



# THE SMALL BUSINESS DIGITAL ACCOUNT OPENING IMPERATIVE

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**RON SHEVLIN**

*Research Director*  
Cornerstone Advisors

**CHRIS MILLER**

*Senior Director*  
Cornerstone Advisors

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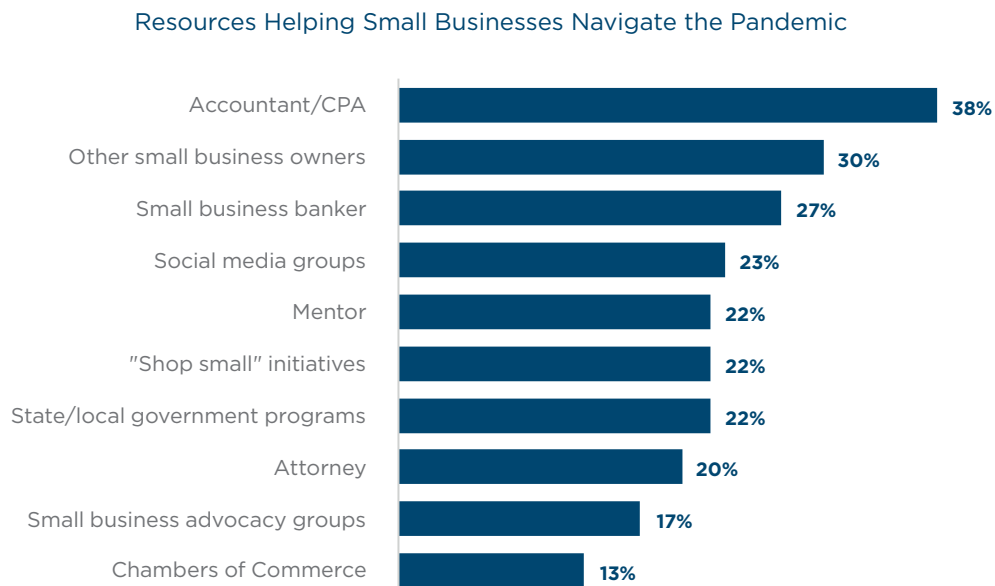
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# THE BATTLE FOR SMALL BUSINESS RELATIONSHIPS

The pandemic of 2020 and 2021 has had a profound impact on U.S.-based small businesses. According to a May 2021 survey by Bank of America, 85% of small business owners said the pandemic created extra stress around running their business.<sup>1</sup>

The pandemic also accelerated small businesses' use of technology, with 62% adopting new digital tools and strategies, including: 1) 36% doing more business banking online or in mobile apps, 2) 30% accepting more forms of cashless payments, and 3) 26% creating and/or improving their social media presence. Banks are stepping up to help small businesses cope. More than a quarter of small businesses said their small business banker played a role in helping them navigate the pandemic, behind other small business owners and the small business's accountant (Figure 1).

**FIGURE 1:** Resources Helping Small Businesses Navigate the Pandemic



Source: Bank of America survey of 995 U.S.-based small businesses, May 2021

Although small businesses turned to banks for help through the pandemic, many are reevaluating their relationship with their financial services providers. According to a study by Kabbage, 32% of small businesses changed financial services providers in 2021. Of those that haven't changed providers, about one in four intend to change their business checking accounts by mid-2022.<sup>2</sup>

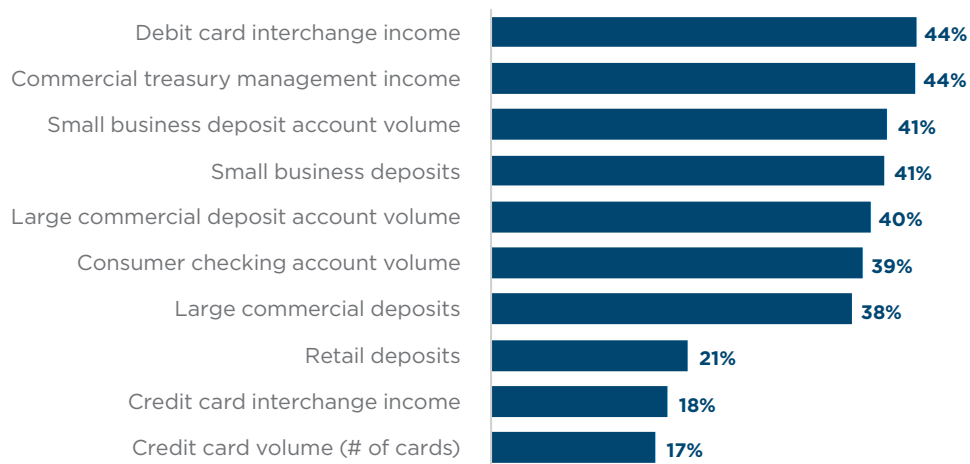
Why did the switchers change banks? The most popular reason—cited by 24% of small businesses—was to find a single provider that could manage everything. In addition, 22% changed providers because they wanted product features that made it easier to run their company, and 21% said they changed to get better digital banking capabilities.

### **SMALL BUSINESSES ARE A TOP PRIORITY FOR MID-SIZE FINANCIAL INSTITUTIONS**

In the list of banks' deposits and payments-related priorities for 2022, small business deposits and deposit accounts are near the top of the list (Figure 2).

**FIGURE 2:** Banks' Deposit and Payments Priorities for 2022

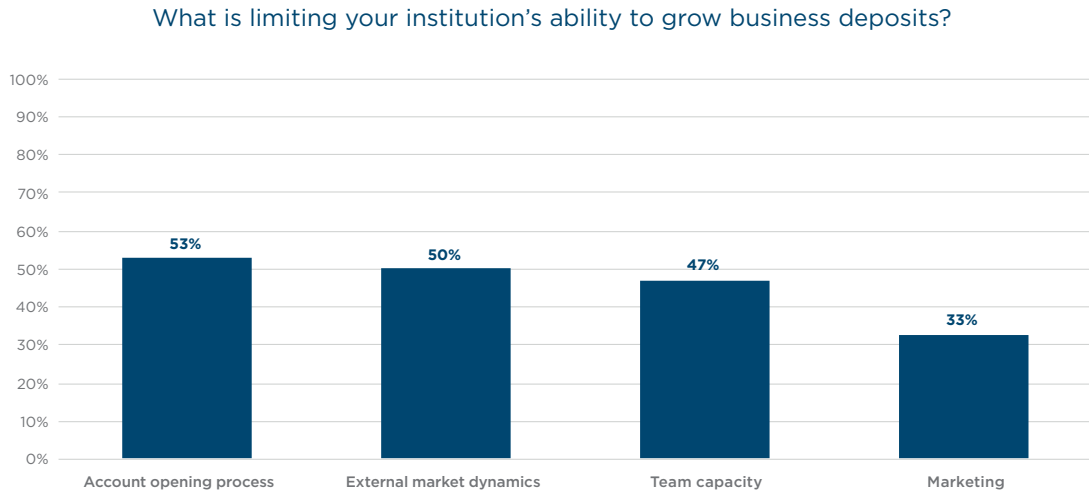
#### Percentage of Banks Citing Payments or Deposit Type as a High Priority



Source: Cornerstone Advisors *What's Going On In Banking 2021*

More than half of financial institutions, however, say their account opening process limits their ability to grow business deposits (Figure 3).

