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6 KEYS TO BUILDING THE FUTURE OF BUSINESS BANKING

OCTOBER 2022



PART OF THE ESCALENT FAMILY

JAVELIN

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FOREWORD

This report, sponsored by Jack Henry™, identifies a six-point strategic digital banking investment plan for banks and credit unions that seek to win in the small-business market despite the growing dominance of nationwide bank rivals, fintechs, and Silicon Valley.

The report was independently produced by Javelin Strategy & Research. Javelin maintains independence in data collection, findings, and analysis.

OVERVIEW

Business banking is a historical strength and key source of revenue for many community banks and credit unions. But they face increasing threats from giant banks and nonbank tech players. To survive and thrive, banks and credit unions must invest in digital banking capabilities that amplify their fundamental strengths—personalized service, local familiarity, product specialty, and industry expertise, to name a few. For the vast majority of financial institutions, that entails nothing less than reinventing digital banking, breaking free of “consumer plus” capabilities, and evolving beyond a focus on transactional competence. Javelin Strategy & Research’s six-point strategic plan maps out investments that will position financial institutions as a financial hub that integrates services traditionally considered outside the purview of digital banking, boosts the role of digital account opening, empowers accountholders with fraud-fighting features, and enables businesses to look ahead, anticipate, and seize opportunities to prosper.

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Small-business banking development has long been relegated to the back burner in favor of consumer- and corporate-focused digital offerings. As a result, most digital suites are ill-fitting for small to medium-sized businesses, which have a wide range of payments and business management needs but don't require complex cash-management and entitlements capabilities. Many discontented small businesses have opened accounts at the largest financial institutions (FIs), which boast the largest digital budgets, branch networks, and sales and marketing capabilities. And the competitive landscape has expanded considerably, with third-party service providers such as Block (Square), Intuit (QuickBooks), and PayPal encroaching heavily on traditional banking and payments services for small businesses.

Community and regional banks and credit unions can counter with fundamental competitive advantages. Big banks and tech companies have big budgets and in-house tech teams, which enable them to spend heavily and launch digital innovations and experiences quickly. Because small regional banks, community banks, and credit unions lack these advantages, it is more difficult for them to adapt to the shifting business banking market. Nonetheless, community financial institutions bring powerful intangibles to the table that larger providers often can't match, namely personalized service, community expertise, industry specialization, and tailored product design. Success for smaller FIs hinges on translating those advantages to the digital space as businesses demand more from their financial institutions' online and mobile payments and financial management tools.

Most FIs must alter their business digital banking strategy to survive and thrive in the coming decade. Regional and community FIs will succeed and remain relevant against increasing large-bank and nonbank competition if they can build a personalized, omnichannel experience that helps solve real, pressing issues for their small-business accountholders. Providing a better means to expedite payments, improve cash flow, and streamline financial management will help financial institutions retain these profitable small-business accounts, attract new ones, and counter the encroachment of digitally savvy competitors.

Financial institutions can evolve beyond “consumer-plus” transactional banking by serving as a digital business management hub. The strategic goal is to position the FI as the hub where businesses can monitor and manage their entire financial lives. That starts with nailing business-centric transactional competence, but the ultimate aim is to position the FI as the go-to source for one-stop oversight, actionable insights, and ongoing engagement.

Javelin has identified a six-point plan for FIs to elevate their digital game and build a more competitive, engaging digital banking offering for small businesses:

1. Evolve account opening from “find a branch” to “apply now.”
2. Make cash flow tools the focal point of a digital banking overhaul.
3. Build digital invoicing and payment acceptance tools into online and mobile banking.
4. Target sole proprietors with a product that supports the needs of small businesses that have outgrown a consumer platform.
5. Enlist and empower business owners and employees in the fight against fraud.
6. Build digital banking around a daily “news feed” that flags and prioritizes financial tasks.

