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BANKERS DIGEST

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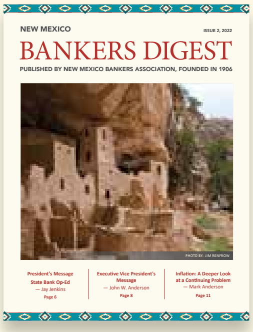

Our Mission

The mission of the New Mexico Bankers Association (NMBA) is to serve member bank needs by acting as New Mexico banking's representative to government, the public, and the industry; providing resources, education and information to enhance the opportunities for success in banking; promoting unity within the industry on common issues; and seeking to improve the regulatory climate to the end that banks can profitably compete in the providing of financial and related products and services.

THE newsLINK group

PRESIDENT'S MESSAGE

JAY JENKINS

PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

Advocates for a state-owned bank have been completely unrealistic and have overlooked the massive challenges in establishing such an entity.

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This will be my final President's Message as I complete my second tour of duty as NMBA President. I was honored to be asked to complete Lonnie Talbert's term. As you probably know, Lonnie has recently been named CEO of the ATM Industry Association.

After a very successful 2022 Legislature, during which we defeated HB 75 (State-Owned Bank Authorization), I continue to be concerned that the state-owned bank issue is raised session after session. So, I decided to get ahead of the curve and prepare an op-ed to be provided to all news outlets concerning our position on this matter. So, the remainder of my message is my op-ed. I hope that it hits the mark. Please don't hesitate to share your feedback.

STATE BANK OP-ED

In recent legislative sessions, a recurring topic has been the establishment of a state-owned bank in New Mexico. Advocates for a state-owned bank have been completely unrealistic and have overlooked the massive challenges in establishing such an entity. Perhaps the most salient point in opposition to would be the significant financial commitment from the state to have the state bank become well-capitalized. As a result, New Mexico taxpayer dollars would be at risk because a state-owned bank would not have deposit insurance such as FDIC insurance. Nor would the state bank be subject to extensive federal and state regulations and examination oversight, which is necessary for protecting depositors and preserving the safety and soundness of a bank. Given these facts, it is particularly important to weigh any potential cost-savings from not paying bank fees against the potential expense of operating a state bank. Accordingly, the transition to a state-owned bank has the potential to be very costly to taxpayers due to unintended consequences.

Any state-backed institution, even if operated by good-faith actors, is

A state-owned bank, in a utopian scenario, could possibly work and provide all necessary banking services. But we're far from living in a utopia and, given the myriad issues that face most states and the constant presence of political pressure, a state bank shouldn't be high on anyone's priority list at this moment.

potentially susceptible to political pressure. The danger of a state-owned bank is that it could be influenced to make decisions based on political favors as opposed to sound underwriting practices. The unfortunate reality is that many institutions can stray far from their intended purpose when subjected to the whims of political pressure. While private sector banks have extensive experience taking deposits and making loans, this is not the expertise and function of the state. This could cause risky loans to be made due to a lack of expertise and sophistication, putting taxpayers at risk. Politics is a business of strong emotions and currying favors to get one’s way, not necessarily compatible with the business of banking.

The only state-owned bank in America is in North Dakota, which was established in 1919 in a dramatically different marketplace than what exists today. Several other state-owned banks were formed in the United States and all have failed. It’s important to note that The Bank of North Dakota works collaboratively with private-sector banks, while proposals in New Mexico would have the state-owned bank directly competing with private sector banks. Notably, the Bank of North Dakota routes its public lending programs through community banks and cooperates rather than competes with local banks, aiding with capital and liquidity requirements. Even with the collaboration with private banks and its long history, the Bank of North Dakota has faced consistent political pressure, often putting its viability in question. One must realistically believe that if a state-owned bank established in 1919 has faced many challenges, then a state-owned bank established in the current marketplace would be subject to much greater pressure.

From a financial standpoint, it is worth looking at public bank studies conducted around the country. The city of San Francisco conducted a public banking study that estimated an investment between $184 million and $3.9 billion would be needed to operate a public bank, depending on its goals, and it would take anywhere between 10 and 56 years before it would break even. Proponents of a state-owned bank assert that it will generate profits, but that is very much in question. It’s worth considering if a startup state bank can reach the size and scale to provide all necessary banking services while achieving profitability or would it put taxpayers at additional risk? A state bank could also adversely impact the state’s credit rating, with credit agencies weighing the potential risk of operating a state bank in its decisions.

New Mexico has its fair share of problems, but it’s hugely debatable if a state-owned bank would address any of them. It would most certainly consume public funds that are desperately needed for infrastructure, education, health and safety, and community development. And, ultimately, a state-owned bank would be replicating services that are provided efficiently by tax-paying, private-sector banks in a competitive, highly regulated markets throughout New Mexico. The potential downside to the state and risks to taxpayers far outweigh potential rewards, particularly given the landscape of modern banking and finance. A state-owned bank, in a utopian scenario, could possibly work and provide all necessary banking services. But we're far from living in a utopia and, given the myriad issues that face most states and the constant presence of political pressure, a state bank shouldn’t be high on anyone’s priority list at this moment. It uses up valuable time and energy that could be spent dealing with pressing issues that can be handled more immediately and effectively.

JOHN W. ANDERSON

EXECUTIVE VICE PRESIDENT
NEW MEXICO BANKERS ASSOCIATION

There are three issues that I want to discuss in this article: Required Minimum Distributions, the SAFE Banking Act and State-Owned Bank Legislation.

