

Are Community Banks Going Anywhere in 2020?

by Charles B. Wendel

Last week I listened to an excellent webinar by Cornerstone Advisors titled, "What's Going on in Banking 2020, and then read their downloadable research report on the same topic, both based on a survey of 300 community banks and credit unions. The seminar and report are highly informative, but they left me disappointed, not because of Cornerstone but rather because of what their survey reveals about the state of community banking today.

Despite a customer base that is more demanding and better informed than ever before, their survey suggests community players are not being sufficiently innovative nor operating with the necessary sense of urgency. Also, many seem to shift from one priority to another, lacking a strategic foundation.

Regarding shifting priorities, in 2019 50% of those surveyed cited deposits as their top concern; in 2020 deposits dropped to second position at 37% switching positions with concern over "interest rate environment." The best banks we know have a constant and consistent focus on deposit growth; even those with "excess" deposits keep a focus there because they know the cost of funds advantage and operating flexibility it provides.

The survey says banks want to grow commercial loans as a major priority but relatively low priority to the category "Improve sales and marketing" as if loan growth can occur without better execution. And, these bankers seem to be fishing in the same pond, making their growth goals difficult to achieve. Many remain "loan jockeys". Only 8% place priority on growing payments-related business, 8% want to grow "non-traditional" lines of business, and only 14% want to focus on building small business market share. That last stat serves as an indictment of smaller institutions. If they are unable or do not want to serve the small businesses in their community, why should they continue to operate? More than why, how will they continue to operate if they fail to capture the loan, deposit and personal opportunities that small businesses provide? A mismatch may also exist between the priority of banks to grow consumer deposits (40%) and consumer loans (11%). Those two initiatives may be linked for many consumers.

Only 23% of bankers (up from 21% the year earlier) stated that they viewed Fintech partnerships to be *very* important to their organizations; another 42% said *somewhat* important. It is not an exaggeration to suggest that 100% of community bankers should view Fintechs as very important. Community banks have no choice but to leverage the capabilities of Fintechs and in many cases supplement or break away from the legacy Core providers on which they depend.

At the same time, for the last two years banks ranked "Improve the customer experience" as a very important priority objective. But give their lack of enthusiasm for consumer lending, small business banking, or Fintech partnerships as priorities,

how will this happen? How do they define the customer experience anyway? Too often the phrase does not ring true, instead representing Baseball, Mom, Apple Pie pabulum. It *may* be an authentic focus but when someone mentions “customer experience” your BS detector should go off until you hear a meaningful definition.

The application of technology is where many seem to be lagging dramatically. Their use of the Cloud, APIs, AI and other revenue enhancing and cost reduction tools appear to be way below that of larger banks. That’s understandable, but a SWAT team approach to address this is mandatory, if a bank is to remain relevant to its customers. Management need to consider which technologies to use, whom to partner with, how to make sure they have a strong ROI.

If I were an investor looking at this survey, I would think one word, rollup. Smaller banks can limp along as long as the economy stays strong, but their seeming inability to effectively leverage technology may only increase. More fundamentally, great employees have more options than ever in the current job market; yes, some good people want to be at a smaller bank or want to stay in their local regions, but there may not be a sufficient number of these people.

A big bank reviewing this survey might resemble the Big, Bad Wolf in Disney’s *Three Little Pigs* cartoon available on YouTube), drooling over the tasty meals he was expecting. Of course, things end badly for that wolf, but the story was a fairy tale; this is banking.