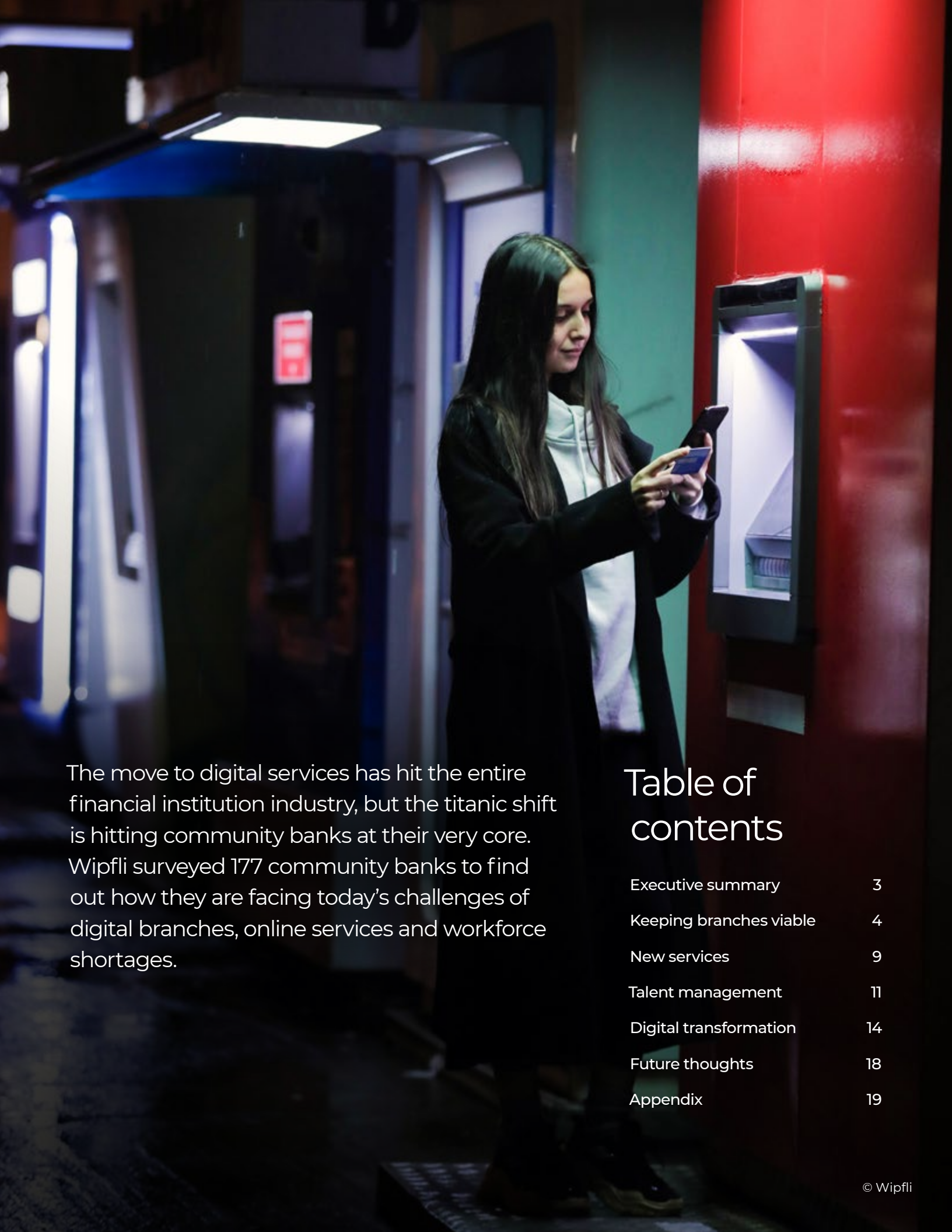


State of community banking

2022 community banking
research report

WIPFLI



The move to digital services has hit the entire financial institution industry, but the titanic shift is hitting community banks at their very core. Wipfli surveyed 177 community banks to find out how they are facing today's challenges of digital branches, online services and workforce shortages.

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Executive summary

Community banks are grappling with the challenge of maintaining the lifeblood of their operations — their brick-and-mortar branches.

Brick-and-mortar branches are the heart of community banking and part of what make up the fabric of society in towns across the country.

While larger financial institutions are closing branches or consolidating, community banks are bucking that trend. At the same time, those local branches must embrace digital services to remain viable — the same digital services that have reduced face-to-face contact between bank employees and their customers.

They also need to stay true to their mission of investing in their communities to fend off the new payment companies that have penetrated the industry deeply.

Wipfli surveyed 177 community banks across 33 states to bring these and other issues into focus. The responses show community banks are prioritizing digital transformation and employee retention, as well as offering diversified services to clients, such as wealth management, insurance and cryptocurrency, to better serve local businesses and families.

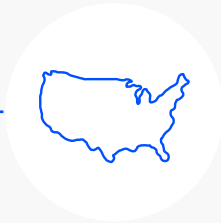
Throughout this report, we'll share the results of that survey, along with the key perspectives of our team of community banking specialists. We hope this reports helps shed light on the obstacles and opportunities for community banking in 2022.



177

Community banks surveyed

Across 33 states



Among the key findings

84%

of respondents said they had not closed any branches in the last 12 months

77%

of those surveyed said they added wealth advisory services in the last three years

29%

of respondents expect to add cryptocurrency services

Digital engagement and talent management were ranked as the two most important strategies

Cybersecurity and employee recruitment/retention were listed as top concerns

Keeping branches viable

Brick-and-mortar branches are anchors of the community, especially in smaller towns that might have only one financial institution. Community banks recognize that even as they expand digital offerings, physical presence in their community is essential.

The pandemic forced customers to trade lobby visits with cell phones and computers. When things opened back up, foot traffic to branches did not return like some had expected.

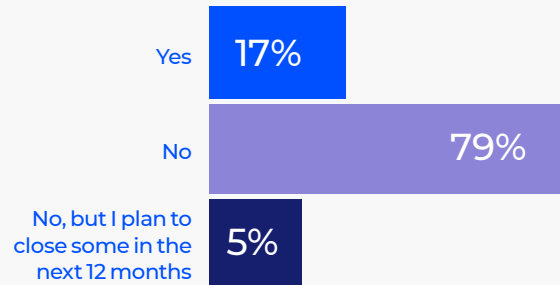
The response from larger institutions, which may not feel as tied to a community, has been to open digital branches and in many cases close or sell their physical branches.

So far, community banks are resisting following suit. Only 17% reported closing branches in the past 12 months. That's good news for the 20% of counties in the U.S. whose only access to a physical branch is from a community bank.

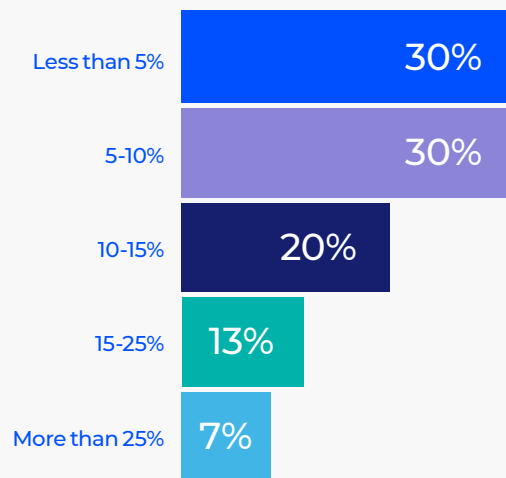
Not all digital trends are bad news for community banks. The reliance on digital does open the door for community banks to expand beyond their traditional borders and reach more customers.

The question is, can community banks retain their “community” feel the farther they reach out? Does geographic extension — either physical or in terms of client reach — change the core of what community banking is?

Have you closed any branch offices in the last 12 months?



