Small Business Banking Conference:
Key Issues for 2019 and Beyond
by Charles Wendel

The American Banker's Small Business Banking Conference begins this week. Reviewing the key topics being covered provides some insights into the issues that are top of mind. Some are recurring themes, some have returned and there are a few areas of new focus emerging this year.

I am moderating a panel on Deposits. This has returned as a critical topic at many banks that just a few years ago were suffering from what to do with the deposits they had. As the title of our session states, now is a "hyper-competitive environment" for deposits, and it is a systemic rather than a short-term problem for banks.

The current state of deposits: more deposits sitting outside of banks (e.g., Starbucks cards), more and new competitors (e.g., Marcus), more banks needing deposits, and more cost for the deposits they get. This area needs laser-like focus from top management and a bank-wide, not only a small business, effort. The power of small business groups to generate deposits should increase the importance and internal prestige of small business within many banks and eliminate the "we don't get no respect" syndrome many small business groups suffer from. Most small businesses do not borrow or borrow irregularly, generating deposits a bank can lend out elsewhere. That provides incredible value today when deposits are tight and rates are rising.

Another topic of focus highlights partnering with Fintechs and, more broadly, digital banking. The last year has seen the concept of partnering with Fintechs being evaluated at more banks. This issue may have reached a tipping point whereby the perceived risk of not acting now exceeds the perceived risk of taking on a partner. While more banks finally are deciding that they need to work with a Fintech in the small business space, some are doing so without clear purpose or direction. Many banks decide to take incremental steps; it makes the bank believe they are making progress and checks off an internal box. However, this approach may actually delay a bank from becoming truly digital.

Bank management needs to determine what it is solving for before signing on a vendor. Many fail to go through that fundamental process and pick the wrong type of partner or a partner that will only be appropriate for the short term.

As expected, digital banking is also a major topic. Most banks face the practical issue of how to transition to providing a digital experience while maintaining their current business. Small business lending can provide a great introduction to digital banking for the entire bank. Start with the fact that at most banks small business loans below $250,000 lose money. Isn't that a compelling problem to fix?

Digitalizing small business lending also links to Fintechs since they can provide leverage in areas like marketing, risk, data analytics, etc.

And, there is reason to get organized and pick up the pace. One client we know found that hundreds of its clients had loans with Fintech lenders. The dollars are not huge yet, but this trickle could turn into a flood and with the lending business goes the deposits that used to be kept on account in the bank. **Every** bank should determine payments being made by its customers to competitive lenders. Then, the question is what will you do about it?

One practical issue related to the above is who is in charge? Banks often have multiple groups considering digital issues and sometimes defending their turf. Areas involved with digital may include: IT, product, planning, digital, marketing, and various lines of business. But, communication within banks is usually insufficient; the old adage “one hand does not know what the other is doing” applies. Further, the top management above these groups is often unaware of the various initiatives and may have limited interest in them. It is not an exaggeration that our role as outside advisor, one that allows us to interact without an agenda with groups across bank silos, may give us a fuller perspective than exists with internal staff. That is not good for a bank.

Some**one** needs to be in charge.

One newer topic this year is “Neobanks.” These are startup companies, not banking institutions, that offer specific services aimed at small businesses, freelancers, and entrepreneurs. Typically, they want to work with banks to access their customer base and provide a differentiated offer for the bank. They may have a long road to success, since bank bandwidth is limited and their economic value in unproven.

Most banks should be focusing on higher priority areas, deposits, Fintechs, SBA, and the development of industry verticals, all revenue-related initiatives.