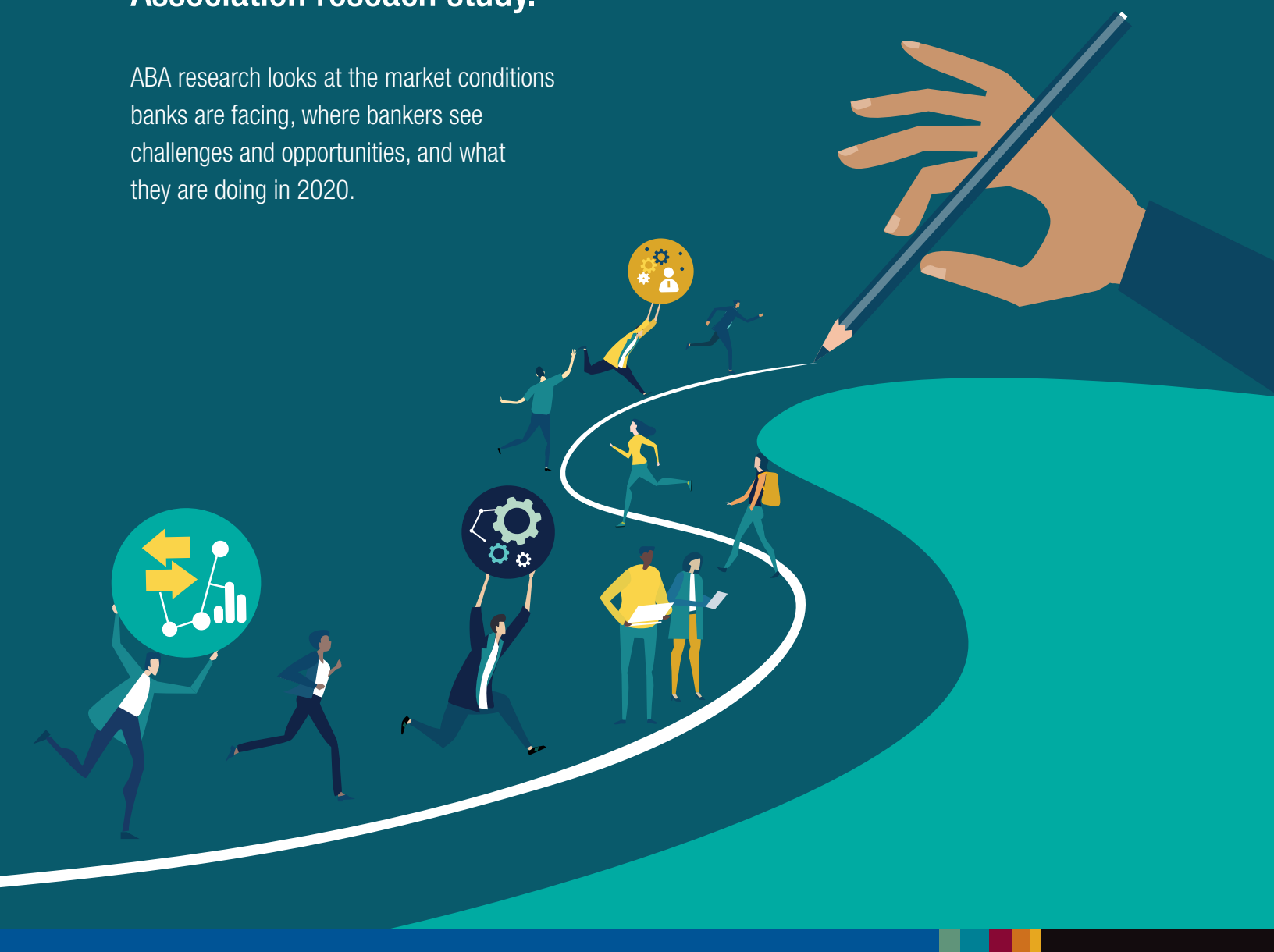


Community Bank CEO Priorities for 2020

Results of an American Bankers
Association research study.

ABA research looks at the market conditions banks are facing, where bankers see challenges and opportunities, and what they are doing in 2020.



American
Bankers
Association®

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CEOs' Top Priorities for 2020

Results of a 2019–2020 American Bankers Association Research Study

ABA research looks at the market conditions banks are facing, where bankers see challenges and opportunities, and what they are doing in 2020.

Where is your bank focusing its efforts in 2020? We wanted to get a pulse on the year's trends and actions. In the **Community Bank 2020 Priorities Survey**, the American Bankers Association asked top officers of community banks—board chairs, chief executive officers and presidents—to share their plans and priorities for the year ahead.

What technology will community banks implement to streamline operations or deliver a better customer experience? Will they be adding new products, banking locations, channels or business partnerships? What are the growth plans within or outside the present footprint? What strategies will they use to attract and develop a skilled and diverse workforce? What are banks doing to sustain their communities?

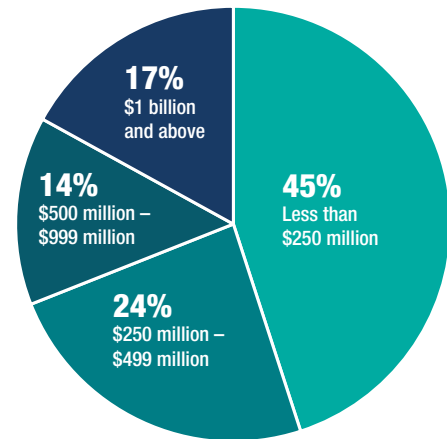
The survey was sent to ABA member banks with less than \$3 billion in assets—45% were under \$250 million—representing every region of the U.S. This summary report is based on responses from 302 bankers and interviews with bank CEOs across the country.

The economic landscape for community banks

What does the market look like for community banks? At the local level, the answer is as varied as the demographics of American communities. But in general, last year's optimism continues into the year ahead.

Figure 1:

Survey Responses by Bank Asset Size



The bankers we surveyed are definitely bullish on the economy. The majority of respondents (80%) feel “good,” “very good” or “excellent” about the overall U.S. economy and their local economies (70%) over the next 12 months. Even in the least active markets we heard notes of optimism.

Seven out of 10 respondents (68%) feel somewhat, fairly or completely confident about their bank’s prospects for revenue growth in 2020. All these numbers are up from last year.

On course with northeastern steadfastness

More than 10 years out from the last recession, is it time for the inevitable downturn? “The math would say that we’re due for some sort of correction or recession, but it just doesn’t feel that way to me,” said Andrew Silsby, president and CEO at Kennebec Savings Bank, a state-chartered mutual that has been serving the Augusta, Maine, area since 1870.

“Maine tends to drag the nation a bit, about 18 months behind, so when I start to hear about residential difficulty in Florida or Georgia—the high-flying places that see the highs and lows—I expect to see some impacts here 18 months on the horizon. So I’m pretty optimistic about 2020.”

When flatlanders think of the Maine economy, they think of forestry and fishing, ports and paper, granite and bottled spring water. However, Maine’s largest industry categories are actually finance and government—good for a bank located in the state capital. And the state’s economy is the best it has been since the great recession of 2008.¹

Maine has become very much a small business state, full of entrepreneurial spirit and Yankee ingenuity, Silsby said. A majority of the area chamber of commerce members are companies with four employees or less. The bank has responded by expanding small business lending.

“I continue to be optimistic about the overall U.S. economy and our local market. Greater Washington is an incredible market, and our rapid growth reflects both the health of the market and the demand for community banks to differentiate themselves through service and responsiveness.”

Shaza Andersen,
Trustar Bank

“As other economic engines are rolling along, Maine doesn’t always see the top or the bottom of the economic cycles. Like music, you have high notes and low notes, but in Maine we see a smaller range. That’s not necessarily a bad thing. There’s consistency to that.”

Andrew Silsby,
Kennebec Savings Bank

¹ Bangor Daily News, “What to expect from Maine’s economy in 2019,” January 7, 2019, <https://bangordailynews.com/2019/01/07/business/what-to-expect-from-maines-economy-in-2019/>, accessed January 21, 2020

Boom times in energy

For many community banks, fortunes are tied to the primary local industries. So it's a great time to be in southeast New Mexico, said Jay Jenkins, CEO of CNB Bank in Carlsbad. In a relatively poor state, CNB Bank is situated in the heart of its largest industry—oil and gas. “We have a front row seat to the world's most productive oil field in existence, the Permian Basin. West Texas gets more headlines, but we have the Delaware Basin, the sweet spot of the Permian. The oil and gas discoveries they were finding—and are still finding—are the largest in the country. We're very thankful and humbly blessed to be in this area.”

Chevron, XTO, Occidental Petroleum Corporation and Cimarex Energy are building regional offices in Carlsbad. In the last four years, reports say the town's population has swelled from 26,000 to nearly 70,000. Formerly a rural community, there's tremendous building activity, with subdivisions sprouting up in every direction. “In the past no one made those kinds of investments,” said Jenkins. “Now millions of dollars are staying in our communities.”

“A lot of folks, including myself, haven't been in this type of economy before, and it's hard to get used to. We're all trying to get comfortable with how to handle that growth. It's easy to be passive and still be successful, but we're not going to do that. We're active in following our strategic plan, and it's starting to pay off.” Since 2012, the bank has doubled to about \$450 million in assets and 75 employees.

Deep in the heart of Texas

In Fredericksburg, Texas, Bill Cowden, president and CEO of Security State Bank and Trust, is cautiously optimistic about the economy. Located almost 80 miles west of Austin and known for its German heritage and wineries, the local economy has been strong, helping the bank grow to break the \$1 billion in assets milestone.

“The economy has been good for a good long while,” said Cowden. “Will it correct? Yes, probably, as we have seen some slow down in loan demand although deposits have been strong. That said, we are optimistic about our growth prospects for 2020.”

“I believe the executives from all these large oil companies—Chevron, XTO, Oxy—know a little more about the oil and gas industry than I do. I trust that they know what they're doing, and if they're making long-term, multimillion-dollar investments here, it gives me a real optimism about what's going on.”

