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COVER STORY

HEY NINETEEN!

FROM INTEREST RATES AND FUNDING CONCERNS TO BLOCKCHAIN AND CECL, WE ASKED TEN VETERAN INDUSTRY OBSERVERS TO PICK WHAT THEY EXPECT TO BE THE STORY THAT WILL HAVE THE BIGGEST IMPACT ON COMMUNITY BANKS AND CREDIT UNIONS IN 2019

RISING RATES + FLATTENING YIELD CURVE = TIGHTER MARGINS

"AS IT HAS DONE HISTORICALLY, AN INVERTED YIELD CURVE WOULD PORTEND THE PEAK OF AN ECONOMIC CYCLE, AND ONE SHOULD BE VERY CAUTIOUS SAYING IT WOULD BE DIFFERENT THIS TIME AROUND."

CRAIG DISMUKE,
EVP AND CHIEF ECONOMIST,
VINING SPARKS IBG, LP

Like the waistband on a favorite pair of pants following holiday season festivities, bankers may find the economic outlook a bit too tight for comfort as 2019 dawns. Indeed, after years of growth and good times, the Fed was already well down the path of reining things in as 2018 came to a close, and economist **Craig Dismuke** believes community institutions should prepare to deal with the effects of more of the same in the coming quarters – and its potential impact on margins.

"For now, the economy continues to expand at an above-sustainable rate," he explains. "With the Fed likely to continue hiking rates into 2019, bringing the overnight rate near 3%, weaker global growth and low expectations for future U.S. growth will continue to keep longer Treasury yields anchored. The yield curve will likely remain very flat, which has historically had a negative impact on margins, particularly as deposit betas tend to rise in the later stages of rate cycles."

But tighter margins won't be the only fallout from such an environment. In addition to potentially disrupting what had been a mostly sanguine equity market, Dismuke believes continued rate hikes and a flattened or inverted yield curve will work to slow the robust lending environment of the past few years.

"If the yield curve were to invert, banks would have ever-less incentive to lend, and businesses concerned about the implications of tighter monetary policy and a flat-to-inverted yield curve could begin to shy away from borrowing," he says. "As such, both supply of and demand for credit could be affected by tightening financial conditions in 2019."

Dismuke notes that while factors such as the ongoing trade war with China, the weakening housing market and the growing federal budget deficit are a few of the other big stories that should certainly be on every economic radar as 2019 gets underway, when it comes to banks and credit unions, it's all about the prospects for the yield curve – and the outlook may be far from rosy.

"As it has done historically, an inverted yield curve would portend the peak of an economic cycle," he says, "and one should be very cautious saying it would be different this time around."

"WHILE THE INEVITABILITY OF DIGITAL TRANSFORMATION IS GENERALLY UNDERSTOOD, THERE IS A DEFINITE LACK OF URGENCY AMONG COMMUNITY INSTITUTIONS."

JOE SULLIVAN
PRESIDENT AND CEO
MARKET INSIGHTS

THE RISE OF FINTECH

That **Joe Sullivan** sees increased competitive pressure from fintech companies as the number one story for community institutions heading into 2019 should come as no surprise. Banks and credit unions have been hearing about (and, in many cases, witnessing) the rise of tech-enabled competitors for the past several years, after all, and the battle for low-cost deposits has only enhanced the attractiveness of the banking space for innovative new entrants. And as consumers grow more and more comfortable and confident with shifting additional aspects of their lives to the digital realm (despite security concerns), these tech upstarts will certainly find a more receptive audience to hear their pitch.

What may be a bit surprising, however, is Sullivan's assessment of the ability of traditional institutions to respond to this growing threat – again considering how long the build-up has been going on.

"They're not prepared," says Sullivan, the president and CEO of consulting firm Market Insights. "While the inevitability of digital transformation is generally understood, there is a definite lack of urgency among community institutions. They too often put off or postpone a full-scale commitment to digital transformation, getting caught in what I refer to as the 'financial services bubble,' where little attention is given to the competitive threats or the evolution of consumers' digital behaviors and preferences."

