Risk Management Association

Preparing for Change

Risk, Compliance, Growth, and Talent Management

Tenth Annual Community Bank Survey

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Executive Summary

Community banking in 2022 has been defined by change. Unprecedented monetary and fiscal policy support has given way to a lingering pandemic, high inflation, rising interest rates, and shifting workforce expectations. These present some of the greatest challenges to community bankers since the Global Financial Crisis.

RMA's 10th annual Community Bank Survey provides insights into the top concerns of community bankers as they face this altered economic arena. More than 100 community bankers, with titles including Chief Risk Officer and Chief Credit Officer, responded. What are those bankers seeing? Technology costs, the challenges of managing third-party vendors, reputational risk, and increasing regulatory demands are coming together to make cybersecurity and technology risk a key area of focus. Credit risk is also a top concern, as the potential for recession looms.

On the regulatory front, CECL implementation remains a top priority for many banks, followed by small business data collection. As of this summer, when the survey was fielded, 88% of community bankers responding to the survey said their institutions had not yet implemented CECL (although 71% of respondents said they're at least close to ready for implementation). For some community banks, the remainder of the year will be critical as they sprint toward the finish line to gather data, establish models, and make decisions on model risk validation by the January 1, 2023, implementation deadline.

When it comes to growth strategy, survey results suggest that interest in M&A may be cooling among community banks, as economic uncertainty looms and regulatory scrutiny of bank combinations intensifies. Most survey respondents (71%) report they are not likely to acquire another institution in the next two years. Even more respondents (94%) say they are not likely to be acquired themselves over the same time frame. This is a sharp shift from 2021, when the release of capital held in reserve against potential pandemic-related loan losses helped to fuel a spurt of M&A activity.

Every community bank's ability to grow and evolve depends in large part on talent management. Amid increased competition for skilled employees and a surging remote workforce, retention emerges as a top talent-management concern (94%), followed closely by recruitment (89%). Community banks are striving to appeal to job seekers who value healthy and strong workplace cultures, flexibility in their working lives, and organizational missions they believe in. This year's survey includes a special section that explores key talent-management issues for community banks and reveals some of the strategies they're employing to achieve their retention and recruitment goals.

CHAPTER 1

Top Risk Concerns

Buffeted by rising cyber threats and growing economic uncertainty, it comes as little surprise that community bankers identify cybersecurity and credit risk among their top concerns in the risk management space (see Figure 1).[1]

Figure 1. Cybersecurity risk and credit risk emerge as top concerns among community bankers.

Percentage of respondents scoring each risk a 1 or 2 on a 1–5 "most important to least concern" scale; N=101

1. In a separate question, we asked respondents to evaluate how demanding each risk is on management. The risks that respondents most often identify as either "demanding" or "very demanding" closely mirror those they often found important:

Top "important" risks	**Top "demanding" risks**
Cybersecurity risk (85%)	Cybersecurity risk (59%)
Credit risk (84%)	Credit risk (55%)
Operational risk (65%)	Operational risk (52%)
IT risk (62%)	IT risk (49%)
N=101	

Cybersecurity and other technology-related risks

Over the 10 years that RMA has conducted this survey, community bankers have registered increasing interest in cybersecurity and its relationship with other risks. In this year's survey, another operational risk—IT risk—is frequently cited as important (62%), as community banks work to enable remote workforces and improve effectiveness through automation, in addition to managing data security and erecting defenses against cyberattacks.

Technology-related risks are rising to the surface in part because of rising IT complexity. Increasing technology costs, the challenges of managing third-party vendors, growing regulatory demands, the potential for reputational damage (e.g., due to a data breach), and intensifying cybersecurity threats all contribute to this complexity. Recently enacted data privacy laws and regulations are adding additional pressure.

Managing cyber risk is more demanding than other risks because cyber threats are so fast moving, said community bankers in a breakout session focused on survey results, held as part of RMA's 2022 Annual Conference. "It's a huge job," said discussion panelist Deanna Cavanaugh, CRC, Chief Credit and Risk Officer at Connecticut Community Bank in Norwalk, Connecticut. That job extends beyond the four walls of the bank to include customers and third-party vendors. "Our customers are challenged by cyber threats as well—they're on the forefront of this. When their email is hacked and criminals send a credible request to the bank to do a $100,000 wire transfer, they expect us to make good on that. So we're spending time with our customers on this," Cavanaugh continued. Her bank has conducted online and in-person programs with cybersecurity consultants for small business customers and with employees to help them to protect themselves at home.

Discussion panelist Tom MacDonald, EVP and Chief Risk Officer at Maine Community Bancorp in Auburn, Maine, pointed out that third-party risk management is crucial to managing the cybersecurity threat. In some cases, community banks employ third-party vendors to manage cyber risk, complicating their risk management practices further. In light of all this, MacDonald suggested that community banks could benefit from a close look at their insurance coverage. "We recommend spending time to really understand your insurance—what's covered, and what's not covered. We're also working with our customers to help them understand their own potential insurance coverage," he said.

Community banks are subject to many of the same complex technology-related threats and requirements as their large counterparts, but they have fewer resources to respond. Those that are able to find effective, broad-based solutions to address fast-moving, technology-related challenges will likely be able to carve out a substantial competitive advantage.

Credit risk

It makes sense that credit risk is reemerging as a top concern among community bankers because it can draw regulatory scrutiny and have negative effects on performance, earnings, and, in certain environments, stock price. This is especially true for community banks with a focus on small businesses, which are often the first to be affected by negative economic conditions.

While credit conditions have been steady over the past two years due in part to government support programs and the initial strength of the economic recovery, increasing inflation, rising interest rates, and the prospect of recession are leading community bankers to anticipate increased operating costs, depleted cash flows, and deteriorating asset quality.[2]

So, while community banks' credit portfolios may look strong today, many bankers who have experienced down cycles recognize that strong credit metrics may lag behind a looming reality. "Our delinquency is the lowest it's been in quite some time. We're going on three years in a net recovery position, which has never happened before," said MacDonald. At the same time, he acknowledged, this strong position is under threat. "We're dealing with a situation that is very unusual, and we're trying to make something of it. We know what's probably on the horizon, so we're focusing on communication with our customers and on tracking what's going on in various industries. We're trying to look for those early warning flags. We're not seeing problems surfacing yet in our portfolio—and that's part of what makes me nervous." MacDonald continued, "One of the things I'm trying to stay focused on in new deals is making sure that the equity going into projects is real—not just based on appraised values or borrowing from other sources. That's what concerns me: really making sure that we understand the equity portion."