What percentage of your branches have you closed?



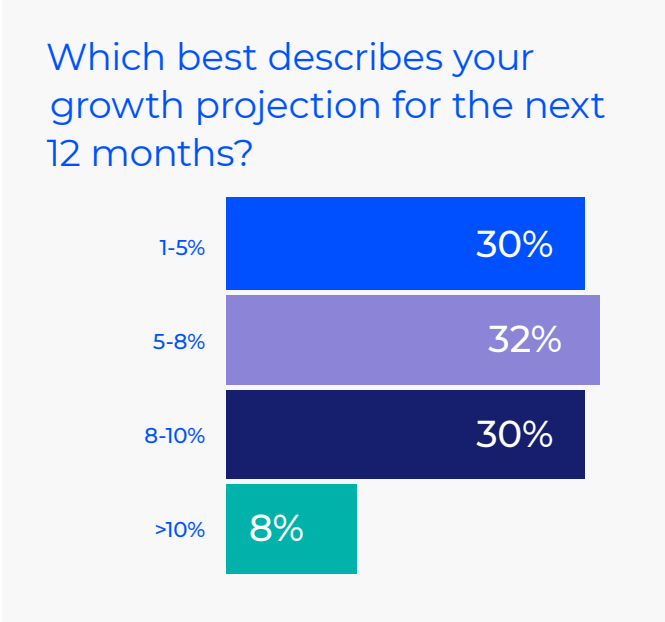
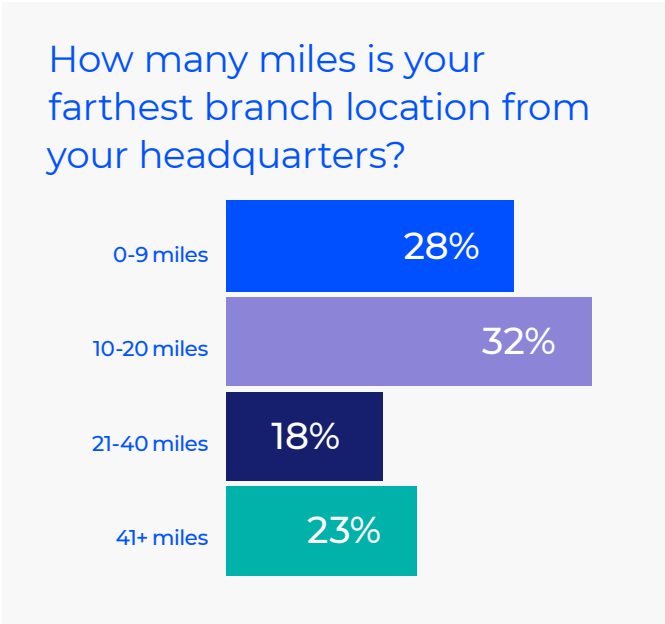
A woman with dark hair tied back, wearing a grey cardigan over a teal blouse, is seated at a wooden table in a meeting. She is looking towards the right side of the frame. In the foreground, a white laptop is open on the table, and a glass of water is visible. The background is softly blurred, showing green plants and a warm, indoor setting.

60% of small
business loans in
the U.S. are funded
by community
banks.

Community banks have always focused on the needs of people and businesses in their towns. In fact, they fund 60% of the small business loans in the U.S. It's that personal connection that helps banks be a part of their customer's life events, such as a marriage, birth of a child or buying their first home.

But community banks need to create an opportunity for those conversations to take place. They have to further enhance the personal relationships they have built with customers despite the move to new payment technologies and lack of in-person interactions.

Even faced with these challenges, most banks are forecasting growth in 2022.



32%

have branches 10-20 miles
from their headquarters

23%

have branches that are
41+ miles from their HQ



KEEPING BRANCHES VIABLE

One option is rethinking the physical bank space, using it to host community events, Boy Scout or Girl Scout meetings or classes on personal finance. At least one Midwest branch built a coffee shop inside its building to draw more potential customers.



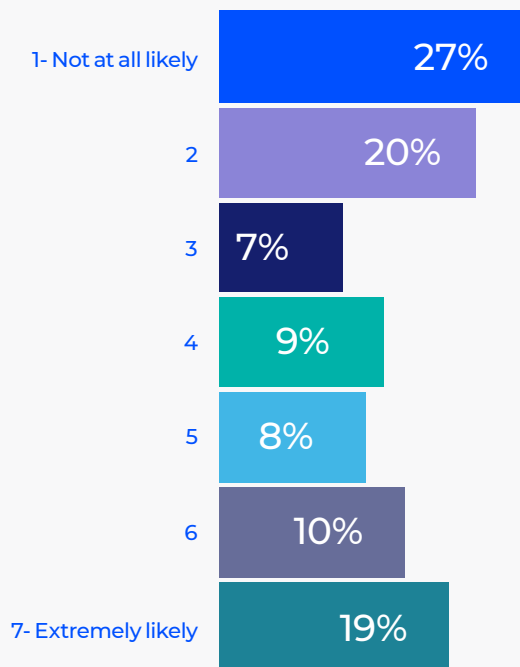
New services

Nearly all of the respondents plan to grow by adding additional services.

Almost half of survey respondents indicated they are very likely to offer some distributed ledger services (e.g., cryptocurrency) in the next 12-18 months. About half indicated the opposite, that they have no plans for crypto-related services on the horizon.

Make no mistake, cryptocurrency is here to stay. The questions banks should be addressing now aren't whether to embrace it but rather how to embrace it

What is the likelihood that you will be offering cryptocurrency-related services to your customers in the next 12-18 months?



and influence its regulations. Federal Reserve Chair Jerome H. Powell confirmed in May 2021 that the U.S. is monitoring the technological advances and considering a CBDC to coincide with other nations' efforts.

In addition, a group of banking regulators are collaborating on how banks can be permitted to offer crypto services and hold cryptocurrencies on their balance sheets. According to FDIC Chairman Jelena McWilliams: "If we don't bring this activity inside the banks, it is going to develop outside of the banks. ... The federal regulators won't be able to regulate it."

In December 2021, the Federal Reserve Payments Study confirmed the shift from credit card payments to P2P and other payment options involving crypto. This is the first decline in number of credit card payments (remote or in person) noted by the Federal Reserve.

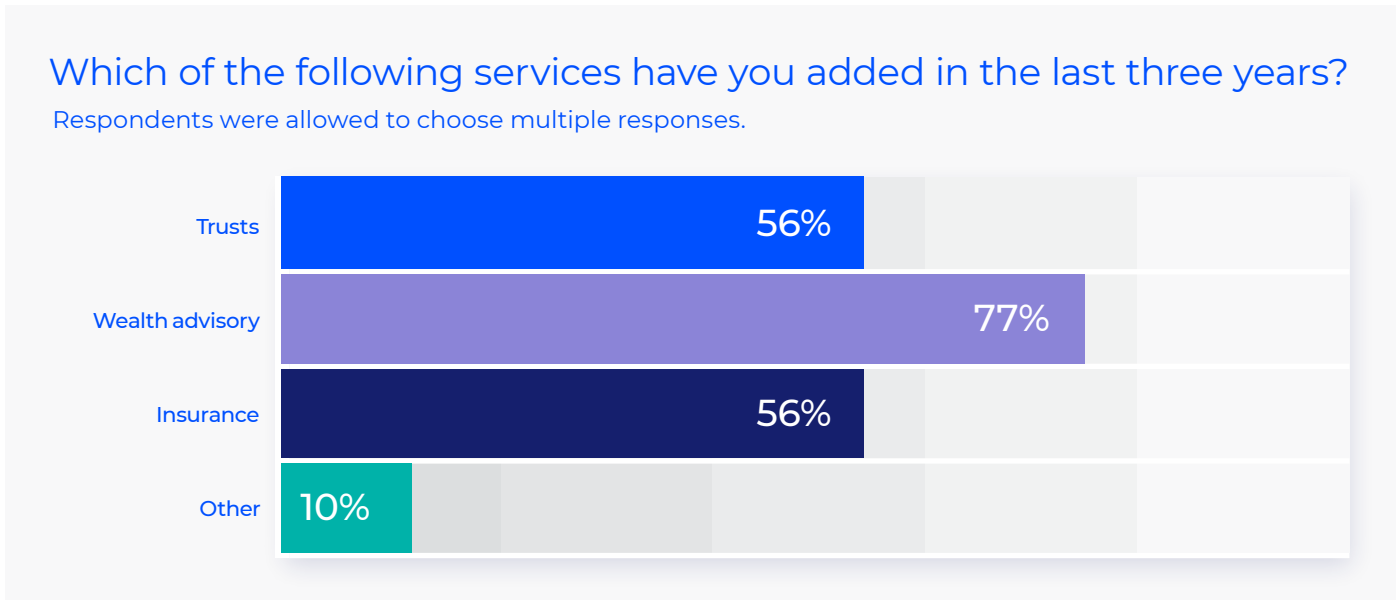
Compared to wealth management or insurance, crypto may feel like a less natural fit for community banks. But it's not. It's just another way to continue to deepen relationships while providing services to their community and attracting the next generation.