Among these threats are digital-only banks and big tech firms like Amazon, Facebook and Apple that promise to deliver a more seamless customer experience than most community banks and credit unions, as well as emerging partnerships like digital-only BankMobile's plan to provide banking products to T-Mobile's 76 million customers in the U.S. Sullivan says that when cellular providers can offer mobile banking products, or Paypal customers can deposit or withdraw funds at Walmart, community banks and credit unions are at risk of losing part of their traditional relationship with the consumer. Add to this mix the growing number of partnerships between fintech firms and regional/national banks, and the competitive foothold for smaller institutions becomes even more tenuous.

But Sullivan notes that there's still time for community banks and credit unions to stake their place in this digital world by more proactively paying attention to trends outside their industry and attempting to engage customers in their digital banking journeys. In so doing, he expects they may realize they're falling behind consumer expectations and will therefore expedite their commitment to digital transformation. The key to succeeding in this transformation, however, is a real sense of urgency on the part of management and a cultural commitment across the institution to undertake meaningful change.

"Community banks and credit unions often see initiatives miss their mark due to internal cultures that inhibit success, especially those focused on digital transformation," he explains. "That's why it's vital to build and train employees to embrace, and adapt to, change. Of course, this goes just as much for executives, many of whom tend to get stuck in business models that have become outdated as markets and consumers have shifted."

In the end, however, the strategies a community institution opts to employ to confront the competitive challenge presented by the rise of fintech may not be as important as staying focused on the ultimate goal.

"As branch visits decline and digital behaviors increase, the consumer's relationship to financial services has never been more fragile," Sullivan explains. "Companies that effectively blend a personalized physical and digital experience enjoy the highest levels of satisfaction and loyalty. That's why creating an experience of human connectedness will be the key to establishing trust and maintaining competitive advantage for community institutions."

"IT'S NOT JUST 'BIGGER IS BETTER,' BUT RATHER 'BETTER IS BETTER' WITH RESPECT TO DIVERSIFIED SOURCES OF NET INCOME."

DAVE THOMAS
PRESIDENT AND CEO
EPG INCORPORATED

IF AND HOW TO GROW

Countless discussions with EPG Incorporated clients throughout 2018 around both balance sheet management and strategic planning for the year ahead led firm president and CEO **Dave Thomas** to one overarching question that he believes every community institution is going to have to answer in a year that appears poised to feature a flattening and rising yield curve, increased competition for deposit dollars, a crowded field of new all-things-to-all-people competitors and an economic cycle that may be slowing:

TO GROW OR NOT TO GROW?

That is the question. And how an institution answers in 2019, Thomas believes, depends on how prepared it is to address several underlying questions, such as:

What kind of "channels" or "bands" can the institution place around the pricing of loans and deposits?

How can it develop these "channels of acceptability" in terms of how low it can go on pricing loans and how high it can pay on deposits?

Does the institution look at average cost of the overall funding or on the margin?

Does it look at a spread to worst on the next piece of business added (over the life of the asset since pricing rolls over several times) and are there minimum spread requirements?

What are the triggers or signals that will tell management it is time to change the selected strategy, and what are the metrics used to make that decision?

What are the non-financial benefits of growing, even if in the short term it is "profitless prosperity?"

In attempting to answer these secondary questions, Thomas says an institution will need to be ready with:

- A capital forecast under each scenario
- A realistic notion of how much control it has over pricing in its markets for its primary loan and deposit product for commercial and non-commercial customers
- A solid segmentation of deposit structure to affect gathering of deposit dollars with minimum migration
- A bricks-and-mortar footprint to assist in micro marketing to minimize cannibalization and add new loans at the highest yields
- Size, as relates to non-interest expense netted with non-interest income

"It's not just 'bigger is better,'" Thomas notes, to this last point, "but rather 'better is better' with respect to diversified sources of net income."

In order to achieve success in this environment, Thomas believes it is critical for community financial institutions to focus on maintaining clarity of brand and a solid understanding of their customer base.

