



2024 Community Banking Outlook

Trends and Takeaways
You Need to Know

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Introduction

Amidst an uncertain economic landscape marked by high inflation and rising lending costs, community banks will be compelled to adapt their growth strategies and program offerings in 2024. While the certainty and duration of an economic downturn remain debated, banks face the potential for increased defaults, credit quality deterioration, and deposit outflows. This necessitates a reassessment of profitability, customer service strategies, and digital solutions.

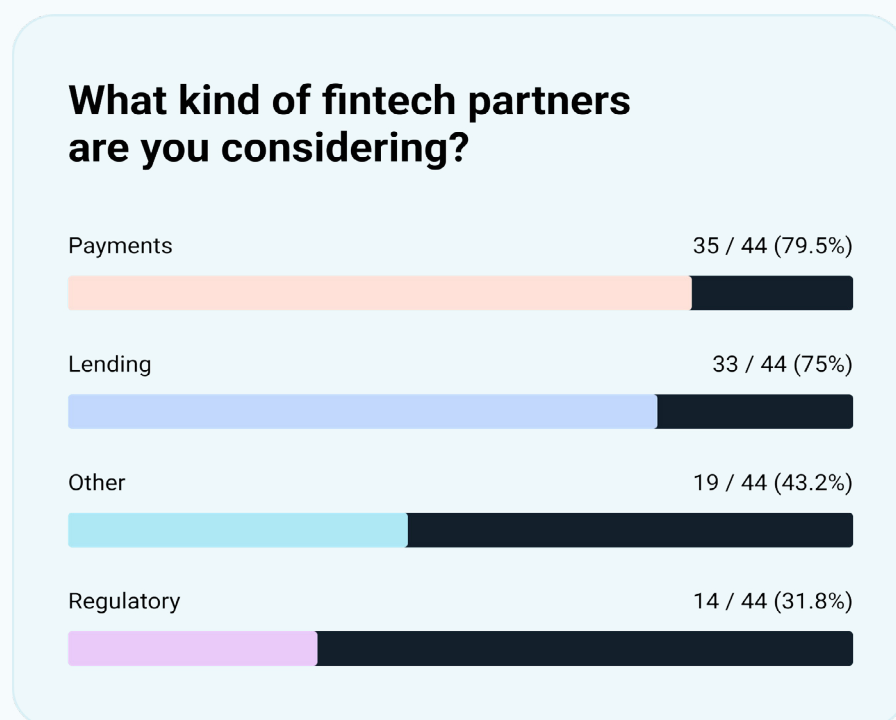
Community banks must proactively meet their customers' needs at the right time and place, leveraging efficient and risk-mitigating strategies. They cannot cater to every customer's preferences; instead, they must focus on understanding their customers' needs, building personalized experiences across digital and interpersonal channels, and developing adaptable multi-channel strategies to navigate an uncertain economy.

In October 2023, Torpago decided to evaluate the current mindset of community banking leaders about the upcoming year. To explore this topic, Torpago conducted an anonymous online survey with 100 community banks and their leaders spread across the United States. We found that leaders were in agreement that focuses for 2024 included leveraging fintech partners, enhancing their program offerings, and improving customer experience.

Chapter 1. The black horse of alliances - community banks and fintechs

Historically, community banks and fintechs have been on parallel journeys seeking similar customers and working against one another. In the last few months, there has been a fundamental mindset shift from the community bank leaders. Now, instead of viewing fintechs as arch nemeses, community banks are considering fintechs as powerful allies on their journey to compete with larger banks. These partnerships offer a win-win scenario, enabling community banks to leverage fintechs' innovative technologies and expertise while maintaining their deep-rooted customer relationships and local market knowledge.