Expanding services to include wealth and asset management is not a new trend for banks. Private banking in the U.S. dates back to the late 1800s and more recently surfaced as a priority in the 1980s and 2000s — and we see that same trend reflected in our current research.

Private banking in community banks hasn't been a long-standing offering due to regulatory pressures and an inability to scale and retain talent.

But this time, we may see more success as more community banks partner with technology companies to provide scale and allow personalization of those services.

Additionally, many of the fintech companies ease the regulatory burden for the community bank.



Talent management

Attracting, retaining and developing good employees is a challenge in most industries nationwide. How do you attract young talent? How do you develop your current team and incentivize those employees to stay?

Community banks have been facing that problem for years, but the solutions have been elusive. The key difference is urgency. COVID-19 only accelerated and compounded the issues of talent management in banks.

People in smaller communities who were interested in banking-related jobs previously had only the local options available to them. Now those same employees can work virtually for almost anyone, creating additional hurdles for community banks eager to hire.

To solve it, community banks need to take a two-pronged approach:

- Retaining top talent
- Recruiting top talent

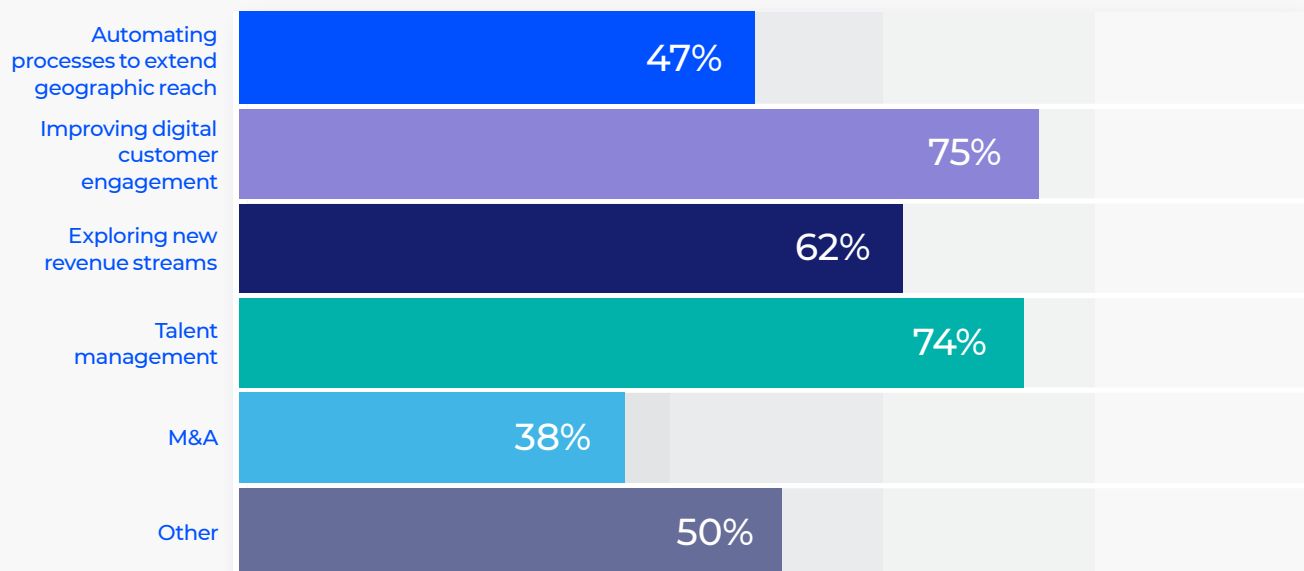
Retaining talent

The majority of employees leave because they don't see opportunities for growth in their current position. Strong retention practices — such as creating career blueprints and creating a culture of learning and development through internal training programs, education reimbursement and mentoring programs — will give employees a reason to stay.

In addition, today's high-value workers expect technology that helps, not hinders them. That means turning your digital transformation thoughts inward to implement next-gen technology in your middle and back-office operations.

Of the following strategies, which are the most important for your bank in 2022?

Percentages equal those who rated the strategies a 6 or 7 on a 7-point scale with 7 being the highest.



For other industries, the first solutions have been to offer remote work and flexible hours. At first blush, those might not seem like realistic options for community banks that want to increase face-to-face interaction. You have to have people physically in the branch if you're going to make it a destination place in town.

But there are opportunities for flexibility in front- and back-office teams. To get started, develop a checklist to determine remote work eligibility. Does this position need to meet face-to-face with customers? Does it need access to equipment only available inside your branch? What type of duties cannot be performed remotely?

Challenge your assumptions. There's flexibility even in positions like bank tellers. Can the person work in the branch two days a week and handle digital inquiries from home for the other three? Can they work an alternative schedule, such as four 10-hour days? Can they share the job with another employee?

Succession planning will be essential, too, especially as more baby boomers are retiring at rapid rates. Community banks, many family owned, must identify who will be ready to take over and start developing that talent five years out.



Recruiting talent

The same elements that will help banks retain employees will also help them recruit new ones with one major difference: New employees don't know you, so you need to become the employer of choice.

That often means establishing a program to measure and improve your culture and current employee satisfaction. Recruits will look at company reviews and the social media accounts of current employees to assess your culture.

The recruitment process is also a reflection of your culture. How fast did you respond to the application? Were you clear on next steps? Were they hanging in limbo for weeks, not knowing what's next? Was your digital application process seamless?

Community banks have another possible edge. There's evidence the next generation of employees will be motivated by green initiatives in the workplace and diversity, equity and inclusion policies. Community banks can be more nimble in implementing those changes — and they can be more visible in their community.

The pandemic and digital banking do have some upsides for community banks. Many Americans moved out of urban areas when the pandemic hit, which might create opportunities to develop more talent within towns — if banks can continue to be the lifeblood of their community.

Talent management concerns

74%



rated talent
management as a
top concern

45%



said labor shortage is
hurting their success

67%



reported being extremely
concerned about employee
recruitment and retention

Digital transformation

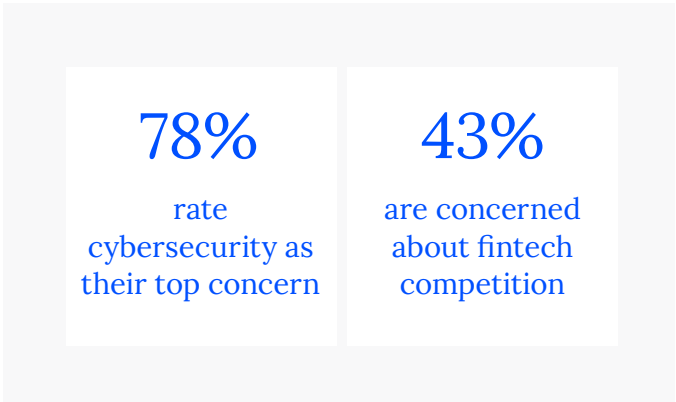
Digital transformation continues to be a murky concept that nonetheless is eroding the foundation of community banks.

