



2015 Growth Strategy Survey

AUG 2015 | RESEARCH

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EXECUTIVE SUMMARY

Traditional banks, which are typically run by baby boomers and older Gen X'ers, are still trying to figure out the next big generation of consumers.

Sixty percent of bank CEOs and directors responding to Bank Director's 2015 Growth Strategy Survey, which was sponsored by the Vernon Hills, Illinois-based technology firm CDW, indicate that their bank may not be ready to serve millennials, which this year surpassed baby boomers as the largest segment of the population, according to the U.S. Census Bureau. As digital use increases among an increasingly younger customer base, truly understanding and planning for the digital needs and wants of consumers seems to continue to elude bank boards: Seventy percent of bank directors admit that they don't even use their own bank's mobile channel.

Bank Director contacted chief executive officers, chairmen, independent directors and senior executives of U.S. banks with more than \$250 million in assets, to examine industry trends regarding growth, profitability and technology. Responses were collected online and through the mail in May, June and July, from 168 bankers and board members.

Instead of millennials, banks have been finding most of their growth in loans to businesses and commercial real estate, which is their primary focus today. Loan volume was the primary driver of profitability over the past 12 months for the institutions of 88 percent of respondents, and the majority, at 82 percent, expect organic loan originations to drive future growth at their institutions over the next year. Eighty-five percent see opportunities for growth in commercial real estate lending, and 56 percent in commercial & industrial (C&I) lending. Total loans and leases for the nation's banks grew 5.4 percent year over year, to \$8.4 trillion in the first quarter 2015, according to the Federal Deposit Insurance Corp.

Despite the rise of nonbank competitors like Lending Club and Prosper in the consumer lending space, just 35 percent of respondents express concern that these startup companies will syphon loans from traditional banks. Just 6 percent see an opportunity to partner with these firms, and even fewer, 1 percent, currently partner with P2P lenders to expand their bank's portfolio. Few respondents—13 percent—see consumer lending as a leading avenue for loan growth.

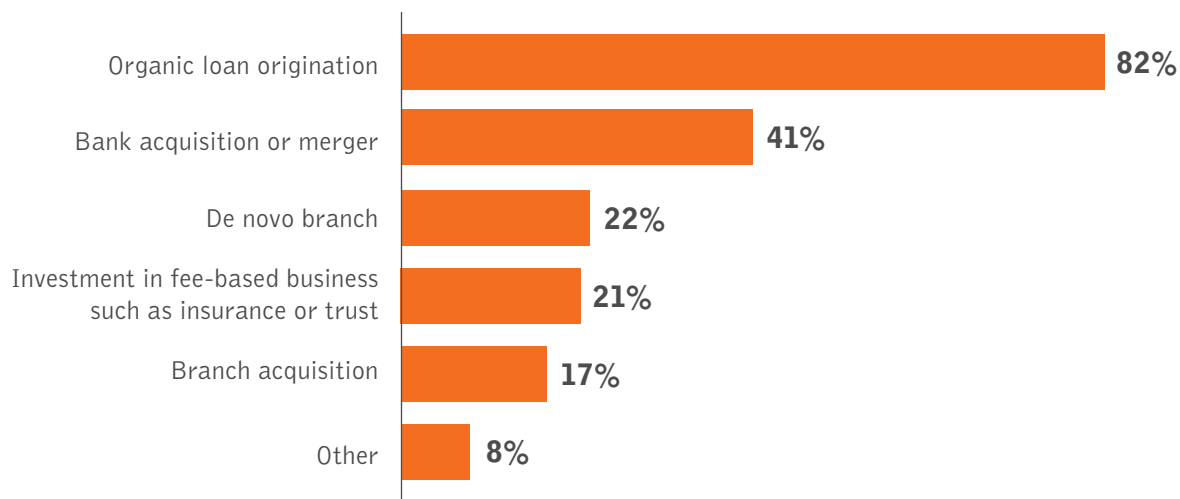
Other Key Findings:

- Forty percent of respondents worry about potential competition from Apple. Just 18 percent indicate their bank offers Apple Pay, with 63 percent adding that they "don't think our bank is ready" to offer the feature to their customers.
- More boards are putting technology on their agendas. Forty-five percent indicate their board discusses technology at every board meeting, up 50 percent since last year's survey. Almost half of respondents say their board has at least one member with a technology background or expertise.
- More than three-quarters indicate plans to invest more in technology within their bank's branch network.
- More than 80 percent of respondents indicate that their bank's mobile offering includes bill pay, remote deposit capture and account history. Less common are features such as peer-to-peer payments, 28 percent, or merchant discounts and deals, 9 percent, which are increasingly offered by nonbank competitors.

GROWTH & PROFITABILITY

1. How does your bank plan to grow within the next 12 months?

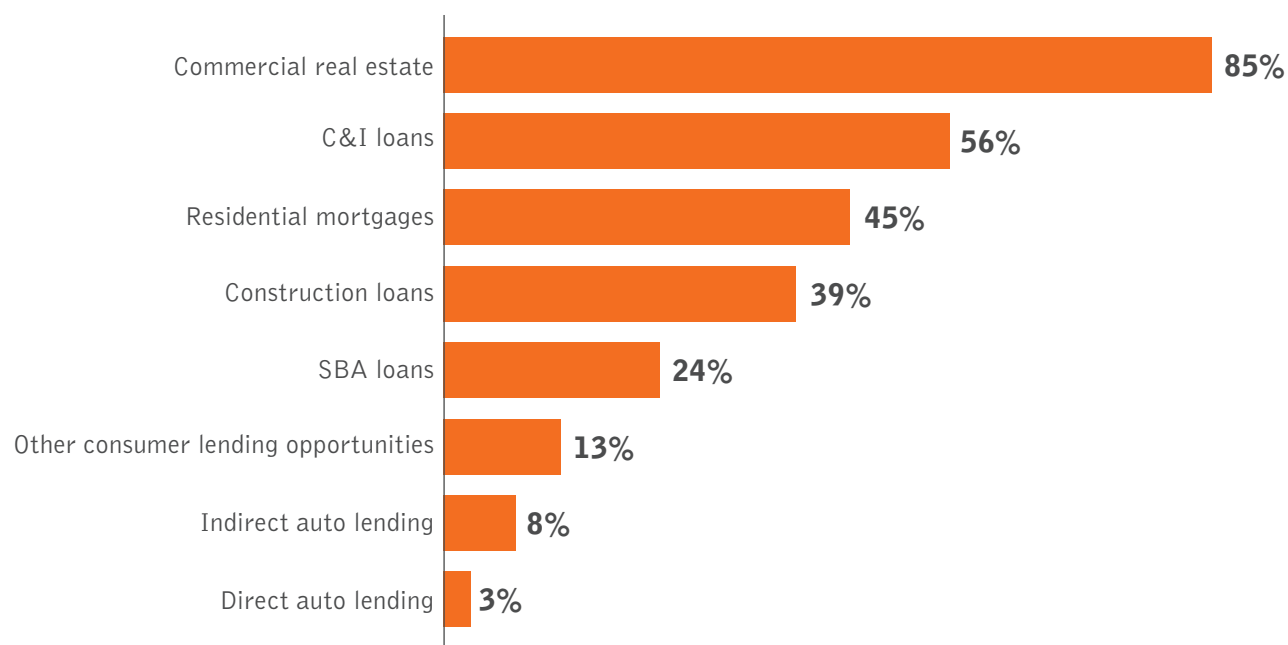
Respondents were asked to select all that apply.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Organic loan origination	64%	81%	80%	84%	90%	82%
Bank acquisition or merger	36%	62%	57%	29%	28%	41%
De novo branch	14%	14%	20%	32%	22%	22%
Investment in fee-based business such as insurance or trust	36%	48%	20%	11%	12%	21%
Branch acquisition	29%	19%	14%	18%	15%	17%
Other	14%	-	9%	3%	15%	8%

