Small Biz Focus Much More Than Monthly

by Steve Brown

Each month of the year has a number of commemorative observances attached to it where various groups raise awareness for a cause or celebrate something important. March was Women's History Month and National Brain Injury Awareness Month. April's list includes National Poetry Month and Financial Literacy Month. May has Asthma Awareness Month, Asian/Pacific American Heritage Month and Jewish American Heritage Month, among others. These are all worthy causes and having a month dedicated to each one has been shown to help draw attention, so this makes sense.

Highlighting a cause during a specific month is a good way to ensure at least a set amount of time is devoted to enlightening the public about a particular issue or cause. For bankers and their small business customers, however, raising awareness of important issues need not be limited to one particular month during the year. With that in mind, we're taking this opportunity to stress the importance of staying relevant to a customer base community banks nationwide feel particularly passionate about - small business.

Let's start with the numbers. Small firms with fewer than 500 employees accounted for 63% of the net new private-sector jobs created between 1993 and mid-2013, according to the BLS. What's more, small businesses make up 99.7% of U.S. employer firms and 48.5% of private-sector employment. Clearly small businesses are important to our economy and the community banks that largely serve them continue to be very important.

Here's some more food for thought. Recent data suggests that start-ups may once again be on the rise after many years of decline, making it all the more important for small banks to stay on top of this trend. In 2011 there were 409,040 new small businesses, an increase of 4.9% from 2010, according to the Census Bureau. Start-ups, of course, need all sorts of banking products and services, ranging from financing to checking products to cash management products to credit products to payroll to strategic advice and more.

Today though, there are many more competitors taking an interest in small businesses so bankers have to work extra hard to keep these clients. When it comes to lending, for instance, not only are more large banks and alternative providers seeking out loan customers, but they are also offering more agreeable terms to win those loans.

New entrants are also seeking out small businesses that aren't necessarily bank loan material. Just recently Lending Club and PayPal announced lending programs for these types of businesses. We wonder how long it will be before these initiatives go a step further and compete for businesses that have traditionally turned to banks for their funding needs.

It's a slippery slope because once a competitor starts lending money to a small business it becomes even easier to deepen the relationship with ancillary products. As such, it behooves community banks to pay close attention to the competitive landscape on an ongoing basis and react quickly to changes as they surface.

From the numbers it is clear there's a lot of potential for banks to continue to work with the small business segment. For many years, community banks have done a great job tapping this market, but

changes are afoot so you must be on your toes. As the competitive market heats up, banks must redouble efforts to make every day of the year a small business focus rather than just once per month.

BANK NEWS

Competition

Apple is reportedly gearing up for a major push into mobile payments according to multiple news sources, as it seeks to leverage the 600mm customers and credit cards it has on file in its iTunes store.

Liquidity

Research by Citibank finds as of the end of 2013 the top 3 banks held $695B in cash and deposits vs. $212B at the end of 2007 (+227% increase). That compares to the rest of the banks $50B or larger for the same periods at $381B and $105B (+263%) and banks $1B to $50B at $159B and $52B (+206%). The research did not look at banks < $1B, but when we did the analysis we found the numbers were $1.07B and $1.03B (+4%). Interestingly, over this period cash balances for banks <$1B jumped 114%, while deposits fell 1% (but the total was so much larger). We just found this quite interesting indeed.

Robo Risk Warning

Banks may want to warn customers about a phone scam where people are called about reported problems with their bank accounts, told their account has been suspended and then told to press "1" and enter their account number.

Frustration

The CFPB is warning student lenders to use better business judgment when a cosigner on a student loan dies or files for bankruptcy and not push borrowers into default. The CFPB is looking into this process of "auto defaults" to see what can be done to improve the situation for borrowers.

New Customers

A survey by Novantas finds about 63% of customers who plan to shop for a checking account in the next 90 days plan to open it at a branch, 26% will use a website, 9% will use a mobile device and 4% will do so over the phone.

FOMC

The Fed's next meeting is Apr 30 at which time they are expected to reduce their monthly buying to $45B (the Fed began cutting purchases by $10B per meeting in Dec. 2013).

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