

WHITE PAPER

Transform to Outperform

Regional Banks at a Crossroads

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Regional Banks at a Crossroads

For CEOs, CFOs, and boards of US regional banks, one primary imperative stands above others: delivering sustainable outperformance in total shareholder return (TSR). Yet today, this imperative is under significant strain due to the most challenging headwinds regional banks have faced in decades. Interest rate volatility and recent high-profile bank failures have triggered a wave of consolidation. By 2030, the number of mid-sized and super-regional banks (\$50 billion to \$500 billion total assets) is expected to shrink by over half. These emerging pressures have tightened margins, raised investment costs, and heightened capital risks, making it clear that standalone actions cannot restore growth. However, this disruption presents a critical opportunity for reinvention.

To reignite growth and thrive, regional banks must embrace end-to-end transformation. Although quick wins can lift shareholder confidence, lasting value comes from driving holistic, coordinated, organization-wide change. In fact, according to BCG analysis, companies that simultaneously drive cost efficiency and revenue innovation significantly outperform their peers in TSR (see Exhibit 1). To enable effective transformation, however, organizations must focus on change management, or the *how* behind the *what*. Executive teams must overcome behavioral barriers, shifting leadership and organizational mindsets through strategic focus, effective communication, and a compelling, emotional case for change.

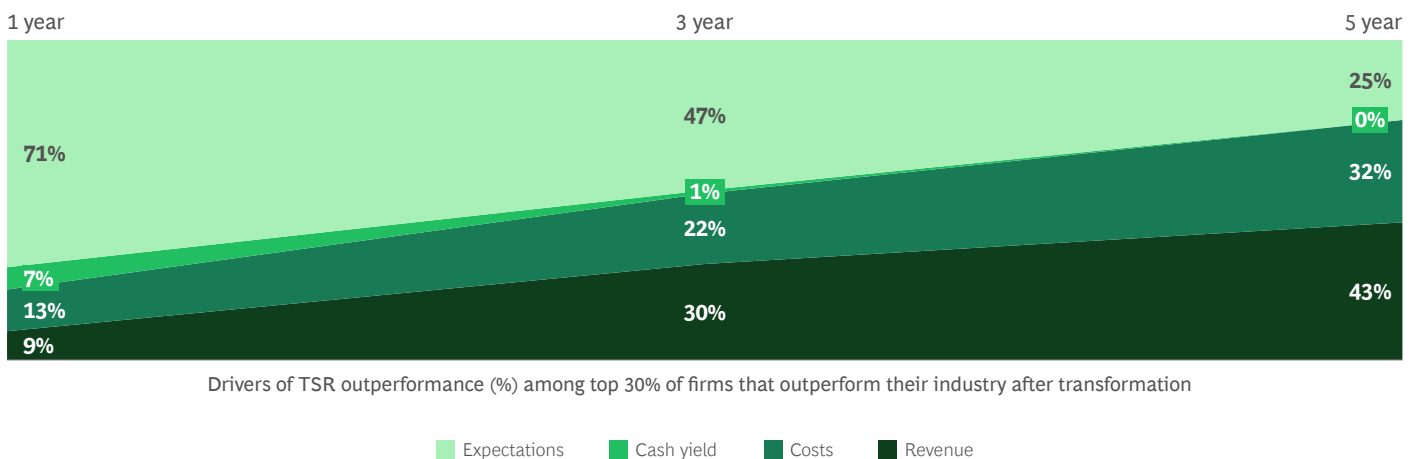
Regional banks remain a cornerstone of their communities' financial wellbeing, providing personalized support to families and businesses that larger institutions often cannot match. Now is the time to channel those strengths into bold transformation to ensure that regional banks not only survive but outperform.

EXHIBIT 1

Drivers of TSR outperformance (%)

Investor expectations dominate value creation in the short term...

...but in the long run, value creation depends on cutting costs and growing revenues



Sources: Company financials; BCG Henderson Institute analysis.

