

The Top Business Banking and Digital Lending Trends in 2021

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For small businesses, banks, and the other lending sources that serve them, 2020 was a particularly tumultuous year. The coronavirus rampaged through the country, leaving very little — including business banking — untouched.

Banks were transformed by the pandemic—creating, reinventing, and embracing new practices and systems on-the-fly. This impacted business banking solutions, altering the digital lending landscape.

Going forward in 2021, it is clear that business banking will be transformed by digital banking practices that have grown in importance due to the pandemic's effects. Digital-first will be how most banks reimagine their strategy, and digital lending will be the natural place to start.

How COVID-19 Affected Business Lenders and Borrowers

When the coronavirus erupted around the world, no one knew what to expect. Once it became apparent the virus was not going away anytime soon, the impact on small businesses was immediate, affecting personal and business service companies, retailers, restaurant owners, and more.

Worried about massive layoffs, the federal government introduced the Paycheck Protection Program (PPP), which offered low-interest loans to businesses. The loan would be [forgiven](#) if the money was used to maintain staffing levels and pay business expenses. Businesses flocked to the program, which was good for them but especially challenging for some lenders.

Commercial Banking Challenged by PPP

Many lenders couldn't handle the initial flood of Paycheck Protection Program (PPP) applications. As *American Banker* reported, "The [program's final guidance wasn't released](#) until less than 12 hours before PPP went live, giving banks minimal time to prepare."

To cope with the record number of loans they were processing and the ever-changing PPP regulations, banks needed to create new, flexible internal systems to assess the risk of the loan and process it quickly once they accepted the applicant.

Even assessing the risk of making the loan was more complex than usual. In addition to the standard risk assessment protocol, banks had to consider the new rules from the SBA and the Federal Reserve, which nearly doubled the number of variables they had to consider.

Plus, since the loan forgiveness requirements were dependent on employee retention, lenders had to keep track of the payroll and healthcare expenses of all the businesses they approved for the loan.

Anxious business owners got angry. One told *The Wall Street Journal* she broke up with her [bank of 10 years after they ghosted her](#). She said, “Why would I work with a bank that was so unhelpful to me at the moment I needed it?”

She wasn’t the only one. SMBs complained the big banks favored lending to bigger clients. Frustrated, many turned to smaller banks, community banks, and alternative lenders. While the smaller banks and digital-first lenders were also frustrated by the process, receiving new guidance and FAQs daily, they were nimble enough to retool their systems, speed up the application process and make the loans.

Digital Business Lending Ramps Up

The increased use of digital lending solutions during the PPP allowed smaller lenders to pivot quickly. While large banks were sometimes getting in their own way and their IT solutions were causing more challenges than they solved, many small lenders were able to stay nimble by using software that was purpose-built for making loans online. Chris Marinac, director of research at financial services firm Janney Montgomery Scott told *USA Today* that newer technology helps [level the playing field for smaller banks](#). While the SBA extended the PPP loan deadline until May 31, 2021, (President Biden announced [program changes](#) to make access to PPP loans more equitable), smaller banks and lenders are trying to keep the customers who switched to them during the pandemic (whether temporarily or permanently). A survey from Barlow Research Associates, a market research company, shows [28% of businesses that got PPP funds](#) received the money from a lender they had no prior relationship with. And 44% of those businesses say they’d move at least some of their business accounts to that new bank. How can a bank convince them to do that? Digital solutions seem to hold the key. A report, *The lending revolution: How digital credit is changing banks from the inside* from McKinsey and Company says, “the [digital transformation](#) of end-to-end credit journeys including the customer experience and supporting credit processes,” has become a priority for many banks. Why? According to the report, “Credit is at the heart of most customer relationships and digitizing it offers significant advantages to banks and customers alike. For the bank, successful transformations enhance revenue growth and achieve significant cost savings.”

Small Business Needs Are Mostly Digital

Business owners are in a precarious position. According to [Alignable’s April 2021 Road To Recovery Report](#) 48% of SMBs still earn less than half of their monthly, pre-COVID revenues and 37% predict they won’t match their pre-COVID monthly revenues until at least 2022—or 2023.