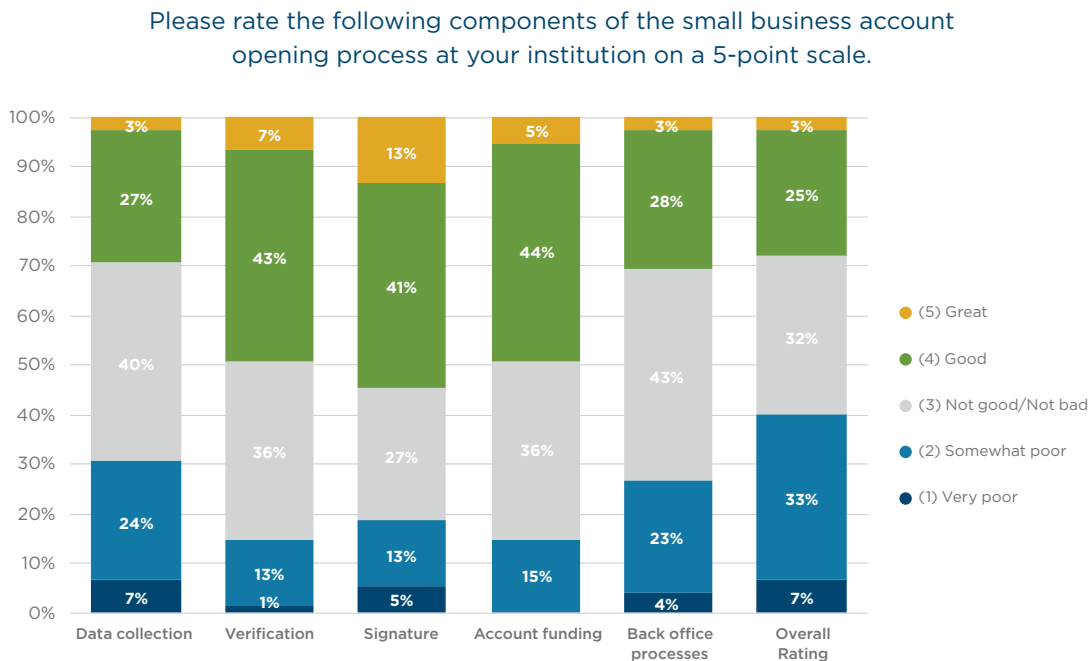
**FIGURE 3:** Limits to Deposit Growth



Source: Cornerstone Advisors What's Going On In Banking 2021

What is it about banks' account opening process that hampers their ability to grow? Just about everything. Overall, 40% of banks rate their small business account process as "somewhat" or "very" poor while just 25% rate it as good and a mere 3% rate it as great (Figure 4).

**FIGURE 4:** Business Deposit Account Opening Process Rating



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

## WHAT

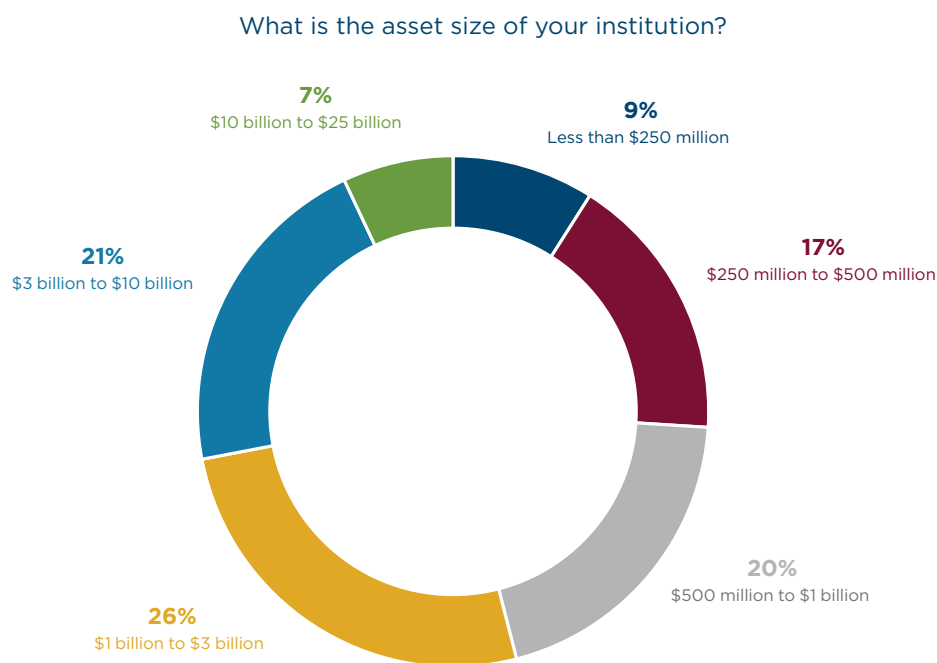
Banks' battle for small business relationships no longer involves just competing against other banks. Large, technology-driven platforms and providers are increasingly competing for the business that banks alone have traditionally provided. Fighting back—and competing successfully—will require banks to up their digital game. And to do that, they'll need to start by delivering a digital account opening process.

### ABOUT THIS REPORT

This report will: 1) identify the cost, process time, and strengths and weaknesses of banks' current business deposit account opening process, and 2) recommend steps bank can take to digitize and improve those processes and eliminate the barriers to growth.

The report draws on a Q4 2020 survey of senior executives at 75 mid-size banks and credit unions conducted by Cornerstone Advisors. The average asset size of responding institutions is \$3.4 billion, with nearly half (47%) of the respondents in the \$1 billion to \$10 billion range (Figure 5).

