



Reinventing Business Checking

The Key to Growing SMB Relationships



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The Business Checking Account Imperative

It's easy to predict the future after it's already happened.

Had Cornerstone Advisors published a forecast regarding banking relationships among small and medium-size businesses (SMBs) before March 2023, we would have predicted that SMBs would, over the next few years, expand their deposit relationships across banks.

Why? Because we believe that like consumers—many of whom now use multiple checking accounts from different providers in search of specialized features and functionality—SMBs would increasingly seek out financial institutions with superior business checking account capabilities.

Alas, the Silicon Valley Bank meltdown beat us to the punch. The SVB crisis raised fears in the hearts and minds of SMBs that their banks would suffer similar fates, causing many to open new accounts with new banks and spread out their money in search of fully insured deposits.

We missed the boat on that one, but here's a prediction that hasn't already happened: The movement of funds and opening of new accounts isn't over. In the next three to five years, many SMBs will continue to move their money and enter new relationships in search of 1) business checking accounts that provide more value than is offered in the accounts they have today, and 2) accounts that offer a bundle of features and capabilities aligned with their unique needs.


The SVB debacle simply accelerated and exacerbated a trend that was already underway. It emphasized the new reality in small business banking: Banks can't sit back and grow checking accounts and deposits through lending—they have to grow their lending business by first growing their deposit relationships.

Threats to Community Banks' Business Relationships







The SVB debacle was a shock to the system, but there are more systemic trends—and threats—in play within the banking industry, including:

- **Strong pricing and technology support from the big banks.** Bank of America is a great example. The megabank offers SMBs two pricing tiers—a \$16 per month option and a \$30 per month option. Qualifying for a fee waiver with the first tier can be done by maintaining a \$5,000 monthly balance or by spending at least \$250 per month on the account's debit card (Figure 1). The bank also offers SMBs the ability to use Zelle to send, request and receive money among eligible bank accounts in the United States (you'll see later on why this is important). In addition, the bank offers value-added services like a cash flow monitor, cyber threat protection and fraud protection.

Figure 1: Bank of America Business Banking Accounts

BANK OF AMERICA  Business Advantage		Business Advantage Fundamentals™ Banking	Business Advantage Relationship Banking
Second Business Advantage Banking account		\$16/month	\$0/month
Business Advantage Savings account ^[10]		\$10/month	\$0/month
Incoming wires, stop payments and more		Fees vary	\$0/month
Account Management capabilities ^[11]		\$0/month	\$0/month
Teller transactions and checks written with no fee		200 transactions/month	500 transactions/month
Monthly fee		\$16 or \$0	\$29.95 or \$0
Avoid monthly fee by meeting one of the following requirements each statement cycle, or become a Preferred Rewards Business member ^[4]		Maintain a \$5,000 combined average monthly balance ^[12] Spend at least \$250 in new net qualified debit card purchases ^[13]	Maintain a \$15,000 combined average monthly balance
	Powerful digital tools	Dedicated support	Preferred Rewards for Business

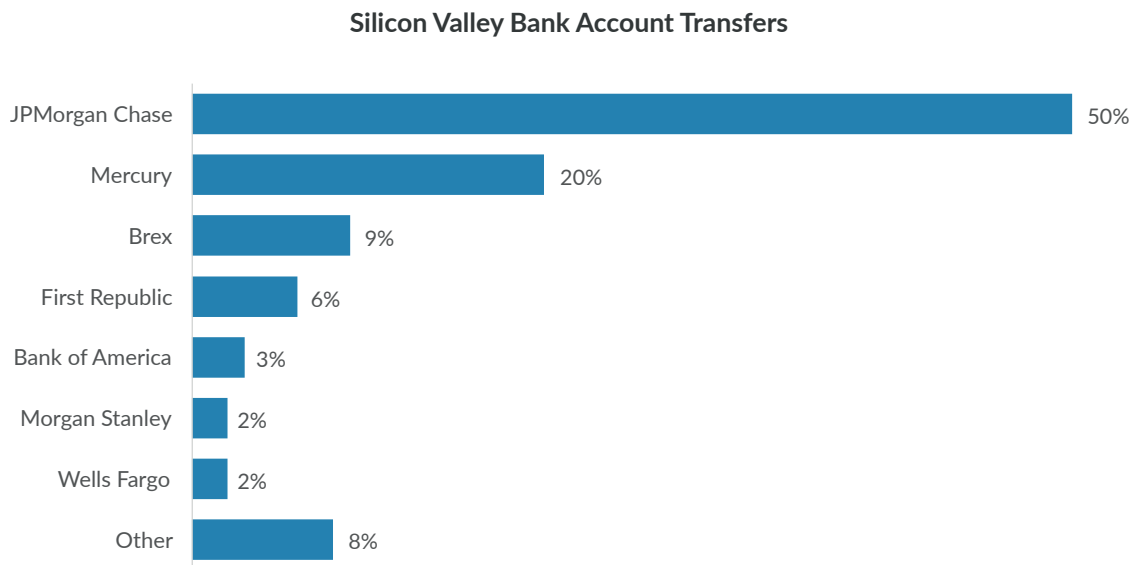
Improve efficiency and complete daily tasks easier with these tools.

 <p>Profile linking</p> <p>Easily view and manage personal and business accounts with just one login.</p>	 <p>zelle® for your business</p> <p>A fast, safe and easy way for businesses to send, request and receive money directly between eligible bank accounts in the U.S.^[7]</p>	 <p>Cash Flow Monitor^[5]</p> <p>Get cash flow projections, monitor transactions and view category balances.</p>
 <p>Account Management^[11]</p> <p>Power to grant customized access to additional users, to either view or transact from their accounts</p>	 <p>Erica^[14]</p> <p>Your virtual financial assistant can help transfer or send money, search transactions & more.</p>	 <p>Digital debit cards^{[15] [16]}</p> <p>Start using your debit card immediately for in-store and digital purchases.</p>

Source: Bank of America

- Niche fintechs.** The “niche”—or narrow consumer segment—strategy in fintech has taken some lumps recently, but, in the business banking space, a number of players are developing a strong offering and cherry picking valuable business customers from established financial institutions. According to Kruze Consulting, nearly three in 10 of their clients with accounts at SVB opened new accounts at fintechs (Mercury and Brex) during the run on the bank (Figure 2). Panacea Financial is another successful B2B fintech serving young physicians. In its first 18 months, the fintech reached positive pre-provision profitability and originated \$100 million in loans.