**Jay Jenkins,
CNB Bank**



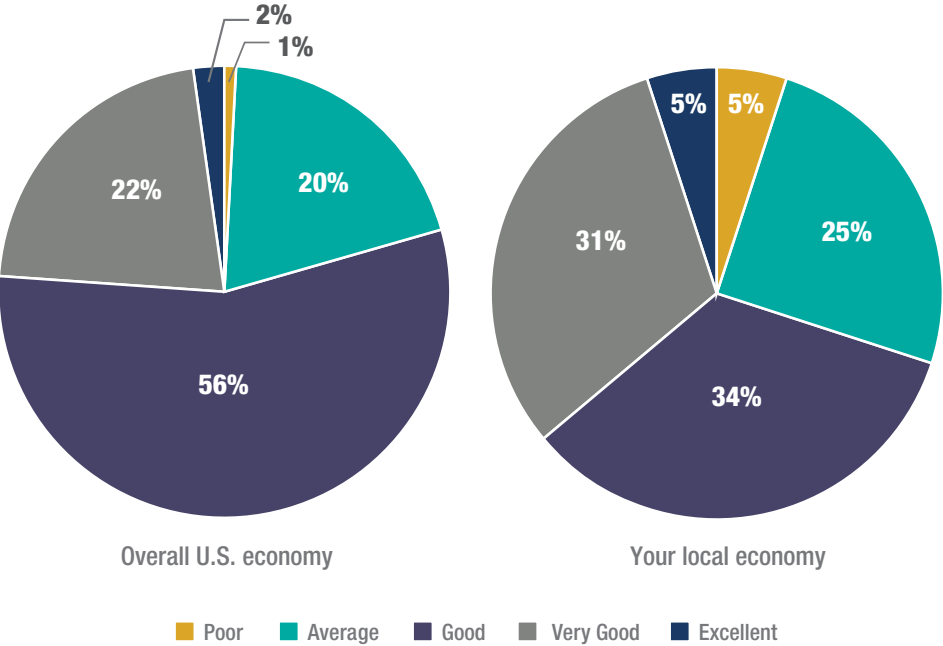
Agricultural economy in a slump

Fortunes tied to the primary local industries can go either way. Just ask Rachel Goodell, CEO of Unity Bank, a family-owned bank that has been serving the dairy belt of Minnesota and Wisconsin since 1882.

The traditional agricultural bank provides a lot of services to dairy farmers—and it’s not a great time to be a dairy farmer. Modest growth forecasts, shifting consumer tastes and increased competition have slowed growth for the industry. According to Forbes, sale of cow’s milk sank 6% in 2018, down \$1.1 billion. In 2019 alone, 2,700 U.S. dairy farms have gone out of business.² Overproduction, coupled with a decline in consumption, is squeezing the margins for those that remain.

“Milk prices over the last number of years have been really problematic for the whole dairy industry,” said Goodell. “Higher prices right now are bringing relief to a lot of our customers. But we have also seen a lot of our customers going out of business. Often people choose to leave an unprofitable sector. Sometimes there’s bankruptcy involved, but other times people just make a change of life. Farmers choose to leave farming.”

Figure 2:
How optimistic are you about the overall U.S. economy and your local economy over the next 12 months?



² Forbes, “Borden Dairy Is The Second Milk Seller To Declare Bankruptcy In Nearly Two Months,” January 6, 2020, <https://www.forbes.com/sites/rachelsandler/2020/01/06/borden-dairy-is-the-second-milk-seller-to-declare-bankruptcy-in-three-months/#3234fa8d2eb0>, accessed January 21, 2020

Solid resurgence from a deep recession

Nobody escaped the recession of 2008, but some regions took harder and longer-lasting hits—Georgia among them. “The economy in our area of Georgia was hit really, really hard,” said Jim Edwards, CEO of United Bank, a 115-year-old, traditional community bank based about an hour south of Atlanta. “This area had grown very rapidly until 2008, and when it slowed, it slowed very quickly and with devastating effects.”

The local economy had historically been driven by agriculture and textiles, which had been on the decline for a while. Textiles began going offshore in the 80s and the pace increased after NAFTA passed. Agriculture moved further south to larger growing and production facilities. The state lost about one-third of its banking charters.

The rebound from those days has been slow. Growth was tepid through 2016. “It has only been in the last two, three, four years that the economy in many of the counties we serve has reengaged and we’ve seen solid growth again,” said Edwards. Real estate values are rising as the northern range of the bank’s serving area becomes a bedroom community for Atlanta. People are building and buying homes again. Small businesses owned by longtime bank customers are expanding.

“In the last year, we’ve seen a good number of housing starts, good small business formation and the best loan demand we’ve had in the last decade,” said Edwards. “We have \$100 million in our loan pipeline right now. So things are doing well. This is not wild growth, but good solid growth. That suits me just fine, because I’ve seen what happens in the aftermath of over-exuberant growth. The day that party is over is not fun.”

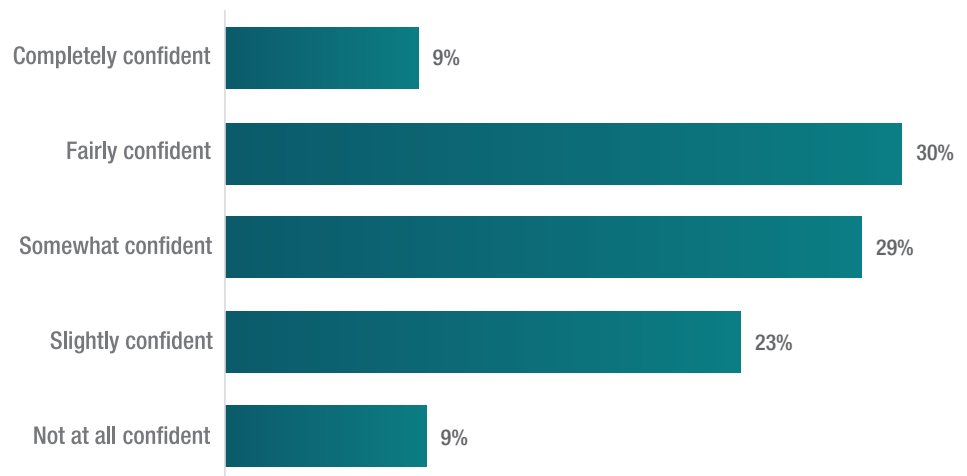
Figure 3:

How confident are you about your bank’s prospects for revenue growth over the next 12 months?

Setting a new bar

Michael “Mick” O’Rourke, president and CEO of Signature Bank in Illinois, won’t soon forget 2019. It was the year the bank he has led for all of its 15 years debuted on the annual “Inc. 5000” list of the nation’s fastest-growing private companies. Technology-driven and well-capitalized, Signature Bank is also the fastest growing, independently owned business bank in the Chicago area.

“We started Signature Bank with the mission of helping middle-market companies thrive, and we’re pleased to see that it’s working,” said O’Rourke. “Many of our customers are also named to the Inc. list. It validates our original mission and the efforts of our entire Signature Bank team.”



Too much of a good thing

Laurie Stewart, president and CEO of Sound Community Bank, said the bank is blessed to be doing business in the very strong economy of the Pacific Northwest.

Headquartered in Seattle—blocks from Amazon’s futuristic headquarters complex—it’s in the heart of a dynamic high-tech hub, but it’s also firmly rooted in the rural world of the Olympic Peninsula. “I believe it’s part of the secret success of our organization,” said Stewart. “We view each retail branch as its own location’s community bank.” The nature of the business varies by location, with bigger loans on the city side and bigger deposits on the rural side.

There’s a downside to economic success. “While I’m generally very upbeat about the economic conditions here in the markets where we do business, I also recognize that with the influx of technology jobs, we increase the disparity between those who have and those who have less, and that concerns me a lot,” said Stewart.

There’s a significant undersupply of housing, which puts pressure on prices and makes affordable housing almost nonexistent. Stewart shared a story of an entrepreneur who had a flower shop in the central district for years. Now she has been priced out of the market. She got help moving her shop, but she doesn’t have the same clientele in her new location and is often overlooked by the larger hospitals and others that that would normally use a flower shop.

“It was a really sad story, to see this black, female-owned business really be crushed by prosperity,” said Stewart. Sound Community Bank is working to address local real estate pressures. More on that later.

What keeps CEOs awake at night?

Many respondents to the ABA survey ranked as their top overall concerns: acquiring new customers, recruiting and retaining talent, cybersecurity, implementing new technology to remain competitive, shrinking margins and higher funding costs. These were followed by a concern over competition from other banks, credit unions and non-bank entities. Growing core deposits remains a perennial issue along with the ever-expanding burden of regulatory compliance.

Given the option to name other concerns, respondents most frequently cited weak credit, low loan growth and the general challenge of growing quality earning assets.



“While bankers can be optimistic, in this profession you’re born to worry. I haven’t met many successful bankers who didn’t spend time worrying about what will happen if things don’t go as planned. If you’re a banker and you don’t think that way, you don’t stay in your position for long.”