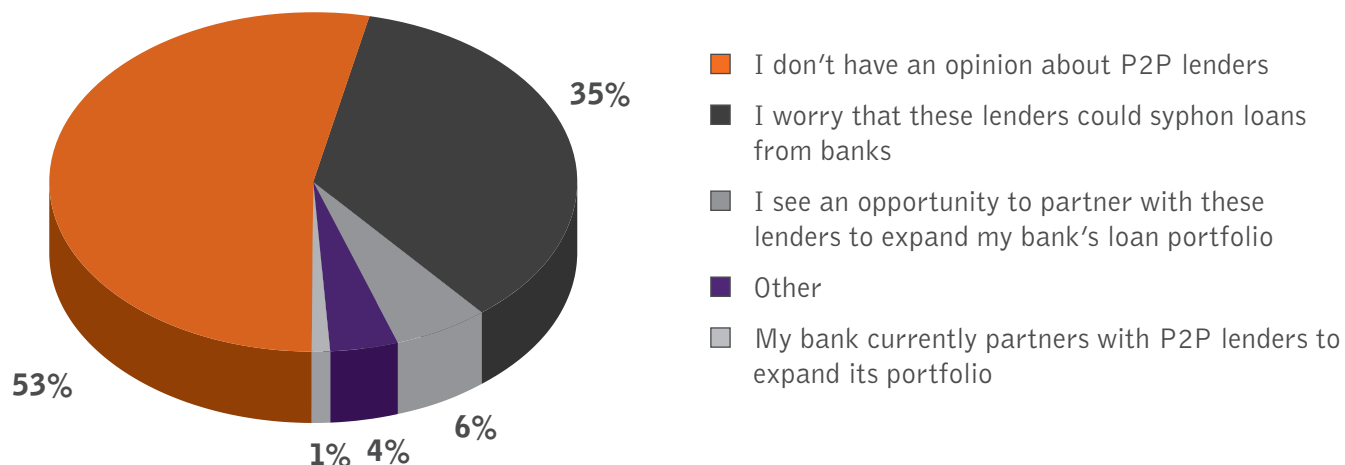
2. Where do you see your three greatest organic loan growth opportunities?

Respondents were asked to select no more than three.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Commercial real estate	54%	90%	86%	85%	90%	85%
C&I loans	46%	38%	77%	49%	54%	56%
Residential mortgages	31%	33%	42%	54%	51%	45%
Construction loans	23%	38%	37%	41%	44%	39%
SBA loans	23%	14%	28%	23%	24%	24%
Other consumer lending opportunities	31%	24%	5%	10%	12%	13%
Indirect auto lending	31%	29%	2%	-	2%	8%
Direct auto lending	15%	-	-	3%	2%	3%

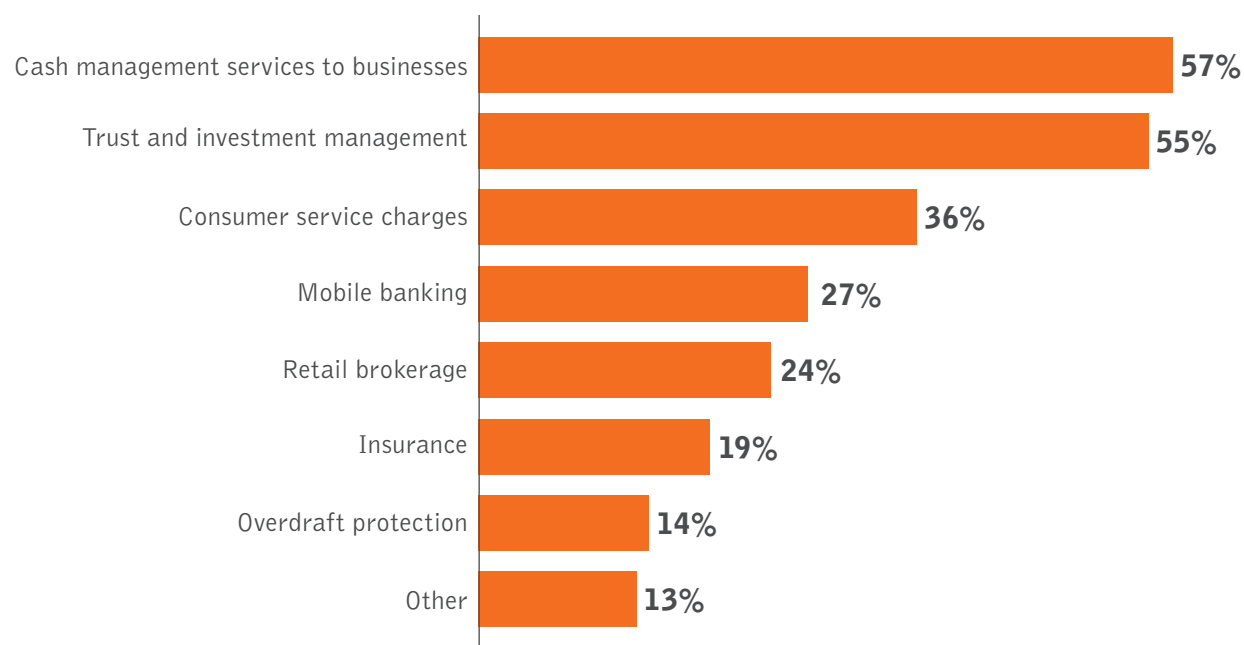
3. How do you feel about competition from nonbank peer-to-peer (P2P) lenders, like Lending Club or Prosper?



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
I don't have an opinion about P2P lenders	54%	48%	55%	64%	45%	53%
I worry that these lenders could syphon loans from banks	23%	38%	36%	26%	45%	35%
I see an opportunity to partner with these lenders to expand my bank's loan portfolio	8%	10%	5%	5%	7%	6%
Other	8%	5%	5%	5%	-	4%
My bank currently partners with P2P lenders to expand its portfolio	8%	-	-	-	2%	1%

4. Where do you see your bank's three greatest fee growth opportunities?

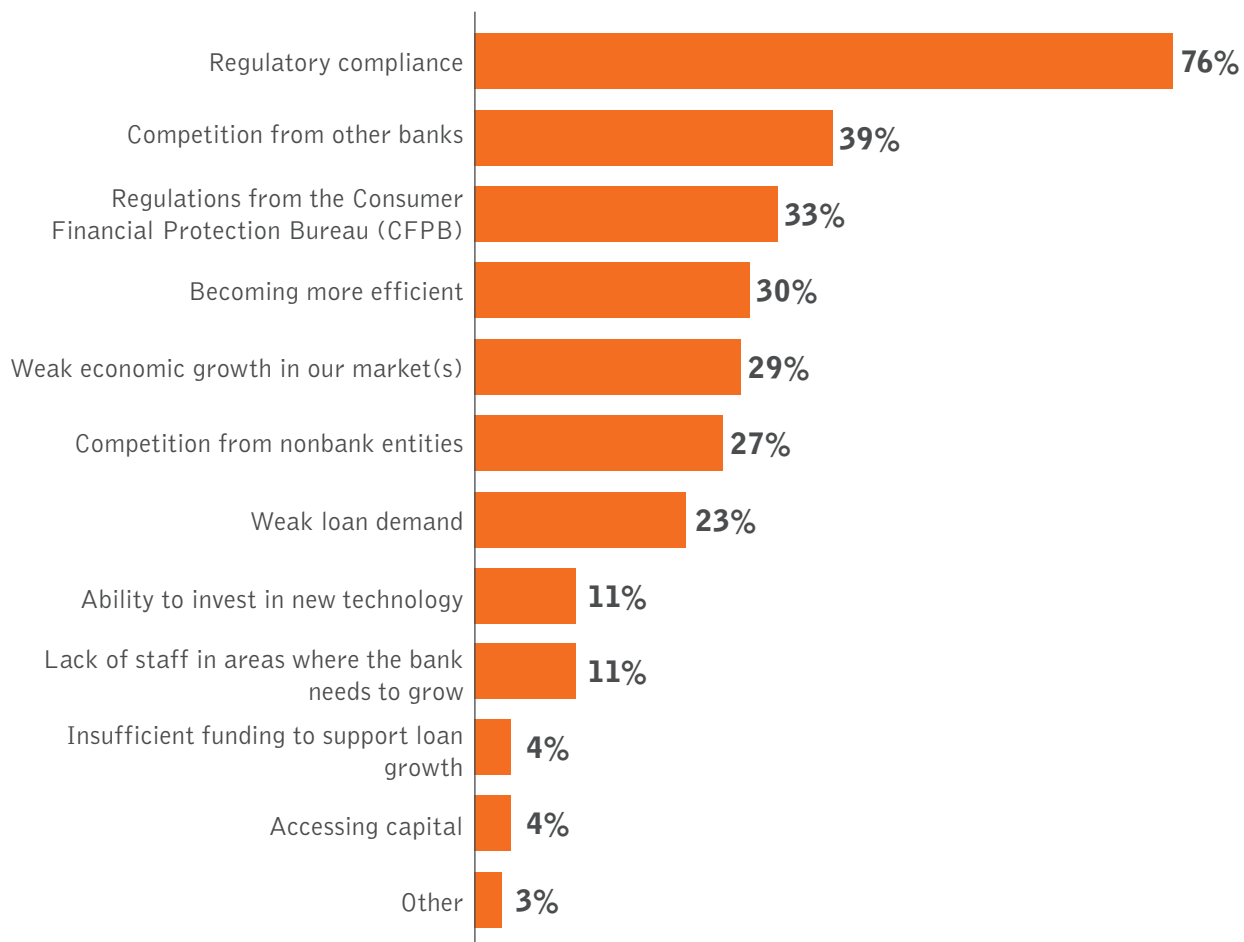
Respondents were asked to select no more than three.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Cash management services to businesses	50%	62%	73%	51%	44%	57%
Trust and investment management	67%	67%	64%	46%	44%	55%
Consumer service charges	25%	29%	32%	38%	46%	36%
Mobile banking	33%	29%	36%	21%	22%	27%
Retail brokerage	33%	19%	27%	13%	29%	24%
Insurance	33%	33%	16%	15%	15%	19%
Overdraft protection	-	19%	5%	23%	17%	14%
Other	8%	-	11%	13%	24%	13%

5. Related to the growth and profitability of your institution, what are your three greatest business concerns about your bank?

