



TexasBankers
Association
Strong Banks. Stronger Communities.

FUTURE OF BANKING TASK FORCE

**SUMMARY OF
INITIAL FINDINGS AND
RECOMMENDATIONS
MAY 2019**

INTRODUCTION

When delegate-bankers assembled for the founding convention of the Texas Bankers Association in July of 1885, Col. Henry Exall pronounced that the state's banking community was "intimately and indissolubly connected with every legitimate enterprise" in the Lone Star State. Col. Exall's statement regarding the interdependence of a sound banking industry and the future of a thriving Texas remains as true today as it was 135 years ago. But he could not have imagined the internet, mobile devices, and other modern applications that are so much a part of our contemporary world.

As the third decade of the 21st Century approaches, there is no escaping the fact that technology is driving societal and business change at an unprecedented pace. Thanks in no small part to our banks, Texas is now a Top 10 economy on the planet. This presents both incredible opportunity as well as evolving challenges for our community banks.

Customer expectations for immediacy, access, and convenience in their banking experience intersect with contemporary risk. Threats can materialize in an instant atop a complex competitive and regulatory landscape for banks. In this environment, a proactive approach to mitigating these risks is critical.

The TBA Future of Banking Task Force was established to ensure that Texas community institutions have the information, tools and resources to remain competitive and to succeed. Composed of a diverse group of Texas community bankers

across a range of bank roles, the Task Force has met since October of 2018 to holistically consider issues that will impact Texas community banks over the next three-to-five years. This document is the first in a series of documents to summarize initial Task Force findings in the following subject areas:

- Fintech and the Customer Experience
- Bank IT and Marketing Coordination
- Core Provider Relationship Modernization
- Enhancements to Cybersecurity Maturity
- Focus on Succession Issues

Over its long history, TBA has helped its members navigate war and depression as well as peace, prosperity, and social transformation. TBA members have never hesitated to lead the way and to innovate to help its members evolve and to compete.

TBA remains strongly optimistic about the future of community banking. This optimism is fueled by profound belief in personal service to our communities and customers; peer-to-peer engagement deeply rooted in respect and fellowship, and; professional pride in the ability of Texas bankers to lead and succeed. This is the heritage of TBA. And this is our future.

Many thanks to each member of the Future of Banking Task Force for their important work to-date and for the deliberations the Task Force will continue in the months ahead.



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- Dr. Marci Armstrong, *Professor, Cox School of Business, Southern Methodist University*
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- Beth Knickerbocker, *Chief Innovation Officer, Office of the Comptroller of the Currency*
- Rob Morgan, *Vice President of Emerging Technologies, American Bankers Association*
- *Jonathan Price, Senior Vice President, Q2*
- Hank Seale, *Founder and Chairman, Q2*
- John Waupsh, *Chief Innovation Officer, Kasasa, and Author of Bankruptcy: How Community Banks Can Survive Fintech*

GENERAL TRENDS

The Information Age is transforming the community banking marketplace. While the tech-savvy Millennial Generation (born 1981-1996) is widely perceived as the dominant market of the future, it has, in fact, already bypassed Generation X (born 1965-1980) and assumed market prominence in the desirable 18-to-45 year old buying demographic. Generation Z (born post-1995) is rapidly rising.

But these facts tell only part of the story. Technology adoption rates across all demographic groups is surprisingly high and growing.

A survey conducted by the Pew Research Center in 2018 shows that the technology adoption gap between Millennials and the Baby Boomer generation (born 1945-1964) is not as wide as many might expect.

