

# INSIGHTS Survey Results

# 2015

Abound Resources shares results from its annual survey of community and small regional banks.

Optimism  
Abounds in  
Spite of  
Regulatory,  
Security and  
Fraud  
Concerns

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## Executive Summary

Community and small regional bank CEOs are feeling the most optimistic they have felt since we began this survey back in 2010. After a low point in 2013 when only 28% of bank CEOs were optimistic, today 66% of CEOs feel either somewhat or very optimistic about 2015. What a difference solid earnings and a clean balance sheet make!

That is not to say that all CEOs are content. They still have serious concerns about the regulatory burden, but they are less worried about the economy and interest rates than they were last year. The growing fear for CEOs in 2015 now is in fraud and information security.

While CEO's top priority for 2015 is to grow commercial loans, they are not quite as growth focused in 2015 as they were in 2014. The survey results would seem to signal that 2015 will be a "stick to your knitting" type of year where execution remains a bigger priority than pursuing multiple growth strategies.

CEOs are more focused on efficiency improvement than they have been in the previous five years of this survey, and, as in previous years, their top priority for technology is to drive more efficiency.

The bank executives in charge of IT seem to have heard their CEOs loud and clear. Those executives named their top three technology concerns as information security, fraud management and getting maximum value from existing technologies.

Those same bank executives expect an increase in technology spending with 20% expecting "much more" spending in 2015 compared to 2014, and 46% reporting "slightly more."

While bank officers expect technology spending to increase, there is little consensus on what new or replacement technology purchases to make. Similar to 2014, there is no 'must have' technology this year. Instead, the top 10 planned purchases include a mixture of customer facing systems such as online account opening and mobile remote deposit capture; efficiency driving systems such as enterprise content management (ECM); fraud and compliance related systems; and significant increases in network infrastructure investments.

We are very optimistic for community and small regional bank prospects in 2015. Though there is only a glimmer of hope that we might see any real regulatory relief, the recovery is hitting full steam and interest rates will likely rise in the second half of the year. That alone will lift earnings for the majority of banks. There are still challenges, of course, and banks will need to continue to improve efficiency and update information security and fraud mitigation strategies. The big banks are back to their aggressive growth strategies, so sales execution and sound pricing strategies will also need to be a priority.

**Join Abound for our free Top 5 Strategies for 2015 Webinar, on February 3, 2015  
at 10:00am CST!**

[http://aboundresources.hs-sites.com/top\\_5\\_strategies\\_for\\_success\\_in\\_2015\\_banks](http://aboundresources.hs-sites.com/top_5_strategies_for_success_in_2015_banks)

## Selected Survey Highlights

- ✓ CEOs are optimistic about the year ahead, with 66% stating that they feel either somewhat or very optimistic- a huge jump in confidence from 2013 when only 28% were optimistic, and a bump from 2014 when 61% were optimistic.
- ✓ For the fourth year in a row, CEOs name the regulatory burden as their top overall bank concern (86%).
- ✓ Concerns about the interest rate environment and the economy dropped significantly, from 74% to 56% and from 58% to 44%, respectively.
- ✓ Growing commercial loans was again CEOs number one priority for 2015, with 79% citing it as a priority. Growing mortgage loans was the second largest growth priority, but it dropped in importance from 47% to 41% this year. Improving small business market share is the third largest growth priority.
- ✓ Becoming more efficient has been steadily increasing in importance since we began this survey, and it is the number one cost saving strategy for 2015, with 69% of CEOs rating it important. In 2014, 59% of CEOs rated it important.
- ✓ Addressing fraud and information security concerns continues to rise in importance and is now the second most important risk management priority with 32% of CEOs citing it as a priority. Enterprise risk management also moved up the CEO priority list from 19% to 29%.
- ✓ For the third year in a row, bank officers expect to spend more on technology in 2015, with 66% saying technology spending will increase in the next year compared to 58% in 2014.
- ✓ Technology purchasing priorities changed dramatically with iPads, Board portal, loan origination, and loan stress testing dropping out of the top 10 planned purchases. They were replaced by telecommunications, data communications, network equipment and network storage. Online account opening rocketed up the priority list from tenth to first while enterprise risk management (ERM) dropped from first to ninth this year.

## About the Survey

Abound Resources conducts an annual web-based survey of senior executives in community and small regional banks throughout the U.S. This year's survey, administered in December 2014, received 269 responses.