There are three issues that I want to discuss in this article: Required Minimum Distributions, the SAFE Banking Act and State-Owned Bank Legislation.

I. Required Minimum Distribution (RMD)

I have done a fair amount of research on this issue. It is complicated and seems to me, much like the income taxation of Social Security benefits, to be unfair and in need of a major revision, cap or repeal.

A RMD is the amount of money that must be withdrawn from an employer-sponsored retirement plan, traditional IRA, SEP, or simple individual retirement account (IRA) by owners and qualified retirement plan participants of retirement age. In 2020, the age for withdrawing from retirement accounts changed from 70 ½ to 72 years old. You must therefore begin withdrawing from a retirement account by April 1 following the year account holders reach age 72. The retiree must then withdraw the RMD amount each subsequent year based on the current RMD calculation.

Why do we have RMDs? The argument is that the RMD acts as a safeguard against people using a retirement account to avoid paying taxes. Required minimum distributions are determined by dividing the retirement account's prior year-end fair market value by the applicable distribution period or life expectancy. A friend explained that the RMD was enacted to keep the wealthy from accumulating tax-deferred wealth in their IRAs and then passing accumulated IRA balances to designated beneficiaries who could use their life expectancies to determine the required payouts and thus substantially postponing the payout of income tax. It impacts many seniors by requiring them to sell equity and/or fixed income assets in a down market, for example, which causes potentially large economic losses just to make taxable distributions. If the RMD were waved during the down market, there will likely be less depletion of the corpus of their account at the very least until the market improves. Again, my friend describes the enactment of the RMD as using "a howitzer to kill an ant."

An example of how the RMD works: Hank, an account holder, age 74, has a birthday on October 1. Hank's IRA is valued at $225,000 and had a balance of $205,000 as of December 31 of the previous year. The distribution factors from the relevant IRS table are 25.8% for age 74 and 22.9% for age 75. So the minimum distribution for Hank is: RMD=$205,000/22.9=$8,951.97.

Therefore, Hank has to withdraw a minimum of $8,951.97 and pay federal and state income tax on that amount. It becomes even more costly in a down market when Hank needs to sell an asset with a fair market to get $8,951.97 and the $8,951.97 is further reduced to state and federal tax. If Congress would, at the very least, exempt the RMD IRAs with a fair market value of $1.5 million – the RMD would kick in on IRAs of more than $1.5 million, but the first $1.5 million would be tax exempt.

Believe it or not, Congress has been working on retirement plans during

the most recent term of Congress. In March, the U.S. House of Representatives voted in support of the Securing a Strong Retirement of 2022. The proposed retirement bill, which is known as SECURE Act 2.0, builds on the original SECURE Act – the Setting Every Community Up for Retirement Enhancement Act-from 2019. The SECURE Act raised the RMD starting age to 72. But SECURE Act 2.0 goes a few steps further. Workers would have to begin making withdrawals from their retirement account at age 73 in 2023, 74 in 2030 and 75 in 2033. In addition, if you miss an RMD, SECURE Act 2.0 would also reduce the tax (from 50% to 25%) for failure to take an RMD.

Serving as the foundation for the Senate's counterpart to the House-passed SECURE Act 2.0, the Senate Finance Committee voted 28-0 to favorably report an amended version of the Enhancing American Retirement Now (EARN) Act, which includes a series of proposals aimed at helping more Americans save. It is likely that the Senate will approve the bill and begin working with the House on merging the differences between the two proposals before Congress adjourns this year. The Senate EARN Act contains several provisions that are substantially similar to the House Secure 2.0 including increasing the age for a required beginning date for RMD.

II. Public Bank of New Mexico

As noted in Jay Jenkins' President's Message, it would appear that a bill creating the Public Bank of New Mexico will be introduced in the 2023 Legislature. The Alliance for Local Economic Prosperity, which has been the principal backer of the public bank legislation during the 2021 and 2022 sessions, recently testified before the Legislative Investment and Pension Oversight Committee to discuss their revised proposal (business plan) for the public bank. The legislation itself is still on the drawing board. Significant details include:

- **Funding:** The bill will include an appropriation of $50 million from the state general fund to capitalize the public bank, and specifically "creates liquidity to fund the bank with a $60 million deposit from current holdings from national banks managed by the State Treasurer." The State Treasurer will be "encouraged" to increase deposits in the bank as the bank matures and demonstrates integrity in its mission. This will increase the bank's lending capacity. The goal is a loan deposit ratio of 70-80%.
- **Financial Aid Business Plan:** The bank will be profitable in two years. In the bank's first seven years, at no cost to the state, the bank's equity/capital will increase from $50 million to more than $92 million and it's lending capacity to more than $940 million. The bank will become operational in nine-12 months following the July 1, 2023 effective date. The return on equity would be a seven-year equity growth rate of 9.18%. The general fund appropriation of $50 million can turn into over $400 million in lending.
- **Lending:** The bank will work with, not compete with, the state's commercial banks and credit unions. Potential initial lending programs include accelerated growth, business development, and value-added guarantee. Other loans include: small business startups and expansions, entrepreneurial loans, and cooperatives ($1.5 million-2 million each); smaller loans ($100,000-$200,000), long-term loans, including home solar ($10,000-$20,000), and medical students and new clinic loans. The bank will provide financing for small businesses, rural and tribal development needs, and provide the capacity to adapt to climate change and financing for post-wildfire development.