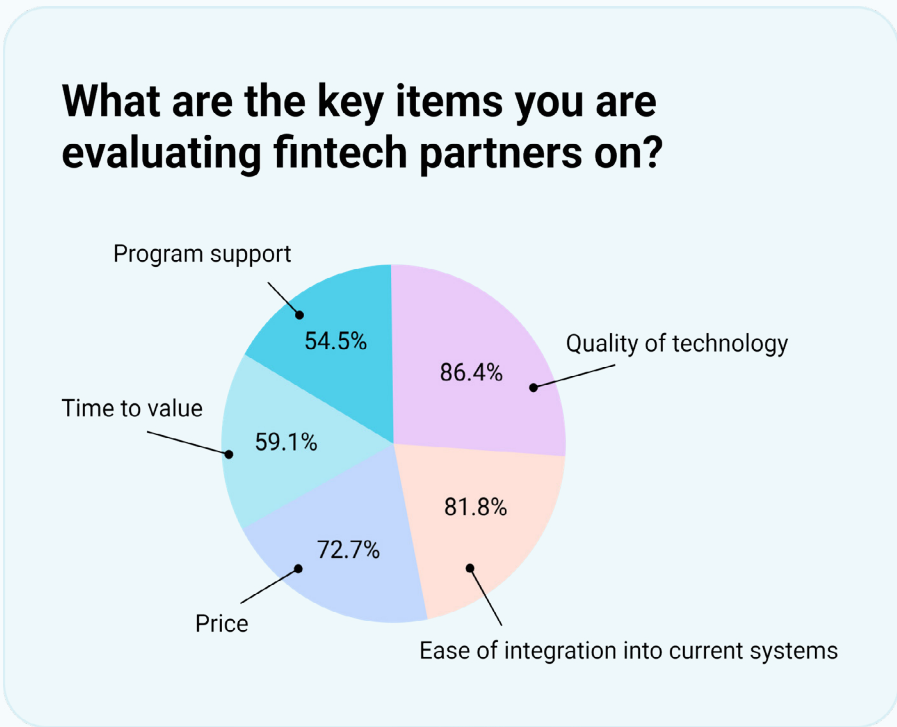
Figure 1



As community banks seek growth opportunities in 2024, payments and lending stand out as the top priorities for fintech partnerships. A resounding 79.5% of respondents expressed interest in payments partnerships, while 75% indicated a desire to collaborate on lending initiatives. This heightened focus on these areas is likely driven by the strong demand for such programs within local consumer and business ecosystems, coupled with the relative ease of scaling these programs.

The path to collaboration between community banks and fintech organizations often begins with referrals and introductions, with 93.2% of respondents citing this method as a primary means of identifying potential partners. Industry events also serve as a valuable platform for fostering connections, with 63.6% of respondents highlighting their importance in making partnership introductions. In addition, the evaluation of potential fintech partners should prioritize the following: technological strength (86.4%), integration capabilities (81.8%), and cost-effectiveness (72.7%).

Figure 2



Chapter 2. Finding growth in customer experience and customer retention

While fintech partnerships have emerged as a dominant theme for community banks in 2024, customer experience and customer retention remain equally critical growth strategies. A resounding 93.2% of respondents indicated a strong commitment to enhancing customer experience, while 88.6% expressed a similar focus on customer retention. These priorities are particularly relevant in the face of an uncertain economic climate, underscoring the need for community banks to strengthen their relationships with existing customers and attract new customers.

Figure 3

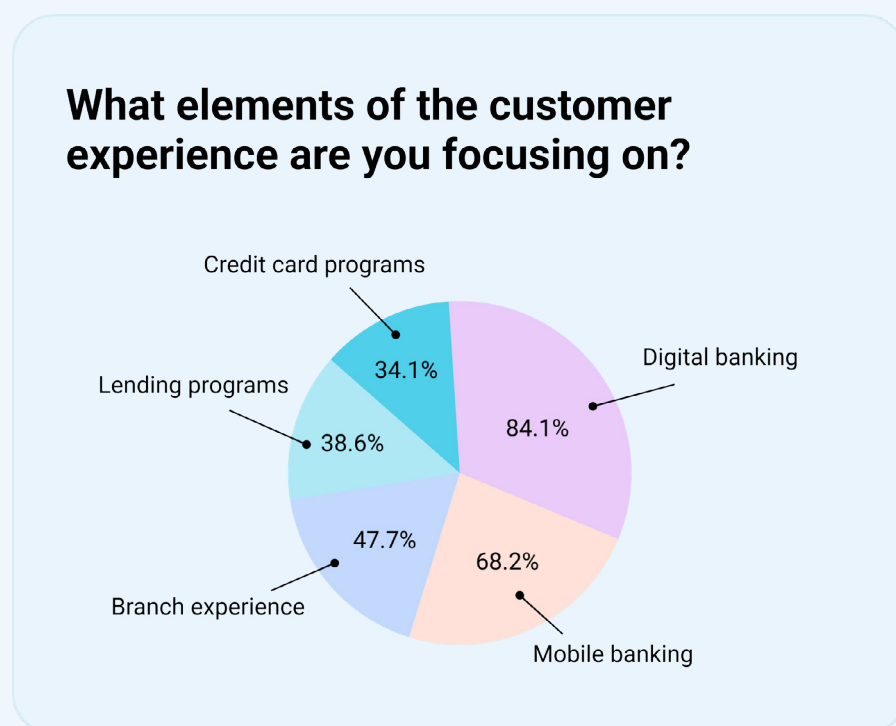
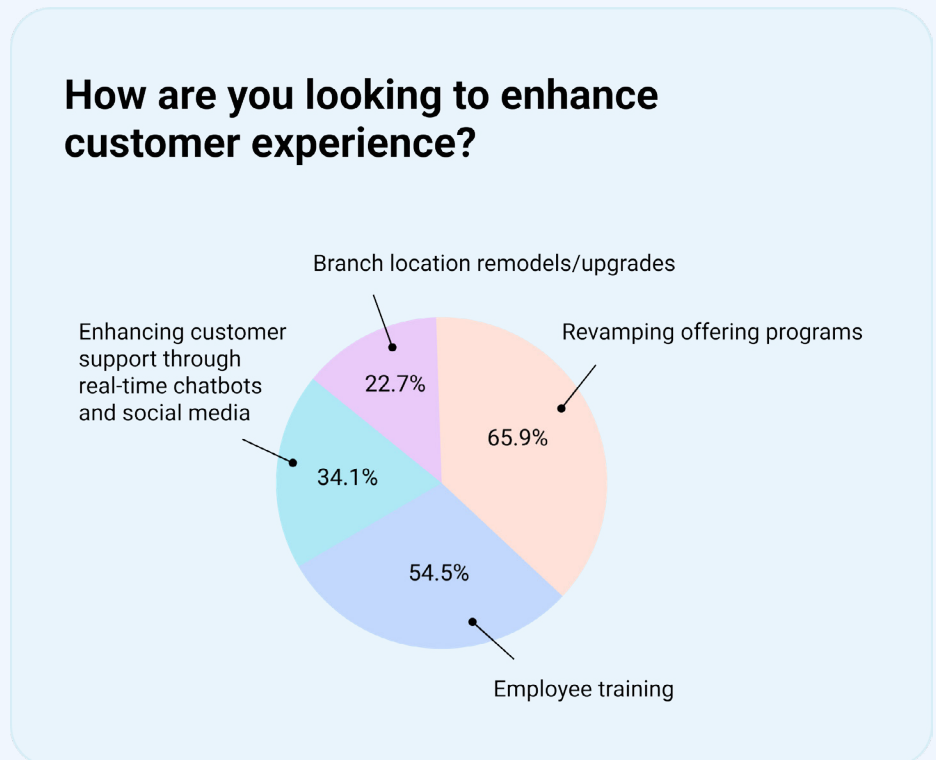