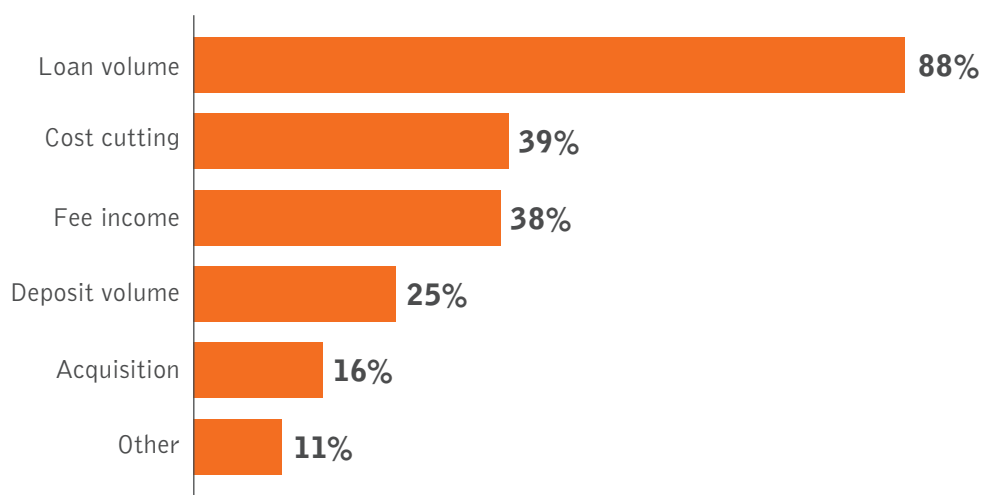
Respondents were asked to select no more than three.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Regulatory compliance	92%	71%	81%	62%	81%	76%
Competition from other banks	50%	38%	49%	26%	38%	39%
Regulations from the Consumer Financial Protection Bureau (CFPB)	33%	19%	30%	33%	43%	33%
Becoming more efficient	17%	48%	33%	33%	19%	30%
Weak economic growth in our market(s)	25%	19%	26%	38%	29%	29%
Competition from nonbank entities	8%	33%	26%	23%	36%	27%
Weak loan demand	-	14%	21%	41%	19%	23%
Ability to invest in new technology	33%	14%	14%	-	10%	11%
Lack of staff in areas where the bank needs to grow	-	19%	2%	18%	12%	11%
Insufficient funding to support loan growth	-	10%	2%	5%	5%	4%
Accessing capital	-	-	7%	3%	5%	4%
Other	8%	5%	-	5%	2%	3%

6. What were the primary drivers of your bank's profitability over the past 12 months?

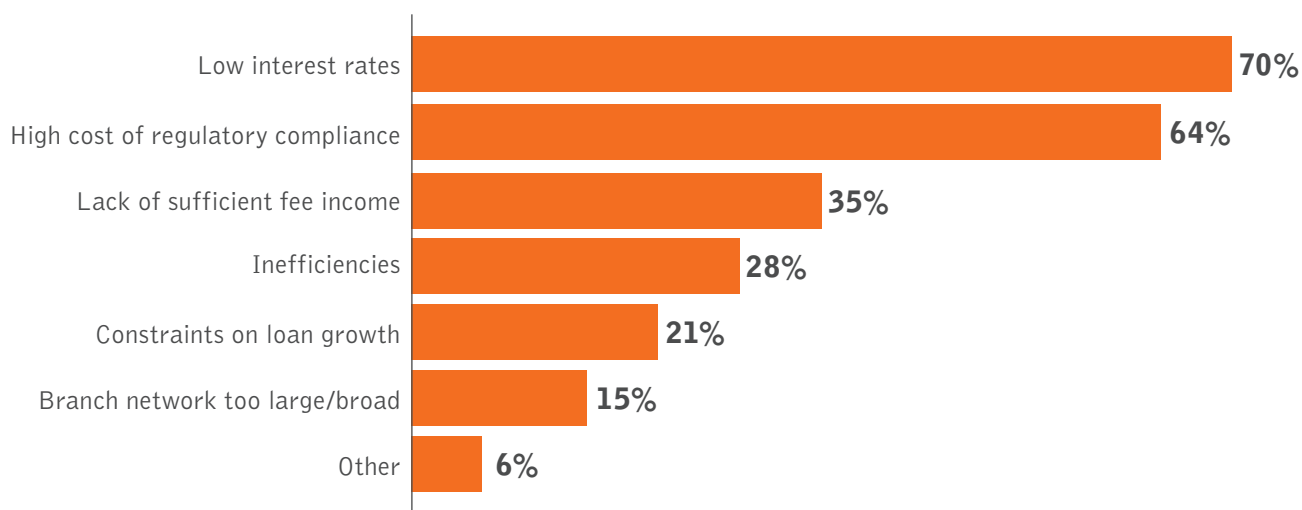
Respondents were asked to select all that apply.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Loan volume	83%	95%	91%	85%	86%	88%
Cost cutting	42%	48%	35%	38%	38%	39%
Fee income	17%	33%	44%	36%	40%	38%
Deposit volume	50%	24%	21%	31%	19%	25%
Acquisition	25%	43%	23%	3%	5%	16%
Other	8%	14%	12%	10%	12%	11%

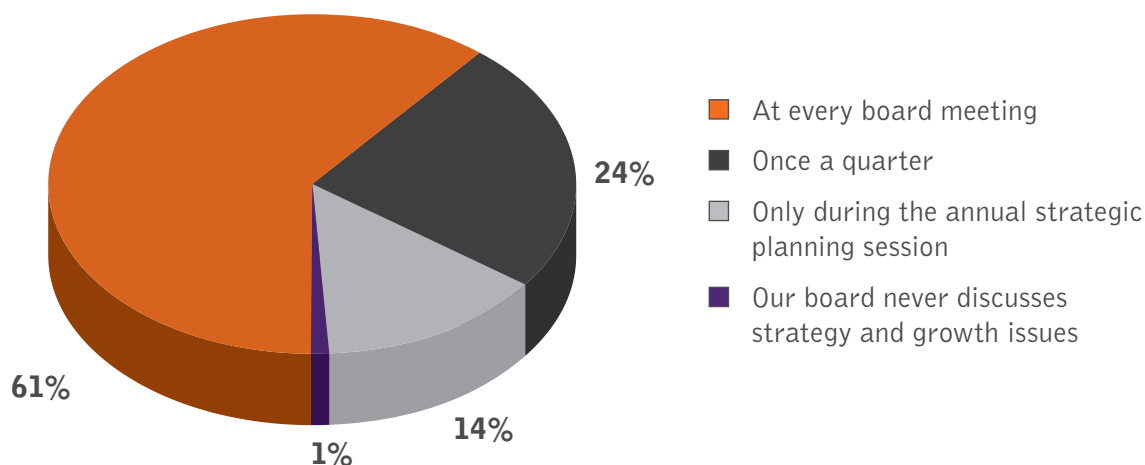
7. Which factors have had the most negative impact on profitability for your institution over the past 12 months?

