

Opening Remarks

Jeff Schmid
President and Chief Executive Officer
Federal Reserve Bank of Kansas City

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The views expressed by the author are his own and do not necessarily reflect those of the Federal Reserve System, its governors, officers or representatives.

Good morning. It is my pleasure to welcome you to the Federal Reserve Bank of Kansas City and our first ever “Workshop on the Future of Banking.” I am pleased to be joined today by bank executives from the Tenth District and across the nation as well as a number of esteemed academics and industry representatives. It is my hope that together we will have a productive conversation about the key issues affecting the banking industry, whose success is vital to our economy. I would also like to recognize that many of you here today represent community banks. Your locally focused banks are integral to our financial system as service providers and our society more broadly because of your enduring commitment to civic engagement. I hope to hear more in our conversations today about how your banks strengthen local communities as well as the challenges and opportunities you face.

Our discussion this morning will take an in-depth look at how banks are positioning themselves for the future. In particular, I am interested in learning more about how banks will harness emerging technologies to increase efficiencies and develop new products to serve their customers. However, our conversation will also focus on the challenges banks face and the tools they will require to persevere and thrive in today’s dynamic economy. Overall, I hope to get a keen sense of the role that policymaking can play in helping banks navigate an evolving financial landscape while always ensuring a safe and sound U.S. financial system.

Through today’s panel discussions, I also hope to better understand the barriers confronting prospective entrants to the banking industry. New bank owners and managers can bring innovative ideas and promote changes that improve efficiency and access to financial services for businesses and consumers. Such changes may be particularly impactful to banking customers in rural or otherwise underserved areas that have historically had relatively limited

financial services offerings. Indeed, financial services access is a particularly important topic to the Federal Reserve Bank of Kansas City because our district contains many rural and low-to-moderate-income communities. Innovation can also create a more efficient financial system that benefits service providers by lowering costs and increasing profitability. Despite the potential benefits, however, new charter issuance has declined substantially since the Global Financial Crisis. Today's discussion will illuminate the reasons why this decline has occurred and the policy changes that might be necessary to enable new chartering activity.

Outside of new charters, entry into the banking industry can occur through the acquisition of existing bank charters as well. Allowing fresh, innovative owners to acquire existing banks can enhance system resiliency and increase new product offerings in much the same way that de novo chartering can. In fact, under certain circumstances, investors might be indifferent between acquiring an existing bank and setting up a new bank, as my colleague Governor Bowman has pointed out in the past. However, in practice, there has been a clear preference for charter acquisition over de novo formation among recent market participants. Therefore, I think it is reasonable for policymakers to ask, what tradeoffs are involved when entry occurs via acquisition rather than de novo chartering?

Relatedly, I am interested in how consolidation across banks can affect the future structure of our community banking network. For the past 40 years, banks have steadily consolidated, resulting in fewer bank charters and increased institutional size and complexity. While increased size and complexity has brought substantial challenges for both bank managers and supervisors, many argue that the prolonged period of consolidation has resulted in a more efficient system that better meets the needs of borrowers. At the same time, having fewer banks may decrease competition and reduce access to financial services for some communities. I

believe policymakers have an obligation to ensure financial services remain reasonably accessible across a diverse range of localities and communities. In turn, it makes sense to ask if a continuation of the current consolidation trends will help or hinder this goal.

We will also explore questions surrounding bank competition today. Financial market competition has been fierce in recent years both among traditional banks and between banks and non-banks. In particular, nonbank competition has increased substantially due to both greater competition from traditional finance, such as credit unions and the farm credit system, as well as a rise in innovative financial startups such as fintechs. Policymakers should continually reevaluate whether the lens through which they view competition accurately reflects the world in which modern banks operate.

Overall, the main objective of today's workshop is to have a conversation with an important set of stakeholders that will be directly affected by ongoing market changes. However, I also understand there are other groups who have a vested interest in the matters we will discuss. To that end, I am hopeful that today's event will be the starting point for a larger conversation among all stakeholders. Ultimately, my goal is to encourage informed policy choices that lead to a better financial system for the country — one that meets the needs of both modern financial services providers and the American people.

Personally, I am very excited to host this event because these are issues that are near and dear to me. As a former community banker myself, I have had the opportunity to both operate established banks and to engage in mergers and acquisitions. So needless to say, I have sat where you sit, and I have experienced many of the challenges you face. I also have a deep passion for the benefits that community banks bring to our nation as both financial services providers and as pillars of our local communities. As the lender of choice for many small businesses, community

banks ensure our local economies continue to thrive by meeting businesses' essential financial needs. Community banks have also continually demonstrated an ability to understand the unique challenges households and businesses face in their communities. It is my hope that policymakers can maximize the benefits that community banks provide to our local communities while enhancing their health and resiliency. For this reason, I look forward to hearing your views and discussing the many issues on the table today.

I would now like to introduce my Federal Reserve colleague, Governor Michelle Bowman. Governor Bowman has been a member of the Federal Reserve Board since 2018. Prior to her Federal Reserve appointment, she served as Kansas state banking commissioner for two years and as an executive of Farmers & Drovers Bank in Kansas. She also held staff positions in the U.S. House and Senate as well as FEMA and the Department of Homeland Security. It is with great pleasure that I welcome Governor Bowman.