We will withhold our comments on the revised business plan once we have had an opportunity to review the actual legislation. However, our position, as noted in this edition's NMBA President's Message, is that the NMBA is opposed to the creation of a public bank as it is unnecessary and will provide no real benefit to New Mexico residents or businesses. The implications of creating a public bank posed risks to New Mexico's taxpayers and would likely saddle the State with significant, unwarranted costs to replicate a highly competitive, regulated, and federally insured banking system that exists in communities across New Mexico.

III. Safe Banking Act

It appears doubtful that Congress will approve the Secure and Fair Enforcement Act (SAFE Banking Act) in this term of Congress. The U.S. House of Representatives this year voted 220-204 to pass the Marijuana Opportunity Reinvestment and Expungement (MORE) Act, which would de-schedule cannabis

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The increased transparency that would come from processing transactions through bank accounts instead of in cash would ensure that regulators and law enforcement have the necessary tools to identify bad actors and remove them from the marketplace. The legislation would also enhance tax collection in the states where cannabis is now legal.

under the federal Controlled Substances Act, effectively ending federal prohibition and opening the industry to more traditional banking services and capital opportunities. This is the second time the House has approved the MORE Act. The Senate, however, turned the amendment down.

Cannabis banking legislation was not included in the final version of the United States Innovation and Competition Act (The America COMPETES Act). Even though the U.S. House of Representatives formally attached the SAFE Act as an amendment to large-scale legislation dealing with innovation and manufacturing in February, the Senate's final version of the legislation did not include that provision. In what may be a last-ditch effort, financial trade associations are urging U.S. House leadership to add the SAFE Banking Act to H.R. 7990, the fiscal year 2023 National Defense Authorization Act as sponsored by Representative Perlmutter (Colorado). Given prior action by the U.S. Senate, it appears unlikely that the Senate would approve the amendment even if inserted in the National Defense Authorization Act by the House.

The majority of the states, 37 including New Mexico, have legalized cannabis for medical or adult use. Nevertheless, federal law still defines cannabis as an illegal drug under the Controlled Substances Act and, as a result, all proceeds generated by a cannabis-related business can be considered unlawful for banks to process. Even accepting a cannabis-related deposit can be considered money laundering. The problem extends to any entity that derives revenue from a cannabis firm, including real estate owners, security firms, utilities, and other vendors and investors. That puts banks in the difficult position of either potentially violating federal law or refusing services to a significant legal sector of their local economies. But excluding the cannabis industry from the banking system has serious consequences for the communities where they operate. Cannabis businesses are handling increasingly large amounts of cash - even paying their state taxes and licensing fees in cash - creating public safety and accountability issues for the industry.

The SAFE Banking Act is designed to bring the cannabis industry into the regulated banking system and provide visibility into its financial activity. Financial institutions adhere to stringent anti-money laundering and counter-terrorist financing reporting requirements, as well as monitor accounts for suspicious activity. The increased transparency that would come from processing transactions through bank accounts instead of in cash would ensure that regulators and law enforcement have the necessary tools to identify bad actors and remove them from the marketplace. The legislation would also enhance tax collection in the states where cannabis is now legal.

INFLATION: A DEEPER LOOK AT A CONTINUING PROBLEM

By Mark Anderson, NMBA Legal and Legislative Assistant

I wrote a bit about inflation this year, as it was a burgeoning problem beginning to pick up steam in the national dialogue, but now might be an appropriate time to return to the topic. Inflation has now become the topic du jour in national economic discourse, with pundits both expressing the need to bring it down and searching for the possible instigators. Let's examine how the topic has continued to evolve in recent months, inflation's origins and effects, and also how instructive it is to study the way it is discussed in much of our media.

A theme that often emerges when paying attention to American media discourse is blame obfuscation. Problems don't emerge from thin air, they're caused by specific courses of action and discreet decisions often made by powerful interests, but much of our media discourse seems to exist to muddy this fact. A quick examination of the recent discourse around inflation shows how much of it is meant to leave the viewer or reader in a state of befuddlement rather than enlightenment. It wouldn't be a stretch to say that one of the overriding missions of our media, whether conscious or unconscious, is to take problems that have real, tangible origins and to declare that the origins of such problems are impenetrably complicated and not even worth delving into for fear of getting lost in complex minutiae.

In reality, this posture of impenetrable complexity belies the fact that our media doesn't want to find out the answers, so shrouding everything in a web of mysticism and opacity serves a purpose. Notably, prominent economic figures such as former Treasury Secretary Larry Summers and current Federal Reserve Chair Jerome Powell have stated recently that they believe the quickest way to curb inflation is to raise unemployment by nearly 2%, meaning approximately 10 million Americans would lose jobs. If you'll recall, the talk in elite economic circles only a year ago was that nobody wanted to work anymore and filling low-wage jobs was becoming an impossibility. Now, those same economists are casually suggesting kicking millions of Americans out of their current jobs. If you notice a pattern, it's that workers are to be manipulated like puppets depending on what the economic conditions call for and that no underlying economic principles seem to exist.

The problem with the notion that inflation is being created largely by sky-high employment and increasing wages is that it's mostly untrue. But the most powerful factions of our society tend to work backward from their conclusions and they want it to be the case that inflation is being caused by better worker conditions. According to a recent paper by the Economic Policy Institute (EPI), the answer to the inflationary cycle largely lies in places the most powerful people in society don't really care to look, most notably the corporate sector. As the EPI paper details, "The price of just

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A simple trick when evaluating economic woes is to think about who has all the power in terms of setting prices, setting working conditions, wages, etc.