**Jim Edwards,
United Bank**

Securing enough growth to remain independent

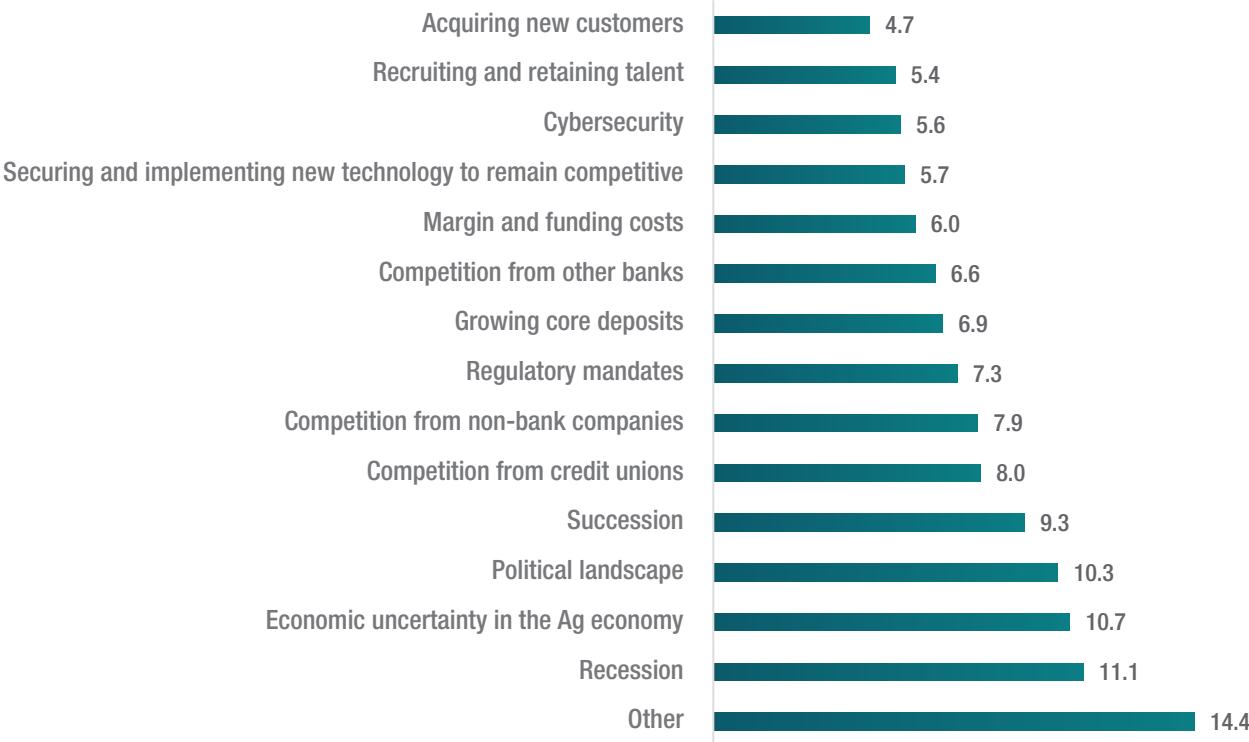
Every CEO we spoke to expressed some level of concern about the scramble for customers and deposits, especially in areas with declining population and rising competition. Take inland Maine, for instance, which has seen a mass exodus of young people, who are taking their future potential to warmer states and hotter markets. As a result, Maine has the oldest median age in the nation—yes, higher than Florida (although Florida has a larger percentage of residents 65+).

“The trend line is not good,” said Silsby of Kennebec Savings Bank. “It doesn’t bode well for the banking industry, because we obviously need population in our communities to expand to help create new growth opportunities. It’s not easy to grow in a state that’s not necessarily growing, particularly a cash-poor and loan-rich state. That’s a huge issue in the state of Maine.”

A deeper concern is about sustaining enough growth to remain independent. Nationwide, the trend is grim. “When I started in banking as a teller in 1986, there were 18,500 banks,” Silsby recalled. At the end of 2019, there were only 5,177 FDIC-insured institutions in the country. “We’re a little over \$1.1 billion in assets, so we’re not a tiny bank, but you’ve got to be larger to get the economies of scale, deal with the regulatory burden and move forward. Not being able to grow is our greatest concern.”

Figure 4:

Regarding your bank, what keeps you up at night? (1 = being top concern, 15 = being the last concern)



Recruiting and retaining talent

If you want to get an earful, ask bank CEOs about staffing. In our survey, nearly half of respondents (48%) find it difficult or very difficult to recruit people with the skills they need to stay competitive. Another 44% find it somewhat difficult. That's pretty much everybody. The challenges of finding and keeping the right talent are severe enough to be seen as a top threat to growth for 15% of respondents.

What's missing most? Offered the option to check all that apply, nearly half of respondents (49%) pointed to a shortage of leadership skills, while 46% lament the lack of innovation or outside-the-box thinking. Banks even have trouble finding staff with the basic banking skills (32%) and customer service skills (30%) they need for entry-level roles. These figures are much improved from our 2019 study but still worrisome, especially in areas where unemployment is low.

"We are struggling with full employment in our region," said Goodell of Wisconsin. "That's a very good thing for the economy, but not a good thing for hiring."

"We have a lot to do to make our next generation of workers understand that banking can be a really cool place to have a career," said Stewart of Sound Community Bank.

"We do fun stuff; it's not all boring in the back room with green eyeshades. We have IT, marketing, relationship management jobs. You can learn about all kinds of lending and all kinds of deposit products." Stewart says bankers need to do more to raise the profile of banking as a desirable profession.

Cybersecurity risks

The greater the dependence on data networks, the greater the opportunity for criminals or unwitting intermediaries to disrupt essential functions and compromise privacy. Today's cyber threats come in countless forms—ransomware, DDoS attacks, Trojans, malware variants, insider attacks and more. As soon as one threat is suppressed, new ones emerge somewhere else.

"There are so many people and resources dedicated to finding weaknesses in the system," said Goodell. "An added challenge is that the financial services sector has been using technology for so long, so there are a lot of old systems out there. Banks have to keep those systems going; they can't just throw them out and start from scratch. We have to keep working with what we have and constantly work to bring it up to the best protection standards possible."

"People have great trust in our banking institutions, and it would only take one bad breach for that trust to be eroded. We're constantly looking at solutions from our vendor partners, and we're constantly improving and enhancing our training. We coach our people to be really accommodating and helpful, but we don't want them thinking they're trying to help when the person is a bad guy who is trying to compromise credentials or something like that. If an employee fails a phishing test, they'll get a call from me, not to criticize, but to empathize and emphasize the importance of this."



Competition from other banks and credit unions

Competition remains a source of consternation, presenting a top threat to growth for 26% of respondents in our survey.

“It’s difficult, and it gets tougher every single day,” said Jenkins, even in the heady growth climate of Carlsbad. “There’s more competition—non-bank competition, credit unions. In a good economy everybody out there is trying to get a piece of the pie.”

“In many markets, there are too many banks chasing too few deals,” said Silsby. “When I first started at the bank, all the community banks kind of stayed in our own backyards, and now we’re all stretching and stepping on each other’s toes.”

“One of the general trends is the hyper-competitive nature of the local banking market,” said O’Rourke. Signature Bank certainly sees it. “The FDIC itself admits the Chicago market is one of the most competitive markets in the country.”

“[Competition from credit unions] is a growing threat to our industry, and it has been a threat for a long, long time,” said Edwards of United Bank. “The credit unions now talk as if they’re better than banks. The tax advantages they hold are a real threat from a competitive standpoint, because they can work on a much lower margin than banks can.”

This issue is a rallying cry for Stewart of Sound Community Bank. Amid a wave of acquisitions taking banking assets into the credit union sector—at least 12 in 2019 alone—Stewart is working to bring public attention to the issue of credit unions’ tax advantage and the unfair playing field it creates.

Aggressive rate-setting

A corollary to increasing competition is the temptation to compete on price.

“We’ve had large banks enter our markets [for example, the preferred purchase of Chicago-based MB Financial, Inc., by Fifth Third Bancorp in 2019]. It has caused disruption in the marketplace. With that disruption, we’re at a stage where a hyper-competitive environment is causing what I would deem irrational behavior on the pricing side,” said O’Rourke. “We have to play in those waters, and sometimes those waters get deep and murky.”

Bankers who have been around a while wonder if competitive behavior portends potential quality problems. Are we setting the stage for another 2008 in certain markets?

“Any time the economy is as good as it has been in the last few years, I worry about the industry loosening credit standards and doing things we wouldn’t have done five years ago, primarily for competitive reasons,” said Edwards. “Now is the time to double down on being cautious. We’re late in this cycle, and while we certainly don’t anticipate an ‘08 and ‘09, it’s just time to be careful.”

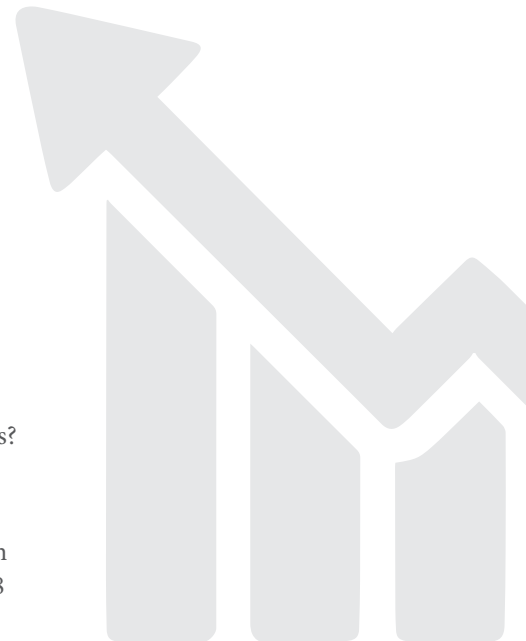
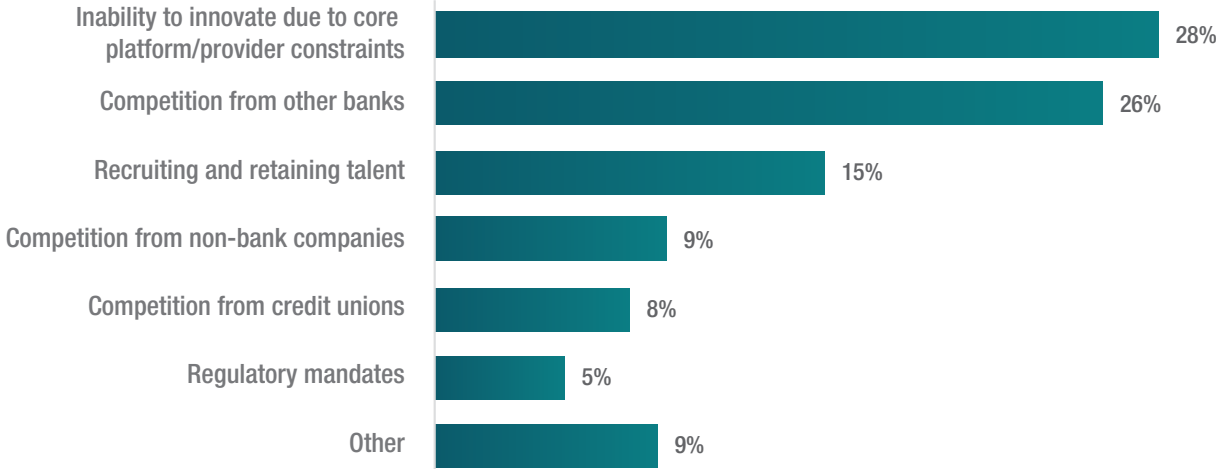


Figure 5:

Which is the greatest threat to your bank's growth prospects in 2020?



