



# Small Business Banking Guide

Understanding the banking market to win in 2020



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# Forward

Like every industry in our economy, COVID is upending banking as well. Economic turmoil and will likely accelerate many of the banking trends we saw at the end of 2019. The banking entities that were embracing the shift to drive segmentation and choice in the market will likely succeed best. As business owners, we should brace for another round of bank failures as debt defaults destroy bank equity.

The year began with our smaller community banks focused on growth and earnings to fulfill shareholder expectations. They were accomplishing this by leveraging their strengths in relationship lending and their access to technology to grow the small business loan portfolio profitably.

In the wake of COVID, these relationships will assist with work-out scenarios for underwater debt and being able to continue to fund loans for the businesses that continue to grow. 2020 banking trends will continue the push to further self-service and a faster, more efficient banking experience. We have been seeing these trends grow for several years now and will only accelerate now that we are moving into a lower human contact society—at least near term.

# Advancing Technology

Open banking is a hot buzzword today. In any discussion of open banking, it is wise to clarify how the person is using the term. In the purest sense of the phrase, open banking is using APIs to enable developers to build tools to help us, the small business owner. On one level, this is an evolution of the bank transaction download we all have been doing in Quickbooks since 1999. Today it is easier for us and standardized by using the APIs for data calls.

In practice, the ease of data flow because of open banking provides a new level for financial transparency. This also raises privacy and data ownership concerns. Make sure you know whom you are sharing your business data with when you install an API and integrate an app with. Especially if it is coming from your bank.

Technology advances you will see more of.

1. API Ecosystems - moving and integrating all of your data to allow information to be shared, built upon, and leveraged within your business. We are moving beyond the mere collection of account balances in one spot. The next phase is for transactions from service A to talk and integrate with service D, which is sending data to service F. This is how your freight forwarding company will update your customer service team and your time clocks will feed data to your workers' comp vendor.

Three useful APIs we've seen in the market

1. Employment status and income verification
2. Employee payroll loans
3. Employee payroll bank deposit information to allow seamless switching

2. One-Time-Use Card Funding - After nearly twenty years of trying, the industry seems to be on the brink of actually making virtual cards useful. The innovation is in allowing managers to select the credit line that is used for funding the transaction.
3. Hello, I'm from the IRS - Yes, the taxman is coming to your door. All of this data is a treasure trove for the taxman and provides the ability to question transactions. We are still a long way from submitting full GL tagged XBRL returns, yet we can see the path to get there.
4. Business Apps - The tools that you can use to service your bank account are growing and become more useful. From spend analysis to customizable fit for insurance products. Even the apps created by the bank are showing marked improvements.
5. Card-less POS - Many retailers rushed in the first quarter to update their point of sale systems to accept mobile payments. This cemented a multi-year trend as consumers became accustomed to using these alternative payment methods. Sanitary concerns pushed the mass update as consumers expected these alternative payment forms.
6. Are paper statements finally dead? - In 2000 would have predicted the demise of paper statements and snail-mail long before 2020, yet here we are still talking about it. Chase bank is experimenting with teller deposits that do not require a paper deposit slip. These slow incremental upgrades being made by banks to remove paper operations are hindered by the massive technology investment that they must make to redo a hundred years of banking practices. We see some new banks unencumbered by legacy systems launch with zero paper processing.

# The Changing Bank Account

Selecting the perfect bank account was once a list of the pros and cons of each institution's offerings. Today it is more of a selection of options that work for each purpose, and a business can quickly assemble multiple accounts to achieve the perfect solution.

FinTech or Financial Technology copies are emerging to provide many add-on services to make banking frictionless. In many ways, some of these fintech companies are starting to look like modern banks stopping short of issuing checks. Banks are not giving up their turf easily to the fintech onslaught. Many banks are moving into the fintech space by offering additional services as part of their accounts, invoicing, payment collection, and payroll integrations.