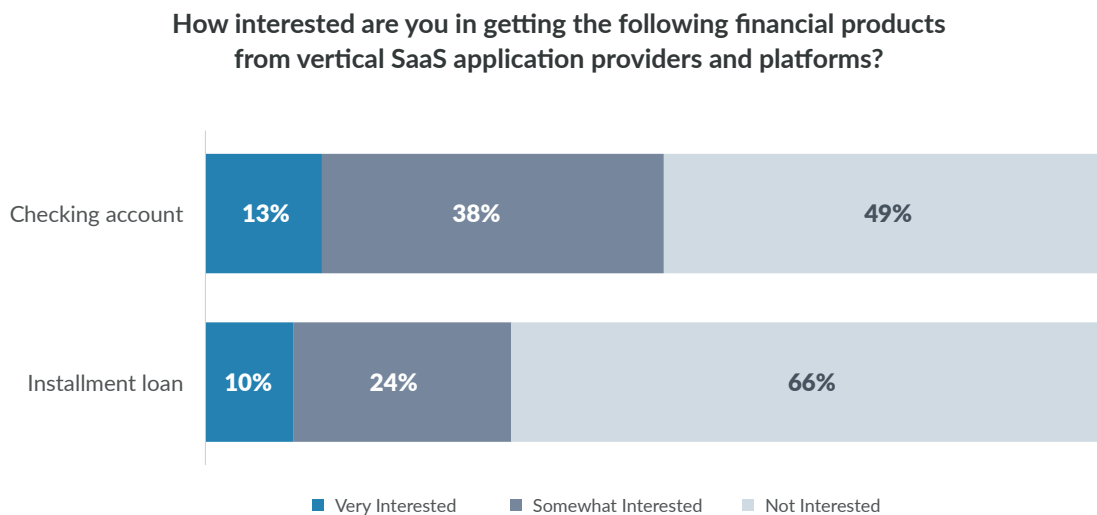
Figure 2: Silicon Valley Bank Account Transfers



Source: Kruze Consulting

- Vertical SaaS applications and platforms.** Many SMBs use SaaS applications specific to their industry segment or platforms like Amazon, Shopify and Square. Half of SMBs using Square have opened a checking account with the platform, and among all SMBs, many expressed interest in opening checking accounts or getting loans from these platforms and vertical SaaS application providers (Figure 3).

Figure 3: Interest in Financial Products from Vertical SaaS Providers and Platforms



Source: Cornerstone Advisors survey of 500 SMB owners and executives, Q1 2021

The New Business Banking Imperative

What this means is that banks will have to reinvent the business checking account.

And they'll do it not just because there's a fee-based revenue opportunity associated with doing it, but because a reinvented business checking account will become the mechanism by which banks engage SMBs, generate data about SMBs, and identify, sell and close lending opportunities with SMBs.

This report—based on a recent survey of SMB owners and executives—will provide evidence for this shift in commercial banking strategy and recommendations to banks on how to reinvent the business checking account to capitalize on the promised opportunities.

About the Data

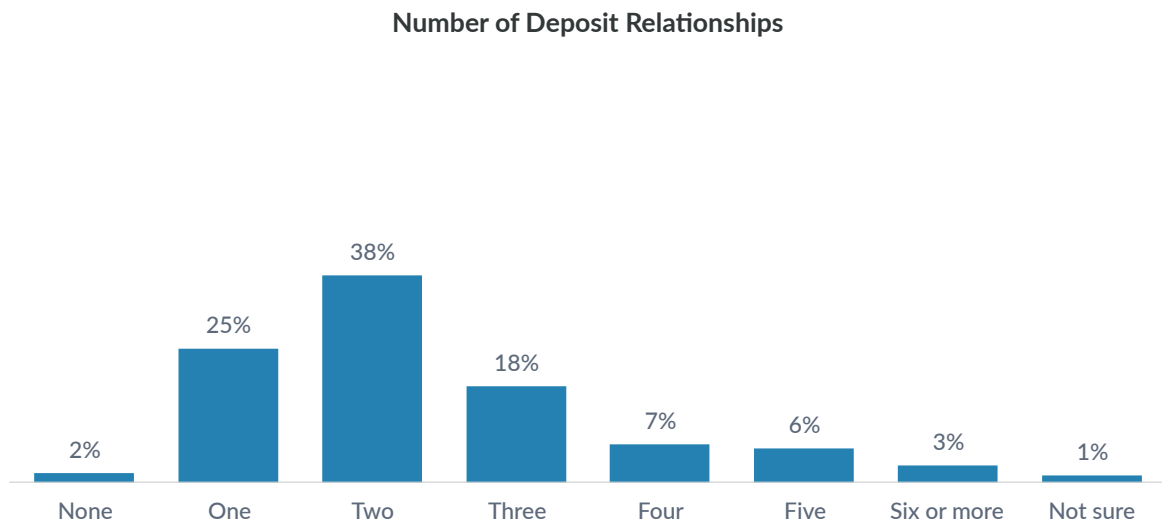
In March 2023, Cornerstone Advisors surveyed 1,009 U.S.-based small business owners and senior executives about their companies' financial relationships and preferences. Roughly three in 10 respondents came from businesses with revenue between \$100,000 and \$1 million, 37% from firms with \$1 million to \$10 million in sales, and 34% from SMBs with \$10 million to \$100 million in sales. A quarter of survey respondents are owners or partners of their firm, 25% are CEO or president of their company, and half are responsible for the management of their company's finances. The spread of respondents across SIC codes is representative of the allocation of small and medium-size businesses in the United States.

