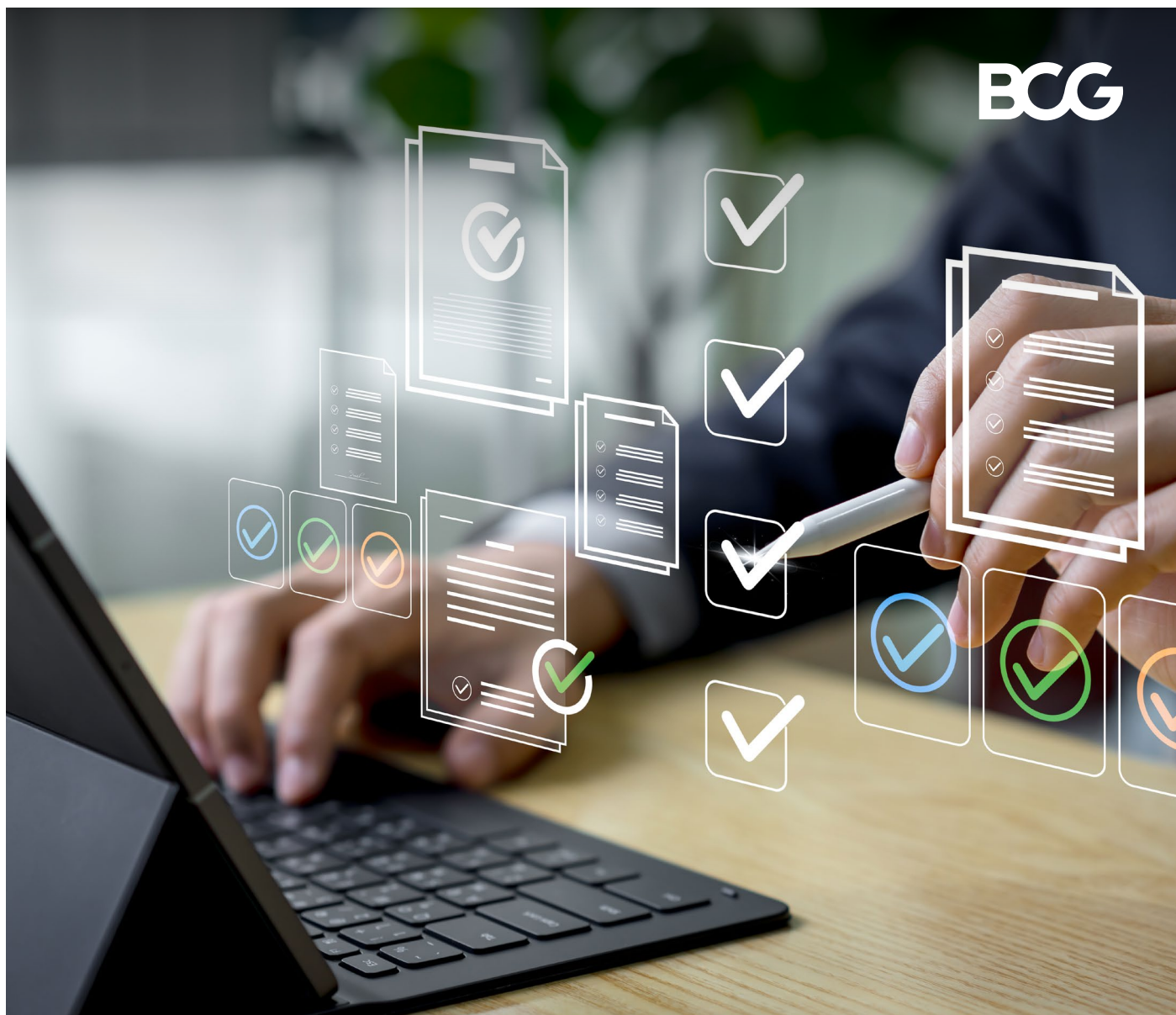




WHITE PAPER

Non-banks are winning business banking

And Most Banks Aren't Fighting Back

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The small and mid-sized business (SMB) deposit market, which represents over \$2 trillion in deposits, is quietly slipping away from banks, not through dramatic account closures, but rather the slow fragmentation of operating relationships toward faster, more integrated non-bank alternatives. In this paper, we argue that banks are sitting on a winning hand in the SMB segment that no non-bank can replicate: physical infrastructure, longstanding trust, and a full-service relationship across the entire business lifecycle. Despite these advantages, bank complacency is ceding ground to non-banks. The threat is real, the window is narrowing, and the playbook to respond exists. Banks just need the urgency to act now.

