

EXECUTIVE SUMMARY



**AHEAD OF
THE CURVE**



**ON
THE CURVE**



**EMERGING RISKS &
SHAPING THE FUTURE**



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Executive Summary

The past decade has resulted in tremendous shifts in the macroeconomic environment and significant consolidation among community, regional and national financial institutions. When asked about their views on the generic community bank landscape, however, it is trends in regulation, technology and cost discipline that come to the forefront for top-performing community bank CEOs. Consolidation and competition among larger banks, on the other hand, are more likely to give community banks confidence and a competitive advantage.

Trends for Top-Performing Community Bank CEOs



Though many of the banks included in our study have footprints that cross state borders, major metropolitan statistical areas and even much of the country, execution of successful strategies is very local for community bank CEOs and embodied in the talent at the most senior and junior levels of their organizations. Most importantly, a laser-like strategic focus on customer relationships, combined with talent, differentiates community banks and reinforces their position as a unique and critical part of the broader financial services industry. In fact, our CEOs unanimously agreed that “top-performing banks are built on top-performing people.” Talent is the wellspring – and the platform – to execute sound strategies, build and develop deep customer relationships, and address the challenges of the current macro and micro-economic environments.

The banks of the CEOs we interviewed serve urban, suburban and rural markets. They tend to exist along a continuum of product, operational and customer strategies, including: (1) full-service community banks delivering a range of products to retail and commercial customers in their chosen markets, (2) business banks maintaining deep and profitable relationships with small and middle-market businesses and their owners, and, (3) niche banks delivering highly targeted lending products to carefully chosen industries and segments.

The composition of our study is weighted slightly toward larger community banks, though in aggregate these banks reflect a diversity of markets, strategies and customers served. Many represent some of the most competitive institutions in their metropolitan statistical areas (MSAs), regardless of size.

We used this sample to derive a framework for assessing the current state of community banks. In the words of one respondent (remarking on technology), community banks can be “on the curve” in certain areas and “ahead of the curve” in others. The key is to not fall behind the curve in matters that investors/shareholders, customers and communities value most.

Our research suggests that, collectively, these top-performing community banks are **ahead of the curve** when it comes to their strategic focus, talent caliber and relationships. They are **on the curve** (and for the most part, comfortably so), in their use of technology for the customer experience, determining success metrics and growth, and strategic planning.

The interviews also suggest a number of **emerging risks** and opportunities for community banks to **shape the future**. Views and existing or planned practices among our top performers were slightly more divided among these elements, primarily in their responses to the emergence of millennials, as well as the advent of big data analytics.



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First, the emergence of millennials and the strategies that community banks and their customers use to address millennial wants and needs are ultimately of critical importance. Secondly, though community banks are confident in their differentiation of service, solutions and value from “big banks,” should those banks dedicate significant resources to the middle market, remake their models and customize their service delivery, so too would community banks need to adapt. Finally, our research showed mixed adoption and application of big data to refine product/customer segmentations, pricing, risk and profitability strategies. Opinions are mixed as to whether community banks are missing an opportunity or if the future is now.

At the opening of each interview, we engaged community bankers in a discussion of asset size relative to a community bank’s ability to survive. Views were mixed from CEOs whose banks ranged in asset size from \$400 million to more than \$7 billion. The rising cost of regulatory compliance has apparently raised the asset size survival bar (with acknowledged exceptions, especially in rural markets). The key, however, **is not just to survive but to thrive**. Through these interviews, we learned how these top-performing CEOs have done just that, with a variety of asset sizes and strategy models. We present herein their stories and anecdotes with the hope that they will benefit community banks across the industry.

contact us for the full white paper at
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