Acquiring technologies to support new services

Fintech “disruptors” are redefining how things work and what is possible. At the same time, big banks are building their own technologies in a way community banks can’t match. This digital wave poses serious threats to smaller banks and slow adopters.

“Across the industry, our vendors are challenged to provide the kinds of services our customers want, and so that’s challenging for us,” said Goodell. “We’re concerned that Amazon and Google are going to figure that one out before we do. I don’t think we’re losing that battle, but it’s a continuing challenge, too.”

Silsby agrees. “If Amazon, Google or any of the other large technology organizations decides that they want to get into the residential mortgage business, that will be a big concern for the banking industry. They have huge programming and advanced technology that will make it hard for community banks to compete.”

Keeping pace with compliance

“The regulatory environment is challenging,” said Jenkins of CNB Bank. “For instance, so many banks are getting out of the mortgage business because of the regulatory environment. We are staying on the forefront of it, and it’s a great piece of our business, but regulations are always a top concern.”

“I’m pro-regulation. I believe we need regulators to keep everybody honest, but we don’t need to be over-regulated. And it’s scary to see the big differences between the regulators in how these issues are addressed and interpreted. They’re all written in black and white, but regulations can be interpreted many ways. That’s always going to be concerning.”

“We crossed the \$1 billion in assets threshold and now have new regulatory and compliance requirements we need to follow, said Cowden. “It’s a big focus and one where we have had to hire additional staff to deal with all these new regulations.”

The inevitable cycles of good times and bad

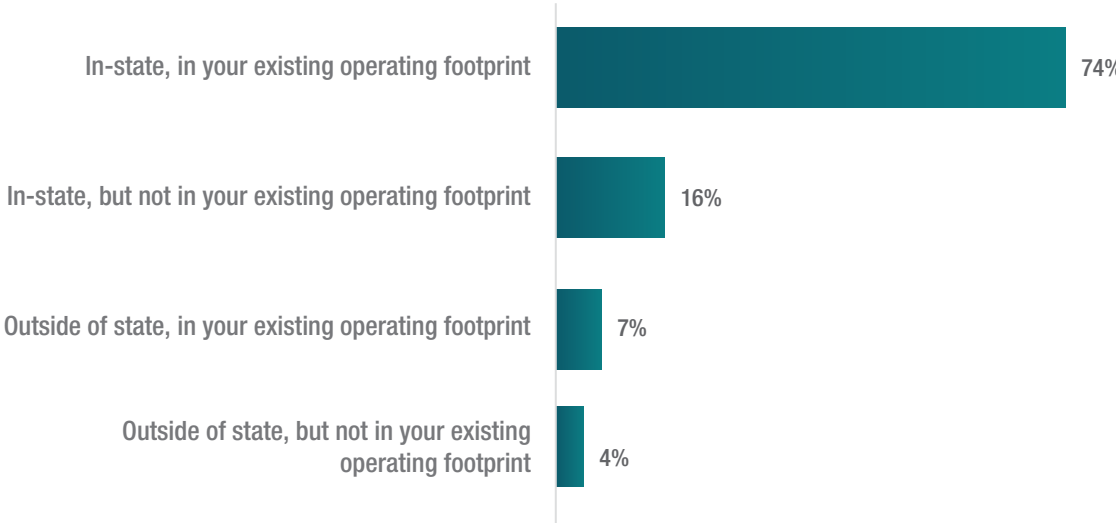
Are we late in this expansion? Are we looking at a recession in the near future, and if so, when and how deep? What decisions do we need to make to plan for that next cycle?

“In a place where housing prices continue to run up, as they have here in Seattle, there will be a bubble at some point,” said Stewart. “We don’t want it to burst the way it did in 2008. We don’t want to be the lender that generated excess capacity if there’s going to be a bubble.”

“In a commodity economy—oil, gas, potash—things can change quickly,” said Jenkins. Ditto for government. “We have this nuclear repository, so we have the Department of Energy here. We have a huge Bureau of Land Management office here. With the stroke

Figure 6:

Where do you expect to see growth in 2020?



of a pen, things can always change, even when you thought they would never change. We're keeping an eye locally, looking at all the reports we can get our hands on."

"[The one-year forecast] is all contingent on the election, so I would scale back my forecast to nine months," said O'Rourke of Signature Bank. "For the next nine months, I'm fairly confident we'll see continued growth, although maybe not as strong as it has been. This is not a political statement; this is just my prediction from listening to our customers, and there's concern about that."

Community bankers' to-do list for 2020

In the survey and interviews, we asked bank leaders where they plan to focus their efforts in 2020. Some talked about strategic priorities, most had specific tactical actions in the works. Here's a high-level look at what amounts to a CEO to-do list for 2020.

Press on with digital transformation

Bank executives we surveyed said they will continue driving a more digital experience, both for customer interactions and internal operations. In 2020 they plan to increase the products and services offered over the bank's digital channels (58%), create a new website experience (53%), increase the number of digital channels offered to bank customers (44%) and provide new tools/technology to increase employee productivity (41%).

Many of you (30%) are looking to digital to offer more personalized services. More than one-third of respondents (35%) will use customer data and analytics to improve decision processes, while 12% will turn to artificial intelligence and machine learning for deeper insight.

Kennebec Savings Bank is making significant investments in mobile solutions in 2020. One is a solution for small business. Another is a broad initiative to equip more employees with laptops to give them the flexibility to work from home, client sites or mobile workstations.

Meet customer demand for online and mobile banking

According to a Business Insider study, 89% of survey respondents—a whopping 97% of millennials—use mobile banking. Its appeal extends beyond the younger generations; 91% of Gen Xers and 79% of baby boomers also used these services.³

Online and mobile banking will only continue to grow as customers flock to financial institutions that can offer faster, omni-channel digital services. It's unrealistic to think community banks would become digital powerhouses on par with online retailers and big banks, but there is progress. According to our survey, in 2020 many banks (44%) plan to implement digital account opening and mobile banking (31%), if they haven't already.

³ Business Insider, "State of mobile banking in 2020: Top apps, features, statistics and market trends," August 14, 2019, <https://www.businessinsider.com/mobile-banking-market-trends>, accessed January 21, 2020

“Thanks to technology, we’re following our customers and supporting them as they go to other parts of the country, anywhere in the 48 contiguous United States,” said O’Rourke of Signature Bank. “That would have been impossible years ago, but it has become more and more of our business.” Signature Bank recently launched its new Finrails AP service. The cloud-based solution automates B2B payments for companies of any size to pay their vendors in a secure and seamless process.

“From the convenience of our online and mobile banking platforms to the speed of direct payments, investments in technology solutions are an important factor in our continued growth in 2020 and beyond,” said Shaza Andersen, founder and CEO of Trustar Bank in Great Falls, Virginia. Trustar Bank has the advantage of being brand new, chartered in 2019 and unfettered by legacy technologies.

Expand recruiting and retention efforts

It’s a good time to pursue a career in banking. Thirty-eight percent of respondents expect their staff to grow this year, while more than half (52%) will at least hold steady. Only 10% expect to reduce staff size.

Where will new staff come from? “We’ve gotten really good at stealing people from other banks,” quips Jenkins of CNB Bank. “I’m just joking. No really, we don’t typically steal from them, but it’s very tough market, and there’s not a big pool of people to pull from. We’re in a rural setting, in a great economy, competing with high-paying oil field and government jobs. A receptionist at City Hall makes \$16 per hour.”

How does a bank compete for talent in that kind of hiring environment? CEOs we spoke with shared what’s working for them—strategies they will continue in 2020.

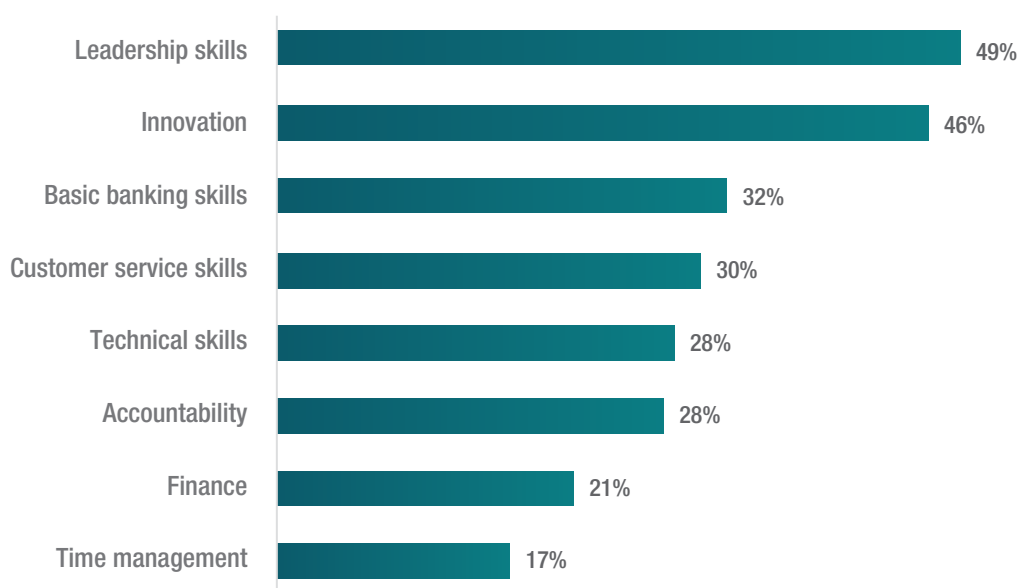


Figure 7:

What skill sets are most missing when recruiting for bank professionals?

Create a great culture, where staff will advocate for the bank

“We have a strong reputation in our state for being a really good employer,” said Silsby. “We never take this for granted, but we tend to be an employer of choice, so folks usually will leave other institutions to come work for us.” Kennebec Savings Bank also does a lot of internal recruitment. There’s plenty of advancement opportunity in a bank that has grown from 44 to 140 employees under Silsby’s tenure.

Word of mouth is everything. “When I peel back the onion and find out how people got to the bank, most often it’s a referral, rarely a headhunter,” said O’Rourke. “We get our best employees from employee referrals.”

