

# 2023 Risk Survey

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### About Bank Director

Bank Director reaches the leaders of the institutions that comprise America's banking industry. Since 1991, Bank Director has provided board-level research, peer insights and in-depth executive and board services. Built for banks, Bank Director extends into and beyond the boardroom by providing timely and relevant information through *Bank Director* magazine, board training services and the financial industry's premier event, Acquire or Be Acquired. For more information about Bank Director, visit [www.bankdirector.com](http://www.bankdirector.com).

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## EXECUTIVE SUMMARY



**Laura Alix** is the director of research for Bank Director, an information resource for directors and officers of financial companies. You can follow her on Twitter or get connected on LinkedIn.

**In 2023, the overarching question on bank leaders' minds is how their organization will fare in the next economic downturn.**

**That manifested in increased concerns around interest rates, liquidity, credit and consumer risk, and other issues gauged in Bank Director's 2023 Risk Survey, sponsored by Moss Adams LLP. And it's a theme that Craig Sanders, a partner at Moss Adams, hears more frequently now in conversations with bankers. They wonder whether the next downturn will be a "big R or little r" recession, and "if we hit another big recession, what is the consumer impact on their institution?" he says.**

Over the past year, respondent concerns about interest rate risk (91%), credit risk (77%) and liquidity (71%) all increased markedly. Bank executives and directors also identify cybersecurity (83%) and compliance (70%) as areas where their concerns have increased, but managing the balance sheet has become, by and large, their first priority.

Following a series of interest rate increases by the Federal Open Market Committee through early 2023, bankers have been focused on selectively raising deposit rates and controlling their cost of funds. Notably, the 2023 Risk Survey was fielded in January, before a run on deposits imperiled several institutions and regulators began closing banks in March, such as the \$209 billion SVB Financial Corp., parent of Silicon Valley Bank.

Bank leaders name deposit pricing (51%) and talent retention (50%) among the top strategic challenges their organization faces in 2023. Sixty-one percent say their bank has experienced some deposit loss, with minimal to moderate impacts on their funding base, and another 11% say that deposit outflows had a significant impact on their funding base.

Net interest margins improved for a majority (53%) of bank leaders taking part in the survey, but respondents are mixed about whether their bank's NIM will expand or contract over 2023.

Three-quarters of bank executives and board members report that business clients remain strong in spite of inflation and economic pressures, although some are pausing growth plans. As commercial clients face increasing costs of materials and labor, talent pressures and shrinking revenues, that's having an impact on commercial loan demand, some bankers say. And as the Federal Reserve continues to battle inflation against an uncertain macroeconomic backdrop, half of respondents say their concerns around consumer risk have increased, a significant shift from last year's survey.

## KEY FINDINGS

### ➔ Deposit Pressures

Asked about what steps they might take to manage liquidity, 73% of executives and directors say they would raise interest rates offered on deposits, and 62% say they would borrow funds from a Federal Home Loan Bank. Less favored options include raising brokered deposits (30%), the use of participation loans (28%), tightening credit standards (22%) and using incentives to entice depositors (20%). Respondents say they would be comfortable maintaining a median loan-to-deposit ratio of 70% at the low end and 90% at the high end.

### ➔ Strategic Challenges Vary

While the majority of respondents identify deposit pricing and/or talent retention as significant strategic challenges, 31% cite slowing credit demand, followed by liquidity management (29%), evolving regulatory and compliance requirements (28%) and CEO or senior management succession (20%).

### ➔ Continued Vigilance On Cybersecurity

Eighty-nine percent of respondents say their bank has completed a cybersecurity assessment, with most banks using the tool offered by the Federal Financial Institutions Examination Council. Respondents cite detection technology, training for bank staff and internal communications as the most common areas where they have made changes after completing their assessment. Respondents report a median of \$250,000 budgeted for cybersecurity-related expenses.

### ➔ Stress On Fees

A little over a third (36%) of respondents say their bank has adjusted its fee structure in anticipation of regulatory pressure, while a minority (8%) did so in response to direct prodding by regulators. More than half of banks over \$10 billion in assets say they adjusted their fee structure, either in response to direct regulatory pressure or anticipated regulatory pressure.

### ➔ Climate Discussions Pick Up

The proportion of bank leaders who say their board discusses climate change at least annually increased over the past year to 21%, from 16% in 2022. Sixty-one percent of respondents say they do not focus on environmental, social and governance issues in a comprehensive manner, but the percentage of respondents from public banks that disclose their progress on ESG goals grew to 15%, from 10% last year.