Cavanaugh added, "I've never seen anything like this in my career. Our delinquency rate is low and continues to trend downward. But we know this can't continue. We've got customers who have been highly liquid but are now chewing up that liquidity. So we know at some point that the world is going to change. We're beginning to see the effect of increased costs in some customer financial statements. We're beginning to see an erosion in margins and we're beginning to see some contraction in capacity to service debt—which, of course, is the biggest precursor to delinquency. That's what we're worried about." When looking at credit-line renewals, annual reviews for commercial customers, and new underwriting, "we're stressing them a little harsher than we have in the past," she said.

As they make their way through this unusual situation, risk professionals must communicate the increased risk to boards and management teams who must prepare to adjust strategic plans accordingly—an additional source of pressure. Those that succeed in these efforts will again likely carve out an advantage. Community banks that proactively manage their lending functions while controlling their vulnerability to negative economic conditions are better equipped to adjust and improve their performance when the business environment deteriorates.

In general, respondents' top risk concerns demonstrate the forward-looking orientation of bank risk professionals. They also show the impact that external mega-forces—cyber threats and a weakening economy—are already having on community banks. As the external storm continues to brew, community bankers are preparing themselves and their organizations to weather it.

2. Other survey results support this view. In a separate question, survey respondents identified local and national economic and market conditions as among the top three threats to their businesses.

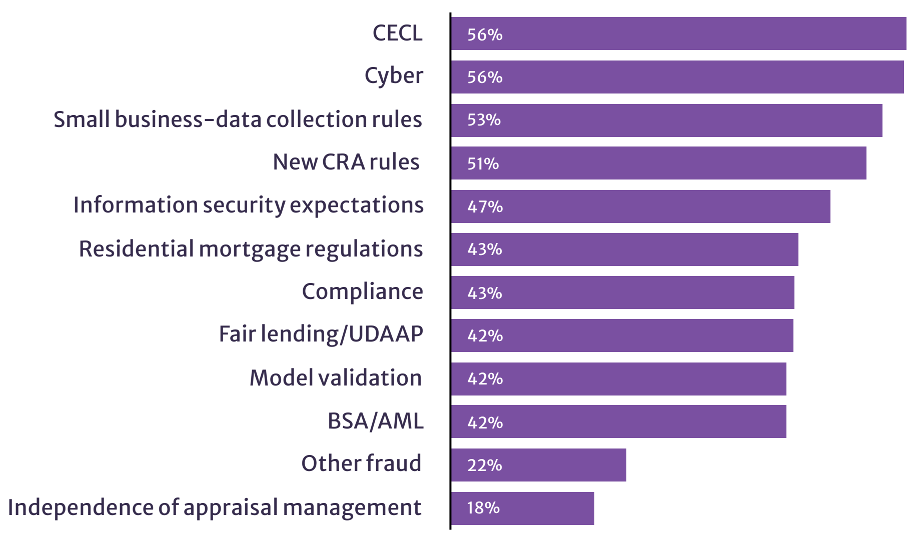
CHAPTER 2

Continued Focus on Regulatory Compliance

Compliance continues to be a major priority for community bankers, as they strive to address regulatory requirements amid persistent resource constraints. In this year's survey, the transition to the CECL accounting standard, cybersecurity-related compliance, small business data collection, and new rules connected to the Community Reinvestment Act (CRA) surface as particular areas of focus.

When asked how challenging they find it to comply with various regulatory regimes, community bankers most often cite compliance with CECL, cybersecurity-related regulations, small business data-collection rules, and new CRA rules as "difficult" (see Figure 2).

Figure 2. Areas where community bankers characterize compliance as "difficult."



Percentage of respondents who say compliance is "difficult" or "very difficult" in each area; N=101

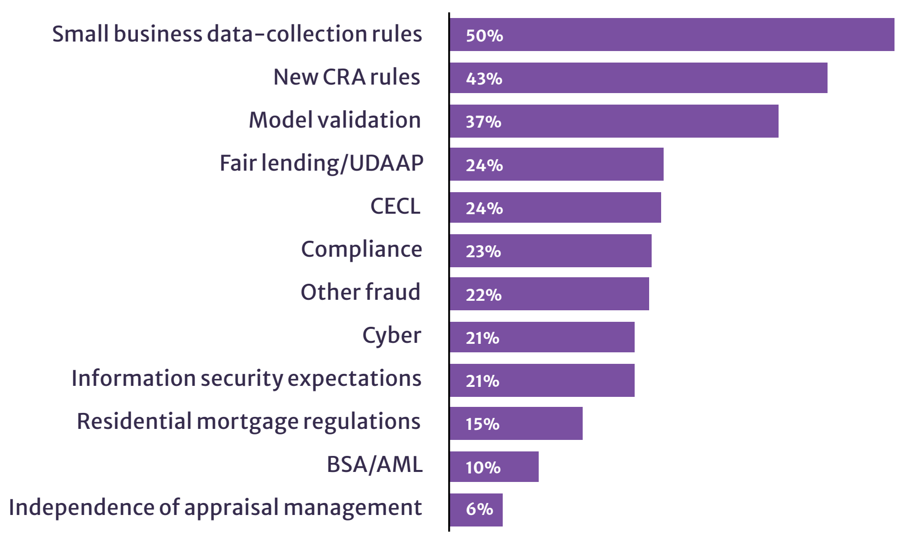
The difficulty of implementing CECL requirements comes through in other survey results as well. When we asked respondents to tell us how far along they were with CECL implementation, only 12% of respondents said they had already implemented the standard; 87% of respondents had not.[3] Although another 58% of respondents confirmed they were either ready for implementation or close to it, 29% of respondents said they were in the early or middle stages. With the January 1, 2023, deadline for implementation looming, many community banks have faced (and some still face) a sprint to the CECL-compliance finish line.

