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How regional and community banks can thrive in a fast-changing market

Future M&A and partnerships will require agility and differentiation

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Introduction

Regional and community banks are at an inflection point. These institutions, also known as midsized banks, have assets of $20 billion–$100 billion. (Those with $100 billion or more are considered super-regionals and/or money center banks.) As regulatory costs rise, technology demands increase, and competitive pressures intensify, these banks need to rethink their growth strategies.

Unlike the largest banks ($100 billion or more), which benefit from vast economies of scale and capital market access, regional banks need to approach mergers and acquisitions (M&A) and partnerships strategically, focusing on agility, regional specialization, and differentiated service models. Capital efficiency is critically important for regional and community banks, especially in wealth management. These banks must optimize their capital allocation to ensure they can provide high-quality wealth-management services without overextending their resources.

Efficient capital management allows these banks to invest in technology and infrastructure that enhance their wealth-management offerings, including AI-driven financial planning tools and real-time portfolio monitoring. By focusing on capital efficiency, regional banks can offer competitive wealth-management services that attract and retain high-net-worth clients, thereby increasing fee-based revenue and overall profitability. (One option to consider is a focus on HENRYs [High Earners Not Rich Yet] in their communities.) This strategic approach not only helps in managing costs, but also in driving growth and maintaining a strong market presence in the wealth-management sector.

In this paper, we examine why M&A is different for regional banks and the key challenges driving the current need for consolidation. We also scrutinize how to think about strategic growth, including M&A, fintech partnerships, and joint ventures, and present a data-driven framework for evaluating expansion opportunities. Also, based on analysts' reports, we anticipate the most activity in the short term to occur in the banks that sit in this midsized category.[1]

[1] "Measured momentum: M&A trends in financial services, Q3'24," KPMG, October 2024

1 Why regional banks must think differently about M&A

Regional banks face a distinct competitive landscape compared to larger institutions, leading to unique challenges in executing M&A. Larger banks (those with assets of more than $100 billion) can use M&A to achieve massive economies of scale. They consolidate branches, streamline operations, and push technology-led self-service banking.

For regional and community banks, M&A is not about dominance, but survival and relevance. Instead of scale for scale's sake, regional banks must expand intelligently without diluting community banking relationships. They also need to use M&A to enhance technology, expand critical capabilities, and/or diversify their customer base. In addition, to avoid regulatory scrutiny, these banks can strategically leverage partnerships instead of pursuing outright acquisitions. And, as these banks approach the $100 billion asset threshold, they will need to evolve their regulatory, risk, and controls functions to meet increasing scrutiny and requirements.

Economic pressures have been driving the need to consolidate for many years. The cost of doing business is rising, especially for mid-sized banks that lack the deep pockets of national banks.

Key pressures include

- Rising funding costs, especially coming out of an extended period of near-zero rates
- Increasing availability and scale of private capital alternatives
- Rapidly expanding technology investment demands, particularly as AI upends outdated ways of doing business
- Customer-service processes need to improve before putting AI on top of outdated operations.
- Intense competition in commercial banking, small business services, and wealth management through changing customer expectations, needs, and wealth transfer

Compliance costs are eating into regional banks' margins; regulatory compliance now accounts for 10 percent to 15 percent of operating costs for regional banks, up from 5 percent to 7 percent a decade ago.[2] The portion of bank IT budgets devoted to compliance grew by 40 percent, making it difficult for them to invest in growth.[3]

Technology is no longer optional—it is a survival requirement. While banks are spending $650 billion annually globally on IT, with 60 percent allocated to applications over infrastructure, signaling a focus on innovation transformation, regional banks are challenged to maintain investment spend.[4] To understand the dynamic these banks are facing, in 2023 a significant majority of both businesses (86 percent) and consumers (74 percent) indicated that they utilized instant or accelerated payments.[5] In addition, if regional banks are interested in embedded finance, banking-as-a-service (BaaS), and API-driven treasury solutions, they will need to enter partnerships or pursue acquisitions to remain competitive.

Finally, treasury and commercial services are becoming a key differentiator; in a recent survey of more than 350 community bank execs, just over 60 percent of their institutions have a focus on deposits from business and commercial clients.[6] At the same time, larger banks are offering their corporate clients AI-driven cash management, virtual accounts, and instant payments, pushing regional banks to consolidate in order to compete.

The culture within regional and community banks, particularly in decision-making processes and "mergers of equals," plays a crucial role in their success. Board effectiveness and the shifting role and composition of the board are essential factors in navigating regulatory scrutiny, charter changes, and the transition from state to national charters. Additionally, considerations around credit and liquidity are vital, and there is a need to address these aspects comprehensively. Rebranding and establishing a strong presence in the hyper-local market are also significant priorities for these banks. Technology decisions are critical, as these banks do not have billions to spend on tech but must evolve their approach to remain competitive. As they scale, shifting operating models to leverage more outsourcing can drive efficiency and enhance customer affinity.