In the past, many small businesses had one main bank and a primary credit card issuer that solved all of the banking needs. Since it is easy to assemble systems to expand the services a business needs, more than one account is linked together using APIs and immediate fund transfers. Revolut bank has pushed into the international payment space and provides the ability to send payments to foreign vendors for free or low cost. Other banks, such as Axos are looking for your deposits and offering interest rates to attract those deposits.

The future could become a space where a small business has what they call their primary checking account with BB&T for the local branches, depth of services, and friendly customer service. Most importantly, a local bank allows them to deposit

cash. They then have an account with Revolut to pay suppliers in South America in the local currency, allowing the firm to negotiate better pricing. Uses Axos Bank to get at least a little interest earnings on the company rainy day fund and deposits from online sales flow into this account since it is super easy.

### **Features we see as standard in 2020**

1. Low / No Fees and no hidden fees - relative to business size
2. Refund ATM reasonable fees
3. Online banking options that do not look like 1999
4. Customizable account notifications via email and text
5. Mobile Apps that are easy to use and intuitive
  - A. The best banks have automatic check detection when making a mobile deposit, so you do not need to hold your phone and click for the photo.
6. Overdraft protection
7. Card options and management
8. Bookkeeping integrations to Quickbooks, Xero, Netsuite, and other leading GL software
9. Payroll integration
10. Free transfers - low fee immediate transfers
11. Convenient locations - even online banks have vast ATM networks
12. Live human customer service hours that work for you, preferably domestic
13. No transaction limits - success should not result in a fee
14. Paperless options - no one wants a stack of mail anymore, download your statement.
15. Security and fraud detection tools

# The Changing Bank Relationship

What was old is new again, and the same is true for relationship banking. Deep relationships with your banker nearly disappeared from the market except for a few small regional banks, now relationship banking is making a come back but in a new form. Rather than having the banker that would take you out to the golf course and intimately learn your business, we are gaining a banking model that is built specifically for you.

The charismatic banker that is trying to sell you a lockbox, line of credit and midnight checking sweeps has been replaced by unique service experts. Need a loan? Talk to our expert via teleconference, who will help determine the best loan structure for your unique needs.

Teleconferencing is a technology many of us small business owners are very comfortable with and frequently use in our business. Hosting a webinar or a video conference with GoToMeeting or Xoom is commonplace. Now it is becoming commonplace for your bank as well. KeyBank and Citizens Financial Group are two banks that are bringing teleconferencing to their clients. Look for more to follow.

As consumer-friendly technologies and mobile apps push further into the business bank accounts, the accessibility of the bank continues to grow. The questions once reserved for the banking relationship manager on Monday morning can now be asked Saturday afternoon via an online chat with resolutions achieved Sunday morning. The speed and efficiency found in our own businesses are finally available at our local bank. Some are calling this do-it-yourself banking and moving the bank branch to our phones and kiosk to complete most transactions. JPMorgan Chase &



Co., PNC Bank, and Bank of America are experimenting with various forms of self-service technology and removing the human interaction from the transaction.

Simple transactions may be the best way to describe the evolving banking relationship. We are becoming a sum of the transactions we perform at the bank. Each one with a calculated value to the bank, and thus we receive the attention from the bank that our profit-generating transactions allow. The upside of the equation is the availability of lower-cost small business checking accounts - some still free, which is nearly a relic in the consumer sector of the industry. Removing the human interaction from the relationship also removes the personal connectedness and trust we have in these institutions.

An interesting friend is evolving into our banking relationship and may end up being more influential than our personal banker ever was - the accounting software we use. Most small businesses are using Xero or QuickBooks to track their company's financials, and these tools are taking advantage of the growing set of APIs available to them. The API is an electronic interface between computer systems to share information with speed and efficiency. The transactions in your checking account can be automatically updated via the API within your accounting software. Some lenders are using the same technology to grade the health of your organization in real-time. Where your banker might have asked, "so how are things going" these sophisticated lenders already know you canceled two sales last week and are sitting on excess inventory. This new friend in the banking relationship could become a gatekeeper for us, suggesting additional tools and financial products to make our businesses more profitable. These tools coalesce together to create the products once only available from our bank, and once only available to the bank's best clients. Now the software we use every day for paying bills and sending invoices empowers us to choose how we interact with banks. The business owner is defining the relationship more than the bank is.