That murkiness is reflected in the disparate ways community banks define digital transformation.

Community banks will need to think more broadly than just simple transactions and automated loan applications if they want to keep up with digital initiatives within the banking industry.

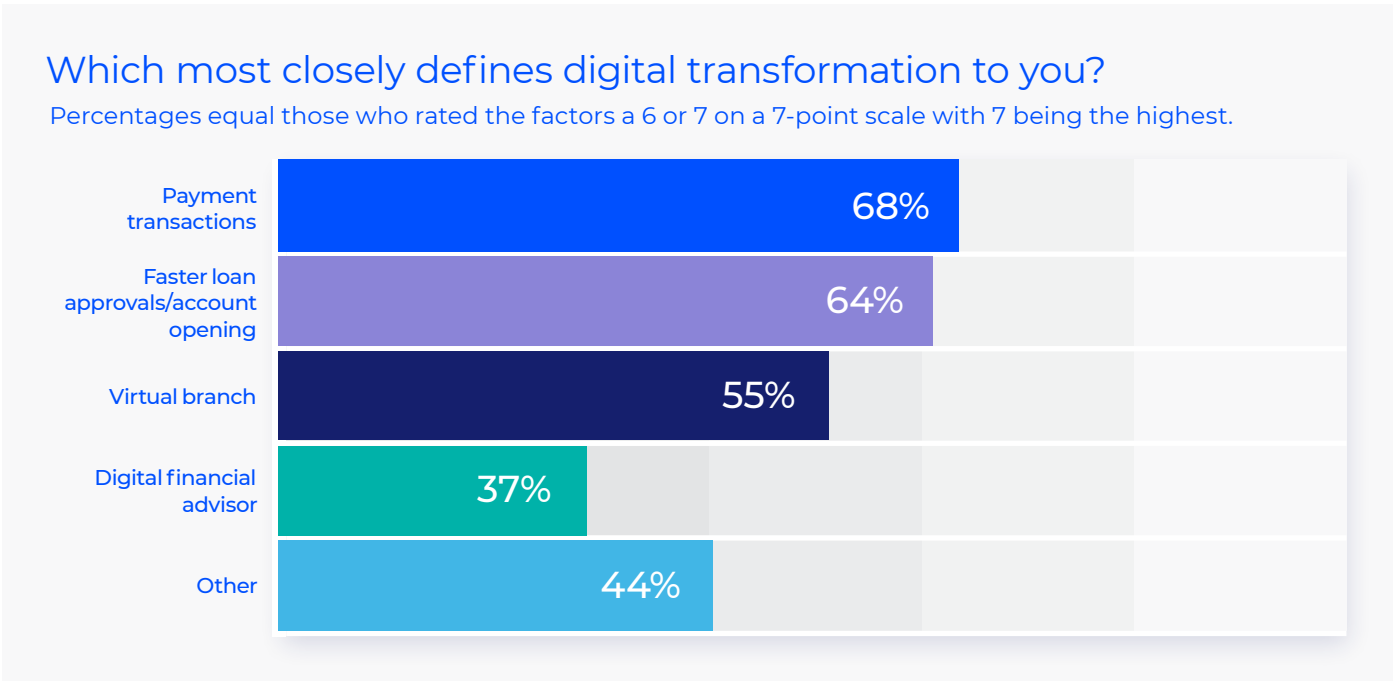
Full digital branch services is where things are headed. It's what customers will expect, along with reliable cybersecurity. That's likely to stress IT departments and CTOs as they lead that digital evolution.

True digital transformation is more than a single piece of technology. People and process are even more critical because without both of those, any program or platform will not achieve your goals.



Asked to choose a statement that best describes digital transformation at their bank, 48% of those surveyed said, “Our bank has very clear objectives and a path forward to digital transformation.”

That’s positive, but it means more than half of survey respondents were less certain about digital transformation at their financial institutions.



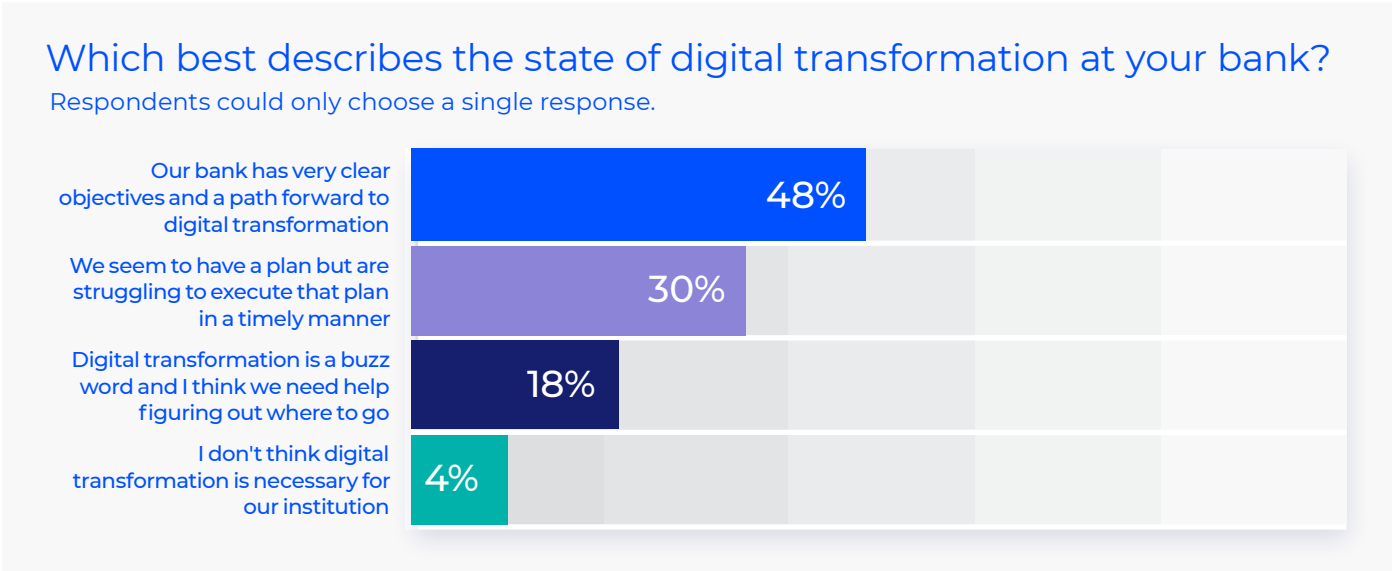


Digital transformation is about more than platforms or programs.

More than 70% of digital initiatives fail because people and processes were not included in the strategy.

Digital transformation must stop being a buzzword and become a normal part of banking operations. The change is constant and strategic. It should permeate your entire strategy and redefine your customer touchpoints.

Digital roadmaps should encompass customer personas and journeys to enhance their experience, deliver services how and when they want and eliminate friction that hampers that process – including internal problems that hamper the customer journey.





Keys to community bank survival

- Embrace crypto
- Bake digital into everything you do
- Find innovative ways to use brick-and-mortar
- Develop and retain staff

Future thoughts

Community banks are no stranger to challenges, and their commitment has driven them to be agile and resilient in the past.

But this time is different.

They are at a crossroads, and the only routes available are innovate or be left behind (or be acquired).

