemen's or anything in between, reach out to us to see how you can help get our ACRE message across to these valuable ag producers and partners. And, if you are one of those folks associated with ag-related groups and would like to learn more, please reach out to us, as well. In the meantime, go to www.sdba.com/acre to learn more.

Friends, that's a wrap for me this month, but again, I thank you for your continued support and friendship to the SDBA. We can't do what we do without you, and it's our sincerest honor and privilege to work alongside and advocate for remarkable people like yourselves. Enjoy the fall season. 🌈



south dakota bankers insurance & services update.....
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The Ongoing Challenge of Prescription Drug Costs

Health insurance is one of the biggest expenses for most of American employers and prescription drug expenses make up a large portion of that cost. Understandably, pharmaceutical manufacturers and PBMs both blame each other for the high cost of prescription drugs with the PBMs arguing that they can negotiate with insurers and manufacturers for lower drug costs, secure larger discounts for medications and pass the savings on to insurance plans, resulting in lower premiums for consumers.

This is an interesting point the PBMs make since there are around 70 full service PBMs in the U.S. but just three of them control 80% of the market and the top six control about 95%. The big six are part of massive conglomerates with important stakes in almost every sector of health care; each of them is owned by a powerful health insurer and these PBMs then control the drug pipeline from manufacturers to the pharmacy counter.

The pharmaceutical manufacturers also play a role in these rising costs. Pharmaceutical companies routinely hike their prices every year, often multiple times a year. They justify high drug prices by pointing to the high costs of researching and developing new drugs.

There are a couple of items to look at when examining this position. On average, pharmaceutical companies earn \$18.6 billion in revenues on a new drug. It's estimated that the cost of developing and successfully bringing a new prescription drug to the market ranged between \$0.5 billion to \$3 billion, with an average estimate of \$1.8 billion.

Of the \$18.6 billion in revenues that pharmaceutical companies earn on average for each drug, they earn \$10.6 billion in the U.S. market and \$8.2 billion from the international markets. However, the U.S. accounts for only 4% of the world's population. Therefore, the American consumer bears a disproportionately high share of drug development costs.

Additionally, drug manufacturers can protect their drugs from generic competition by using two parallel but independent processes: patents and regulatory exclusivity. A patent grants the patent holder a temporary monopoly on the patented technology and excludes others from making, using, selling, or importing the patented technology into the U.S.

market. In the case of prescription drugs, patents may be granted on the active ingredient, formulation, method of use, method of production, or method of administration.

Regulatory exclusivity is an incentive provided to pharmaceutical companies by the FDA and can only be granted for pharmaceutical products. It prevents other drug manufacturers from marketing and selling a drug with the same active ingredient for a set number of years.

They use these two independent methods to protect new drugs from generic competition and their impacts compound one another. The key difference between them is timing. A drug manufacturer can apply for a patent during the drug development stage long before the drug's approval. Consequently, the average duration of patent protection for a newly approved drug is less. In contrast, regulatory exclusivity starts at the time of drug approval. Therefore, a drug whose patent expires soon after FDA approval can maintain that protection from generic competition through regulatory exclusivity.

Additionally, many drugs with lengthy periods of patent protection are the result of pharmaceutical companies engaging in tactics like patent thickets, evergreening, and pay-for-delay settlements, which are used in combination with each other to prolong their monopoly on these drugs.

Patent thickening is a practice of filing numerous patents for the same drug, which increases the chances of patent infringement and, consequently, increases the cost of potential patent litigation. Patent thickets deter the makers of generics and biosimilars from entering the market.

Patent evergreening is a practice of filing new patents on secondary characteristics of a drug when its original patents (typically composition of matter patents) come close to their expiration date. Later-filed patents often prevent generic versions of the drug from entering the market and effectively extend the duration of patent protection beyond the original twenty-year term.

Pay-for-delay settlements often result from patent litigation between the brand drug manufacturer and the generic drug manufacturer. Under such settlements,

rather than litigate the validity of all allegedly infringed patents, the generic drug manufacturer agrees to delay the launch of the generic drug version, often in exchange for payment from the brand drug manufacturer.

However, there appear to be possible changes coming. Last week, the Federal Trade Commission changed course on their previous statements opposing state legislation that would boost transparency over the entities that manage prescription drug benefits. In 9 previous advocacy letters issued between 2004 and 2014, the FTC took the position that advocated against proposals to increase regulatory oversight and transparency of PBMs. However, during a meeting on July 20, 2023, the FTC Commission voted 3-0 to withdraw its prior advocacy statements, studies and reports in support of PBMs, as part of its ongoing investigation in the PBM market.

Additionally, this past July, committees in both houses of Congress voted to advance legislation impacting the actions of pharmacy benefit managers.

The Senate Finance Committee, which has jurisdiction over Medicare and Medicaid, passed the Medicare PBM Accountability Act. This bill would establish new requirements for PBMs to submit annual reports to Medicare drug plans, disclosing price negotiations and rebate information affecting what seniors pay in premiums and co-pays.

The House Ways and Means Committee also voted to pass the Health Care Price Transparency Act of 2023, which would require PBMs to disclose to employers information about their workers' drug claims and out-of-pocket expenses.