### ➔ Stress Testing Adjustments

Just over three-quarters of respondents say their bank conducts an annual stress test. In comments, offered before the Federal Reserve added a new component to its stress testing for the largest banks, many bank leaders described the ways that they've changed their approach to stress testing in anticipation of a downturn. One respondent described adding a liquidity stress test in response to increased deposit pricing and unrealized losses in the securities portfolio.

# RISK HEATMAP

## 1. Have your concerns about the following risk categories increased or decreased over the past year?

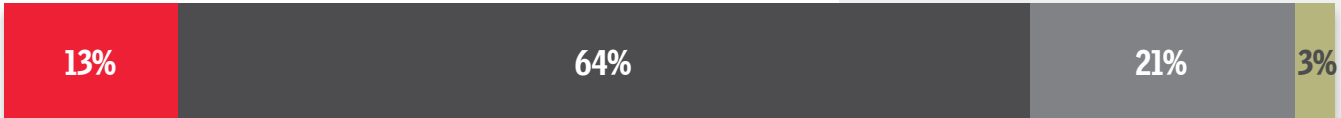
Compliance



Consumer



Credit



Cybersecurity



Environmental/climate risk



- Increased significantly
- Increased somewhat
- No change
- Decreased somewhat/significantly

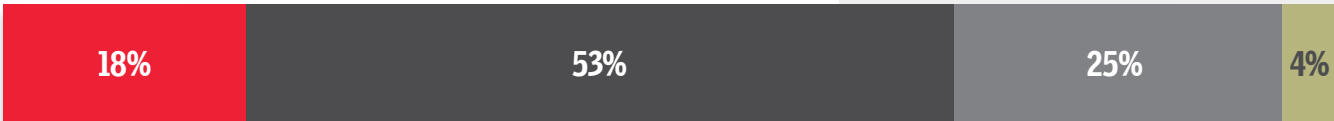
Interest rate risk



Legal



Liquidity



Operational



Regulatory



Reputational



Strategic



- Increased significantly
- Increased somewhat
- No change
- Decreased somewhat/significantly

# STRATEGIC CHALLENGES

## 2. What do you see as the three most significant strategic challenges for your organization over the next 18 months?

Respondents were asked to select no more than three options.



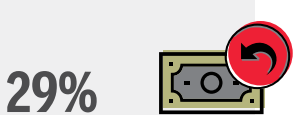
Deposit pricing



Attracting and/or retaining talent



Slowing credit demand



Liquidity management



Evolving regulatory or compliance requirements



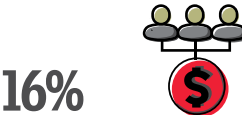
CEO and/or senior management succession



Inability to keep pace with technological advances in banking



Attracting customers under the age of 40



Diversifying revenue



Declining asset quality



Augmenting staff with technology/automation

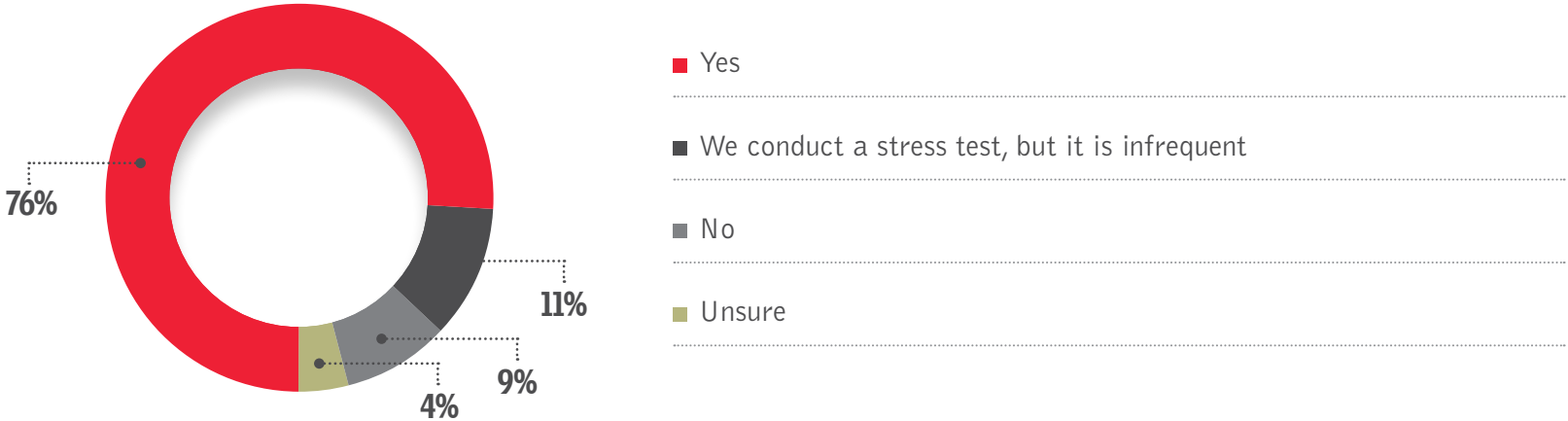


Differentiating our brand in the marketplace

### 3. How would you characterize the impact of inflation and/or economic uncertainty on your bank's business customers?



### 4. Does your bank conduct an annual stress test?





# THE BALANCE SHEET

## 5. Considering the continued rise in interest rates in 2022, what has been the impact so far on deposit retention at your bank?