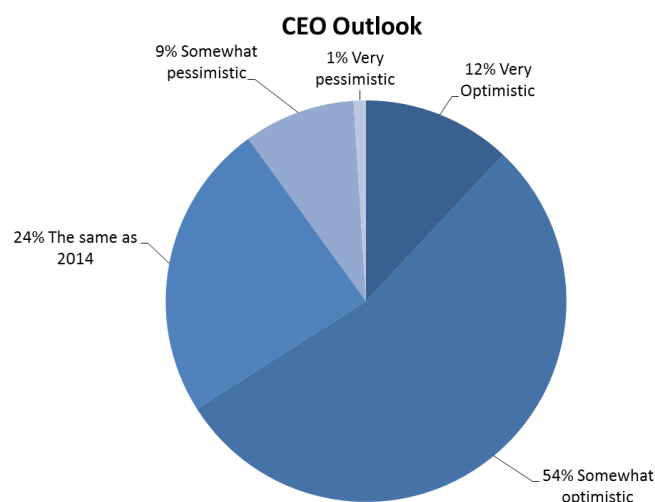
Responses were distributed as follows:

Asset Size	Responses
\$0 – 50 million	5%
\$50 – 100 million	9%
\$100 – 250 million	30%
\$250 – 500 million	28%
\$500 million - \$1 billion	12%
\$1 – 3 billion	12%
>\$3 billion	4%

## The CEO Perspective

### Optimism Abounds

Community and small regional bank CEOs are feeling more optimistic about the year ahead, with 66% stating that they feel either somewhat or very optimistic; a huge jump in confidence from 2013 when it was just 28% and an increase over 2014 when it was 61%.

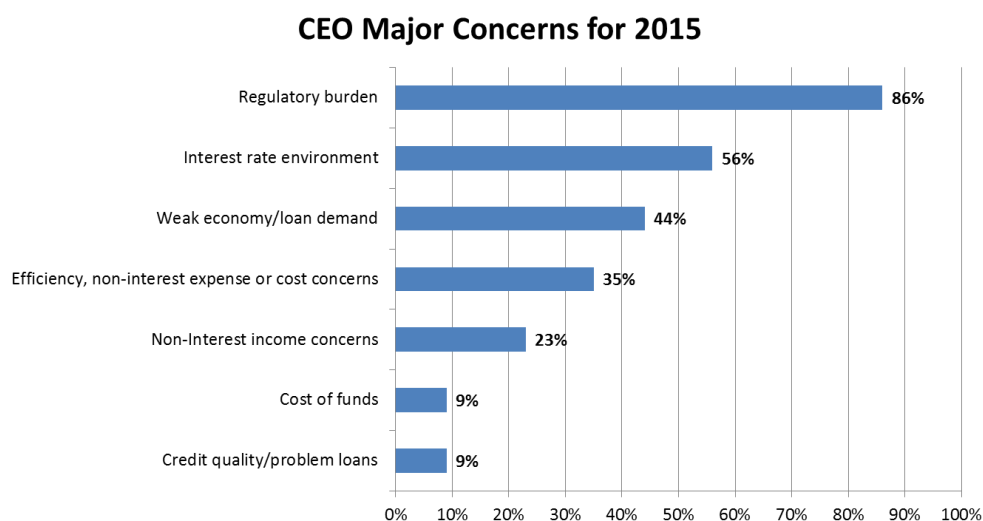


There are plenty of reasons to expect 2015 will be another growth year for most banks. A strong economic recovery is underway with most leading indicators pointing up; rising retail sales, record levels of private sector employment, growth in housing starts and growth in nearly all types of commercial construction except for health care facilities and private education buildings (Source: ITR Economics).

With the recovery in full swing, banks are lending; all loan types except for mortgage and home equities experienced quarter-over-quarter growth in the third quarter. Even ahead of the likely rate increase in the second half of 2015, most banks have already seen loan yield growth in the last two quarters, which bodes well for margin gains in 2015 now that most of the hot money has been flushed from balance sheets.

## Regulations Still Top CEO Concern

In spite of the optimism, the regulatory burden remains a serious concern for CEOs. For the fourth year in a row, the regulatory burden remains the top CEO concern by a landslide, with 86% of CEOs citing it as a major concern.



The interest rate environment remained the number two concern though it dropped in importance from 73% to 56%. The drop in importance is likely due to either the Fed making it fairly clear that rates will likely rise in late 2015, or because many CEOs have been able to bump loan rates up a bit in the last two quarters.