	Percentage of respondents	
Early stages of data gathering	7%	
Mid-stage	22%	87%
Close to ready for implementation	38%	
Ready for implementation	20%	
Implemented	12%	

N=89

Two regulatory areas often identified as "difficult" from a compliance perspective overlap with areas that respondents find unclear. Half of community bankers surveyed say that small business data-collection rules are unclear; another 43% find new CRA rules unclear (see Figure 3). (Relatively few respondents find CECL or cybersecurity regulations unclear—24% and 21%, respectively.) It makes sense that community bankers find clarity in these areas elusive at present, because substantial regulatory change is afoot in both areas.

Figure 3. Small business data-collection and new CRA-related rules are the rules community bankers are most likely to find "unclear."



Percentage of respondents identifying guidance in each area as "unclear" or "very unclear"; N=101

3. Data collection for the survey took place during the late spring and early summer of 2022.

In the case of small business data collection, the amendment to the relevant rule, popularly known as Regulation B, was mandated by Congress nearly 12 years ago to implement the Dodd-Frank Act's changes to the Equal Credit Opportunity Act.[4] Under the proposed rule, covered banks will be required to collect and report data on small business credit applications, including woman and minority ownership.

Rulemaking is also under way in the CRA space. On May 5, 2022, the Federal Reserve Board, the FDIC, and the OCC issued a joint proposal intended to strengthen and modernize CRA-related regulations. This is a notable event; the last substantive interagency update to CRA regulations was in 1995. Regulators now seek to expand access to credit and basic banking for low– and moderate–income individuals and communities; adapt to changes in the industry such as mobile banking; and tailor performance standards to align with a bank's size, business model, and local conditions.[5]

"Regulation and compliance are difficult to begin with at small banks, given their resource constraints. Community banks just have limited people and limited systems, and now we're adding employee turnover on top of that," said MacDonald. "Anytime there are changes to the regulations, that adds layers of complexity. Change is far more difficult to deal with than the status quo. Data collection for small businesses? That's going to be painful."

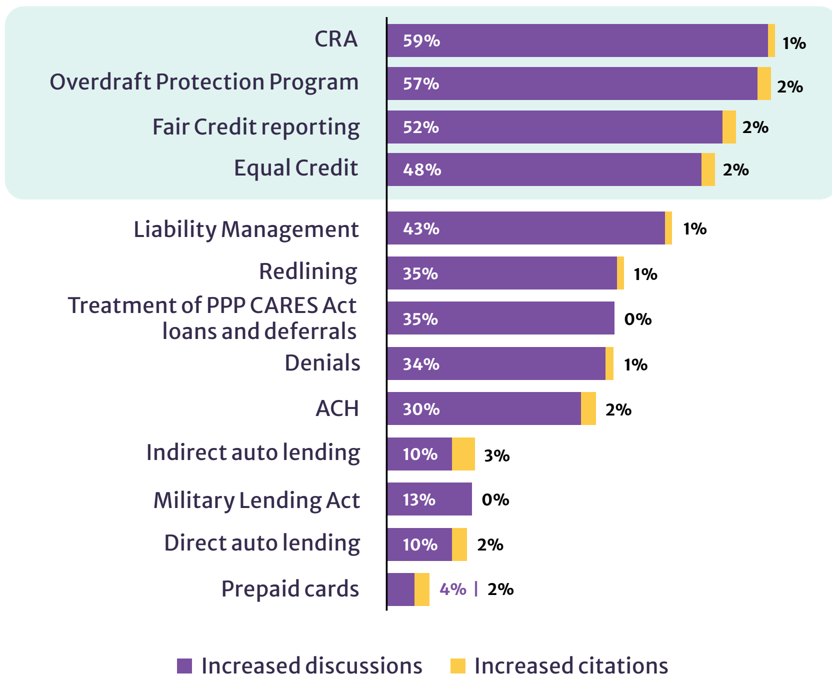
Cavanaugh pointed out that, even if regulations don't change, regulatory expectations do—and those expectations tend to become more and more intense. "Vendor management is a classic example. When it started, it meant looking at your vendor. Then you had to look at your vendor's vendor. Now you're going to fourth- and fifth-level vendors. The regulation hasn't changed, but the depth of expectation has changed. That in itself is incredibly challenging," she said.

4. Section 1071 of the Dodd-Frank Act amended the Equal Credit Opportunity Act (ECOA); the CFPB's new proposed rule amends Regulation B, which implemented ECOA, to line up with section 1071's requirements.
5. In response to the proposed rulemaking, RMA filed a comment letter with the Board of Governors of the Federal Reserve System on August 5, 2022. RMA suggested, among other points, that the asset threshold for certain reporting requirements be raised above the proposed $10 billion, that the transition period for data collection be extended from one to two years, and that the requirement of participation in a government program to meet the community development purpose definition be eliminated.

Examiners' focus: consumer protection and fairness

When asked where their bank examiners have focused their attention, community bankers report more intense scrutiny of consumer protection-related areas, including CRA, Overdraft Protection, Fair Credit, and Equal Credit compliance (as evidenced by increased discussions or, more rarely, increased citations) (see Figure 4). Banks with significant overdraft and NSF fees are experiencing increased supervisory attention. Many large banks have already adjusted their fee schedules to ensure adequate disclosure and overall compliance; many community banks are likely to follow (if they haven't already done so).

Figure 4. Bank examiners' scrutiny of consumer protection-related areas has intensified.



Percentage of respondents who report increased discussions with and increased citations from bank examiners; N=93

The vast majority of community bankers say that their most recent examination resulted in a fair assessment of their banks across a range of key areas:

Do you believe the most recent examination provided a fair assessment of your bank in each of these areas? (N=94)

	Yes	No
Safety and soundness	98%	2%
Information technology and security	97%	3%
Wealth/Trust	95%	5%
Compliance	94%	6%
CRA	91%	9%

The results of this year's survey confirm that regulatory compliance—always a demanding effort—continues to be so. Community banks experience those demands quite keenly, as they're subject to many of the same regulatory standards and requirements as their larger counterparts but have far fewer resources to respond. Efforts to marshal cost-effective paths to compliance—through organizational and process improvement, technology and automation, or outsourcing—may help community banks gain an edge over their competitors by generating savings over time, which can be directed to boosting the value they're able to provide to their customers.