Banks are realizing the power shift that is ahead as it becomes possible for businesses to switch banks with ease. Without the human relationship connecting the owner to the institution, the loyalty is lost and boiled down to a sum of transactions. In the next year, we expect to see more perks attached to the business bank account as the banks attempt to create stickiness and keep your account.

Radius Bank is blurring the line between bank and accounting software by providing the invoicing and other financial tools small businesses depend on.

The personal banker is not to be completely written off. We will still see them in 2020 and likely for several more years. Larger small businesses can continue to expect to see one of these smiling faces in their lobby seeking to earn their business. Expect to see a team of experts and not a single individual showing up. Each person has their own powerful tools that they can help bring to your organization. The account manager is now more emblematic of a sports team captain calling experts from the bench to help you fix your problem. They know you can find a free checking account. They want to service your foreign exchange transactions and help you hedge interest rate risk. These are the complex problems that small businesses are facing in 2020.

Knowing what you need out of the banking relationship will set you up for success. If you crave the personal touches, then find a local branch and befriend the manager. If you desire speed and technical sophistication, then set up an account, one of the tech empowered banks that work with your accounting software. Most importantly, know the value of your transactions to the bank for you to understand the economics of your relationship. A freelancer shouldn't expect lunch invites. Do take ownership of the relationship and move to the providers that meet your needs.

# Banking Security

None of us want to be the news headline of the latest company under attack by a ransom request for our customer data. These nefarious actors have bested many city governments and even hospitals. The city of Atlanta ended up incurring a cost of \$17 million from its ransomware attack.

The rise in electronic banking opens small businesses up to an increase in cyberattacks. Stop an attack before it starts by not letting the criminals into the computers you use to access your organization's bank accounts. The fail-safe solution is to have a dedicated terminal only used for banking to maintain all of the security updates. Yet, for the other 99% of us, this is not a practical solution.

Best practices to help keep you safe.

1. Do not click on links from emails that you are not expecting or do not know. Be sure to inspect where the hyperlink is going, and that is taking you to the same location you want to go. It was a simple email link from a spoofed email used to hack John Podesta's email account.
2. Keep your computer patched and up-to-date. Not just the operating system but your third-party software as well. Regular updates ensure that you keep your browser plugins patched with the latest security updates.
3. Be suspicious of email attachments and do not open attachments that you were not expecting.
4. Keep your anti-virus software up-to-date but still, use old fashioned common sense. Many phishing scams alert you to some tragic and dire life events that didn't happen merely to lower your guard and create immediate action. By not

taking a moment to time out and think about this terrible news, you opened your organization up to a severe attack.

5. Use strong passwords that are complex in both length and character types. Using a password tool like 1Password or LastPass, you can quickly generate complex passwords that have numbers, uppercase, lowercase, and symbols. You can then create new passwords rapidly and change your passwords often.
6. Train your employees to look for phishing scams and other security threats. Adding cybersecurity to your other training programs can save your business a headache in the future. Possibly consider phishing your employees as part of your training process.
7. Enable two-factor authentication using an authentication app or crypto-key. Many banks automatically perform a second authentication via text message or a phone call. If your phone is subject to a sim-swap scam, the hacker now has access to your bank accounts because your bank will send a text to the mobile phone they control

**What is a SIM Swap Scam?** (from Wikipedia)

A SIM swap scam (also known as port-out scam, SIM splitting, and simjacking, SIM swapping) is a type of account takeover fraud that generally targets a weakness in two-factor authentication and two-step verification in which the second factor or step is a text message (SMS) or call placed to a mobile telephone.