“We’re all family. We have a great culture, and many of the folks we’ve hired have come to us through personal relationships with someone at the bank,” said Jenkins. “Over the last four years, we’ve continued to build a culture that everyone admires and wants to be a part of. I want to be out in the neighborhood someday and have people say, ‘I really want to work for CNB Bank, but I can’t because there are never any openings.’ I’d like to see that day, and that’s what we’re working toward.”

Invest in internship programs

CNB Bank benefits from an internship program developed a few years ago by the New Mexico Bankers Association in partnership with US Bank and Bank of the West. “They’re developing folks coming straight out of college through bank-related internships, and we’re seeing the fruits of that,” said Jenkins. “We’re not seeing it directly in rural New Mexico, but we do benefit from a better statewide pool of experience to pull from.”

United Bank in Georgia has seen the value of hiring college students to work part-time to staff interactive teller machines or contact center positions. “Bringing them on board and watching them grow, that’s a great proving ground,” said Edwards. “If you can show me a contact center employee who at 10 o’clock at night can answer the myriad of questions they might get—the folks who can do that and enjoy it often become our best employees in the branch.”

The theory: Get them while they’re young, and you might keep them for a career. About 10 of Kennebec Savings Bank’s executives started as float tellers during college, joining the bank via an internship program that has been in place since the mid-1990s. “That program does a really good job of trying to keep people here in Maine,” said Silsby. He knows this firsthand. A Maine native, he started as a float teller in 1986, and worked his way through just about every area of the bank to become president and CEO five years ago.

Develop from within

In only three years, United Bank has seen good results from a company-wide associate program targeted at recent college grads or those just a few years out of college. Candidates participate in a year-long rotation through multiple segments of the bank and then become available for hire.



Another program, called Leadership United, targets rising stars throughout the company—typically younger or possibly mid-career—and pairs them with a mentor from another area of the bank for monthly coaching or group skills-building activities. “It has been a really successful program,” said Edwards. “It has helped us retain younger employees, and the experienced bank employees have absolutely loved it. They see it as an opportunity to give back and have strong personal relationships.”

“Banks need to do more of that. When I started my career, I was just glad to have a job, and they told me what to do and I hoped to get promoted. That’s not how it works with millennials these days. They want to make an impact much quicker. As an industry, we need to figure out how we can enable that.”

Nurture a sense of value and purpose

What keeps an employee at the bank? Compensation and benefits matter, of course, but so does having a sense of purpose, a vested interest and a pathway to greater skills. The CEOs we talked to understood this very well.

Take United Bank, for example. Through the bank’s Employee Stock Ownership Plan, employees own more than one of every five shares of the bank. “The commitment and focus is different when you have owners working here, not just employees,” said Edwards.

It’s important to empower employees by helping them understand that they make a difference. O’Rourke recounts the story of John F. Kennedy’s 1962 visit to Cape Canaveral. During his tour of the facility, he met a janitor who was carrying a broom down the hallway. The president casually asked the janitor what he did for NASA, and the janitor replied, “I’m helping put a man on the moon.”

“Everybody has to believe they have an important role in the bank’s success,” said O’Rourke.



Rethink talent sourcing

Consider hiring for attributes rather than for prior banking experience. In 2019, ABA announced a partnership with the U.S. Chamber of Commerce Foundation intended to expand hiring opportunities for veterans across the nation. The partnership enables more community banks to participate in the foundation’s Hiring Our Heroes Corporate Fellowship program, which allows transitioning service members and military spouses to intern with private sector employers for up to 12 weeks. It didn’t take long for Sound Community Bank to participate, especially given the bank’s proximity to Fort Lewis.

“Through the program we got an intern, an officer with 12 years in the Marine Corps,” said Stewart. “He had no bank experience, but he had interest in joining a value-based organization. We realized, if he can handle the logistics of deploying tents and other military supplies to the Middle East, he just might be a great project manager for us. And goodness, he’s the best project manager we’ve ever had.”

“It has really changed the way we think about talent management in the bank. Now we’re much less inclined to ask, ‘What do you know about residential lending?’ Have you had cash handling experience?”

The lesson: Hire for the desired personal qualities and applicable experience, even if it’s from an entirely different field. Don’t fixate on knowledge that can easily be taught.

Sound Community Bank has since hired a helicopter pilot. “Guess what, a helicopter pilot can learn about VA loans. It’s really pretty simple compared to flying a helicopter,” said Stewart. “The concept is catching fire at the bank. Our IT team hired a project manager who has tattoos up one arm and down the other. He might not have made it on the hiring manager’s radar screen if we hadn’t rethought this approach.”

Bolster bank diversity

Like all industries, the banking sector is having a candid conversation about the need for greater diversity. Bankers realize that enhanced diversity, equity and inclusion isn’t just the right thing to do, it’s a business imperative. A 2017 McKinsey study showed that companies with more diverse workforces outperformed the norm. Respondents in our survey cited “unique perspectives” as the most important benefit of having diverse leadership.

The challenge is how to get there. Of banks in our survey, 10% had no women in the C-suite, 86% had no people of color, and 93% had no individuals with disabilities. Representation on boards wasn’t much higher, except that 79% of banks in our survey have at least one or two women on the board.

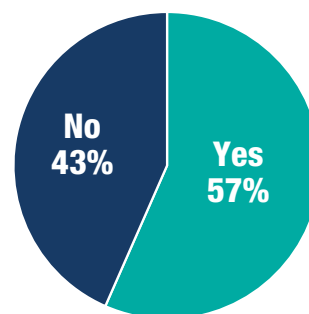
Some banks are taking a closer look at this lack of diversity, especially to the degree that it doesn’t reflect their customer demographics. Some respondents (15%) said in 2020 their banks plan to assess diversity in recruiting and hiring, gender parity in compensation and benefits and the culture of inclusion.

When asked to comment on existing diversity and inclusion initiatives, most of the replies reflected the early stages of building diversity, equity and inclusion programs. “We continue to measure and monitor hiring and retention practices,” said one. “We have created a strategic plan for diversity and inclusion,” said another. Another indicated the bank was creating a diversity committee.

Others are watching the industry’s progress. A new House Financial Services Subcommittee on Diversity & Inclusion is holding hearings and challenging banks to step up their game, and diversity is a growing issue for shareholders. The good news: there are more resources to help banks navigate these complicated issues. In 2019 for

Figure 8:

Do you have veterans employed at your bank?



example, ABA hired Naomi Mercer to serve as its first senior vice president for diversity, equity, & inclusion to help member banks develop and enhance their DEI programs. Mercer uses lessons learned in a 25-year career in the U.S. Army, where she oversaw gender integration and religious accommodation programs, to inform her work with individual banks.

Promoting diversity and inclusion in banking is a priority for Stewart. As a CEO who broke through glass ceilings in her rise to the C-suite, she consciously built a senior executive team with an 50-50 ratio of men and women.

Becoming a trusted wealth advisor

Over the next 25 years, an estimated \$68 trillion will change hands from the Silent Generation and Baby Boomers to succeeding generations. [The Changing Face of Wealth Management](#), a recent report by the ABA, examined the wealth management trends to expect in 2025 and the implications for the banking industry. For United Bank, the transfer of wealth presents a tremendous opportunity.

“Wealth management has been, on a percentage basis, the fastest growing segment of our bank,” says Edwards. “Many of the traditional financial services firms are very transaction-focused and don’t want to have any personal interaction until you have a couple of million dollars under management with them. We feel there’s a big divide between these types of providers and a community bank like ours that can help someone with a more modest “nest egg” plan. We have personal wealth managers located in probably 60% of the counties that we serve, and our focus has been on providing wealth management with a community bank style of service, and we’ve found that to be a very welcomed offering.”

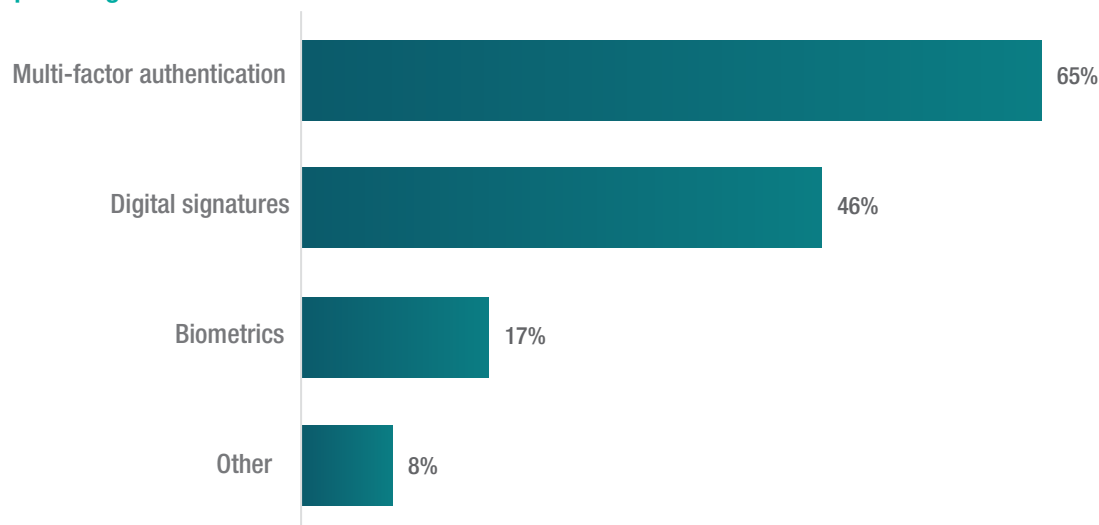
Constructing growth with real estate lending

According to Fannie Mae’s Economic and Strategic Research Group, housing is expected to be a source of economic strength with single-family construction expected to report solid growth⁴. For Security State Bank and Trust in Texas, the housing forecast aligns nicely with the bank’s real estate lending focus. “Our biggest lending function is real estate with a lot of family, commercial and construction loans,” says Cowden. “We see this as a continued growth area for our bank.”

Another growth area is construction lending. A newly released ABA report, *Construction Lending in 2020*, found bankers believe construction lending is a business that is uniquely aligned with their strengths, particularly in areas such as customer service, market knowledge and financial management. The key distinguishing feature of a construction loan—the draw system—requires steady communication among borrower, lender and builder, as well the integration of inspection reports and other data that impacts projects on their path to completion.

⁴ January 2020 Economic Outlook, Fannie Mae’s Economic & Strategic Research (ESR), January 21, 2020.