They are fighting a massive societal and cultural shift that — unless they can figure out how to maintain their relevance — may force them to close their doors.

We've covered a lot of issues in this report — and every one is key to the future survival of community banks. But two really stand-out.

Branches and people

In a future filled with diversification and digital options, community banks have to find a way to pull people into their branches. If they stay a ghost town, community banks will no longer be a part of their community and will die.

And if they are successful at getting people to walk through their doors, they need talented employees to serve them.

Just as community banks need to be more strategic and proactive, so do their employees. Customers are becoming more sophisticated, technology more

complicated and cyber threats more prevalent. Without talented people to meet these demands, no amount of tech investment or innovations will matter.

When asked to pick one word, community banks identified success as:

- Profitable
- Adaptable
- Growth
- Innovative

The passion and community dedication of community bank leaders is strong enough that they can achieve success.

If community banking is trampled in the rush to live and work virtually, a vital part of communities will be lost.

Online bots can't see that people are more than numbers. An app doesn't know that three generations of your family have lived here and always been good customers. A team of thousands can't pivot as rapidly to deploy PPP funds. Corporate banks hundreds of miles away can't build the trust that comes from a direct, personal connection.

If towns lose their community bank, they'll lose more than a financial institution. They'll lose a piece of their history and culture.

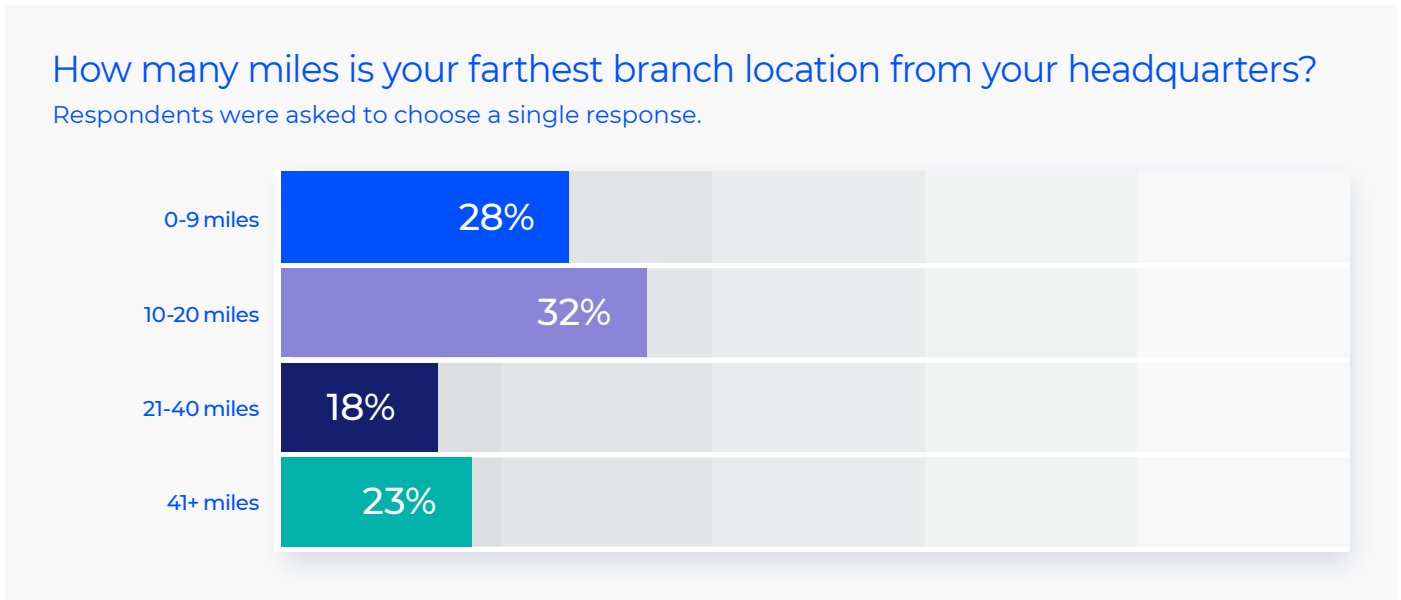
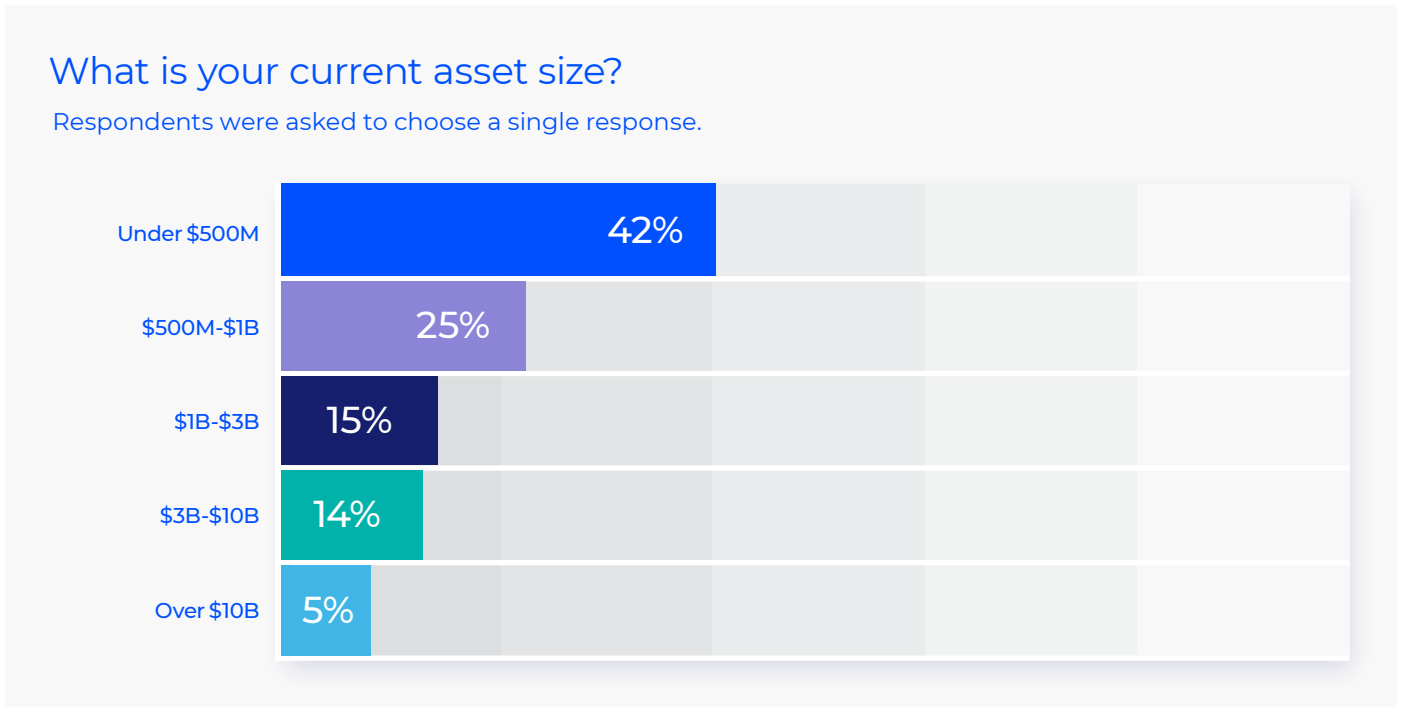


Anna M. Kooi

National Financial Services Industry Leader
Partner
Wipfli LLP

Appendix: The raw data

Wipfli received survey responses from 177 bank leaders in 33 states. The questions were emailed and answers collected during November of 2021. All responses were confidential and anonymous.



