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# Challenging Some Traditional Myths in Community Bank Operations

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Banking, and specifically community banking, is essential to the overall health of our country. By design, it serves as the backbone for our financial system and communities, while playing a crucial role in helping individuals, businesses and governments thrive. In this highly competitive environment, community banks must continuously adapt to the changing landscape and competitive pressures. The key to success is to challenge and shatter the traditional banking myths that have been prevalent for years. Let's explore **five such myths and why they need to be shattered**.

**Myth 1: The Efficiency Ratio**

**Myth: Managing expenses is the best way to improve overall efficiency.**
**Fact: Increasing overall revenue is much more impactful.**

The efficiency ratio is an important metric for financial institutions (FIs) to track as it measures how efficiently FIs are using resources to generate revenue. It is often thought the best way to improve the efficiency ratio is to manage expenses by embracing technology, controlling costs and determining appropriate staffing levels. But managing expenses is a very finite opportunity. The unlimited opportunity for banks to improve their efficiency ratio is not on the expense side—**it is on the revenue side as illustrated in *figure 1* by comparing high-performing banks to others**. Institutions should focus on growing revenue, as this will have a much bigger impact on profitability. There are two ways to accomplish this effectively: growing core customers and growing share of wallet. The bigger, more strategic option is in growing core customers because this also enables your bank to exponentially grow share of wallet.

**Figure 1**

| Metric | Eagles | Other | % Variance |
|---|---|---|---|
| **Return on Assets** | **3.24%** | **1.01%** | **220%** |
| **Return on Equity** | **32.78%** | **11.09%** | **196%** |
| Net Interest Margin | 3.70% | 3.22% | **15%** |
| Cost of Funds | 0.30% | 0.29% | **3%** |
| Yield on Loans | 5.44% | 4.77% | **14%** |
| Loan/Deposit Ratio | 71.62% | 69.95% | **2%** |
| **Noninterest Income to Assets ($000 per $1M in assets)** | **$18.07** | **$4.60** | **293%** |
| **Noninterest Expense to Assets ($000 per $1M in assets)** | **$26.81** | **$23.55** | **14%** |
| Equity Capital to Assets | 10.09% | 8.83% | **14%** |

*Note: Data Through 9/30/22 (annualized)*

**Myth 2: Growing Core Deposits**

**Myth: A rising rate environment is the time when banks need to focus on core deposits and relationships.**
**Fact: Growing core deposits and relationships should be an *always-on* strategic initiative.**

With the recent rate increases and the decline in deposits since mid-2022, bankers are once again focusing on core deposits and core relationship growth. Large banks are promoting cash rewards that triple prior offers, and they are marketing at a frequency that is three to four times that of prior years. Why? In order to acquire new core relationships. banks see the current environment as a prime time to grow low-cost core funding. However, this is far from the truth. The truth is, it is always a good time to focus on growing core relationships and core deposits regardless of the economic environment. By doing so, banks position themselves well for any rate and non-interest income environment.

**Myth 3: Deposit Market Share**

**Myth: Deposit growth is a function of deposit market share.**
**Fact: Deposit growth is a function of household and business market share.**

Banks often focus on deposit market share as a measure of growth, but this is not always the best indicator. Instead, it's important to focus on household and business market share. Essentially, what percentage of the FI's footprint are they serving? Deposit market share is very much driven by larger deposits that often come at a higher cost. It is also distorted by branch locations, or lack thereof, for digital banks. Household and business market share is a much better indicator of the ability to attract and retain consumers and businesses, and it provides a clearer picture of overall growth and success.

**Myth 4: Staffing Challenges**

**Myth: It isn't possible to hire or retain employees in the current environment.**
**Fact: Retention and recruitment are a function of a bank's investment in, and focus on, developing better leaders and coaches.**

Staffing and human capital challenges have been one of the most prominent issues for banks since the pandemic. Finding talented employees continues to be difficult and retaining talented employees is a must. While the combination of these factors results in staffing challenges, the solution lies in a bank's approach to its leadership and coaching strategy. By investing in the development of leaders and creating a strong coaching culture, banks can ensure that their staff is well-equipped to deal with the challenges of the industry, while also feeling valued by the institution. The result is a decrease in turnover, improved knowledge and stronger alignment with the brand; this ultimately creates improvements in customer satisfaction and improved overall performance.

**Myth 5: Sales Culture**

**Myth: Having a "sales culture" is the only way to drive results.**
**Fact: Aspiring to have an escalated service culture will result in increased product and service usage.**

Banks often aspire to have a "sales culture," but this is generally not the best approach. The key to success is to have an escalated service culture, which focuses on providing products and services to improve people's lives. By focusing on providing excellent customer service, banks can build stronger relationships with consumers, increase overall satisfaction and create a positive image for the institution. A result will be increased sales and improved overall performance.

By challenging and shattering these traditional myths or approaches to banking, community banks can create a more efficient and effective approach to their operations, which will lead to increased profitability, meaningful growth and measurable success. By focusing on the right metrics, investing in the development of leaders and creating a strong service culture, banks can ensure that they are well-positioned to succeed in this highly competitive industry.

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