Executive Summary

In the small and mid-sized business banking space, four forces are converging simultaneously: fintech challengers are building full-stack banking products, digital disruptors are targeting operating accounts with seamless workflows, rising rates are pulling deposits toward liquidity alternatives, and programmable money — stablecoins and tokenized deposits—is beginning to reshape how businesses move money over a longer horizon. Banks that treat current dynamics as a routine competitive cycle will find themselves on the wrong side of a structural shift toward non-bank alternatives. But by acting now, banks can leverage their strengths to retain their SMB customers and protect their revenue.

The Stakes: Why SMB Deposits Are the Crown Jewel

Small and mid-sized business (SMB) deposits represent one of the most valuable and underleveraged assets in banking. The opportunity is large — more than \$2 trillion in deposits — but the real prize is what these deposits represent: operating accounts at the financial center of a business's daily workflow. Unlike most consumer deposits, SMB operating accounts come bundled with payments activity, payroll flows, receivables management, and lending relationships. The loan-to-deposit ratio in this segment runs at roughly 11% for traditional regional banks and generates roughly 25% of revenues from fee-based products. In other words, the deposit relationship is not just valuable in isolation; it is also the gateway to a much broader commercial relationship.

SMB customers generate approximately five times more profitability per customer than typical consumer relationships (see Exhibit 1). Yet historically, this segment has been underserved and underinvested in, treated as either small commercial or retail plus rather than as a strategically distinct segment with unique needs, buying behaviors, and switching patterns.

SMBs rarely switch their primary bank outright. Instead, they fragment — quietly moving pieces of their wallet to faster, more integrated alternatives. Most banks are looking at the wrong signal entirely.

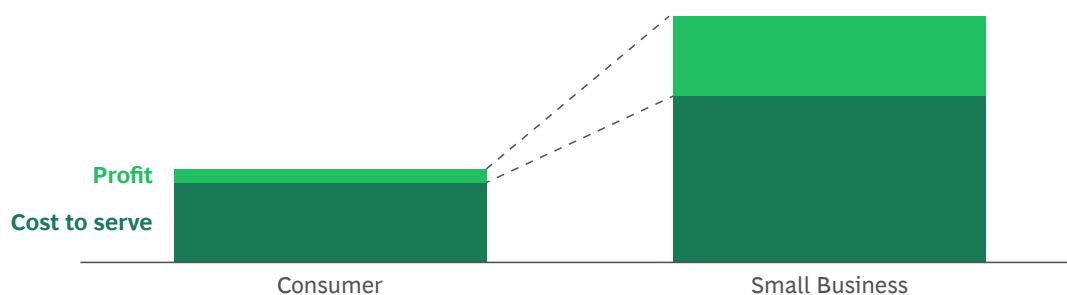
By the time primary bank switching shows up in the data, the relationship has already been hollowed out.

EXHIBIT 1

SMB profitability and deposit opportunity vs. consumer segment

Small Business Banking is highly valuable, but often overlooked: Profit per customer is 5x+ consumer and a massive source of sticky operating deposits

Average revenue and profit per customer¹



Loan to deposit ratio

68%²

11%

Note: Consumer data from BCG REBEX. Small Business data from BCG Corporate Banking performance benchmarking, peer group includes 8 of top 25 commercial banks with segmentation generally ~\$500k-5M.

¹Includes revenues across all banking products, e.g., deposits, loans, card, merchant acquiring, etc.

²Consumer LDR can vary widely depending on business model. 68% LDR representative of traditional consumer model serving individual consumers with core banking products.

The Threat Is Broader and Faster-Moving Than Most Banks Realize

Non-bank competition in SMB banking follows an incremental but deliberate trajectory, beginning with payments and then extending into lending before spreading into the day-to-day financial management tools on which businesses rely: invoicing, cash flow tracking, accounting integrations. Each step draws non-banks closer to the center of the banking relationship (see Exhibit 2).

The latest moves target operating accounts directly. OnDeck, which built its franchise as a digital lender to small businesses, is acquiring Grasshopper Bank — a national bank charter with roughly \$3 billion in deposits — signaling an ambition well beyond niche positioning. Mercury and Revolut are advancing from the other direction: they started with the deposit account and have steadily layered on products that reduce a business's reliance on a traditional bank.