"With the current and likely yield curve, maintenance of the institution's brand identity – and therefore customer goodwill – can be at risk, especially if price wars for deposits and loans escalate in one's market," he says. "How do you maintain the brand that was so hard to build if the competition for deposits is based solely on rate? This is when it becomes critical to have a twofold branding plan that both competes in the short term and positions the institution for the long term."

THE CUSTOMERS AND EMPLOYEES OF TOMORROW

"GEN Z IS LEAVING HOME TO GO TO COLLEGE OR MOVE INTO THEIR OWN PLACE, AND WE KNOW THAT WHEN THEY LEAVE THEIR PARENTS' HOUSE, THAT'S WHEN THEY'RE MOST LIKELY TO CHANGE WHERE THEY BANK. ALL OF A SUDDEN THEY'RE INUNDATED WITH A VARIETY OF OPTIONS AND CAN MAKE THEIR OWN CHOICE."

JASON DORSEY
PRESIDENT
THE CENTER FOR GENERATIONAL KINETICS

Millennials and Gen Z are one year older in 2019, with the oldest Millennials turning 42 and the oldest members of Gen Z turning 23. And as they age, these generations are both experiencing major life shifts, with Millennials wading into home ownership and family life, and Gen Z just getting their feet under them as customers and employees.

"We're really seeing Millennials step into home-buying in particular and that is creating a lot of change, challenge and opportunity," says **Jason Dorsey**, president of the Center for Generational Kinetics. "There are a number of real estate technology companies emerging that think they can do a better job of serving Millennials than traditional financial institutions."

One of these emerging competitors is Bungalo, which promises a seamless experience that helps in both finding and financing a new home – all in a convenient online process. Dorsey foresees car-buying going through a similar digital transformation, citing Carvana as a similarly seamless online car purchasing experience.

"While Carvana has made a very small investment in physical location, they've really optimized for mobile, and they're showing tremendous revenue," he explains. "This will change the game for financial services providers, because when younger customers go to buy their cars online, they're likely to get their financing online as well."

While Millennials explore the notion of purchasing homes and cars online, Gen Z is looking for tools to help save money and invest. According to Dorsey's research, Gen Z is both fiscally conservative and interested in ways to automate savings and maximize interest rates.

"Gen Z is leaving home to go to college or move into their own place, and we know that when they leave their parents' house, that's when they're most likely to change where they bank," Dorsey says. "All of a sudden they're inundated with a variety of options and can make their own choice."

A seamless mobile experience and integration of artificial intelligence tend to appeal to Gen Z, as they seek out a frictionless experience and better predictive insights. For example, apps that automatically skim money from one's account to place into savings are very popular among this young generation.

"You'll see this eventually move up into the older generations, but Gen Z is going to continue to become increasingly reliant on that kind of background automation to help them make financial decisions," Dorsey says.

In general, Millennials will continue to move forward in 2019 with many of the important life events they have thus far delayed – such as marriage and children – milestones that are likely to change their financial situation and priorities. Meanwhile, Gen Z is entering the adult world, buying cars and renting apartments. Together, these generations are bound to keep changing the face of financial services, forcing banks and credit unions to continue to find new ways to appeal to them as much as the emerging digital competitors have.

BALANCE SHEET CONCERNS

"ON THE WHOLE, I THINK THERE WILL CONTINUE TO BE GREAT OPPORTUNITIES FOR INSTITUTIONS OF ALL SIZES, BUT MANAGING RISKS IN AN ENVIRONMENT OF CONTINUAL CHANGE WILL ALWAYS TO BE A MAJOR CHALLENGE."

BART SMITH
MANAGING DIRECTOR
PERFORMANCE TRUST CAPITAL PARTNERS

Monitoring interest rates. Evaluating risk positions. Stress testing.

These are common activities that every institution should be doing on an ongoing basis, regardless of the date on the calendar. But **Bart Smith** believes that successfully managing a balance sheet in 2019 is going to take a little more effort than it has in some other years – for two main reasons.

