

revenue headwinds force financial institutions to get serious about small business and commercial enterprise



Two dynamics camouflage the threats posed by competing financial apps.

First up: consumer accounts. The average community financial institution has between 13% and 35% of consumer accounts that are being used to run small businesses. These are primarily solopreneurs involving only one person – a staggering statistic given the 59 million freelancers, gig workers, and sole proprietors in the U.S. that account for the majority of small businesses.¹

Second, the so-called “consumer payment apps” like PayPal and Cash App attract your camouflaged small businesses with easy payment acceptance capabilities.

With the rise of fintechs and big tech, many banks and credit unions have seen their share of primary business banking relationships shrink from 28% in 2018 to 16% in 2022 – an astounding 43% drop.²

Joining fintechs and big tech on the other side of the small- to medium-sized business (SMB) squeeze are other competitors like: Block (fka Square®), Paypal, Intuit®, BaaS-fortified players such as Shopify, and small business-focused neobanks like Bluevine® and Grasshopper™.

These competitors continue using payments services (specifically, the collection of payments) to segue into lending and finance – providing short-term working capital to small businesses based on cash flow and accounts receivable volumes.

your big opportunity

The SMB market is a \$370 billion revenue opportunity.³

Given downward pressure on non-interest income, regulatory scrutiny of OD/NSF fees, and consumer reluctance to pay for generic digital financial services, both banks and credit unions are looking to leverage digital-first, relationship-based banking to expand and monetize their share of SMBs.

That's a tall order considering the top 25 U.S. banks now account for 84% of primary banking relationships with SMBs.⁴

be there for SMBs when they need you

Unlike most fintechs and neobanks, community and regional financial institutions know the niche markets their SMBs serve and can use that knowledge to offer more attractive financing to SMBs.

In fact, 87% of financial institutions plan to serve a niche market over the next two years, with businesses as their top priority. Of those that plan to target businesses, 78% are focusing on sole proprietorship.

While a recession may force some small companies to close, providing live, local, personal service in digital contexts will be a lifeline for many main-street businesses.

Such service rendered digitally at the moment of need is something only community and regional financial institutions can



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deliver, creating a unique opportunity for local banks and credit unions to recapture SMB market share while business-focused fintechs go upmarket with larger enterprises in a bid to endure a looming downturn.

what you can do to prepare

This year, SMBs need a single view from which to manage all their cash positions, send and receive payments, predict cash flow, and easily tap working capital.

Offering your accountholders a holistic view of their finances will be critical to your success. Take advantage of open banking rails to help solve this financial fragmentation, achieve first-app status, and eliminate inbound screen scraping to reclaim your position at the center of your accountholders' financial lives.

In addition, simplified, universal payment acceptance across a growing and complex array of tender types and payment rails will be critical for SMBs struggling to survive economic headwinds.

Furthermore, consumers expect early direct deposit of paychecks in addition to automated savings and investment options while co-managed account services for caregivers and parents will also be important for financial institutions that want to maintain generational loyalty and capture generational wealth transfers.

As you look to the future, keep in mind strategic agility and the ability to match your accountholders with the most relevant, high-grade solutions and experiences in meaningful timeframes will be vital.

connecting possibilities

[Learn more](#) how you can capitalize on the current SMB market opportunity.

For more information about Jack Henry, visit jackhenry.com.



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sources

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4. Benton and Magana. *Redefining "Community"*