*Chief technology officers were not asked this question.*



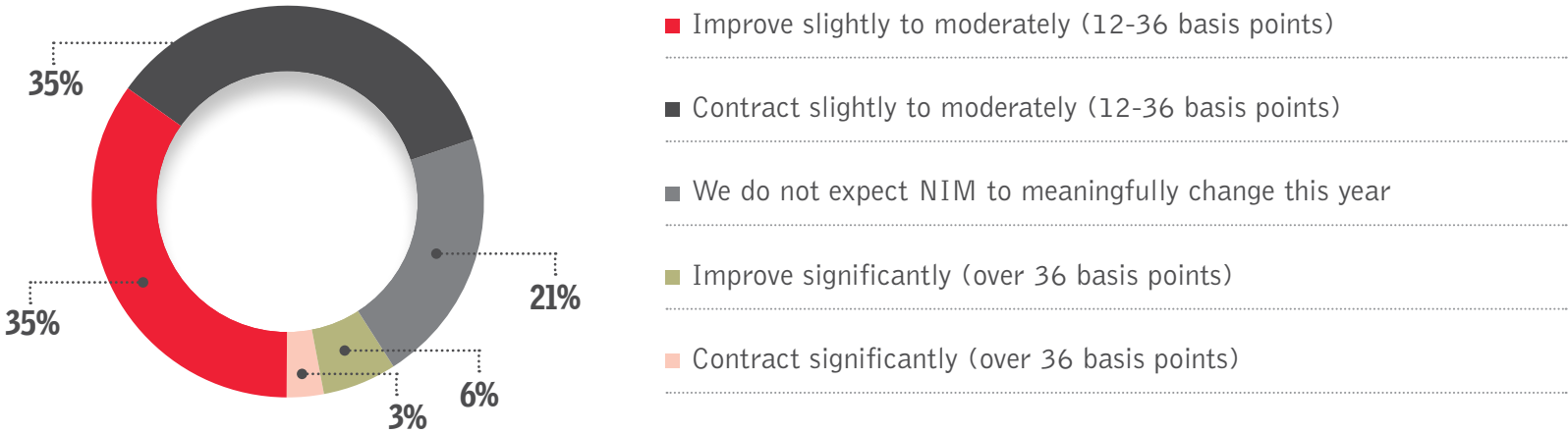
## 6. How have rising interest rates affected your bank's net interest margin?

Chief technology officers were not asked this question. Numbers don't add up to 100% due to rounding.



## 7. Based on interest rate increases in 2022 and projections by the Federal Open Market Committee, how do you expect your bank's net interest margin to change in 2023?

Chief technology officers were not asked this question.



## 8. What is the lowest loan-to-deposit ratio you would be comfortable maintaining at your financial institution in 2023?

Median values reported. Chief technology officers were not asked this question. \*Indicates a count of less than 10 within a category.



**Lowest Loan-to-Deposit Ratio**

## 9. What is the highest loan-to-deposit ratio you would be comfortable maintaining at your financial institution in 2023?

