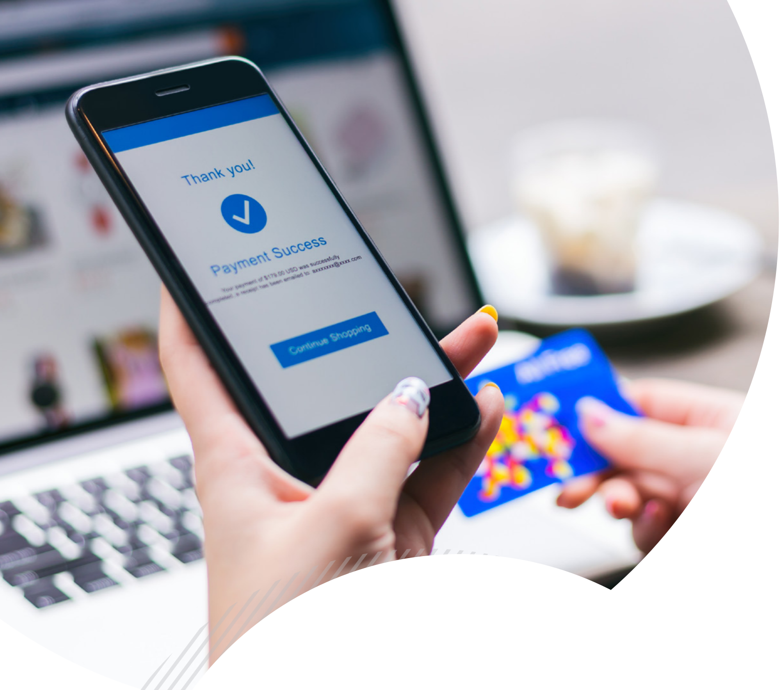
WHITE PAPER

The Onboarding Opportunity:

The Need for Better Business Banking and Account Opening Experiences



Well over 80 percent of small business owners or operators have adopted online banking and over 40 percent are engaged in mobile banking—and these numbers continue to rise.

Business banking users—whether we're talking about a mom-and-pop's part-time manager, a stay-at-home parent with a side hustle, or a thriving professional practice—are not that different from consumer banking users. They go home to binge Netflix, make quick buys on Amazon, and use their smartphones more and more every day.

They've come to expect a certain kind of user experience—intuitive, frictionless, and mobile. But a lot of business banking solutions seem to ignore these expectations.

In the following report, we'll look at factors driving the need for improved business banking experiences, the benefits of reducing friction throughout customer journeys, and how to better compete with experience-driven fintech solutions for small businesses' financial service needs.

I. What's driving the need for small business digital account opening?

Small business owners and operators are busy. They manage employees, obsess over cash flow and inventory, handle marketing, fulfill orders, provide customer service, and take care of countless random items that pop up.

They can't spare the time to sit down for an hour-long chat with a bank relationship manager. They don't want to push anything off their already-full plates to spend time on the phone or at a branch to open accounts or expand their existing relationship. However, as digital account opening (AO) capabilities for consumer accounts have evolved in recent years, AO for small business has lagged behind. This is puzzling, as this customer base has a lot of potential value—arguably a fair amount more than consumer accounts.

The conventional wisdom of financial institutions (FIs) is that they need to protect face-to-face relationships with small businesses. After all, according to Javelin, currently just about 30 percent of businesses begin account applications in the digital channel, while roughly 60 percent open accounts in a branch. At the same time, almost 80 percent of businesses visit branches regularly and 40 percent report having a relationship manager. So, there does seem to be a relationship to protect.

It's also important to note that even face-to-face relationships are supplemented and complemented by digital features and/or online research of FIs and solutions. Well over 80 percent of small business owners or operators have adopted online banking and over 40 percent are engaged in mobile.

All of this said, there's a disconnect between what small business owners and operators are doing digitally versus in-branch—and what they'd prefer to do. Fully 80 percent of them want to do their research into banking via online and mobile, and half would prefer to open accounts completely through digital channels—while only 46 percent prefer seeking out a branch to open their account.

There's a case to be made that these percentages will skew further towards a preference for business AO if:

1) business digital account opening becomes easier, with improved user experiences,
2) owners and operators become more comfortable with the idea of opening accounts online, and
3) FIs put a greater focus on making the particulars of business accounts—like minimum balances, allowable transactions, and available services—more accessible and clearer through digital channels.

Digital isn't going away. And, while no one should fully write off brick-and-mortar branches or face-to-face relationships, reducing friction and supporting the digital banking needs of busy business owners can only help onboard more businesses and sell more services while helping FIs grow their market share of valuable business banking accounts.

II. The digital account opening Slip 'N Slide: Creating an optimal customer journey.

The conventional wisdom about first impressions is especially true in digital channels—where other options are available with a simple click or swipe. These digital first impressions can be particularly tricky for financial institutions (FIs), especially when courting small businesses—because small business account opening (AO) is a somewhat asynchronous process. It requires:

- document submission,
- KYC (know your customer) procedures,
- ID proofing,
- credit checks, and
- signatures (potentially from multiple parties).