The economy/loan demand remained the number three concern though it also dropped in importance from 58% to 44%. Loan demand has picked up in all corners of the country though many CEOs still worry about the quality of these new loans.

## Commercial Loan Growth Continues to Lead the Way

Since 2012, *growing commercial loans* has been the number one growth priority for CEOs. This year, 79% of CEOs said it was a priority.

**CEO Growth Priorities for 2015**



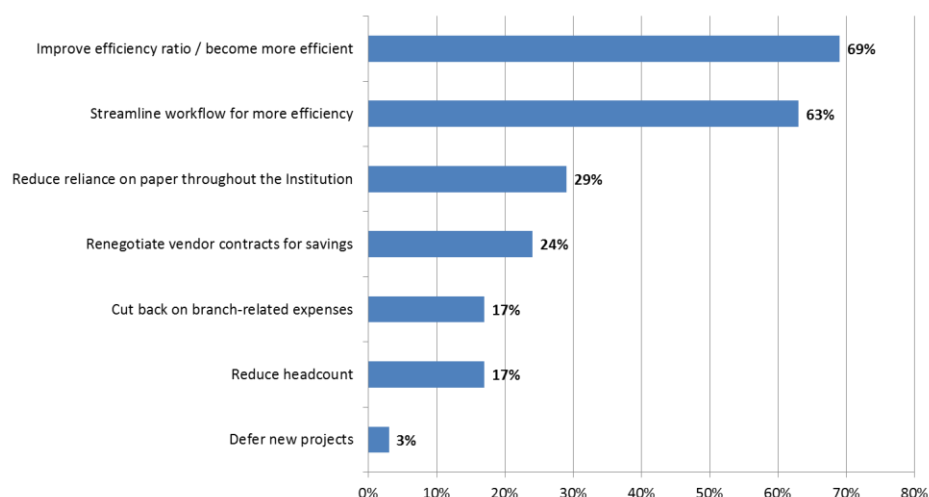
*Commercial lending*- especially commercial real estate- remains the bread and butter for most community and small regional banks, while commoditized lending products have dropped in importance. *Growing mortgage loans* as a priority dropped from a high of 47% last year to 41%, while *consumer loans* continues its free fall and was cited by just 21% of CEOs as a growth priority.

Virtually all growth priorities dropped in importance over last year, perhaps signaling that 2015 will be a “stick to your knitting” type of year where execution remains a bigger priority than pursuing multiple growth strategies.

## Another Important Year for Efficiency Improvements

Becoming more efficient has been steadily increasing in importance since we began this survey, and it is the number one cost saving strategy for 2015, with 69% of CEOs rating it important versus 59% last year. *Streamlining workflow* also increased in importance from 59% to 63%. Even with rates expected to rise a bit this year, *cost containment* remains a priority to improve profitability.

### CEO Efficiency and Cost Saving Priorities for 2015



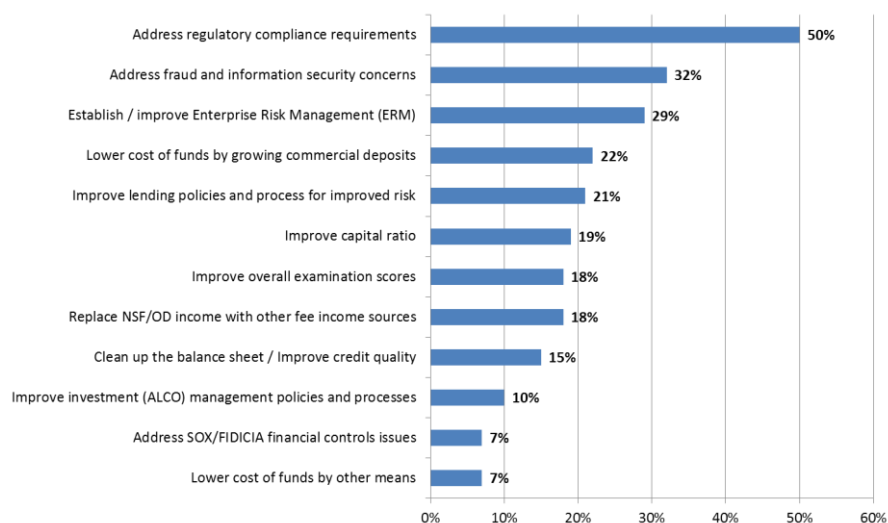
Interestingly, reducing paper remained the third priority, but it dropped from 51% last year to 29% this year. Perhaps this is because more banks have invested in enterprise content management systems?