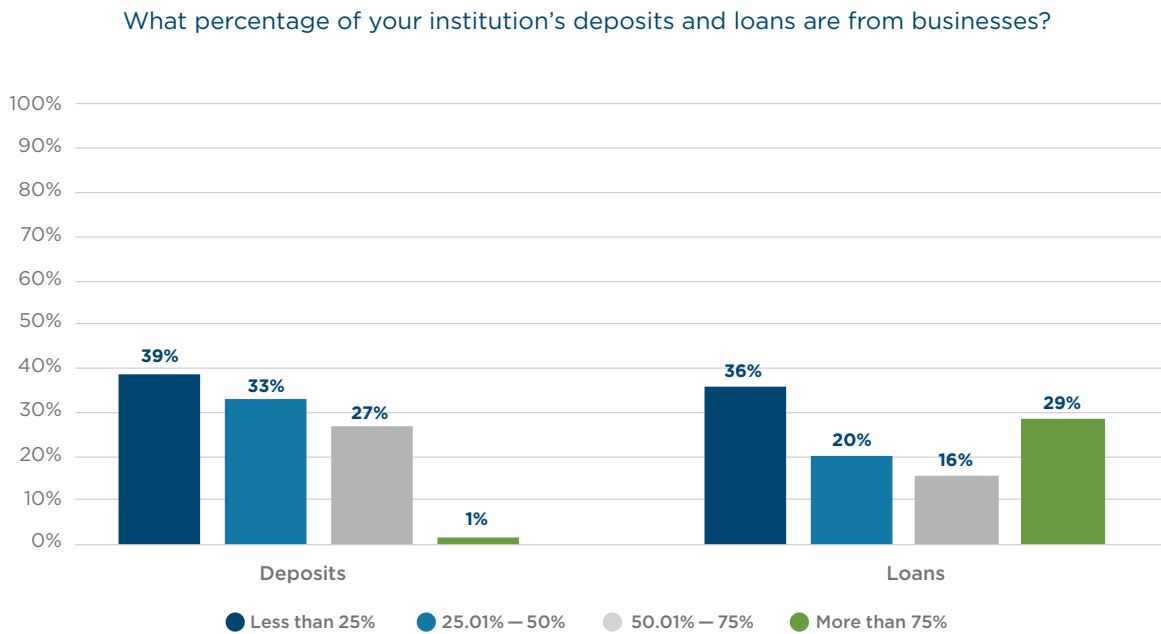
**FIGURE 5:** Survey Respondents' Asset Size



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

Among institutions surveyed, 28% said a majority of their deposits come from businesses and 45% said a majority of loans issued are to businesses (Figure 6).

**FIGURE 6:** Loans and Deposits from Businesses



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

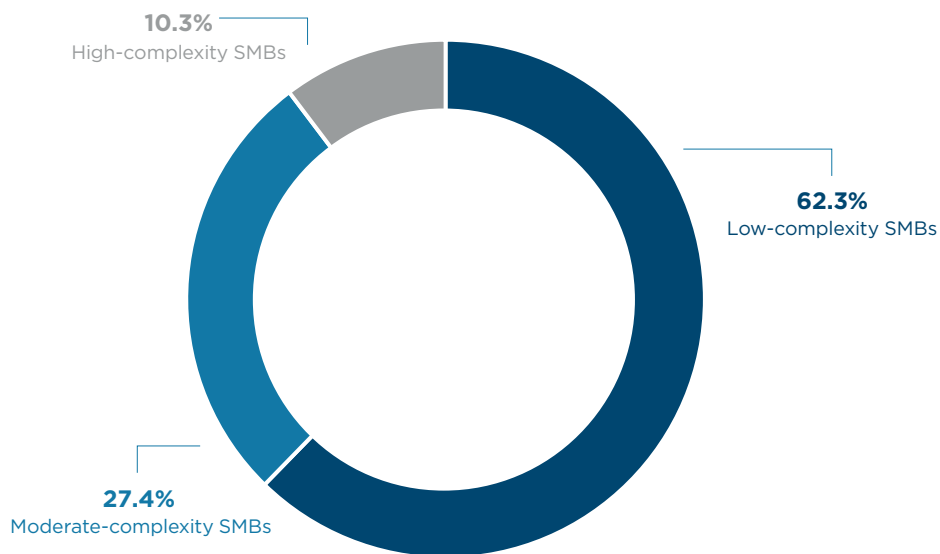
Throughout the survey, respondents were asked about three different segments of small- to medium-size businesses (SMBs):

- 1) Low-complexity SMBs.** Typically, startup sole proprietorships with less than \$1 million in revenue.
- 2) Moderate-complexity SMBs.** Typically, more mature businesses with a partnership structure and revenue in the \$1 million to less than \$25 million range.
- 3) High-complexity SMBs.** Typically, LLCs or corporate entities with the need for services like letters of credit, sweeps, and Electronic Data Interchange (EDI) that have \$25 million to \$100 million in revenue.

On average, low-complexity SMBs comprise 62% of survey respondents' small business customers. Moderate-complexity SMBs account for 27% of customers, and high-complexity SMBs represent 10% of the total (Figure 7).

**FIGURE 7:** Small Business Distribution by Complexity

Roughly what percentage of your small business customers fall into the following categories?



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

# TODAY'S BUSINESS ACCOUNT OPENING PROCESS

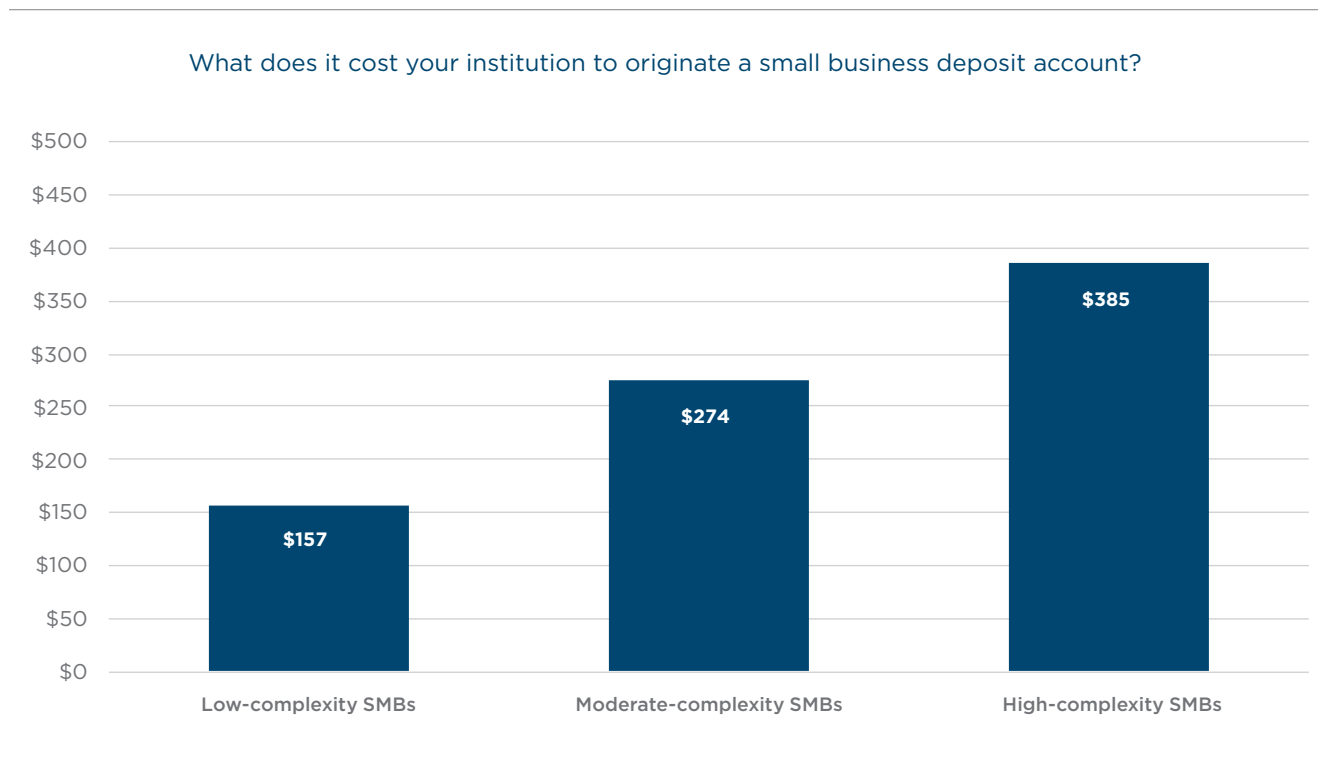
Despite the fact that moderate- and high-complexity small businesses account for 37% of banks' small business customers, just 16% of survey respondents said they have different account opening processes in place depending on the size and complexity of the small business applying for an account.

