

Closing the expectation gap

3 insights for meeting small business owners where they want to be met

Based on findings from the 2021 Banking Impact Report

MANTL

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INTRODUCTION

The disconnect between priority and practice

The link between small businesses and community financial institutions (FIs) has always been strong.

In some ways, it's stronger than ever.

When small business owners (SBOs) faced catastrophic losses during the tumult of 2020, community FIs stepped up. The federal Payment Protection Program (PPP) enabled these institutions to lend to SBOs, many of whom had been turned away by large national banks. PPP lending was advantageous for community FIs, too: it gave them a fresh opportunity to reach new audiences while deepening their existing relationships.

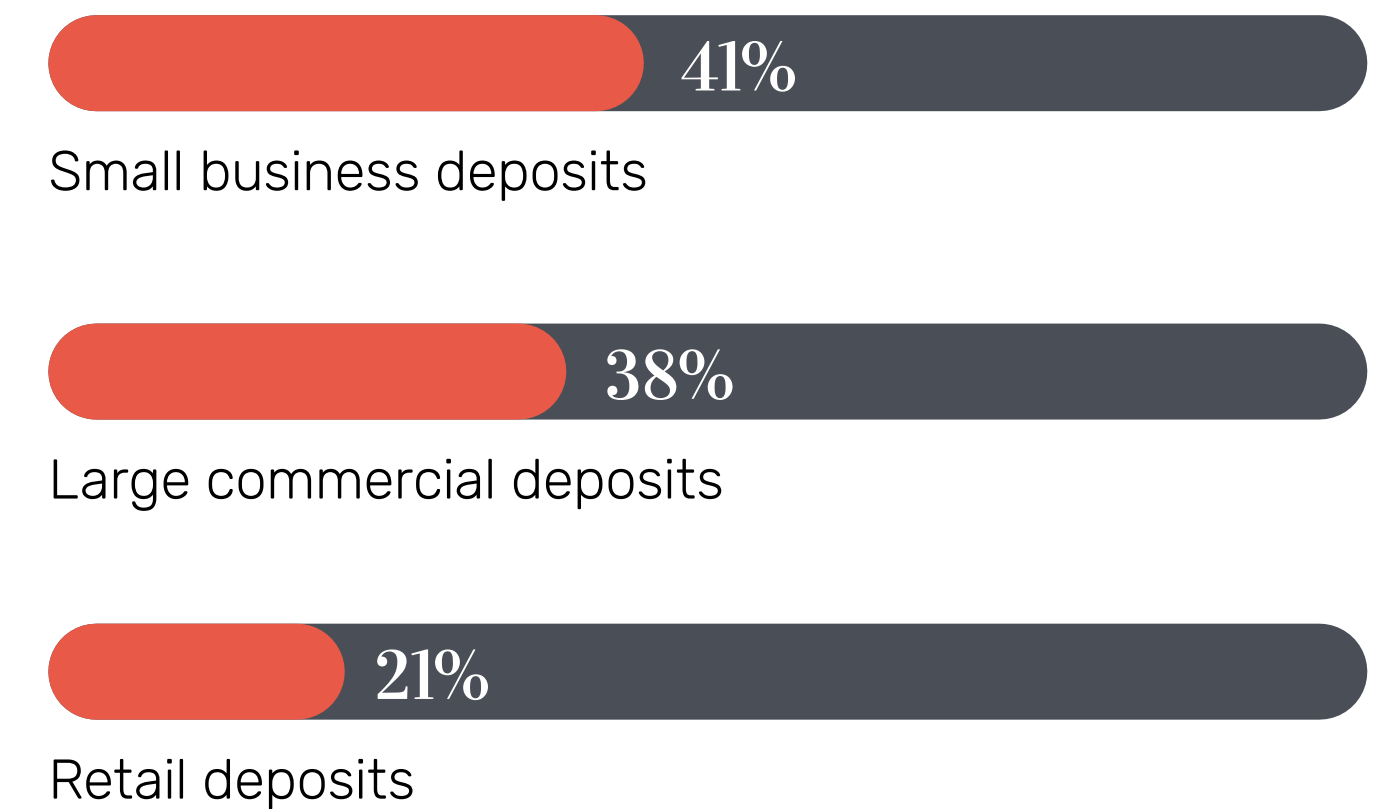
Now, as we enter 2022, those small business relationships grow more valuable—and more vulnerable—by the day.