What this data reveals is that the need for convenient, tech-enabled services are important for customers in every age group today and will be even more so in the future

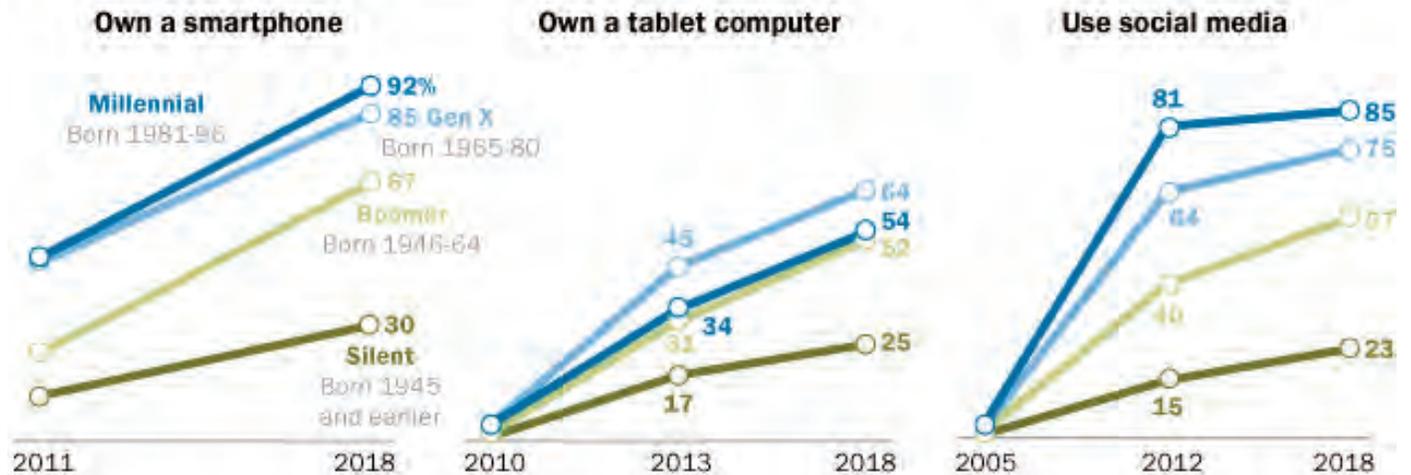
Additionally, this explains why non-traditional actors (e.g. technology firms) are seeking to be disruptors in the space traditionally occupied by banks.

However, no technology can replicate the highly personalized service and civic engagement for which Texas community banks are known. And when community banks combine this advantage with tech-enabled capabilities, there are unique opportunities for success.

The initial Task Force findings and recommendations contained in this summary are intended to help TBA members on a peer-to-peer basis evaluate their position in this dynamic environment as well as highlight emergent, near-term issues with potential to impact the future of community banks.

Millennials lead on some technology adoption measures, but Boomers and Gen Xers are also heavy adopters

% of U.S. adults in each generation who say they ...



Source: Survey conducted Jan. 3-10, 2018. Trend data are from previous Pew Research Center surveys.

PEW RESEARCH CENTER

KEY TASK FORCE OBSERVATIONS AND RECOMMENDATIONS

FINTECH AND THE CUSTOMER EXPERIENCE

Are Financial Technology firms (Fintechs) partners or competitors to community banks? The answer is that they can be both. But, all Fintechs are not the same.

Some Fintechs desire to become banks themselves. They believe that can deliver banking services with greater speed and efficiency. Currently the Office of the Comptroller of the Currency is considering granting a federal bank charter to at least one and possibly several other Fintech organizations. How the OCC ultimately approaches such activity has led to concerns from many community banks as well as the Council of State Bank Supervisors (CSBS).

The bottom-line is this: The TBA Future of Banking Task Force strongly believes that the playing field should be level. Any entity desiring a bank charter of any kind **must** be subject to the same regulatory requirements as banks.

Other Fintechs, however, seek to help banks by enabling and strengthening their ability to improve the customer experience. These firms are viewed by the Future of Banking Task Force as critical community bank partners in the years to come.

It is clear, as described in the previous section, that customers are increasingly dependent on technology and it has changed their expectations. In this regard, there is an urgent need for meta-learning about fintech expansion for community banks and their boards of directors to better understand customer expectations and to establish healthy relationships with technology providers. Meanwhile, there is also recognition that banks possess significant data that could help them better target solutions for their customers.