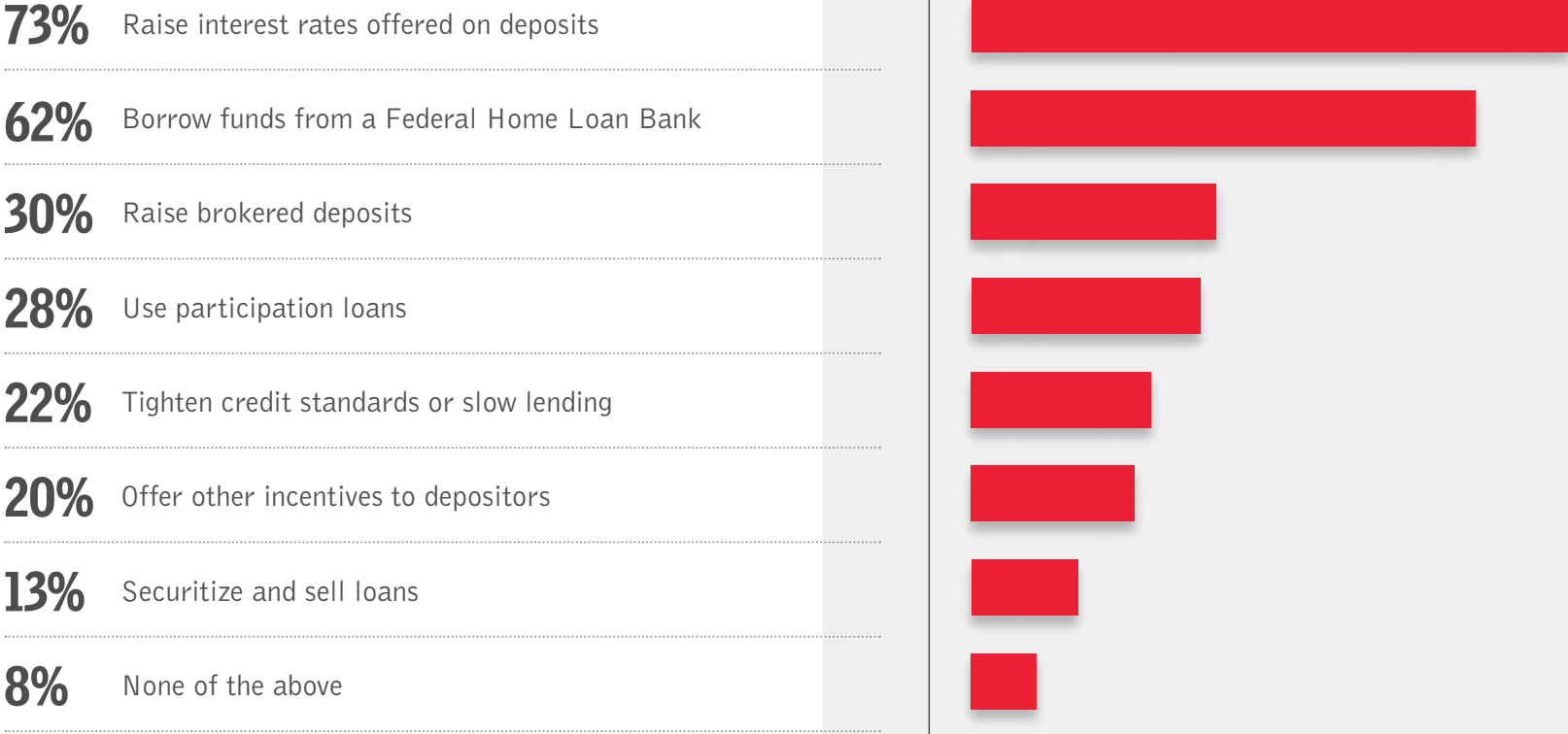
Median values reported. Chief technology officers were not asked this question. \*Indicates a count of less than 10 within a category.



**Highest Loan-to-Deposit Ratio**

# 10. Considering interest rates in 2022 and your bank’s loan-to-deposit ratio, what actions do you see your organization taking to manage liquidity in 2023?

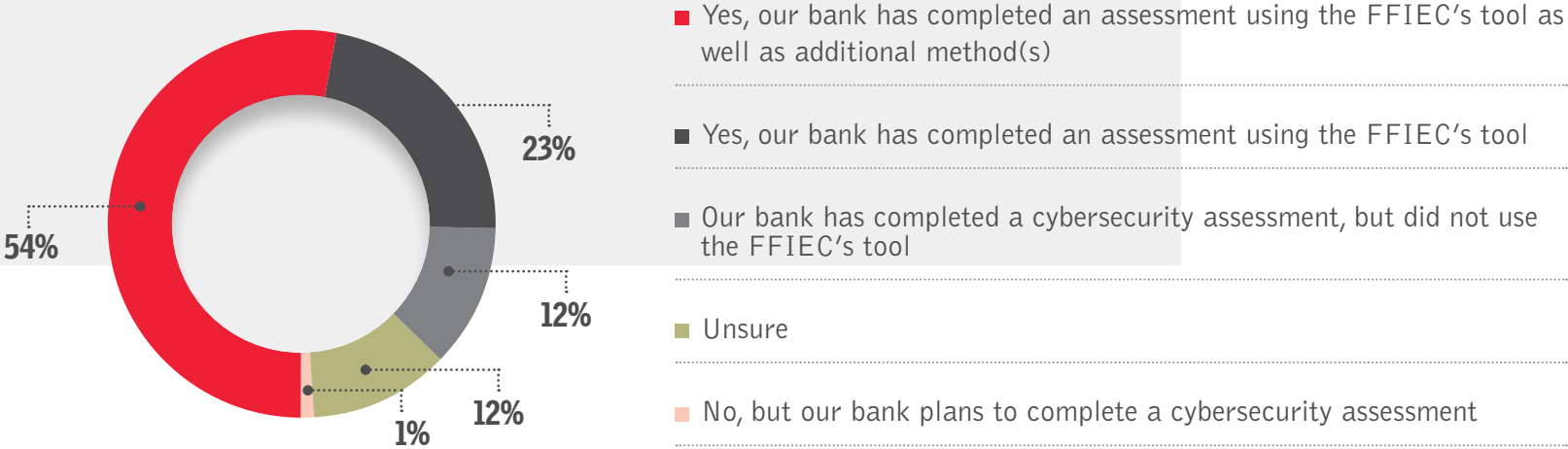
Respondents were asked to select all that apply. Chief technology officers were not asked this question.



