More Rapid Industry Consolidation Is Inevitable
by Charles B. Wendel

The chart accompanying this newsletter shows the decline in total banks from 1966-2017. Since then, the total has declined further. In 2021 the FDIC lists 4,983 banks at the start of the year, down about 100 from the prior year. A September 2021 FDIC report puts total banks at 4,914 with the majority being community banks.

All signs indicate that consolidation will continue and that the speed of consolidation may pick up. Why? The following list, in alphabetical rather than in order of importance, extends beyond the factors summarized below. Many elements, financial, regulatory, and cultural will fuel consolidation.

Age. The Boards and senior management at many banks (unlike you and I of course) have been getting older. I have met with senior bankers who have stated “Let the next group” deal with issues including digitalization. At many banks being a Board member requires increased time and, perhaps, more personal financial risk, and it is time to cash out. Unfortunately, in some instances the optimal cash out would have occurred years ago.

Competitive environment. Like many clichés, the phrase “death from a thousand cuts” provides a good summary of what many banks are facing. Areas considered part of a bank’s franchise like payments and small business are under steady and effective attacks by dozens of Fintech and related competitors.

Core processors. Most banks, and not just the smallest, rely upon a few Core processors to provide the new products and solutions required to meet customer needs. But banks often seem to be subservient to Cores that operate with hard timelines and sometimes seem consumed by internal politics and organizational issues rather than customer service. Some banks feel treated like the tail of the dog.

Culture. Preserving a healthy, customer focused bank’s culture may be its ultimate competitive weapon. As banks get bigger and as they staff up in functional such as the digital and compliance, that culture becomes harder to maintain.

Customers. Remember them? Some banks are so consumed by internal regulatory, compliance, equity, and other issues that serving the customer has taken a back seat. Banks will deny this, of course, but they have provided a huge opening for their competitors.

Employees. I frequently talk with bankers looking to change positions. Virtually all of them want to work remotely or with a hybrid model. While bigger banks seem comfortable with this model, other banks are not. With newer employees top quality younger hires have multiple options with most thinking about a two-year horizon (maybe). Managing the employee situation presents an opportunity for some and a headache for others.

IT. Related to the Core and Employee areas above, managing IT continues to require a more complex endeavor with senior management often forced to trust people whose expertise that do not understand. For its part IT needs to be able to identify and reach out to third party providers and integrate them with their Core systems. Good IT professionals have multiple options. Why should they work for a bank? That is a question banks need to address without wearing their rose-colored glasses.

Regulatory environment. No matter whom the current administration finally selects for key posts, those persons will likely not be fans of banks. And while that person may proclaim their love of community banks, it is probable that they will establish more rules that cost all banks more expense dollars to comply. Managing down regulatory costs leads to looking for economy of scale.

The above list could go. If a bank has all of these and related issues on its radar, then, future success is possible. Too often, however, banks are either not dealing with these areas in a forthright way or kidding themselves that these challenges are under control.

Boards and senior management need to align their analysis of their current position and future options. Putting up a discrete for sale sign may make sense.