



2025 Belongs to
Vertical Banking—
**Here's How to Lead
the Way**

Growth in 2025 and beyond requires new thinking.

At Nymbus, we're excited about the opportunities presented by vertical banking as a strategy for community financial institutions—we see it as key to growth and a response to many important industry trends.

This whitepaper offers a deep dive into the trends shaping 2025, summarizing recent research and themes that have emerged from our discussions with community banking leaders throughout 2024.

We've compiled this information to provide you with insights and potential talking points for boardroom discussions.

Where will growth come from in 2025?

Are you considering expanding your branch network or launching new products?

How well does your current strategy align with the evolving banking landscape?

How well does your strategy address balance sheet pressures?

What do analysts and industry peers predict for 2025 and beyond?

TRENDS

Why do we think 2025 belongs to vertical banking?

Several market trends (detailed in this report) demand that community

financial institutions adapt. A vertical banking strategy based on local market research and community-oriented value creation can serve as a pathway for these institutions to unlock new growth opportunities and ensure long-term success.

1. The rise of new vertical opportunities like blue-collar Gen Z

New growth opportunities are emerging; one interesting demographic shift has been the rise of blue-collar Gen Z. Driven by disenchantment with the college track, demand for skilled workers, and the prospect of job security and steadily growing earnings, Gen Z (those born between 1997-2012) are increasingly choosing a career in the trades. Vocational school enrollment rose by 16% last year, while overall, enrollment in community and four-year colleges is down.

Blue-collar Gen Z is just one example of an emerging small business vertical with specific banking needs. The rise of gig work and side hustles is another vertical opportunity, with some surveys estimating that more than 1 in 3 American adults now have a side business or income stream.

These part-time small business owners have money-related challenges like cash flow management, tax planning, accounting, and access to credit.

1 in 3 Americans now have a side business



New customer verticals represent fresh opportunities for growth for banks and credit unions who want to serve their communities with better digital banking offerings. Targeting emerging verticals can yield short-term gains in customer acquisition and foster long-term loyalty and higher

lifetime value (LTV). By supporting customers through life stages—such as buying their first home, planning for retirement, or expanding their business—community FIs can build lasting relationships that benefit both parties.



2. The sense of urgency around data-driven banking can't be ignored

The sense of urgency surrounding data-driven banking can no longer be ignored. As technology modernization rises on the strategic agenda, institutions increasingly recognize data's pivotal role in shaping customer experience (CX), optimizing operations, and enhancing cybersecurity.

According to the 2024 CSBS annual survey, **cybersecurity remains the top challenge for banks**, with data management and analytics ranking among the critical concerns.

Despite the widespread recognition of data's importance, a recent BNY survey of community bankers found that fewer than 20% of banks consider themselves proficient in analytics, creating significant barriers to delivering personalized services and making informed business decisions.

Data-driven banking is transforming how products and services can be developed for more bespoke banking experiences for customers.

However, many organizations are hindered by legacy systems and fragmented "frankenstacks," which often lead to data silos. These silos prevent FIs from accessing a comprehensive view of customers' behaviors, needs, and financial profiles, thereby limiting their ability to:

- Personalize financial products and services to meet customer expectations
- Drive effective marketing campaigns using real-time data insights and triggers
- Strengthen security through a better understanding of transaction patterns and proactive response to threats

— Unlock the full potential of emerging AI solutions as the industry adopts them

In 2025, community financial institutions are poised to accelerate their modernization efforts. BNY's Voice of Community Banks survey revealed that 90% of these institutions profess they are "prepared to initiate digital transformation." This transition marks a significant focus on implementation, including building robust data strategies that can lay the groundwork for vertical banking solutions.

Data-driven banking is key to identifying, tailoring, delivering, and marketing vertical banking offerings. A robust vertical banking vision not only enhances service delivery but also serves as a compelling component of the business case for transformation. With momentum shifting toward core modernization, financial institutions that embrace data-driven strategies will be better equipped to meet the specific needs of different market segments.