The Paradoxes of Small Business Banking

SMBs' Banking Relationships

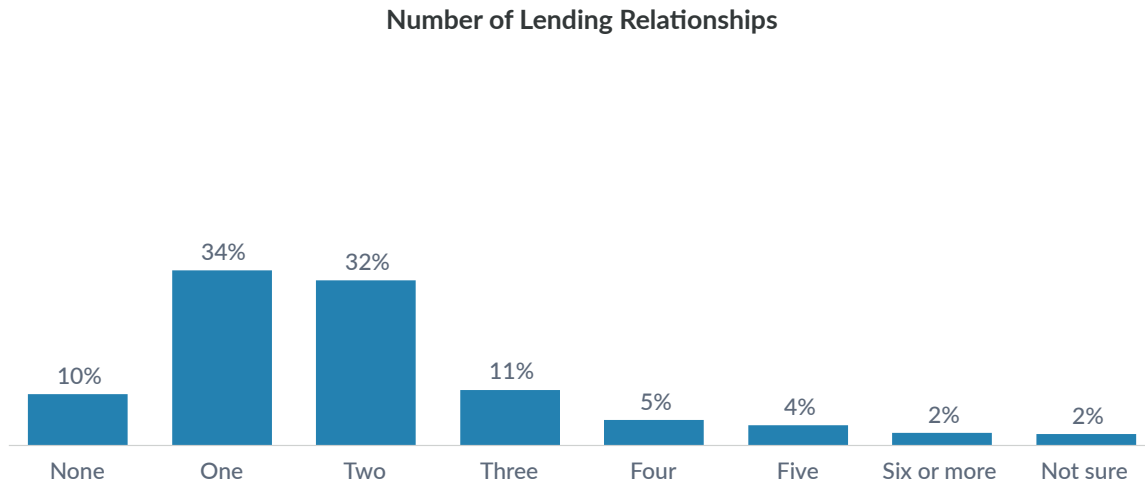
The Silicon Valley Bank crisis had a swift impact on SMBs' financial lives. Within weeks of the crisis, more than seven in 10 SMBs reported having two or more deposit-related (i.e., checking, cash management or savings/CD/money market account) relationships (Figure 4). Based on a Q1 2020 survey of SMBs, we estimate less than half had multiple deposit relationships at that time. On the lending side, more than half of SMBs have two or more relationships (Figure 5).

Figure 4: Number of Deposit Relationships



Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Figure 5: Number of Lending Relationships

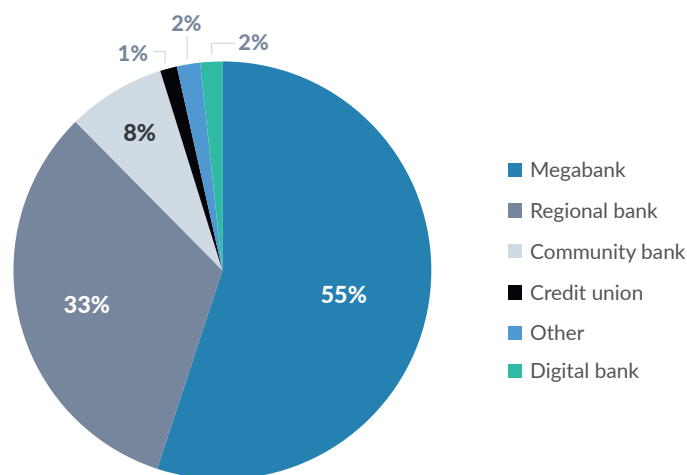


Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

More than half of SMBs have their primary checking account with one of the four megabanks (Bank of America, Chase, Citi and Wells Fargo), and for about a third it's with a large regional bank. Just 9% said their primary checking account is with a community bank or credit union (Figure 6). Even among SMBs with annual revenue less than \$5 million, community banks and credit unions have less than 15% primary checking account market share.

Figure 6: Primary Checking Account Provider

With what type of institution does your company have its primary checking account?

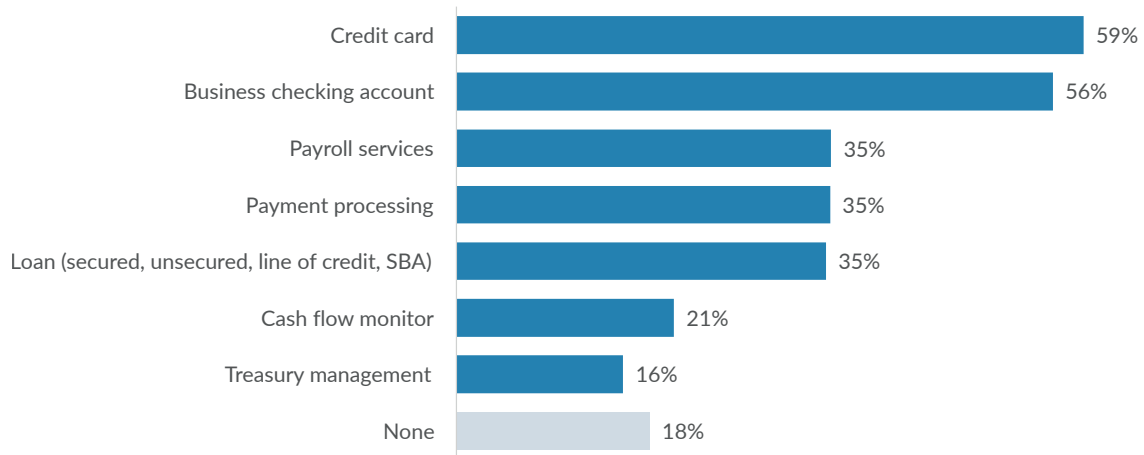


Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Between the start of 2022 and March 2023, more than half of SMBs opened new checking accounts and credit cards, while more than a third took out loans and selected new payments and payroll providers (Figure 7).

Figure 7: Banking Products and Services Opened Since the Beginning of 2022

Which of the following banking products or services has your business opened since the beginning of 2022?



Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

SMBs' Payments Relationships

Overall, 65% of SMBs use the debit card associated with their primary checking account at least once a week, but behaviors differ greatly depending on who the primary provider is. Among SMBs whose primary checking account is from a megabank or regional bank, roughly seven in 10 use the debit card from that account every week. Just 27% of SMBs that bank with a community bank use the account's debit card that frequently, however, and more than half never use the card (Table A).

Table A: SMB Debit Card Use by Primary Provider

	SMB's Primary Provider		
	Megabank	Regional Bank	Community Bank
Every week	69%	70%	25%
Couple of times a month	19%	14%	10%
Once a month	2%	3%	3%
Few times a year	3%	3%	9%
Never (or practically never)	6%	11%	53%

Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Of SMBs whose primary checking account is from a megabank or regional bank, preference for a credit card is the most frequently cited reason for not using the account's debit card. Among community bank customers, however, 55% said they preferred to write checks. Preference for P2P tools and a desire for rewards was more prevalent among megabank and regional bank customers than among community bank customers (Table B).

Table B: SMB's Reasons for Not Using Debit Card by Primary Provider

Why doesn't your company use the debit card associated with its primary checking account more often?

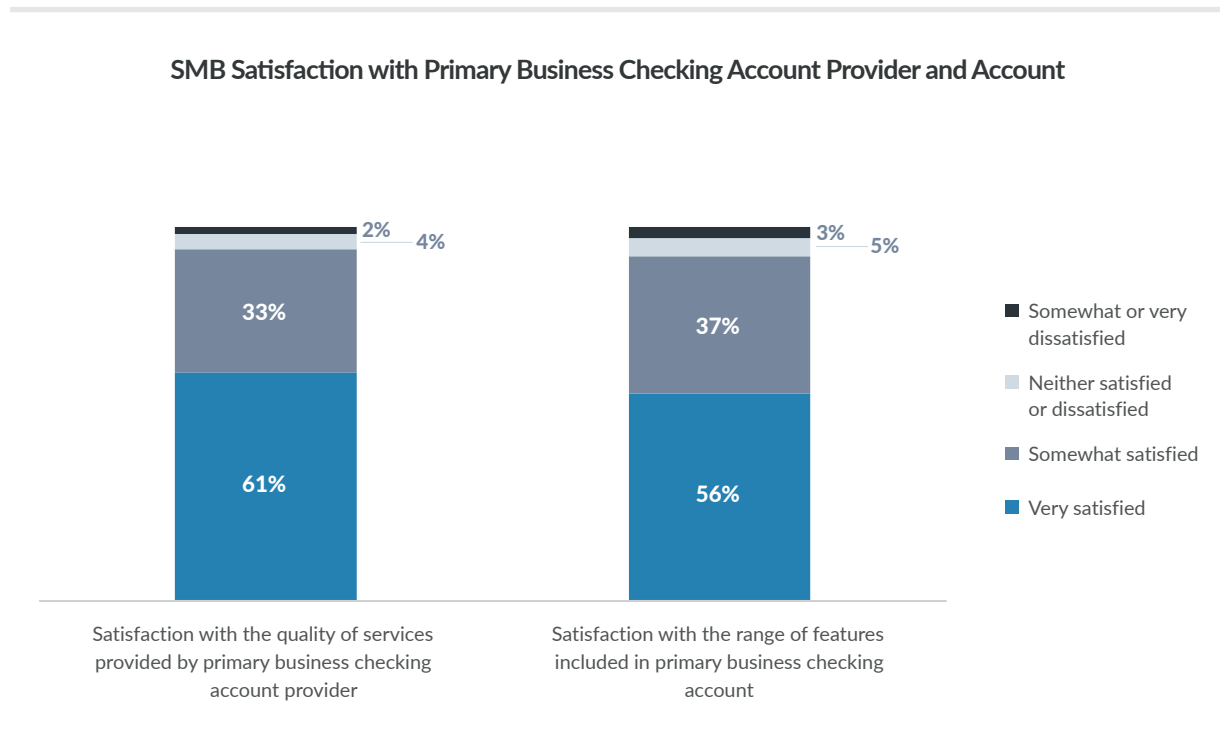
	Primary Provider		
	Megabank	Regional Bank	Community Bank
Prefer to use a credit card	57%	47%	40%
Prefer to write checks	26%	26%	55%
Prefer to use ACH or wire transfers	25%	28%	25%
Prefer to use P2P tools	24%	22%	5%
It doesn't offer rewards	17%	20%	5%
Don't want employees to use the card	14%	23%	15%
It's not convenient to use the card	11%	16%	10%

Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

SMB Satisfaction with Their Banks

For the most part, SMBs are satisfied with their business checking account relationships—61% are very satisfied with the quality of services provided (with another 33% somewhat satisfied), and 56% are very satisfied with the range of features included in their business checking account (with 37% somewhat satisfied) (Figure 8).

Figure 8: Satisfaction with Primary Business Checking Accounts



Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Three SMB Banking Relationship Paradoxes

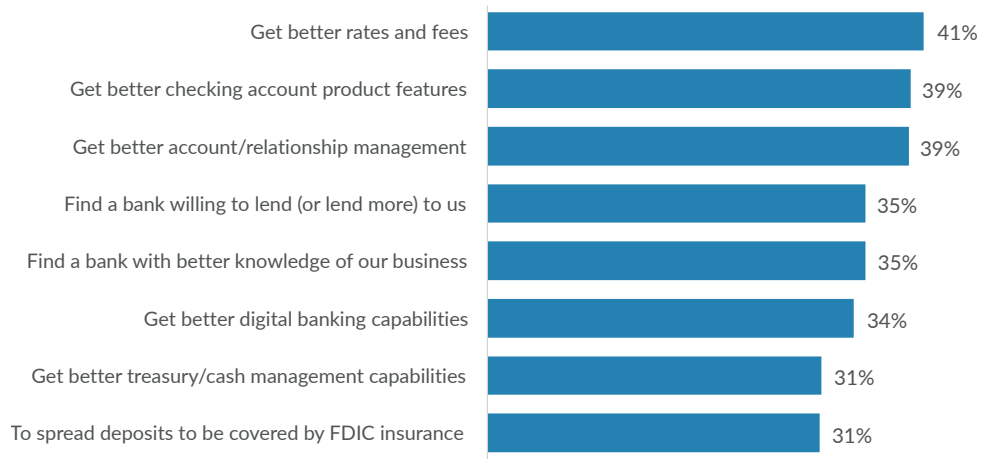
Despite SMBs' relatively high level of satisfaction with their checking account provider and the account itself, three seemingly contradictory facts emerged from the survey:

- **Many SMBs are open to new banking relationships.** Overall, two-thirds of SMBs are somewhat or very likely to look for new banking relationships in the next 12 months. Among SMBs with annual revenue between \$10 million and \$100 million, that percentage rises to 77%.

