2023 CSBS Annual Survey of Community Banks: Key Findings

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October 4, 2023
Overview of Key Findings

• Highest Ranking External Risks
  • Net interest margins
  • Cost of deposits
  • Core deposit growth

• What is the largest challenge on core deposit growth?
  • Bank market competition

• Regulatory risk remains a high concern
Overview of Key Findings

• Top Internal Risks
  • Cybersecurity
  • Liquidity
  • Staff retention

• Embracing Technology
  • Prioritizing adoption of new and emerging technologies
  • Very little interest in providing cryptocurrency services
Net Interest Margins
Key Finding: NIM, cost of funds, and core deposit growth top the list of challenges for bankers in 2023

How important are the following external risks to your bank today?

- Net interest margins
- Cost of funds
- Core deposit growth
- Regulation
- Economic conditions
- Cost of technology
- Loan demand
- Competition
- Workforce attraction
- Speed of technology
- Climate

Percentage of Respondents

- Extremely important
- Very important
- Moderately important
- Slightly important
- Not at all important
Higher Inflation Rates Prompted the Fed to Begin to Tighten Monetary Policy...

Source: U.S. Bureau of Labor Statistics
...Aggressively
(Pace & Length of Recent Fed Tightening Cycles)

Number of Days Following Start of Fed Tightening Cycle

Increase in the Fed Funds Target Rate from Start of Fed Tightening Cycle (Percentage Points)

Mar 2022 (In Progress)
Feb 1994
Jun 1999
Jun 2004
Dec 2015

Source: Federal Reserve
Resulting in Interest Rates Moving Higher...

Source: Federal Reserve; Mortgage Bankers Association
...Challenging the Management of Net Interest Margins...

Yield on Earning Assets

Net Interest Margin

Cost of Funding Earning Assets

Source: FDIC, All Insured Institutions
...and the Management of Securities Portfolios

Unrealized Gains (Losses) on Investment Securities

Source: FDIC.
Note: Insured Call Report filers only.
How would you rank the following effects of inflation on your bank in terms of level of impact?

- Higher costs of deposits: 64%
- Higher personnel expenses: 17%
- Losses on securities investments: [percentage]
- Higher operating expenses (other than personnel): [percentage]
To what extent are you concerned about deposit flight?

- Extremely concerned: 28%
- Very concerned: 11%
- Moderately concerned: 33%
- Somewhat concerned: 33%
- Not at all concerned: 11%

Percentage of Respondents
How important are each of the following potential challenges to attracting and retaining core deposits?

**Bank market competition**

**Uncertainty/inflation**

**Depopulation and/or changes in market demographics**

**Fintech competition (e.g. Chime, Acorn)**

**Capital constraints**

**National rate cap**
What are your institution's intentions regarding the following wholesale funding sources?

- **Public funds**
- **FHLB advances**
- **Brokered deposits**
- **Federal Funds Purchased Repurchase agreements**
- **Other borrowed money**
- **Listing service deposits**
- **Bank Term Funding Program (BTFP)**
- **Discount Window advances**

**Percentage of Respondents**

- **Currently utilize and will continue to utilize at or near current levels**
- **Currently utilize but plan to exit or substantially limit in the next 12 months**
- **Do not utilize and do not plan to utilize in the next 12 months**
- **Do not utilize but plan to utilize in the next 12 months**
Regulation
Key Finding: Regulation concerns pick up after events in March 2023

To what extent are you concerned about the regulatory response to the banking issues that arose in March of 2023?

- Extremely concerned: 27%
- Very concerned: 37%
- Moderately concerned: 28%
- Somewhat concerned: 37%
- Not at all concerned: 28%

Percentage of Respondents
Over the Next 12 Months, Community Bankers’ Are Concerned About...