Figure 9:**What enhancements in cybersecurity are you planning in 2020?****Continue to fortify cybersecurity**

When asked about technology plans for 2020, 46% of respondents said their banks will be adding or enhancing cybersecurity technologies. Two-thirds of respondents (65%) are enhancing security with multi-factor authentication (many already have it), followed by digital signatures (46%) and biometrics (17%).

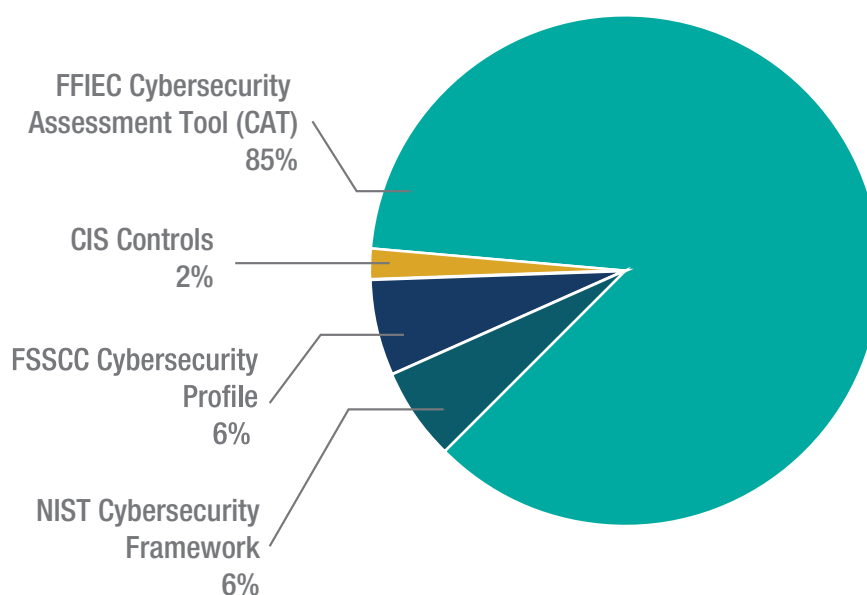
Many banks plan to conduct a full review of the bank's cybersecurity arsenal in 2020—largely based on the FFIEC Cybersecurity Assessment Tool (85%)—and provide more staff training to reduce data risks from human error. Bolstering cybersecurity is also a top priority of the ABA which is the co-lead and co-developer of the FSSCC Cybersecurity Profile, a NIST-based cybersecurity assessment that banks may use for supervision and examination. The Profile was developed as a harmonized approach to cybersecurity tying together more than 23,000 state and federal requirements in a single assessment tool and customized to a bank's risk characteristics. Available to all banks at no cost, the average community institution would only need to complete a streamlined 136 questions under the Profile's assessment.

Mindful of high-profile breaches, virtually every bank in our study believes in cybersecurity insurance: 75% already have it and 22% are looking to add a policy in 2020.

When it comes to cybersecurity, technology is only part of the picture. “The most important cybersecurity measure is awareness,” said Goodell of Unity Bank. “It's about educating people on the language, protocols and approaches to take in interacting with customers, and balancing the customer's desire for convenience with the need for rigorous security.”

Figure 10:

What cybersecurity assessment are you planning to use in 2020 for supervision and exams?



“Customers want systems to be easy and accessible by phone. They want to just hit a button and be done,” said Goodell. “They need to understand why it’s important that we talk to you personally when you’re going to be wiring a large amount of money to China.”

Fill gaps in the foundation product portfolio

Most banks participating in the ABA survey offer the expected range of basic products, such as credit and debit cards, commercial and small business lending, mortgages and reverse mortgages, home equity lines of credit and online bill pay.

Many banks will be expanding their portfolios in 2020, particularly by adding the ease and convenience of digital. Close to half of respondents (47%) plan to add digital account opening, including mobile and all digital channels (25% already have it). Others plan to offer real-time payments via The Clearing House (43%), small business digital lending (29%) and consumer digital lending (28%) over the next 12 months.

Person-to-person payments are hot for 2020. CNB Bank just launched Zelle, which enables account holders to send money to any trusted recipient with a U.S. bank account just by entering an email address or mobile phone number. Sound Community Bank is rolling out Apple Pay and Google Pay—mobile payment and digital wallet services that enable users to make payments via their mobile phones in person, through mobile apps and on the web.

Early in 2020, United Bank is rolling out CashPlease®, a digital platform from Velocity Solutions for small-dollar, short-term consumer loans (up to 90 days). With this program United Bank account holders can get easy access to cash at affordable rates. The bank already uses Velocity’s overdraft management product.

“We did a lot of small-dollar consumer lending 30 or 40 years ago, but today it’s very hard to do that efficiently so that it’s economically viable, and it’s something our customers need,” said Edwards. “If you drive down the street, you’ll see pawn shops and payday lenders, and I think we can deliver those services at a much more cost-effective price point and do a good job for our customers.” The turnkey CashPlease® solution makes that possible by automating the application, processing, underwriting and funding of each consumer loan.

“A lot of folks need short-term loans for unexpected expenses, such as a car breakdown. Many of these folks are good borrowers, and if their bank can’t figure out how to do those loans efficiently, customers will go to a pawn shop or other finance company. I think community banks can do a lot better job of taking care of these customers than nonbank providers.”

Jim Edwards,
United Bank

Figure 11:

What products/services do you currently offer and what new products/services do you plan to offer in the next 12 months?

	Plan to Offer (next 12 months)	Currently Offer	No Plans Exist
Digital account opening including mobile and all digital channels	47%	25%	28%
Real-time payments via The Clearing House	43%	16%	41%
Small business digital lending	29%	6%	65%
Consumer digital lending	28%	18%	54%
Regulatory compliance technology	20%	33%	47%
Electronic bill presentment and payment (EBPP)	16%	59%	24%
Personal financial management	16%	23%	61%
Loyalty rewards program	15%	31%	54%
Pre-paid cards	6%	24%	69%
Credit card (agent-issued)	6%	66%	28%
Wealth management	6%	34%	61%
SBA loans	5%	65%	29%
Investments	5%	39%	56%
HELOCs	5%	79%	17%
Mortgages	4%	87%	9%
Insurance	4%	28%	69%
Credit card (bank direct issued)	3%	13%	84%
Student loan refinancing	1%	1%	98%
Construction lending	1%	93%	6%
Student loan purchasing	1%	0%	99%
Commercial lending	1%	96%	3%
Small business lending	1%	93%	6%
Debit card	0%	98%	1%

Enrich the employment experience

Community banks are taking positive action in 2020 to create a great employment experience. They're improving compensation (53%) and benefits packages (34%), offering new learning or job experiences (50%) and providing flexible work opportunities such as telework and flextime (36%). They are sponsoring community service activities for employees (28%) and launching employee recognition programs (20%). They're also deploying new productivity technology (22%).

In speaking with CEOs, a central theme emerged—the idea of creating a culture of empathy, caring and inclusion, based on the fact that people want to work where they feel valued and share the organization's values.

“We are family here,” said O’Rourke. “Our employees know we care about them and we’re empathetic to their situations, whether business or personal. That’s one of the hallmarks of our culture.”

For instance, like other families, the Signature Bank family celebrates holidays together. In December 2019, the bank hosted its 14th annual holiday party since opening in 2006. The party welcomed spouses, children and significant others—including 70-plus employees and retirees and more than 100 children and guests. The joyous event lasted five hours.

“The byproduct of this party is that your spouse and kids get to meet your colleagues, and they see the outpouring of affection,” said O’Rourke. Retirees have a chance to get caught up with former co-workers. Everybody gains a more appreciative perspective.” Whether it’s celebrating promotions, lining up internships or toasting the holidays together, the Signature Bank family pulls together as a tribe.

Address limitations in core processing systems

When it comes to deploying new digital and online capabilities, many community banks are held back by their core processing systems. In fact, 28% of respondents in our survey said the inability to innovate due to constraints from their core platform or provider presents the greatest threat to growth. This concern even ranked above competition.

“We know what we want to do for our customers, and we can’t get there with our core provider,” said Silsby of Kennebec Savings Bank. “They’re really holding us back.” To help answer this need, ABA has created a banker-led Core Platforms Committee that has identified bankers’ top priorities for strengthening the bank-core relationships as data access, API deployment and contract fairness. The committee is developing resources to advance those priorities, including a set of Principles for Strong Bank-Core Provider Relationships that banks can use as part of their conversations with their own providers.

Another problem is the length of the core commitments. Don’t get Silsby started on seven- to 10-year contracts. “No way would I go that long. The banking industry is going to change too much in that time. The core providers have to figure out how to respond to the evolving environment.”



Consider outsourcing and the cloud

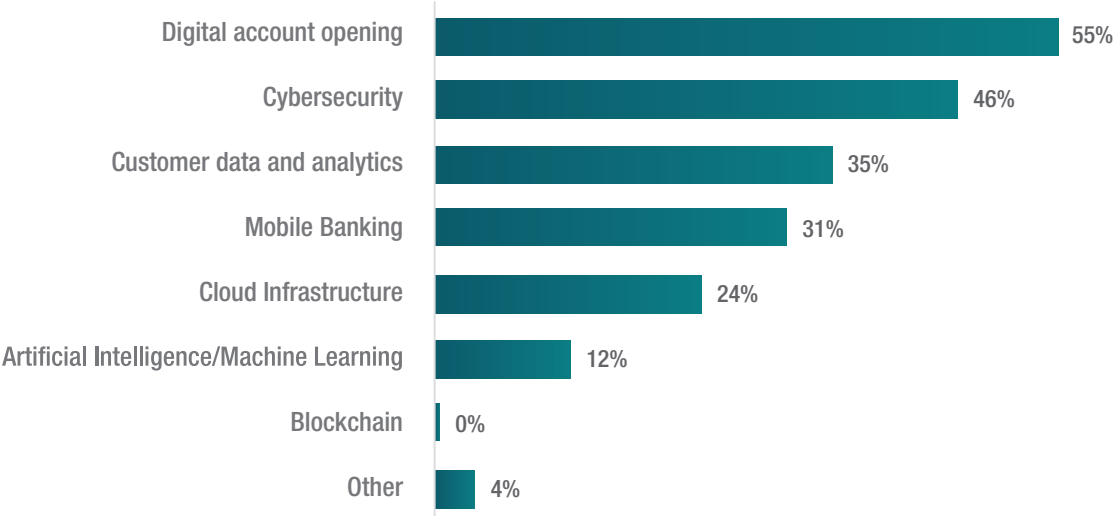
The majority of respondents (57%) have no plans to outsource key business functions in 2020. Smaller banks are the most likely to embrace outsourcing (56%) or have plans to do so. For banks overall, the most likely function to outsource is IT (29%), followed by the compliance function (18%) and HR/benefits (14%). Any function that needs high-level, intensive computing power—such as cybersecurity—is a good candidate for outsourcing.