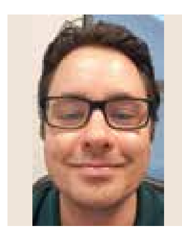
about everything in the U.S. economy can be broken down into the three main components of cost. These include labor costs, nonlabor inputs, and the "mark-up" of profits over the first two components. Good data on these separate cost components exist for the nonfinancial corporate (NFC) sector — those companies that produce goods and services — of the economy, which makes up roughly 75% of the entire private sector. Since the trough of the COVID-19 recession in the second quarter of 2020, overall prices in the NFC sector have risen at an annualized rate of 6.1%—a pronounced acceleration over the 1.8% price growth that characterized the pre-pandemic business cycle of 2007–2019. Strikingly, over half of this increase (53.9%) can be attributed to fatter profit margins, with labor costs contributing less than 8% of this increase. This is not normal. From 1979 to 2019, profits only contributed about 11% to price growth and labor costs over 60%. Nonlabor inputs — a decent indicator for supply-chain snarls — are also driving up prices more than usual in the current economic recovery."

This flies in the face of the belief among the most powerful factions in society, that inflation is due to workers simply living too high on the hog, making too much money, and, ultimately, having too much purchasing power. As the EPI paper further elucidates, "The historically high-profit margins in the economic recovery from the pandemic sit very uneasily with explanations of recent inflation based purely on macroeconomic overheating. Evidence from the past 40 years suggests strongly that profit margins should shrink and the share of corporate sector income going to labor compensation (or the labor share of income) should rise as unemployment falls and the economy heats up. The fact that the exact opposite pattern has happened so far in the recovery should cast much doubt on inflation expectations rooted simply in claims of macroeconomic overheating."

In the past, when economists talk of "overheating," it generally refers to labor or the consumer gaining too much power, specifically in relation to factors like rising real wages and a rising labor share of the income. This dynamic is usually characterized by falling unemployment leading to increased bargaining power for workers that in turn leads to real wage growth threatening to outpace economy-wide productivity growth. The fear here is a potential wage-price spiral, where employers have to raise prices to meet workers' wage demands, and workers demand pay increases to protect them from rising prices. In this type of economic scenario, there are usually calls for the Federal Reserve to raise interest rates sharply. This has been economic conventional wisdom through the decades.

However, as the EPI paper details, the traditional indicators of economic overheating are not necessarily appearing at this present moment. "Currently, the labor share of income and real wages are falling sharply in the recovery even as unemployment falls. It seems strange to see a pattern in the data that is the complete opposite of how overheating-driven inflation has historically worked and not ask if it might be something different this time causing inflation (i.e., the pandemic). Many of those most dismissive of claims that increased corporate power has driven recent inflation to adopt the view that generalized macroeconomic overheating is the culprit. But in dismissing the increased corporate power explanation for recent inflation, they also seem to be discarding any useful information that recent sky-high profit margins might provide about the validity of their alternative view. Profit margins may not be telling us that very recent increases in corporate power are the root cause of inflation. But they are telling us that a simple macroeconomic imbalance of supply and demand is not driving inflation either, unless the relationship between a "hot" economy and profit margins and real wages is just coincidentally behaving entirely differently in the current recovery than it has in the past."

A simple trick when evaluating economic woes is to think about who has all the power in terms of setting prices, setting working conditions, wages, etc. In our economic system, it's almost always the employers. However, it's often presented by the media as if this power dynamic is in dispute; as if it's difficult to determine who is really wielding power. What is even more alarming is that those closest to the centers of power, such as Larry Summers and Jerome Powell, don't seem to want to search for the correct answers. Their one answer is to discipline labor, even when that well has run dry. There are measures that can be taken to tackle corporate-driven inflation, such as an excess profits tax. But those in power must want to do that and, at an even more basic level, recognize the nature of the problem. As with many problems in our society, there are solutions that are tantalizingly close but often seem impossibly far away.



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ROB NICHOLS

PRESIDENT AND CEO
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The fact that states are beginning to take action is due in no small part to banker advocacy – and it's a good reminder of the importance of speaking up whenever we see the credit union industry pushing the boundaries of the statutory limits imposed on it by Congress.

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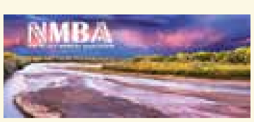

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NO DEAL:

STATES SLAM ON BRAKES FOR CU ACQUISITIONS OF COMMUNITY BANKS

It would have been the largest acquisition of a community bank by a credit union – but word came in mid-June that the deal was off between VyStar Credit Union and Heritage Southeast Bancorporation after a failure to receive regulatory approvals. If completed, the deal would have made Jacksonville, Florida-based VyStar the 13th largest credit union in the nation.

The deal was just one of a growing list of mergers announced between tax-exempt credit unions and taxpaying banks in recent months – but states are starting to sour on the idea.

Earlier this year, the Minnesota Department of Commerce blocked the acquisition of state-chartered Lake Area Bank by Royal Credit Union, officially clarifying that state law does not permit the acquisitions of state-chartered banks by credit unions. Similar actions have taken place in Colorado, Iowa, Tennessee, and Nebraska.

Meanwhile, the Mississippi state legislature succeeded in passing a law stipulating that only FDIC-insured banks can acquire or merge with Mississippi-chartered state banks. The law, which goes into effect this July, puts a halt to any deals in progress that don't comply with the new requirement.

These are encouraging developments.

The decision to merge is, of course, a business decision that must be made at the individual level. But states are increasingly acknowledging that allowing tax-exempt credit unions to gobble up taxpaying banks – taking them off the tax rolls for good – is poor public policy that imposes costs on consumers and taxpayers, and they're taking sensible steps to prevent it from happening in the future.