The new reality: identifying threats to the regional bank business model

As a part of the new competitive reality, longstanding regional bank advantages are being threatened as large banks consolidate their scale advantages, which include:

- **Cost efficiencies:** Large banks have significant customer volume, enabling them to efficiently allocate fixed costs across the broader customer base
- **Digital and data capabilities:** Substantial investments in digital technology and data-driven insights enable larger banks to offer more personalized services, increasing their share of the wallet
- **Balance sheet resilience:** Large banks with more diversified asset bases are better equipped to withstand capital and liquidity shocks, improving their resilience during periods of economic volatility

These advantages have created significant performance gaps between smaller regional banks and their larger counterparts (see Exhibit 2).

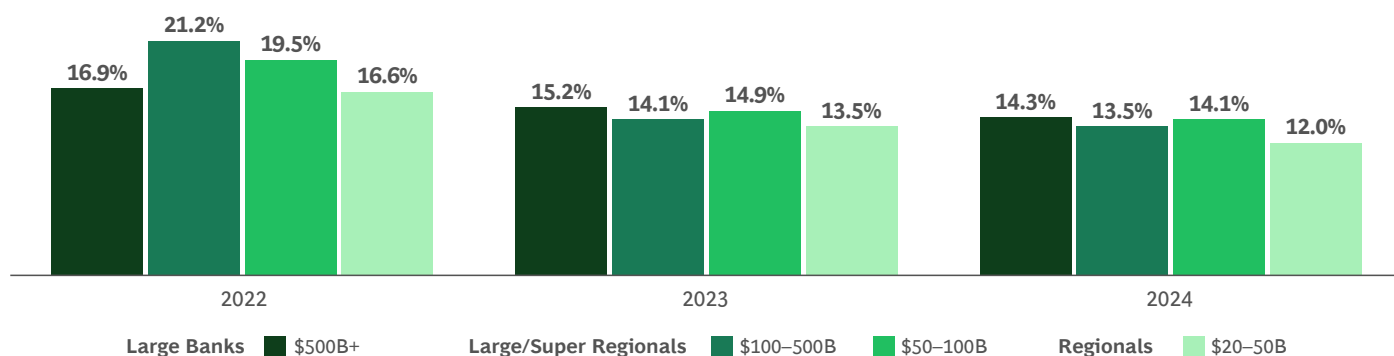
As a result, weaker financial performance and declining investor expectations are leading to lower P/TBV multiples and lower TSR for smaller regional banks (see Exhibit 3).

EXHIBIT 2

Return on Average Tangible Common Equity (ROTCE)

by total asset size (%):

Smaller regional banks (\$20 billion to \$50 billion) with limited scale have consistently lagged behind their peers in generating comparable returns



Sources: Company financials; BCG research.

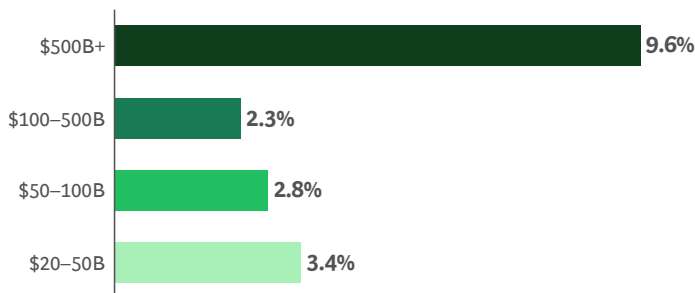
Note: ROTCE reflect median performance of bank cohort.

EXHIBIT 3

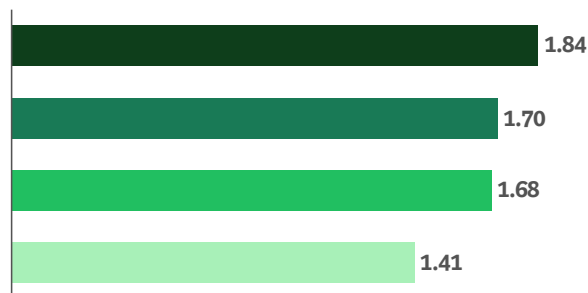
P/TBV & TSR performance by total asset size (%):

Larger banks have a significant TSR and valuation advantage compared to regional banks

Total Shareholder Return (%), Median



P/TBV Multiple, Median



Sources: Company financials; BCG research.