According to Cornerstone Advisors, small business deposits are a top priority for 41 percent of midsize financial institutions—almost twice as important as retail deposit accounts. Yet 53 percent say their business account opening (BAO) process limits their ability to grow, with 40 percent rating their BAO process as “somewhat or very poor.” (Only 3 percent are willing to call it “great.”)¹

These figures speak to a fundamental disconnect between priority and practice.

For years, many community FIs have looked at digital transformation as a novelty or a nice-to-have. Even if they've embraced digital services for consumers, many institutions continue to approach small business banking with the assumption that SBOs are looking for a largely in-person, in-branch experience.

Deposit priorities for midsize FIs²



¹Cornerstone Advisors, *The Small Business Account Opening Imperative*, 2022.

²Ibid.

The 2021 Banking Impact Report tells a different story. Our research indicates that a growing number of SBOs want the same digital convenience available to consumers, but many community FIs aren't stepping up to meet those demands.

We call this the expectation gap—and it represents a widening gulf between what business owners want and what community FIs currently provide.

In this white paper (the second in a series), we'll offer data-driven insights to help you bridge the expectation gap. We'll explore how consumer preferences are driving SBOs' demand for faster, more convenient services across a broader range of channels. And we'll make concrete recommendations to help you meet your business customers where and how they want to be met.

About the report

[*The 2021 Banking Impact Report*](#) was conducted by Wakefield Research in August 2021 and commissioned by MANTL to identify how evolving banking trends impact the local community and the role that community banks and credit unions play in the U.S. financial system.

The report surveyed three key audiences:

- **1,000+ consumers**, aged 18+ with a bank account
- **500 U.S. small business owners** who have a bank account, defined as those with annual revenue of \$25M or less, with a 20% quota for \$1M+
- **100 community banking executives and 50 credit union executives**, defined as those VP and above, who manage between \$500M and \$50B in assets

1. Digital is no longer optional

Digital banking isn't just a must-have for consumers. It's becoming an expectation for small business owners, too. We found that 57 percent of SBOs simply wouldn't use a bank or credit union if they couldn't open an account online—but nearly half of community FIs lack the infrastructure to meet that demand.