# CYBERSECURITY & RELATED RISKS

## 11. Has your bank conducted a cybersecurity assessment using the FFIEC Cybersecurity Assessment Tool (CAT) or another methodology over the past 12 months?

Chief lending officers and chief credit officers were not asked this question. Numbers don't add up to 100% due to rounding.



# 12. Where has your bank made changes, or where do you plan to make changes, to the cybersecurity program as a result of this assessment?

Question only asked of respondents indicating that their bank has completed a cybersecurity assessment. Chief lending officers and chief credit officers were not asked this question.

Improved detection technology



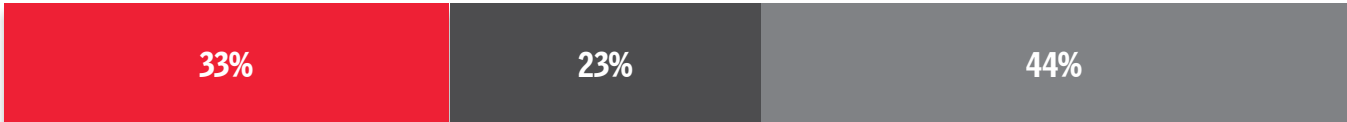
Training for bank staff



Increased governance/oversight by the board



More board expertise/training



Better internal communication



- Made changes
- Plan to make changes
- Do not plan to change

Better communication with external groups



Internal controls



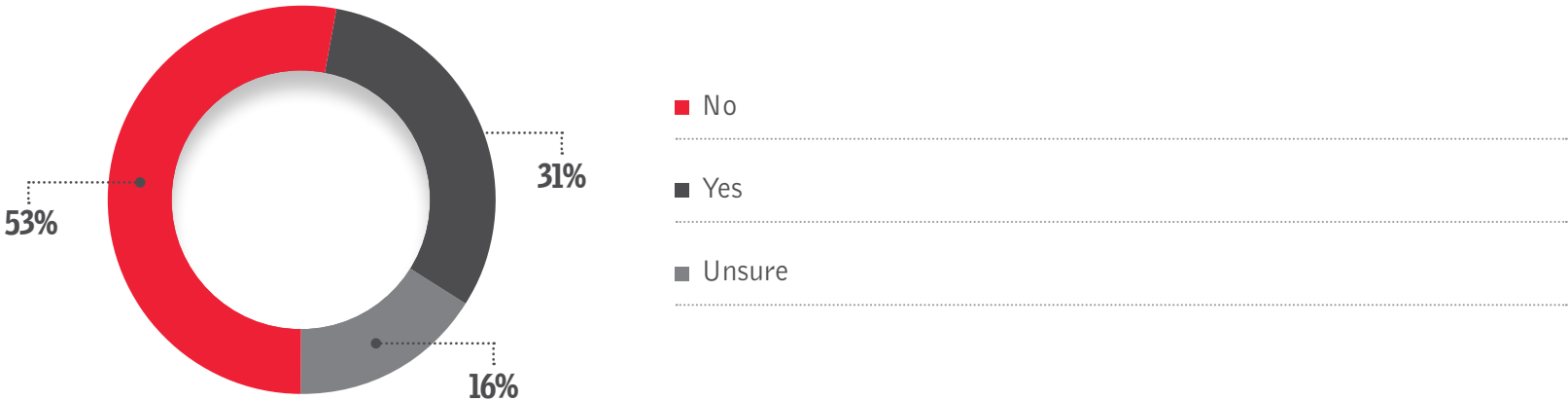
Attracting/retaining quality cybersecurity personnel



- Made changes
- Plan to make changes
- Do not plan to change

### 13. Has your bank experienced increased regulatory scrutiny of its third-party risk oversight?

Chief lending officers and chief credit officers were not asked this question.