Note: ROTCE reflect median performance of bank cohort.

As these disadvantages continue to grow, industry consolidation will accelerate. Over the next 3 to 5 years, BCG expects the sector market structure will consolidate into multiple large banks (\$500 billion and over) and a wide cohort of smaller regionals (\$20 billion to \$50 billion). By 2030, mid-size to super-regionals (\$50 billion to \$500 billion) could contract by 50% to 60%¹ as players stay below the \$100 billion threshold to avoid higher regulatory standards and costs.

Value creating levers: driving to TSR outperformance

As industry pressure mounts, focusing on small-scale change is not enough; end-to-end transformation is now essential for growth. According to BCG analysis, the combined effect of cost reduction (32%) and revenue growth (43%) drives lasting TSR outperformance.²

To accelerate transformation, an opportunistic acquisition can help quickly scale competitive advantages by expanding product capabilities, accessing new markets and geographies, and acquiring expert talent. Since 55% of bank acquisitions fail to create value,³ acquisitions must be pursued with well-defined strategies, disciplined governance, and rigorous execution.

Whether through organic or inorganic levers, there are **four performance areas** smaller regional banks should address:

1. **Business profitability:** Enhance revenue while controlling costs
2. **Funding quality:** Grow stable, low-cost deposits
3. **Bank book management:** Maintain asset quality and accretive growth
4. **Capital efficiency:** Optimize balance sheet resilience and asset allocation

1. BCG research.

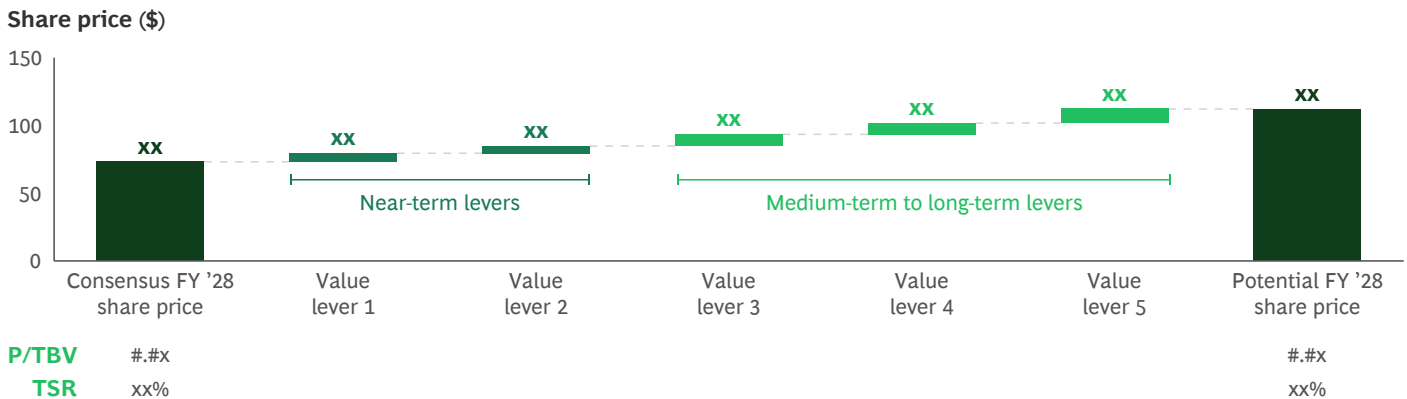
2. Company financials; BCG Henderson Institute analysis.

3. BCG, "Successful Target Search", 2021.

EXHIBIT 4

Value bridge share price impact:

Value levers are a cohesive set of actions that deliver direct share price, P/TBV multiple, and TSR improvement



With the right combination of transformation levers, leaders can unlock the full potential of each of these four performance areas. Near-term levers, such as exiting underperforming businesses and cutting costs, provide quick wins, while longer-term levers entail fundamental shifts in banks' cost structures, sales strategies, and growth priorities. Together, these four performance areas generate sustained increases in share price, P/TBV multiple, and TSR (see illustrative example in Exhibit 4).