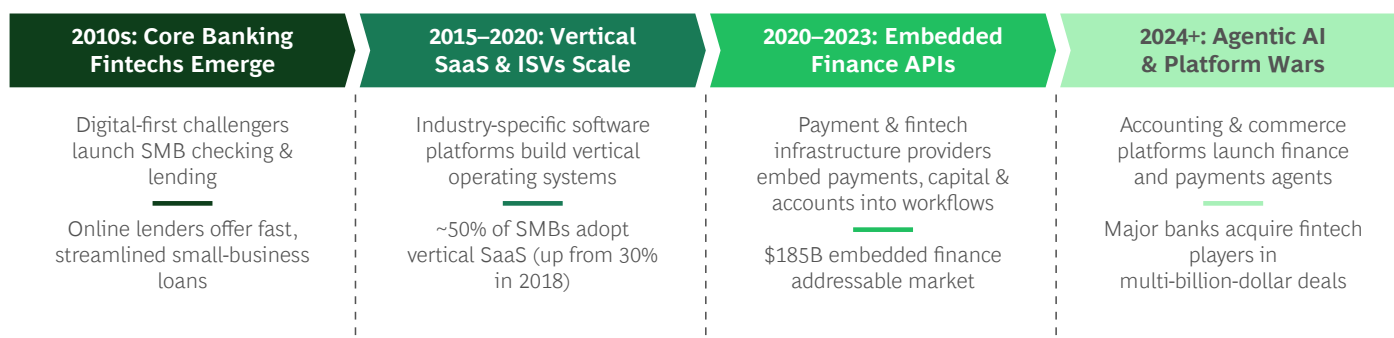
Rising interest rates have added a different dimension of pressure. Increasingly aware of what it costs to hold cash in low-yield accounts, business leaders are becoming more receptive to alternatives. The result is exposure on multiple fronts: fintechs drawing at the deposit base from below while money market alternatives compete for cash from above. The competitive landscape has also broadened well beyond lending-led fintechs: non-bank challengers now span five distinct archetypes, each targeting a different point of entry into the banking relationship (see Exhibit 3).

Programmable money is the longer-horizon version of this same dynamic, though for SMB banks it matters less than the competition already underway. The two forms at play, tokenized deposits and stablecoins, work in different ways. Tokenized deposits are held on the bank's balance sheet and inside the regulatory perimeter, which makes them an infrastructure upgrade rather than a source of disintermediation. Their economics also favor the largest transaction banks, leaving regional players to weigh whether the build is worth it absent shared market infrastructure.¹ Stablecoins are the more competitive vector, but their reach today is still narrow, with only about a tenth of supply tied to real-economy payments.² We expect value creation to come from transaction banking fees, which will chip away at banks' fee pools before disrupting deposit share.³ Small businesses are unlikely to lead this shift, and where they do move it will be selective and concentrated in cross-border flows. The implication for most banks is to defend the workflow now, where the relationship is being contested, and to treat digital assets as a disciplined hedge focused on cross-border and treasury rather than a reason to take their eye off the relationship erosion already underway at the workflow layer.

EXHIBIT 2

Non-bank expansion across SMB financial services, 2010–present

Since 2010, a wave of non-bank entrants has rapidly expanded across SMB financial services



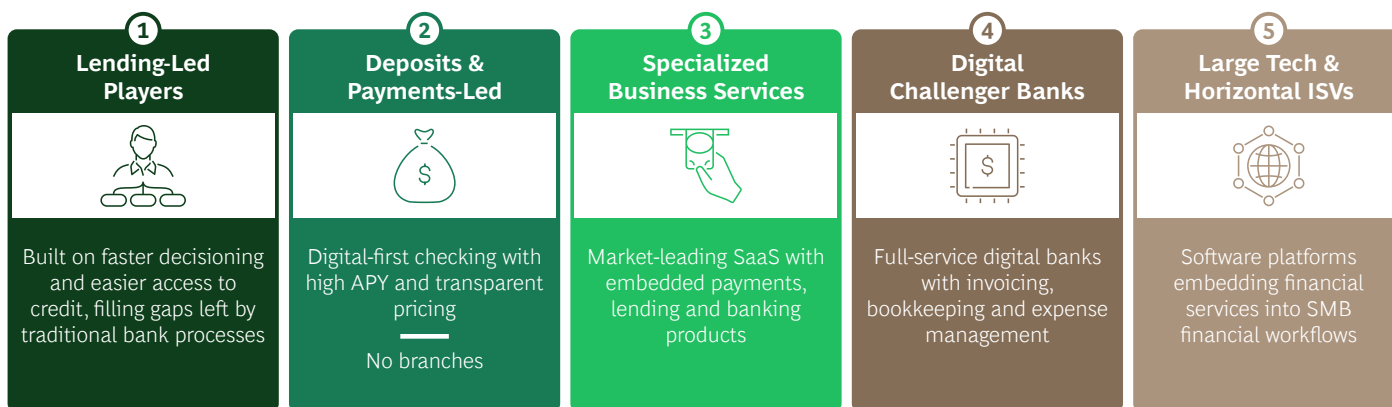
Source: BCG FinTech Control Tower; BCG analysis.

