

Drivers of Change Impacting Community Banking

The Board of Trustees of the Graduate School of Banking have identified five drivers of change that are impacting community banking. These drivers are established, long-term trends. They are not necessarily only positive or only negative. This represents the collective thinking of the Trustees with debate and negotiation to find common ground. People may believe other drivers of change are more relevant for their market or business model. This type of dynamic thinking adds value to the process and increases the utility of this work.

These drivers serve as a baseline to inform our curriculum, the strategic projects of our students, and our ongoing commitment to identify and research signals of change. The culmination of this work provides a valuable resource for community banks as they discern, plan and execute to achieve their desired future state.

This approach supports GSBC's mission to build leaders for community banks. We seek to build leaders with an innovative and future-oriented mindset to serve the bank, community, and industry.

1. There are several trends with how people think about and approach work which are impacting community banks.

- a. People want their work to have meaning and value.
- b. People desire a renewed balance between work and their personal life. This includes more flexibility regarding where they work and live. This dynamic is challenging the traditional way community banks have operated with the bank office serving as a central location to meet and serve customers.
- c. At best, banking is not a forefront in a person's mind as a career choice. At worst, working for a bank is viewed negatively given recent crises and negative press.

2. Technology is changing how the business of banking is conducted and managed. This has provided opportunities while changing the cost structure of banks. Technology is also changing the type and nature of competition.

3. The economy is always changing in some fashion. There are a few specific issues impacting community banks.

- a. Higher inflation than has been experienced in a generation. This has an impact on the bank's operating expenses as well as the bank's customers.
- b. Higher inflation is leading to a significant increase in interest rates after 15 years of very low rates. This is putting pressure on banks' funds and increasing unrealized losses on long-term securities. This also creates an opportunity for increased income for banks with loan demand.
- c. Digital currency is likely here to stay yet its role and influence as a reliable source of commerce is still uncertain. The possibility of a digital currency supported by the Federal Reserve has bankers' attention.
- d. Global issues are impacting trade and the historical dominance of the U.S. dollar. The long-term impact on agriculture and small businesses is a significant unknown.

4. There has been a persistent drive by regulators to increase the demand on the industry. This requires banks to secure additional expertise and increases costs. The following represent several of the influences.

- a. Negative events in the industry drive further regulatory burden as regulators respond to criticism.
- b. There is an increasing interest in using regulations to have banks influence desired social changes beyond the direct business of banking.
- c. The increased burden forces existing banks and potential organizers to assess the cost and burden of regulation versus the benefit of deposit insurance and access to the payment system.

5. The industry has demonstrated an unwavering resiliency as they respond to changes in the market and headwinds. This fuels the evolution of the business model which has been ongoing since the beginning of banking.