Rate Hikes
"When we think about rate moves in banking, we tend to think about the impact on earnings and economic value. However, I think an even bigger issue could be the impact of rate moves on credit. From mortgage borrowers to Midwest farmers to corporate debt issuers to fintech operators, everyone has taken advantage of low-cost funding to leverage and finance operations. If rates continue to escalate, the cost of credit will clearly increase and stronger incomes and operating results will be needed to offset that burden.

While I think most of the banking industry would celebrate a more normalized rate environment, we need to be asking whether personal and corporate borrowers are capable of servicing higher credit costs. If the economy remains strong and continues to grow, I think things will be OK. However, if the economy begins to falter in a higher rate environment, we could experience another recession and its associated negative impacts.

Any bank that has high concentrations in an exposed sector could be impacted by the credit pressures of a rate rise. However, as a lending group, agricultural banks seem to be more exposed than other sectors at the moment. Prices for many agricultural commodities are near 10-year lows, and aggregate farm sector debt is near historical highs on an inflation-adjusted basis. The sector is already experiencing increased delinquencies and troubled credit extensions, so a rising rate environment would create even more pressure on performance. I don't think we're looking at a 1980s-type crisis, but there is certainly basis for concern for those with an agricultural dependency. In addition, institutions with heavy concentrations in highly-leveraged lending transactions – particularly in commercial real estate and vehicles – should also be keenly aware of the potential risks."

Emerging Risks
"In general, I think the entire banking industry is in a much better risk position than it was in 2006; capital levels are considerably higher and systemic risk positions are better controlled. That said, loan-to-asset levels are closing in on historical highs and there are indications that underwriting standards are loosening and becoming more accommodative.

If we are getting closer to an adverse credit cycle, possibly spurred on by increasing interest rates, the best thing for financial institutions to do now would be to properly measure and evaluate the overall risk positions that are present in their organizations. Should rates rise, institutions should know if their borrowers will be able to sustain increased operating costs, and whether collateral values will be undermined by the application of higher capitalization rates. If potential exposures are present, managers may look to curtail credit activity, tighten lending standards or provide supplemental capital structures, in the form of subordinated debt, to cushion against potential losses.

In terms of measuring organizational risk, I think it's important for banks to conduct some level of capital stress testing. Even a simple capital stress analysis, like the one outlined in OCC Bulletin 2012-33, 'Community Bank Stress Testing Guidelines,' can provide important insights on a bank's relative capital exposure. Armed with the knowledge from this type of analysis, institutions can take appropriate measures to protect against credit risk positions that may be higher than otherwise thought."

"CECL IS ALL ABOUT DATA – AND THE MORE DATA INSTITUTIONS HAVE, THE MORE INFORMED THEIR ESTIMATE WILL BE. AND ONE POSSIBLE CHALLENGE INSTITUTIONS MAY ENCOUNTER WITH USING SHARED DATA POOLS WILL BE DETERMINING WHETHER THE DATA IS RELIABLE AND WHETHER IT IS IN FACT RELEVANT TO THEIR PORTFOLIO."

SYDNEY GARMONG
PARTNER
CROWE LLP

Anyone who has attended one of the popular Regulatory and Accounting Update general sessions at the FMS Forum over the past several years has likely noticed two unwavering constants – former FMS Chairman **Sydney Garmong** has been center stage as the moderator of the discussion, and CECL has, year in and year out, been one of the hottest topics on the agenda.

It is, in fact, that long and winding road to issuance and eventual implementation that Garmong believes has been one of the problems with getting institutions to pay more attention to their CECL preparations. Finance and accounting people have been hearing about CECL for so long now that it may be hard for them to really muster any sense of urgency – or instill such a sense in their teams – when it comes to the new standard. But Garmong says that despite an implementation date that may still be a ways off for some institutions, 2019 is going to be a critical year when it comes to CECL.