EVOLVING FROM ‘CONSUMER PLUS’ TO THE BUSINESS FINANCIAL HUB

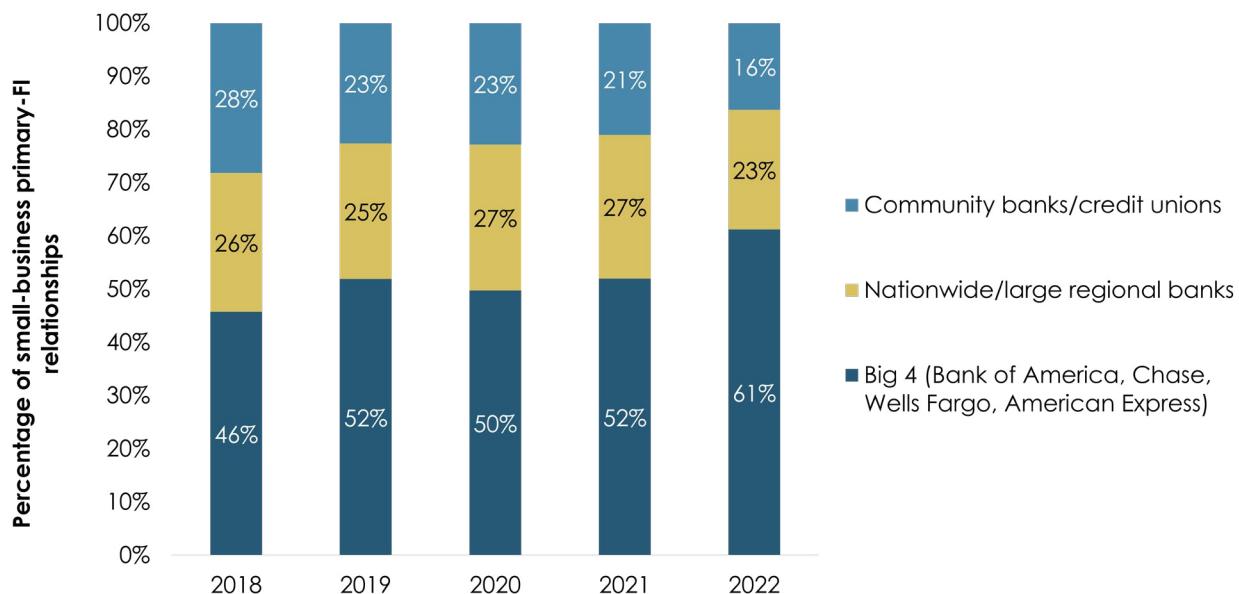
Offering a cutting-edge and comprehensive online and mobile banking platform for small businesses has never been more important. For much of the past decade, digital banking for small businesses has been relegated to the development backburner as financial institutions have focused greater dollars and development on meeting the rapidly changing consumer expectations of mobile banking. At most banks and credit unions, business owners still operate using limited “consumer plus” digital functionality originally built with personal banking in mind. As a result, they are often flying blind when it comes to critical business needs such as monitoring incoming and outgoing payments, tracking card expenses, analyzing sales and customer data, managing cash and borrowing optimally, and keeping informed about the financial health of their businesses.

As businesses face the challenges of an increasingly tumultuous macroeconomic environment, many banks, credit unions, and technology providers are rightfully doubling down on serving an American Main Street that has undergone a massive upheaval in business operations, customer interaction, and purchasing, payments, and banking behaviors. The competitive environment in business banking has never been more challenging for smaller institutions for two reasons:

- **Big financial institutions are growing more dominant.** Four large providers—Bank of America, Chase, Wells Fargo, and American Express—now have 61% of the primary relationships in small-business banking, up from a 46% share in 2018 (see Figure 1).
- **Innovative nonbanks are stealing market share from status-quo FIs.** Businesses are relying heavily on nonbank providers—not just to process incoming and outgoing payments but also for an expanding array of banking and lending services. Small-business banking relationships are under siege from big-tech offerings such as Square Banking, QuickBooks Cash, and Shopify Balance to fintech innovators like those from Kabbage, BlueVine, and Brex. These providers are integrated with other essential business services to create alternative platforms that enable businesses to manage their finances outside the virtual walls of a bank or credit union.

The Big-4 Business Banking Providers Have Gained a Shocking Share of the Market Since 2018

Figure 1. Primary FI Relationship Breakdown Among Small Businesses, by FI Size



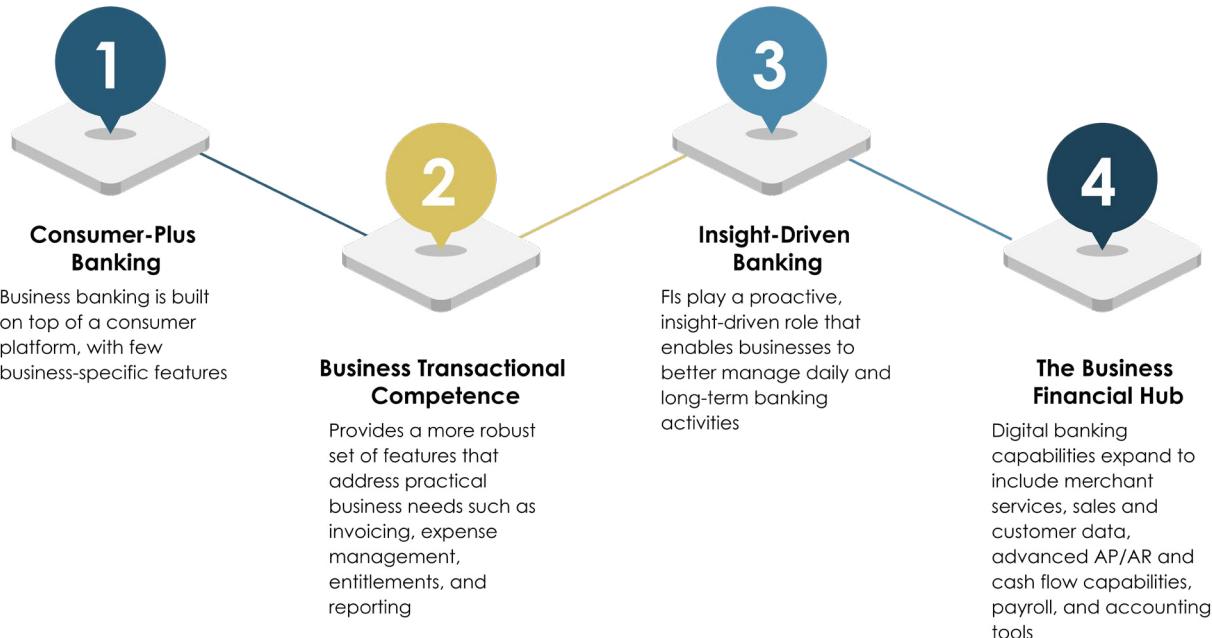
Source: Javelin Strategy & Research, 2022

