Research Paper: Community Banks and Technology

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Technology and banking share a long history. The rapid growth over the past 20 years in adoption of technology for front and back office operations in banks of all sizes is well documented. In a recent paper by Feng and Wu (2018), they show that the median real technology expenditures per bank has doubled since 2000 with no observable difference between large and small banks.1 Feng and Wu (2018) also note that importance of new technology to allow all banks to better compete in the marketplace, whether through new products, improved quality of existing products, or improved efficiency.

One of the interesting findings from Feng and Wu (2018) is that bank performance measure are positively and significantly correlated with lagged technology spending but there is little evidence of this phenomenon at small banks. One interpretation (the authors') of these results is that technology investment involves significant fixed costs and often must be made (e.g. regulatory compliance) even if not optimal for the bank. As such, financial performance may not be improved. But at the same time small banks and large banks look the same size on a monitor screen (online banking) or a smart phone (mobile banking). What matters are the products and services provided and the bank's platform flexibility (internal provision versus third party, partial digitization versus full digitization).

The 2014-2016 National Surveys conducted by the Conference of State Banking Supervisors and the Federal Reserve Bank of St. Louis asked questions about technology expenditures as a percent of assets but not how technology was deployed. No questions were asked directly about technology in the 2017 Survey, but the 2018 Survey asked a number of new questions related to technology use and importance. This Survey provides a unique opportunity to look at specific technology use, not just expenditures. Most importantly, it provides insight to the importance of emerging technologies and the constraints community banks face in pursuing online/digital product strategies.

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