The effective integration of technology with community banking services and personal service requires careful planning rather than a “patchwork” approach. A customer-needs assessment followed by a technology investment and implementation roadmap can help banks effectively deploy capabilities to enhance the customer experience over time and within appropriate budget parameters. Many Texas community banks are already taking this approach and it will make them more responsive to customer needs and more competitive in the marketplace.

WHAT COMMUNITY BANKS CAN DO

- Recognize the need to partner with Fintech firms that do not wish to compete with community banks.
- Regularly include discussions of change, customer expectations and specific steps to meet those expectations in executive and board meeting agendas.
- Create an internal board advisory task force to craft a board plan the builds awareness of the resources available about the future of banking environment, cyber statistics and more.
- Negotiate with core processors to offer customer facing mobile solutions.
- Explore customer relationship systems to more effectively utilize data.

WHAT TBA CAN DO

- Closely monitor activities by regulators that may lead to the chartering of Fintechs.
- Advocate that Fintechs and other non-bank actors should not be granted bank charters without meeting the same regulatory requirements as community banks.
- Facilitate regular member engagements with a range of Fintech providers to expose community banks to technologies and capabilities that enrich the community bank customer experience.
- Offer data analytic workshops and concurrent sessions so members could learn ways to use their customer data effectively.
- Solicit and distribute community bank case studies for peer-to-peer sharing of leading practices.
- Provide members a technology customer needs assessment and road map template with sample questions for bankers to ask themselves and their boards.
- Build and promote an ongoing, curated “futures” reading list and resource library available on TBA’s website and other platforms.

KEY TASK FORCE OBSERVATIONS AND RECOMMENDATIONS

BANK IT AND MARKETING COORDINATION

If the promise of the tech-enabled customer experience is to be maximized by community banks, the effective coordination of information technology and marketing components must be aligned. The Task Force calls out this issue specifically as these functions not only have different primary functions, the verticals that lead these efforts are often culturally different. IT security sees its role as protecting the bank and its customers — a defensive posture. The role of Marketing is to grow bank business by emphasizing access, speed, and convenience for customers — an offensive bearing. Banks operate at this intersection of opportunity and risk.

WHAT COMMUNITY BANKS CAN DO

- Encourage IT and Marketing managers to understand respective roles and responsibilities to include understanding applicable regulatory requirements.
- Develop the bank Fintech technology investment roadmap as a collaboration between IT and Marketing. This team approach will allow bank leaders to deliver on customer expectations for security and reliability as well as for speed and convenience.

WHAT TBA CAN DO

- Collect and distribute leading practices of banks that have successfully aligned IT and Marketing capabilities.

CORE PROVIDERS

The Task Force determined that a significant number of banks report relationship concerns with the largest of core processors that stymie their ability to offer innovative products and services.

Non-bank actors and under-regulated entities continue to rapidly inject themselves into services traditionally delivered by banks. This dynamic is contesting typical business models — especially for community banks that often lack the personnel and financial resources of larger institutions. Further, as competition increases, the lifespan of technology is now often measured in months and security threats to bank platforms can have an impact defined in seconds.

Community banks recognize the need for greater speed, flexibility and integration with core provider services. Task Force members have identified three primary areas of concern that relate directly to Texas community bank relationships with core providers:

1. **Lack of Open APIs (Application Programming Interfaces).** Banks seek to add customer facing innovations to meet market and competitive demands. Restrictive API policies can lock community banks into core-specific technologies rather than enabling expansion to new platforms based on customer needs. Even if the core can deploy a new innovation, excessive implementation fees may be assessed, and it makes the offering of the new innovation cost-prohibitive.
2. **Access to Customer Data.** Banks seek improved access to their customer data. Banks need the ability to work with core providers to nimbly drill into data analytics without incurring excessive fees when utilizing their own data.
3. **Contract Reform.** Banks seek reforms to standard agreements, providing for greater flexibility, transparency, and less complexity in agreement language.