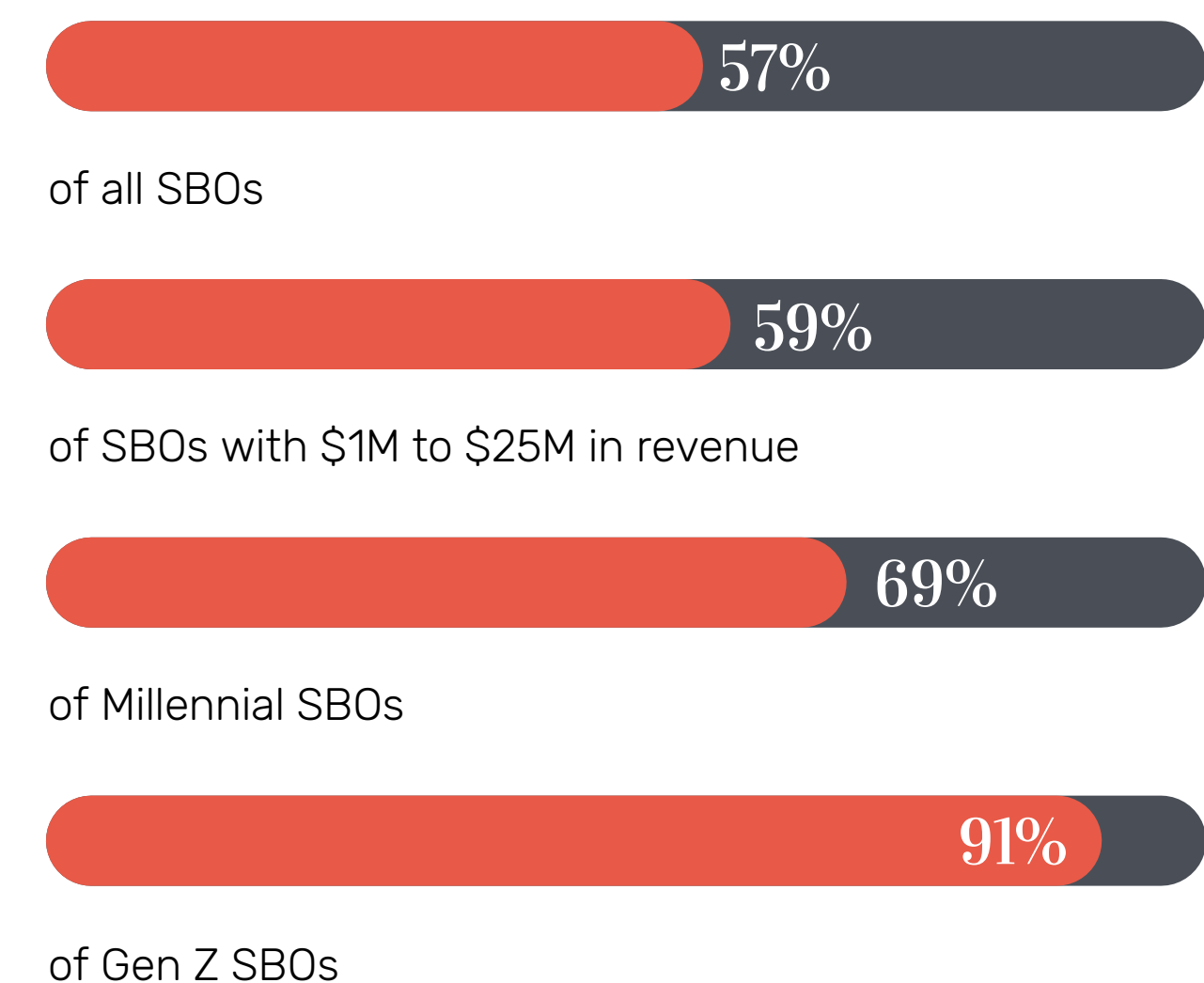
That's not the only area where community FIs are falling short of SBOs' expectations.

A clear majority of small business owners want mobile transfers, mobile check deposits, and instant notifications for large purchases or potential fraud. But 45 percent of community FIs are currently unable to deliver what their business customers want, in large part because they don't have the infrastructure to support it.

The widening expectation gap

	% of SBOs expecting it	% of FIs lacking the infrastructure to support it
Mobile transfers and check deposits	71%	45%
Notifications for large purchases or potential fraud	65%	
Online account opening	57%	

Who wants online account opening?



2. Small businesses want community plus convenience

For years, community institutions were well-positioned to offer both community and convenience. SBOs could bank at a community bank or credit union just as easily and efficiently as they could at a national bank.

Those days appear to be over.

According to our study, community institutions still lead the way on loan accommodations, positive local impact, and customer service, with 35 percent of SBOs reporting that community banks are most likely to provide one-on-one support for their businesses.

But when it comes to convenience, community FIs are fading fast.

While nearly half (45 percent) of community bank and credit union executives believe that their digital services are more convenient than big national banks, SBOs don't agree. A full 40 percent say that large national banks offer the most convenient services for business account holders.