Respondents were asked to select all that apply.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Low interest rates	64%	86%	81%	56%	66%	70%
High cost of regulatory compliance	82%	67%	51%	56%	78%	64%
Lack of sufficient fee income	18%	24%	44%	33%	37%	35%
Inefficiencies	27%	33%	42%	21%	20%	28%
Constraints on loan growth	18%	19%	19%	21%	27%	21%
Branch network too large/broad	27%	5%	14%	15%	20%	15%
Other	9%	10%	2%	8%	7%	6%

8. How frequently does your board discuss strategy and growth issues?



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
At every board meeting	83%	76%	60%	50%	57%	61%
Once a quarter	17%	24%	17%	32%	26%	24%
Only during the annual strategic planning session	-	-	24%	18%	12%	14%
Our board never discusses strategy and growth issues	-	-	-	-	5%	1%

CONNECTING WITH CONSUMERS

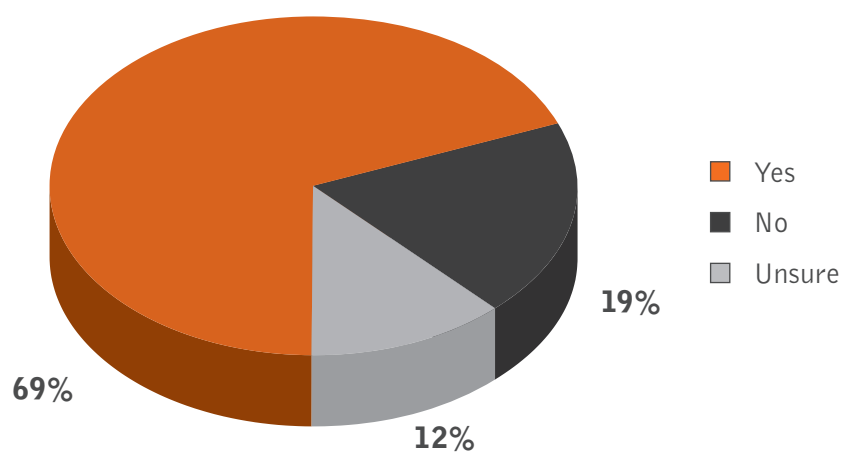
9. Which delivery channels does your bank currently offer?

Respondents were asked to select all that apply.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Online	100%	100%	98%	100%	100%	99%
Branch	83%	100%	100%	97%	98%	97%
Mobile	83%	90%	95%	95%	88%	92%
Other	8%	10%	5%	5%	15%	8%

10. Do you believe that your bank offers an omnichannel experience for its customers (defined as the cohesive use of mobile, online and branch banking channels)?



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Yes	50%	67%	79%	76%	60%	69%
No	33%	14%	14%	13%	29%	19%
Unsure	17%	19%	7%	11%	12%	12%

11. Looking at your institution's branch network in 2015, what are your bank's expectations for the following?

NUMBER OF BRANCHES						
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Increase	45%	19%	37%	31%	26%	31%
Remain the same	9%	33%	37%	54%	52%	43%
Decrease	36%	43%	26%	10%	19%	23%
Unsure	-	5%	-	5%	-	2%
N/A	9%	-	-	-	2%	1%

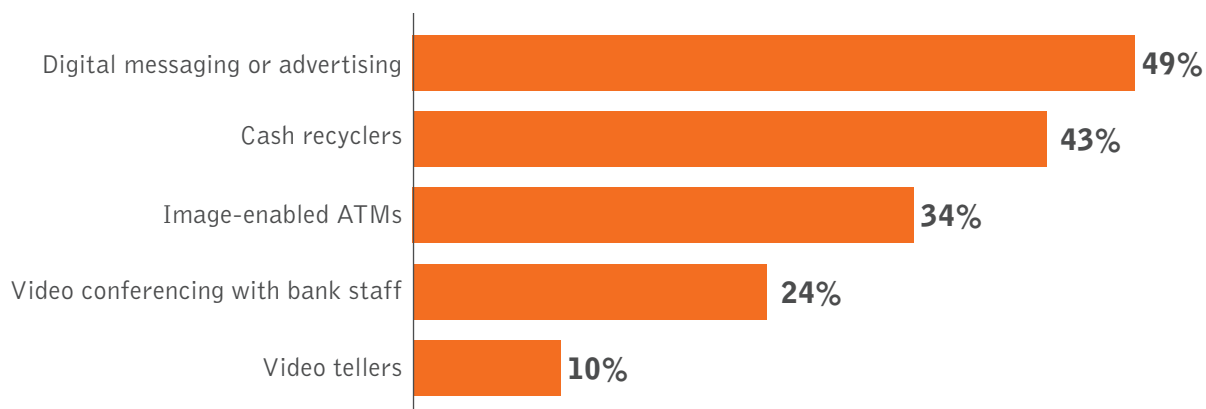
SALES STAFF						
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Increase	58%	45%	64%	51%	41%	52%
Remain the same	33%	45%	33%	46%	46%	42%
Decrease	-	10%	2%	3%	2%	3%
Unsure	-	-	-	-	2%	1%
N/A	8%	-	-	-	7%	3%

TELLER STAFF						
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Increase	9%	10%	21%	10%	7%	12%
Remain the same	27%	25%	29%	62%	55%	44%
Decrease	55%	65%	50%	26%	38%	43%
N/A	9%	-	-	3%	-	1%

TECHNOLOGY INVESTMENT						
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Increase	91%	90%	67%	79%	74%	77%
Remain the same	9%	10%	33%	21%	26%	23%

12. Which technologies does your bank currently offer within its branches?

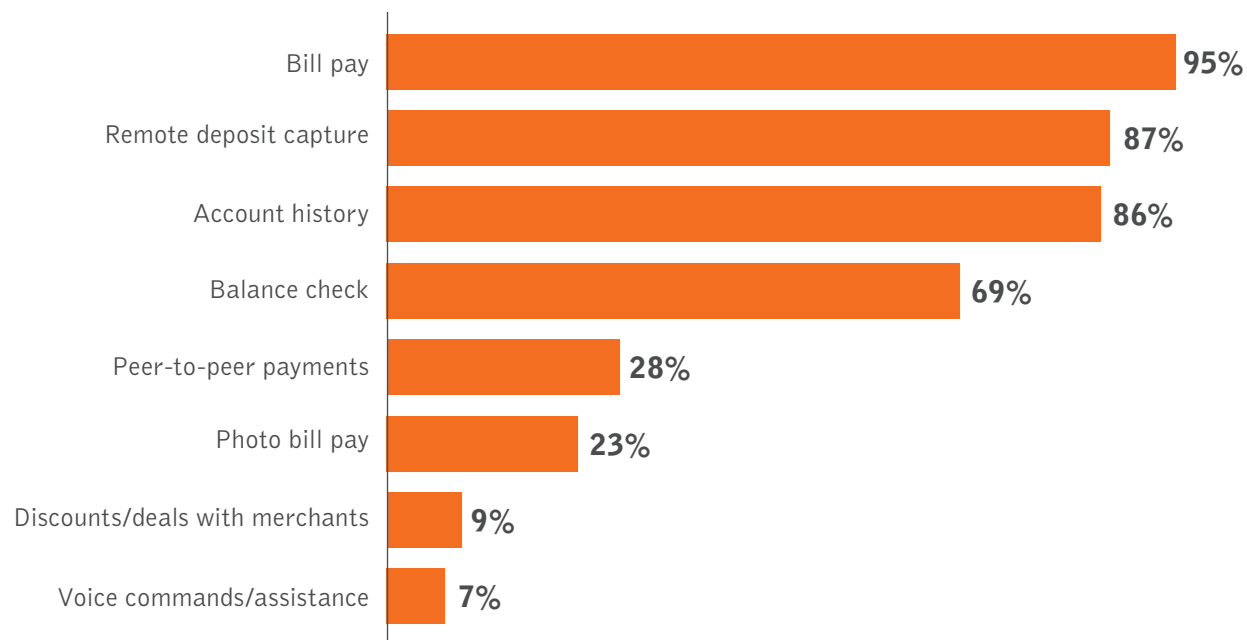
Respondents were asked to select all that apply. Note: Approximately 30 percent of respondents declined to answer this question.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Digital messaging or advertising	42%	79%	33%	43%	58%	49%
Cash recyclers	33%	47%	55%	43%	31%	43%
Image-enabled ATMs	42%	42%	45%	29%	15%	34%
Video conferencing with bank staff	25%	42%	15%	29%	15%	24%
Video tellers	33%	16%	6%	7%	4%	10%

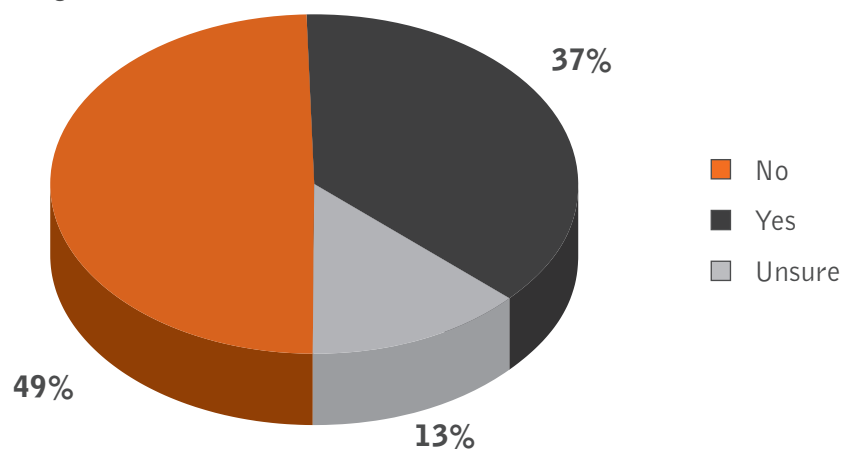
13. Regarding mobile, does your bank offer:

Respondents were asked to select all that apply.