The good news is that banks and credit unions intimately understand the banking and payments priorities of small businesses: They need help getting paid, processing cash and currency, making purchases, paying suppliers and vendors, funding expansion, saving for a rainy day, and running their operations efficiently. In addition, many community FIs still have considerable advantages over larger ones and nonbank competitors in serving those needs. Smaller financial institutions offer personalized service, local or regional familiarity, specific industry expertise, financial products and services tailored to the requirements of their business population, and, in the case of credit unions, often a mission- or affinity-driven purpose. The challenge lies in enabling these advantages to be expressed in a digital context.

The first step is to envision the future of business banking. For the vast majority of financial institutions, the answer entails nothing less than reinventing the business banking relationship from one built on a foundation of transactional competence to one based on insight, partnership in the success of the business, and a holistic approach to business financial management that positions the FI as a hub (see Figure 2, Javelin's Small-Business Banking Digital Maturity Path).

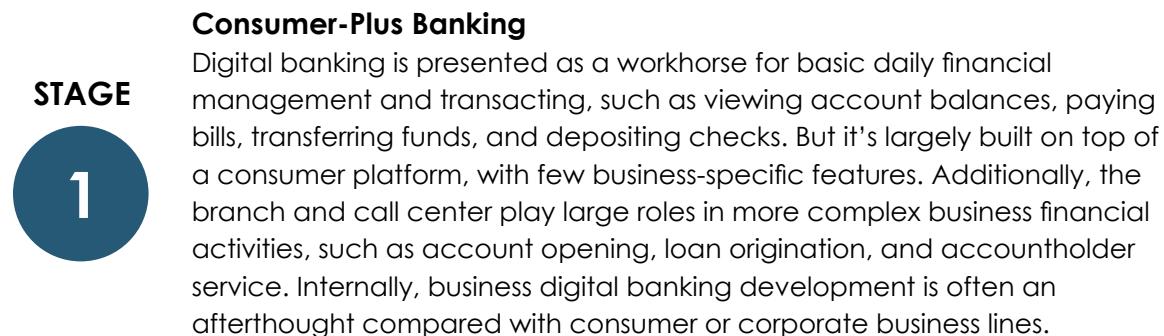
Successful Financial Institutions Will Evolve Toward a Role as a Business' Go-To Financial Hub

Figure 2. Javelin's Small-Business Banking Digital Maturity Path



Source: Javelin Strategy & Research, 2022

Under the model of Javelin's Small-Business Digital Banking Maturity Path, successful financial institutions will evolve in four stages:



STAGE**2****Business Transactional Competence**

Digital banking is built with businesses in mind, with features such as electronic invoicing, expense management, robust entitlements, and basic reporting tools. More complex activities—such as business account opening, loan origination, customer or member service, and wire enrollment and origination—are handled at least partially online or via the mobile app. The organization focuses on achieving feature parity to remain competitive with similar FIs, and the experience is seldom personalized or engagement-building. Accountholders must look outside the financial institution for business financial insights or advice.

STAGE**3****Insight-Driven Banking**

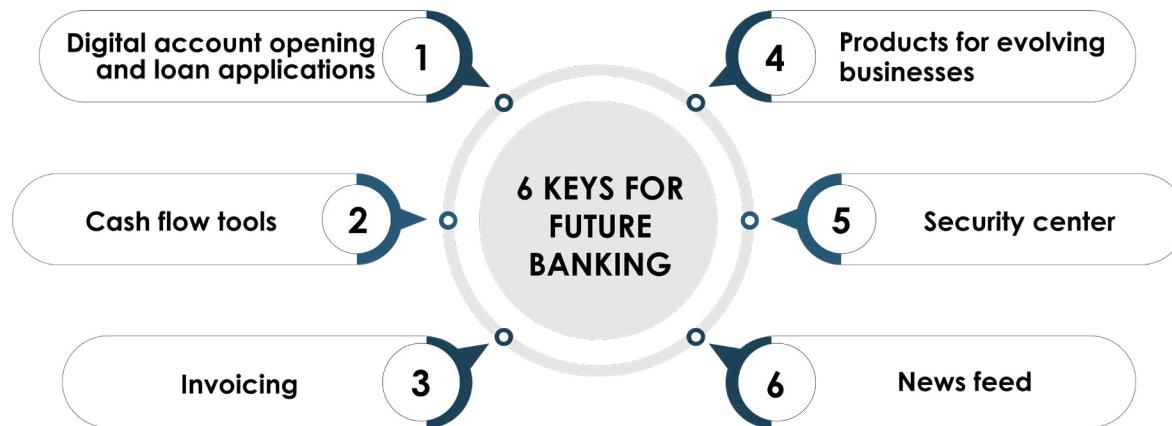
Digital banking is more than a transactional tool; it's a vital part of managing daily and long-term banking activities and making financial decisions. Financial institutions incorporate cash flow analysis, contextual credit offers, feature-rich expense management tools for managers and employees, savings tools such as subaccounts, and other services. The mobile app surfaces actionable items to address issues that on-the-go business owners can easily overlook, such as upcoming bills or uncategorized transactions. Though this platform offers some insights related to cash flow, it is limited to banking and B2B payments activities. That said, the FI is devoted to acting as a partner in the success of the business and successfully integrates human and digital aspects of the banking relationship. Internally, the financial institution views the accountholder holistically by bringing personal and business accounts into one login and user experience, and it integrates outside accounts and services.