WHAT COMMUNITY BANKS CAN DO

- Assess current core provider pain points that are impeding innovation and increasing costs.
- Thoroughly review contract language for clauses that may “lock” the bank into inflexible terms.
- Communicate to current core providers specific contract concerns and request appropriate changes.
- Ensure that contract renewals be mutually beneficial to include outcome-based expectations for the core provider.
- Consider changing core providers should the current core provider remain inflexible.

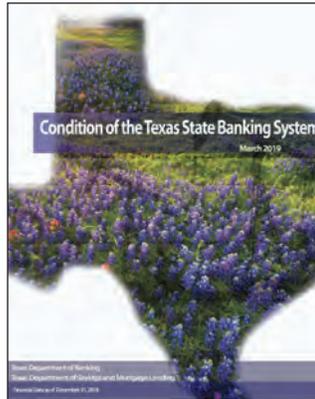
WHAT TBA CAN DO

- Send a letter to the three largest core processors to share the bankers’ concerns and to request a positive and collaborative dialogue.
- Align TBA efforts with initiatives of the ABA and other affiliate organizations that are seeking core relationship modernization.
- Evaluate how TBA might support new core technologies that support open APIs and more equitable customer-vendor arrangements.

KEY TASK FORCE OBSERVATIONS AND RECOMMENDATIONS

ENHANCEMENT OF CYBERSECURITY MATURITY

As noted in the latest *Condition of the Texas State Banking System report*, the top concern of both regulators and the bankers they have surveyed is cybersecurity. The Texas Department of Banking and Texas Department of Saving and Mortgage Lending have been assessing cyber risk profiles of their regulated banks since 2016.



Federal regulators, likewise, certainly consider cybersecurity a top area of concern. The Cyber Assessment Tool (CAT) promulgated by the Federal Financial Institutions Examination Council (FFIEC) is a mainstay in the evaluation of bank cyber risk.

Across economic sectors, many CEOs and senior executives began their careers before the ascendancy of the internet and digital commerce. These leaders were not trained in cyber risk management and many high-profile breaches exposed this knowledge gap.

This gap has been closed significantly in recent years, particularly in banking where the Gramm-Leach-Bliley Act requires banks to protect data and safeguard customer privacy in ways that other sectors do not. But while cyber risk management awareness is high, an intense focus must be placed on achieving greater cyber maturity through the utilization of paradigms that indicate advancement and continuous improvement of cybersecurity programs. As Texas Banking Commissioner Charles Cooper has stated: “Cybersecurity is often thought of as a project that needs to be completed rather than a process that needs constant attention and updating.”



WHAT COMMUNITY BANKS CAN DO

- Banks can task future-focused advisory teams to provide valuable insights and recommendations on cyber security, customer engagement, digital marketing, technology, etc.
- Banks should consider filling board vacancies with at least one individual with expertise in information security and data protection to support more informed cybersecurity discussions at the board level. Another option is to enable a current board member to take a cyber risk oversight training course to help raise the overall cyber IQ of the board of directors.
- Banks should consider leveraging executive team meetings as opportunities to conduct table-top exercises (drills) involving senior leaders to practice cyber incident response and to establish clear lines of responsibility across bank operations; to identify coordination gaps, and; to discuss plans and processes for customer and regulator cyber incident notification.
- As a guide, member community banks may utilize the *2019 Texas Incident Response Playbook*. This document developed by TBA, along with the Financial Services Information Sharing and Analysis Center (FS-ISAC), the American Bankers Association and the ABA-State Association Alliance, includes helpful information on what to do before, during and following a cyber incident.



WHAT TBA CAN DO

- Support industry-wide enhancements to community bank cyber maturity by considering development of user-friendly tools that layer recognized standards and frameworks (e.g. FFIEC CAT and NIST Cybersecurity Framework) to put cybersecurity into a manageable, non-technical context enabling stronger collaboration between bank leaders and IT managers.