CHAPTER 3

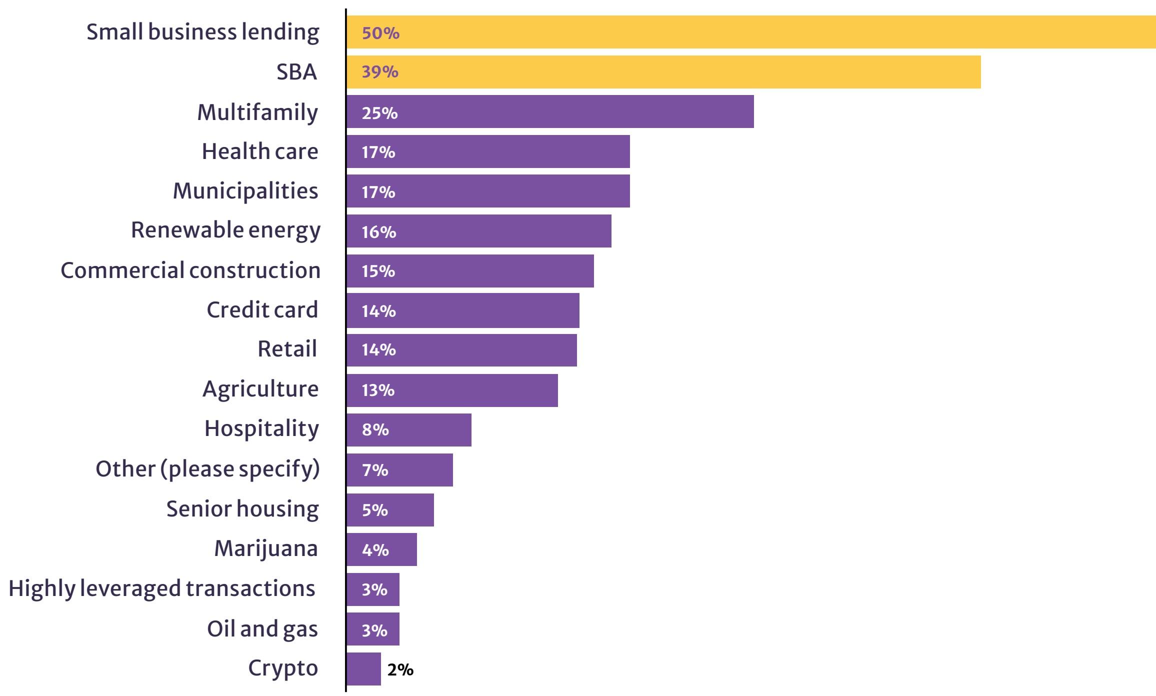
The Search for Growth

Against the backdrop of rapid technology evolution—and the potential for a meaningful economic slowdown—community banks continue to break new ground in the search for growth opportunities. This year's survey results suggest that community bankers are looking to organic growth and partnerships, including collaboration with fintechs, to meet their growth objectives. Inorganic growth paths appear to be less appealing compared with last year, as community banks reckon with economic uncertainty and increased regulatory focus on bank combinations.

Capitalizing on the small business advantage

When asked about their plans to increase, decrease, or maintain various lending, depository, and cash management services, community bankers most often say they plan to increase small business and Small Business Administration (SBA) lending (see Figure 5).

Figure 5. Community banks most often say they plan to increase small business lending.



Percentage of respondents who say they plan to increase activity in each area; N=92

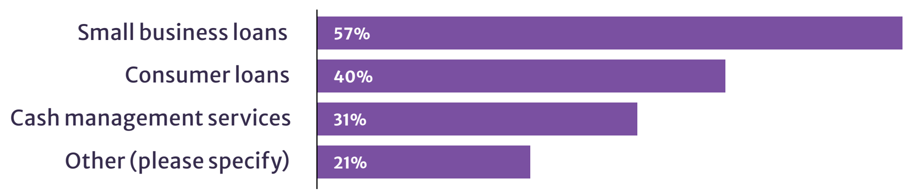
These results reflect community banks' long-held priorities. Small businesses are growth engines for the economy, generating value and creating jobs in local communities. At the same time, larger banks typically have devoted less attention to small businesses, focusing instead on larger-scale lending. Community banks, with their keen understanding of local industry and local economies and their broad and deep relationship networks, are ideally placed to tap—and to support—small business potential.

The upside of lending to small businesses inevitably comes with some downsides. For example, small businesses tend to be vulnerable to business slowdowns and recessions—but they can also be quicker than their large counterparts to capitalize on improving business conditions. Because they tend to be close to their borrowers, community banks generally are in a particularly strong position to sense and respond to relevant changes in local economic activity.

Exploring fintech collaboration

Community banks recognize and are set to continue to build on their historical strengths, including small business lending. For some, technology will be instrumental. Advancements in technology—and a groundswell of consumer demand for easy, tech-enabled access to financial services—have led some community banks to pursue fintech partnerships. That collaboration can take many forms, including banking as a service (BaaS) arrangements, in which banks serve a back-end role to non-licensed entities (including retailers as well as fintechs). In fact, as survey results show, these partnerships may be an avenue for some community banks to extend their reach into areas where they already have some advantage and plans to expand, including small business lending. Of the 58 respondents[6] who said their banks were already collaborating with a fintech, or were at least considering such a collaboration, most said their focus would be small business loans (see Figure 6).

Figure 6. Community bankers see small business loans as particularly promising ground for fintech collaboration.



Percentage of respondents who say their institutions are already collaborating with fintechs, or are considering collaboration with fintechs, in each area; N=58

Even so, survey results suggest that enthusiasm regarding fintech partnerships is somewhat muted. A large proportion of respondents (43% of the total population) declined to confirm an interest in fintech collaboration. Community banks have long based their competitive advantage on the quality of their relationships—knowing their customers and delivering high-touch customer service. "At this point, we are not collaborating with fintechs. We pride ourselves on our customer contact and being present in our community. We still value and rely on in-person contact with our customer base," said Cavanaugh. "Instead of using fintech, we're embracing technology on the other side [i.e., the back office], using technology to make things more efficient and more cost-effective for our customers."