What makes 2019 so important?
"For SEC filers, the standard is effective in fiscal years beginning after December 15, 2019, including interim periods in those fiscal years; so for calendar year-end SEC filers, it is effective for March 31, 2020. In order to be ready at January 1, 2020, including having processes in place, 2019 will be the time for a parallel run. In addition, the new model will have new data, new accounting policies and new processes, all of which will necessitate having new internal controls in place. Understanding that SEC filers in particular will be performing parallel runs in 2019, FASB is working diligently to make final clarifications in early 2019.

Non-SEC filers have more time. For public business entities (PBEs) that are not SEC filers, the standard is effective for fiscal years beginning after December 15, 2020, and interim periods within; so for calendar year-ends, it first applies in March 31, 2021 quarter-ends. For non-PBEs, the FASB clarified the effective date is fiscal years beginning after December 15, 2021, and interim periods within those fiscal years; so for calendar year-ends, it first applies in March 31, 2022 quarter-ends. FASB issued a standard in mid-November to clarify the original standard, which was a welcome development – without this clarification, non-PBEs would have had to adopt in 2021.

Overall, that may seem like a long time, but it's really not. CECL is all about data – and the more data institutions have, the more informed their estimate will be. And one possible challenge institutions may encounter with using shared data pools will be determining whether the data is reliable and whether it is in fact relevant to their portfolio."

Are most institutions where they should be heading into 2019?
"I do not think they are prepared. Based on what I'm hearing, many are in the process of collecting data and figuring how to house the data.

At the 2018 AICPA National Banking Conference, there was mention of a survey created by the Federal Reserve, FDIC and the CSBS to facilitate outreach to community banks. So far (in late 2018), they have a small response rate – about 200 community banks. They have found those banks are in the earlier stages of implementation, which is understandable given the effective date is further out. Some have identified functional areas and created a committee, while others are still in process. Some are familiar with the standard and interagency guidance, while others are still in process. About half have identified what data to capture and continue to capture.

Some are figuring out whether they plan to handle internally, work with a third-party provider or some combination. I do not sense the majority have figured out what vendor or model they are going to use. In fact, there are some still hoping it will go away, which I don't see happening. Some are waiting for their examiner to ask. I'm sure most auditors are discussing with their clients."

What can (should) institutions be doing in 2019 to be better prepared for CECL?
"I do think the vast majority of institutions have participated in some education and understand the concept of CECL. Of course, reading the standard is helpful – and you don't have to read it cover to cover like a good novel. The three key sections are: (1) summary, scope and effective date on pages 1-6 and 95-101, (2) amortized cost assets on pages 101-147 and (3) available for sale (AFS) debt securities on pages 147-166. There is background included in the basis for conclusions in the back of the standard. The federal regulators – including the Fed, FDIC, NCUA and OCC – have also issued FAQs, which are helpful, especially when it comes to questions on gathering data. In addition, many service providers have CECL roadmaps to help institutions envision a path to implementation.

I also think many institutions have found it helpful to interact with their peers to share experiences. For those that are further down the path, it is because they've been at it for a while. I've seen some institutions, albeit larger ones, that thought they were going to outsource but ultimately decided to execute internally, and I've seen the reverse situation. Others have taken a hybrid approach. It's really going to depend on each institution's situation. In any case, it will take a cross-functional team and it will take resources.

I continue to hear 'what will be the external auditors' expectations?' This is a chicken-and-egg question, really. Auditors don't want to get out in front of the preparers, but I certainly understand why institutions are asking. To that end, the AICPA Credit Losses Task Force is drafting a practice aid with audit considerations to help both auditors and preparers. Topics include management's responsibility and the audit committee's role in oversight, internal controls and governance, risks of material misstatement, portfolio segmentation, modeling and data, adjustments to historical loss information and for reasonable and supportable forecasts, evaluating estimation uncertainty and bias, management's specialists and other third parties and evaluating the sufficiency and appropriate of audit evidence. Work is well under way on this resource, and the group (of which I am a member) hopes to make a draft available in early 2019."

THE FUNDING WAR

"THE BIG STORY OF 2019 WILL BE THE FUNDING WAR. THE FIGHT FOR DEPOSITS WILL BE FIERCE."