The separate bills in the House and Senate now must now be combined into one floor package. These changes are directed at the PBMs and this first step will optimistically carry over to new legislation for the drug manufactures too. Hopefully we'll see bi-partisan action on this very important issue for all of us. 🌈



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Emerging Leader of the Month: Seth Peterson



As part of the SDBA's mission to grow South Dakota's future bank leaders, we feature a monthly emerging leader. This month's feature is on Seth Peterson from The First National Bank in Sioux Falls in Sioux Falls.

First-Ever Job

My first job was mowing lawns in the summer. It all started by knocking on my neighbor's door asking if I could mow her yard. Looking back, I don't know where I found the courage, because I took the job from a professional company, and I asked for the same pay. The business grew to a handful of jobs and was the perfect work-life balance. Weather cooperating, I had control of my schedule, worked only a few hours a week, and had all the spending money I needed.

Emerging Leader Story

I started working at a bank during college. Shortly after graduation, I was thrown into some challenging situations working through fraud and other regulatory actions, but each situation proved to be a tremendous learning experience. I received my first recognition as an "emerging leader" when I was featured in the Internal Auditor Magazine's "Top 20 Auditors Under 30" article. The article really springboarded my career and solidified my career decision as an internal auditor. Then it became my goal and mission to provide others the chance to have the same opportunities as I had.

I believe you can lead from anywhere within the organization, and it isn't dependent on age, experience, or title. I have always taken the approach in my leadership journey that the ball is always in my court to help drive positive change, pursue my passions, and impact others.

What He Most Likes About His Job

My official title is Chief Risk Officer. With the support of the Board and Executive Management, I lead the risk management culture at The First National Bank in Sioux Falls. As an extension of the Board, I help identify how different risks relate and help management determine the best course of action to control those risks to an acceptable level. Banking is the risk management business, so that gives me the unique opportunity to be involved and provide input on almost every area of the Bank. Every day is unique, and you never know what situation or questions will arise. The nature of the work provides a lot of variety and allows the opportunity to get involved and make a difference.

Community banks are the unheralded backbone of the community. As bankers, we have the opportunity to make a positive impact on the community every day. Making loans and facilitating payments are only a portion of what

community banks provide. We also provide guidance, insight, counseling, and a range of other services with the common goal of making the community the best possible place to live.

If He Could Have Any Job

I have always been intrigued by air-traffic controllers and emergency room doctors. Both jobs require a lot of spontaneous critical thinking and would bring new challenges every day. If neither of those panned out, I would want to start a family YouTube channel where we travel the world and have all our trips paid for by our viewers (Hit that subscribe button!).

His Life's Passions

Faith, family, and serving others. Fortunately, these all intersect and complement each other. Our family does almost everything together which creates a lot of positive memories. Currently, I serve as the President of Habitat for Humanity of Greater Sioux Falls and as a Board member of the Sioux Falls Public Schools Education Foundation where I am able to make an impact on the community. As a family, we have also fostered over 10 dogs through B-Squad Rescue. I would love to start a non-profit organization in the future.

How He Unwinds

Running, biking, golfing, or anything outdoors. It's always nice to end the day watching a movie or playing games with the family.

Little Known Facts About Him

My curious nature fosters a variety of interests. Outside of sky-diving, I'll try about anything which can lead to an eclectic and unmastered list of hobbies and interests - disc golf, beer brewing, 3D archery, blogging, and woodworking to name a few.



Left: Seth Peterson, far right, receives his graduation certificate from Stonier Graduate School of Banking.

Seth spends time making memories with his family.

2023 Digital Innovations in Today's Banking Environment Conference

In a world that's rapidly evolving through technological advancements, the banking sector stands at the forefront of digital transformation. The recent Digital Innovations in Today's Banking Environment Event, held on August 30, brought together leaders, innovators, and experts from the financial and tech industries to explore and celebrate the groundbreaking strides in banking's digital landscape. The event shed light on how banks are redefining customer experiences, streamlining operations, and embracing innovative technologies to shape the future of finance.

Beyond the insightful discussions and presentations, the Digital Innovations Event offered attendees the opportunity to engage with cutting-edge technology providers as well as to connect with colleagues to exchange ideas and build relationships. These interactions provided a unique opportunity for participants to explore firsthand the latest technological innovations reshaping the banking landscape.

The SDBA would like to thank all presenters, exhibitors and sponsors for participating in this event. A huge shout-out to the Technology Workgroup who worked hard to bring this event from concept to reality. Most especially, we would like to thank all who attended the conference. We appreciate you choosing to spend your day with us. 🌈

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South Dakota Bankers Are Looking For Further Business Improvement

George A. Starring, secretary of the South Dakota Bankers Association, was the principal speaker last week before the Sioux Falls Chamber of Commerce.

Mr. Starring said that business conditions generally in South Dakota are hopeful, in spite of reduced income from agriculture, and that in many parts of the state conditions will be improved.