KEY TASK FORCE OBSERVATIONS AND RECOMMENDATIONS

FOCUS ON SUCCESSION PLANNING

While technology receives a great deal of attention, addressing the human elements of community banking are most important to ensuring the future of the industry in Texas. The loss of key employees to retirement, illness, death or for other reasons presents the potential for serious disruption for community banks—especially those with limited staff. When the experience of a valuable leader or critical employee departs the bank (e.g. the retirement of a CEO or compliance officer), there can be serious implications across bank operations. For family-owned banks, succession can pose an existential dilemma when the next generation opts-out of banking as a career. Therefore, a lack of effective succession planning can be a contributing factor to bank consolidation.

Succession is a topic that is not just an internal concern. Regulators pay close attention to the impact of bank succession issues from a safety and soundness perspective. Further, discussion of the topic can be uncomfortable to initiate due to sensitivities from a Human Resources (HR) perspective.

Succession is also a board level concern. Demographic and skill-set diversity is critical to identifying new board members to fill vacancies and to expanding board expertise to reflect both community, customer, and regulatory needs.

Once in place, bank board members must provide effective oversight of succession as a management priority.

WHAT COMMUNITY BANKS CAN DO

- Recognize and evaluate succession as a top-tier issue across the bank organization, not just for C-Suite positions.
- Set firm internal timetables for the review and updating of succession plans.
- Include questions about employee retirement plans as a standard part of annual employee reviews to mitigate untimely surprises, successor hiring delays, and HR issues.
- Ensure that the bank board of directors regularly assesses succession matters as ongoing part of their oversight responsibilities.
- Create an advisory panel to the board of directors to bring generational voices to the table. Banks can task these future focused advisory teams to provide valuable insights and recommendations on cybersecurity, customer engagement, digital marketing, technology, etc.

WHAT TBA CAN DO

- Emphasize succession planning as an ongoing concern for the industry and its regulators.
- Ensure the succession planning is a topic in TBA industry forums and workshops. Include community bank succession planning success stories. Invite TBA members to demonstrate how they have navigated board transitions, added new board members, and provided support to the future of banking talent pipeline.



TASK FORCE NEXT STEPS

Community banking cannot afford to be passive in a political and economic climate that moves at digital speed. Either we shape the future of our industry or others will do it for us. Therefore, the Future of Banking Task Force is a permanent fixture for the Texas Bankers Association.

As a member-driven body, the Task Force will help to empower Texas community banks to proactively inform TBA policy positions and advocacy priorities, products and services as well as training and educational offerings.

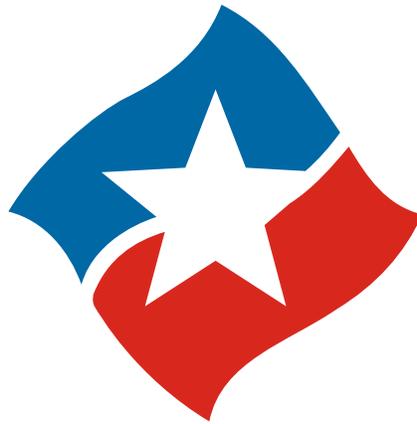
Following the 2019 TBA Annual Convention, the Task Force will resume deliberations to include developing more detailed findings in the areas of Fintech integration and core relationships. Meanwhile, the enhancement of community bank cybersecurity will remain fundamental to the work of the Task Force.

What else is next for the Task Force? Several issues have been identified:

- **Blockchain:** Does it have a future in community banking?
- **Artificial Intelligence (AI):** How will the use of AI further impact the bank customer experience as well as the data privacy responsibilities of community banks?
- **Cryptocurrencies:** What should community banks know about cryptocurrencies? Are their implications for trust organizations managing individual/family crypto assets?
- **The Future of Regulation:** What new regulatory frameworks will emerge in the next 3-to-5 years? How can TBA continue work with regulators to “right-size” regulation for community banks?

Finally, your participation is critical to the work of the Task Force. Contact Mary Lange (mary@texasbankers.com) or Glenda Monroe (glenda@texasbankers.com) at TBA to participate on the Task Force or to recommend topics for consideration.





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