Three-Year Community Bank Challenges and Opportunities

An informal survey with community bank leaders.
December 2013
Three-Year Banking Challenges and Opportunities

In December 2013 we asked community bank leaders to identify the top three challenges and opportunities that community banking must address over the next three years. Many of the verbatim responses are listed in this summary.

Here are the general topics bank leaders identified most frequently. They are listed in order based on how frequently the topic was referenced in comments.

1. Compliance
2. Regulations
3. Interest margin
4. Technology
5. Non-interest income
6. Loan growth
7. Delivery channels
8. Employee recruitment, retention and development

The bank manager responses were placed in a word cloud to provide a visual representation of priorities and focal points. The larger the word the more frequently it was mentioned by community bank leaders.
The following summary provides a sampling of the verbatim comments received from community bank leaders.

What are the top three challenges or opportunities community bank leadership teams must address over the next three years?

- Compliance
- CFPB
- New regulations
- Rising interest rates
- Retaining core deposits
- Retaining good staff
- Effectively communicating with clients and prospects - getting through the blizzard of emails, blogs, tweets, letters
- Not being so compliant that we cannot do business - when is enough with the regulators?
- Keeping and obtaining good executives and employees
- Compliance - a sea of regulation takes significant staff time, cost and risk to maneuver. Compliance is a major issue for all banks.
- Technology – keeping pace with technology is exciting yet burdensome. Things move so fast that keeping up means you sometimes walk the line of convenience and safety.
- Optimizing revenue sources
- Increasing non-interest income – we can only cut so many expenses and then we have to generate more non-interest income
- Risk assessment, risk assessment, risk assessment
- Attracting and developing future senior and mid-level leadership talent
- Reconfiguring the organization to be an effective competitor
- Combining top delivery channels (branch, online, mobile) with talented bankers to uncover and satisfy customer needs while creating an amazing customer experience.
- Effectively develop significant non-interest revenue streams that are “best in class” so that these revenue sources become 25% of total revenue.
- People
- Aging senior managers need to bring younger bankers up to speed and quickly! The management transition needs to be seamless.
- Net interest margin
- Revenue – margin between loan and deposit pricing
- Compliance – delegating more staff towards compliance makes operational expenses higher
- Employee recruitment
- Employee retention and development
- Employee engagement
- Leadership development
- Regulatory overload
- Qualified and educated staff
- Interest margin compression
- Staff development
- Compliance
• Payment channels
• Compliance
• Expense control
• Ag economy
• Building leadership succession plans
• Compliance (mortgage lending, flood insurance, consumer protection, etc.)
• Operating on smaller net interest margins
• Organic loan growth: Right now we are just stealing relationships from one another. The economy needs to pick up and the government needs to get out of the way for that to happen. It also costs too much to continue to steal each others’ relationships. Bank prices have been cheap enough that the banks in good condition have had great success in this market, but I believe at a huge cost to the community banking industry, and further I believe these «wins» will become harder as the weaker banks are getting stronger and prices continue to rise.
• Keeping quality people: It seems as there may be a shortage of talent issue underway in the industry. I expect this to amplify as the banks continue to recover and have more money to spend on people.
• Overhead bloat: This is a two-fold problem. To retain quality people the same dollars will support less people and the cost of our branch delivery channels has to be reduced. Not just managed, but reduced. At the community bank level we need to start to see real benefit of the customer-centered delivery channels we are putting on at significant cost. We need to do this while not losing our competitive advantages.
• Increased information technology risk and costs to mitigate, including the increased speed at which new tech is being demanded by customers and employees.
• No growth
• Shrinking margins
• Regulatory fatigue. New requirements and the speed of implementing regulations are taking its toll on employee morale. There is no light at the end of the tunnel.
• Human resources (attracting and retaining future bank leadership)
• Competition from GSE’s and credit unions
• Maintaining revenue sources (improving the net interest margin and discovering or improving on non-interest income).
• Compliance. Significant bank resources are utilized to stay in compliance and keep us ahead of additional changes. Regulations cannot generally be controlled by the board or management, and because of that they are a concerning variable in any business model.