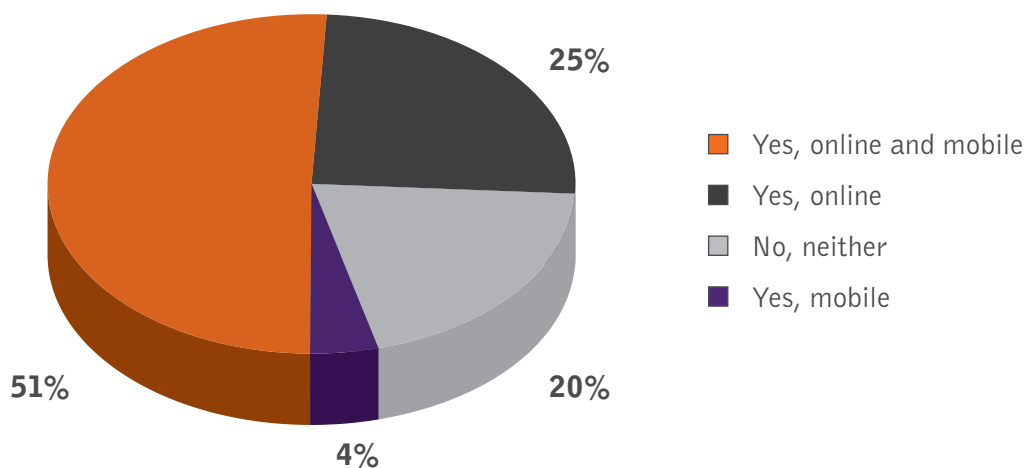
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Bill pay	100%	100%	100%	89%	92%	95%
Remote deposit capture	73%	90%	95%	89%	78%	87%
Account history	91%	95%	88%	82%	84%	86%
Balance check	73%	100%	71%	61%	57%	69%
Peer-to-peer payments	27%	25%	32%	24%	30%	28%
Photo bill pay	9%	40%	27%	18%	19%	23%
Discounts/deals with merchants	18%	10%	5%	11%	8%	9%
Voice commands/assistance	-	10%	10%	3%	8%	7%

14. Does your bank offer personal financial management tools to its customers, through online and/or mobile banking?



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
No	50%	38%	31%	59%	64%	49%
Yes	17%	38%	50%	38%	29%	37%
Unsure	33%	24%	19%	3%	7%	13%

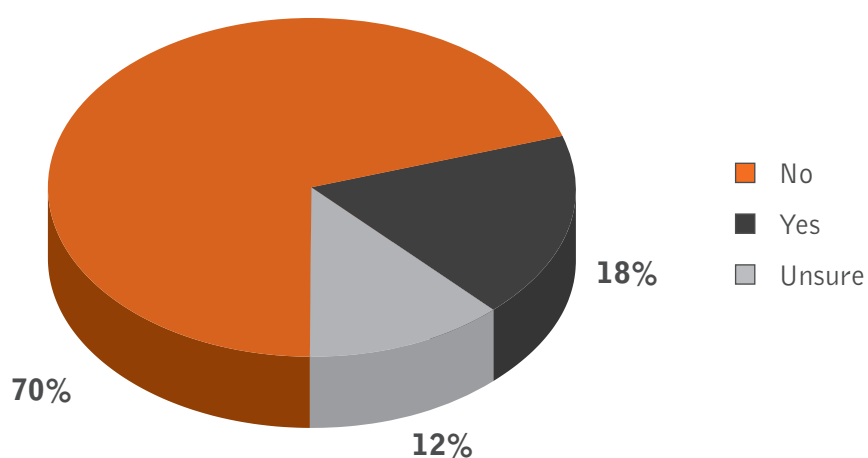
15. Do you personally use your bank's online or mobile banking channels?



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Yes, online and mobile	27%	52%	48%	59%	54%	51%
Yes, online	36%	33%	19%	21%	27%	25%
No, neither	36%	10%	29%	15%	17%	20%
Yes, mobile	-	5%	5%	5%	2%	4%

Title	CEO	Board	Other	Total
Yes, online and mobile	70%	29%	70%	51%
Yes, online	16%	34%	20%	25%
No, neither	8%	36%	-	20%
Yes, mobile	5%	1%	10%	4%

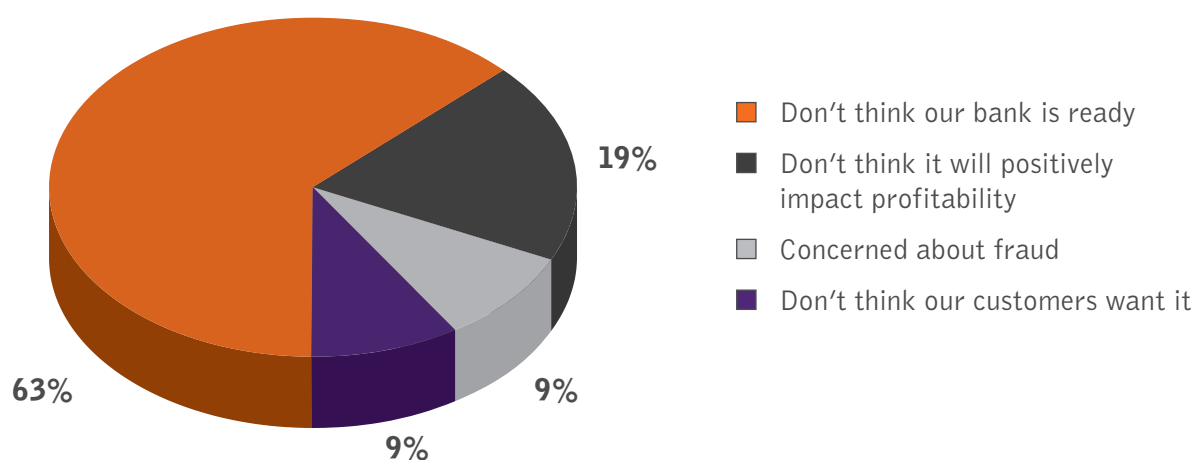
16. Does your bank offer Apple Pay?

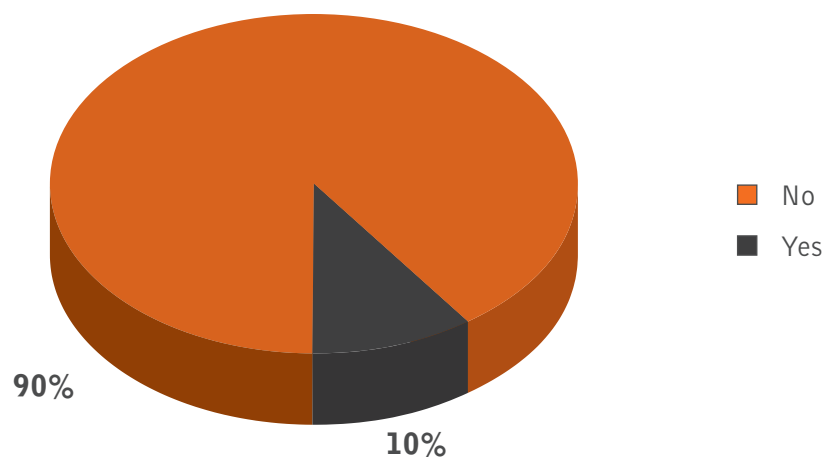


Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
No	27%	52%	67%	77%	88%	70%
Yes	55%	24%	19%	13%	7%	18%
Unsure	18%	24%	14%	10%	5%	12%

17. If your bank does not offer Apple Pay, what is the primary reason you are not offering it?

Only those indicating their bank does not offer Apple Pay were asked to respond.