STAGE**4****The Business Financial Hub**

The financial institution positions itself as a hub through which a business can monitor and manage its entire financial life. This brings in access to services traditionally considered outside the purview of online and mobile banking, including point-of-sale payments and transactional data from the merchant account, customer information and marketing tools, payroll, accounting, and reporting. Digital banking platforms surface actionable insights that incorporate data from integrated accounting platforms and other business services, such as tracking business performance metrics, projecting cash flow, budgeting for large purchases or hires, planning how and when to pay suppliers, and detailed expense tracking. Ultimately, the financial institution consolidates the business' financial life to ease the daily operational tasks and promote better long-term financial decision-making and health.

KEY OPPORTUNITIES FOR DIGITAL DEVELOPMENT IN BUSINESS BANKING

Core and digital banking providers will play a pivotal role in helping most banks and credit unions evolve from the “consumer-plus” and transactional stages of the Small-Business Banking Digital Maturity Path to an insight-driven, hub-based approach that expresses the FI’s strengths in interactions with accountholders, regardless of channel. Javelin has prioritized six key opportunities for FIs to partner with their technology providers to improve their digital capabilities and create a more competitive, engaging digital banking offering for businesses.



1

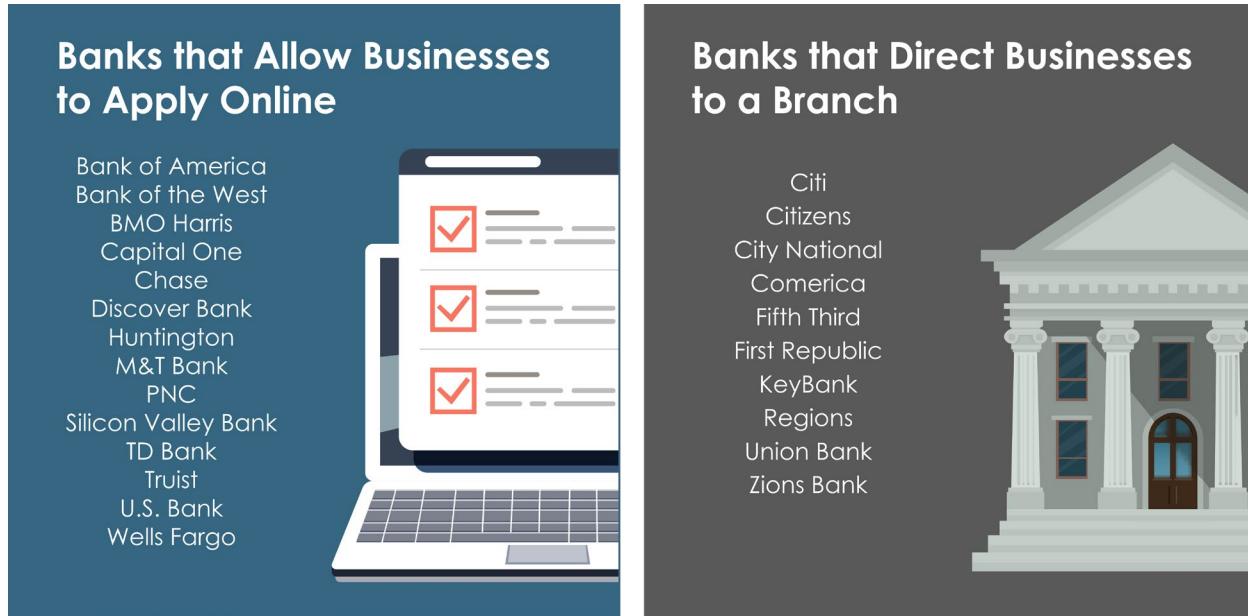
DIGITAL ACCOUNT OPENING AND LOAN APPLICATIONS

They're vital for acquisition and keeping up with the big banks and fintechs

Online and mobile applications for checking accounts and loans soon will be table stakes in business banking, but they remain an opportunity for community financial institutions to differentiate. More than half of the 24 largest U.S. banks currently provide digital account opening (DAO) options to small businesses, up from just six banks in 2019 (see Figure 3).