Concerning fall trade Mr. Starring said: "Reports from 170 communities in the state show that 60 are expecting an increased fall trade over 1927, 60 expect it to be less, while 50 have prepared for about the same amount of business. Stated differently, 112 communities anticipate a fall trade as good or better than last year, while 60 expect a decrease. Of course you will understand that these estimates came from all sorts of communities, large and small, and that frequently in some backward county one or two communities expect favorable business. If corn matures well throughout the state so that cattle and hogs can be finished, business conditions are expected to improve in many parts of the state where the immediate fall income is slow. Too much stress cannot be given to the growing importance of dairying and poultry in stabilizing the farm income and the business of the state.

Banking Conditions

"Bankers generally throughout the state are optimistic for the future and are expecting a gradually continued improvement in banking conditions. One banker in a part of the state where the fall farm income is considerably less than last year, and where local merchants are looking for a rather quiet fall, says that even in spite of this he expects an improvement in his banking conditions, 'for the reason that banks are more conservative and anticipate unfavorable conditions rather than permitting such conditions to overtake them unprepared.' I believe he pretty well expresses the idea of bankers generally. South Dakota bankers are doing better banking today than ever before in the history of the state. They are doing a more constructive and sound type of banking. They are more than ever before making the various divisions of the bank pay their way instead of, as in many cases in the distant past, trying to make a profit on one department large enough to carry other departments along. There are fewer banks today, which makes it possible for them to do a better banking business with the former unhealthy competition eliminated. There was a time when there was a con-

siderable amount of unrestricted and unreasonable competition which in some cases even resulted in the establishment of additional banks to take care of that competitive situation,—which was not good. The public is finding that its legitimate credit demands can be met with the decreased number of banks, which is making for healthier business and healthier banks.

How Bankers Help

"I would like to say a few words what the banks are doing through their state association to promote a better banking condition. People are sometimes inclined to the opinion that the South Dakota Bankers Association is concerned only with protection against bandits,—whereas, as a matter of fact this is but one feature of the program. Through our committees on agriculture, analysis of accounts, public relations, standard forms and information, the banks of the state have been making rapid strides along the line of sound banking,—and we are grateful that the people of the state have been cooperating splendidly to make this possible. There is no better banking situation in the entire northwest than in South Dakota today.

Concerning the agricultural situation in the state Mr. Starring said: "Within the past week I have received about 180 communications from representative communities well scattered over 51 counties in South Dakota relative to fall conditions as compared to 1927. Seventy of these estimate that farm income will be greater this fall than last year, 90 say it will be less while 14 state that it will be about the same in comparison with the fall of 1927.

"The district which expects an improvement covers about 15 counties, or about one-fourth of the state. In 9 counties it is estimated that the farm income this fall will be about the same as last year. The rest of the state is considered somewhat backward so far as the immediate present is concerned. Reports come from many parts of the state that farmers are still using last years crop for feed and holding back the current crop for better price. This is slowing down business somewhat. Thanks to winter dairying, stock feeding operations, and other forms of diversified farming, farm income in many large sections of the state will continue steadily throughout the winter and in some districts will improve after the first of the year.

Corn Income Down

"According to the August 1 forecast of the South Dakota Agricultural statistician for the U. S. Department of Agriculture, it was estimated that the corn crop for 1928 would be 96

per cent of that of 1927, priced at \$7.1 per cent of the 1927 crop. This would make the 1928 corn crop worth \$3.6 per cent of the 1927 crop.

"For wheat, it was estimated that the crop would be 76.7 per cent of 1927, at a price of \$1.1 per cent, with a total relative value of 62.2 per cent of the 1927 crop.

"The oats crop was estimated to be 78.4 per cent of 1927, priced at \$4.5 per cent as much, worth a total value of 66.2 per cent of 1927.

"The barley crop was estimated at 94.3 per cent of 1927, price \$6.7 per cent which would give a total value of 81.8 per cent as compared with 1927.

"The rye crop was estimated at 50 per cent, priced at 101.5 per cent, which would give a total crop value of nearly 51 per cent of 1927.

"Flax was estimated to yield 89.7 per cent of 1927, worth 93.4 per cent, or total value of 83.8 per cent of the 1927 crop. (Total average for the 6 crops 71.4 of the 1927 crop.)

"These prices are for September futures in Minneapolis, except corn, for which the Chicago price is used.

Livestock Prices Up

"With respect to livestock, it has been estimated that the shipments of cattle from South Dakota for the four months August to December, will be about 10 per cent less than the corresponding period last year, but the prices of cattle are considerably higher than a year ago. The average price of feeder cattle in Chicago two weeks ago was \$11.93 as compared with \$8.07 in 1927, while the average price of slaughter cattle was \$15.28 as compared with \$11.79 in 1927.

"The June 1 pig survey indicated that the spring pig crop in South Dakota was about 3.5 per cent less than in 1927, which would mean a reduction of about 75,000 pigs. Of course the pig crop is marketed during the fall and winter months. The price has improved over last year, the average two weeks ago in Chicago being \$12.02 per hundredweight as compared with \$9.01 a year ago.

"The movement of lambs from South Dakota, August to December, is expected to be about 18 per cent larger than last year, with lamb prices slightly higher than a year ago. About two weeks ago the average price of fat lambs in Chicago was \$13.53 as compared with \$13 the previous year.

"An early frost would of course make some difference with these estimates."