Whether part of an outsourcing strategy or not, cloud adoption is definitely on the rise, with 24% of respondents reporting plans to adopt cloud infrastructure in 2020. Still, most respondents (59%)—small banks in particular (65%)—have no plans to migrate key business functions to the cloud. The most likely functions to move to the cloud include email (26%) and internal infrastructure/servers (25%). There's less interest in entrusting the bank's enterprise data, HR, accounts payable, financials, payments and consumer loans to the cloud.

Nearly one-quarter of banks in our survey (23%) are considering cloud-based core banking in 2020, while 61% are not open to the idea. Overall, while cloud adoption prospects are up from last year's survey, bankers remain unenthusiastic about the concept.

Figure 12:

What technology-based initiatives are you planning in 2020?



“We have elected to keep our existing core provider, but we have not gone to their cloud offering because we like the control,” said Edwards. “Core providers would love to have you do that, because then you’re just that much more plugged into their world. In 2019 we made the decision to buy new servers.” United Bank is set for the next three to six years until the next hardware refresh cycle.

Kennebec Savings Bank follows the same school of thought for now. “We have a little bit of a control freak culture at our bank,” Silsby quips. “We tend to be an in-house shop and do not do a lot of outsourcing.”

Nonetheless, Silsby is open to cloud alternatives, as long as the bank retains control. “We like the idea of pushing the mainframe off-site onto the cloud, as long as we can still put in updates on our schedule. I would not be happy if a core service provider told us, ‘You get updates when the rest of our 300 customers get them.’”

Cloud advocates point to the advantages of letting IT experts to do what they do best, freeing bankers to do what they excel at. Others prize the redundancy and survivability of cloud data centers that exceed what a community bank can provide. Still others see the opportunity to change the way the bank invests in IT capacity.

“When we can find talented IT people, they are very, very expensive,” said Stewart. “Finally we asked, ‘What will it take from a risk standpoint to move to the cloud?’ So we are actively pursuing that, and I think that will be a very effective strategy for community banks over the coming years.”

Sustain smart growth

For most community banks in our survey, near-term growth will be close to home. Nearly three-quarters of respondents (74%) anticipate that growth in 2020 will come from in-state, within their existing footprint, while 16% expect growth in-state, outside their existing footprint. Only a few plan to reach into new out-of-state markets, either within their existing footprint (7%) or into new territory (4%).

Many CEOs are taking bold actions in 2020 to drive growth or profitability. A significant percentage plan to expand organically within current markets (61%) or new markets (33%), launch new products or services for consumers or commercial clients (48%), implement new technologies to reduce operating costs (43%) and grow through merger or acquisition activity (21%).

“We’re a mutual community bank celebrating our 150th anniversary in 2020. My job is to grow the institution and turn it over to the next generation in better condition than we received it.”

**Andrew Silsby,
Kennebec Savings Bank**



We spoke about growth plans with CEOs of banks founded 100 to 150 years ago—and at the opposite end of the spectrum. In July 2019, the Great Falls, Virginia-based Trustar Bank became the first new bank to open its doors in the greater Washington area in more than a decade. As a rare de novo market entrant, Trustar Bank is in a unique position to pursue growth from all angles—new products and services, new customer segments and expanded footprint.

“We certainly hit the ground running,” said CEO Andersen, who ran Washington First Bank from 2004 until it was acquired by Sandy Spring Bank in 2018. “Exceeding \$130 million in assets in our first six months of operations is very rewarding and speaks to our customer and market demand and the ability of our team. We expect to see growth across our product portfolio, driven by commercial lending and deposit generation.”

Take advantage of social media

Earlier in 2019, ABA published a report on social media practices and results from more than 430 U.S. banks of all sizes. [The State of Social Media in Banking](#) revealed some interesting trends. For one, banks have gained a lot of maturity with social media; 40% said their banks have been using social media for five years or more—up from 25% in the 2016 social media study. Most banks are on board. Only 3% of respondents said their banks do not use social media today but will adopt it in the next year or two, and only 3% have no plans to get involved with any social media channels.

The most preferred social media platforms for banks are Facebook (97%), LinkedIn (76%) and Twitter (59%), followed by Instagram (48%), YouTube (45%) and blogs (21%). SMS text, Snapchat and Pinterest barely register at 6%, 5% and 5% respectively.

Whatever the platform used, there is overwhelming consensus about the power of social media; 84% of respondents ‘agree’ or ‘strongly agree’ that social media is important to the bank—up from 76% in 2016.

Edwards said that taking a closer look at social media was one of the United Bank’s best decisions of 2019. “We’ve had a social media presence for several years, and in 2019 we hired a marketing firm to help us dig in and really understand how our customers are engaging with us through social media.”

“We haven’t made a hard left turn—we still advertise on local radio stations and newspapers—but it’s clear that more and more of our customers are online.” The bank’s social media presence proved invaluable when the area’s AT&T service went down for a day-and-a-half, and the bank was still able to keep customers informed.



Revisit the branch network and experience

When asked what they are doing to drive customer engagement in 2020, 27% said they are creating new branch experiences, perhaps redesigning the look and feel of branch offices. Some are reassessing the branch network or the way branch staff work.

Following the rooftops

CNB Bank has three branches around Carlsbad and an in-store branch in a Walmart. The in-store branch has proven to be expensive and non-productive for customers' purposes, so it will be replaced with a free-standing branch in 2020. "We purchased a piece of land and are putting a shovel in the ground this spring on a new full-service community banking branch on the south side of town, which is seeing a lot of residential development," Jenkins said. "We're excited about that."

United Bank is also reevaluating its branch network in 2020. Toward the end of 2019 the bank opened its first new freestanding branch in about a decade. The search is on for land to expand in another adjoining county. "We are looking to judiciously continue to add branches," said Edwards. "The branch environment, while it's changing, still plays a very important role in our service delivery. On the flip side, we are also pruning branches where the density of branches is not necessary. We closed a branch not too long ago where we had three locations within a five-mile radius and are in the process of closing several in-store branches."

Trustar Bank, in operation less than a year, plans to open one branch a year in the region. The locations won't be as big as the traditional branches, with digital banking becoming more prominent, says Andersen. Branches are more likely to be 1,500-square feet rather than 5,000.

Optimizing the in-branch experience

Sound Community Bank is rethinking the best use of retail branches in 2020, finding ways to organize around relationships rather than around products. The bank is shunning the traditional silo model, where mortgage officers work in the back office or on the phone focused on mortgage origination, business bankers are not really integrated into the retail side, and tellers defer anything beyond straightforward transactions to bank officers.

"We think the retail branches should be hub of talented bankers," said Stewart. "While not every banker will be able to answer all questions about all products, they all need to have a working knowledge of all those products, and be able to bring in a specialist when needed."

The Ultimate Mobile Banking

Gaze across the choppy waters of Puget Sound, and you might catch a glimpse of sleek black fins—the telltale sign of orcas, who roam the bays between Washington state and British Columbia. This oceanic mammal with its distinctive black-and-white motif attracts whale-watchers to Seattle's waterfront parks, near the headquarters of Sound Community Bank.

Stewart always wanted one, sort of. "For seven years I had wanted to get a Volkswagen Beetle and paint it to look like an orca whale." It was only natural, as the bank's logo is an orca. "I just kept convincing myself of all the impediments, costs and roadblocks. Then I found out this was the last year, the 2019 model year was going to be the end of the Beetle line. So I said okay Laurie, it's got to be now or never."

Stewart kept the project under wraps. She only told two people in the bank—the chief marketing officer and chief operating officer. The mascot car, Echo, would be unveiled as a surprise at the annual employee appreciation party. Stewart bought the Beetle and had it fitted with rooftop fin, a bank-branded orca paint job, and a speaker with a recording of the orca's high-pitched squeak.

Then Stewart pulled a prank on employees, who had been prepped to hear an exciting announcement at the party. She announced that the surprise was that everybody was getting uniforms. The ruse was elaborate. There were jackets and blazers on display. Models wearing the uniforms. Color choices. Stewart inserted a dramatic pause in her presentation and pretended this was the big reveal.

continued next page

“As we remodel branches, we’re moving away from teller lines, trying to enhance ITM [interactive teller machine] technology. Everybody loves the mobile banking site. If we can get routine transactions to be handled self-service to the extent that the customer is happy and comfortable in that, then our bankers can be more consultative business partners.”

Attracting new deposits

With lower interest rates, the battle for deposits has never been more intense for community banks. The nation’s largest banks are aggressively pursuing consumer deposits, and competition from internet-only banks has increased due to their lower cost structure and aggressive pricing. To better compete, some community banks are increasing their marketing and advertising efforts (including social media) or enhancing their customer service offerings rather than compete on rates. For Cowden’s Security State Bank and Trust, the Economic Growth, Regulatory Relief, and Consumer Protection Act that was signed into law in May 2018 became a game changer.

“At the time, our loan demand was almost twice of that of our deposit growth. One issue was that we weren’t aggressively requiring people to have deposit relationships with the bank. We also needed a new way to attract more local-based funding for our bank, which is why we took a look at ABA endorsed Promontory Interfinancial Network’s CDARS offering” said Cowden. “Take, for example, a customer with one million dollars who wants to keep that money insured. This product enables us to make that deposit eligible for FDIC insurance by dividing that deposit among other banks in their network. It has really helped us get money into the bank, especially public funds.”

A few people clapped limply. Then partygoers heard a high-pitched squeal, and here comes the car—much better received.

“It has been fabulous,” Stewart said. Every month employees vie for the right to drive the car and take it to bank events, such as parades, a 5K race or a fundraising gala. “Every month, everybody wants to drive it. Executives want to drive it. People are just excited about it. Some post on Facebook where it’s been. It’s been fun and great for marketing.”