TERENCE ROCHE
PARTNER
CORNERSTONE ADVISORS

When asked what he expects to be the biggest story for banks and credit unions in 2019, industry veteran **Terence Roche** hits on an issue that has been building for years leading up to now.

"The big story of 2019 will be the funding war," says the partner at Cornerstone Advisors. "The fight for deposits will be fierce."

Why does he expect such a pitched battle in the year to come? With the loan-to-core-deposit ratio already around 90% for banks and 85% for credit unions (but some institutions flirting with 100% or more) and with a higher rate environment expected, Roche says more and more online competitors are going to be entering the fray in 2019 – and, he notes, the top ten online banks are already approaching 10% of market share. So the battle lines have been drawn. The question, then, is how much overall deposit growth there's going to be to fight over. And when push comes to shove, are community institutions going to have a puncher's chance of walking away intact?

Roche believes the community institutions that stand to be most affected in this fight are those with loan-to-deposit ratios of 95% or higher already, as they will likely need to become more aggressive with deposit pricing, which will negatively their impact net interest margin. Smaller institutions (those under $1 billion) that have under-invested in digital also stand to bear the brunt of this skirmish. What can these institutions do to prepare for the coming fight?

"Community institution branches have generally been competitive with larger banks, but many do not have the digital marketing and fulfillment tools to match the capabilities large banks have developed," Roche explains. "To better prepare, commercial banks must combine a strong focus on business deposits from their borrowers, combined with strong cash management offerings. Retail banks and credit unions, meanwhile, must maintain strong branch focus on core deposits while enhancing their online account opening and servicing options."

THE PROFITABILITY QUESTION FOR CREDIT UNIONS

"WE'RE SEEING ALL OF THE NON-MATURITY DEPOSIT ACCOUNTS STARTING TO COME UP VERY QUICKLY – CHECKING, SAVINGS, MONEY MARKET, SHARE DRAFT – AND THAT'S GOING TO HURT PROFITABILITY."

CHARLEY MCQUEEN
PRESIDENT
MCQUEEN FINANCIAL ADVISORS

Charley McQueen has been working with credit unions for a long time, which is why his big-picture concern for the industry heading into 2019 is profitability. Because although profitability has certainly been a focus for institutions in other years, the president of McQueen Financial Advisors says there are three major forces that are converging that will make pose very specific challenges in the year ahead.

Cost of Funds
With CD costs already skyrocketing, McQueen says credit unions should expect to see other deposit costs continue to rise as well in 2019. "We're seeing all of the non-maturity deposit accounts starting to come up very quickly – checking, savings, money market, share draft – and that's going to hurt profitability," he says.

Loan Pricing
There's a lot of competition out there, and McQueen believes many of the people making loan pricing designs aren't analyzing the value of those loans thoroughly enough. This has resulted in loan yields that are too low – attributable in part to competitive pressures, but also in part to the fact that the people putting the loans on the books perhaps don't understand the true risks and costs. "The interest rates they're putting on loans aren't high enough and have longer durations, and they don't see how the term or the fact that there will be a tail should factor into that," McQueen explains. "I expect that as rates rise, we'll see that borrowers don't pay off their loans as quickly as they have historically."

Loan Loss Reserve
McQueen thinks that today's profitability people may have the expectation that they don't really have to provision money for loan losses. But as loan losses increase, they're going to have to start setting money aside. "As a sidebar to this, if they're not provisioning money for loan losses, their earnings should really be much higher today," McQueen notes. "We should be seeing a 1.25% ROA instead of a 1% ROA with no loan losses, but we aren't seeing that. I expect that will haunt us a bit."

Despite these challenges, McQueen says the outlook isn't all bad for the country's credit unions. The overall economy, for example, remains strong, which will continue to help everyone. If and when a downturn comes, however, he does see one very dark cloud on the horizon.

"Student loans are probably the biggest ticking time bomb we have right now," he explains. "We've gone from billions to trillions in the past decade, and the credit union industry should be very nervous about this. I worry about kids coming out of college with tens of thousands of dollars in student debt – both because of the income they need to repay that debt and because of what it means for home ownership. This is a whole generation of borrowers that has delayed, and will continue to delay, typical financial activities and savings."