It's extraordinarily rare that a small business owner seeking out digital AO has the time to apply, navigate KYC and ID requirements, submit documentation, and fund their new account in a single online session. In fact, most business owners expect personal service or want a relationship manager to walk them through the process and ensure everything is done properly.

That said, there are a wealth of opportunities for FIs to streamline processes and reduce the friction of account onboarding with tools and workflows for the digital channel. And, doing so also gives them the opportunity to introduce online and mobile solutions that their freshly onboarded business account holders later use or purchase. Javelin Strategy & Research has observed up to 50 percent increases in usage of digital services when they are introduced immediately upon the funding of an account. There is a high potential for increased profitability as well.

In 2017, Javelin reported on the small business digital AO offerings of the top-30 FIs in the U.S. The report found a wide variance in the approaches the FIs took to help new account holders research and acquire services—as well as varying degrees of success in their approaches. Many FIs presented very basic information about account options, but there were very few that took additional steps to make the process easier. It's important to note that 73 percent of small and medium-sized businesses use the biggest 25 banks in the U.S. This leaves over 11,000 community FIs fighting for the business of that remaining 27 percent. Better AO and onboarding may not only help these smaller FIs compete with other community FIs but could also potentially make them more competitive against larger banks—many of whom are having mixed results with their own AO.

The process should be completely frictionless, free of bumps or hazards that slow or hurt the user, and refreshing and quick.

To make this happen, FIs shouldn't wait for business owners to call or come into their branches; they should make it easy for prospects to fully understand the application process and what different kinds of accounts and services are available to them. Having simple FAQs or comparison grids available in digital channels can make a significant difference here—as can briefly spelling out the process and requirements for creating a business account.

Providing guidance and setting expectations can go a long way towards reducing friction and abandonment. Think of the application process like a perfect Slip 'N Slide experience.

The process should be:

- completely frictionless,
- free of bumps or hazards that slow or hurt the user,
- refreshing and quick.

To carry that analogy a little further, your guidance should provide the traction required to build up speed before users hit the "slippery" part of their journey. Business owners can then slide easily through the application/checkout process.

Small business owners are looking for FIs to guide and educate them. Providing information, processes, and requirements is a great start to that relationship—and it sets the stage for engagement both online and off.

III. Silent churn: The threat is real.

A lot of FIs, especially community banks and credit unions, have become their account holders' primary FI in name only. While the FI may hold checking accounts for their customers and members, they're losing out on the most profitable products—like credit cards and mortgages—when their account holders seek out secondary banking relationships based on convenience.

We often associate this silent churn with consumer accounts, but it poses a threat to FIs offering business accounts as well—especially as fintech continues to disrupt an increasing array of financial services.

In fact, one the greatest threats of silent churn comes from "neobanks"—fintech companies with the backing of traditional banks that are able to offer front-end, mobile-centric financial services. Most of these are consumer-focused, due to the greater complexity associated with business services, but a 2018 Javelin Strategy & Research report outlines numerous neobanks that are effectively targeting businesses.

The business areas neobanks are focusing on include:

- **Accounts receivable and invoicing.** The ability for small businesses to create invoices in-app, rather than rely on tools outside of their banking application, can streamline bookkeeping and help users reconcile their invoices quickly and easily.
- **Business tool integration.** Apps that integrate with payment tools like Stripe or enable exports of transactions to Excel, QuickBooks, or other accounting tools can drive efficiency for time-strapped small business operators.
- **Digital onboarding.** Online account opening helps small business owners avoid trips to bank branches during business hours, waiting in line, gathering various forms of ID and data (e.g., tax ID numbers), and filling out multiple paper forms.

Providing information, processes, and requirements is a great start to that relationship—and it sets the stage for engagement both online and off.

- **Lending.** Some neobanks are embracing the alt-lending innovation of companies like Kabbage and are offering small businesses a "living, breathing" line of credit.
- **Card controls.** Companies like Qonto and Bento have focused almost entirely on startup and freelancer business accounts and cards that can either replace or supplement existing business banking accounts.

Luckily, silent churn can be controlled, if not fully prevented. But to maximize the value of being their account holders' primary FI and promote the cross-sell of profitable products, FIs must:

- upgrade their digital capabilities, including onboarding and cross-sell competencies,
- offer (and market) comprehensive services, in-branch and online,
- and demonstrate to account holders the value of keeping all of their financial services under one roof.

Recapturing these "lost" account holders isn't easy, but it can often be avoided from the get-go by removing the friction from account opening and using AO as an opportunity to introduce additional services. A frictionless, comprehensive, and positive onboarding process can translate to better engagement in the long term, greater retention, and increased profitability.

About Q2

Q2 is a financial experience company dedicated to providing digital banking and lending solutions to banks, credit unions, alternative finance, and fintech companies in the U.S. and internationally. With comprehensive end-to-end solution sets, Q2 enables its partners to provide cohesive, secure, data-driven experiences to every account holder – from consumer to small business and corporate. Headquartered in Austin, Texas, Q2 has offices throughout the world and is publicly traded on the NYSE under the stock symbol QTWO.

For more information, go to Q2.com or call (833) 444-3469.