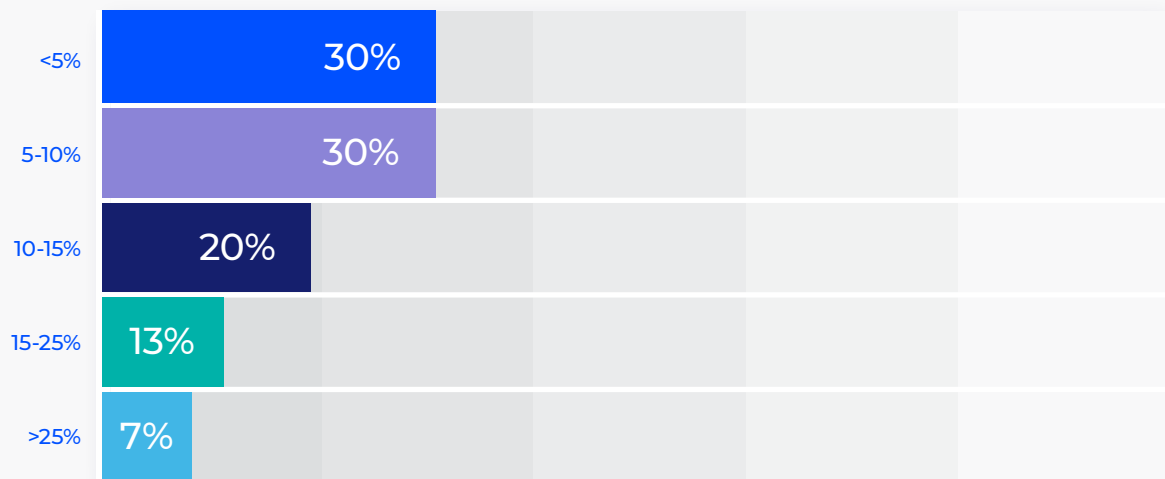
Have you closed any branch offices in the last 12 months?

Respondents were asked to choose a single response.



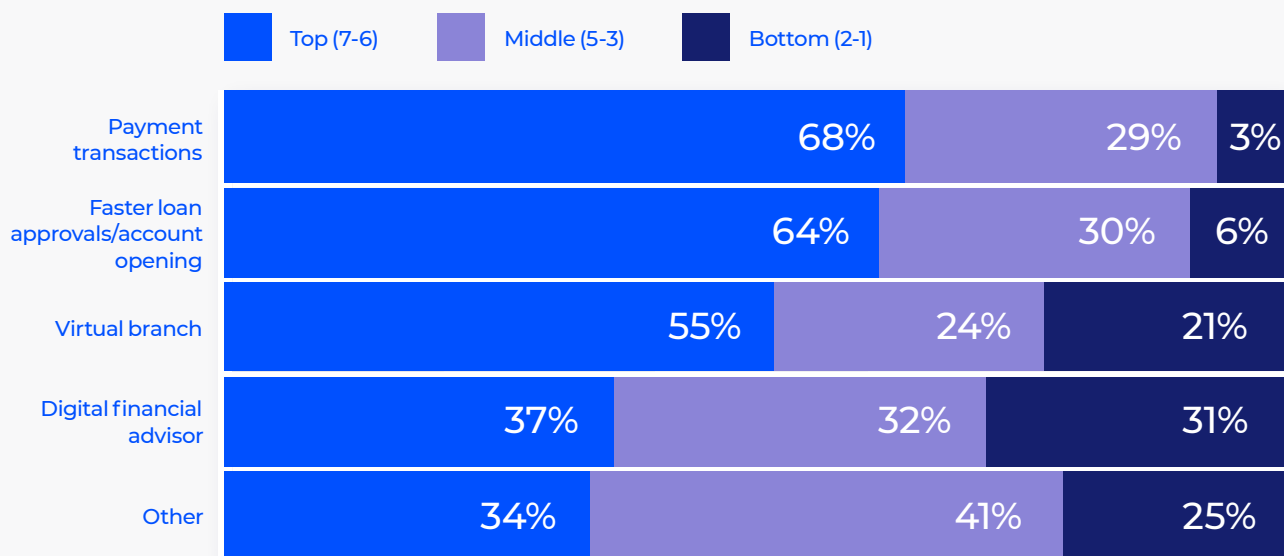
What percentage of your branches have you closed? (Of those answering yes.)

Respondents were asked to choose a single response.



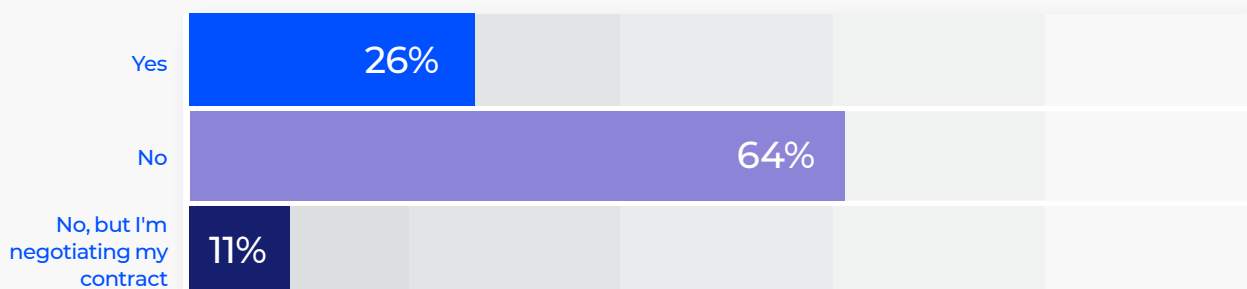
What is digital transformation?

On a scale of 1-7, with one being the highest, which factors most closely define digital transformation to you?



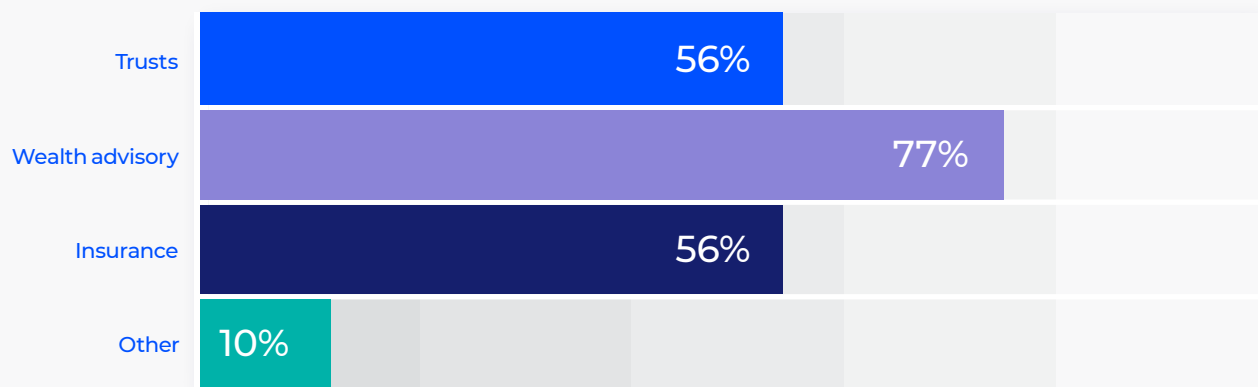
Are you looking for a new core provider?

Respondents were asked to choose a single response.