- **Many SMBs are looking for better business checking account features.** When asked why they might consider a new banking relationship, nearly four in 10 indicated they wanted to get better business checking account product features and capabilities—even though more than nine in 10 said they were at least somewhat satisfied with the range of features they already have (Figure 9).

Figure 9: Factors Influencing Choice of New Business Checking Account

Why would your business consider a new banking relationship?



Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

- **SMBs are increasingly open to borrowing from sources other than their primary checking account provider.** Roughly eight in 10 SMBs will consider their primary business checking account provider for their borrowing needs over the next two years—no surprise there. But 52% will consider another bank or credit union for loans—up from 42% in a survey Cornerstone Advisors conducted in early 2020 (Table C).

Table C: Potential Sources of Loans

Which of the following sources will your company consider borrowing from for the loans you expect to apply for in the next two years?

	2020	2023
Primary checking account provider	79%	83%
Another bank or credit union	42%	52%
Online or digital lender	32%	35%

Sources: Cornerstone Advisors surveys of 1,009 small to medium-size business owners and executives, March 2023, and 1,265 small to medium-size business owners and executives, Q1 2020

Understanding SMB Satisfaction Levels

What distinguishes an SMB that is “very satisfied” versus one that is just “somewhat satisfied”? The survey results suggest that there are nine factors that influence SMBs’ ratings. A significantly higher percentage of SMBs that are “very satisfied” with their primary checking account provider believe that those institutions do a better job of making it easier for SMBs to manage their finances (and feel more prepared to do so), provide products and services that meet their preferences and needs, protect their assets and data, and protect them from fraudulent activity and cyberthreats (Table D).

Table D: SMB Perspectives on Their Primary Checking Account Provider

To what extent would you agree with the following statements about your company's primary bank?
(% responding "to a great extent")

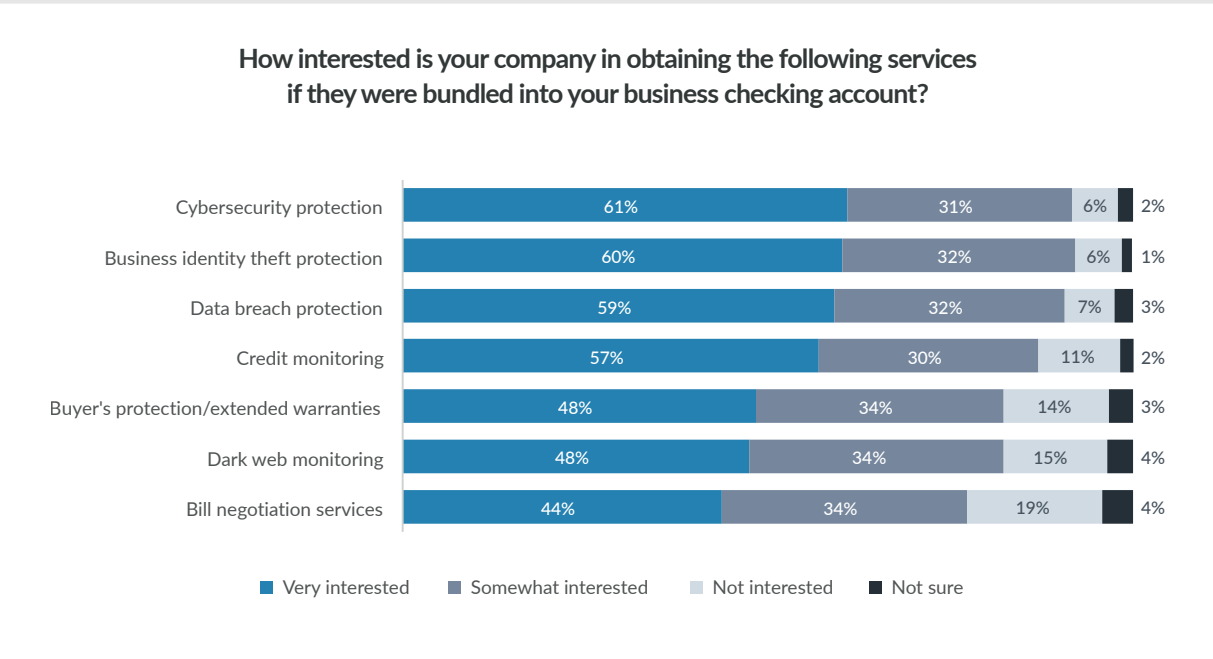
	SMBs "Very Satisfied" with Primary Checking Account Provider	SMBs "Somewhat Satisfied" with Primary Checking Account Provider
Make it easier to manage my company's finances	78%	37%
Provide products/services that meet our preferences and needs	75%	39%
Protect and secure my company's finances and assets	73%	46%
Protect us from fraudulent activity	71%	42%
Reduce the stress of managing my company's finances	71%	29%
Are there when we need help managing our finances	70%	38%
Protect my company's data	67%	40%
Help us feel more prepared to manage our finances	66%	41%
Protect us from cyberthreats	59%	32%

Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Reinventing Business Checking Accounts

What do SMBs mean when they say they want “better business checking account product features and capabilities?” We think they want value-added services bundled into their checking accounts. Roughly six in 10 said they would be very interested in getting cybersecurity, business identity theft and data breach protection bundled with their business checking account. Nearly half said they’re very interested in getting warranties and dark web monitoring from their bank, and 44% expressed strong interest in bill negotiation services (Figure 10).