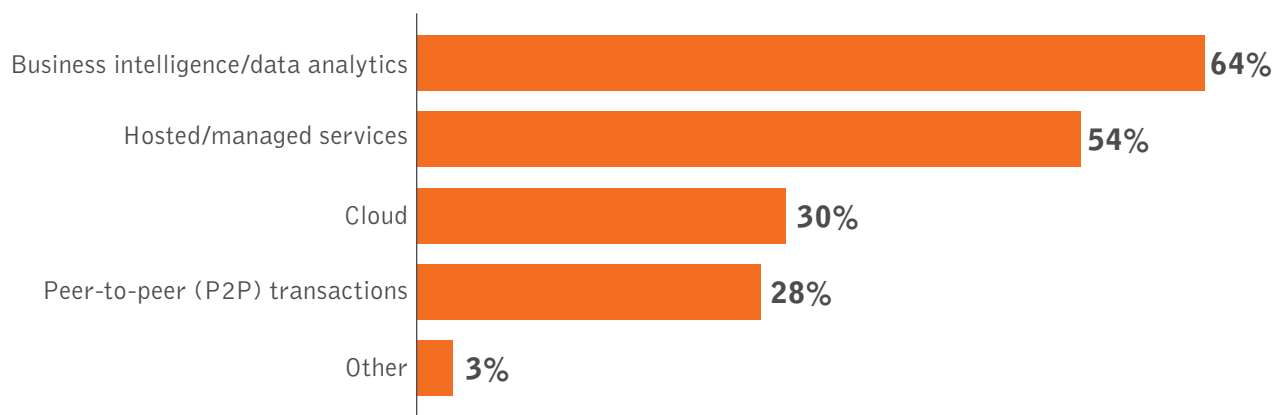
18. Do you use Apple Pay?

Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
No	73%	95%	85%	87%	100%	90%
Yes	27%	5%	15%	13%	-	10%

Title	CEO	Board	Other	Total
No	93%	87%	89%	90%
Yes	7%	13%	11%	10%

19. What other technologies does your bank currently use, either to grow the bank or make it more efficient?

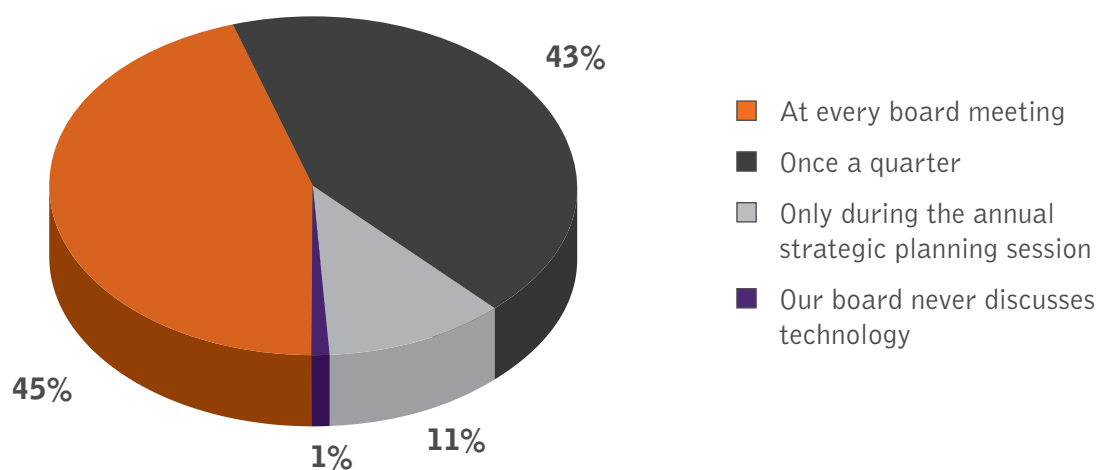
Respondents were asked to select all that apply. Note: Approximately 33 percent of respondents declined to answer this question.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Business intelligence/data analytics	67%	94%	59%	63%	54%	64%
Hosted/managed services	67%	38%	59%	56%	50%	54%
Cloud	22%	50%	31%	30%	21%	30%
Peer-to-peer (P2P) transactions	22%	6%	38%	19%	39%	28%
Other	-	-	-	4%	7%	3%

GOVERNING TECHNOLOGY

20. How frequently does your board discuss technology?



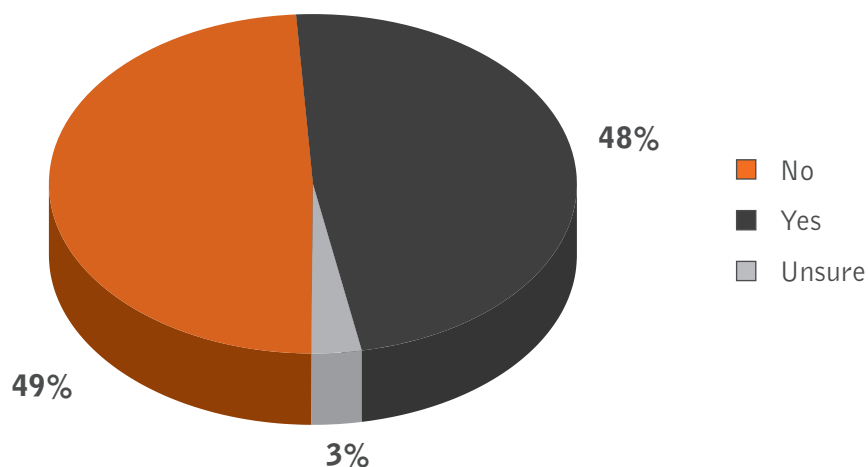
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
At every board meeting	60%	65%	34%	44%	45%	45%
Once a quarter	30%	35%	59%	38%	38%	43%
Only during the annual strategic planning session	10%	-	7%	15%	17%	11%
Our board never discusses technology	-	-	-	3%	-	1%

21. Does the board have:

A TECHNOLOGY COMMITTEE?						
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Yes	22%	42%	31%	36%	33%	34%
No	78%	58%	69%	64%	67%	66%

AN INNOVATION COMMITTEE?						
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Yes	-	21%	10%	8%	2%	8%
No	100%	79%	90%	92%	98%	92%

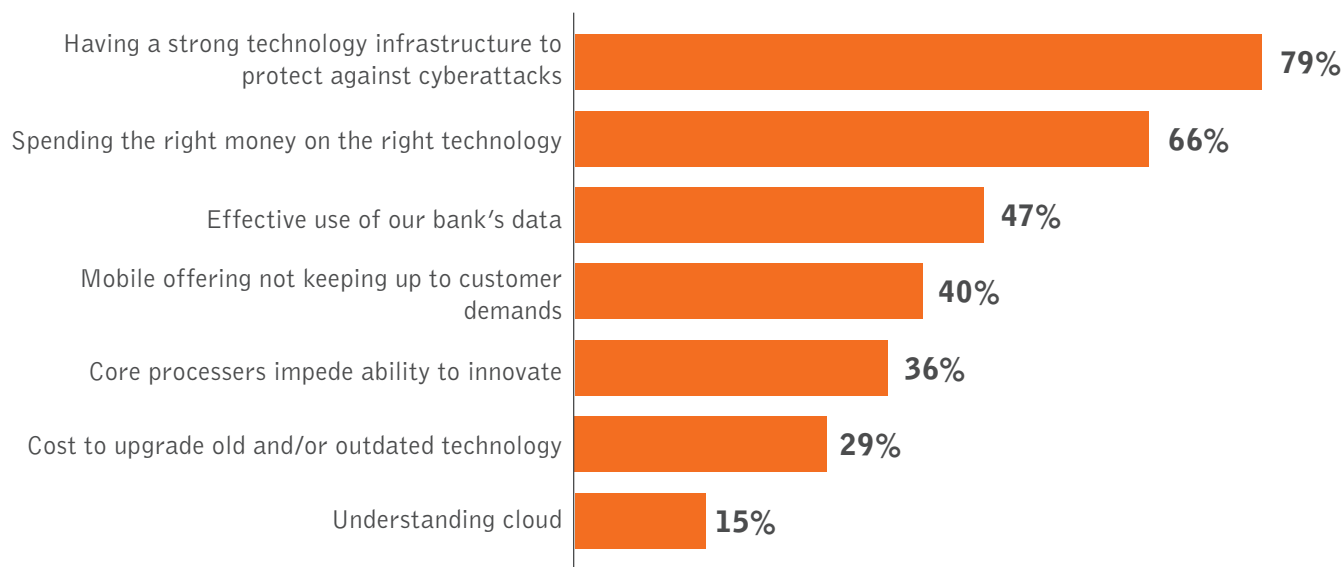
A SECURITY COMMITTEE?						
Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Yes	11%	28%	27%	33%	24%	27%
No	89%	72%	73%	67%	76%	73%