### 14. How much has your bank budgeted for cybersecurity expenses, including personnel and technology, for fiscal year 2023?

Median values reported. Respondents were asked to enter a value greater than zero or leave the field blank. Chief lending officers and chief credit officers were not asked this question. \* Indicates a count of 10 or less within that category.

**\$250,000**

**Median Cybersecurity Budget**



# EMERGING ISSUES

## 15. Has your bank reduced its reliance on fee income, particularly overdraft fees, due to regulatory pressure?

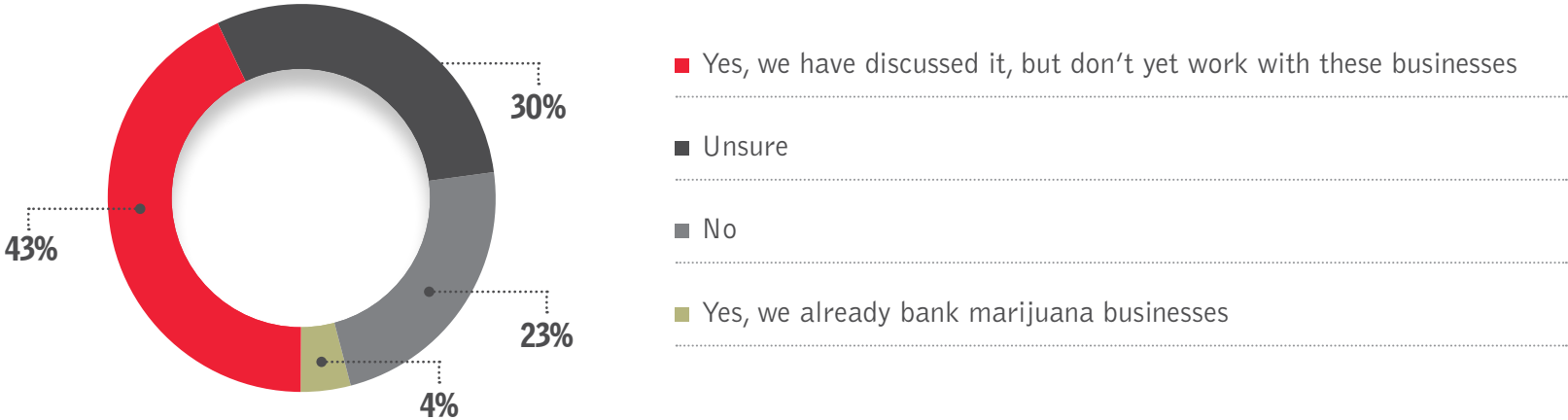
Chief technology officers were not asked this question.



### 16. Is your bank headquartered in a state where the use of marijuana is...?\*

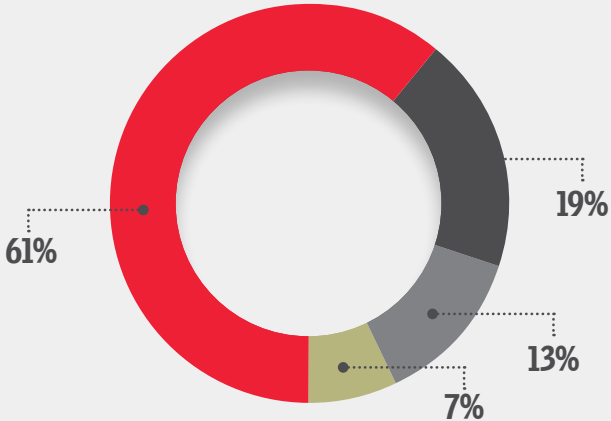


### 17. Would your bank be willing to serve marijuana businesses, including dispensaries, assuming it were legal to do so?



\*When respondents answered this question, marijuana was fully legal in Alaska, Arizona, California, Colorado, Connecticut, Illinois, Maine, Maryland, Massachusetts, Michigan, Missouri, Montana, New Jersey, New Mexico, New York, Nevada, Oregon, Rhode Island, Vermont, Virginia and Washington; approved for medicinal use only in Alabama, Arkansas, Delaware, Florida, Hawaii, Louisiana, Minnesota, Mississippi, New Hampshire, North Dakota, Ohio, Oklahoma, Pennsylvania, South Dakota, Utah, and West Virginia; and illegal in Georgia, Idaho, Indiana, Iowa, Kansas, Kentucky, Nebraska, North Carolina, South Carolina, Tennessee, Texas, Wisconsin, Wyoming.