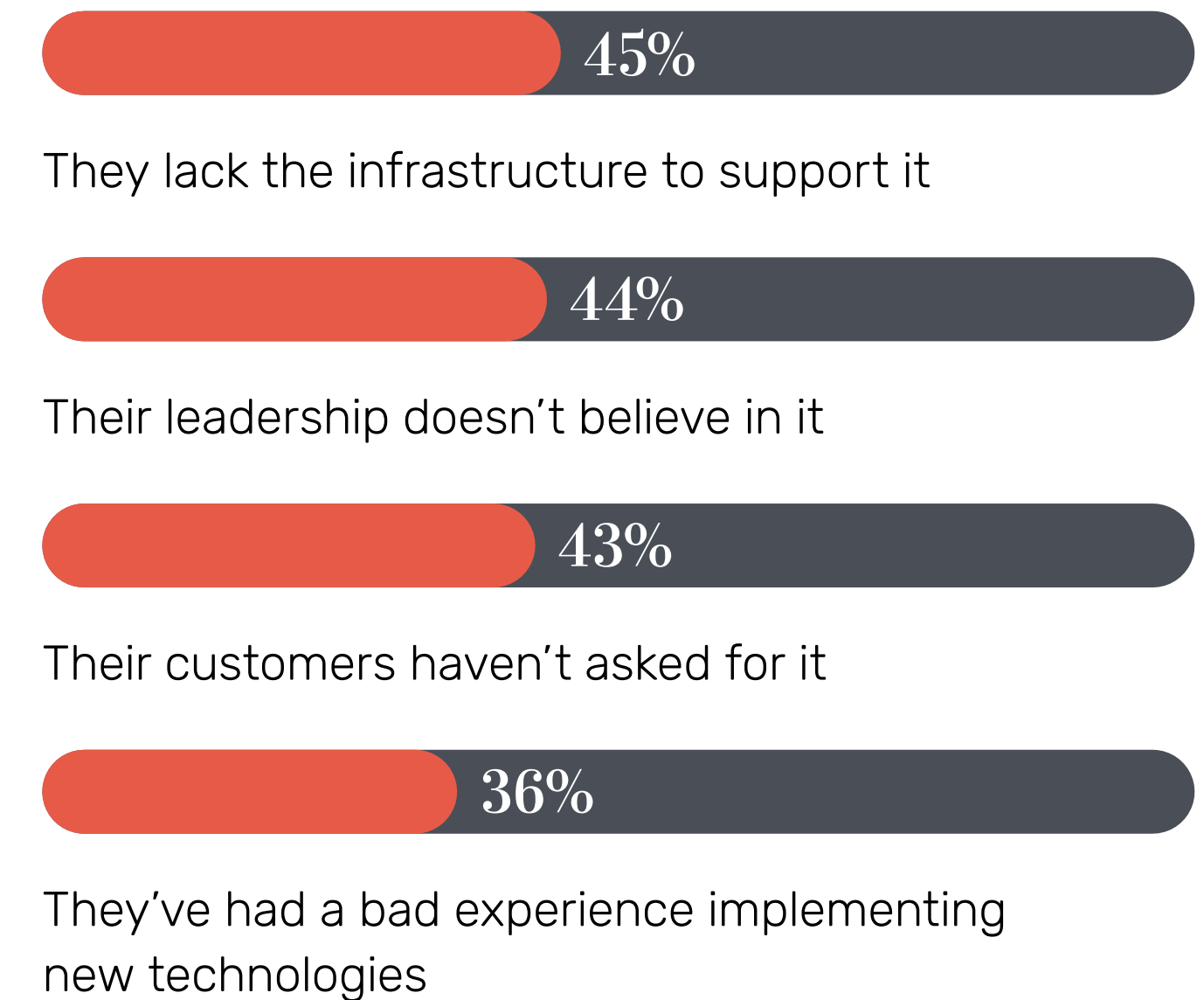
These findings indicate the perilous position of too many local and regional institutions: in an increasingly competitive landscape, low fees and superior service might not be enough to maintain a strong foothold in the market. **Traditional FIs must close the convenience gap or risk obsolescence.**

“I think there's a general assumption in the industry that people want to apply for business accounts in-branch. But I think that's changing. A huge chunk of businesses are one person or a couple of people, and a lot of them want to go online and apply for a business account in a few simple steps. ...Ultimately they're just people running a business, and they want convenience as much as anybody.”

— **Christian Ruppe**
VP of Digital Banking, Horicon Bank

Why community FIs resist digital transformation

With a growing chorus of SBOs demanding digital services, why do so many community institutions appear to be dragging their feet? We spoke with community FI executives to get answers. Here's what they said:



Where community FIs lead the way—and where they're falling behind

	Large national banks	Regional banks	Community banks	Credit unions
Biggest positive impact in local area	23%	18%	37%	17%
Most likely to provide 1:1 support for your business	21%	16%	35%	23%
Most accommodating with small business loans and fee scheduling	25%	16%	29%	23%
Most trustworthy	28%	15%	24%	26%
Most convenient services for business account holders	40%	18%	15%	14%

3. Business owners aren't sold on neobanks (yet)

In the midst of all these alarm bells, it's important to keep one thing firmly in mind: **SBOs still place extraordinary value on community institutions.**

According to our study, 64 percent of SBOs believe that community banks and credit unions are as or more vital to the U.S. banking system as large national banks. And SBOs who have a primary banking relationship with a community FI report even higher levels of satisfaction (97 percent) than large national bank customers (91 percent).

