



# Illinois Department of Financial and Professional Regulation

## Division of Banking

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### **Five Questions for Five Bankers Summary** **Updated 7-11-18**

The Illinois Department of Financial and Professional Regulation (IDFPR) recently participated in the Conference of State Bank Supervisor's "Five Questions for Five Bankers" survey and asked questions to Illinois chartered banks to gauge the state of the industry. Below is a summary of the responses.

#### **The future of the community bank business model**

Illinois community bankers anticipate that the consolidation trend will continue, and the number of smaller community banks will be reduced. Some bankers foresee the continued consolidation of banks under \$1 billion in total assets due to geographic expansion, funding opportunities, asset or fee generation, and ability to gain additional efficiencies. Those bankers also envision the prospect of larger merger deals to increase over time. In contrast to the responses from banks over \$1 billion in assets, those bankers associated with institutions under the \$1 billion size threshold stated that banks that would survive this consolidation trend would be those with a committed ownership structure and commitments to serving their communities. A banker from the Chicago area expressed his commitment to serving his community and customer base by investing heavily in technology and people, which—in turn—will enable his bank to compete with the larger banks in the area. Banks in smaller markets continue to face competitive challenges from online lenders who now compete for business in markets that were traditionally only served by community banks. Another challenge noted by bankers in rural markets is in relation to the allocation of resources to keep abreast of regulatory changes and expectations; attracting younger workers into a community bank business model is particularly challenging.

#### **Tailoring regulation and supervision to the size, risk, and business model of banking firms**

A common theme expressed by bankers revolves around ongoing collaboration and communication amongst regulators and bankers before and during an examination. For example, more structured coordination on communicating bank identified risks to the exam team(s) before a scheduled exam event could potentially reduce onsite examination resources and, in turn, reduce burden. For larger institutions, some bankers suggested examiners rely more on bank developed tools, external loan reviews, and enterprise risk management programs to help achieve examination objectives. One banker suggested that regulators provide more explicit guidance on the roles and responsibilities of the board and management during the supervisory process. For example, reports of examination or examiner conclusions should be more explicit as to who (board or senior management) needs to address issues identified during an examination event.

#### **Small Business Lending**

Bankers associated with institutions over \$1 billion in assets focus on a full suite of products and services beyond lending. These bankers are also continuously reevaluating their underwriting processes and/or automation practices to proportionately accelerate the decision-making process, while—at the

same time—fully evaluating and managing credit risk. Some bankers also emphasized their expertise in SBA lending. Bankers highlighted the value of tailored financial solutions and a commitment to their communities. Taking the time to understand the unique challenges faced by many small businesses goes a long way.

### **Embracing technological advances in banking**

Bankers generally consider innovations in banking technology as an opportunity. Technological innovations in banking are changing the customer's product needs and what customers expect from their banks. A challenge within the realm of technology implementation and banking relates to ensuring appropriate risk management strategies are in place when—for example—new products or services are launched. Some bankers are exploring new way to simplify and expand their payment processing platforms. Smaller community banks stated that technology offers them the ability to serve new customers and, more importantly, retain their younger customer base.

### **Cyberthreats**

Bankers recognized the importance and need for ongoing coordination with the industry, law enforcement and regulators in exercising crisis management response plans to cyberthreats. Bankers have applied high-level approaches to managing risks in this area and consisted of, among other things, third party penetration testing, external and social engineering testing, various tools to monitor suspected activity, employee security awareness testing, and vendor due diligence processes. Bankers also recognized that cyber insurance premiums have increased substantially over the past year.