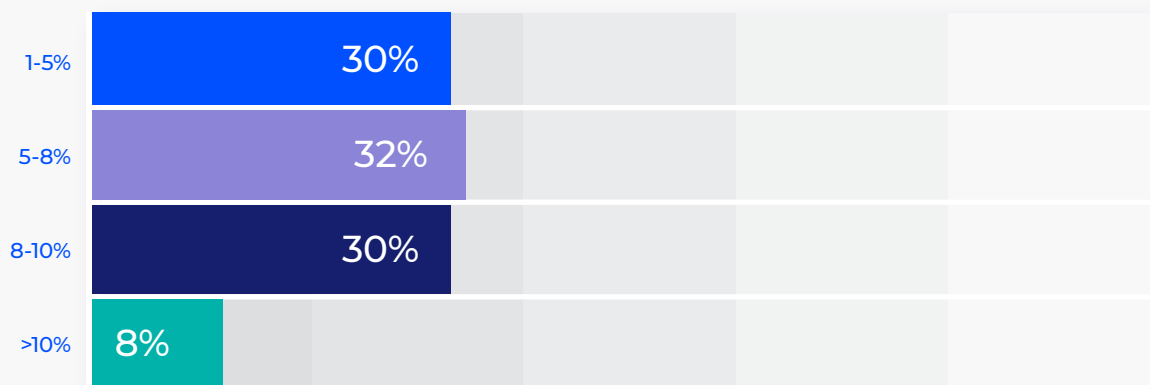
Which of the following services have you added in the last three years?

Respondents were allowed to choose multiple responses.



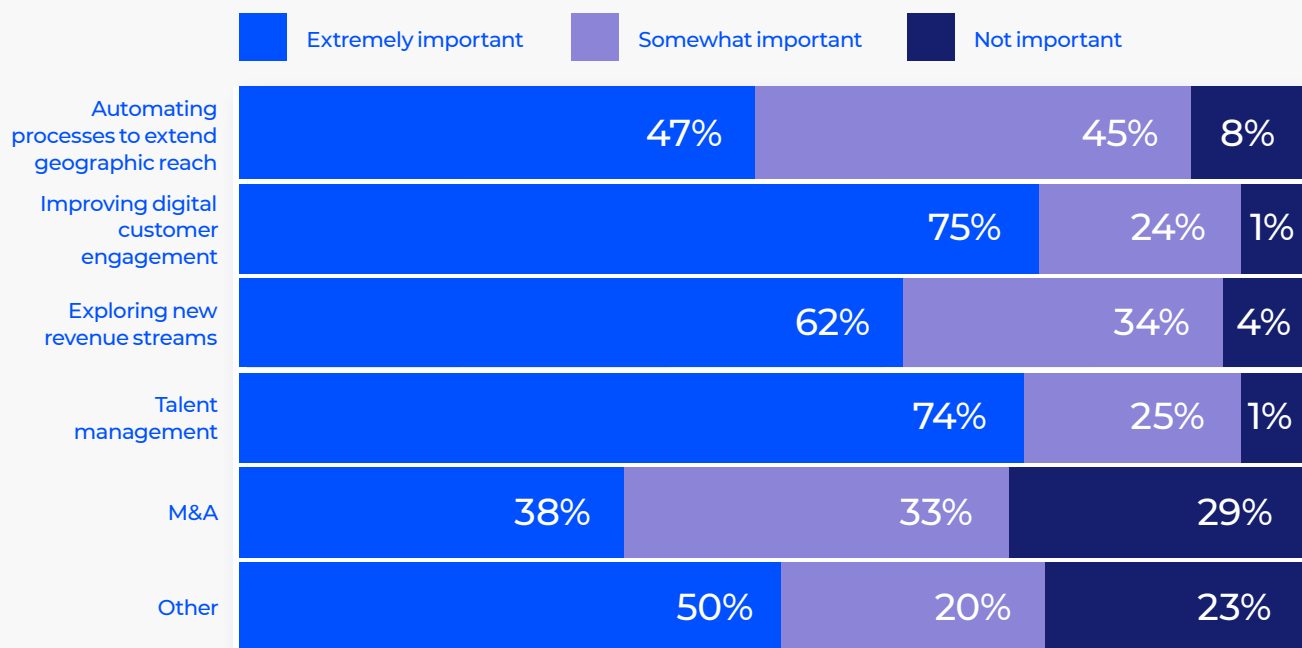
Which best describes your growth projection for the next 12 months?

Respondents were asked to choose a single response.



Of the following strategies, which are the most important for your bank in 2022?

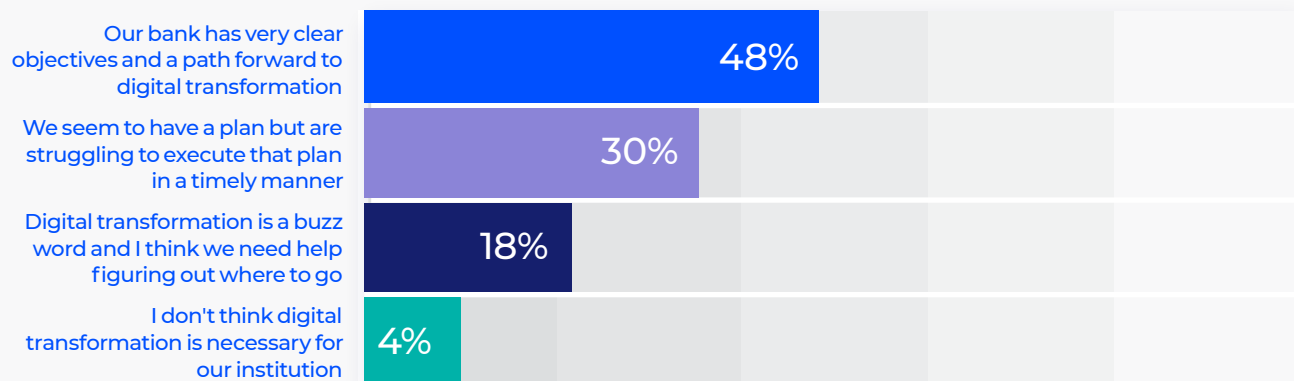
Please rate on a scale of 1-7 with 1 being "Not important at all" and 7 being "Extremely important."



"Other" responses ranged from cutting expenses, margin management and better cross-department collaboration.

Which best describes the state of digital transformation at your bank?

Respondents could only choose a single response.

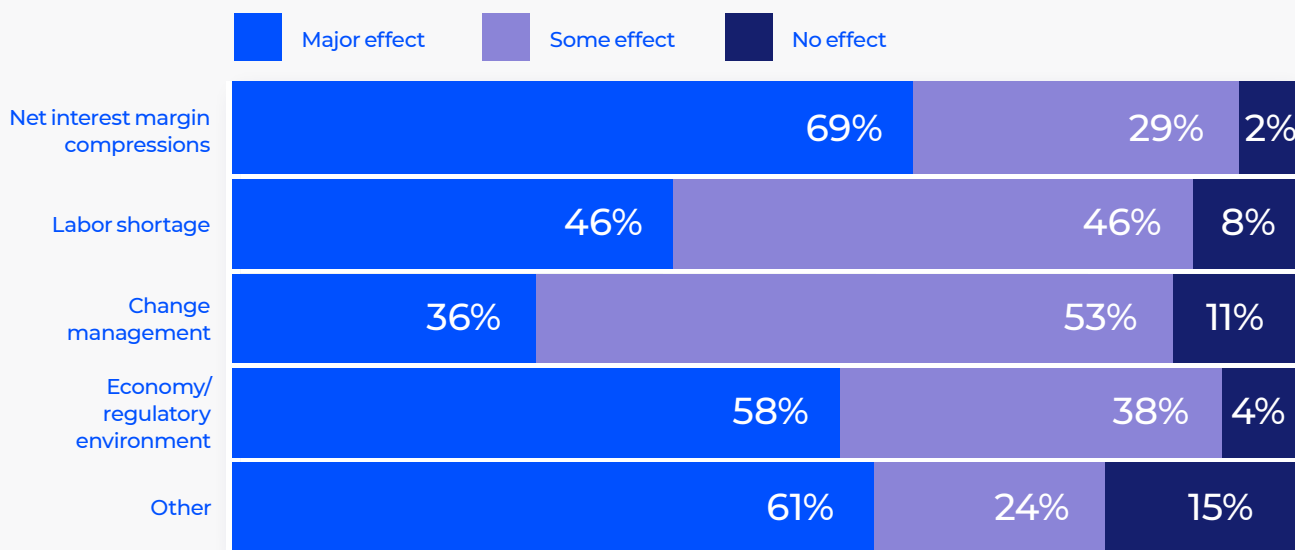


Are you planning to buy or sell?