Relationships are not a particular strength of fintechs, which find their edge in the ease and speed of transactions. "If I had a problem [as a borrower], I'd want to be working with a community bank, because they're invested in the community. They want to see me succeed. That's one of the advantages we have," said MacDonald. But some community bankers see potential in fintech to help improve accessibility and efficiency for customers, including small business customers. "For us, if we were to enter into a fintech collaboration, it would be to try to become a little more operationally efficient on the back end—just because the smaller deals always seem to fall down the priority list compared to larger loans," he said.

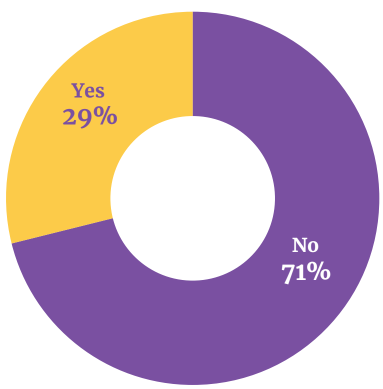
6 Out of 101 total respondents.

In the future, as technology costs fall and off-the-shelf solutions become more robust, some community banks may find a fruitful path forward in business approaches that marry the depth of their relationships and the value of the personal touch with the easy accessibility that technology can facilitate. Consistent with survey results, community bankers at the conference noted that small business lending is relatively standardized, so it may be particularly amenable to automation and fintech partnerships. At the same time, busy small business owners may particularly appreciate the accessibility of fintechs—another reason banks that are interested in gaining ground in small business lending might consider a fintech collaboration. "We're not there—we're not considering it right now. But could we do an about-face in six months? Absolutely. [Fintechs] are competitors, they're growing, and we have to figure out how to fit in the same business environment as them. We have to remain relevant," said Cavanaugh.

A cooldown in M&A interest

Historically, community banks have viewed M&A as an opportunity to expand their reach while cutting costs and boosting efficiency. M&A activity among smaller banks accelerated in 2021, as banks released pandemic-related loan-loss reserves and the stimulus-fueled recovery sped forward. In this year's survey, only 29% of respondents say they plan to acquire another institution over the next two years; 71% of respondents say they do not (see Figure 7).

Figure 7. A solid majority of respondents say they do not plan to acquire another institution in the next two years.



Does your institution plan to acquire another institution in the next two years?
(Percentage of respondents; N=90)

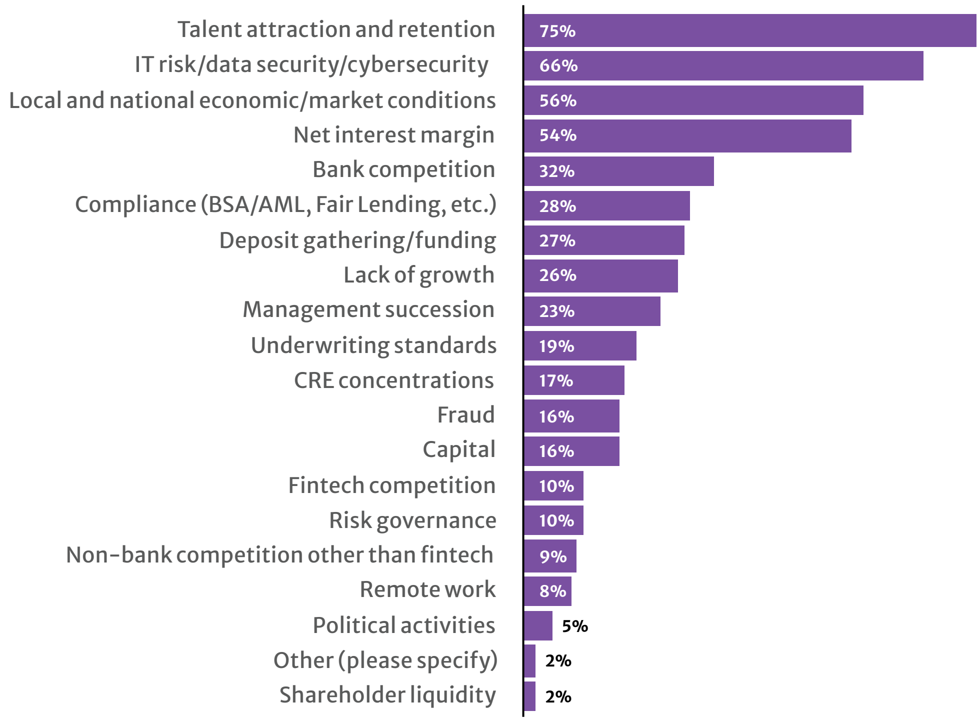
Fundamentally, M&A activity is cyclical, said participants in the conference discussion session. "I think M&A is as cyclical as anything else. If you think back a few years ago, we had a lot of new regulatory requirements emerging, and there was a lot of investment in compliance and operational areas, along with a big push to look at vendor-management programs," said Cavanaugh. As those regulatory requirements intensified, many smaller institutions merged in order to remain competitive and achieve greater efficiency in the face of rising back-office costs. At this point in the cycle, overall uncertainty and greater regulatory and Justice Department scrutiny of bank combinations are likely contributing to cooling interest in M&A among community banks. But community bankers say that this may change. "I think [M&A] might start coming up on the radar, especially if asset quality takes a turn for the worse in the next year. That precipitates a lot of M&A activity," Cavanaugh noted.

CHAPTER 4

The Struggle for Talent

Against the backdrop of an extremely tight labor market, community bankers recognize that their ability to manage talent will be a major factor in their success. In fact, when asked to identify the greatest threats they face, talent attraction and retention is the one they cite most often. Three-quarters of all respondents cite talent attraction and retention among the greatest threats to their success, ahead of key concerns including cybersecurity and economic prospects (see Figure 8). This finding is especially notable given a relatively lengthy track record of recruiting troubles, caused in part by damage to the banking industry's reputation during the Global Financial Crisis.