This section will look at the cost, cycle times, pain points, technology, and people aspects of the account opening process for the different small business segments.

## COSTS

Sadly—but perhaps not surprisingly—many banks don't know how much it costs them to open business deposit accounts. Among those that do know, the averages range from \$157 to open an account with a low-complexity SMB to \$274 for a moderate-complexity small business up to \$385 for a high-complexity small business (Figure 8).

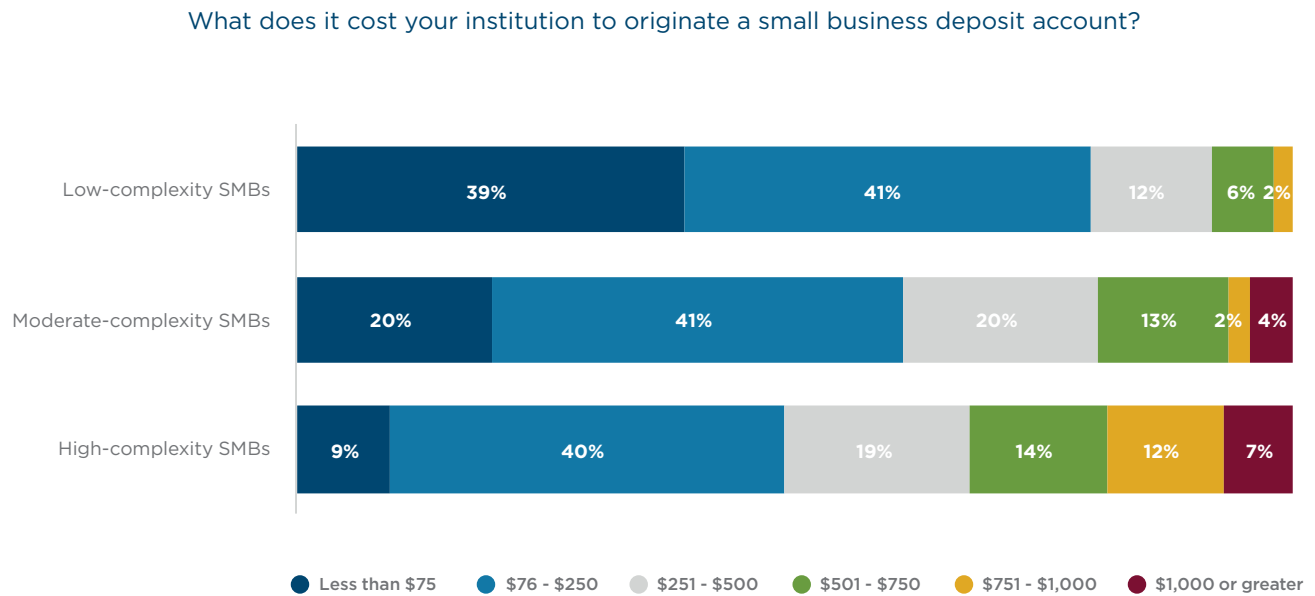
**FIGURE 8:** Average Cost of Opening Business Deposit Accounts



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

The averages mask the wide variation in costs across banks. At roughly four in 10 banks, the cost to open a deposit account with a low-complexity small business is less than \$75. At 20% of the banks, however, the cost is between \$250 and \$1,000. Similarly, about half the banks say it costs no more than \$250 to open an account with a high-complexity SMB, while almost 20% say it costs more than \$750 (Figure 9).

**FIGURE 9:** The Cost of Opening Business Deposit Accounts



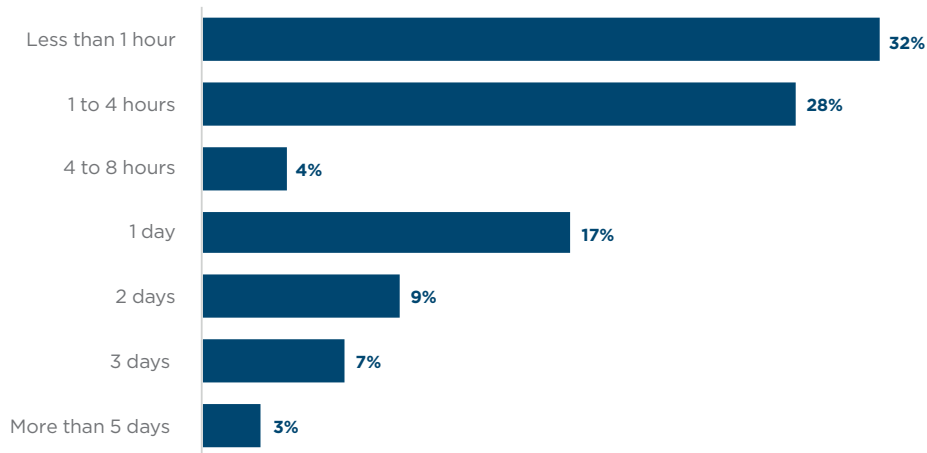
Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

## CYCLE TIME

Roughly a third of banks can open a small business deposit account within an hour. Another third can do it in less than eight hours. Nearly one in five banks, however, needs two or more days (Figure 10).

**FIGURE 10:** Elapsed Time to Open Small Business Deposit Account

For new small business customers, what is the elapsed time from when a deposit account application is started to when the account is ready to be used?