22. Does the board have at least one director with a background and/or expertise in technology?

Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
No	30%	40%	46%	54%	57%	49%
Yes	60%	55%	54%	46%	38%	48%
Unsure	10%	5%	-	-	5%	3%

23. What are your greatest technology concerns about your bank?

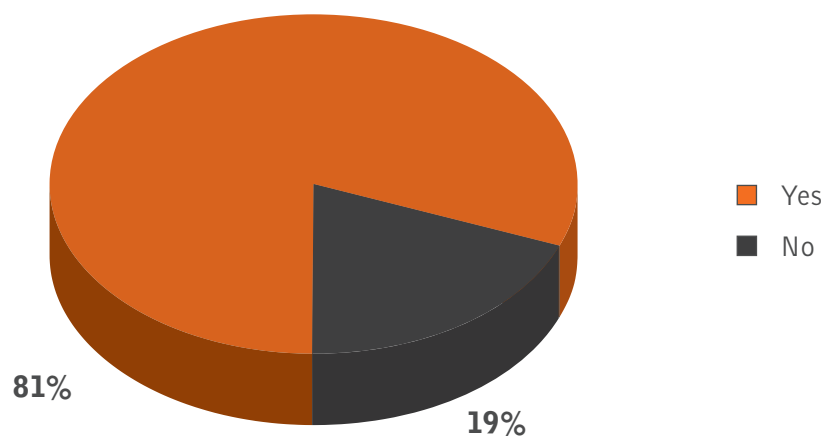
Respondents were asked to select all that apply.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Having a strong technology infrastructure to protect against cyberattacks	80%	80%	81%	73%	83%	79%
Spending the right money on the right technology	70%	80%	69%	54%	67%	66%
Effective use of our bank's data	80%	40%	52%	43%	40%	47%
Mobile offering not keeping up to customer demands	80%	55%	40%	30%	31%	40%
Core processors impede ability to innovate	30%	40%	45%	27%	36%	36%
Cost to upgrade old and/or outdated technology	60%	15%	29%	24%	33%	29%
Understanding cloud	10%	15%	26%	16%	2%	15%

Title	CEO	Board	Other	Total
Having a strong technology infrastructure to protect against cyberattacks	76%	83%	80%	79%
Spending the right money on the right technology	60%	74%	60%	66%
Effective use of our bank's data	55%	36%	60%	47%
Mobile offering not keeping up to customer demands	33%	45%	50%	40%
Core processors impede ability to innovate	55%	15%	40%	36%
Cost to upgrade old and/or outdated technology	24%	33%	40%	29%
Understanding cloud	11%	17%	30%	15%

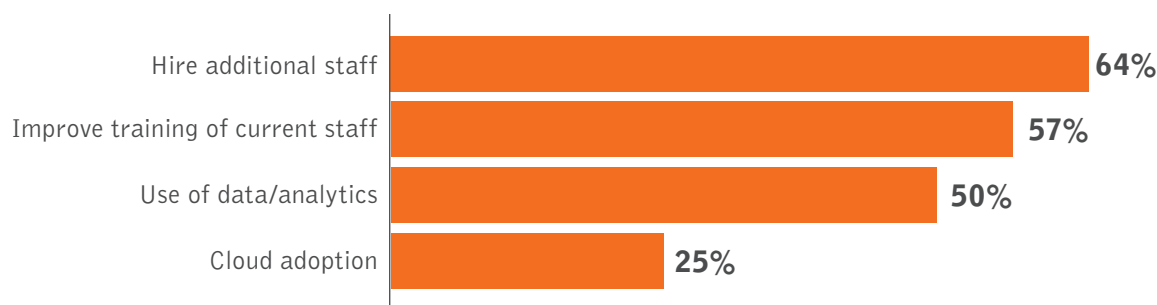
24. Do you believe your IT staff has sufficient resources and expertise to support the bank's growth and current operations?



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Yes	80%	90%	72%	97%	69%	81%
No	20%	10%	28%	3%	31%	19%

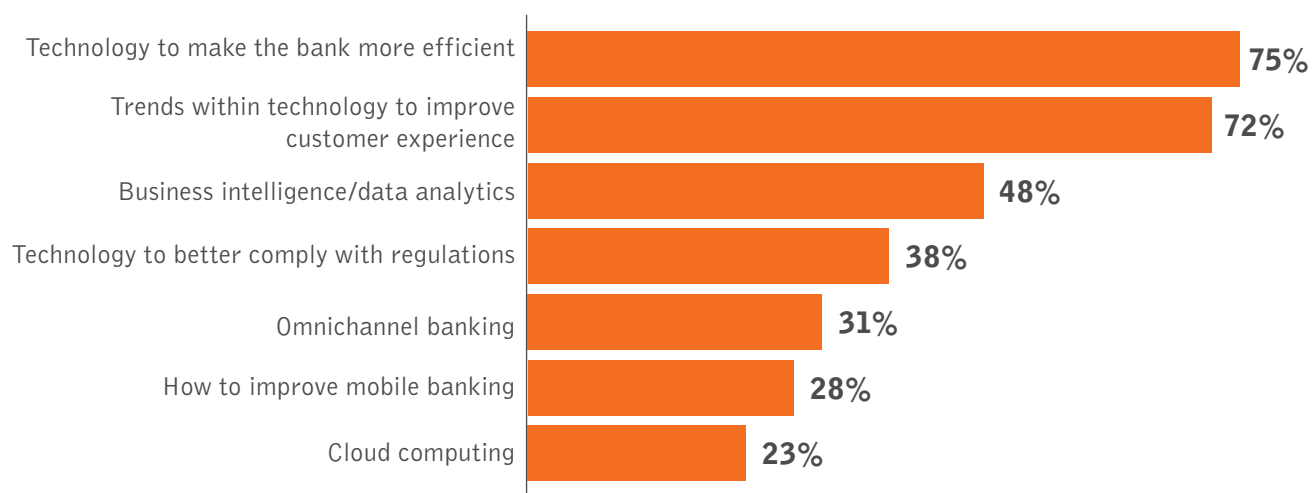
25. What resources need to be improved to help the IT staff better support the bank's growth and current operations?

Respondents were asked to select all that apply. Only those indicating the bank's IT staff does not have sufficient resources were asked to respond.



26. Which aspects of technology related to your bank do you wish you better understood?

Respondents were asked to select all that apply.

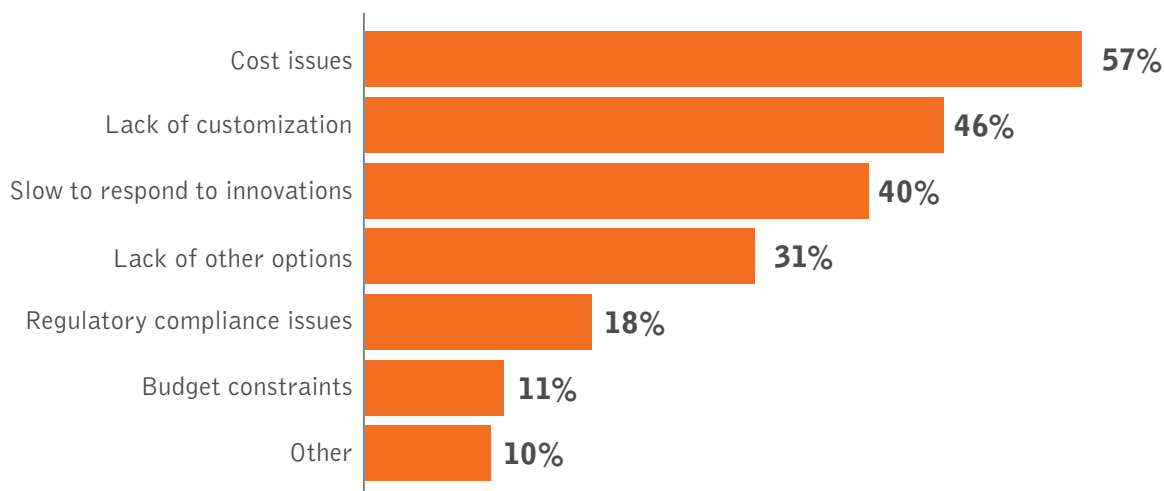


Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Technology to make the bank more efficient	90%	63%	80%	65%	80%	75%
Trends within technology to improve customer experience	50%	84%	90%	68%	56%	72%
Business intelligence/data analytics	70%	53%	56%	41%	37%	48%
Technology to better comply with regulations	70%	21%	51%	29%	32%	38%
Omnichannel banking	20%	42%	46%	24%	20%	31%
How to improve mobile banking	50%	42%	34%	15%	20%	28%
Cloud computing	-	21%	34%	26%	17%	23%