*Renegotiating vendor contracts* increased in importance over last year while *reducing headcount* dropped over last year.

### Continued Focus on Fraud

Again, it is not a surprise to see *addressing regulatory compliance requirements* coming in as the top financial and risk management priority, with 50% of CEOs rating it as the top priority.

### CEO Financial and Risk Management Priorities for 2015





The big surprise, however, was with *addressing fraud and information security concerns*. In 2012, it was just the ninth most pressing risk concern. Last year, it was fourth. This year it is the second highest priority with 32% of CEOs citing. Clearly the continued assault of debit card and corporate ACH fraud has CEO's attention.

*Enterprise risk management* also rose up the list from the seventh most important risk priority last year to the third with 29% in 2015.

*Replacing NSF/OD income* dropped considerably in importance from last year. In 2014, it was the third highest financial and risk priority cited by 32%. This year, it dropped to eighth with just 18%.

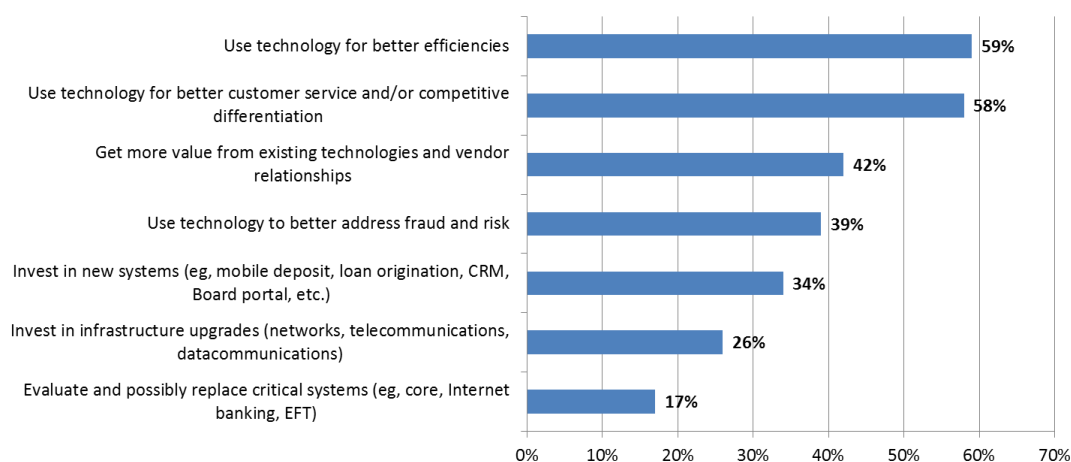
*Improving credit quality* also dropped in priority from fifth at 24% last year, to ninth at 15% this year.

## Maximize Existing Technology

The top three CEO technology priorities remain unchanged from last year, with *using technology for better efficiencies* again coming in first at 59%, *technology for better customer service/differentiation* second at 58% and *more value from existing technology* at third with 42%. While the order remained the same, the importance dropped a bit on each of the top three.

The others all dropped in priority except for *technology for fraud and risk*, which rose from fifth last year to third in importance with 39% of CEOs citing it as a priority. Investments in fraud and risk mitigation appear to be edging out other “strategic” technology purchases with *invest in new systems* dropping from 49% last year to 34% this year.