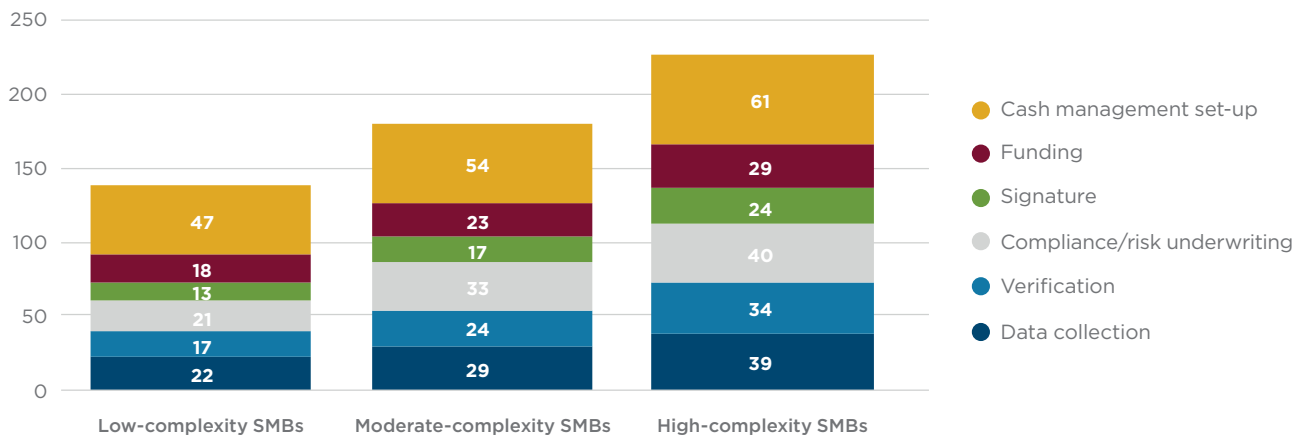


Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

Across the three types of small businesses, cash management set-up is the most time-consuming part of the onboarding process, ranging from an average of 47 minutes for a low-complexity SMB to just over an hour for high-complexity SMBs. In many of the steps of the process, the high-complexity accounts take twice as much time as the low-complexity accounts do (Figure 11).

**FIGURE 11:** Onboarding Time Requirements

When onboarding new small businesses, how long (in minutes) does each process step take?

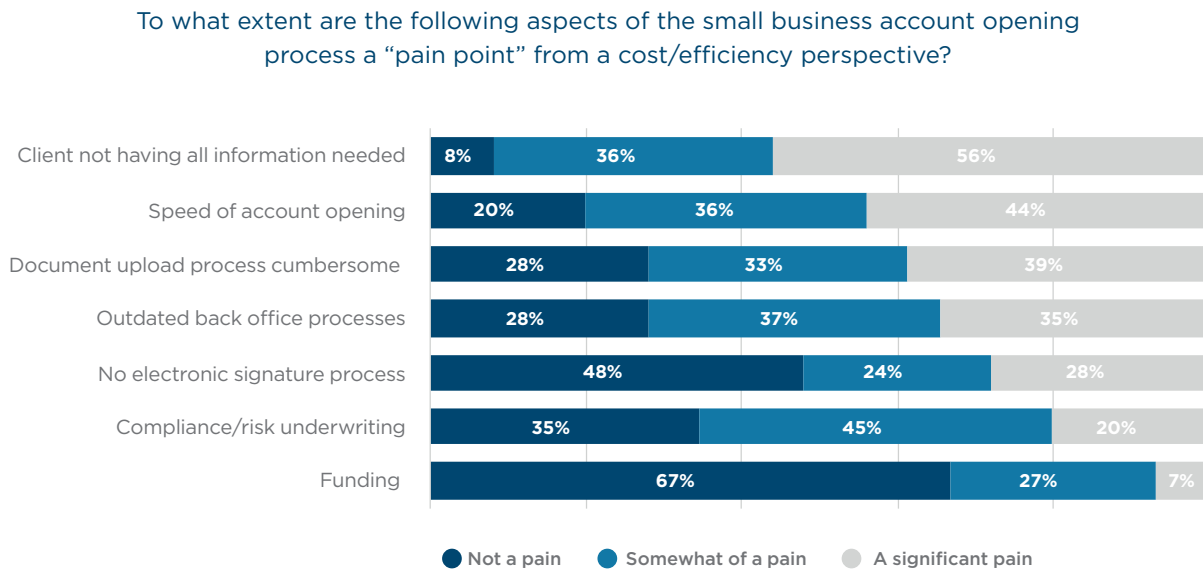


Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

## Pain Points

Clients not having all the needed information tops the list of pain points that banks experience in the small business account opening process. Speed of account opening—or the lack thereof—was the second most-often cited pain point with eight of 10 respondents rating it as at least “somewhat” of a pain (Figure 12).

**FIGURE 12:** Pain Points in the Small Business Account Opening Process



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

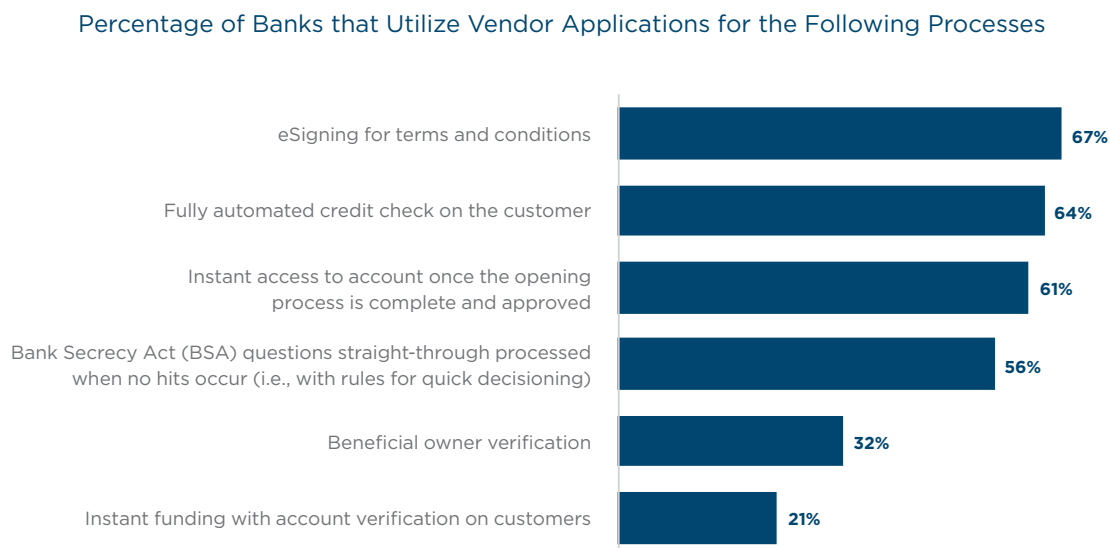
## SO WHAT

Banks struggle to onboard small businesses digitally because it’s a slow, expensive, multi-phase process. Not only is there significant friction in most banks’ processes, but there is also added cost for the banks that have to dedicate resources to resolving issues manually when technology falls short.