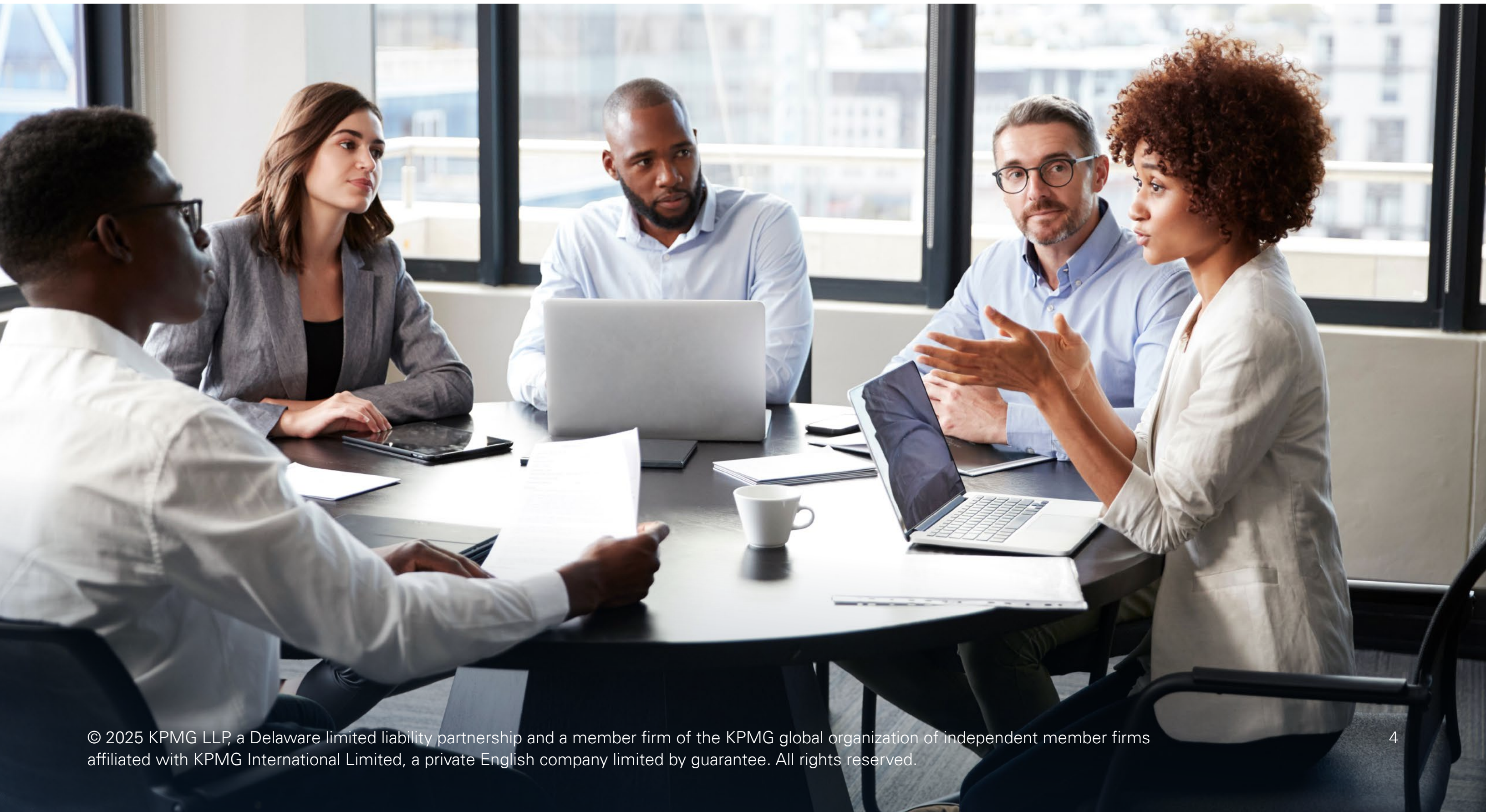
[2] "How to Identify and Reduce Commercial Banking Costs," finmodelslab.com, April 5, 2025

[3] "Survey Finds Compliance is Growing Demand on Bank Resources," Bank Policy Institute, October 29, 2024

[4] "How Banks Can Navigate Digital Transformation And Compliance," Forbes, April 4. 2025

[5] "Faster/instant payments use is on the rise among businesses and consumers," FedNow Service, May 15, 2024

[6] "The growing demand for treasury services in the financial sector: Economic drivers and implications for deposit growth," Bank Director, September 24, 2024



2 The strategic growth playbook for regional banks

Unlike super-regional and money center banks that acquire competitors to dominate market share, regional banks should tailor M&A and partnerships to maximize revenue diversification, technology adoption, and operational efficiency, and enhance wealth-management capabilities. There are three ways these banks can scale nonorganically: M&A, partnerships, and fintech integration.

