Making Cents Of Small Business Banking

by Steve Brown

LostAndFound.com calls itself the largest and most comprehensive website devoted exclusively to the recovery of pets and personal property. On the site, visitors can report a lost item, a found item, search for items that have been lost or those that have been found. Simply by entering your zip code, you can peruse lost and found items both locally and nationally. Listings run the gamut of important things that people want to locate (such as dogs and cats, to rings, earrings, glasses or cell phones) to less important items (like a missing sandwich).

No one likes to lose items of importance, yet banks these days are frequently leaving money on the table when it comes to providing mobile banking to small business customers. As many banks ramp up efforts in this area, most have yet to develop a pricing solution that makes financial sense.

First some numbers: Aite estimates that about 32% of businesses generating less than $20mm in annual revenues are using mobile banking. Another 31% of those polled said they're likely to bank via a mobile device over the next year. Finally, the study found mobile banking has become so fundamental to small businesses that 51% of respondents said it would be an important (or very important) consideration if they were to switch financial institutions.

Now that we know the importance of mobile banking to small business owners, you might be wondering where the banks are in all of this. Well, the same Aite survey estimated about 65% of US banks with $10B+ in assets and 30% of banks with less than $10B in assets now offer mobile to small business customers.

The data shows that even as this trend is catching on with small businesses, banks still have work to do when it comes to figuring out how to make money from mobile banking. In fact, the same research shows most banks aren't currently and don't intend to charge small businesses for mobile banking. Yet, these customers show a higher-than-average willingness to pay for other products, so maybe bankers should give this a second look.

In short, most small businesses are more inclined than the average Joe to pay for banking features that are important to them. Small businesses may be less enthusiastic to pay for basic mobile banking services, but research shows they'll at least entertain the idea of paying for advanced features. Earlier this year RateWatch and Simon-Kucher & Partners surveyed 147 small businesses and found that they would be willing to pay a monthly fee (up to $5) to conduct peer-to-peer transfers or add money to prepaid cards through mobile banking. That provides an opportunity for community banks worth looking into.

Further, according to the same survey, the three most important basic interactive mobile banking services for small businesses are: monitoring fraudulent activities, the ability to efficiently reach the bank and scheduling appointments at a bank location. The three most important advanced interactive mobile banking services are: receiving transaction verification and advanced warning, capturing and storing receipts and requesting payment flexibility for loans, mortgages, or credit cards. These all provide cross-sell opportunities and can deliver good data you can mine as well, so once again--opportunity.

Armed with this information, perhaps it's a good time to explore your options. A possible first step could be to determine what add-on features are important to your small business customers and what types of services they would be willing to pay for. From there, you can determine pricing models and whether to offer differentiated packages to various small businesses categories.

As this shows, banks have a viable opportunity to create solutions of value for small businesses and generate revenue in the process.

BANK NEWS

IRR Regulation

According to the FDIC, there has been a 24% increase in interest rate risk management related comments in the Matters Requiring Board Attention section of examination reports over the last 3Ys. Items flagged included: the need to develop strategies to improve monitoring/control; establishing risk tolerance parameters for model results; enhancing models to capture risk; and increasing board oversight and understanding of the bank's models. From 2010 to 2013, IRR MRBA's have jumped from 17% of all reports of examination up to 30%.

Industry Changes

A KPMG banking industry outlook survey of 100 bank executives in the US finds the primary drivers these executives see transforming the business over the next 3Ys to 5Ys are: customer demand, changes in customer focus, buying patterns and preferences (47%); coping with technology changes (43%); domestic competition (37%); government policy or enforcement agenda (29%); need to balance growth with shrinking budgets and increased efficiency (29%); changing or expanding global environment (29%); increasing global footprint (26%); industry consolidation (25%); foreign competition (18%); reducing the pressure on profit margins (10%); shifting demographics away from mature economies (7%).

Directors

An RMA survey of community bankers across the country finds respondents have the following concerns about board members: their ability to keep up with ever-changing regulatory environment (32%), competence (16%), knowledge of the banking business model (15%), understanding their legal liabilities (13%), understanding their responsibilities with regulatory agencies (7%) and business acumen and knowledge of markets the bank is serving (7%).