## TECHNOLOGY

More than six in 10 banks are using vendor-provided tools for eSignature, automated credit checks, and instant access to accounts (Figure 13).

**FIGURE 13:** Technology Used in Account Opening Process

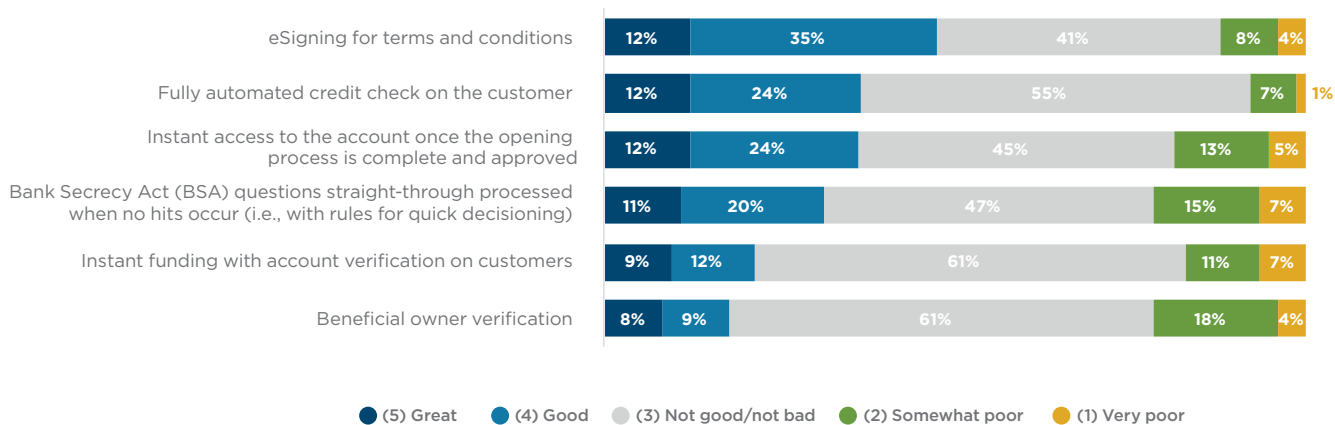


Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

Banks' satisfaction with the vendor technology used in the account opening process is lagging, though. No more than 47% of respondents rated the quality of the applications used to support the account opening processes as "good" or "great" (Figure 14).

**FIGURE 14:** Ratings of Technology Used in Account Opening Process

If your institution uses a vendor-supplied application for the processes below, please rate them on a 5-point scale regarding the quality of their technology.



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

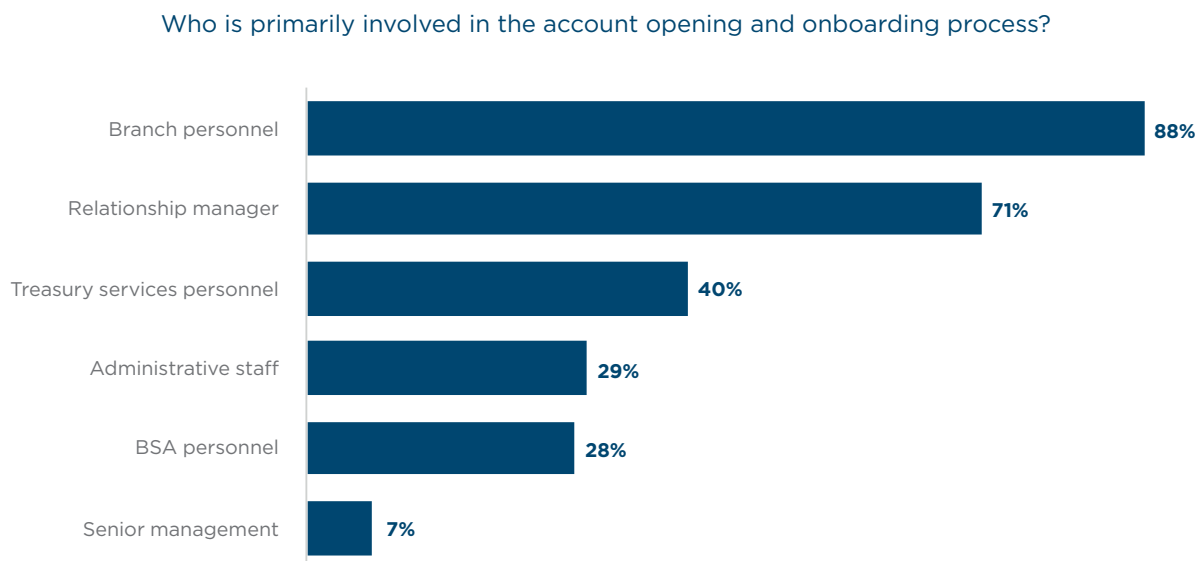
## SO WHAT

Over half of the survey respondents aren't satisfied with their current eSignature technology, but the blame can't always be placed on the vendor. Instead, problems can arise from manual processes that caused the pain. Issues with fully automated credit checks often arise from manual reviews—which are often done because bank execs don't use the technology in place. And as long as new clients not having all the needed information is a pain point, instant funding will continue to be a problem area.

## PEOPLE

With an overwhelming majority of small business account openings occurring in branches, it's not surprising to find that branch personnel are involved in the account opening and onboarding process at 88% of banks. Relationship managers are involved in 71% of banks. Specialized personnel like treasury services representatives and BSA specialists are involved in fewer institutions, 40% and 28%, respectively (Figure 15).

**FIGURE 15:** Roles Involved in Business Account Opening and Onboarding



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

## WHAT

Most bank employees want a new small business customer to have a good experience with the institution. Sometimes, however, that comes in the form of “we can’t charge our client to use treasury—that’s ridiculous.” Employees often resort to either waiving fees if the treasury team doesn’t stick to its fee structure, or small businesses are put into a digital consumer solution that doesn’t have the full capabilities the small business needs. This may put the institution at risk because the terms and conditions for the consumer platform don’t cover small businesses.