The fraudster will receive all the SMS and voice calls intended for the victim. This allows the fraudster to intercept any one-time passwords sent via text or telephone calls sent to the victim, and thus to circumvent any security features of accounts (be they bank accounts, social media accounts, etc.) that rely on text messages or telephone calls.

# Lending is the same yet different

Small business lending in the U.S. lending is a \$700 billion business, serving more than 29 million firms. The three major lending groups currently serving the market are large banks, community banks, and the growing emergence of online options.

Local community banks have historically been a step ahead in developing relationship-based lending for small businesses. With local ownership, control, and decision-making credit committees, they tend to dominate the relationship market. Knowing the borrower's character, the collateral, and the community's needs provide a competitive advantage to make sound credit decisions.

The local community banks one option and online lenders are becoming more popular as businesses look to access funds in shorter timeframes. In many cases processing online loans is less than a week from start to finish. As business leaders become comfortable banking online, they are less averse to pursuing the many online opportunities that are now presenting themselves. 24% of small business owners submitted financing requests to online lenders, according to a 2017 U.S. Federal Reserve Banks survey, increasing 3% from the same study conducted in 2016.

Of course, we cannot fail to mention the PPP and disaster loans that have been made available to small businesses this year. The paycheck protection program (PPP) has been a literal lifesaver for many companies who saw revenue plummet due to government-imposed stay at home orders.

The trend before COVID was for more government back lending. The Small Business Administration (SBA) has seen an increase in loan levels over the years, with numbers released for FY17 showing the approval of over 68,000 loans and \$30 billion for small businesses across the entire United States. A year over year increase of 4,000 commitments and \$5.9 billion from the FY16 levels reported. Loans that the SBA backs include 7(a) loans for small businesses that need working capital; CAPLines for lines of credit; disaster loans; and even microloans for firms seeking a small amount of working capital to shore up their cash flow.

These SBA loans provide a healthy boost for many small businesses, and we hope to see Congress continue to fund these programs to assist with economic recovery.

Small business owners continue to seek financing from both big and small banks as their first option. Responses of 48% and 47% for large and small banks respectively according a 2017 survey from the U.S. Federal Reserve Banks. Companies often find comfort in being able to build a relationship with a lender. Building relationships is most accessible at a brick-and-mortar bank, where a business owner can discuss their funding with the same team. Rather than dealing with someone different over the phone each time, businesspeople can speak with someone who understands their business and their loan.

As the U.S. economy attempt to recover, we will hope to see lending practices favorable to small businesses. Funding will likely hinge on the repayment source and how many paradigm shifts in our society will impact that cash flow. Commercial real estate, for example, may struggle as the actual long-term work-from-home practices shake out. There are many second-order effects to repayment that each business leader and banking lender must contemplate. Banks are conservative organizations and look for credit policies to tighten.

# How to Choose a Bank

Every business owner dreads switching banks, so avoid the headache by selecting a good bank. The process can be overwhelming since the number of choices has increased substantially with the rise of online banking. It is essential to pick the bank that you need today and for the foreseeable future, not the bank you might need five years from now. Yes, you can switch banks, and never merely live with a bad bank. Switching is surely not impossible.

A growing trend in the market is for businesses to have multiple banks to service select business aspects. The banks are specializing based on the market or services they provide. You may have a checking account, yet need another bank to handle your foreign transactions. Opening a second account versus moving your entire business is a good option.

## **What do you need from your bank?**

The first step is to examine your banking needs by reviewing the last six months to a year of business.

1. How often did you send wires?
2. Do you need mass ACH payment ability?
3. What is your typical average balance?
4. How big and how many deposits do you make?
5. How much do you spend each month and how do you spend it?

By knowing these kinds of questions, you will evaluate the options you find for the services you need. Secondly, you can examine the fee schedules of the type of account you are considering to calculate your anticipated expense.