More than Half of the Largest Banks Offer DAO for Business Checking Accounts

Figure 3. Availability of Digital Account Opening for Business Checking at Top-24 Banks



Source: Javelin Strategy & Research, 2022

Most businesses won't decide on a bank or credit union based solely on DAO capabilities, but many will take a financial institution off their list if those capabilities are unavailable. Perhaps most important: Effective and efficient DAO capabilities are crucial for satisfying accountholders who seek to add business relationships where they hold consumer accounts.

That's not to say that building business account opening and loan application flows is easy. Financial institutions must plan for an omnichannel, multisession user experience that often begins in-person but continues through digital channels. Getting it right is an opportunity to showcase the institution's digital prowess through personalized product and service recommendations, on-the-fly product creation and pricing, application user experience, cross-sell opportunities, and effective onboarding to online and mobile services.

Recommendations

User experience is the top priority—for applicants and bankers alike. Streamline the user experience with an eye on reducing abandonment, cross-selling effectively, and onboarding applicants to drive immediate engagement. It's the little things that make a difference between an efficient process and an abandoned application. That applies to back-end user experiences, too. Adopt application management tools that enable bankers to identify action items, easily interact with prospects, analyze application performance, and tweak the applicant experience.

Think omnichannel, not just digital. The ideal outcome in consumer account opening is a single-session, end-to-end online or mobile experience. In reality, that's relatively rare in business account opening, so it's crucial for FIs to close the deal when something goes "wrong" and an application is diverted to a later session or to offline channels. This requires account-opening flows that acknowledge multisession and cross-channel needs, including contacting multiple signers and beneficial owners, emailing applicants a link to finish the application later, answering questions about additional products, collecting and updating documentation, and conducting due diligence.

Prepare applicants and help them select suitable products. Reduce the risk of abandonment by ensuring that applicants know ahead of time what documentation they must collect, the basic eligibility requirements, how much time to set aside for the application, and what to expect as the process unfolds. Help businesses pick appropriate products by providing a wizard that personalizes the experience and draws out their financial needs. Ensure that product descriptions not only succinctly describe the features of an account but also include pricing and fee policies in a transparent, up-front fashion rather than as disclosures in fine print, footnotes, or links.

Sell the value of digital services during onboarding. Ensure that successful applicants understand the business benefits of online and mobile banking by showcasing digital features and tools directly after the account is funded, starting with day-to-day financial management, entitlements, bill pay, instant payments, card controls and expense management, wires, ACH, and fraud protection.

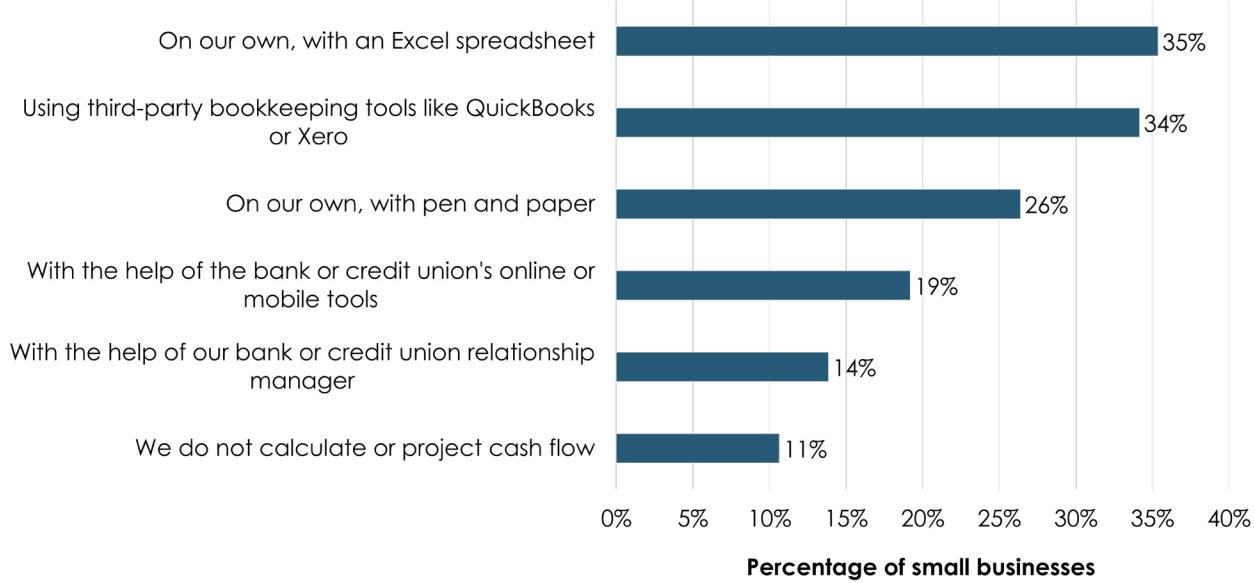
2**CASH FLOW TOOLS**

They're critical for keeping clients afloat and confident

The No. 1 reason businesses fail is insufficient cash flow, not poor products or bad service. Almost three-quarters (72%) of businesses indicate that cash flow projection is vital to their operation—it positions companies to seize growth opportunities, purchase inventory, take advantage of supplier discounts, increase staffing, and fund payroll. Despite its importance, about two-thirds of companies still use pen and paper, spreadsheets, or other manual tools to calculate and project their cash position. Potentially worse is that even among businesses using digital tools to calculate cash flow, 34% turn to third-party services such as QuickBooks vs. only 19% that use cash flow tools built into digital banking (see Figure 4).

