



Driving Growth and Profitability in 2024

profitability economy

Summary: 2024 looks to be another challenging year. We discuss ways that CFIs can continue to grow and sustain profitability in an uncertain world by optimizing the value of their tech spend and data, pursuing key growth areas and revenue streams, and focusing on leadership and talent.

The fastest wind speed ever witnessed on earth was 253 mph. This was recorded by an anemometer — a sensor designed to measure wind speed — over three seconds on [Barrow Island, Australia on April 10, 1996](#). It was during Cyclone Olivia, a Category 4 storm.

Although it's not possible to measure their exact speed, the banking industry is expected to face strong headwinds well into 2024, as a result of a slowing global economy, an uncertain economic landscape, and ongoing geopolitical tensions. These — along with continued inflation, high interest rates, an assertive regulatory environment, and a challenging labor market — will continue to test a financial institution's (FI's) ability to generate income and manage costs. Given the likely trials ahead, we highlight four key considerations for community financial institutions (CFIs) as they strive to grow and sustain profit levels.

1. Optimize value from technology spend.

The exponential pace of new technology implementation and the convergence of emerging tech trends continue to influence CFIs' operations. With [79% of FIs planning to increase their technology spend](#) in the next year, CFIs need to derive as much value from their tech spend as possible to drive efficiency and profitability.

Any "capital light" tech deployments — such as cloud-based platforms and software-as-a-service solutions — that can be implemented quickly are likely to take priority, as are those that offer value and early return on investment. CFIs may also want to implement solutions that give them out-of-the-box capabilities from the start.

Meanwhile, [artificial intelligence \(AI\)](#) and machine learning continue to help drive efficiencies and improve the customer experience in many areas of banking. Generative AI can augment the work of existing staff, improve staff productivity to reduce costs, and free up resources so that staff can spend more time on value-add activities. A key challenge for CFIs in 2024 will be ensuring that they can anticipate new roles for AI within their institution and determining where it could have the most impact.

2. Pursue key growth areas and new revenue streams.

Although most CFIs are managing the current economic uncertainty well, their revenue models will be tested as challenging conditions persist. FIs are already seeking new sources of value and revenue, with embedded finance, wealth management, and small business banking receiving lots of attention:

- For proactive and agile CFIs, [embedded finance](#) offers massive opportunities to develop new customer relationships and generate new revenue streams by placing their financial products on non-banking companies' platforms.

- [Wealth management](#) has been identified in Wipfli's 2023 State of the Banking Industry report as [the top service added by financial institutions](#) over the past three years. Digital wealth management, in particular, is regarded as key to attracting younger customers, while also enabling CFIs to become a "one-stop-shop" for all their customers' needs.
- As small businesses strive to do more with less, they're likely to turn to their CFIs for help eliminating friction in their cash flow and supply chain processes. Offering an integrated platform that meets a wide range of financial service needs and providing efficient, streamlined online lending services (including the use of alternative credit score data) are just some of the ways in which CFIs can serve a wider range of small business customers in an uncertain world.

3. Optimize the use of data.

To maximize their return on technology spend, CFIs will also need to make the most of their data. For example, the data they hold on their customers' financial needs and behaviors should direct their marketing and sales efforts. CFIs should consider investing in analytics tools that can [harness their data and help increase product uptake](#). The effective use of data can help CFIs connect with their customers in a more meaningful and personalized manner that encourages engagement and action.

4. Focusing on leadership, talent, and culture.

A solid foundation for growth requires [leaders who can map out a clear business vision](#) and communicate openly and transparently. This is even more important in an uncertain economic environment. Senior managers need to be authentic and lead with integrity. They should also be able to inspire, motivate, and encourage a collaborative work environment. CFIs that truly support their talent and promote a diverse, equitable, and inclusive culture are more likely to attract and retain the people they need to help drive growth during challenging times.

Given the challenges and headwinds expected in the new year, it's likely that CFIs will need to continue to work hard to grow and sustain profits. However, by focusing on working not necessarily harder but smarter, they should be better placed to come out on top.

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ECONOMY & RATES

Rates As Of: 12/11/2023 05:35AM (GMT-0800)

Treasury	Yields	MTD Chg	YTD Chg
3M	5.44	-0.01	1.02
6M	5.39	0.01	0.63
1Y	5.14	0.01	0.43
2Y	4.76	0.07	0.33
5Y	4.29	0.02	0.28
10Y	4.27	-0.06	0.39

30Y	4.35	-0.15	0.38
FF Market		FF Disc	IORB
5.33		5.50	5.40
SOFR		Prime	QBER
5.32		8.50	5.32

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