Figure 8. "Talent attraction and retention" emerges as the most frequently cited threat to success.



Percentage of respondents identifying each factor among the greatest threats to their banks' success over the next 12 months; N=101

Note: Respondents were allowed to choose up to five factors

With all of this in mind, it comes as little surprise that retention and recruiting surface as top talent-management concerns:[7]

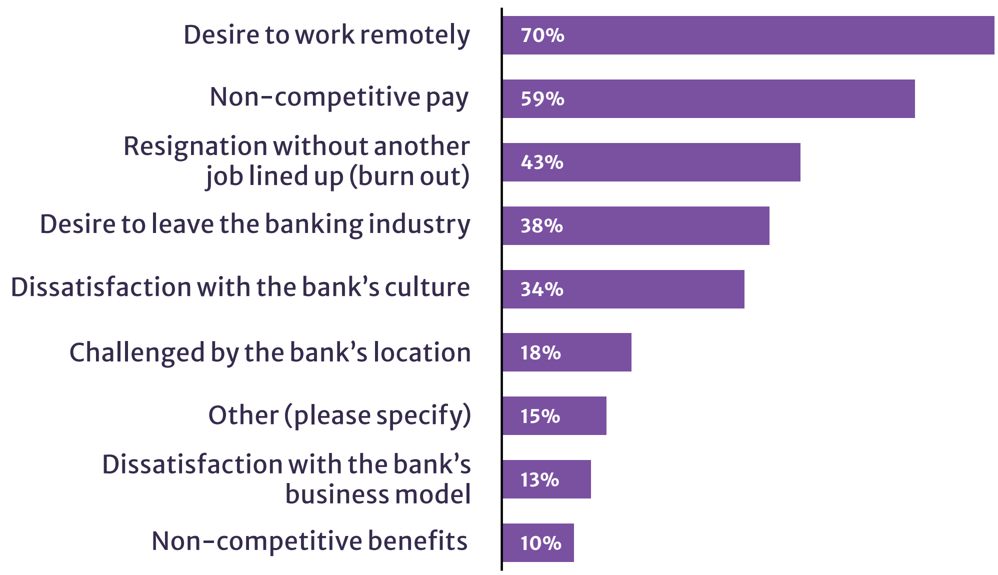
Retention	**94%**
Recruitment	**89%**
Training	49%
Succession planning	44%
Diversity	16%
Outsourcing	7%

Note: Respondents were asked to choose three concerns; N=87

7 Although a relatively small number of respondents singled out "diversity" as a top talent-management concern, it should be noted that diversity programs can play a key role in both retention and recruitment.

Community bankers' perception of the causes of the Great Resignation provides some insight into both the challenges they face in the struggle for talent, and the approaches they're taking to succeed in that struggle. A solid majority of respondents see the desire to work remotely as one of the primary causes of the Great Resignation (70%), followed by non-competitive pay (59%) (see Figure 9). With demand for labor high, employees have the ability to command higher wages—and to seek the flexible working arrangements, including remote work, that contribute to their work/life balance. Remote work has also changed the competitive landscape, bringing community banks into the same recruiting space as larger regional banks, as larger banks widen their recruiting nets in their search for highly skilled remote workers.

Figure 9. Desire for remote work and for higher pay are the primary drivers of the Great Resignation, according to survey respondents.



Percentage of respondents citing each as a reason for the Great Resignation; N=87

Note: Respondents were allowed to choose up to three answers

Survey results show how deeply the pandemic injected remote work practices into community banks' work models. Only 7% of respondents report that their banks allowed employees to work remotely 50% or more of the time before the pandemic. That percentage ballooned to 76% during the pandemic:

	Before the pandemic	During the pandemic
100% of time in office	93%	24%
50%+ of time remote	7%	76%

While the transition to remote work was undoubtedly difficult for many community bank employees, the experience was also eye-opening. The massive, uncontrolled (and, in many respects, ongoing) social experiment with remote work disrupted many assumptions and created a new set of aspirations—even expectations—for workers. But to what extent can community banks continue the experiment with remote work post-pandemic,[8] given customers' expectations and needs, and the requirements of their own operations?

Survey results show that a majority of community bankers (63%) expect a return to 100% in-office work going forward. This represents a substantial shift versus pandemic-era practices:

	During the pandemic	Post-pandemic expectations
100% of time in office	24%	63%
50%+ of time remote	76%	37%

But it's also important to recognize that community bankers' post-pandemic expectations for remote work far exceed pre-pandemic practices, presumably because flexible work arrangements now support both recruiting and retention:

	Before the pandemic	Post-pandemic expectations
100% of time in office	93%	63%
50%+ of time remote	7%	37%

More than one-third of respondents (37%) say their institutions expect to allow 50% or more of work time to take place remotely going forward—an increase of 30 percentage points compared with pre-pandemic approaches.

Even with these concessions to remote work, survey results confirm what we know: Not all roles in a customer-facing business such as community banking can be done remotely. Survey results confirm that remote work is most commonly allowed in community banks for administrative, technology, and compliance roles, followed by business development officers and loan administration staff. Management roles trail behind slightly. But very few community banks report that they allow remote work for branch staff, for obvious reasons: Traditionally, branches have needed people on site to greet and serve customers.

8 We use the term "post-pandemic" in a limited context in this report, as shorthand for the end of Covid-19-related lockdowns in the U.S. and in many parts of the world.

Which roles can be performed at your institution on a remote or hybrid basis?

Administration (e.g., HR, finance, operations)	75%
Technology	73%
Compliance	72%
Lenders/business development officers	66%
Senior management	61%
Loan administration	61%
Risk	59%
Senior leadership	54%
Branch staff	**6%**

Note: Respondents were allowed to choose all that apply; N=83

In an era when flexibility is prized, branch staff—who are largely unable to enjoy that flexibility—are the category most likely to leave, according to respondents.

At your bank, in which roles are employees most often resigning?