➔ After years of discussion about the need for modernization, the tide is turning. Financial institutions are beginning to take actionable steps toward becoming data-driven, not only in their product offerings and operations but also in how they

approach market segmentation through vertical banking. This evolution is critical for positioning community banks as relevant, competitive players in an increasingly complex landscape, ensuring they can meet both current and future challenges.

TRENDS

3. Macroeconomic headwinds are challenging traditional growth avenues

External economic pressures will continue to challenge community FIs in 2025.

Although inflationary pressures are easing and interest rates are declining, poor economic growth, ongoing geopolitical turmoil, and regulatory uncertainty are likely to cause concern among bank CEOs.

Rising deposit costs are expected to cap net interest income, a critical driver of profitability, forcing banks to look elsewhere for growth. Credit quality, overall, is projected to normalize, but total consumer debt has reached an all-time high.

Deloitte predicts a potential uptick in net charge-offs and delinquencies in 2025 (especially for consumer credit cards and auto loans), adding further complexity to an already challenging environment.



➔ Attracting deposits and expanding loan portfolios – these traditional avenues for growth will be harder to achieve. Banks and credit unions must

look for new ways to diversify the balance sheet and generate new income sources to boost topline revenue.

TRENDS

4. Focus on customer value creation to escape commoditization

Banks are playing a less central role in the lives of their customers, mainly due to increased competition and commoditization.

The rise of fintechs has increased competition, especially in areas like credit cards, payments, and personal

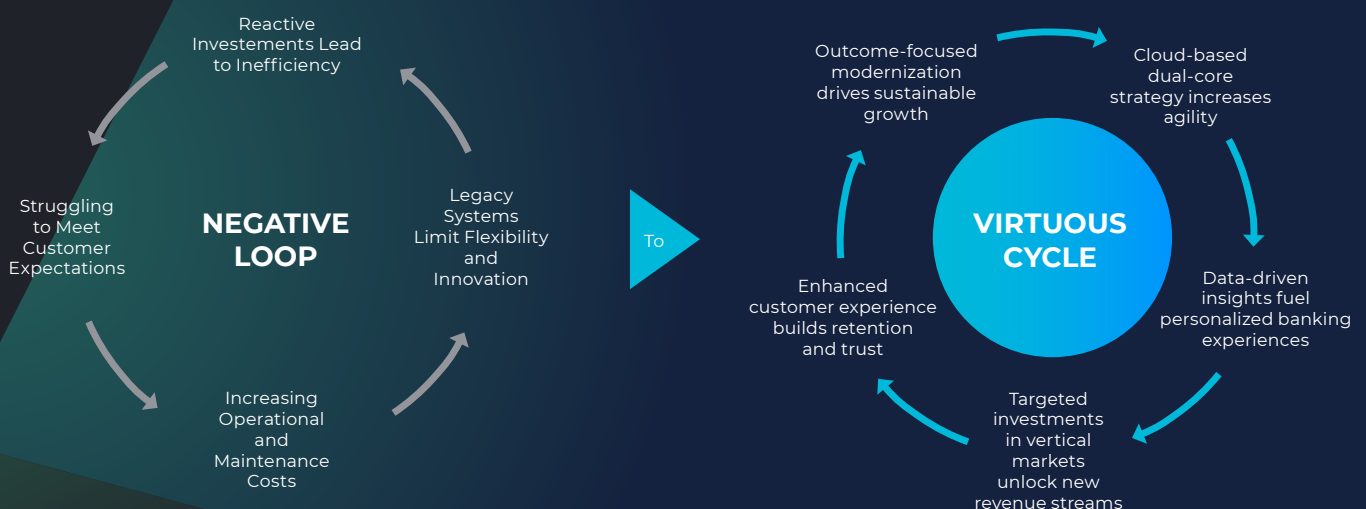
and business loans. At the same time, technological advancements have made basic banking easily accessible and increasingly similar across providers.

How can community FIs combat this?