Only 19% of Businesses Use Bank or Credit Union Digital Tools to Calculate Current and Future Cash Positions

Figure 4. Methods of Calculating and Projecting Cash Position



Source: Javelin Strategy & Research, 2022

Today, cash flow tools typically are incorporated in expensive checking account packages designed for larger businesses that likely already have a CFO or controller focused on managing cash. That leaves a gaping opportunity for financial institutions to drive customer satisfaction building robust cash flow tools for all business accountholders.

Recommendations

Make cash flow visualization and projection the focal point of the online banking experience. Provide business owners with a quick snapshot of their currently planned credits, deposit holds, debits, and resulting cash balance. Better still, go a step further and offer the ability to adjust projections and forecast cash position for days and weeks.

Build products around cash flow tools. Enabling business accountholders to better understand their operating cash cycles is an opportunity for financial institutions to position timely and useful offers that help solve cash flow crunches.

3

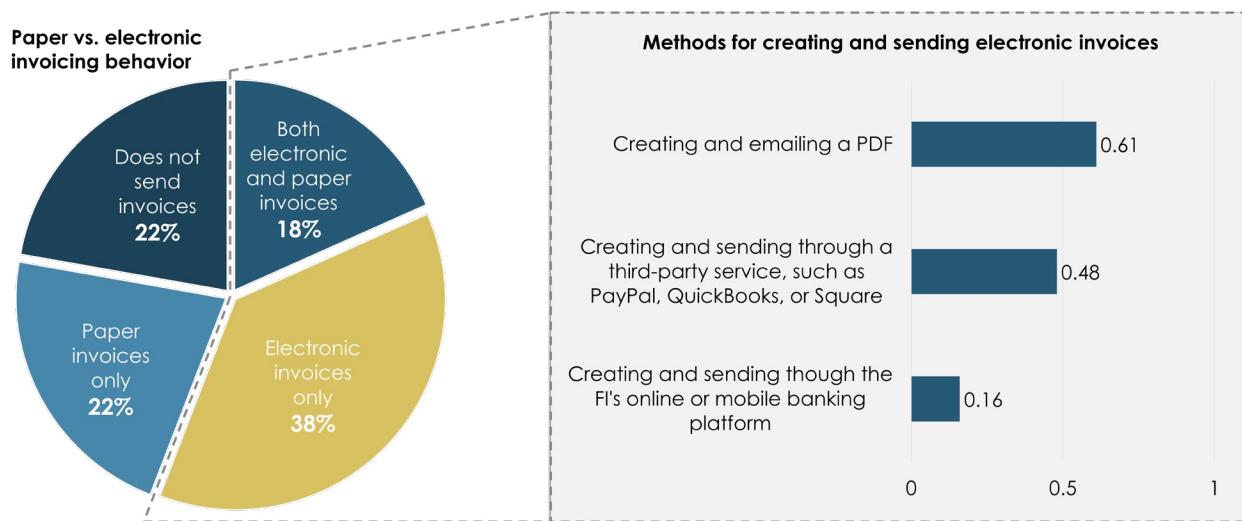
INVOICING

Helping customers and members get paid — quickly and reliably

Nearly 80% of small businesses send invoices to their customers, but precious few get help from their primary financial institution to do it. While about two-thirds of companies that invoice customers send at least some of them electronically, most simply create customized PDF documents and deliver invoices via email, which often translates into an offline check payment and for all intents and purposes is not a digital process. Among businesses that use digital tools to create and send invoices and receive electronic payments, most use third-party tools such as those offered by Square, PayPal, or Intuit's QuickBooks. Only 18% of businesses use invoicing tools provided by their bank or credit union (see Figure 5). In the vast majority of cases, FIs are missing a chance to gain better insight into the financial operations and health of their business accountholders that could allow for smarter and timelier loan offers and the ability to feed insights back to the business. Additionally, it means funds received from invoices are diverted to third-party providers, where in many cases they may be held long term.

The Majority Send Electronic Invoices, but Most Email PDFs or Use Third-Party Tools

Figure 5. Invoicing Behavior Among Small Businesses



Source: Javelin Strategy & Research, 2022

The invoicing and payment acceptance process remains frustrating and costly for small businesses. With current practices largely dominated by paper or email invoices and check or card payments, months can pass between the delivery of goods or services and the arrival of funds in the business account, leading to labor and payment processing costs. And many speed bumps exist that are related to invoice delivery, collections, payment processing, and reconciliation.