Title	CEO	Board	Other	Total
Technology to make the bank more efficient	77%	72%	80%	75%
Trends within technology to improve customer experience	66%	77%	80%	72%
Business intelligence/data analytics	43%	56%	30%	48%
Technology to better comply with regulations	24%	51%	60%	38%
Omnichannel banking	30%	34%	20%	31%
How to improve mobile banking	18%	39%	30%	28%
Cloud computing	22%	26%	20%	23%

27. What are the most challenging aspects of your relationship with your core processor?

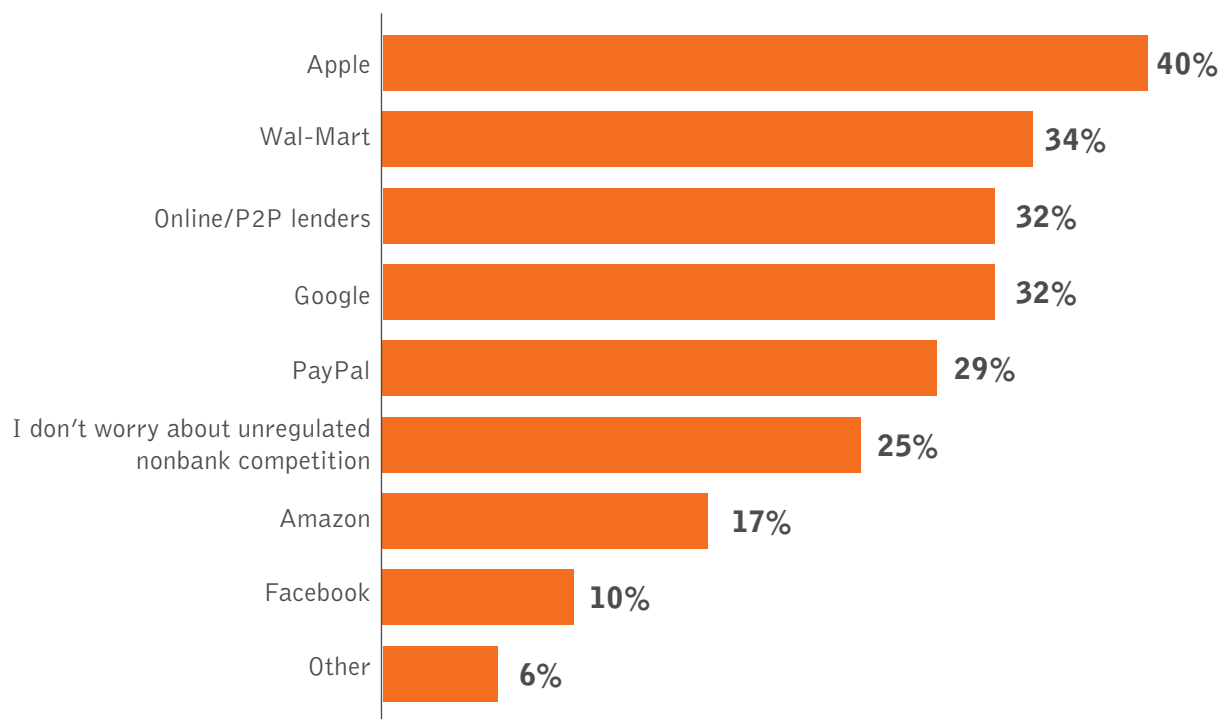
Respondents were asked to select all that apply.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Cost issues	67%	33%	41%	57%	80%	57%
Lack of customization	11%	61%	59%	50%	32%	46%
Slow to respond to innovations	33%	33%	57%	46%	25%	40%
Lack of other options	22%	44%	32%	25%	30%	31%
Regulatory compliance issues	67%	28%	19%	4%	12%	18%
Budget constraints	11%	11%	14%	4%	15%	11%
Other	-	6%	5%	21%	10%	10%

28. Which of the following unregulated nonbank competitors do you worry about most?

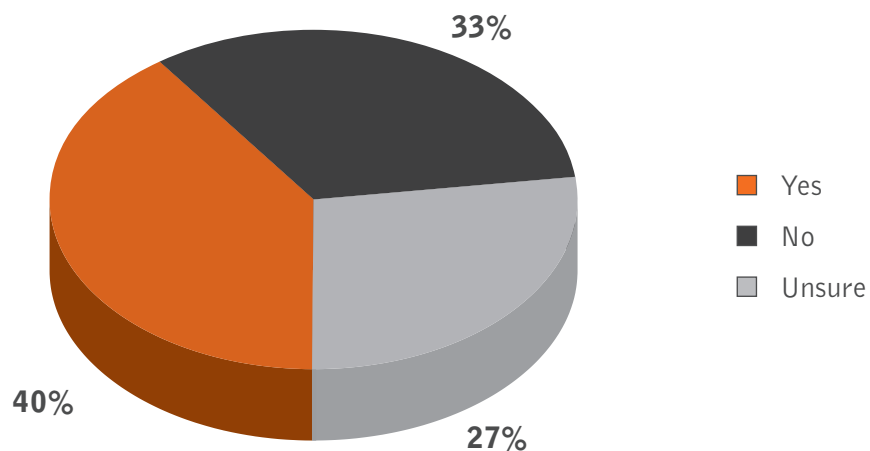
Respondents were asked to select all that apply.



Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Apple	60%	32%	52%	23%	43%	40%
Wal-Mart	-	32%	32%	31%	45%	34%
Online/P2P lenders	40%	42%	30%	26%	33%	32%
Google	40%	32%	38%	29%	29%	32%
PayPal	20%	21%	35%	31%	26%	29%
I don't worry about unregulated nonbank competition	10%	32%	22%	37%	19%	25%
Amazon	30%	5%	18%	17%	19%	17%
Facebook	20%	5%	12%	9%	7%	10%
Other	-	-	10%	3%	10%	6%

Title	CEO	Board	Other	Total
Apple	51%	28%	40%	40%
Wal-Mart	39%	26%	40%	34%
Online/P2P lenders	33%	26%	60%	32%
Google	40%	21%	40%	32%
PayPal	31%	21%	60%	29%
I don't worry about unregulated nonbank competition	19%	38%	-	25%
Amazon	20%	13%	20%	17%
Facebook	11%	7%	20%	10%
Other	7%	7%	-	6%

29. Do you believe your bank has the appropriate products, services and methods of delivery to meet the needs and demands of millennials (defined as people under 34 years old)?

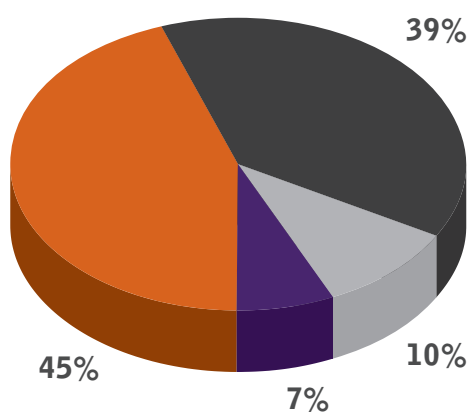


Bank Asset Size	>\$10B	\$5B - \$10B	\$1B - \$5B	\$500M - \$1B	<\$500M	Total
Yes	40%	26%	36%	51%	41%	40%
No	40%	37%	33%	31%	29%	33%
Unsure	20%	37%	31%	17%	29%	27%

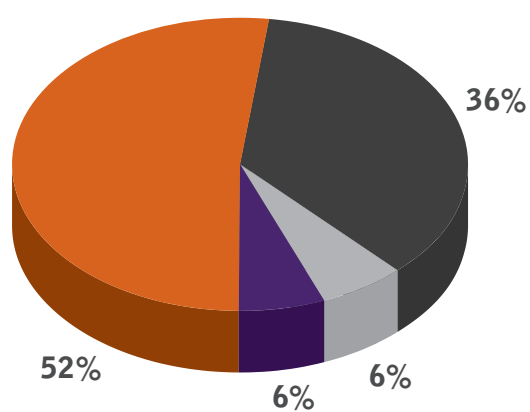
ABOUT THE SURVEY

Bank Director's 2015 Growth Strategy Survey, sponsored by CDW, surveyed 168 chief executive officers, independent directors, chairmen and other senior executives of U.S. banks above \$250 million in assets to uncover the factors driving growth and profitability, and to gauge concerns about these issues, including technology's role in growing financial institutions. Respondents were contacted through email, to complete the survey online, or by mail, with a paper survey. CEOs represent 45 percent of respondents, and independent directors 39 percent.

Title



Ownership



Bank Size