What effect do the following factors have on achieving your goals?

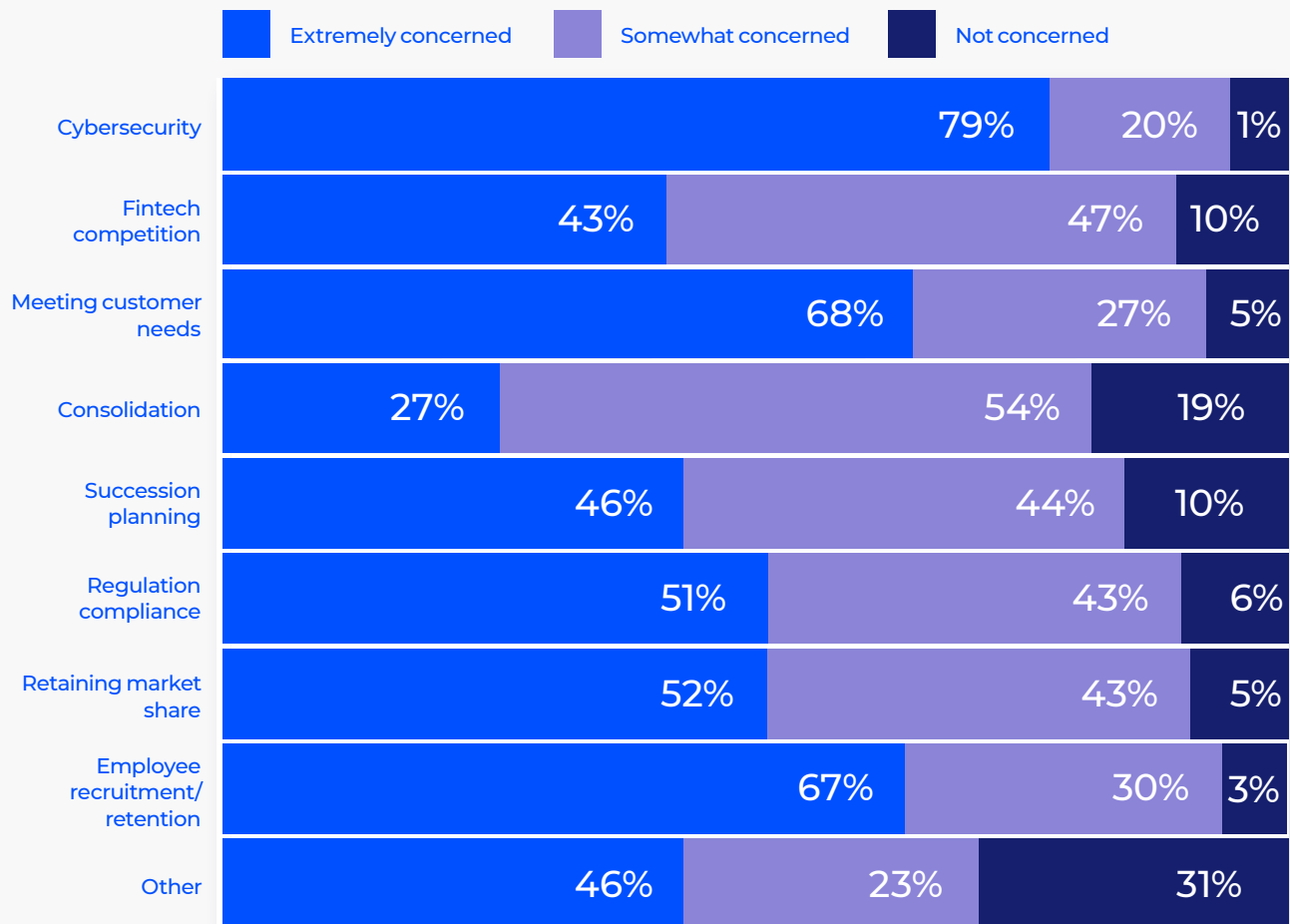
Please rate on a scale of 1-7 with 1 being "No effect at all" and 7 being a "Major effect."



Other responses ranged from technology/IT to loan growth and regulatory mandates.

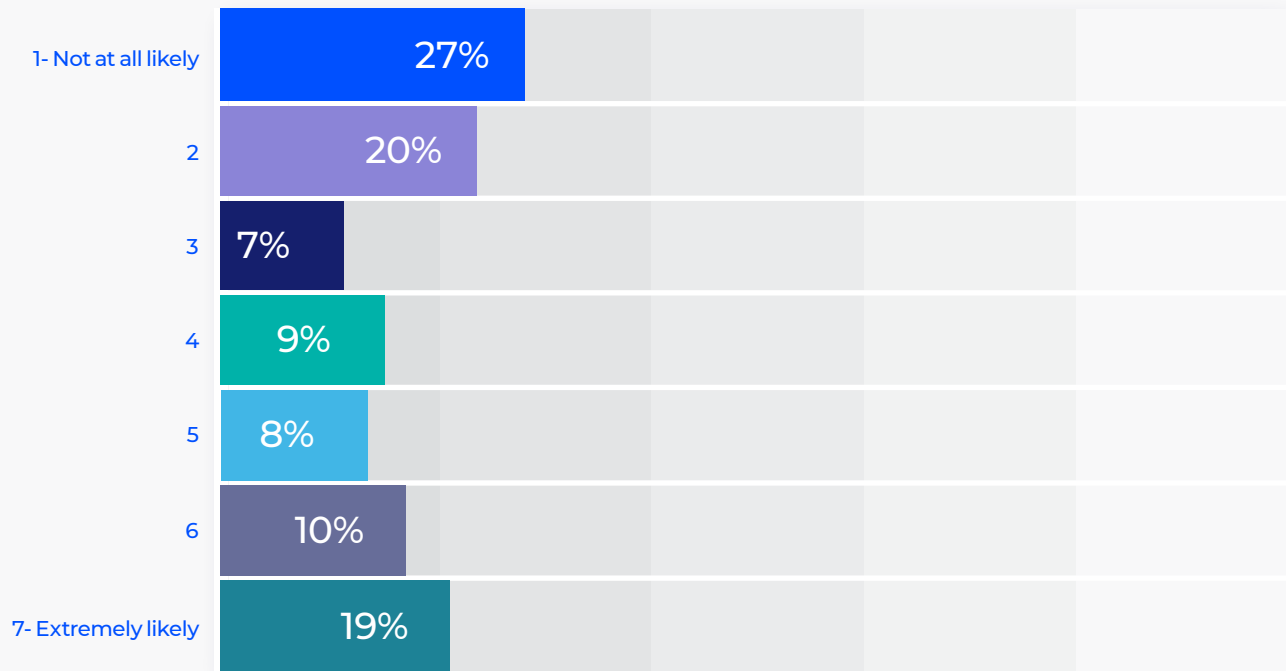
How concerned are you about the following?


Please rate on a scale of 1-7 with 1 being "Not at all" concerned and 7 being "Extremely" concerned.



What is the likelihood that you will be offering cryptocurrency-related services to your customers in the next 12-18 months?

Please rate on scale of 1 to 7 with 1 being "Not at all" likely and 7 being "Extremely" likely.





Perspective changes everything.

Community banking is the heart of our economy. We help you navigate an increasingly complex landscape with clarity and confidence.

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