For more on student loans at credit unions, turn to page 31.

THE TALENT TIGHTROPE

"IN THE PAST WHEN YOU APPLIED FOR A JOB, YOU WERE JUST SENDING YOUR RESUME INTO A BIG BLACK EMPTY HOLE. CANDIDATES ARE STARTING TO SPEAK UP AND FIGHT BACK."

DAVID PERRY
MANAGING PARTNER
PERRY-MARTEL INTERNATIONAL

With record-low unemployment, organizations across a wide array of industries struggled to fill key positions in 2018. But companies hoping for an easier time of it in 2019 should instead be prepared for more of the same, with artificial intelligence and the candidate experience continuing to drive change in hiring practices. In fact, the relationship between AI and talent management in financial institutions could be a very interesting one in the year ahead, according to **David Perry**.

"I don't see AI making it any easier to recruit, and I don't see it replacing people in the next few years," explains Perry, a managing partner at consulting firm Perry-Martel International. "The best use of artificial intelligence right now is to augment what people are doing, and in many cases to assume some of the drudgery that very few people are content to deal with all day long."

Recognizing the power of AI to potentially augment the workforce of 2019, many organizations will be trying to augment their own teams to add employees with AI experience. However, with AI experts even more in demand than other tech staffers these days, Perry has some advice for those looking to hire in this area.

"I remember when Java first became popular," he recalls. "It had been out for less than a year, and everywhere you turned there were job ads for people with five to ten years of experience with Java, when Java had actually been mainstream for only about nine months. The moral of the story is that in order to find someone who can help you utilize AI, you may have to scale down your expectations."

Another driving force behind the battle for talent in 2019 will be the candidate experience, and if you're not sure exactly what that means or why it's important, it's probably time to get up to speed.

"The candidate experience is the same thing as the customer experience – the experience as a candidate from the website to the application to the phone screening to the interview," Perry explains. "In the past when you applied for a job, you were just sending your resume into a big black empty hole. Candidates are starting to speak up and fight back."

The combination of a tight hiring market and sites like Glassdoor – where candidates can share their experiences with other job hunters – has created a demand for more ease and open communication in the job hunt. That's why smart organizations are working to ensure that their online application processes are seamless and that they're practicing graciousness with applicants.

"With the fight for talent happening in all industries – and especially in tech-heavy industries – the competition is only going to get fiercer," Perry says. "A better candidate experience is one big way for companies to address the current market."

THE BLOCKCHAIN EFFECT

"IN THE SHORT TERM, SAY THE NEXT TWO YEARS, I DON'T NECESSARILY THINK WE'RE GOING TO SEE A LOT OF COMMUNITY INSTITUTIONS JUMPING INTO (BLOCKCHAIN), BUT I DO THINK THEY SHOULD START LOOKING AT THE POTENTIAL IMPACT TO THEIR BOTTOM LINE AS REGIONALS AND BIGGER BANKS EMBRACE THE TECHNOLOGY."

JAY SCHULMAN
PRINCIPAL, SECURITY, PRIVACY AND RISK
RSM US LLP

Sometimes the biggest story in a given year isn't necessarily one that actually unfolds in its most impactful way within that actual twelve-month span, but rather sets the stage for some of the significant events to come.

Therefore, even though given his primary focus on the areas of security, privacy and risk for RSM US LLP, **Jay Schulman** could certainly have singled out some aspect of cybersecurity to watch in 2019 (and, indeed, he continues to view phishing as one of the most insidious ongoing threats to financial institutions), he opted instead to look a little further into the future. So while its immediate ramifications may not be fully felt by most community banks and credit unions during the course of the year to come, Schulman nevertheless sees the rise of blockchain as the technology story of 2019.