1. *The Future of Digital Assets* (BCG, May 2026): for smaller banks, an affordability question arises around building new infrastructure when the benefits may be limited absent a shared “unified ledger.”
2. *Digital Assets: A Strategic Playbook for Banks* (BCG · Anchorage Digital, June 2026): of roughly \$300B in stablecoin supply, about one-tenth is linked to real-economy payments.
3. *The Future of Digital Assets* (BCG, May 2026), scenario analysis: across scenarios, the largest reduction in the 2035 banking-services revenue pool falls on transaction-banking fees from lower cross-border and domestic payment costs, exceeding the net-interest-income impact of deposit loss.

EXHIBIT 3

Five archetypes of non-bank challengers competing for the SMB relationship

Five archetypes of non-bank challengers are competing for the SMB relationship



Source: BCG FinTech Control Tower; BCG analysis.

Where Banks Are Most Vulnerable

Not all SMB deposit exposure is equal. The highest-risk relationships are those where payments and operating workflows have already migrated to third-party platforms. Deposits tend to follow the workflow: when a business manages its invoicing in one place, its payroll in another, and its expense management in a third—none of which are the bank—the deposit account becomes a commodity holding tank rather than a relationship anchor.

Industry concentration matters, too. Professional services, technology, media, construction, and healthcare are disproportionately deposit-rich segments with above-average exposure to digital-native alternatives. These are also segments with sophisticated operators more likely to optimize actively around yield and workflow efficiency.

Banks should map their own exposure with precision: by market, customer segment, and product. Doing so will help them distinguish where they urgently need to play defense from where they have the opportunity to go on offense.

The Competitive Advantage Banks Cannot Afford to Ignore

Banks hold several structural advantages over non-bank challengers that should help them retain their SMB customers.

That advantage is physical presence, trust infrastructure, and the breadth of a full-service relationship across the entire business lifecycle. A neobank or fintech cannot walk a business owner through a complex wire dispute at a branch, nor does it have a relationship manager who has seen the business through two credit cycles. What non-banks are building from scratch — the credentialing, charter, local presence, and human relationship layer — is what banks already have, and what SMBs, unlike many consumers, genuinely value.

SMBs differ from consumers in a few key ways. They do not want a fully frictionless, fully digital experience at the expense of access and accountability. A business owner who runs payroll for 40 people, manages a line of credit, and handles real estate payments wants to know that there is a banker who knows their name and a branch they can walk into if something goes wrong. They may not use that branch every week, but the knowledge that it exists adds real and measurable value. BCG survey data bears this out: trust in the safety of their deposits and access to knowledgeable branch staff consistently rank among the top reasons SMBs recommend their primary bank, well ahead of rates or rewards (see **Exhibit 4**). Non-banks cannot offer this kind of service, while banks take it for granted.

The branch network is not a liability to be rationalized away in the SMB segment. It represents a strong competitive advantage for banks: anchoring trust, facilitating sales, and increasing retention.

Banks should lead their SMB value proposition by treating their physical infrastructure as a source of differentiation rather than a legacy cost.