But their perception of neobanks? That's a different story.

Despite the massive valuations and media attention given to neobanks in recent years, only 8 percent of SBOs trust digital-only banks more than they trust traditional institutions.

Even so, 43 percent of all SBOs, 71 percent of Millennial SBOs, and an astounding 100 percent of Gen Z SBOs said they were "somewhat or very likely" to open an account at a digital-only bank in the next 12 months.

That 12-month window is your opportunity to capitalize on SBOs' hesitation. Now is the time to recapture their loyalty with digital offerings that rival the convenience of neobanks—delivered on a more solid foundation of institutional trust.

How SBOs view neobanks, relative to other FIs



more convenient



more trustworthy



most accommodating with loans and fee scheduling



best 1:1 service



more impactful in the community

And yet...



43%

of all SBOs



71%

of Millennial SBOs



100%

of Gen Z SBOs

are likely to open an account at a neobank in the next 12 months

WHAT SMALL BUSINESSES WANT

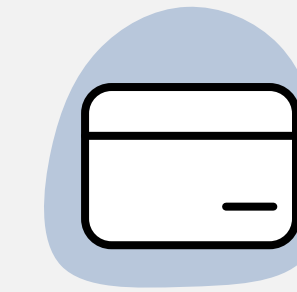
A quick guide to digital prioritization

So you're ready to meet your business customers where they want to be met. What should you tackle first?

Here's a prioritized list of what SBOs want, according to our findings. This list will help you decide what to focus on next.



71%
Mobile transfers and check deposits



32%
Cardless ATM access



65%
Alerts and notifications for fraud, bills due, and large purchases



28%
Integration with point-of-sale systems



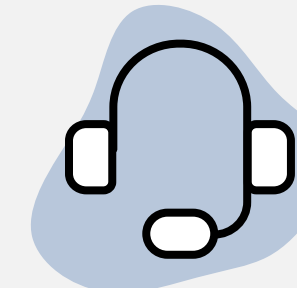
57%
Online account opening



22%
Biometric or voice verification



49%
Accounting and payment tools



20%
AI-enabled customer support



47%
Integration with payment apps like Venmo and Apple Pay

CONCLUSION

Turning the gap into an opportunity

The *2021 Banking Impact Report* includes many warnings for community FIs—and plenty of reasons for hope.

For all the changes taking place across the economic landscape, one thing remains the same: small business owners value the role of local and regional institutions, both in their communities and in the financial ecosystem at large. They see national banks as trustworthy and convenient, but not closely connected to their communities or their needs. And while SBOs are curious about neobanks, they're not quite ready to trust them.

That's all good news. But given the rising demand among SBOs for easier access to a broader range of digital banking services, community institutions may

have a limited opportunity to close the expectation gap before business owners take the path of most convenience.

Therein lies your opportunity. By meeting SBOs where they want to be met, your institution can deliver something truly unique in a crowded competitive environment: a modern digital experience informed by a deep and abiding connection to both people and place.

National banks can't match that. Neobanks can't even come close. Only community FIs are capable of occupying that strategic position—as long as they're willing to adapt and compete in an increasingly digital world.

“Beware of shiny objects. There's so much out there right now that you can grab and add to your digital arsenal, but it's super-important to figure out who you are first. Define your strategy and keep it as your north star.

— **Grace Pace**

VP Digital Engineer, Quontic Bank

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About MANTL

MANTL is a banking technology firm offering the leading account opening software. Our platform empowers regional and community banks and credit unions to grow up to 78 percent faster. These institutions play a critical role in our economy and we're passionate about preserving that. Our customers have raised billions in core deposits to date. MANTL is a privately held company headquartered in New York with the backing of prominent venture capital investors.

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