### CEO Technology Priorities for 2015

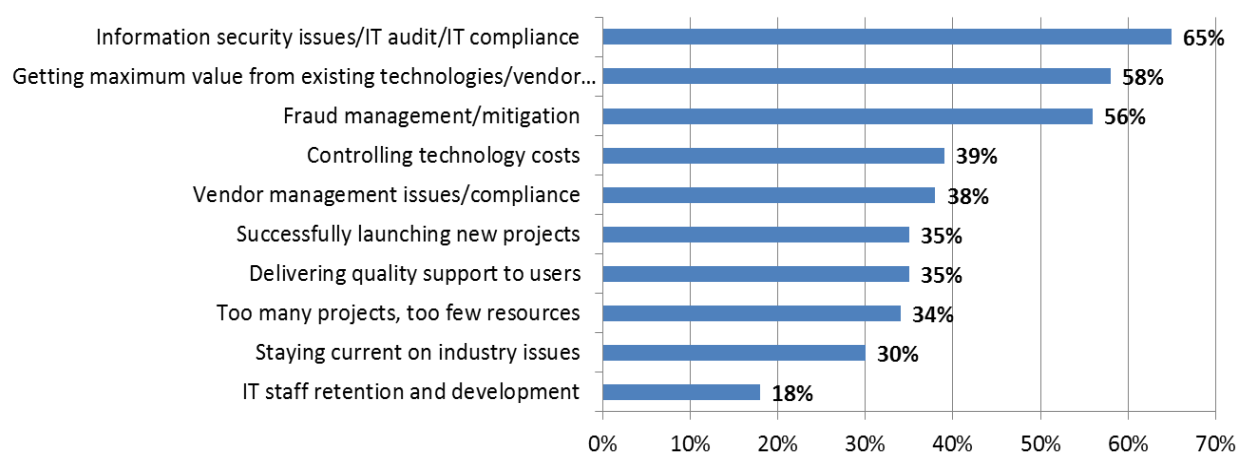


## The COO, CIO, CFO and Compliance Executive Perspective

### Security and Fraud Mitigation Top Concerns

The business line executives appear to be more concerned about technology than their CEOs. Every listed technology concern increased significantly in importance over last year.

### Bank COO, CIO, CFO, and Compliance Executives Concerns about Technology for 2015



There was a shuffling in the order with *information security issues* moving from the third spot last year at just 31%, to the top spot with 65% of executives expressing concern.

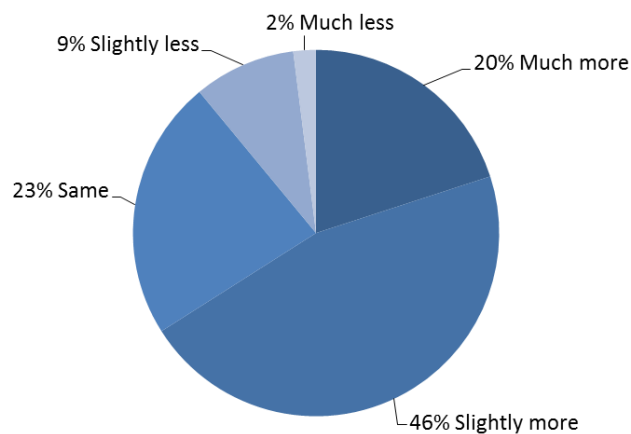
Last year's top priority of *getting maximum value from existing technology* dropped to the number two priority, but more executives cited it as a concern than last year; 45% last year and 58% this year.

In a clear connection with CEO concerns, *technology for fraud management* zoomed up from sixth to third with 56% of executives citing it as a concern.

## Technology Spending Continues to Increase

Bank officers expect technology spending to continue to increase in 2015. This year, 66% say technology spending will increase, compared to 58% who said technology spending would increase in 2014.

**Expected Differences in Technology Spending:  
2015 vs. 2014**



The most eye opening stat here is that 20% of executives expect “much more” of an increase in technology spending over last year. That is the largest group to report “much more” since we began the survey in 2010.

2015 saw a big shift in technology purchase priorities over 2014. Last year’s top priority- *enterprise risk management*- dropped to ninth, and last year’s tenth (*online account opening*) zoomed up to first.

Top 10 Project Priorities for Banks: New or Replacement Purchases	
Online account opening	24%
Document imaging/document management/workflow (ECM)	23%
Mobile- consumer remote deposit capture	23%
Mobile- commercial remote deposit capture (tie)	23%
Telecommunications/data communications	22%
Customer relationship management (CRM) and other marketing systems	22%
Network Equipment/Storage/Server Utilization	21%
Enterprise Risk Management (ERM) or other risk management systems	19%
Fraud management, security, tokens, etc. (tie)	19%
Facebook, LinkedIn, Social Networking, Social monitoring	18%

*Online account opening* zoomed up the priority list from tenth last year to number one this year, with 24% of executives planning on purchasing a new or replacement system. This is surprising as online account opening was not a top CEO priority... perhaps this represents replacements of first generation purchases.

*Document imaging/enterprise content management (ECM)* moved up in priority from fourth to second, with 23% of respondents planning on making a purchase. This syncs with CEO's focus on efficiency improvements as ECM, when used to automate streamlined processes, can be the biggest efficiency improving technology.

*Consumer mobile remote deposit capture* remained in the third spot for two consecutive years, but *commercial mobile remote deposit capture* nearly doubled in importance over last year.

*Telecommunications/data communications* and *network equipment/storage/server utilization* both made the top 10 list for the first time since this survey started. Our experience has been that many banks are making significant data center infrastructure upgrades for two reasons: moving towards virtualization, and catching up after deferring infrastructure for two years.