Level of Concern (1=Not At All, 4=Extremely)

- Government Regulation
- Cyberattacks
- Inflation
- Federal Debt/Deficit
- Cost/Availability of Labor
- Competition
- Economic Growth
- Supply Chain Disruptions
- Quality of Loans
- Personal/Retail Bankruptcy
- Loan Growth
- Climate Risk
- COVID/Econ Lockdowns

Q1 2021  Q2 2021  Q3 2021  Q4 2021  Q1 2022  Q2 2022  Q3 2022  Q4 2022  Q1 2023  Q2 2023
Technology & Cybersecurity
Key Finding: Bankers continue to prioritize the adoption of new or emerging technologies…

How important is the adoption of new or emerging technologies to meet customer demand in your market?

- Not at all important: 10%
- Slightly important: 31%
- Moderately important: 49%
- Very important: 31%
- Extremely important: 10%

Percentage of Respondents
... but express less interest in cryptocurrency services in 2023

How important is meeting customer cryptocurrency needs at your bank?

- Not at all important
- Slightly important
- Moderately important
- Very important
- Extremely important

<table>
<thead>
<tr>
<th></th>
<th>2022</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>51%</td>
<td>73%</td>
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<tr>
<td>Percentage of Respondents</td>
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</table>
What do you see as the most difficult challenges to implementing new technology over the next 5 years?

- Cybersecurity risks: 68%
- Core processor responsiveness
- Spend rate
- Regulatory changes
- Attracting and retaining competent technology...
- Competition from larger banks
- Competition from fintech firms
- Regulatory compliance with fintech partners
- Customer demographic changes
- Board support
- Other (please explain)
Key Finding: Cybersecurity remains top internal risk; Liquidity concerns jump in 2023

How important are the following internal risks facing your bank today?

- Cybersecurity
- Liquidity
- Staff retention
- Technology implementation and costs
- Compliance (excluding BSA and Consumer)
- Credit
- Consumer Compliance / Fair Lending
- Bank Secrecy Act / Anti-Money Laundering
- Operational (excluding Cybersecurity and Succession)
- Leadership succession
- Market

Percentage of Respondents

- Extremely important
- Very important
- Moderately important
- Slightly important
- Not at all important
Healthcare data breaches cost organizations almost $11 million on average. This makes data breaches in healthcare the most expensive of any industry.

Government Organizations faced 13% of the total cyber attacks in the second quarter of 2020.

The financial services sector is a popular target for ransomware attacks. 55% of organizations in this sector experienced an attack in 2021.

Small businesses experience significant financial consequences of cyber attacks, with an average impact of $2.98 million per data breach for organizations with less than 500 employees.

Cyber attacks are estimated to cost $10.5 trillion annually by 2025.

Utilities faced 1,780 DDoS attacks between June and August 2021, a 595% increase from the year prior.
Workforce Retention
Key Finding: Staff retention remains a top 3 internal risk facing banks

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- Liquidity
- Staff retention
- Technology implementation and costs
- Compliance (excluding BSA and Consumer)
- Credit
- Consumer Compliance / Fair Lending
- Bank Secrecy Act / Anti-Money Laundering
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Percentage of Respondents

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- Slightly important
- Not at all important
Total U.S. Nonfarm Payroll Employment Surpasses Former Peak by 4 Million

Source: U.S. Bureau of Labor Statistics

Help Wanted!
Still 8.8 Million Open Jobs Available in the U.S.

Source: U.S. Bureau of Labor Statistics
# Cost/Availability of Labor

**NFIB Small Business Survey**

**Single Most Important Problem**

<table>
<thead>
<tr>
<th>Problem</th>
<th>Current</th>
<th>One Year Ago</th>
<th>Survey High</th>
<th>Survey Low</th>
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<td>Taxes</td>
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<td>Inflation</td>
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<td>Poor Sales</td>
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<td>34</td>
<td>2</td>
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Source: NFIB
Questions?

For more on the 2023 Annual Survey of Community Banks:

https://www.csbs.org/survey2023