The fact that states are beginning to take action is due in no small part to banker advocacy – and it's a good reminder of the importance of speaking up whenever we see the credit union industry pushing the boundaries of the statutory limits imposed on it by Congress.

Unfortunately, those attempts are only becoming more brazen.

Recently, the industry lobbied to create a new loophole designed to enable credit unions to greatly expand their fields of membership and business lending capacity. The House bill, which we don't expect to advance in the Senate, was included as part of a broader package of financial inclusion measures, despite the fact that the bill contained no language to ensure that these expanded powers would be used by credit unions to serve underserved communities.

If credit unions were serious about promoting financial inclusion, they should welcome the opportunity to demonstrate their commitment to serving low- to moderate-income communities by meeting the same Community Reinvestment Act requirements banks must meet. But it's become clear that credit unions aren't interested in that mission – in fact, recent data has shown a general pattern of credit unions opening more branches on net in upper- and middle-income census tracts and closing more branches on net in low- to moderate-income census tracts.

It's wrong for credit unions to try and shoehorn self-serving pieces of legislation through Congress under the guise of promoting financial inclusion – just as it's wrong for them to exploit their tax-advantaged status to subsidize acquisitions of taxpaying banks, pay for stadium naming rights or private jets, or open multi-million dollar headquarters.

It's encouraging that states are starting to scrutinize the credit union industry more closely. Now Congress must do the same. ■

Email Rob at nichols@aba.com

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FINDING INTERNATIONAL BUSINESS CUSTOMERS IN YOUR MIDST

By Jay Kenney, PCBB

Often, using new information can help broaden understanding. For community banks, learning there are international business customers in their own communities, but in unexpected places, may also open their eyes.

Many community bankers may not think they have international business customers in their midst. Yet, working with many of our client banks has shown us there are more out there than meets the eye. These businesses may be within your communities and could use international services, giving you more fee income and more ways to support your customers. Not only could there be existing international businesses in your neighborhood, but there are also domestic businesses planning on global expansion. A JPMorgan Chase business survey we reported on for our article, "Reaping the Rewards of SMB Optimism,"notes that 14% of small and midsize businesses (SMBs) anticipate expanding beyond U.S. borders in the next three years.

Three places to find SMBs with international services needs:

1. **Areas where there have been recent bank acquisitions.** You might not think about international businesses when you think of bank mergers and acquisitions (M&A). Yet, we have found that some SMBs have lost their relationship manager through M&A activity and could be looking for someone else to address their international needs, among others.

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2. **Distribution and manufacturing SMBs.** Even if these customers have HQs and manufacturing within state boundaries, they likely have business with other countries for one or more components of their business. Plastics, metals, and machinery are popular imports from trading partners and are used to produce many local goods.

3. **Younger business owners.** Millennial and Gen Z business owners have grown up in a digital and more connected world, where global commerce is not seen as something only for big companies. Some young business owners may be leading an online business. Others may want to import sustainably sourced products, such as wool sweaters from Ecuadorian alpacas or small-batch coffee from Central America.

Once you have determined where the SMBs are that need international services, you can turn your attention to how you can reach out to them. There are multiple ways, but we have found these approaches work well for our bank customers.

- **Send out targeted communications** about your international services so that SMBs needing them will know to contact you. Emails are efficient and fast, while direct mailers can be more impactful, yet take more time.

- **Invest in localized digital ads,** such as Google ads. Those businesses needing wire services or Canadian check imaging will know who to turn to.

- **Provide educational seminars** on international business tips for your community. Likely, SMBs looking for a new service provider will gravitate to such sessions. Keep an ear open for those businesses that may be scrambling.

With international business customers, community banks can expand their customer base, strengthen their customer relationships, and increase their revenue through fee income. Isn't it worth a try?

Dedicated to serving the needs of community banks, PCBB's comprehensive and robust set of solutions includes cash management, international services, lending solutions, and risk management advisory services. To learn more, contact Jay Kenney at pcbb.com or jkenney@pcbb.com.

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EQUAL HOUSING OPPORTUNITY

THREE DIGITAL BANKING STRATEGIES **TO DRIVE CUSTOMER ENGAGEMENT**

By Shelby Isert, CSI

Ongoing improvements and expansion of digital banking are redefining consumer relationships with their financial institutions. This paradigm shift has led to an ongoing concern – how can financial institutions make up for dwindling interpersonal time and meaningfully build consumer engagement?

Digital engagement is a process that requires multiple touchpoints and mechanisms to facilitate. This article discusses the critical elements of each and customer engagement strategies to elevate relationships.

For a broader view of customer-centric banking, you can read our digital transformation white paper at *https://www.csiweb.com/what-to-know/content-hub/odwebinars/digital-transformation-the-rise-of-customer-centric-banking/*.

What is Digital Customer Engagement?

In CSI's 2022 Banking Priorities survey, 85% of banking executives reported increased digital channel usage at their institution. Similarly, Business Insider expects digital banking users in the U.S. to rise to 75% of the population this year.

Digital engagement consists of all the meaningful ways your bank embraces these trends to elevate interactions with consumers. Do customers actively use your digital channels and form real connections with your institution?

In today's competitive market, your answer to that question matters. Engaged customers are more likely to become your best advocates. Recent Gallup research on retail banking also suggests that "fully engaged customers net an additional 23% of revenue."

Finding methods for a streamlined, user-friendly experience is pivotal to the success of your digital platform and maintaining customer relationships. However, since this undertaking encompasses a wide variety of products and services, assessing and improving engagement can be a hefty task for banks to tackle on their own.