Recommendations

Start with a basic offering. Even a rudimentary product is light years ahead of the nonexistent offerings at most banks and credit unions. The ability to create a payment request with a few details, send that request to the customer, and receive a low-cost, real-time payment is a large part of the proposition for most business owners. Enable businesses to include basic customer details and contact information, add products and services to the invoice, provide noncard payment options through a link or a QR code, and preview the invoice before sending it. Especially for those businesses currently creating paper or PDF invoices, these capabilities can save a lot of time and headaches.

Provide customers and members with control, monitoring, and insight into their accounts receivable.

Offer invoice scheduling, allowing accountholders to automatically send payment requests on a recurring basis to regular customers without creating a new invoice each time. Provide a library that enables businesses to view previous invoices and send reminders to pay outstanding invoices. Ultimately, aim to provide insights into accounts-receivable data and trends, enabling business owners to anticipate cash flow shortages and monitor how they stack up against similar businesses in terms of metrics such as days sales outstanding (DSO).

4**PRODUCTS FOR EVOLVING BUSINESSES**

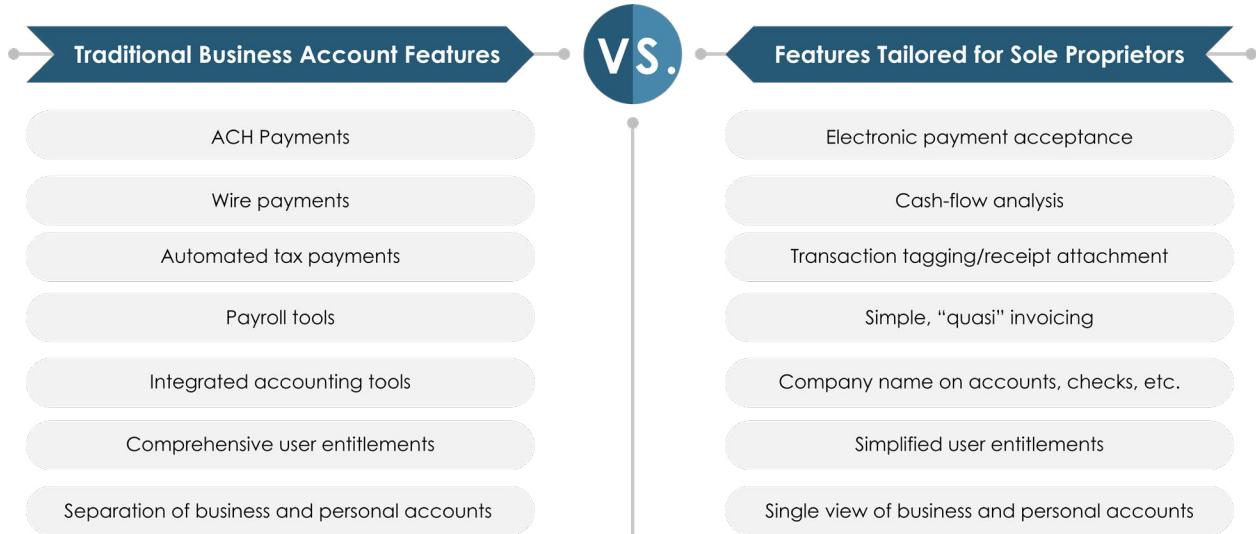
Hit the sweet spot with sole proprietors and freelancers

Financial institutions are missing the mark with the products they offer the 59 million freelancers, gig workers, and sole proprietors in the United States. Too often, FIs leave these businesses to either languish on personal banking platforms or make the jump to an overly complex business or commercial banking option. The reality is that FIs have an opportunity to serve up-and-coming small businesses with a “tweener” product that meets essential needs to better manage outgoing and incoming payments, improve cash flow analysis, avoid commingling personal and business finances, provide timely access to business credit, and run their businesses more professionally and efficiently.

Failing to address the needs of these budding businesses increases the risk that those clients will be lured away by neobanks and third-party providers with products tailored to meet the needs of freelancers and sole proprietors. The appeal of those challengers is obvious: They usually come at low or no cost, often include integrations with third-party services that help sole proprietors run their businesses more efficiently, and feature a simple, digitally native user interface.

Current Business Banking Offerings Typically Miss the Mark for Sole Proprietors

Figure 6. Traditional Business Banking Features vs. Ideal Features for Sole Proprietors



Source: Javelin Strategy & Research, 2022

Recommendations

Enable businesses to add features as they grow. The growth of sole proprietorships is often organic and steady, rather than coming in waves. Serve their gradual evolution by enabling them to add services as needed, in their existing banking platform, instead of forcing them to upgrade to a complex business package.

Proactively promote the value of business banking features. Identify sole proprietors who rely on personal banking platforms, then target them with a steady stream of marketing messaging and financial insights that point to the value of different business features. For sole proprietors who already use a business platform, tailor ongoing onboarding that showcases the features most relevant to their size.

5

SECURITY CENTER

Empower accountholders to take an active role in safeguarding their own accounts

Business banking and payments fraud spiked during the pandemic. Since Javelin began measuring fraud rates against businesses, fraudulent activity has grown significantly year over year, from affecting 6% of businesses in 2016 to 16% in 2022. Being victimized by fraud can have crushing consequences for business owners and banking relationships. Besides significant losses of time and money, victims will inevitably experience guilt, anger, and typically a sense of betrayal and loss of trust in a financial institution.