For these banks, traditional M&A is best for expanding into new markets, adding lending capabilities, and achieving operational efficiencies. Banks engaged in successful mergers have reported an average ROI of 15 percent over a five-year horizon.[7]

The ideal M&A deal for regional banks would feature:

- A bank with complementary treasury management and/or commercial banking services
- A bank that improves technology infrastructure without extensive integration challenges
- A deal that adds 10 percent to 20 percent deposit growth without excessive branch overlap
- A deal that enhances wealth management by offering top regional bank positioning as a regional option against the larger banks in a growing market

For some regional banks, partnerships can be a smarter alternative to M&A. For these firms, deals of this type can accelerate innovation without full-scale integration risks. In fact, according to research from Global Market Insights, over the next decade embedded finance on a global scale could expand at a compound annual growth rate of more than 23 percent.[8] In addition, strategic partnerships can reduce customer acquisition costs by as much as 30 percent,[9] and they can enhance wealth-management services.

For these mid-size banks, fintech acquisitions can offer digital transformation without the overhead. These kinds of deals are best for acquiring niche capabilities, such as AI-driven credit scoring, real-time payments, and digital lending. That said, regional banks need to understand the risks of these kinds of deals, as many fintech/bank partnerships can fail due to misaligned goals. Instead of partnering, acquiring smaller fintech firms outright can be more effective if the fintech has proven profitability, integrates into existing treasury or lending platforms, and addresses a growing customer need (e.g., automated AP/AR processing and AI fraud detection). These banks should also consider a move away from a solely brick-and-mortar strategy, because while bank branches anchor communities, they often do not have the traffic flow required to make them profitable.

[7] "Understanding the Impact of Mergers and Acquisitions in Banking," Global Banking & Finance Review, January 9, 2025

[8] "Embedded Finance Market Size," Global Market Insights, January 2025

[9] "Invest In Partnerships To Drive Growth And Competitive Advantage," Forrester Consulting, June 2019

3 A data-driven approach to regional bank growth

01 The M&A decision matrix for regional banks

When pursuing an M&A, partnership, or fintech acquisition, banks should assess and understand which strategic moves are most ideal for each situation.

	Geographic expansion strategy most ideal when:	Technology upgrade most ideal when:	Treasury management growth most ideal when:	Regulatory compliance and cost reduction most ideal when:
1	M&A target bank has strong local presence and customer base	M&A target offers proprietary tech and a clean integration path	M&A target has strong commercial relationships and cash management	M&A offers larger asset base to help spread fixed compliance costs
2	Partnership niche or cross-border market entry (e.g., remittance)	Partnership APIs enable modular plug-in upgrades (e.g., fraud, KYC)	Partnership with fintech brings niche B2B or FX/ payments solutions	Partnership provides shared-service models (e.g., regtech, KYC)
3	Fintech acquisition has digital-only footprint with scalable reach	Fintech acquisition delivers modular, cloud-based tech stack	Fintech acquisition's AI or real-time cash/forecasting solutions enhance offerings	Fintech acquisition has automated regtech or AML tools that reduce compliance spend

02 Financial metrics for evaluating a merger

A regional bank M&A deal should meet **at least three of these six criteria:**

01
EPS accretion

Expected to be more than 10 percent accretive within 24 months

02
Cost synergies

Expected to reduce noninterest expenses by at least 8 percent postintegration

03
Deposit growth

Should expand deposits by 10 percent to 15 percent without excess liquidity risk

04
Lending expansion

Should diversify loan portfolios without excessive CRE concentration

05
Technology gains

Should accelerate digital transformation by at least two to three years compared to organic build, and any investment in AI-driven financial planning tools should be designed to enhance wealth management offerings.

06
Wealth management

When evaluating M&A deals, wealth management should be a critical consideration; an ideal M&A opportunity should have the potential to enhance wealth-management services and attract high-net-worth clients.

4 The path forward: What regional banks must do now

We suggest the following next steps for regional banks to assess their current state and their abilities to consider M&A, partnerships, and fintech integration:

Are you ready to expand?

01

- Can your operating model appropriately scale to take on any additional volume? If not, what enhancements to your playbook would you need to make?
- Are your margins being eroded by compliance costs and/or technology investments?

Identify the right strategic growth path:

02

- If branch consolidation and cost-cutting are priorities, then consider M&A.
- If technology acceleration is a goal, then prioritize fintech acquisitions.
- If fee-based revenue expansion is needed, partner with fintechs on treasury solutions.

Engage advisers early:

03

- Premerger due diligence can prevent postmerger integration challenges.
- A clear M&A versus partnership strategy ensures that deals create long-term value.

5 Conclusion: The future of regional banking

Regional and community banks face an existential choice: Scale up, innovate, or risk being left behind. These firms must embrace the fact that regulatory and technology costs will continue to rise, and that environment will favor larger institutions. For these firms, M&A is no longer just about branch consolidation—it is about digital transformation and treasury services expansion. To prepare yourself for this new marketplace, strategic partnerships and fintech acquisitions can offer more flexible, lower-risk paths to scale. Finally, these banks should also consider the importance of wealth management as a key area for future growth and competitiveness.

How KPMG can help

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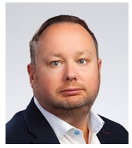

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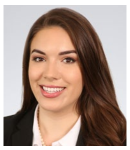

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