Crisil
Coalition
Greenwich

Reinforcing Resilience: Diverse Competitors and Harsh Economic Realities Squeeze Smaller Banks

August 8, 2023

America's smaller commercial banks are under increasing pressure. The collapse of Silicon Valley Bank and First Republic nearly caused a run on small and regional banks in the United States. Fast action by regulators to protect retail deposits and orchestrate an orderly takeover of First Republic helped staunch the flow of deposits from other banks that may have been perceived to be at risk.

However, the economic circumstances that contributed to these failures have not materially changed in the ensuing months. Smaller banks are facing competition so fierce that it might be causing some providers to take increasing levels of risk to sustain financial results. Leaders from responsible management teams are struggling to maintain profitability in the face of shrinking deposit bases, increasing funding costs, soaring compliance and technology expenditures, and a growing array of traditional bank and nonbank competitors.

Within the banking industry, the big three U.S. universal banks are capturing a growing share of commercial banking relationships. Bank of America, JPMorgan Chase and Wells Fargo currently hold lead bank relationships with 30% of small businesses and midsize companies, up from a low of 24% during the COVID-19 crisis. These banks are using their massive scale to roll out highly efficient and effective technology platforms that are now materially improving commercial relationships for both banks and clients. In addition, perceptions of "too-big-to-fail" status makes them attractive safe harbors for companies in today's volatile markets.

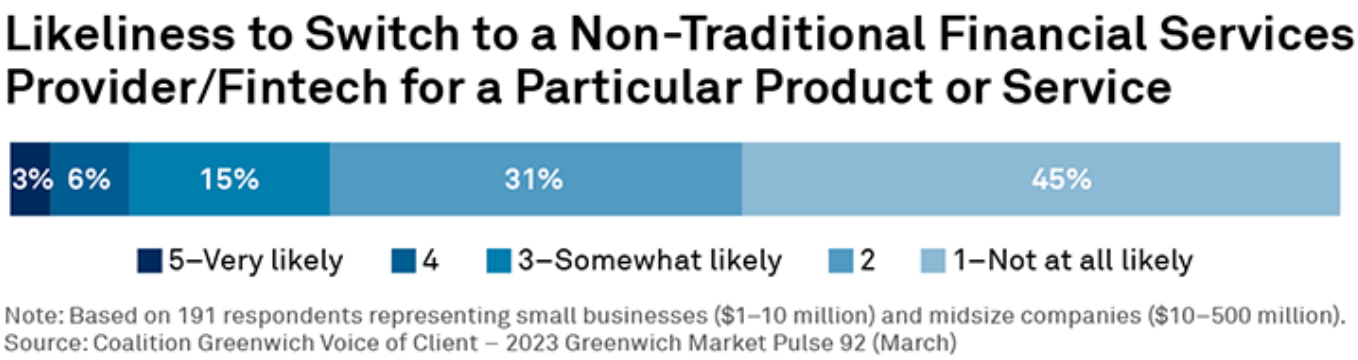
Nonbank Competitors Pose a Threat

Banks also face competition from increasingly viable non-industry providers, including fintechs and nonbank/private equity lenders.

Large private equity firms and other nonbank lenders are expanding their presence in what has always been a core business for regional and smaller banks: commercial lending. Although regional banks still account for $4.5 trillion in loans or 40% of the U.S. total, nonbank lenders are expanding fast. That growth is actually accelerating in the current environment, in which a combination of dwindling deposits, tightening underwriting standards and increasing regulatory scrutiny are slowing bank lending.

Meanwhile, the persistent rise of fintechs poses a long-term threat to commercial bank revenue streams, deposits and customer relationships. Our data-driven insights show that $1.1 billion is at risk for small business banking and $2.2 billion for middle market banking in credit risk, given the shift from traditional bank providers to new entrants.

Those revenue losses could be just the tip of the iceberg. Companies that move payments and other treasury management functions to technology providers often shift their level of engagement as well. The migration of deposits to fintechs will obviously erode existing commercial banking relationships. The loss of deposits will also increase internal funding costs for commercial banks, making it even harder for smaller and regional banks to compete.



Note: Based on 191 respondents representing small businesses ($1–10 million) and midsize companies ($10–500 million).
Source: Coalition Greenwich Voice of Client – 2023 Greenwich Market Pulse 92 (March)

There is a silver lining for banks: For the moment at least, most small businesses and midsize companies remain hesitant about entrusting essential services to fintechs. More than three-quarters of commercial banking clients say they are unlikely to switch to fintechs for *any* product or service.

Although many companies remain reluctant to take the fintech plunge, fintechs are steadily growing their footprints in payments, cash management and other banking and treasury functions that, until recently, were the sole province of commercial banks. This success, combined with the advance of nonbank lenders, is slowly eating away at commercial bank revenues and profit margins.

A Wave of Consolidation Appears Inevitable

The impact of this competition is felt most keenly by regional and smaller banks. The big three universal banks have diverse franchises encompassing commercial banking, large corporate banking, investment banking, capital markets, cash/treasury management, and massive retail banking businesses. These banks can much more easily absorb any ebbs and flows in profitability from commercial banking or any other individual business. Their large and relatively stable deposit bases also make them less vulnerable to the increases in funding costs that are now contributing to the growing pressure on regional and smaller banks.

That pressure seems to be pushing the U.S. banking industry inexorably toward a future of consolidation in the ranks of our regional and small commercial banks.

This entry is Part Two in our analysis of the competitive dynamics of the U.S. commercial banking industry. In this series, we pay special attention to the increasing economic pressure on regional and small banks. We began this analysis in Part One with an examination of client trust levels in commercial banking. In this installment, we look at the new nonbank competitors that are moving aggressively to capture a share of the U.S. commercial banking market. Finally, in Part Three, we will explore what we expect to be one of the main the consequences of the pressure on smaller banks: industry consolidation.

The insights presented throughout this series come from the Greenwich Money in Motion platform. Money in Motion equips commercial bankers with unique, high-value client intelligence for the U.S. SME market derived from company-level data on approximately 1.3 million private companies, including wallet estimates, next-best product recommendations, attrition risk identification, wallet share analytics, and quality metrics for more effective prospecting, retention and pre-call planning.

Chris McDonnell, Cheri Derrick, and Kevin Seiler are the authors of this publication.

---

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the

trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., an S&P Global company. ©2025 Crisil Ltd. All rights reserved.