When it comes to their business banking needs, the list of business banking services small business owners want is long and goes beyond traditional banking services, such

as credit cards, and debit cards, business savings, and business checking accounts, and merchant services.

They're looking for lenders that offer cash management strategies, financing options, access to business loans, and lines of credit. They want robust business online banking solutions so they can access their bank accounts 24/7 and a mobile app to help them manage it. SMBs are looking for advice about surviving the COVID-19 slowdown, increasing revenues, managing cash flow, and preparing for an eventual recovery. SMBs are not a monolith. Their needs vary; some want payment processing services, others want wealth management advice. Most want a relationship with someone at the bank they can turn to for answers.

The J.D. Power *2020 U.S. Retail Banking Satisfaction Study*, released last spring, shows that pre-pandemic, [52% of retail bank customers were "branch dependent."](#) Safer-at-home policies restricted access to branches, so many banks were forced to step up their digital lending and mobile banking offerings. Paul McAdam, senior director, banking intelligence at J.D. Power, says, "It will be important for retail banks to replace the in-person service they would have provided with personalized [business banking] services delivered through digital channels. Given the technology available to banks, customer pain points should be easy to address."

Business owners want access to remote services, but Accenture says [most banks don't think offering remote services is scalable](#). This is a major opportunity for banks that are ready to become the kind of bank that business clients really want. Smart bank leaders will use 2021 to launch pilot programs to test this concept.

The 2021 Digital Business Lending Journey

In 2021, to maintain their financial health, banks and other lenders must embrace and adopt more digital solutions, starting with "time to decision." McKinsey's *The lending revolution* report says the "time to decision" when making business loans in traditional banks is between 3 and 5 weeks, and the average "time to cash" is almost 3 months. But, "leading banks have embraced the digital-lending revolution, bringing "time to yes" down to 5 minutes, and time to cash to less than 24 hours."

Digitization, according to McKinsey, also provides opportunities to significantly improve the customer experience. According to a post on the McKinsey blog, banks once assumed delivering better customer experiences cost more money, but they've learned that providing [better customer experiences](#) leads to more revenue and a lower cost to serve.

Essential Digital Banking Tools in 2021

Customer satisfaction has climbed to a record high this year, according to the just-released J.D. Power *2020 U.S. Small Business Banking Satisfaction Study*. However, smaller businesses (with annual sales below \$2.5 million) have "significantly lower satisfaction scores" than their larger counterparts.

McAdam says, "That's a sign many banks still need to refine their small business formulas to address this highly diverse market."

Customer satisfaction improves significantly when the business is assigned a dedicated account manager. But, the report adds, “banks must find ways to improve the [service they] provide to customers without an assigned account manager.”

And if they don't? Accenture research shows 42% of SMBs think alternative lenders provide better banking services than traditional banks.

Today, banks want a bigger share of the entrepreneurial market. To win SMBs' trust, Accenture says banks should be more empathetic, responsive, focused, and efficient.

Benefits of Digital Lending

Digital lending benefits everyone. For businesses, digital lending offers more lenders and lending options (like invoice financing and a line of credit) to do business with, quicker loan approvals, and disbursement of funds.

For banks, digital lending:

- Increases efficiency
- Reduces credit risk
- Saves time and money by eliminating potentially costly mistakes by using automated processes
- Increases efficiency. They can originate, approve and pay out a loan in minutes
- Gives them access to crucial data collection by using lending automation software

Digital Lending Landscape in 2021

Where are we headed? All systems are go for the accelerated growth of digital business banking and lending in 2021. McKinsey's *The lending revolution* explains that banks are now treating SMB lending as a digital priority. “The reasons are clear: ...the opportunities to improve customer experience are significant. Furthermore, both traditional banks and fintechs already offer compelling digital propositions in SMB lending, featuring dramatically shorter approval and disbursement times—a key factor for customers when choosing a lender.”

Clearly, 2021 is going to be a year of intense digital transformation in business banking. Bank leaders should prepare for the new landscape and use digital lending as the catalyst for future success for their institution.