Figure 10: Interest in Services Bundled in Business Checking Account



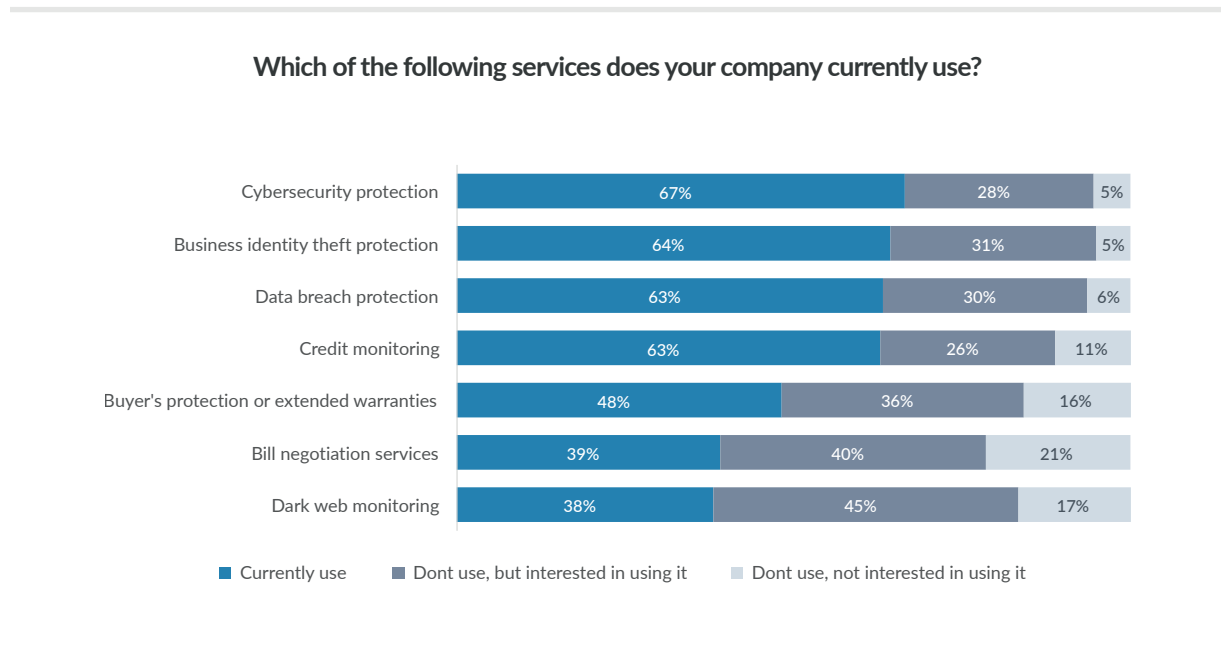
Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

This isn’t a random list of services. According to the survey, 64% of SMBs have experienced cybersecurity threats over the past few years, with one in five saying it’s had a significant negative impact on their business. Payments fraud has been an issue as well, cited by 68% of respondents, with 18% complaining about its negative impact.

SMBs Don't Need to Be Convinced to Pay for Value-Added Services

As a result, more than six in 10 SMBs currently get—and pay for—cybersecurity, business identity theft and data breach protection services as well as credit monitoring services. And although just roughly four in 10 SMBs currently use bill negotiation and dark web monitoring services, another four in 10 expressed interest in using those services (Figure 11).

Figure 11: Value-Added Services Used by SMBs



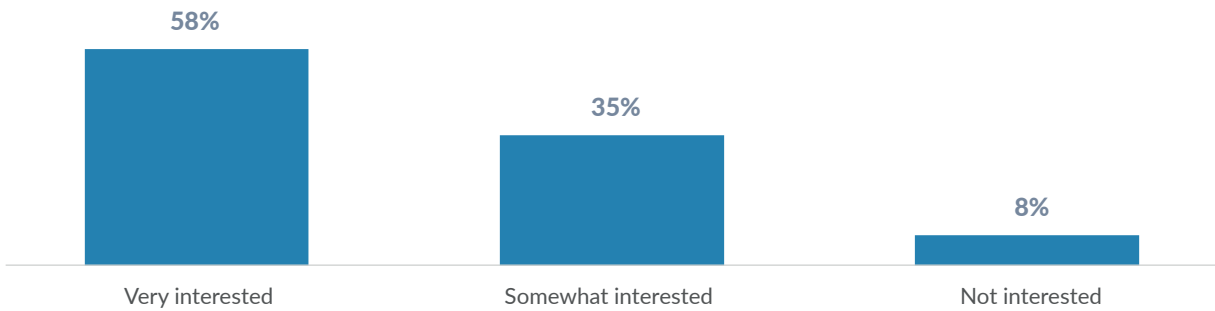
Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

The challenge for community-based financial institutions isn't getting SMBs to pay for value-added services, it's getting SMBs to pay them for obtaining the services.

In addition to having services bundled into their business checking accounts, 58% of SMBs would like to offer their employees the opportunity to have access to a checking account with value-added features like cell phone damage protection, identity theft protection, bill negotiation services, fuel savings and a health savings card (Figure 12).

Figure 12: SMB Interest in Providing Value-Added Services to Employees

Some banks have bundled value-added services (e.g., cell phone damage protection, identify theft protection, bill negotiation, fuel savings, health savings cards) into their consumer checking accounts. How interested would you be in a business checking account?



Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Opportunities from Reinventing Business Checking Accounts

The three paradoxes of SMB banking—openness to new relationships, interest in better business checking account features, and willingness to borrow from other sources, all despite relatively high satisfaction with existing providers and products—are both threats and opportunities for community-based financial institutions.

On one hand, megabanks and regional banks—which hold nearly 90% market share of SMB checking accounts—have an advantage over community financial institutions as the larger institutions are going to be the first place SMBs will turn to for the loans and other value-added (and fee-based) services they are looking for.