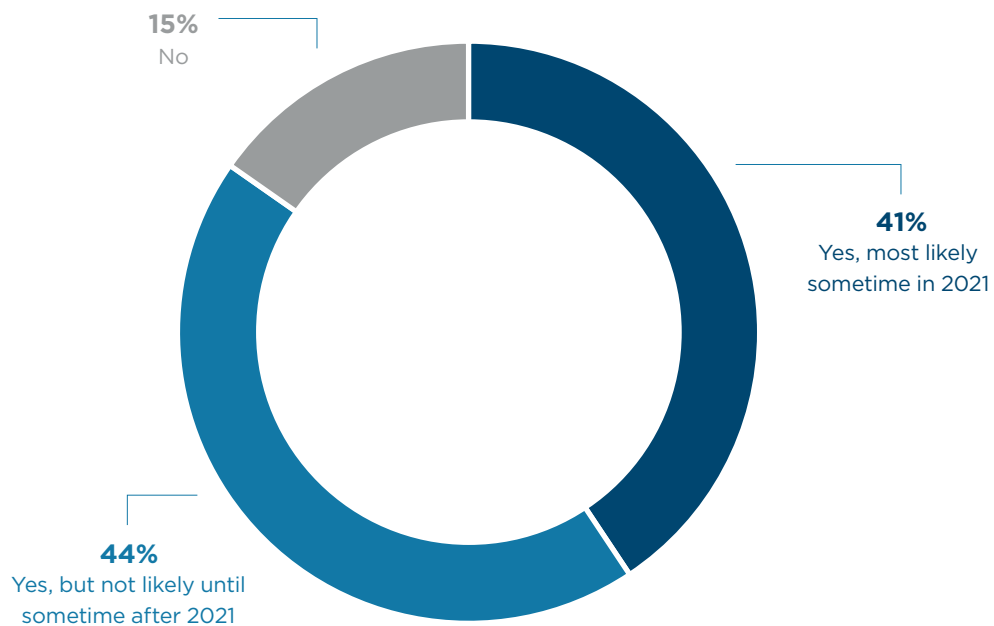
# DIGITAL ACCOUNT OPENING

Just one in five banks currently offer small businesses the ability to open deposit accounts digitally (i.e., using a PC, laptop, tablet, or smartphone). Of those that do, just one in five has a separate technology platform for small business (or commercial) deposit account applications. If our math is correct, that means a meager 4% of banks provide a digital business deposit account opening platform.

But, that's likely to change—and fast. Eighty-five percent of banks plan to deploy digital account opening for small businesses and nearly half of them plan to do so in 2021 (Figure 16).

**FIGURE 16:** Digital Account Opening Plans

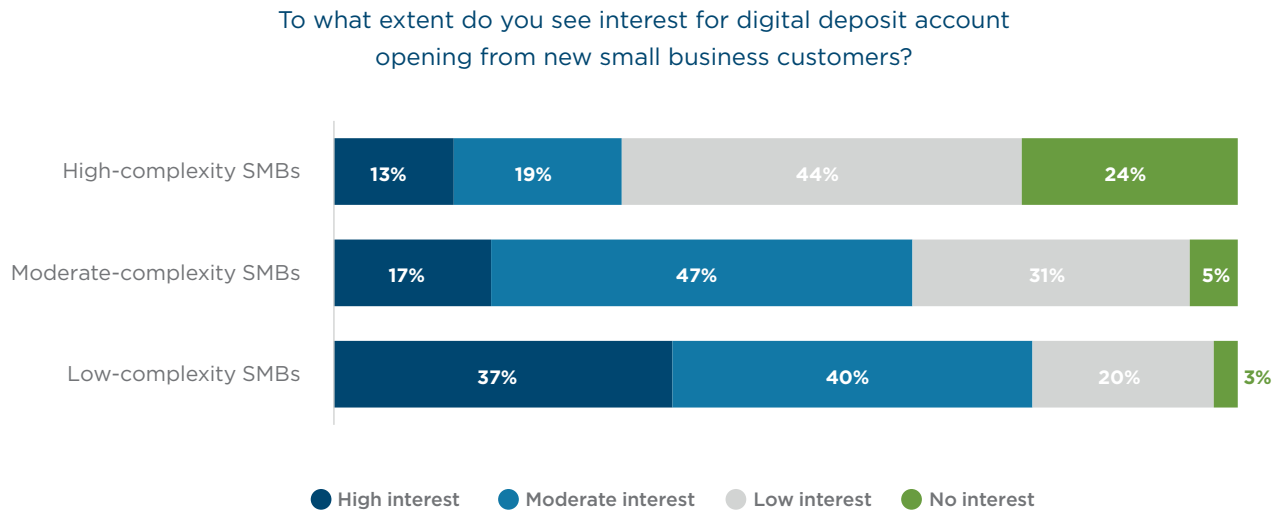
Does your institution plan to deploy digital account opening for small businesses?



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

The plans to go digital—and fast—aren't surprising considering the interest that banks are seeing for digital account opening capabilities. Survey respondents indicated that they see interest for digital deposit account opening from more than three-quarters of low-complexity SMBs and nearly two-thirds of moderate-complexity SMBs (Figure 17).

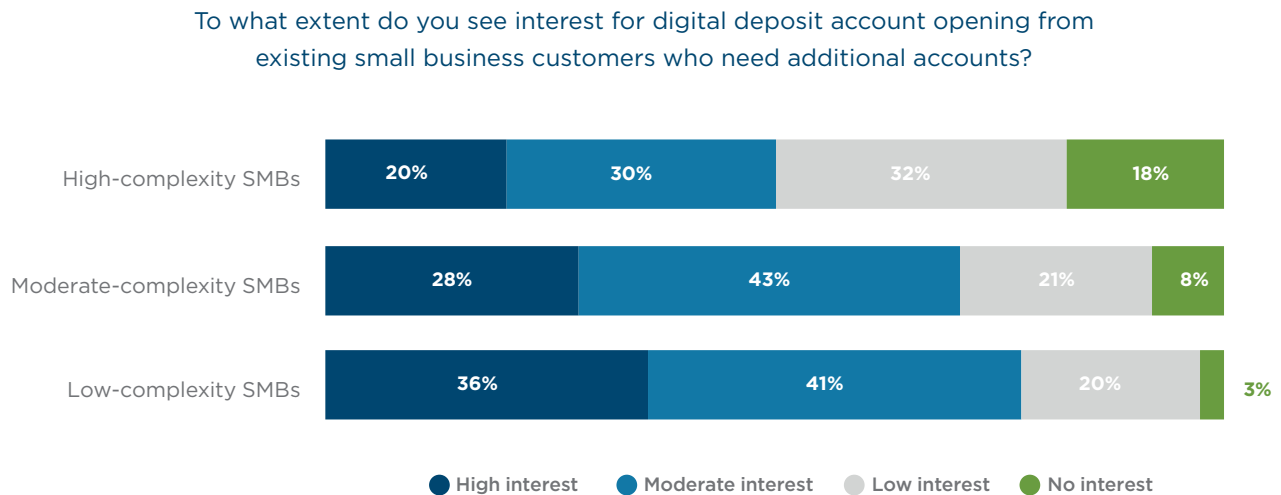
**FIGURE 17:** Interest in Digital Account Opening from New Small Business Customers



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

In addition, banks' perceived levels of interest in digital account opening from their existing customers is just as high for low- and moderate-complexity SMBs, and even higher for high-complexity SMBs (Figure 18).