Dacotah Bank Aberdeen Grants Wish for Local Aberdeen Child



Here for you.™

Approximately 7 years ago, Dacotah Bank Aberdeen employees began participating in activities to encourage employee engagement, teamwork and community involvement. Funds were raised through a variety of ways and then directed to a charitable purpose within the community. In 2022, Dacotah Bank employees donated \$5,000 to Make-A-Wish to sponsor a wish for a child in the Aberdeen area.

Dacotah Bank was matched with a three-year-old girl named Baelyn from Mina, SD. Baelyn with her parents, Gil and Kelsea, and sister Kennedy enjoy being outdoors and spending time together. Her wish was to have a camper; she wanted something that

she could enjoy with her sister while being outdoors and loves the thought of "tiny bunk beds." Baelyn is recovering from a liver transplant, so much of her childhood has been focused on doctors, hospital visits and lab pokes.

"Baelyn's impact to receiving her wish will hit us right in the heart, because of her having something other than doctors' appointments and therapy to be excited about," said Baelyn's mom, Kelsea.

In August, Dacotah Bank was notified that Make a Wish wanted to present Baelyn and her family the camper. Make A Wish partnered with Liebelt's out of Aberdeen and the camper was ready to have the final touches made to it. Leading up to the camper presentation, Dacotah Bank Cares team quickly put together last-minute fundraising activities to add fun accessories to Baelyn's camper. On August 17th, Baelyn's family, friends, Make-A-Wish representatives, and Dacotah Bank Aberdeen employees gathered to surprise Baelyn with her wish! 🌈



UPCOMING EVENTS



SDBA's Women in Banking Conference

September 26-27, 2023 | Sioux Falls

The SDBA's Women in Banking Conference is a prestigious annual gathering that celebrates and empowers women in the financial industry. Join us on September 26-27 in Sioux Falls for an engaging and enlightening event that focuses on the achievements, challenges, and opportunities for women in the world of banking. This conference provides a unique platform for networking, knowledge sharing, and fostering meaningful connections among leading professionals in the field.

There is an opportunity for business partners to exhibit at and sponsor the conference. For more information visit www.sdba.com.

Internal Audit School

October 2-4, 2023 | Virtual

The SDBA is partnering with Michigan Bankers Association and Review Alliance, Inc. to offer the Internal Audit School virtual event on October 2-4.


This school teaches the basics as well as more complex aspects of the audit function. This three-day course will discuss the establishment and execution of an effective and efficient internal audit program. Attendees will learn the objectives of internal audit and helpful techniques to reach those objectives. Internal audit should be a value-added function and not just a "check the box" cost center. This course will teach attendees how to create and maintain a value-added internal audit function.

This school is designed for new to intermediate level internal auditors. It is also an excellent refresher for experienced personnel to keep them abreast of current techniques and procedures.

For more information visit www.sdba.com.

ANTICIPATING AN EVENT?

View all upcoming events and details under the Events tab at www.sdba.com



SDBA's Emerging Leader Summit

October 17-18, 2023 | Pierre/Ft. Pierre

The SDBA will host the annual NEXT STEP: Emerging Leaders Summit, October 17-18, 2023 in Pierre/Fort Pierre, SD, at the Casey Tibbs Rodeo Museum! The full agenda is still being finalized and details and registration will be available soon. We're excited to share that legendary SDSU football coach, John 'Stig' Stiegelmeier, is scheduled to kickoff the split two-day event!

Everyone is welcome! If you aim to grow in your profession and serve your bank, customers and community, you've come to the right place. There is no minimum or maximum "generation" nor any specific job title you need to hold for you to participate in SDBA Emerging Leaders programming. Whether you are just entering you your career, you're looking to take the next step in your leadership journey or you're passing the torch to your successor, the SDBA's Emerging Leaders programming is open to everyone--which is why the Emerging Leaders Mission is to grow South Dakota's future bank leaders.

For additional information or further clarification, contact Natalie Likness, SDBA's Member Services Coordinator, at nlikness@sdba.com.

Annual Security Seminar

October 19, 2023 | Sioux Falls

The SDBA is hosting the Annual Security Seminar on Thursday, October 19, at the Best Western PLUS Ramkota Hotel and Conference Center in Sioux Falls. This well-rounded seminar focuses on a range of issues of concern to security officers, facility personnel, and management. Using current trends and examples, a variety of topics will be covered.

Security officers or directors, operations managers, auditors, HR directors, legal staff, loan officers, disaster recovery managers, collection staff and fraud investigators would all benefit from attending the Security Seminar.

For more information visit www.sdba.com.



washington update.....
BY ROB NICHOLS | President and CEO | American Bankers Association
nichols@aba.com

Advocating for ACRE: How Congress Can Help Rural America

Farmers and ranchers today face numerous challenges: from the skyrocketing costs of materials to supply chain disruptions to difficulties purchasing rural land—all while interest rates are rising. As a result, many are relying more on credit than ever before. For those who are young, beginning, or socially disadvantaged farmers, these obstacles can seem insurmountable—in fact, 69% of young farmers say that access to capital is a top challenge to beginning a career in farming.

Fortunately, there is a simple solution that can help make credit more accessible to these agricultural borrowers: the bipartisan ACRE Act, a bill that ABA is aggressively championing in Congress.