They can leverage their strengths – relationship banking and showing they know their communities and customers by offering more tailored

products, services, experiences, and messaging for different verticals. This will require strategic investments in technology. McKinsey argues that banks should be more outcome-focused in their tech investments and allocate more of their budget to long-term strategic bets. This shift will help increase return on investment (ROI) and create greater value, rather than seeking efficiencies in 'running the bank.'

Value Creation = Better Tech Returns



Multiple financial institutions are doubling down on verticalization as a growth strategy, launching more products and services to serve specific customer verticals better and address banking pain points in new ways.

| VERTICAL STRATEGIES IN ACTION

Verticalization is a proven growth strategy

— VantageWest Credit Union in Arizona launched HUSTL, a new digital financial brand built for freelancers and side hustlers to capture member growth in an underserved vertical outside of their traditional operations and field of membership.

— De novo Studio Bank, a hybrid bank for the creator community in the Nashville region, has vertical banking products designed for startup founders and not-for-profits, and business checking accounts tailored to different transaction volumes. Taking a targeted vertical approach has been successful for Studio Bank – they reached \$1B in assets in August 2024.



For more examples of community FI's vertical offerings, see the case studies section.

➔ Focusing on new consumer or business verticals can help community FIs escape the commoditization trap by enhancing customer experience and delivering greater value. By targeting

specific demographics, industries, or communities and addressing their unique needs, FIs can differentiate themselves in a crowded marketplace filled with similar products and marketing messages.

TRENDS

5. SMB banking needs still not being met

SMB banking has been a hot topic for several years and will continue to be a significant trend in 2025. Small businesses collectively generate approximately \$150 billion in annual revenue across various banking products. Despite increasing competition from fintech companies, neobanks, tech giants, and national banks, there remains substantial opportunity in SMB banking.

FIs are making strides to launch new offerings tailored for SMBs. A recent Javelin report predicts that, despite the gradual rollout of new services, cash flow tools will reach at least 50% of the small business banking market by 2025, with seven of the top 20 FIs integrating these tools into their offerings.

However, the adoption of these tools can take work from SMBs. Research

from Hurdly and Cornerstone Advisors reveals that over half of small businesses still rely on spreadsheets or need more technological support for essential functions such as bookkeeping, invoicing, expense tracking, and financial reporting. Survey data indicates that

4 in 10 SMBs are open to switching banks for better checking account features

Furthermore, a recent survey by Datos highlighted that 33% of SMB banking customers face a risk of churn within the next two years. Notably, SMBs are more loyal than larger business customers, and their owners are willing to upgrade for an enhanced banking experience.

Among the top challenger banks in the U.S., only 15 out of 81 focus on serving SMBs, while most prioritize consumer offerings. Although SMB focused fintechs like Bluevine have carved out a role in the industry, many still fail to provide some products and features that SMBs expect from traditional banks, such as savings accounts and payment processing options.



➔ The SMB banking landscape presents opportunities, but community FIs must be more than just money movers to capture this market.

Verticals within the SMB segment are diverse; for example, small businesses will have very different banking needs in healthcare, construction, legal, or hospitality industries. Traditional, commoditized approaches will be enough in a competitive arena dominated by digital players offering tailored solutions.

To succeed, community FIs need to differentiate by creating unique products, services, and digital experiences that resonate with SMB verticals and capture their attention.

How? By bundling together capabilities like integrations to accounting platforms, specialized software (such as Clio, a legal practice management solution) or workflow tools to solve real business problems for customers and enable the FIs to embed more deeply into the SMBs business operations.

TRENDS

6. Branch closings have slowed, but the role of branches has changed

FDIC data show there has been an average of 1,646 branches closing each year in the US since 2018.

The pace of branch closures has slowed significantly to a rate of 1.4% for the year ending June 30, 2024, the lowest in a decade. This slowdown reflects banks' caution in a competitive, high-interest-rate environment, where core deposits and customer relationships are critical.

With continued margin pressures, bank executives will maintain a critical eye on cost-containment and efficiency, evaluating profitability and margin across all aspects of their FI. In some cases, executives may

determine that branch closures and investments in digital capabilities and servicing channels may generate more meaningful and efficient paths to growth.