Community banks can't just copy the penalty fee pricing approach of the larger banks. Instead, they can find wedges—i.e., products and services—to capture SMBs' existing deposit and other non-lending relationships to establish new banking and lending relationships. By reinventing the business checking account, there are opportunities for community-based financial institutions to drive revenue from:

- **Fees from value-added services.** SMBs already receive—and pay for—value-added services for cybersecurity, business identity theft, data breach protection and credit monitoring services. Bundling these services into business checking accounts provides SMBs with greater convenience to obtain and manage the services and drives deeper engagement with the bank.
- **Debit card interchange.** Community banks lag the bigger institutions in driving debit card use and interchange revenue from their SMB customers. Reinventing the business checking account by bundling value-added services gives community banks the opportunity to create a pricing structure that incentivizes SMBs to make greater use of their debit cards in exchange for more favorable pricing on the bundled package.
- **Loans.** On average, SMBs that bank with a community bank got nearly 60% of their borrowed funds over the past two years from that bank (Table E). Establishing checking account relationships with SMBs that currently consider megabanks and regional banks their primary providers may open the door to more lending opportunities.

Table E: SMBs' Source of Loans

What percentage of what your company has borrowed over the past two years came from these sources?

	SMBs whose primary checking account provider is a:		
	Megabank	Regional Bank	Community Bank
Primary business checking account provider	44%	35%	58%
A different bank/credit union	27%	27%	30%
An online/digital lender	18%	21%	0%
Other sources	11%	17%	12%
Amount borrowed	\$1,528,915	\$1,185,600	\$851,250

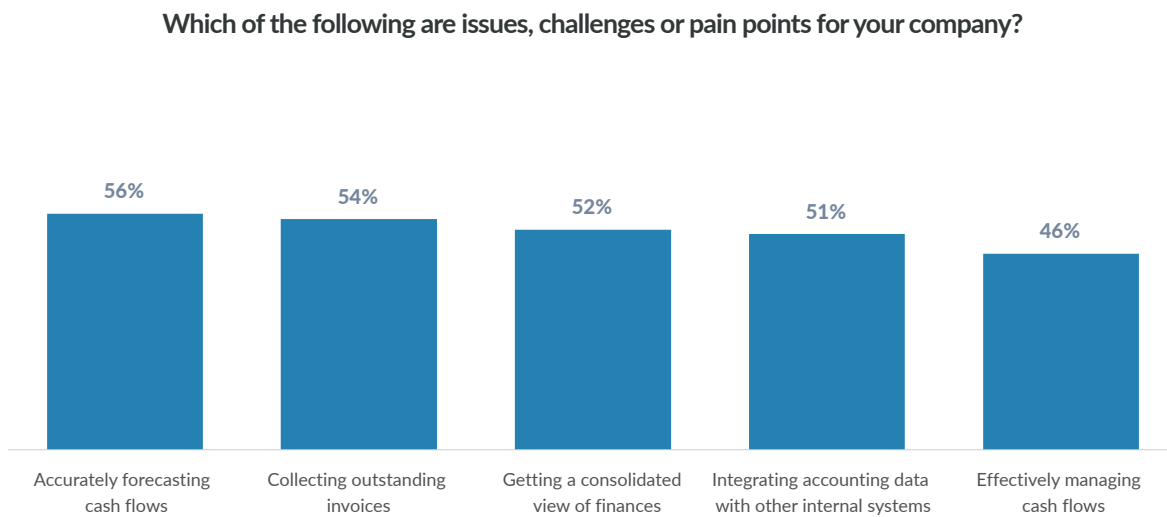
Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Expanding SMB Relationships with Accounting and Payments Services

Banks shouldn't rely on just bundling value-added services into business checking accounts to grow and solidify their SMB relationships. Instead, they should explore opportunities to provide accounting and payment acceptance services to SMBs.

Many SMBs wrestle with financial management functions like managing and forecasting cash flow, invoicing, and integrating the systems and applications they use (Figure 13).

Figure 13: SMB Financial Management Challenges



Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Today, many SMBs perform a range of accounting and payments functions in-house (Table F). With the difficulties small businesses face finding qualified personnel in today's tight labor market—and then coping with the wage inflation caused by today's economic conditions—many SMBs are amenable to outsourcing their financial functions.

Table F: Percentage of SMBs That Perform Financial Functions In-House

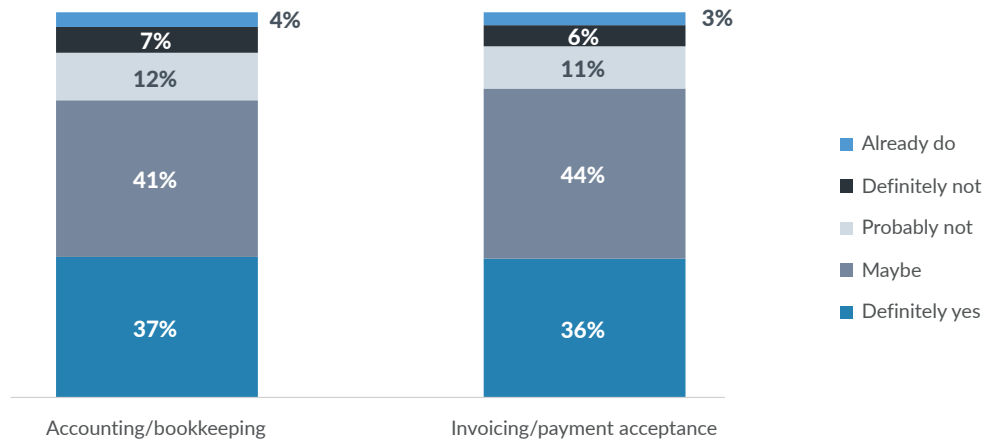
	SMB Annual Revenue		
	<\$1 million	\$1 million to \$10 million	\$10 million to \$100 million
Payment acceptance	66%	57%	49%
Bill payment	58%	62%	50%
Invoicing	58%	62%	58%
Bookkeeping/accounting	43%	45%	42%

Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

In fact, more than a third of SMBs are definitely interested in obtaining both accounting/bookkeeping as well as invoicing/payment acceptance services from a bank or credit union with another four in 10 saying they might have an interest (Figure 14).