Formerly known as ECORA, this bill would amend the IRS code to level the playing field for banks—especially community banks—by allowing lenders to exclude from gross income any interest they receive on loans that are secured by farm real estate or aquaculture facilities. The bill also allows for the exclusion of interest on certain home mortgage loans in rural communities.

Removing the taxation of interest will bring down the cost of making these loans, making them more affordable for farmers, ranchers, and rural homeowners. In fact, ABA estimates that this important legislation could expand access to affordable agricultural and home loans to more than 4,000 rural communities across the U.S. and deliver approximately \$1.4 billion in annual interest expense savings to farmers and ranchers in 2023—savings that can make a crucial difference to the nation's producers.

This simple, commonsense solution does not require the creation of new government payments or programs—quite the opposite. It provides an avenue for increasing competition and generating growth in rural communities efficiently and organically. It also levels the playing field between all agricultural lenders, which will result in more choices and lower rates for rural borrowers.

ABA has been a vocal proponent of this bill, and we were pleased to see such a significant response from lawmakers in this Congress. The ACRE Act already has 20 bipartisan cosponsors in the House and has been introduced in the Senate by Sens. Jerry Moran (R-Kan.) and Angus King (I-Maine).

Lawmakers now have an opportunity to help sustain and grow rural America by sending this bill to President Biden's desk. That's why ABA is urging bankers and their customers to get in touch with their members of Congress and urge them to pass the bill. Bankers can contact their lawmakers easily through ABA's grassroots platform, SecureAmericanOpportunity.com. The association has also prepared a toolkit, accessible at aba.com/ACREtoolkit, that provides an issue background, talking points and key points that bankers can use when explaining to lawmakers why this law is needed.

Our nation needs a thriving agricultural sector. With your help, we can help remove one of the roadblocks standing in the way of the nation's farmers and ranchers.



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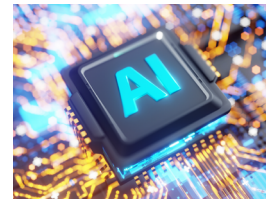
Artificial Intelligence – The Benefits and Challenges for Financial Institutions

By Julia A. Gutierrez

Julia A. Gutierrez serves as C/A's Director of Education; developing curriculum and presentations, as well as presenting at various schools and seminars; both live and in a livestream/hybrid format. Julia has over 20 years of financial industry experience to the Compliance Alliance team.



Owned by South Dakota Bankers Association



The technologies of artificial intelligence (AI) are becoming an integral piece of the world we live. These technologies are being deployed across a plethora of fields ranging from simple devices such as a cell phones to more complex technologies such as autonomous vehicles or the diagnosing of diseases. Artificial intelligence is even rearing its advancing technological head into the playing field of banking. It is a constantly evolving technology that many industries are jumping into while other are slowly pushed into in their efforts to thrive. For banks, it's critical to embrace the advancements of the future, but also to consider the security and regulatory requirements and overall risk to the organization and its customers.

What is Artificial Intelligence

Artificial Intelligence is a term that commonly references the various technological capabilities that allow for the analyzation of data and the identification

of patterns to make decisions and impact an outcome. Some examples of these AI type activities or branches include machine learning, natural language processing, robotics process automation, and speech and object recognition. Machine learning is a branch of AI and computer science that focuses on the use of algorithms and data to imitate human learning patterns, while gradually improving the accuracy. With machine learning, the system learns and improves, as new data or is made available. Another branch of computer science and AI is natural language processing. This branch of AI enables computers to process human language, received through text and spoken words, and to understand the meaning and intent. It basically allows a computer system to understand the semantics of conversational language. The AI branch of robotics process automation, also known as software robotics, is the use of applications and systems to perform human-like tasks. It uses intelligent automation technologies and rule-based software to perform business process activities at a more efficient volume, reducing the need for human resource or involvement in the task. Finally, the AI branch of speech recognition enables a system to identify and process human speech into a written format. Speech recognition may also be referred to as automatic speech recognition, computer speech recognition, or speech-to-text. This AI technology is often confused with voice recognition which focuses on identifying an individual user's voice. However, speech recognition focuses on translating speech from verbal to text. Each of these artificial intelligence branches are utilized throughout financial institutions and countless other industries around the world.

The Benefits of Artificial Intelligence

Artificial intelligence is used in various fields and applications ranging from online shopping, advertising, and machine translation enabling cross-language communication, to improving the overall operations and cost efficiency of financial institutions. The use of artificial intelligence technologies in financial institutions can drastically reduce operational costs while significantly increasing productivity. With its broad range of uses, AI can potentially aid financial institutions in reducing costs associated with products and services, and it can enhance the overall customer experience as it bridges the gap between customer

convenience and relationship. AI can benefit a financial institution's lending process as it can expand credit access, assist in financing decisions, decrease the underwriting times and costs, and enhance both the borrower and lender experience. AI can be beneficial throughout other areas within financial institutions such as identity validation and real-time antifraud monitoring. The opportunities and benefits when it comes to AI and financial institutions seem to be endless. But there has to be challenges, right?