Branch staff	**67%**
Loan administration	49%
Administration (e.g., HR, finance, operations)	46%
Lenders/business development officers	36%
Technology	27%
Compliance	24%
Senior management	21%
Senior leadership	8%
Other	4%

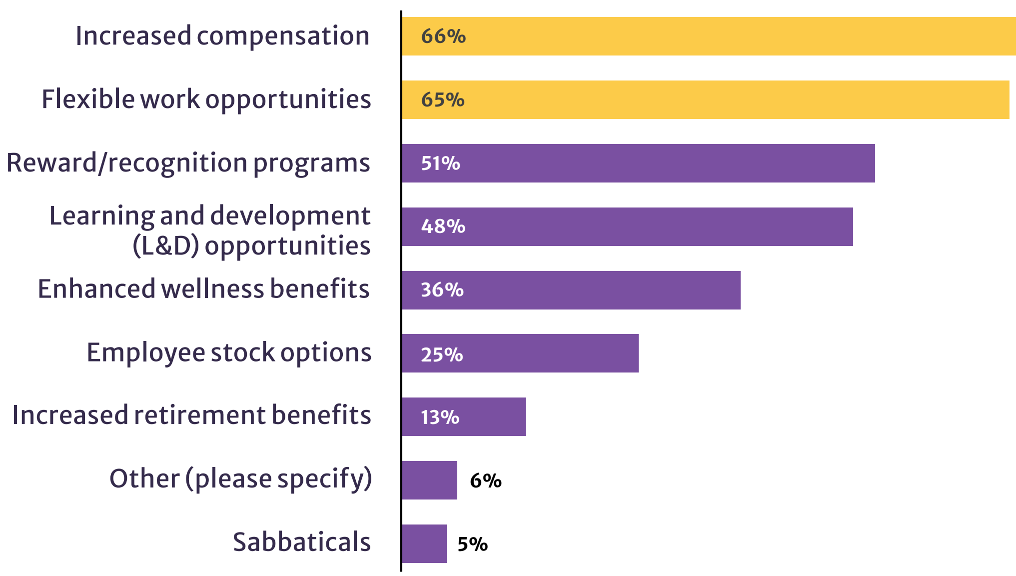
Note: Respondents were allowed to choose all that apply; N=85

"Entry-level, customer-facing positions are now receiving higher hourly wages and salaries than back-office positions," said MacDonald. "The pandemic has been hard on people, and customers can be a bit difficult. It's hard to find people who are willing to work in a retail environment. These roles have to be on site, there aren't a lot of flex hours available, so it's pay where we have to compete."

In addition to modifying customer hours, community banks considering their options to cope with a shortage of customer-facing branch staff may decide, in some cases, to pursue technologies that allow for virtual interactions with customers. It's also understandable that they would think through such moves very carefully, since the personal touch is often an important dimension of their service model. Could virtual interactions replicate the most crucial, relationship-supporting dimensions of in-person contact? Would such technologies be worth the investment? How community banks will ultimately answer that question remains unclear.

Meanwhile, as they work to stem the tide of departing branch employees—and as they cope with increased competition for skilled workers across the board [9]—community banks are focused on two main retention levers: increasing compensation (66%) and providing flexible work opportunities where possible (65%). Morale-boosting through reward and recognition programs and supporting career evolution through learning and development programs follow (see Figure 10).

Figure 10. Increasing compensation and providing flexible work opportunities are top retention strategies for community banks.



Percentage of respondents citing each as a way their institution supports employee retention; N=37

Note: Respondents were allowed to choose all that apply.

9 While community bankers are most likely to cite branch staff for frequent departures, it's worth noting that they're most concerned about recruiting and retaining highly skilled business development officers, followed by senior managers and branch staff:

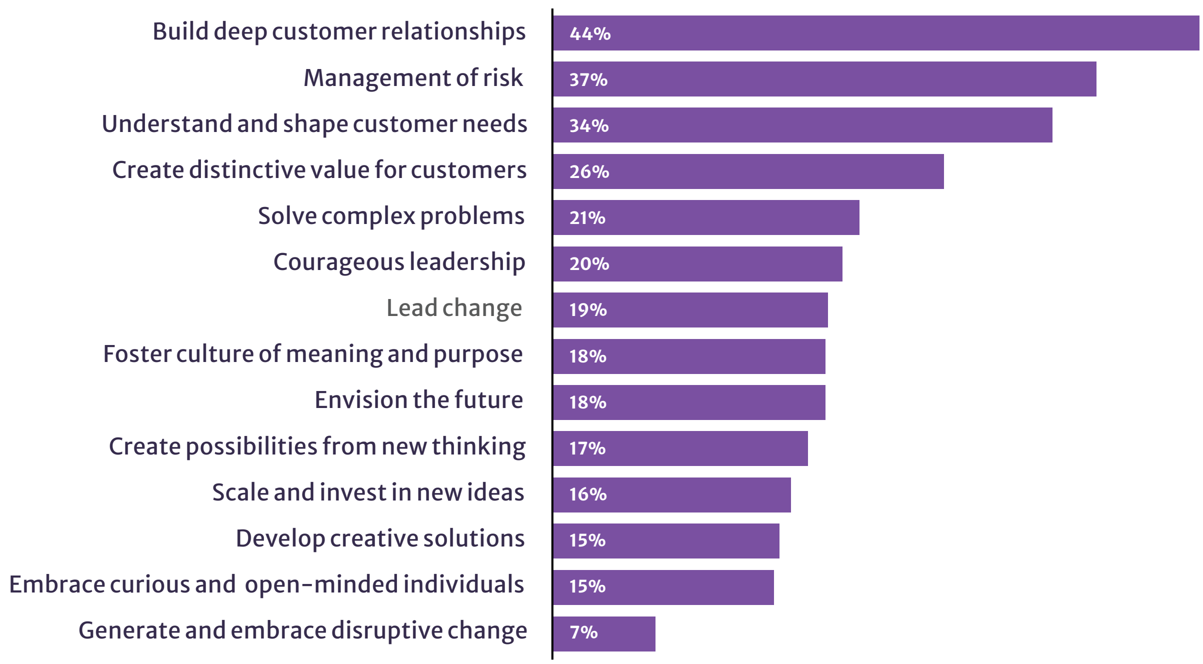
Top three employee categories that respondents are most concerned about recruiting and retaining:

Lenders/business development officers	58%
Senior management	41%
Branch staff	41%
N=86	

Increasing investment in compensation and flexible work options are certainly crucial in this heated battle for talent. “Employees have options right now,” said Crystal Humphreys, Director of Risk Management at American National Bank of Texas in Terrell, Texas. Opening up to remote work can help with recruiting, but the practice brings its own challenges. “Two years into remote work, I’m finding challenges I hadn’t anticipated. Keeping the culture of the team and the culture of the bank intact is difficult,” Humphreys said.