The behavioral blueprint: achieving the transformation mindset

Despite the proven value and impact of transformations, about 70% of efforts fall short.⁴ Often overlooked, **how** change is enabled and implemented is equally as important as **what** is actually changing.

- 1. Leader enablement and alignment:** Leadership teams often agree in the room, but fail to act in alignment outside of it—and if leaders are not fully aligned on goals and targets, a third of the outcome is lost. One leader with misaligned incentives can stall momentum. Transformation succeeds only when leaders make the emotional case real and visibly model the change.
- 2. Desired culture:** In most organizations, there is a strong starting culture. Although leaders of organizations tend to know the 3–4 leadership behaviors they should change, most avoid confronting them.

Culture is shaped most in moments of ambiguity and pressure. High-performance cultures emerge when leaders consistently reward outcomes, address underperformance, and embed new norms in daily decisions.

4. BCG research.

EXHIBIT 5

How a transformation is enabled:

Value realized and sustained by enabling leaders, embracing change, engaging people, and executing for success



Source: BCG research.

- 3. People engagement:** In many organizations, top performers are asked to carry every major initiative, while broader talent sits idle. This slows execution and drives burnout. True engagement means activating the full bench with clear roles, communication loops, and accountability.
- 4. Executional certainty:** Most dashboards track activity but not impact; they sometimes overestimate success while actual performance lags. Executional certainty comes from tight governance, milestone accountability, and bold capital reallocation toward what works. Discipline in execution is what converts strategy into TSR.

Even with the right strategy and structure, transformation fails without behavioral change. Successful transformations leverage the “how” to overcome behavioral barriers through effective change management. Some common barriers, impacts, and mitigating strategies include:

- 1. Status quo bias stalls action:** Leaders agree in meetings but fail to change behaviors, causing momentum to evaporate. Break inertia by making the emotional case for change and linking success to personal ownership.
- 2. Unrealistic optimism masks fragility:** Overconfidence in the vision leads to underinvestment in short-term traction, weakening credibility. Build belief fast through test-and-learn pilots that show progress early.
- 3. Present bias narrows focus:** Day-to-day firefighting crowds out the strategic priorities needed for transformation. Create future pull by painting a vivid end state and reinforcing it through regular two-way communication.
- 4. Cognitive overload paralyzes execution:** Competing initiatives dilute focus and stall organizational decision-making. Reduce noise with clear prioritization, tight decision frameworks, and streamlined governance.

5. **Loss aversion kills ambition:** Fear of failure leads to incrementalism, blocking the bold moves required to outperform. Unlock performance by setting non-negotiable, high-stretch targets with real accountability.

With the right behavioral shifts, studies show that change aversion is not as challenging as expected—people only need 60% confidence in the results to be bought into making a change.⁵ Successfully overcoming these hurdles has been proven to increase the chance of transformation success by more than 90%.⁶ Together, the five behaviors – making the emotional case for change, building belief through test and learn pilots, painting a vivid end state, reducing noise with clear prioritization, and setting non-negotiable targets – foster a mindset for transformation, not just among the leadership team but also the broader organization.

Next steps: securing the future

Having worked closely with small regional banks on transformation journeys, BCG recognizes that transformation and change can be daunting. However, against the backdrop of today's tremendous headwinds, it is imperative to change, and to get it right. Rigorous, well-executed plans will unlock significant value, delivering sustained competitive advantage and shareholder return.

To begin this journey, regional banks must adopt a focused, analytical approach to assess their current situations and prioritize growth levers for shareholder return. A diagnostic of an organization's financial and operational health, which typically takes six to eight weeks, can pinpoint value-creation levers based on feasibility and impact. This diagnostic is the first step in developing a comprehensive, value-focused execution roadmap with a robust plan for bottom-to-top organizational buy-in.

The regional banks that emerge strongest will be those that seize this opportunity to reinvent themselves and transform for future success.

5. BCG research.

6. BCG research.

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