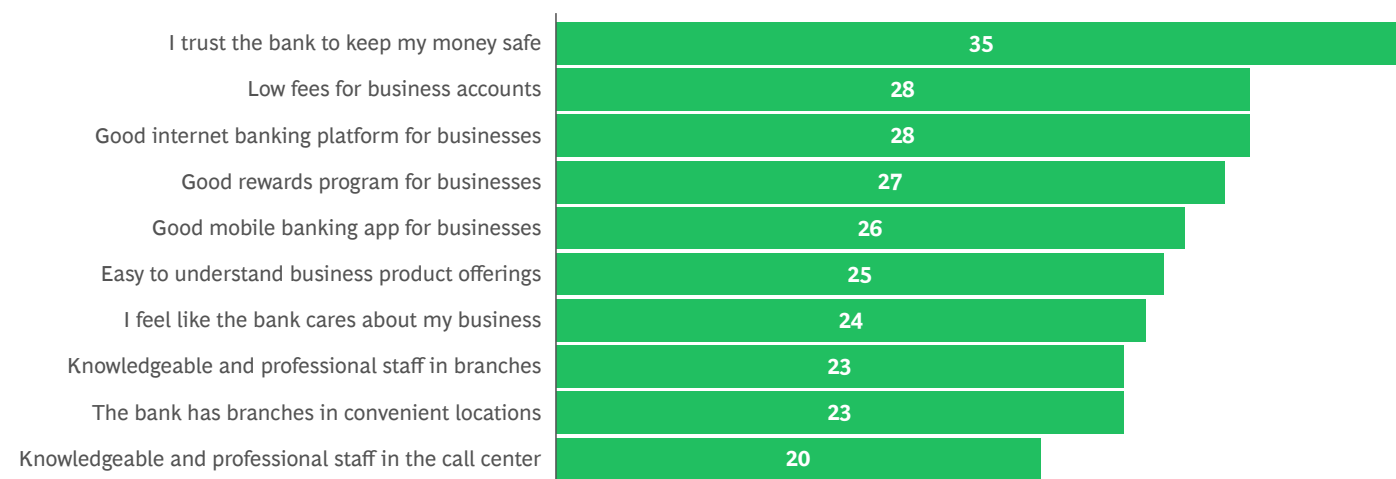
The principal risk to banks is complacency. A structural advantage delivers value only when it is activated across the full customer experience, including product design, marketing, relationship coverage, and day-to-day service. A bank that retains its branch network but pairs it with a slow digital experience and an inconsistent relationship model will continue to lose ground to non-bank competitors that execute well on the interactions SMBs use most, despite lacking the relationship infrastructure and physical presence that banks have built over decades.

EXHIBIT 4

Reasons SMB customers are likely to recommend their primary bank

Small businesses prioritize trust and access when choosing their primary bank

Reasons customers are likely to recommend their bank (reasons selected by % of promoters)



Question: What are the reasons you are likely to recommend your main bank?

Source: REBEX Business Banking survey, Sample size in USA, N = 1,000.

The Playbook: Defense and Offense

Defense

The first priority for banks is to protect what they already have. Transaction data, traditionally underutilized in SMB banking, contains early signals of attrition that show up in behavior long before they show up in balances. AI-powered analytics can flag when a business is routing payments through a third-party platform, when payroll is leaving the bank, or when cash holdings are declining in ways inconsistent with business performance. Banks that use these signals to proactively reach out before customers have mentally made the switch are more likely to retain those customers.

In addition, banks should deepen operating account stickiness through payments integration and cash management tools. When the bank is where the business manages its receivables, runs its payroll, and reconciles its accounts, switching costs rise dramatically.

Customers should be tiered and prioritized explicitly according to the value they bring to the bank, with high-value, at-risk relationships receiving timely, direct intervention rather than a generic marketing campaign.

Offense

The offensive opportunity is to become the operating system for the business, not just the place where customers store their money. Embedding accounting tools, cash flow forecasting, invoicing, and expense management directly into digital platforms weaves operating deposits and payments together in a single relationship. When the bank owns the workflow, it becomes the system of record, and the non-bank alternative becomes the redundancy rather than the primary service.

Geographic and industry targeting matters. Deposit-rich industries and markets where non-bank penetration is still early represent the highest-return offensive opportunities. Purpose-built propositions for specific sectors — with the integrations, terminology, and workflow logic that matter to those businesses — consistently outperform generic SMB products.

Marketing should lead with operational value, not just rates and rewards. Business owners choose banking partners based on what those partners make easier, not the APY differential of a savings account.

Making it stick

The banks that lose ground in SMB banking rarely do so from lack of strategy; more often, the strategy fails to outlive a single budget cycle. Deposit retention becomes a campaign, the campaign ends, and the underlying vulnerabilities remain.

Instead, banks need an approach that actually works: deputizing someone to own this problem permanently and measuring success based not on quarterly numbers but rather ongoing customer engagement with the bank. The banks that have held their SMB franchise together treat deposit health the same way they treat credit risk: as something the board watches over time, not something that gets reported three levels down.

Conclusion: The Window Is Narrowing

The non-banks competing for SMB relationships are no longer scrappy startups. They have capital, established customer bases, and in some cases, bank charters. They are building deliberately toward the operating account — the same account that anchors the most profitable relationships in retail banking.

Banks hold real advantages in this competition, but boosting retention through branch networks, regulatory standing, strong relationships, and existing customer bases will not happen automatically. Banks need sustained investment, attention, and a clear-eyed view of their own gaps to retain SMB revenue.

Most banks are not yet losing this segment, but they are at risk of doing so, and with each passing quarter the risk grows from hypothetical into actual losses. The window to act from a position of strength remains open, but it is narrowing. By segmenting their customers and proactively engaging them now, banks can protect their SMB deposits and boost their revenue.

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