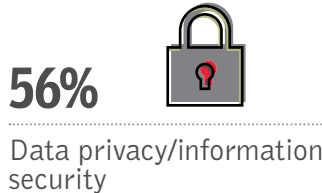
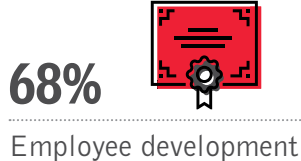
# 18. How would you describe the maturity of your bank's environmental, social and governance (ESG) initiatives?



- We don't yet focus on ESG issues in a comprehensive manner
- We're gaining an understanding of our current state and setting goals around desired ESG targets
- We're making progress toward established goals, but don't yet disclose our progress
- We publicly disclose our progress to all company stakeholders through a comprehensive report or similar means

# 19. Has your bank set goals and objectives in any of the following areas?

Respondents were asked to select all that apply.



## 20. Are any of the following company stakeholders asking for more disclosure about your bank’s environmental or social initiatives?

Respondents were asked to select all that apply.

**73%** None of these parties are asking for this information

**11%** Unsure

**8%** Employees

**7%** Regulators

**5%** Investors

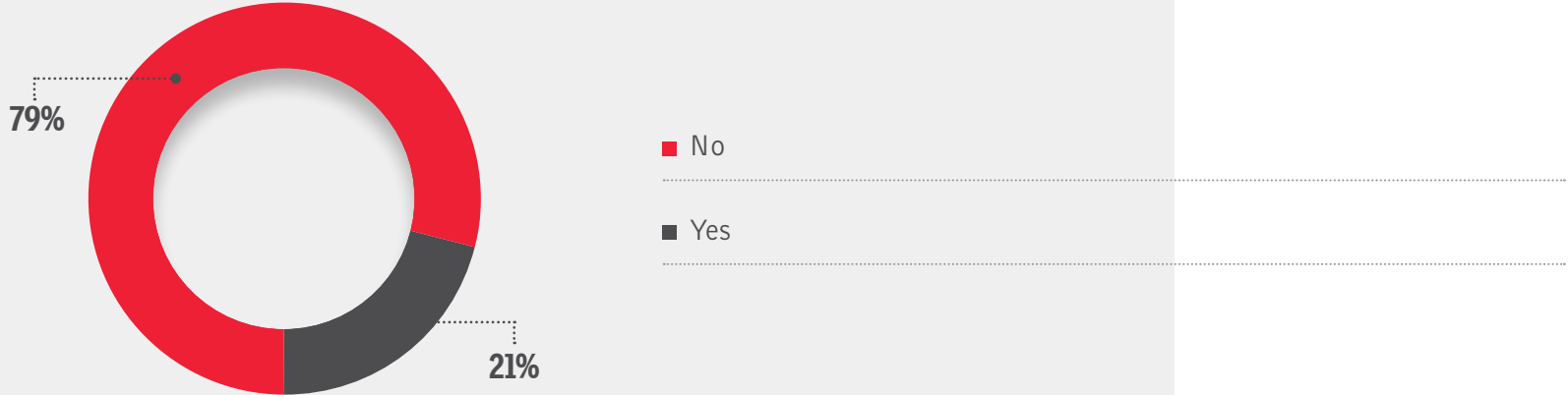
**5%** Community stakeholders

**3%** Business clients

**2%** Retail customers



## 21. At least annually, does the board discuss climate change as part of its analysis and understanding of the risks facing the institution?



