

Hard-pressed US regional banks are investing in growth strategies in 2024

Article

The trend: While regional banks have started off the new year strong, the top six reported 15% to 38% drops in their profits year over year from 2022 to 2023.

- As these banks' bread-and-butter businesses struggle, they're searching for new strategies that will help them kickstart growth.

How we got here: Ripple effects from the March banking crisis contributed to a disappointing regional banking earnings season.

- Big banks **bore the brunt** of the FDIC's special assessment to replenish its insurance fund, which had been depleted by last year's collapses—but regional banks also had to pay up.
- **The largest regional banks owed the regulator upward of \$500 million**, which ate into their Q4 profits.
- Other businesses like commercial real estate, mortgages and consumer lending, small enterprise banking, and slowing deposits **contributed** to regional banks' struggles.

How do fintechs fit into the solution? Some regional banks have invested heavily in fintechs to stay competitive in an evolving landscape.

- **Huntington National, First Horizon, and Regions participated** in ModernFi's Series B round. This startup runs a deposit network that seeks to help banks bolster their deposits by sourcing them, sweeping funds, and providing insurance beyond what the FDIC offers.
- ModernFi **isn't the only company** operating in this space—IntraFi, R&T Deposit, Solutions, and StoneCastle Cash Management offer a variety of solutions meant to help banks grow deposits.
- However, ModernFi's services seek to help regional and community banks differentiate their services by streamlining the depositor onboarding process—something these banks may not have enough in-house bandwidth or resources to do.

Graduating into big bank territory: PNC Bank's CEO Bill Demchak says the Pittsburgh-based bank **hopes to leave** the regional category altogether.

- Demchak says corporate depositors will likely migrate to the largest banks with "implied government backing" after regulators' responses to last year's crisis.
- Analysts believe Demchak is signaling PNC's intent to buy other banks over the next few years.
- But one strategy doesn't fit all—**KeyCorp** CEO says the Cleveland-based bank, which is of similar size, has no plans to follow suit.

Can all of these banks survive? While the US has the most financial institutions (FIs) per capita of any country, the number of FDIC-insured institutions has dropped by **100 to 200** FIs per

year since 2019.

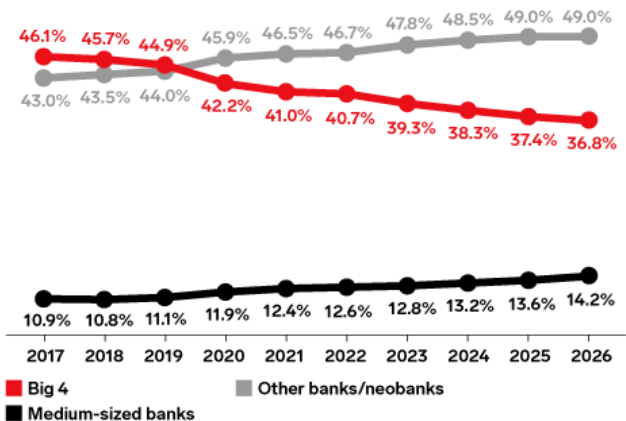
- Deloitte’s 2024 Banking and Capital Markets Outlook **reviewed** the existential struggle regional banks face this year and predicted regional banking mergers and acquisitions (M&As) will increase.
- These banks feel pressured to reduce deposit costs, but also need to keep rates competitive for customers—a delicate balancing act.
- FIs with loyal depositors and weaker lending portfolios will be attractive targets for those looking to buy.

Other smaller FIs have **accelerated** their M&A activity in 2024 after a slowdown last year.

Key takeaways: Regional banks that aren’t looking to participate in M&As in 2024 have other options that could help them differentiate themselves from competitors.

- Fintechs could help banks improve their digital experience while working to attract more deposits—solving multiple problems at once.
- Fintechs may also offer cost-effective solutions to specific banking challenges, such as cutting expenses and keeping up with competitors’ technology, particularly in AI and cloud migration.

US Banks’ Share of Total Annual IT/Technology Expenses, by Bank Size, March 2022
% of total banking IT/technology expenses



Note: includes expenses by banks with FDIC-backed consumer and business expenses and savings accounts; expenses include core systems maintenance, modernization, innovation, transformative technology, data processing, equipment, software, digital initiatives, compliance, and cybersecurity; Big 4 banks include Chase, Bank of America, Wells Fargo, and Citibank; medium-sized banks include BB&T, Key Corp, PNC, Regions, Truist Bank, and U.S. Bancorp
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