Brand Loyalty – Why Engagement Matters

Making customers "sticky" has always been a focus for financial institutions. Since many banks provide the same services and similar rates, building lasting relationships requires you to differentiate by generating a unique and satisfying experience tailored to your customers.

When customers choose to stick with your institution, there are two main reasons: convenience and heavy use of your products. Increasing engagement through your digital platform leads to both, encouraging further use of tools like bill pay, P2P and PFM.

Remember, industries outside of banking heavily influence consumers' expectations surrounding their digital experience. Banks that personalize their offerings, guide customers through their finances and provide essential tools for success are far more likely to win and retain business in the long term. BAI estimated that banks focused on creating a customer-centric culture are 60% more profitable.

Since engagement is such a large and abstract concept, let's break down the products and features in today's market into three categories.

1. Digital Banking Self-Service

Giving customers access to features beyond transfers and bill pay allows for efficient interactions that prevent friction and help build engagement. For example, customers should be able to easily use:

- Account balance and history retrieval
- Messaging
- Profile management
- Digital account opening
- Mobile deposit
- Card management
- Dispute submissions

These and other digital solutions give customers ownership and prevent lengthy calls or branch visits. They can be especially beneficial for those with unusual schedules or who live far away from their bank.

However, Javelin Strategy found that nearly half (49%) of digital banking customers complain that their bank's app makes it difficult to find the features, services and account information they need. So, the goal is ultimately to make self-service not only available but intuitive.

It's critical that your digital banking platform offers robust support and search functionality to guide customers to what they need. Chatbots are also a good start, though by no means a fix-all. Used strategically, they can ease any strain on your frontline staff and expedite service for some customers.

For example, potential customers can interact with an AI-powered chatbot on your website or mobile app to learn more about applying for a loan. The bot collects information, answers questions and provides an option to securely pass the data to a loan originator via several channels.

> Digital engagement consists of all the meaningful ways your bank embraces these trends to elevate interactions with consumers.

2. Digital Banking Communication

Impersonal interactions can contribute to disengaged customers or members, but effective digital communication can help your institution create emotional connections and set itself apart.

Fortunately, digital communication options have also expanded in recent history to include secure messaging and video conferencing. Today we also see screen-sharing capabilities cutting down on communication barriers and misunderstandings between customers and support staff. According to research firm Celent, the most effective digital communications strategies balance the technological and the human to include:

- Skills-based routing
- Co-browsing
- Digital account booking
- Live observation
- Secure file sharing
- Digital signatures

By providing a secure end-to-end communication platform that leverages the above, bank employees can

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serve customers better and immediately know where the communication originates. The key is to provide self-service when customers want it and human connection when they need it. A unified communication solution with a holistic communication strategy are powerful tools to accomplish this.

3. Personal Financial Management Tools

According to a recent Aite-Novarica study, five in 10 consumers worry about the amount of debt they have, whether they'll be able to pay it off and how that struggle will affect their overall financial well-being. The research firm also found that over 60% track day-to-day finances through digital banking.

Your financial institution is uniquely positioned to offer guidance and promote financially healthy behavior to customers. Focusing on financial management and financial wellness resources helps illuminate your customers' financial picture and engage them with your digital platform.

A useful personal financial manager empowers customers to interact with the data to create budgets, goals and more. Consider the average consumer has many financial accounts between deposits, loans, retirement and other assets. What if those disparate accounts were aggregated and accessible from one location?

Many third parties, like Quicken and Mint, already vie to create that centralized platform with valuable financial insight and meaningful displays of assets and liabilities. Again, financial institutions could lead by providing access to not only their own accounts but also all other accounts and information customers need for accurate financial summaries.

Looking Ahead – Gamification in Banking

Some institutions are beginning to engage customers through gamification and incentives. This sphere is being strongly influenced by outside markets, like retail and social media, either already providing or working to provide a gamified experience.

Gamification can mean many things, like a points system, lottery, progress charts or badges. Typically, these are made possible through partnerships with tech-savvy providers. By making banking more "fun," customers are encouraged to return to digital banking for reasons other than their usual banking needs.

While many already gamified industries differ from banking, those same industries compete for your customers' engagement and attention. So, while this hasn't yet been a high priority for banks, many expect it to become a more frequent talking point for vendors in the financial engagement space.

Transforming the Digital Experience with Customer-Centric Banking

Upgrading the digital banking experience is a great way to differentiate your institution from competitors, garner new customers and keep existing ones. As the industry continues to explore engagement and make improvements, an array of experiences will emerge to suit a variety of end-users.

Developing a strategy ahead of time for encouraging engagement and putting the customer first sets you ahead of the curve. For a guide to driving engagement through a customer-centric banking model, check out our white paper.

Shelby Isert serves as Product Manager for Digital Banking, with her efforts mainly focused on developing the CSI Digital consumer engagement and financial wellness strategy. Her inside knowledge of consumers and financial institutions' needs has helped her develop the skillset required to grow products that cultivate a great user experience and improved engagement. During her career, she has led several conversions and launches for various products, including digital banking, credit card and tokenization services.

PIONEER BANK AWARDED ON THE **FORBES BEST-IN-STATE BANKS 2022 LIST**

Pioneer Bank has been awarded on the Forbes list of Best-In-State Banks 2022. This prestigious award is presented by Forbes and Statista Inc., the world-leading statistics portal and industry ranking provider. The awards list was announced on June 21, 2022, and can currently be viewed on the Forbes website. Pioneer Bank was ranked #1 in New Mexico and also earned this achievement in 2020.

