

## Visioning

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By [Stephen M. Klein](#)

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### **A New Year – A New Order**

As we embark on a New Year, take a journey with me and “envision” what can and may well be. Let your mind expand and free yourself of traditional thinking. What will the New Order look like in, say, 2020?

### **Cyber Banking Is Upon Us**

Oh, how we wistfully remember the days of tellers, personal service, and physical money. The cyber cell manufactured by Looney Tunes, Inc. is the hottest new “go to” device to do everything, including banking, accessing your home and car, and online shopping. In the paperless and cashless society we will be accustomed to in 2020, coin of the realm will no longer be accepted, even at McDonalds!

### **Community Banking Reinvented**

Lo and behold, a small group of community banks, about 5,000 to be precise, have survived the further consolidation of our industry. Ten banks control more than 90% of the deposits and 100 control 95%. Walbank is giving Citibank, Chase and Bank of America a run for their money with its integrated, multipurpose “chip” account, based on state-of-the-art micro technology. Those remaining hardcore community banks will dabble in non-interest income activities and continue to emphasize their primary (and only real) advantage – service and responsiveness. Branches will be reduced in number and size, reflecting cost considerations and the impact of electronic banking.

### **The Return of M&A**

And now back to the near-term future. Everyone asks me when M&A activity will return, following a 20-year low in 2011. I don’t know and I doubt anyone else does either. But, let’s speculate. There should be some activity in 2012, provided bank stock prices move north, real estate values finally stabilize, and unemployment continues to recede. However, I don’t think we will see substantial M&A activity until 2013 or 2014.

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When that inevitably occurs, we will see the natural anticipated consolidation of the industry for all the reasons we know – board and management fatigue, shareholder frustration, increasing regulatory (i.e., compliance) burden, and a nudge in that direction by regulators.

### **The Survival of the Dual Banking System**

I firmly believe community banking will continue, but wonder if the dual banking system will survive. Realistically, it takes a certain critical mass of “assets under management” for state banking agencies to function in a meaningful way. How consolidation of the industry impacts that is yet to be seen. Perhaps they will simply partner up with the FDIC on exams. However, I do think that there is some risk of survivability of state banking agencies in certain states. This, of course, would be unfortunate in my view.

### **Why Community Banking?**

As I have said before, quoting my former colleague Mark Lewington, “Community banking is part of the fabric of this country.” I still believe that. It is why I have built my practice and career around representing community banks. They are special and an integral part of the communities they serve.

### **On to the Future**

It looks like the worst is over for most of the surviving community banks. It is now time to get new business, make some money, and look toward the future. I look forward to this next chapter and the new challenges that lie ahead during the remainder of this decade.

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