Figure 4



Community banks recognize the significance of delivering exceptional customer experiences, with 93.2% of respondents identifying it as a key focus for 2024. Digital banking (84.1%) and mobile banking (68.2%) emerged as prominent areas for improvement, highlighting the growing demand for seamless digital experiences. Recognizing this trend, community banks are actively revamping program offerings, with 65.9% of respondents indicating this as a priority.

Community banks view customer retention as an integral part of their overall business strategy, with 88.6% of respondents expressing a strong commitment to this area. Enhancing customer experience (50%) and supporting digital payments, tokenization, and experiences (43.2%) emerged as the primary strategies for retaining customers. These strategies align with the ongoing emphasis on digital transformation and a focus on providing value-added services to customers.

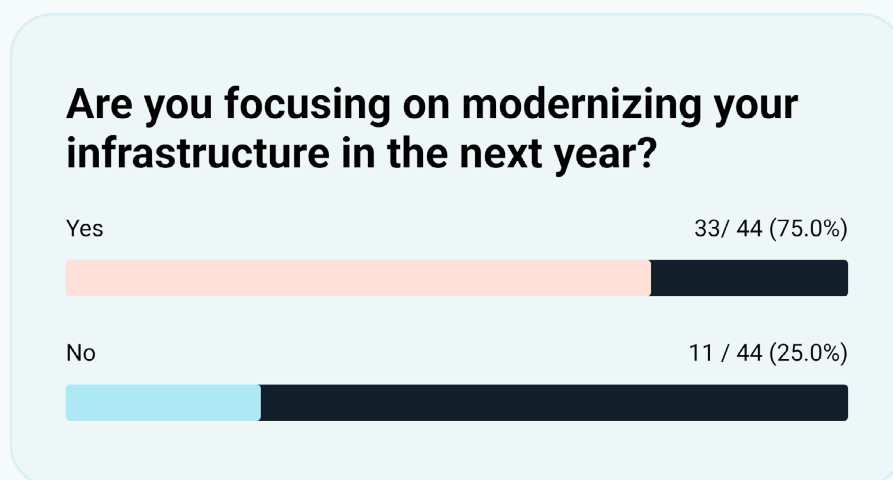
Despite their commitment to customer experience and retention, community banks face several challenges:

- ✦ Limited resources: A staggering 70.5% of respondents cited limited resources as a major roadblock. This highlights the need for community banks to find innovative ways to optimize their operations and allocate resources effectively.
- ✦ Larger regional or national banking institution competitors: Competition from larger financial institutions poses a significant challenge, with 61.4% of respondents citing it as a concern. These institutions often have greater resources and a broader reach, making it difficult for community banks to compete on a level playing field.
- ✦ Digital banking competitors: Digital banking competitors also pose a threat, with 40.9% of respondents citing them as a concern. These competitors often offer innovative digital products and services that can attract customers away from traditional banks.

