
OPENING DOORS TO CUSTOMERS

by [Steve Brown](#)

You never really know what you are going to find when you open a door. For years, community banks have been great at opening the door to small business relationship lending. There is simply no way to replace local knowledge with credit scoring, which is one reason why community banks continue to dominate in this area. That does not mean larger banks aren't making inroads or that customers aren't occasionally shopping around for a new banking relationship, however. As we have discussed before, the small business customer now has 3 banking relationships on average.

One reason so much interest exists in capturing the small business customer can be found in their deposits. A recent JD Power study found the average small business leaves a deposit balance of more than \$255k, compared to only \$7K for the average retail banking customer. Deposits are more difficult to capture these days than ever, so bankers everywhere are competing aggressively for this customer segment.

Another important finding is that "highly satisfied" small business customers are more than 3x more likely to recommend their bank to family and friends. In addition, this group conducts more business transactions than customers that have lower satisfaction levels. In short, the happier the customer, the more referrals your bank will receive and the more business the customer will do with your bank.

Finally, the study found that while small business customers want to be contacted 4x per year, some 33% say they have had no contact from their bank in the past year. That may be because bankers don't quite know what to say, but customers themselves have made communication easy. In study after study, customers say they want to hear about products your bank offers, as well as economic / financial assistance and get tips on how to expand their business or increase profitability.

One way successful banks have done this is to focus limited marketing resources on education for this customer base. In particular, we offer a few tips and suggestions community banks can use to capture small business clients / prospects during this time of economic stress. Perhaps your bank could offer a seminar or print up a marketing brochure that could be distributed offering some simple tips to assist.

In addition, 80% of small business owners say they need help collecting on accounts receivable. Some ways banks can help include providing businesses with invoicing software or web-based billing services (this will add consistency, calendaring and help customers create professional looking invoices); helping customers create a demand letter that grabs attention and gets better results (a strongly-worded letter is sometimes all it takes to get people to pay what they owe); suggesting clients hire a professional collection agency to chase down any receivables that have been outstanding 90 days or more (collection agencies are usually much better at this than business owners); and assisting clients in signing up for credit reporting (this provides updated credit information on potential borrowers, reducing the risk of by highlighting riskier customers of your customers).

Other tips bankers can offer small business clients / prospects include: discounting the amount their customers owe (as an account receivable) if it is paid early and negotiating special payment terms

with vendors. Each of these can help improve business cashflow, which is, as we all know, the crux of any good lending opportunity.

No matter what you do to differentiate your bank, periodically offering special tips and assistance to your small business customers can open new doors of opportunity

BANK NEWS

Closed

Integrity Bank (\$1.1B, GA) is the 10th institution to fail this year. Regional Financial Corp will acquire the failed bank's deposits. Integrity's 5 branches will reopen today as Regions. For the 1st 2Q this year, the failed bank posted \$33.6mm in losses. A cease-and-desist order was issued in April.

Rules

An estimated 50% of community banks will not be compliant with the U.S. FACT Act Red Flags rules by the Nov 1 deadline. Regulations require financial institutions to begin an ID theft prevention program and respond to Notices of Address Discrepancies along with 2 other new items.

US Dollar

In Aug., the dollar posted its best monthly gain in 15Ys against other major currencies.

Security

A data breach discovered in Feb. from the Bank of New York, may affect 12mm people, 8mm more than initial estimates. Data stored in lost backup tapes included Social Security numbers, dates of birth and other identifying information. In the past year, over 20% of banks reported a data breach through a third-party connection, 20% lost data through a lost or stolen laptop or mobile device and over 50% experienced a phishing attack.

Bank Fees

According to a report by the ABA, over 50% pay no fees for banking services. On other end of the spectrum, 13% pay over \$10/month.

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