Forbes and Statista identified Best-In-State Banks 2022 based on an independent survey of approximately 26,000 U.S. consumers who were asked to rate banks at which they have or previously have had checking accounts. Participants made recommendations regarding overall satisfaction; they also assessed banks in the following areas: Trust, Terms & Conditions, Branch Services, Digital Services, Customer Service, and Financial Advice.

Based on the results of the study, Pioneer Bank is ecstatic to be recognized on the Forbes list of Best-In-State Banks 2022.

"Pioneer Bank is humbled to be the recipient of America's Best-In-State Bank for New Mexico," states Christopher G. Palmer, President/CEO. "We are blessed to work with a fantastic team who live by our number one core value of People First. Our culture has flourished under this belief, and it has cultivated a cohesive team working together toward our mission to make a positive difference in the lives of those who work, bank, and invest at Pioneer." ■

PIONEER BANK.

BANK NEWS

Lonnie Talbert Named CEO of the ATM Industry Association

The ATM Industry Association (ATMIA) recently announced the appointment of its new CEO Lonnie Talbert, Past President of the New Mexico Bankers Association. He will succeed long-time incumbent CEO Mike Lee following his retirement at the end of June.

For over three decades, Talbert has enjoyed an extensive and successful career in Financial Services, including leading large Fortune 500 companies, encompassing several high-level executive roles. He was most recently President of the New Mexico Bankers Association and has been a member of numerous ABA committees and the ePay board of directors. During his varied career, he has held public office and traveled widely in North America and abroad, promoting economic development and best practice. Lonnie received his bachelor's degree in Business Administration from Jacksonville University.

"I am honored and humbled to succeed Mike Lee as CEO of ATMIA and am excited to continue the work carried out by Mike and his wonderful team, supported by leadership from our Board of Directors and backed by a strong membership base, educating, connecting and advocating together to grow our whole industry," Talbert commented. "It is important that we continue to ensure inclusivity and access for all to cash, and numerous value-added services, through a strong global network of ATMs."

He has led teams as small as 50 and as large as 1,000+ to operate in unison around the organizational mission,delivering consistent bottom-line results for boards of directors, key stakeholders, employees, and customers, while leveraging technology and digitalization in effective business operations and service/product delivery. Previously in his career, he was President and Chief Operating Officer for Southwest Capital Bank, Senior Vice President, Consumer Market Executive for Bank of America, EVP, Operations and Technology for First Community Bank and President for Citi Cards.

Recently, Talbert was awarded the Chairman's Distinguished Service Award at the Annual Dinner of the Albuquerque Leadership in Economic Development Awards. In 2016, Albuquerque Business First news magazine selected him as the Top COO. He was recognized as an influential power broker by New Mexico Business Weekly in 2012.

"I would like to extend a warm-hearted welcome to Lonnie into his demanding and rewarding position as CEO of a global trade association," commented Mike Lee. "I feel totally at ease in handing over the reins to such a proven capable and dynamic leader. He will have a great board of directors to guide him, a superb team of staff and colleagues, well-oiled systems and processes to help him deliver results and a worldwide membership to support him. Lonnie will take ATMIA and the ATM industry far down the road of progress towards our 2050 vision of continued pre-eminence in the self-service sector of financial services." ■

Wells Fargo Donates $50,000 to Support Wildlife Relief Efforts

Wells Fargo & Company announced a $50,000 donation from the Wells Fargo Foundation to the All Together NM Fund and the Santa Fe Community Foundation's Resiliency Fund, directing support to New Mexicans impacted by wildfires burning across the state. The funds, delivered through the Santa Fe Community Foundation, will be distributed to affected New Mexico communities in coordination with local organizations for emergency shelter, food and water distribution, and access to medical support.

Wells Fargo will focus $10,000 of the donation on the Calf Canyon and Hermits Peak fires in the Las Vegas, New Mexico area and also $10,000 to the Village of Ruidoso,where the McBride Fire caused considerable damage and loss of life,as well as impacts to the bank's branch and employees. The remaining $30,000 will be used for statewide relief efforts.

"The wildfires have impacted so many New Mexicans in various ways at a time when our residents are already experiencing economic hardships," said David Hockmuth, regional banking director, Wells Fargo. "We hope this donation will improve the lives of those directly affected by this natural disaster so that they do not have to worry about basic necessities when they should be focused solely on rebuilding and recovery."

Launched by Gov. Michelle Lujan Grisham in collaboration with the New Mexico Coalition of Community Foundations at the outset of the pandemic, the All Together NM Fund has awarded over $3 million in grants to food banks, food pantries, and small businesses across the state since March of 2020. The board of the Coalition of Community Foundations voted last month to approve the use of the fund to support New Mexico communities impacted by ongoing wildfires. One of the first priorities has been to provide emergency shelter for New Mexicans displaced by wildfires and evacuations. ■

Paul DiPaola, U.S. Bank New Mexico Region President, Announces Retirement

After 39 years in banking, Paul DiPaola, U.S. Bank New Mexico region president, announced his retirement effective June 3, 2022.

The veteran banker led 24 branches and over 200 employees throughout the state of New Mexico. He was named region president in 2011, following roles in bank administration, marketing and commercial lending. DiPaola has been with U.S. Bank and its predecessor companies since 1994.

"Paul is an excellent leader and has developed a first-class team in New Mexico," said Liesl Schmidt, region executive for U.S. Bank. "Throughout his career, he has been an invaluable asset to the bank and his peers, clients, and community."