Many community banks will explore technology-driven alternatives, including further automation, to ease their labor constraints. But to the extent community banks are competing for labor, where might they find an edge? As of this writing, skilled workers continue to have many options to seek higher pay and to configure remote-work arrangements that suit them, particularly as remote work opens up new geographies for employers and employees alike. But community banks have more to offer in the race to recruit and retain employees, including a sense of shared mission and the opportunity to engage deeply with others, both within the institution and with members of the community. The community bankers who responded to our survey recognize, in particular, their strengths in building deep customer relationships (see Figure 11).

Figure 11. The ability to build deep customer relationships is a particular strength for community banks, according to respondents.



Percentage of respondents scoring their performance on each organizational or cultural factor as “9” or “10” on a 10-point, weakest performance-to-strongest performance scale; N=87

“Banking may not have the best image [among potential employees], but there’s a difference between community banks and larger banks. When recruiting, we try to outline what a future in community banking might look like, and we emphasize the opportunities to grow,” said MacDonald.

Cavanaugh said, “We’re in a market where we’re competing with the big New York investment banks. I spend a lot of time focused on where [recruits] want to be, and what they want to do in their careers.” Community banking involves acquiring and using a lot of the same skill sets as larger banks—doing similar work, in similar environments, and with similar titles, she noted. “The question [for recruits] is what kind of environment do you want to do all of that in? Do you want to work anonymously, or do you want a situation where the CEO and the COO know your name? Where they listen to you? Where you can influence things?” Cavanaugh continued. “For some people, that reasoning works.”

By recognizing that employees have options, fulfilling the need for flexible work arrangements where possible, offering competitive compensation, and making employees feel integral to the core mission of supporting local businesses and neighborhoods, community banks can mitigate their growing Great Resignation risks—and create an edge for themselves in the process.

Community Bankers Look to the Future

Countless artists and thinkers—from Heraclitus of Ephesus[10] to Patti Smith[11] —have observed that the one constant in life is change. Community bankers could be forgiven for wishing to take at least a short break from the forces of change, in the aftermath of the pandemic and all of its associated disruptions.

But no respite is in the offing; change, in fact, remains a constant. As we look back over the 10 years that we have conducted this survey, we see that some of the changes now confronting community bankers could be quite meaningful. In the risk space, an explosion of online transactions during the pandemic, and other forces including geopolitical tensions, are contributing to a rising tide of cyber risk. Community bankers who have enjoyed a period of healthy asset growth, increasing fee income, and larger profits are also facing the prospect of recession—possibly a deep recession—as the Fed struggles to tame inflation. These unwelcome changes, combined with persistent regulatory demands, each call for time, resources, and attention, all of which are already in short supply at many community banks.

At the same time, change—even difficult changes—can provide occasions to grow, adapt, and innovate. The pandemic, for example, wreaked a devastating human cost and created tremendous uncertainty. It also changed many long-held assumptions about remote work, and, through concerted monetary and fiscal stimulus efforts, led to a recovery of unprecedented speed and strength.

As we embark on another era of change, we found community bankers in our 10th annual survey considering their path so far, and where their journey will take them next. How will community banks manage through the key risks and ongoing demands they face? How will they unite innovative new technologies with their ability to deliver the personal touch to serve their customers? What model of work will optimize the experiences of all their stakeholders, including both employees and customers? We at RMA look forward to exploring these and other important questions with community bankers in the months ahead.

10 "Heraclitus, I believe, says that all things pass and nothing stays, and comparing existing things to the flow of a river, he says you could not step twice into the same river." – Plato

11 "The only thing you can count on is change." – Patti Smith

About this Report

In the summer of 2022, RMA surveyed community bankers in its membership, to identify the forces that are most affecting them and the approaches they're taking to address the challenges they face. RMA invited community bankers with titles including Chief Risk Officer, Chief Credit Officer, and Chief Lending Officer, who work for institutions with less than $10 billion in assets, to respond to its online survey. One hundred and one community bankers from around the United States responded.

The questionnaire was developed in close collaboration with RMA's Community Bank Council. Council members also provided insight on the results, which RMA incorporated into this report.

Survey respondents hold the following titles:

CEO	6%
President	2%
Chief Financial Officer	4%
Chief Risk Officer	20%
Credit Officer	11%
Chief/Senior Lending Officer	12%
Chief Credit Officer	27%
Chief Operating Officer	1%
Chief Compliance Officer	0%
Other (please specify)	17%

Respondents work for institutions with the following asset sizes:

< $250M	13%
$251 – $500M	13%
$501 – $1B	23%
$1 – $2.5B	26%
$2.5 – $5B	8%
> $5B	17%

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About Risk Management Association (RMA)

For more than 100 years, RMA has been laser focused on one thing: helping its members in the world's financial institutions better understand and address risk. As a trusted partner, RMA has weathered the many economic ups and downs of the last century alongside its members, which now number 1,600+ financial institutions of all sizes, from multi-nationals to local community banks. These institutions are represented by over 35,000 individual RMA members located throughout North America, Europe, Australia, and Asia.

Our members rely on us to keep them abreast of important industry trends and prepare them to face new challenges head-on. Our sound risk management principles are developed for members, by members, and help to build safer, stronger financial institutions, impacting local communities and the global economy.

All of this makes RMA unique – we are the only comprehensive source of risk management tools and education that has spanned the last 100 years. And we look forward to the next 100 as we help the industry come together on the transformative issues of climate, cyber, culture, technology, and more.