**FIGURE 18:** Interest in Digital Account Opening from Existing Small Business Customers



Source: Cornerstone Advisors Survey of 75 Community-Based Financial Institution Executives, Q4 2020

# CONCLUSIONS AND RECOMMENDATIONS

Coming out of the pandemic of 2020, mid-size banks and credit unions have two clear priorities and objectives: 1) grow their small business customer base, and 2) win that business with better—and digital—account opening and onboarding capabilities. There are a number of things financial institutions need to do, however, in order to achieve these objectives:

**1) Get a handle on the cost of account opening.** Financial institutions that don't know the cost of onboarding new small business customers should be embarrassed. It may seem trite to say that "time is money," but it's applicable here because a higher-than-average cost to onboard likely means the process is slow and cumbersome. If an institution doesn't know the cost of the process, it can't identify and eliminate the bottlenecks, handoffs, and other unnecessary steps in the process.

**2) Don't find the needles in the haystack—knock the haystack down.** There's a tendency in many financial institutions to map out the (so-called) customer journey, find the components of the process that take too much time or cause customers (or applicants) too much trouble, and fix that component. It's the wrong approach when moving to digital account opening and onboarding. Moving to a digital process requires a complete re-thinking of the process.

**3) Don't fall into the compliance trap.** Don't worry—we're not going to tell financial institutions they can ignore compliance when migrating to a digital account opening process. But banks don't have to move to a compliance-first process. Designing a successful account opening process requires some out-of-the-box thinking. According to Chris Nichols at CenterState Bank in San Francisco:

*If you ask bankers what it takes to satisfy the regulations to open an account, they will give you a long list of items including signature verification, multiple forms of identification, etc. The reality is that it takes very little information to get an account open. The risk for opening up a deposit account isn't for bad actors to move money in, but to move money OUT. As such, if you restructure your process to allow for the simplest account opening and funding possible, you can now go to work to reduce risk and satisfy the regulation. In other words, break the process into two or three steps, and get the account open as fast as possible.*

**4) Focus on the account opening "moments of truth."** The digital account opening and onboarding process will be comprised of many steps, but there are five things banks and credit unions must get right:

- Minimize customer data entry requirements
- Create a one-step process for account funding
- Prevent application abandonment by providing digital and human support at every point in the process
- Provide eSignatures and paperless document delivery
- Enable accounts to be opened and available for use immediately upon application completion

**5) Establish an effective performance measurement system.** Financial institutions should track and measure a number of performance metrics as part of their digital account opening efforts including (but not limited to):

- **Completion rate.** The completion rate is calculated by dividing the number of submitted applications by the number of started applications. On mobile devices, a completion rate of more than 50% is excellent, and between 30% and 50% is acceptable. But a completion rate below 30% is a warning sign of a complex process that has too many steps, takes too long, or requires data not readily available.
- **Time to complete.** The average time for a successful digital application submission varies by type of product. For checking accounts, a process that takes more than 15 minutes is a signal that extraneous information is being collected.
- **Resume rate.** The resume rate is the number of successful resumptions divided by the number of incomplete applications. Frequently, a multichannel account opening application is not resolved in one session but is split across multiple sessions or devices. Generally, the longer the application, the more likely it is to be stopped or abandoned. The resume rate is an indicator of how successful the institution is at resuming the application at a later point.

# ENDNOTES

<sup>1</sup> <https://newsroom.bankofamerica.com/content/dam/newsroom/docs/2021/2021%20SBOR%20FINAL%20ADA.pdf>

<sup>2</sup> [https://newsroom.kabbage.com/news/small\\_business\\_recovery\\_report\\_4](https://newsroom.kabbage.com/news/small_business_recovery_report_4)






# ABOUT THE AUTHORS

## RON SHEVLIN

RESEARCH DIRECTOR

Ron Shevlin heads up Cornerstone Advisors' fintech research efforts and authors many of the firm's commissioned studies. He has been a management consultant for more than 30 years, working with leading financial services, consumer products, and retail firms worldwide. Prior to Cornerstone, Ron was an analyst and consultant at Aite Group, Forrester Research, and KPMG. Author of the Fintech Snark Tank blog on Forbes, Ron is ranked among the top fintech influencers globally. He is a frequent keynote speaker at banking and fintech industry events.

### CONTINUE THE CONVERSATION






-  480.424.5849
-  [rshevlin@crnrstone.com](mailto:rshevlin@crnrstone.com)
-  Cornerstone Bio
-  @rshevlin
-  /ronshevlin

## CHRIS MILLER

SENIOR DIRECTOR

Chris Miller is a digital innovation executive skilled in the art of translating data-driven insights into actionable strategies that drive organizational growth. As a director in the Delivery Channels practice at Cornerstone Advisors, Chris puts nearly a decade of expertise to work helping banks and credit unions develop competitive delivery channel strategies; translate data into actionable marketing campaigns to grow sales; improve their client experience; and select, implement, and negotiate contracts for digital systems that support their institutions' definition of success.

### CONTINUE THE CONVERSATION

-  480-990-5717
-  [cmiller@crnrstone.com](mailto:cmiller@crnrstone.com)
-  Cornerstone Bio
-  @chrismiller
-  /millercc

# ABOUT

## CORNERSTONE ADVISORS



At Cornerstone Advisors, our goal is to deliver tangible business impact to financial institutions. We know that when institutions improve their strategies, technology, and operations, enhanced financial performance naturally follows. Because we live by the philosophy that businesses can't improve what they don't measure, we show banks and credit unions how to use laser-focused measurement to make smarter technology decisions, strategically reengineer critical processes, and develop more meaningful business strategies.

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-  [www.crnstone.com](http://www.crnstone.com)
-  [Cornerstone Advisors](#)
-  [@CstoneAdvisors](#)
-  480.423.2030
-  [info@crnrstone.com](mailto:info@crnrstone.com)

# ABOUT

## MANTL

MANTL is on a mission to empower the financial ecosystem through technology. With its range of omni-channel account opening products, MANTL helps banks and credit unions grow deposits and streamline back-office tasks with an omni-channel account opening platform that integrates seamlessly with their core systems.

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-  [www.mantl.com](http://www.mantl.com)
-  [@Mantl\\_tech](#)
-  [/mantl](#)
-  [XXXX@XXXXXXXXX.com](mailto:XXXX@XXXXXXXXX.com)



Have questions  
about this report?

**Contact:**

**Ron Shevlin**, Director of Research  
Cornerstone Advisors

[rshevlin@crnrstone.com](mailto:rshevlin@crnrstone.com)  
480.424.5849