Chapter 3. Legacy infrastructure is under intense evaluation

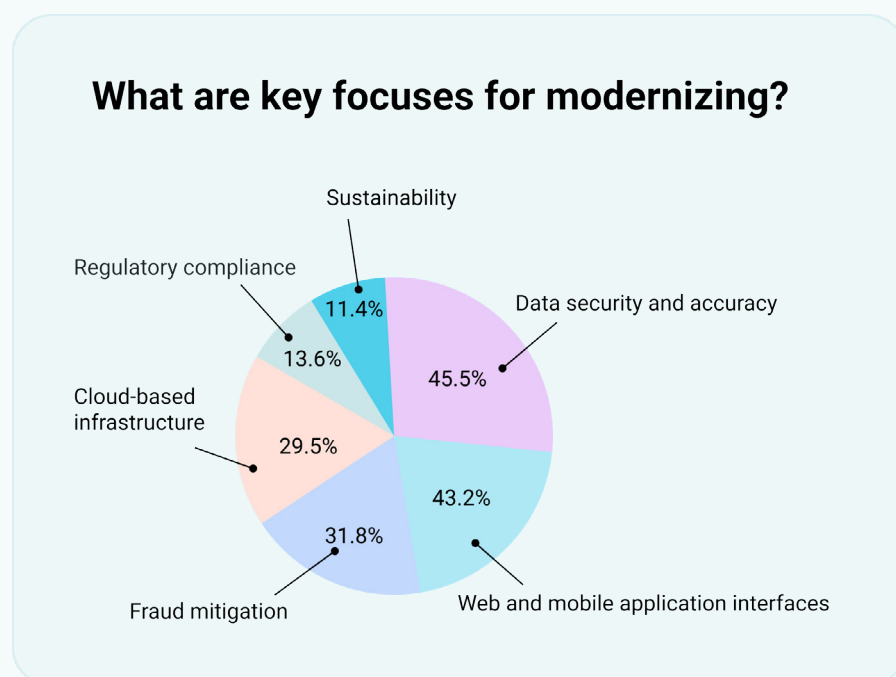
Community banks, like many established financial institutions, have long relied on legacy infrastructure to support their operations. However, the rapid pace of technological advancements and the increasing demands of modern customers have necessitated a reevaluation of this infrastructure. Community bank leaders are recognizing the importance of modernizing their systems to remain competitive and provide a seamless customer experience.

Figure 5



A significant 75% of respondents indicated that infrastructure modernization is a key focus for their community banks in 2024. This heightened focus stems from the realization that legacy systems often lack the flexibility, scalability, and security to meet the demands of the digital age.

Figure 6



When it comes to specific areas for infrastructure modernization, data security and accuracy, along with web and mobile application interfaces, emerged as the top priorities. These areas collectively received an astounding 88.7% of respondents' attention. Community banks recognize that ensuring data integrity and providing a secure and user-friendly digital experience are essential for maintaining customer trust and attracting new clients.

Despite the urgency for infrastructure modernization, community banks face several challenges in their pursuit of this goal. Cost (59.1%) and limited resources (50%) were cited as the most common roadblocks. These constraints often limit community banks' ability to invest in the latest technologies and expertise required for comprehensive modernization. Again pointing to why the theme of 2024 for community banks seems to be fintech partnerships.

Key Recommendations

- ✦ **Fintech partnerships are the pathway forward to remain competitive.** In 2024, community banks should be actively seeking out and engaging with fintech partners to gain access to innovative technologies, expertise, and resources. These partnerships can help community banks modernize their infrastructure, enhance their digital offerings, and improve customer experience, enabling them to remain competitive in the rapidly evolving financial landscape.
- ✦ **Investing in customer experience is no longer allowed to be an afterthought.** Customer experience is no longer a luxury but a necessity for community banks. Banks must invest in strategies to deliver exceptional customer experiences across all channels, including digital, mobile, and in-person interactions. This includes providing seamless and convenient services, offering personalized solutions, and demonstrating responsiveness to customer needs.
- ✦ **Legacy infrastructure requires evaluation and elevation to deliver the required data security and accuracy for both internal uses and compliance regulations.** Community banks need to prioritize evaluating their legacy infrastructure and identifying areas for modernization. This may involve upgrading core banking systems, adopting cloud-based solutions, and implementing enhanced data security measures. Modernizing infrastructure will improve efficiency, enhance security, and enable community banks to keep pace with technological advancements.

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