Artificial Intelligence Challenges

Artificial intelligence isn't perfect. Like any other enhancing technologies, AI comes with its own set of risks and challenges. Some of those risks and challenges include system integration and a gap in skills. With system integration, the data behind AI is equally as critical as the technology itself. In order for the utilization of AI to be beneficial and effective, the data quality and quantity need to be accurate. This involves organizing data and preparing for integration. This means that financial institutions with a core processor will have to coordinate between their core system and their AI technologies. This can often be a complex and costly undertaking and financially burdensome, especially for small financial institutions and community banks. Financial institutions may also run into a more complicated integration processes if their core processors and AI solutions vendor are competitors of the same or similar products and services. This challenge often leads to increased fees and costs for integration. Even if financial institutions are able to work out all the kinks related to system integration, there is always the challenge of obtaining expertly trained staff who are knowledgeable in building and deploying of AI solution. With the rapid advancement and use of AI technologies, it has led to a shortage of skilled AI experts in the broader labor force. While this is a challenge that is expected to improve in the future, at present, it leaves financial institutions competing with large tech companies such as Apple or IBM when recruiting for AI talent.

An even more challenging area associated with artificial intelligence and financial institutions is meeting compliance expectations on technologies that are surrounded by so much regulatory uncertainty. Financial institutions are expected to identify and manage all risk related to artificial intelligence and how it is used within the organization. It's not enough for financial institutions to simply employ the technologies of AI, but rather they are expected to understand the data or inputs that drive the outcomes. Financial institutions are expected to ensure that all data used within the various branches of AI, align with regulatory compliance requirements. For example, if the machine learning branch of AI is used in the decision-making for credit, the bank should understand and be prepared to explain what the contributing factors were that the AI system used to make that decision (i.e., what data was inputted to receive the outcome/decision). It is

critical that financial institutions are not only able to understand and explain this process, but also that all the data used within the AI system meet regulatory requirements. This means ensuring that the AI system isn't using information that may violate consumer or fair lending laws.

Financial institutions that are utilizing AI should have processes in place that allow for the identification of risk, both new and emerging, as well as controls for managing that risk. Because of the rapidly evolving technologies of AI, there is always the challenge of changes in risk level or even unidentified risk developing. Financial institutions need to be prepared to rise to the occasion when it comes to meeting those regulatory and risk challenges, whether that be through an increased frequency in monitoring and reviewing established controls or contracting with external vendors to conduct robust third-party risk management.

The use of AI technologies within financial institutions has captured the interest of regulators and policymakers alike. A couple of key concerns are always the safety and soundness of financial institutions and consumer protections. While AI is constantly growing and advancing, many of the banking laws and regulations currently on the books are still a little behind the times, leaving some areas of regulatory uncertainty. Nevertheless, regulators acknowledge the benefits of AI and support the responsible innovation by financial institution. In 2021, the agencies (Consumer Financial Protection Bureau, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, and Federal Reserve Board) issued RFI's (request for information) on the use of artificial intelligence by financial institutions. In 2022, the OCC (Office of the Comptroller of the Currency) issued supervisory expectations for how banks should manage risks associated with AI. And most recently, in April 2023, a joint statement was issued by the agencies on the enforcement efforts against discrimination and bias in automated systems. The 2023 statement outlines some of the challenges of AI and serves as a reminder that financial institutions must embrace responsible innovation.

Conclusion

For financial institutions to thrive in the industry and remain relevant in the market, they must continue to be forward thinking and responsible in their innovation efforts. Artificial intelligence is an ever evolving technology and convenience of the world in which we live. Financial institutions must engage in the balancing act of supporting new and innovated technologies for its consumers, while also acknowledging the managing the risks and challenges of such growth. It is imperative to fully understand the technologies that our institutions relies on for its operation and that we remain abreast of any arising issues in the regulatory world. Artificial intelligence is the future and it's filled with risks and rewards. 🌈

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Unmaking the Myths: Fact Checking Community Banking

By Achim Griesel and Dr. Sean Payant

Achim Griesel is president and Dr. Sean Payant is chief strategy officer at Haberfeld, a data-driven consulting firm specializing in core relationships and profitability growth for community financial institutions. Achim can be reached at 402.323.3793 or achim@haberfeld.com. Sean can be reached at 402.323.3614 or sean@haberfeld.com.



Banking, and specifically community banking, is essential to the overall health of our country. By design, it serves as the backbone for our financial system and communities, while playing a crucial role in helping individuals, businesses, and governments thrive.

In this highly competitive environment, community banks must continuously adapt to the changing landscape and competitive pressures. The key to success is to challenge and shatter the traditional banking myths that have been prevalent for years. Let's explore five such myths and why they need to be shattered.

1. The Efficiency Ratio

Myth: Managing expenses is the best way to improve overall efficiency.

Fact: Increasing overall revenue is much more impactful.

The efficiency ratio is an important metric for financial institutions (FIs) to track as it measures how efficiently FIs are using resources to generate revenue. It is often thought the best way to improve the efficiency ratio is to manage expenses by embracing technology, controlling costs, and determining appropriate staffing levels. But, managing expenses is a very finite opportunity. The unlimited opportunity for FIs to improve their efficiency ratio is not on the expense side. **It is on the revenue side as illustrated in Figure 1 by comparing high performing banks to others.** Institutions should focus on growing revenue, as this will have a much bigger impact on profitability. There are two ways to accomplish this effectively: (1) growing core customers, and (2) growing share of wallet. The bigger, more strategic option is in growing core customers because this also enables your FI to exponentially grow share of wallet.