Figure 14: Interest in Obtaining Accounting and Payments Services from a Financial Institution

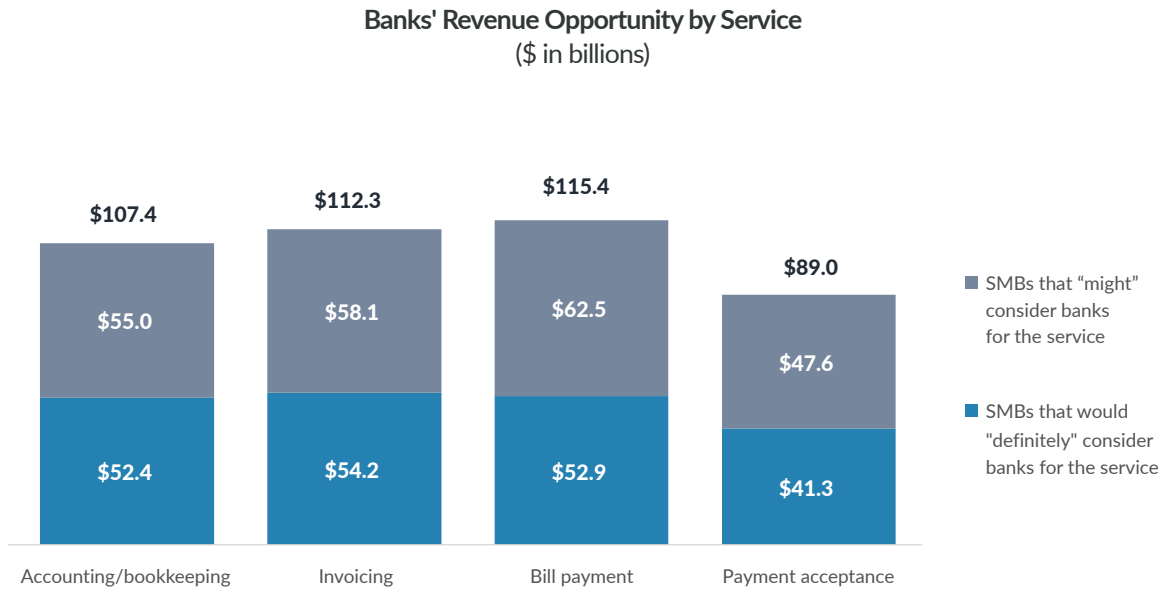
How interested would your company be in obtaining the following financial management services from a bank or credit union?



Source: Cornerstone Advisors survey of 1,009 small to medium-size business owners and executives, March 2023

Cornerstone estimates that banks' revenue opportunity from providing accounting and payments services to SMBs is roughly \$424 billion per year with \$200 billion of that coming from SMBs who are "definitely" interested in receiving accounting and payments services from banks (Figure 15).

Figure 15: Banks' Revenue Opportunity in Accounting and Payments Services



Source: Cornerstone Advisors

Conclusions

Based on our survey of small business owners and executives, Cornerstone Advisors believes that community banks:

- **Have a significant opportunity to capture small business checking account market share.** Despite relative satisfaction with their current banking providers, the majority of small businesses are looking for new banking relationships in the near future.
- **Can win new small business relationships with a different kind of checking account.** As many small businesses are looking for a checking account with better functions and features as are looking for better rates and fees or for better account management. In other words: Banks don't have to compete on price and will struggle to compete on service.
- **Should bundle value-added services into their checking account offerings.** Many small businesses already get—and pay for—services like cybersecurity protection, business identity theft protection, data breach protection and credit monitoring services. And many small businesses are open to obtaining these services from the banks they do business with, bundled into their checking account.
- **Can increase interchange revenue among small businesses.** The small businesses that have checking accounts today don't use the debit cards associated with their accounts nearly as much as the small businesses that have accounts with large banks. The large banks have created pricing approaches that incentivize small businesses to make more use of their debit cards—and community banks need to do the same.
- **Can leverage deposit and payment relationships into new lending business.** The challenge for community banks isn't about winning the lending business of small businesses with big bank relationships—it's winning that business profitably. Winning the lending business of small businesses without a prior relationship requires a big investment in marketing and then an investment in time to underwrite and decision loan applications. Banks lending to small businesses with a deposit can leverage account data and make proactive lending offers—and significantly improve loan profitability.

About the Authors

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Cornerstone Advisors Chief Research Officer Ron Shevlin heads up the firm's fintech research efforts and authors many of its studies. He has been a management consultant for more than three decades, working with leading financial services, consumer products, retail and manufacturing firms worldwide. Prior to joining Cornerstone, Shevlin was a researcher and consultant for Aite Group, Forrester Research and KPMG. Author of the Fintech Snark Tank blog on Forbes and host of the What's Going On In Banking podcast, Shevlin is ranked among the top fintech influencers globally. He is a frequent keynote speaker at banking and fintech industry events.



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Glenn Grossman produces analytical studies aimed at delivering insights for innovation, growth and sustainable competitive advantage for financial institutions and fintech firms. Backed by more than 30 years of leadership experience in data analytics, product management and product development in the banking and technology industries, Grossman has published numerous retail banking articles on topics including deposit growth strategies and bank regulation. Before joining Cornerstone Advisors, Grossman was a principal consultant and senior thought leader with FICO and the product leader for a start-up fintech payments firm. He started his career in the financial services industry managing product innovation and payment strategy at Bank of America. He also served as an economist with the U.S. Department of Labor–Bureau of Labor Statistics.



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About Cornerstone Advisors

After more than 20 years in this business, Cornerstone Advisors knows the financial services industry inside and out. We know that when banks and credit unions improve their strategies, technologies, and operations, improved financial performance naturally follows. Because we live by the philosophy that you can't improve what you don't measure, we help financial institutions use laser-focused measurement to develop more meaningful business strategies, make smarter technology decisions and strategically reengineer critical processes.



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About StrategyCorps

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