*Customer relationship management (CRM)* was another solution that made the top 10 list this year after missing out last year. In signs of a potential miscommunication, CEOs did not share the same enthusiasm for improving sales and marketing methods.

The other potential CEO to CIO miscommunication was that CEOs cited *fraud management* as a top concern yet *fraud management technology* remained roughly in the same spot (ranked 10<sup>th</sup>) as last year.

## Greater Focus on Utilization

This year's survey showed a significant increase in bank executives' focus on utilization. The top 10 technologies targeted for utilization were all rated higher than the number one from last year.

Top 10 Project Priorities for Banks: Improve Utilization of Existing Vendor	
Internet Banking - consumer Internet banking	64%
ACH Origination	63%
Internet Banking – merchant capture/remote deposit	61%
Core processing system	61%
Debit/Credit/ATM/EFT systems and services	60%
Internet Banking – bill payment	56%
Internet Banking – commercial Internet banking and other cash management systems	54%
Mobile – mobile banking	54%
Asset liability (ALM) systems	53%
BSA automation/case management (tie)	53%

The top focus for improved utilization again was *consumer Internet banking*, though the importance increased from 49% to 64%. Consumer checking remains a very low priority for CEOs, so there seems to be a disconnect here; the only interpretation Abound can posit is that so many banks are experimenting with new consumer checking models (various flavors of “conditionally free”), and those models are heavily dependent on *consumer Internet banking* and *bill pay* (which came in at sixth).

Perhaps the biggest surprise in the survey was how *ACH origination*, traditionally a low priority technology, landed at the number two spot after having never cracked the top 10 previously. Perhaps this reflects banks adding ACH positive pay (aka ACH debit block) or it may simply be a response to the increased use of customer ACH.

*Merchant capture* had long topped the list of planned purchases and this year it has reached its maturity point where banks are more focused on maximizing their existing system than on purchasing a new one. After years of using merchant capture as a defensive tool to retain a few key accounts, we now see most banks using it as part of its commercial deposit growth strategy.

Being the largest and most expensive system at banks, *core processing* always makes the top 10 utilization list. This year, though, it moved up from the seventh spot with a 40% importance, to a tie for the third spot at 61% importance. This likely ties in with the CEOs focus on efficiency.

Rounding out the top five was *Debit/Credit systems*. Most banks continue to experiment with their debit programs to maximize fee income. The recent focus has been on analytics, rewards and marketing campaign help.

## Core Processing Remains Top Renegotiation Target

Once again, it is no surprise that the *core contract* remains the top renegotiation target since it represents a bank's biggest technology expense.

Top 5 Project Priorities for Banks: Renegotiate Existing Contract	
Core processing system	17%
Debit/Credit/ATM/EFT systems and services	11%
Internet Banking – commercial Internet banking and other cash management systems	9%
Customer Relationship Management (CRM) and other marketing systems (tie)	9%
Internet banking – bill payment	8%

Although other systems, such as debit/credit card, Internet banking and bill payment, are a lower priority and represent a smaller percentage of bank technology spending, bank executives should still look to maximize cost savings on renewals. Additionally, with customer-focused systems such as Internet banking and cards, banks should explore ways that vendors can help with registration and usage to maximize revenue opportunities.

## About Abound Resources

Abound Resources is a full service financial institution consulting firm with the sole purpose of helping community and small regional financial institutions achieve their goals - whether those goals are for profitability, technology or risk management.

Abound Resources offers an array of services designed to improve performance and profitability and to help banks cope with an increasingly stringent regulatory environment.

Abound's seven practice areas are each headed by an experienced practice leader:

- **Technology** – technology plans, vendor evaluations, core vendor RFPs, bank vendor contract negotiations, bank vendor management, core implementation
- **Performance Management** – bank workflow improvement, revenue enhancement, bank efficiency improvement
- **Lending** – loan process improvement, loan origination, vendor evaluations and implementations
- **Small Business** – business deposit and fee income growth programs
- **Strategic Planning** – bank strategic planning, risk tolerance planning, one page strategic plans, competitive differentiation
- **Sales and Marketing** – branch performance improvement, sales coaching and training, e-marketing strategies and campaign management
- **Risk Management and Compliance** – ERM, IT audits, information security assessments, compliance, BSA audit or review, GLBA, GLBA branch survey, security testing, BCP

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