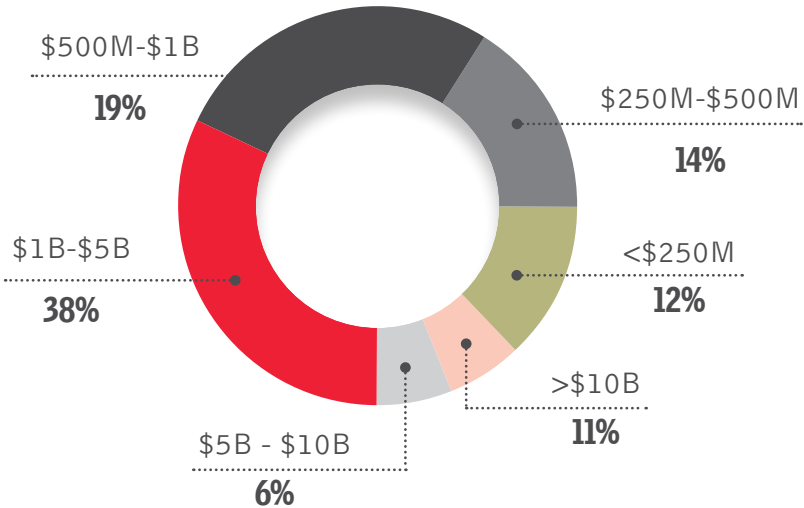
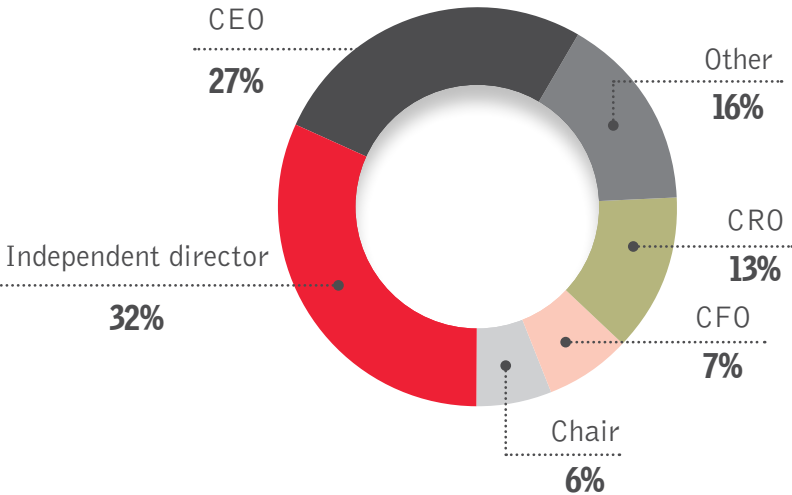
# ABOUT THE SURVEY

Bank Director’s 2023 Risk Survey, sponsored by Moss Adams, surveyed 212 independent directors, chief executive officers, chief risk officers and other senior executives of U.S. banks below \$100 billion of assets to gauge their concerns and explore several key risk areas, including credit risk, cybersecurity and emerging issues such as ESG. The survey was conducted in January 2023.

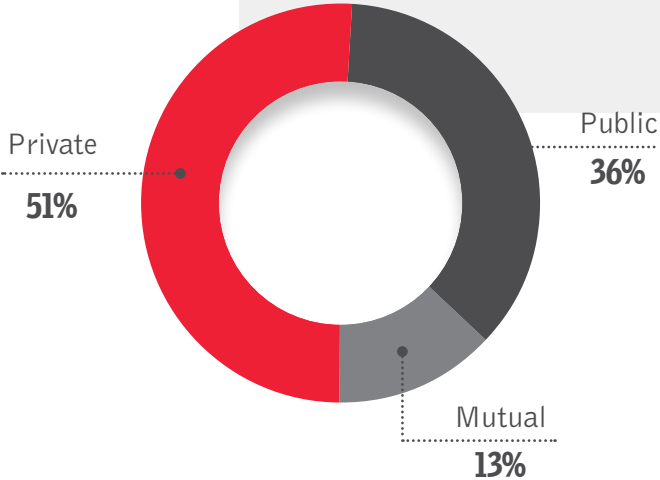
## TITLE

Numbers don’t add up to 100% due to rounding.

## ASSET SIZE

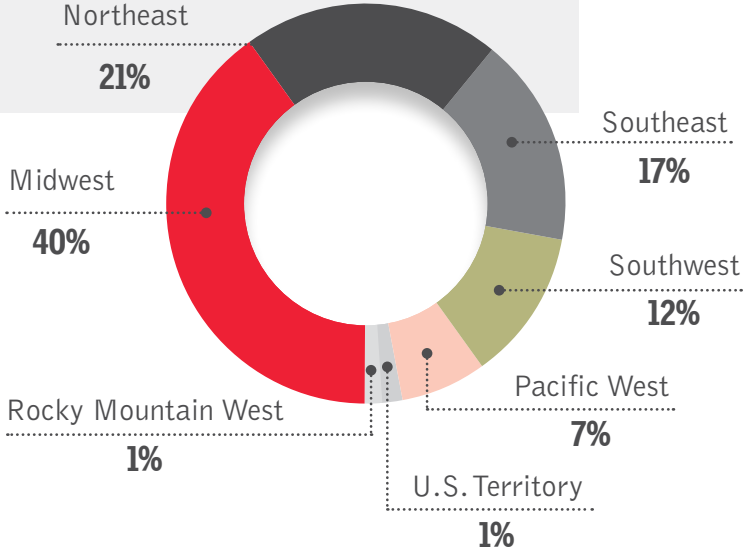


# OWNERSHIP STRUCTURE



# REGION\*

Numbers don't add up to 100% due to rounding.



\*Regions defined as follows: Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI); Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT); Pacific West (AK, CA, HI, OR, WA); Rocky Mountain West (CO, ID, MT, NV, UT, WY); Southeast (AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, SC, TN, VA, WV); Southwest (AZ, NM, OK, TX)