Opening new branches was traditionally a way to grow market presence and customer reach within communities. Still, it's a less attractive option now due to rising operating costs and shifting customer behavior.

While physical branches remain important for key services—nearly two-thirds of customers use them for cash deposits and over half for in-person advice—having branches is no longer essential for building trust. Fewer than 2 in 5 customers say they trust banks with physical branches the most, signaling a shift in customer expectations.



'Brick-and-mortar' still matters, but the future of banking is hybrid. Community FIs need to have traditional and digital strategies that support each other. More importantly, they need technology to enable great online and in-branch customer experiences. Growth is more likely to come from

investing in new products and digital-focused verticals than new physical locations. Expanding into new verticals also means banks have more diversified sources for growth, and ways to efficiently reach and service new audiences.

I TRENDS

7. Industry consolidation is picking up pace

Mergers among U.S. regional banks increased in 2024, and M&A activity is expected to stay strong as institutions aim for more robust balance sheets to elevate their competitiveness against larger rivals. According to Reuters, there have been 38 deals in 2024 compared

to 29 during the same timeframe in 2023. Fitch Ratings predicts more mergers in 2025 as interest rates decrease and the demand for digital transformation intensifies.

This prediction is echoed in a Bank Director survey that found that more

than 2 in 5 bank leaders believe their institutions will buy another bank in 2025.



The stakes are high for community banks and credit unions. In a consolidating landscape, smaller FIs need to evolve if they want to remain independent and relevant. To withstand growing competition and M&A pressures in 2025, FIs must prioritize strategic

innovation, operational efficiency, and deepening customer relationships. Adopting a vertical banking strategy could enable them to address all these priorities effectively.

Conclusion: How to respond to these trends?

Successfully navigating 2025 will require clear strategic thinking.

Depending on how well these trends align with your institution's existing roadmap, it will also necessitate some data-driven analysis, new initiatives, and a greater level of ambition.

FIs that will win in 2025 are already making strides to capitalize on these trends. They are increasingly deploying vertical-based strategies to

overcome commoditization (trend 4) and find new growth avenues in the current macroeconomic environment (trend 3).

The vertical strategies of MSUFCU and PeoplesBank are great examples of institutions growing by finding new customer segments and offering them tailored products, services, digital experiences, and brands.

CASE STUDIES

Vertical strategies in action

ZYNLO and **PeoplesBank**

Massachusetts-based PeoplesBank was ambitious to grow and expand outside their existing customer base of consumer, small business, commercial, and nonprofit banking in MA and surrounding areas.

They identified young and financially curious digital natives as an attractive customer vertical

that would value banking products tailored to their needs and could give them a nationwide footprint.


PeoplesBank launched **ZYNLO** in 2020 as a digital-only bank designed for millennials who crave financial independence. They offer product features like high-yield savings accounts, transaction round-up and matching, and Early Payday, which gives customers access to their salary direct deposit up to two days early.

ZYNLO's tailored digital banking offering and its focus on customer onboarding have led to significant growth. Their go-to-market strategy has been supported by targeted messaging and an award-winning website design.

Recently, PeoplesBank announced **Employ and Union Workers Financial Services (UWFS)**, a collaboration that targets the pressing need for better financial wellness tools. These vertical offerings are a direct response to the 62% of employees stressed about their financial circumstances.

Employ and UWFS allow mid-large organizations and unions to establish digital banks of their own, enabling them to offer discounted financial services, high-interest savings accounts, emergency loans, and credit-building tools and monitoring for their employees or union members.

“ This initiative is our tribute to the backbone of America—the union members, skilled tradespeople, and hardworking individuals employed by businesses of all sizes who drive our economy forward. It embodies PeoplesBank’s commitment as a community bank to empower the hands that shape our future, fostering growth for organizations and financial well-being for individuals. It’s more than banking; it’s building a stronger, more resilient workforce. ”

Aleda De Maria,
Executive Vice President
Chief Banking Officer
 PeoplesBank

Vertical strategies in action

PeoplesBank's experience with **ZYNLO**, created ambition for broader digital vertical expansion and a vision to modernize the role of community banking in its community.