"As an industry, I think we're going to start seeing the effects of blockchain in 2019, and it's going to become apparent to community institutions that they need to do something," he says. "It's a phenomenon that I would equate to Uber. Five years ago we would have laughed at the idea of just hopping into a stranger's car or the idea of driving a stranger around the city. So it was easy to dismiss it, but it slowly worked its way into our society in a big way, and I think that's exactly how blockchain is going to come into the banking world. You'll see some of the bigger banks embrace it – certainly they already have, but you'll start to see a little more publicity around what they're doing – and it will become very apparent in the next twelve months."

Schulman says that while community banks and credit unions won't necessarily need to try and dive into the deep end of blockchain in 2019 – fortunately, since few have the resources or expertise to truly do so – they are going to have to start confronting the notion of how the technology may change the economics and profitability of their business.

"Blockchain is a technology that really implements a business process, but more importantly it's going to change some of the financial dynamics of a bank," he explains. "So as you look at the ability to improve the wire transfer process or the overall clearing of transactions or how payments are processed or even recording mortgages and consolidating those tranches, you'll see the larger banks start to embrace this technology. And so it isn't that some of the smaller institutions need to go out and implement it, but they do need to think about whether the profits they're making from some of these services are going to be impacted by the ability of their competitors to suddenly do things more efficiently. In the short term, say the next two years, I don't necessarily think we're going to see a lot of community institutions jumping into this, but I do think they should start looking at the potential impact to their bottom line as regionals and bigger banks embrace the technology."

Schulman also stresses, however, that community institutions needn't view blockchain simply as a threat. As they start to get more familiar with how the technology works and the many ways in which it can be used to share information and increase efficiencies, they're likely to see new opportunities emerge as well.

"I think universally the financial services industry is going to feel disruption from this technology, but I also think they're going to see opportunity, as a lot of this information from other areas and other industries that they can use will now be on the blockchain," he says. "So community institutions need to think about what they're going to do, and especially work with their service providers and technology providers to determine how they're going to maintain their competitiveness in the face of this new technology."

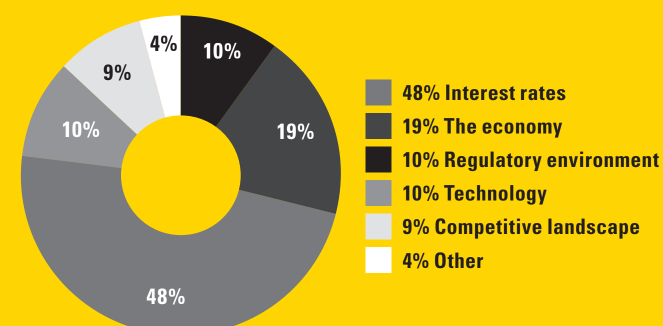
MEMBER VIEWPOINT:

THE BIGGEST STORY OF 2019

The ten individuals we surveyed for the biggest story of 2019 weren't the only ones with an opinion on the topic, of course. We also threw the question out to FMS members in a recent Quick Poll to find out where they expect the most impactful story of the upcoming year to originate.

Among the nearly 70 responses we received – 84% from members representing banks/thrifts and 16% from credit unions, with over three-quarters coming from institutions between $200 million and $2.49 billion in asset size – most will be keeping their eyes on the unfolding and ever-changing interest rate (48%) and broader economic (19%) pictures. Elsewhere, 10% of respondents expect the biggest story of 2019 to involve technology, another 10% believe the regulatory environment will be the most significant area and 9% think the competitive landscape will dominate the industry news cycle. Among those respondents who believed the biggest story would come from somewhere outside of these five main areas, several cited CECL preparedness as their "other" of choice.

FROM WHICH TOPICAL AREA WITH THE MOST IMPACTFUL STORY FOR BANKS AND CREDIT UNIONS COME IN 2019?



The range of speculation in a follow-up question about the one big story that would come out of the above topical areas was impressive, with a wide array of potential headline-grabbers from which to choose. Among the most common suggestions were the prospects for a flattening yield curve, margin compression and an economic recession. Several members chose to venture outside of this trio, however, indicating concern for 2019 with respect to topics such as data breaches, fintech competition and increasing M&A activity. ▪

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