DiPaola earned a business administration degree from Eastern New Mexico University and is a graduate of the New Mexico School of Banking and Leadership New Mexico. In 2018, he was named as a Leader New Mexico Distinguished Alumnus.

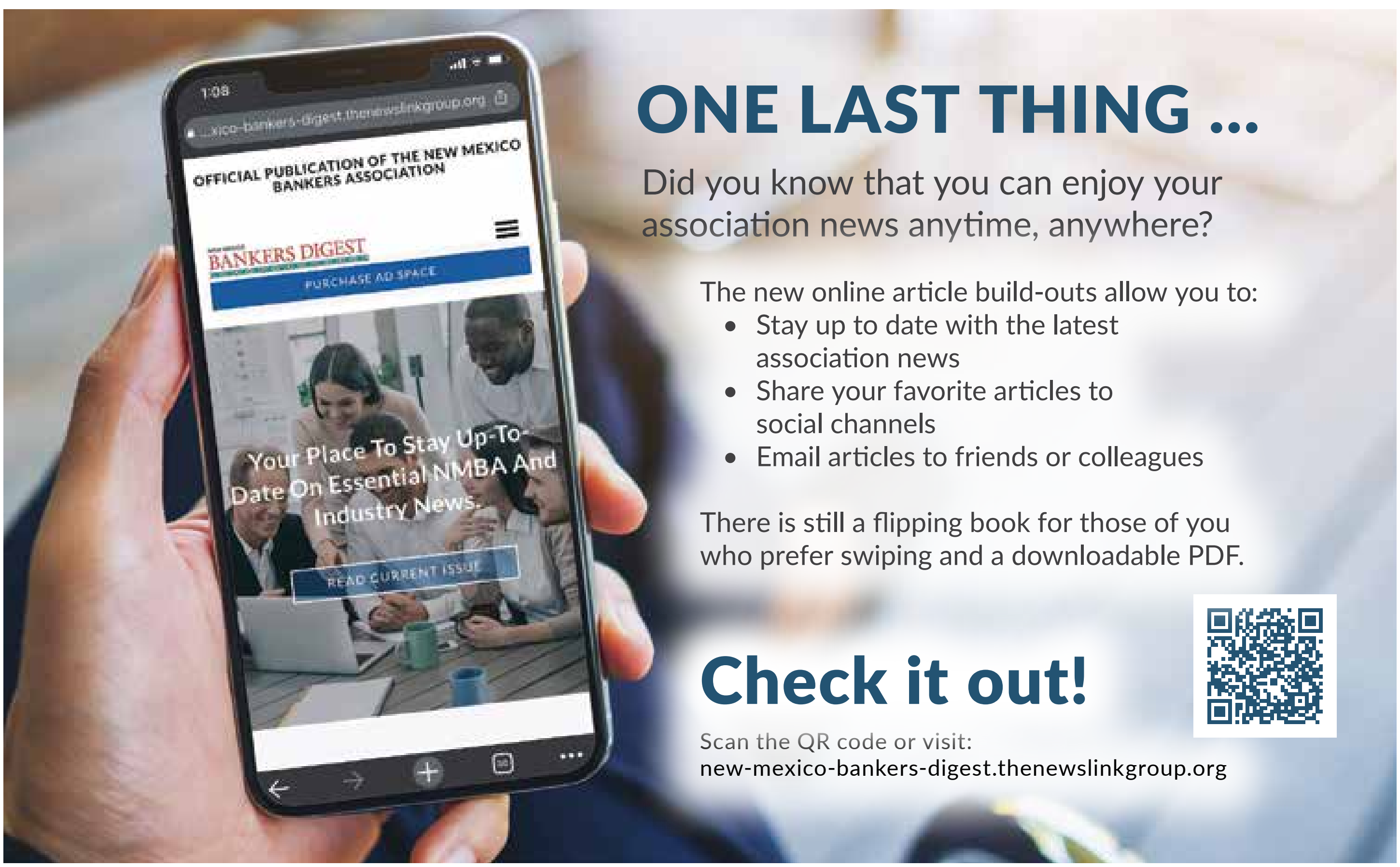
Deeply committed to the community, DiPaola has served on the boards of almost every major business-related organization in Albuquerque, Rio Rancho, and in other cities across New Mexico. He is a member of the New Mexico Amigos and currently serves as a board member for the Albuquerque Chamber of Commerce and Albuquerque Regional Economic Alliance. Additionally, he is an Albuquerque Community Foundation Trustee. Paul served as NMBA President from 2015-2016. ■

PAUL REARDON,
ZIA TRUST CEO ANNOUNCEMENT

The Board of Directors for Zia Trust, Inc., located in Albuquerque, New Mexico,is pleased to appoint Paul Reardon as Chief Executive Officer for the company, effective June 1, 2022. Paul takes over for Ed Kraft, retiring after 20+years as the leader of Zia Trust and a 50+ year career in business.

Paul has been a member of the Zia Trust team since October 2019,when he was hired as a Trust Officer. Through great skills in trust administration and understanding of complex issues, Paul grew into an integral team member, forming Zia's Quality Control Department in 2021. He is trained in New Mexico and Arizona Trust Code and has completed the American Bankers Association Trust School Program.

Paul has held different managerial roles in jobs prior to Zia Trust. He is well connected to the Albuquerque community, having spent 40 years calling New Mexico home. He welcomes the challenge of the new role and will work closely with the Board of Directors to serve clients and beneficiaries in the Southwest. ■



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