## **How often do you visit a branch?**

Are you an online or offline person? As small business owners, we have many options for both online and offline banks and even more hybrids. Of course, every brick-and-mortar bank has online banking at this point. Do you need access to a branch daily? It is likely that an excellent brick-and-mortar bank is available to you but may not have branches in your backyard. If you only need to visit a branch a few times a year, it might work to drive an hour to the closest branch. Then you may never need to visit a branch, and an online-only bank could be your best choice.

The online or offline question should not be your first filter. You could end up picking a bank that has lots of branches that you never set foot in because you do everything online. Instead, make a list of the services you need and find the best bank that offers those services. Having a friendly bank teller might be a service you want and allow that to influence your selection.

## **What are banking services most essential and needed?**

Generally, the larger banks have the broadest array of service and account options due to their size and depth of coverage. The smaller community banks will connect to you more as a neighbor and may hear out a problem with more compassion should one arise. Waiving an overdraft fee is more likely to happen when your kids play on the same little league. Although the market is changing and some of the online banks are pushing hard to feel.

## **A bank is a business and charges you fees, so what is it going to cost?**

With the services you need and an initial list of bank options, you can compare the fees they charge you. Especially at the larger banks, it is crucial to select the correct account type for your needs. Pay close attention to the funds' availability rules and walk through how it impacts your business. Many options with zero fees in raw dollars make up for it by restricting access to your funds. Do you deposit cash or even coins, and is this allowed? You have to be detailed about your business's needs to be sure the account works for you.

## **Can you make money by banking with the right bank?**

Every bank needs deposits to function, and most are willing to pay you interest to keep your money with them. If your business has significant deposits, you should use



this to your advantage when selecting a bank. The earnings from savings deposits or minimum balances can often offset fees and other charges the bank may have. The total net gain is relevant, not just the initial interest rate since fees can eliminate it.

Online banking reviews are very popular and are available for every bank. Be careful to consider the reviews from business owners instead of just consumers. As a business owner, your needs are very different from a typical consumer. JD Power offers a banking rating based on the responses of business owners. Compare your selections to the rankings to see how they come out.

### **Step away from the computer and talk to some people.**

Now that you have an initial list of prospects, get away from your computer and do some real visits and networking. Visit a branch and ask to speak with the branch manager to get a feel for the bank. Discuss what you have found and listen for any better options you may have overlooked. You do not have to open an account today. By visiting the branch, you can determine if it is a good fit for you and your business. There is a vibe at every bank, and every bank is different. You will be able to determine if it is what you like.

Talk to your friends and colleagues to find out their experiences and which banks they use. It is best to find similar size and style businesses like yours when doing this. Your friend Susan might have a great relationship with her bank, but she runs a \$50M import/export business that is nothing like yours. You will not have the same experience as her unless you also have a company like hers. Go deep and find out what they actually like, or are they just settled with their bank.

# Great Banking Options

We've listed here a selection of banks that we really like right now. Each has unique benefits and may not fit your business exactly. Others could be a perfect option—just a few to put on your radar and listed in no particular order.

1. Azlo Bank | [azlo.com](https://azlo.com)
2. Novo | [banknovo.com](https://banknovo.com)
3. Chase | [chase.com](https://chase.com)
4. Seed | [seed.co](https://seed.co)
5. NorthOne | [northone.com](https://northone.com)
6. Radius | [radiusbank.com](https://radiusbank.com)
7. Axos | [axosbank.com](https://axosbank.com)
8. NBKC Bank | [nbkcbank.com](https://nbkcbank.com)
9. Huntington Bank | [huntington.com](https://huntington.com)
10. Mercury | [mercury.com](https://mercury.com)
11. PNC | [pnc.com](https://pnc.com)
12. BB&T / Truist | [bbt.com](https://bbt.com)

## Documents needed to open a bank account

Here is a list of items you need to open a bank account. Of course, each bank may have its own unique requirements. This should get you 95% there.

1. Articles of Organization (LLC) or Articles of Incorporation (Corporation)
2. Employer Identification Number
3. Operating Agreement (LLC) or Bylaws (Corporation)
4. Proof of ID - Generally Two Forms Required With One Having a Photo