Millennials	Employers	Union Workers
Expansion Vertical 1	Expansion Vertical 2	Expansion Vertical 3
ZYNLO BANK	employ	 UWFS

CASE STUDIES

Vertical strategies in action continued



Michigan State University Federal Credit Union's original charter targeted MSU and Oakland University students, alumni, and faculty members, but they've recognized the value in expanding to new verticals to service members across their entire financial journey.

Their first new vertical was driven by a desire to serve their communities beyond graduation.

They launched AlumniFI to enable college graduates to establish healthy financial habits,

with features like round-up savings and a focus on paying off student debt and building a solid financial future.

Their next vertical was **Collegiate**, targeting students from other universities. Features include checking and savings accounts that make it easier to track money and budget with flexible folders, and a multitude of resources and media to help students build their financial literacy.

Next is **Pillur**, which targets small businesses with integrated cash flow management and invoicing.

Vertical strategies in action

MSUFCU created a vertical strategy to serve multiple member segments across the banking journey and life stages while expanding their field of membership.

College students	Alumni	Small business
Expansion Vertical 1	Expansion Vertical 2	Expansion Vertical 3
 COLLEGIATE Credit Union	 AlumniFi. Credit Union	 PILLUR

Sidecar Cores—building with speed and purpose

PeoplesBank and MSUFCU are proving that vertical-focused sidecar cores are a powerful move for community institutions looking to

build, test, and grow without the high stakes of overhauling their main core systems.

By launching new, vertical-targeted products on a sidecar core, they can try out emerging tech and partnerships, all while keeping operations steady. It's a way to test for real traction, refine internal processes, and prime their teams for larger-scale transformation.

For community banks and credit unions aiming to go to market fast with minimal risk, Nymbus Launch

offers a turnkey path built on the strength of Nymbus Core.

With it, banks can implement fresh ideas without disrupting current operations. This approach combines smart risk management with:

Flexible Growth:

Introduce new offerings quickly to meet customer demands while managing costs.

Controlled Innovation:

Implement changes in a controlled environment, ensuring that legacy systems remain unaffected.

Comprehensive Data Access:

Nymbus Core ensures that your data is always accessible, with seamless integrations to third-party services. Allowing for adjusting offerings and marketing strategies based on real-time data and market feedback.

Balance Sheet Diversification:

Expand beyond your current product offerings and primary geographic or demographic markets to diversify assets, liabilities, and revenue streams.

Stepwise Transformation:

Modernize core functions at your own pace, bringing the entire bank up to speed on your terms.

The result?

A sidecar approach lets you gain a foothold in new markets and verticals, adapt with agility, and develop confidence with the kind of low-risk, high-reward framework that powers sustainable growth.

A Strategy-First Approach to Vertical Growth

Accelerate into 2025 with Nymbus

— If you're wondering, "**What would a vertical-focused banking strategy look like for us?**" Nymbus is here to guide you. Through targeted analysis and strategic workshops, we'll help identify the right verticals for your FI, that are tailored to your market and mission

Book a Nymbus Launch Strategy Workshop

— Our expertise in designing innovative financial solutions - powered by data and insights - can fast-track your journey to developing a vertical growth strategy and building a strong business case.

— Nymbus helps community FIs uncover, validate, and capitalize on opportunities for small business and consumer verticals—equipping you with the products, solutions, and brands to succeed.

What Does the Process Look Like?

— Nymbus Launch Strategy Workshops are a collaborative 3-4 week process designed to create a clear, actionable vertical strategy. **We partner with your team to:**

- 1 Clarify your FI's goals and identify high-potential verticals for targeted growth
- 2 Establish vertical-specific marketing activation strategies, backed by managed services, to drive results
- 3 Activate vertical-specific marketing strategies for impact
- 4 Optimize vertical services with data driven insights

With Nymbus, your FI can confidently explore vertical growth and achieve strategic impact in 2025.

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