And for mobile banking. A bank leader had the car on a Puget Sound ferry when a woman flagged him down to ask a question about a stock certificate she had lost. “Fortunately, the driver was our controller, who could tell the woman exactly what to do to get a replacement. Another woman chased the car down and said, ‘Omigosh, where’s your nearest branch; I want to open an account with a bank that has an orca car!’”

Figure 13:

What, if any, tactics do you plan to use to drive customer engagement next year?



Continue the legacy of relationship banking

In 2015, a 26-year-old former combat veteran in Afghanistan came into Silby's office, seeking a \$1.1 million loan to buy the former Elizabeth Arden estate in nearby Rome, Maine. The quadruple amputee wanted to open a retreat for wounded post-9/11 veterans and their families. Silsby had his doubts when he saw the run-down property. It was going to take another \$2.5 million to renovate it to be fully accessible. But he said yes to U.S. Army Staff Sergeant Travis Mills.

"I only had to sit down with Travis for five or 10 minutes to know this was going to succeed, because he had the right stuff," Silsby recalls. "So it wasn't a difficult leap. But looking back, I scratch my head over it. It was crazy." The million-dollar loan has been fully repaid.

"What motivates me each and every day is my long-term vision of a vibrant, attractive, and successful state of Maine with opportunities for young people to put down roots and start a family," said Silsby, who has been with the bank for 26 years. "Access to money is essential to grow and prosper, and the people and businesses in our area need a bank that cares about their well-being."

O'Rourke agrees. It's about helping customers succeed. "We started Signature Bank with the mission of helping middle-market companies thrive. My two partners and I had worked for larger financial institutions that were devaluing the relationship model and becoming a more commoditized business, and we didn't believe in that. We're a relationship-based bank that serves family-owned businesses—entrepreneurs and the people who run those businesses."

The model works. Founded in 2006, Signature Bank is now approaching \$1 billion in assets. "That's all organic growth," said O'Rourke. "We haven't done any acquisitions, and we haven't deviated from the relationship-based model. We're pleased to see many of our customers also named to the Inc. 5000 list of fastest-growing private companies. It validates our original mission and the efforts of our entire Signature Bank team."

Unity Bank relies on advisory boards for direction about how best to serve the community. Advisory boards comprise community leaders and—farmers, business leaders, educators, people from all walks of life. Their input keeps the bank grounded in the needs of its local community, Goodell said. "It's meaningful to all of our bankers that we get to grow with people over time. Being able to take a relationship approach with a long-term focus feels like a privilege to me."

"It's meaningful work, working with customers over a long period of time. You get to know them, their families, the directions they're going, and you get to grow together."

**Rachel Goodell,
Unity Bank**

Sustain the heart of community banking

“We take great pride in being a values-based organization, and one of our core values is giving back and sustaining the communities where we do business,” said Stewart. “We have a significant corporate responsibility, whether in our rural or urban areas, to make our communities better places to work, live, worship and do business.”

It’s a familiar refrain in community banking, and the CEOs we spoke to put action to that vision.

Sound Community Bank targets its giving based on what’s important to employees. “We only give to organizations that have an employee sponsor, where the employee is engaged in some sort of volunteerism or board work,” said Stewart. “We use that as a criteria to make sure we’re all aligned where we can make a difference.”

Since homelessness and sky-high rents are endemic problems in the Seattle area, a big focus for 2020 is to continue the bank’s support for housing-related relief programs. One agency that is making a difference is Plymouth Housing, which is addressing issues of hardcore homelessness and affordable housing,” Stewart said. “What I really love about their model is that in every multi-family housing facility, they’re reserving space for small retail businesses, for minority groups, and keeping those retail rents low to foster and sustain those small businesses that are priced out of the market during an economic boom.”

Sound Community Bank is also a significant contributor to the Olympic View Community Foundation, which makes grants to local nonprofits; Seattle’s Woodland Park Zoo, where Stewart has chaired the board and volunteered for more than 30 years; and the annual Food Frenzy fundraiser, which supports Washington’s largest hunger relief organization.

Here’s a sampling of other bank-sponsored community service initiatives that CEOs will continue into 2020:

- CNB Bank focuses its giving on organizations within Eddy County that support youth and literacy programs, quality-of-life initiatives, and health and human services for the underprivileged.
- Through the Trustar Youth Foundation, Trustar bank focuses its efforts on children’s health and wellness and investing in organizations that work to improve the lives of children and families in Greater Washington.
- In its 150th year of operations, Kennebec Savings Bank is expanding its Catalyst Program to give \$50,000 to each of three community organizations—\$150,000 each quarter—through a grant process. In 2019 the bank gave \$1 million to support community initiatives. The bank’s 140 employees provided 9,000 hours of volunteer service last year.

“Without volunteer participation, nonprofits would not be able to fulfill their critical missions,” said Kennebec Savings Bank’s Silsby. He personally is involved on area nonprofit boards, the local chamber of commerce, the United Way, local theaters, trade groups, and many other organizations that make up a vibrant community.



Closing thoughts

We asked bank leaders to tell us the best decisions they made in 2019. Topping the list are: hired a great new executive (23%), launched a new consumer product (13%), reorganized the bank (11%) and opened a new branch (9%). Several took the bold step to move to a new core provider. Several mentioned decisions related to mergers/acquisitions—either a great decision to buy another bank, or a determination to pass—a great decision to open a new branch, or to close an underperforming one.

Through 2020, community banks will be keeping a vigilant eye on driving smart growth, recruiting and retaining talent and fortifying their cybersecurity defenses. They'll be grappling with regulatory compliance and heightened competition. They'll be continuing their digital transformations and putting core providers' feet to the fire for more openness and agility.

Whatever 2020 brings—a banner economy or the early hints of a downturn, exuberant growth or holding the line, higher-touch relationships or online convenience—one thing is certain: community banks will continue their legacy of deep community ties, enduring relationships and commitment to the prosperity of their businesses, investors and families.



Top 10 takeaways

- 1. Drive growth and profitability.** Many banks plan to expand organically within current markets (61%) or new markets (33%), launch new consumer/business products or services (48%), implement new technologies to reduce operating costs (43%) and grow through merger or acquisition activity (21%).
- 2. Add digital products and channels.** The majority of respondents (58%) plan to add products and services on digital channels, refresh or redesign the website (53%), add new digital channels for bank customers (44%) and bring in new tools/technologies to improve employee productivity (41%).

The top digital products being launched in 2020 include: digital account opening (47%); (25% already have it), real-time payments via The Clearing House (43%), small business digital lending (29%) and consumer digital lending (28%).
- 3. Use more data-driven intelligence.** Many banks will expand their use of data and analytics for more personalized services (30%), better decision processes (35%) and take early steps into AI and machine learning (12%).
- 4. Grow staff.** Headcount will increase for 38% of banks in our study, while 52% will at least hold steady. Only 10% expect to reduce staff size. Hiring is a challenge; 92% said it has been difficult or very difficult to recruit the talent they need. They even have a hard time finding staff with the basic banking skills (32%) and customer service skills (30%) they need for entry-level roles.
- 5. Bolster cybersecurity protections.** Most respondents (85%) plan to conduct a full review of their banks' cybersecurity posture in 2020, while 46% expect to fortify protections. They plan to add multi-factor authentication (65%), digital signatures (46%) and biometrics (17%). Virtually every bank believes in cybersecurity insurance; 75% already have it and 22% are looking at adding a policy in 2020.
- 6. Consider outsourcing.** It's not a big draw yet. The majority of respondents (57%) have no plans to outsource key business functions in 2020. Of those who plan to in 2020, the most likely functions to outsource are IT (29%), compliance (18%) and HR/benefits (14%).
- 7. Consider the cloud.** While 24% of respondents plan to adopt cloud infrastructure in 2020, 59% have no plans to do so—although that figure is up from last year. The most likely functions to move to the cloud are email (26%) and internal infrastructure/servers (25%). While 23% of banks in our survey are considering cloud-based core banking in 2020, another 61% are not open to the idea.
- 8. Put pressure on core providers.** CEOs we surveyed said their core processing systems were hindering their ability to deploy new digital and online capabilities. In fact, 28.3% of respondents said the lack of agility and open interfaces—which blocked innovation—was the greatest threat to growth.
- 9. Create a great employment experience.** In 2020, community banks plan to improve compensation (53%) and benefits packages (34%), offer new learning or job experiences (50%), and provide flexible work opportunities such as telework and flextime (36%).
- 10. Bolster bank diversity.** With studies showing the business benefits of diverse workforces, banks understand the need to bolster DE&I programs but are struggling with how, with just 15% saying they have concrete plans to do so in 2020.

Learn More

Recruit/Develop/Retain Talent

- [ABA-Wharton CEO Leadership Lab](#)
- [ABA Training and Development for Bank Employees](#)
- [Succession Planning for Banks \(Resource Guide\)](#)
- [Transitioning Careers – Basic Bank Training for Veterans](#)
- [Hiring Our Heroes Program](#)

Mortgage/Construction Lending

- [Construction Lending in 2020 Report](#)
- [Understanding the Digital Mortgage Process](#)
- [Construction Loan Management solutions](#)
- [Fannie Mae Day 1 Certainty*](#)
- [FSSCC Cybersecurity Profile](#)

Wealth Management

- [The Changing Face of Wealth Management Report](#)
- [ABA Wealth Management Online Training](#)

Digital Transformation

- [ABA State of Digital Lending Report](#)
- [ABA Endorsed Digital Lending Solutions](#)
- [Understanding the Internet of Things](#)
- [ABA Fintech Resources](#)

Payments/Cybersecurity

- [ABA Payment Resource Center](#)
- [Sheltered Harbor](#)
- [Cybersecurity Management Training](#)
- [Cybersecurity Awareness Training](#)

Social Media

- [Social Media in Banking Report](#)
- [Social Media: Managing the Risks \(Free for ABA member banks\)](#)
- [Marketing in a Digital World: Social Campaigns](#)
- [2020 ABA Communications Guide](#)
- [ABA Bank Marketing Conference](#)
- [Building a Content Marketing Strategy for Financial Services \(guide book\)](#)

Industry Solutions

- [ABA Endorsed Solutions](#)