Figure 1

Metric	Eagles	Other	% Variance
Return on Assets	3.24%	1.01%	220%
Return on Equity	32.78%	11.09%	196%
Net Interest Margin	3.70%	3.22%	15%
Cost of Funds	0.30%	0.29%	3%
Yield on Loans	5.44%	4.77%	14%
Loan/Deposit Ratio	71.62%	69.95%	2%
Noninterest Income to Assets (\$000 per \$1M in assets)	\$18.07	\$4.60	293%
Noninterest Expense to Assets (\$000 per \$1M in assets)	\$26.81	\$23.55	14%
Equity Capital to Assets	10.09%	8.83%	14%

Note: Data Through 9/30/22 (annualized)



2. Growing Core Deposits

Myth: A rising rate environment is the time when institutions need to focus on core deposits and relationships.

Fact: Growing core deposits and relationships should be an always-on, strategic initiative.

With the recent rate increases and the decline in deposits since mid-2022, bankers are once again focusing on core deposits and core relationship growth. Large banks are promoting cash rewards that triple prior offers, and they are marketing at a frequency that is 3-4 times that of prior years. Why? In order to acquire new core relationships. FIs see the current environment as a prime time to grow low-cost core funding. However, this is far from the truth. The truth is, it is always a good time to focus on growing core relationships and core deposits regardless of the economic environment. By doing so, FIs position themselves well for any rate and non-interest income environment.

3. Deposit Market Share

Myth: Deposit growth is a function of deposit market share.

Fact: Deposit growth is a function of household and business market share.

FIs often focus on deposit market share as a measure of growth, but this is not always the best indicator. Instead, it's important to focus on household and business market share. Essentially, what percentage of the FI's footprint are they serving? Deposit market share is very much driven by larger deposits that often come at a higher cost. It is also distorted by branch locations, or lack thereof, for digital banks. Household and business market share is a much better indicator of the ability to attract and retain consumers and businesses, and it provides a clearer picture of overall growth and success.

4. Staffing Challenges

Myth: It isn't possible to hire or retain employees in the current environment.

Fact: Retention and recruitment is a function of an FI's investment in and focus on developing better leaders and coaches.

Staffing and human capital challenges have been one of the most prominent issues for FIs since the pandemic. Finding talented employees continues to be difficult, and retaining talented employees is a must. While the combination of these factors results in staffing challenges, the solution lies in an FI's approach to its leadership and coaching strategy. By investing in the development of leaders and creating a strong coaching culture, FIs can ensure their staff is well equipped to deal with the challenges of the industry, while also feeling valued by the institution. The result is a decrease in turnover, improved knowledge, and

stronger alignment with the brand; this ultimately creates improvements in customer satisfaction and improved overall performance.

5. Sales Culture

Myth: Having a "sales culture" is the only way to drive results.

Fact: Aspiring to have an escalated service culture will result in increased product and service usage.

FIs often aspire to have a "sales culture," but this is generally not the best approach. The key to success is to have an escalated service culture, where the focus is on providing products and services to make people's lives better. By focusing on providing excellent customer service, FIs can build stronger relationships with consumers, increase overall satisfaction, and create a positive image for the institution. A result will be increased sales and improved overall performance.

By challenging and shattering these traditional myths or approaches to banking, FIs can create a more efficient and effective approach to their operations, which will lead to increased profitability, meaningful growth, and measurable success. By focusing on the right metrics, investing in the development of leaders, and creating a strong service culture, FIs can ensure that they are well positioned to succeed in this highly competitive industry. 📊



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Ryan Niesent Joins BankWest as VP Business Accounts Manager



Ryan Niesent

BankWest is pleased to announce Ryan Niesent has joined its management team as Vice President/Business Accounts Manager. Ryan has 23 years of experience in the financial services industry, most recently working as a relationship manager for First Interstate Bank. In his BankWest position, he will serve business clients, manage the Cash Management Services Division, and research and develop new business banking products. BankWest Northern Hills Manager Casey Derflinger notes Niesent’s financial experience, as well as his commitment to community service and local re-investment, make him a perfect fit for BankWest’s growing team. “Ryan is a tremendous asset to BankWest. He understands our local economy, has a wealth of financial expertise, and will provide exceptional customer service to area businesses.”

Ryan was born and raised in Spearfish. He earned a bachelor’s degree in economics with an emphasis on finance from the University of Northern Colorado. He and his wife Tara live in Spearfish with their three children. A dedicated community volunteer, Ryan serves as the Vice President of the Spearfish School board, President of the Black Hills Nordic Ski Club, and as a member of the Monument Health Advisory Board for the Spearfish and Belle Fourche area. “My approach to customer service and professionalism is based on a commitment to exceeding expectations,” Niesent said. “My philosophy is to ask questions, listen and respond to ensure my clients know they are valued and understood, and then go the extra mile to find the best solutions for their individual needs. I believe professionalism requires a genuine dedication to delivering excellence, fostering trust, and building strong relationships.” BankWest is a full-service, independent community bank with 19 branches in 15 South Dakota communities including: Armour, Delmont, Geddes, Gregory, Kadoka, Kennebec, Madison, Mitchell, Onida, Pierre, Rapid City, Selby, Spearfish Tripp, and Winner. It also has stand-alone insurance offices in Murdo, Philip, Presho, Rapid City, Salem, and Spearfish.