For FIs, the best line of defense is to be proactive. Of course, that starts with the difficult behind-the-scenes work of assessing and managing risk and using artificial intelligence and rules-based decision engines to prevent and detect fraud. It also means empowering business accountholders to bolster their own defenses. But across the business banking and payments space, one of the most overlooked and underused weapons against fraud is the customer-facing digital experience. At many FIs, fraud tools are spread throughout online and mobile banking. Card controls are accessed from account pages, suspicious activity is reported on individual transactions, entitlements and payment approvals are set in other locations, user access is managed in general settings, educational materials are housed on public sites, and there is a general lack of oversight regarding device and user access.

Recommendations

Shift the tone of the conversation from fear to empowerment. Showcase how digital tools and services such as alerts, card controls, and payment controls deputize business clients and provide protection that can detect and disrupt fraud in real time. Financial institutions can build confidence in digital channels by boosting awareness of trending threats, coaching businesses to minimize risky behavior, and encouraging businesses to embrace digital tools that can thwart fraud.

Consolidate fraud-fighting features in a prominent security center. Address all three elements of the battle against fraud: prevention, detection, and resolution (See Figure 7). FIs often already provide effective tools that can deputize their business accountholders, but these features are presented in an uncoordinated, scattershot manner within the website and the app. Elevate security tools by giving them prime real estate along with banking basics such as transfers, bill pay, and mobile deposit.

Use gamification, onboarding, and alerts to encourage engagement with security tools.

Encourage the adoption of security features by gamifying the process. A simple security checklist is a good start, as it not only enables businesses to identify gaps in their security practices but also points them to tools that can address security weaknesses. Additionally, use the digital onboarding process to encourage new holders of checking accounts or credit cards to set security preferences, payment limits, and entitlements for additional users.

Empower Businesses by Focusing on Fraud Prevention, Detection, and Resolution

Figure 7. Javelin's Framework for a Small-Business Security Center



Source: Javelin Strategy & Research, 2022

6

NEWS FEED

Make digital banking an ingrained part of your clients' daily lives

The goal in the third and fourth stages of Javelin's Small-Business Banking Maturity Path is to enable and encourage businesses to review and manage regular tasks every morning over coffee by surfacing actionable and bite-sized insights at the top of the online and mobile experiences. Some forward-thinking FIs and vendors are moving toward that goal by offering a daily "news feed" that flags and prioritizes financial tasks. The twofold aim is to:

- Make financial management a daily habit within online banking.
- Position the FI as a virtual CFO that flags high-priority information owners need to run their businesses.

The FI's ultimate goal is to consolidate a business' financial life to make it easier to execute daily operational tasks and promote wiser long-term financial decision-making.

Recommendations

Deliver bite-size interactions via the mobile channel. The aim is to surface actionable items that business owners can handle quickly and assuredly on a smartphone—not in 15 minutes, but in one or two. These include uploading receipts documenting recent transactions, distinguishing between business and personal transactions, approving payments initiated by employees or an accountant, and viewing outstanding invoices to potentially remind late-paying clients.

Expand the scope of on-the-go financial oversight. By Stage 4, financial institutions will stand apart by expanding what sits under the umbrella of business banking to include auxiliary functions such as merchant services, sales and marketing tools, payroll, accounting features, and robust reporting that incorporates data from across the business.

METHODOLOGY

The behavioral and attitudinal data in this report was collected from a random-sample survey conducted in June 2022 of 900 business owners and decision-makers with annual company revenue between \$100,000 and \$10 million.

ABOUT JACK HENRY

Jack Henry™ is a well-rounded financial technology company strengthening the connections between people and their financial institutions through technology and services that reduce the barriers to financial health – with the purpose of empowering people and communities to gain the financial freedom to move forward. And we believe the best way to start is with community and regional banks and credit unions. For more than 45 years, we've put financial institutions at the center of our modernization. We're here to help financial institutions innovate faster, differentiate strategically, and compete successfully.

At Jack Henry, we advocate for those we serve – the people at financial institutions and their customers and members, our associates, and our communities. Our goal is to understand their aspirations, challenges, and needs. We believe our ability to drive innovation will always be rooted in our willingness to act with people's best interest at heart. Visit jackhenry.com to learn more.



ABOUT JAVELIN STRATEGY & RESEARCH

Javelin Strategy & Research, part of the Escalent family, helps its clients make informed decisions in a digital financial world. It provides strategic insights to financial institutions including banks, credit unions, brokerages, and insurers, as well as payments companies, technology providers, fintechs, and government agencies. Javelin's independent insights result from a rigorous research process that assesses consumers, businesses, providers, and the transactions ecosystem. It conducts in-depth primary research studies to pinpoint dynamic risks and opportunities in digital banking, payments, fraud and security, lending, and wealth management. For more information, visit www.javelinstrategy.com. Follow us on Twitter and LinkedIn.