• Recruiting. People are essential to our future growth and financial strength. The ability to attract and retain high performers in various fields within our industry lays the foundation for other opportunities like staff development, product research and customer retention.
• Revenue Sources. Most industries are diversifying revenue streams to enhance financial performance. Grocery stores now serve as gas stations, pharmacies, liquor stores and coffee shops. Banks must evolve as well in this changing market and develop additional streams of non-interest income to provide the level of customer convenience required to retain and develop business.
• Hiring and retaining the top talent
• Complying with increasing regulatory burden
• Maintaining the ability to be relevant in each market we serve
• Growth is certainly a challenge for most independent banks like us.
• Margin compression in this rate environment – how to improve
• Where to go/how to find new sources of fee income
• Dodd Frank/CFPB and how to deal with all the insane regulations – especially in the mortgage areas.
• The “technology paradox” and its impact on branch staffing. Self-service channels enable more customers to take care of routine transactions, reducing overall branch traffic. Those who do come into the branch are more frequently seeking complex (i.e. time consuming and technically demanding) assistance. As a result, traditional staffing models – both in number and skill level – are in transition.
• Managing the need to once again charge for banking services, reversing a two-decade trend of providing “free” retail banking. Both customers and bank staff must be re-trained to recognize the value of banking services and charging/paying for them. This is both an opportunity (income) for banks and a challenge (customer satisfaction). However - eventually customer satisfaction may improve over time if consumers are paying for services. We (generally) assign more value and rationalize our relationships with business when we pay them for goods and services. This is true in other industries – will it spill over into banking?
• Profitability and viability, especially as it relates to scale. The smallest or least efficient banks will need to decide if and when to sell, and larger and/or more efficient banks will need to decide whether to grow by acquisition. Banks who wait too long either way will miss out - perhaps forever.
• Regulatory changes and volume
• Emerging technological delivery channels
• Differentiation in a commodity industry
• Managing ag loan credit quality migration downward - How do you handle a relationship with a farmer whose loan has gone from a 2 rating to a 4 but he expects the same rate he had when he was a 2?
• How do you make up for the loss of fee income from the lack of residential real estate activity?
• Management of bank capital in a deteriorating ag economy
• Loan growth
• Cost containment as it applies to compliance and regulation. (additional staffing, staff hours, loss of productive time)
• Strategic planning
• Margin compression
• High cost of compliance management
• Too big to fail is giving the largest banks too great of an advantage on the deposit/liquidity side
• Competing with financial institutions who don’t pay taxes– credit unions and Farm Credit – an uneven playing field
• Adapting to the transformation created by mobile banking and other technology, and keeping community banking relevant to those users.
• Attracting, growing and retaining the next generation of bankers who will tackle and solve the above two challenges along with other challenges/opportunities.
• Interest rates
• Net interest margin
• Compliance-new regulations, especially real estate regulations.
• The continued squeeze on margins and lack of loan opportunity due to the economy.
• Compliance issues in the mortgage area are becoming complex and ever changing.
• Maintaining quality staff
• Net interest margin pressure
• Regulatory burdens
• Government uncertainty
• Compliance
• Delivery channels
• Economic conditions (especially agriculture for rural banks)
• Staff development
• Delivery channels
• Keeping up with technology, specifically electronic delivery methods
• Regulatory changes and the cost of compliance
• Finding the right product mix to make money in a low rate in environment.
• Increased Compliance and examiner expectations. There has been an increase in the number of regulations and in their intensity.
• Revenue, economic conditions, margins
• Being able to maintain the level of profitability we have been at.
• Finding quality profitable loan growth.
• Regulatory burden
• Growth in non-interest income
• Narrowing net interest margins
• Staffing in smaller rural communities
• Regulatory burden
• Soft loan demand. Although interest rates remain relatively low, the demand for home mortgages and commercial loans continue to be soft. Combined with thin margins it makes the loan business “difficult”.
• Non-interest fee income - slow growth in DDA combined with limited fee opportunities makes growth in non-interest fee income challenging - difficult to differentiate your checking product offering.
• Delivery channels - the demand/use of Internet and mobile banking changes the demand/use and design of our branch network.
• Access to capital
• Rising rates and irrational deposit pricing by competitors
• Increasing compliance burden that only adds to overhead and inefficiency
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