Congratulations, South Dakota Graduates!

The South Dakota Bankers Association would like to congratulate the pictured South Dakota-based banking professionals for earning their prestigious diploma in banking from the Graduate School of Banking at Colorado (GSBC)! These individuals were among 166 graduates honored in a ceremony on July 27, 2023, in Boulder, Colo. Find more information on GSBC’s 2023 Annual School Session, including enrollment information on the 2024 session by going to www.gsbcolorado.org/news/gsbcc-celebrates-record-setting-72nd-annual-school-session-class-of-2023.

Congratulations, 2023 South Dakota Graduates!

Robert Burke
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Pierre

Ethan Johnson
Reliabank Dakota,
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David Painter
Reliabank Dakota,
Hartford

Tom Ries
First National Bank of
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associate member news.....

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Davenport Evans Announces New Associates Hoffman and Assis



Alex J. Hoffman

Alex J. Hoffman is a native of Elk Point, South Dakota and a graduate of the University of Nebraska-Lincoln, the University of South Dakota Knudson School of Law, and the Beacom School of Business. Alex is a member of our Estate Planning practice group. His practice is focused on estate planning, probate, trust administration, taxation, and corporate and business law.



Pedro N. Assis

Pedro N. Assis is a native of Guaxupé, Minas Gerais, Brazil, having studied at Dublin City University, he then graduated from Federal University of Alfenas and the University of South Dakota Knudson School of Law. Pedro is a member of our Trusts & Trust Companies practice group. His practice is focused on trust companies, estate planning, probate, trust administration, taxation, and corporate and business law. Davenport, Evans, Hurwitz & Smith, LLP, located in Sioux Falls, South Dakota, is one of the state’s largest law firms, serving local, national, and international clients. The firm’s attorneys provide business, trusts and estates, and litigation counsel to individuals and corporate clients in a variety of practice areas. For more information about Davenport Evans, visit www.dehs.com.

classifieds.....

QA Administrator, First Bank & Trust, Brookings or Sioux Falls, S.D.

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SDBA EVENTS

SDBA LEAD STRONG: Women in Banking Conference
September 26-27, 2023 | Sioux Falls

SDBA NEXT STEP: Emerging Leaders Summit
October 17-18, 2023 | Pierre

Annual Security Seminar
October 19, 2023 | Sioux Falls

SDBA Fall IRA Update
November 3, 2023 | Virtual

IRA Basics Webinar
December 14, 2023 | Virtual

SCHOOLS

Internal Audit School
October 2-4, 2023 | Virtual

GSB Sales and Marketing School
September 25-29, 2023 | Madison, Wis.

GSBC Executive Development Institute for Community Bankers
October 2023 | Westminster, Colo.

GSB Bank Technology Security School
October 16-20, 2023 | Madison, Wis.

WEBINARS

For a complete list of webinars, visit www.sdba.com/online.

Loan Documentation 101 - 2 Part Series
September 25, 2023

Loan Documentation 101: The Basic Secured Loan Package
September 25, 2023

Deposit Regulation Update All Day Streaming
September 26, 2023

Loan Documentation 101: Securing Loans With Business Collateral
September 26, 2023

TRID: All About Construction Loans
September 26, 2023

BSA and OFAC Officer and Staff Update All Day Streaming
September 27, 2023

Understanding Commercial Real Estate Loan Documents
September 27, 2023

New Compliance Officer Training Part 3 - Conducting Internal Compliance Reviews
September 27, 2023

Escrow Accounts A to Z
September 28, 2023

Handling Deceased Accounts
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Beneficial Ownership Customer Game Plan - An Action Plan for Your Business Customers
September 28, 2023

Elevate Your Presentation's Impact By Boosting Your Moxie!
September 29, 2023

Director Compensation Trends and Compensation Committee Best Practices
October 2, 2023

Controlling the Risks of Power of Attorney Documents
October 3, 2023

20 Legal Ownerships of Accounts
October 3, 2023

Bi-Monthly Compliance Briefing - October
October 4, 2023

Lending 101
October 4, 2023

IRAs Part 2 - Rollovers and Transfers 2023
October 5, 2023

[Free Webinar] How to Build a Robust Security Training Program
October 5, 2023

Demystifying Trusts: A Guide to Establishing Deposit Account and Loans
October 10, 2023

RC-C Loan Coding and RC-R Risk Weighting Loans
October 10, 2023

Current Matters and Common Questions Impacting the Call Report
October 11, 2023

Digital Assets - Overview & Regulatory Guidance
October 11, 2023

Call Report Preparation 2 Day Streaming
October 12, 2023

Fair Lending - 2 Part Series
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Vendor Management - How Model Risk Fits In
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