AMOUNT

# Seizing the Small Business Banking Opportunity

Building a profitable small business program requires a vision and technology strategy that can capitalize on uneven market conditions

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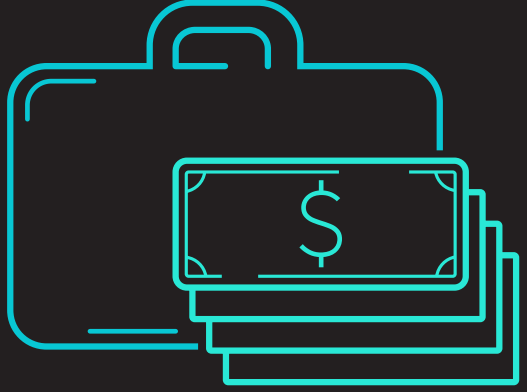

As financial institutions look forward to setting their strategies for 2024, many are now working under the assumption that the elevated interest rate environment will be the new normal for the foreseeable future.

For the small business banking sector, things at first glance may seem particularly grim. A survey of senior loan officers by the Federal Reserve Board in May 2023 showed that nearly half of financial institutions are tightening loan standards for small businesses. Further compounding the issue is that in a higher interest rate environment, small business owners naturally become more reluctant to borrow as they recalibrate cost calculations and growth plans.

And yet, even as small business owners are adjusting their plans in this new economic reality, they remain an attractive segment that banks should be courting. According to the US Chamber of Commerce's Q3 2023 Small Business Index, 65% of small businesses say the overall health of their business is very or somewhat good, up from 59% last quarter.

While it's become easy for many to point to the overall economy as an excuse to continue to shy away from the small business sector, it has created an immense opportunity for the financial institutions that have the vision and ability to step up to seize these attractive, larger deposits and build a high-volume, profitable SMB book of business.

The importance of having the right technology in place cannot be overstated when it comes to delivering the ability to deliver on that vision.

**First step of a technology-driven SMB strategy: identify the "profitability chokepoints"**

While financial institutions in recent years have adopted emerging technologies such as digital loan origination capabilities, there remains a significant untapped technology potential in areas like automated loan underwriting and the use of more robust data and analytics in the institutions' credit models.

From a technology standpoint, any financial institution seeking to grow a healthy SMB customer base would be wise to take a step back and assess the profitability chokepoints that need to be addressed on the path to success.

These profitability chokepoints include:

- Manual processes: higher application volumes require armies of employees to originate loans, creating friction-filled, daisy-chain loan origination experiences. As such, the cost per funding is not sustainable for high volumes. Customers must come to a branch if something goes wrong in the process.
- Time is money: for many financial institutions, it still takes weeks to process a loan and sometimes years to launch a new program or product.
- Margin preservation: imprecise credit decisioning increases fraud and default risks, eating away at profitability.
- Increased Competition: new and existing customers have more choice in their financial services today than ever before.

Lenders must alleviate these chokepoints to establish and maintain the profitability of their small business programs. If not done in a way that's efficient, compliant, and provides an exceptional customer experience, the material risks are real:

- 53% of customers abandon online applications, resulting in missed revenue.
- 75% of fraud losses are not recoverable, depleting margins.
- $34 million is the average fine for compliance infractions.

**Combatting chokepoint to build a superior SMB customer experience**

Today's financial institutions have a digital account-opening experience problem. While most institutions have mastered the initial application process, the majority still have gaps in their backend decisioning that prevent applicants from reaching a satisfactory conclusion to the loan process. Financial institutions must first address the gaps in their backend processes to provide a superior customer experience.

We break this into three key areas:

1. Fast and accurate loan decisioning
2. A balance of digital vs. human oversight
3. Empowering the bank employee

*1) Fast and accurate loan decisioning*

Amount's Cognitive Decision Engine and AI-powered model performance, part of our new Digital Origination and Decisioning Platform, provides financial institutions with built-in credit decisioning and fraud solutions. This integration with an institution's current system significantly reduces the number of fraudulent applications funded and improves overall profitability.

In a recent example, Amount collaborated with one of our clients to build a custom credit model for their new and expanding digital loan product. The custom model allowed the client to identify credit risk more accurately, leading to more accurate pricing. As a result, they achieved higher conversions for the best customers, and the appropriate level of digital verification friction for higher risk populations. This ultimately allowed them to massively grow their portfolio by opening new channels, reducing operating expense, improving customer experience, and achieving higher profitably.

*2) A balance of digital vs. human oversight*

Our AI-powered model allows for the right mix of digital and human oversight on loan applications.

For example, if an existing customer with a high credit score and large deposit base at a financial institution applies for a $100,000 loan, an institution with a robust digital mitigation strategy in place will streamline the application's approval with no roadblocks. The bank or credit union can do so because it ingested and digested critical customer data and created a policy that ultimately determines the automated path an individual customer will take during the online application process.

On the other hand, an applicant with a subprime credit profile or that has underwriting red flags would trigger more enhanced due diligence from the bank to clear. Regardless of the situation, Amount's platform is built in a way to provide financial institution employees the necessary data and tools to approve "higher" risks applicants in a timely fashion with confidence.

*3) Empowering the bank employee*

Amount’s platform not only helps to streamline the digital application process for new and existing customers, but there are benefits on the backend for financial institution employees, particularly in an in-branch environment.

If an employee submits an application on a customer’s behalf, Amount’s platform is built in such a way that it will prompt the employee to submit additional data if needed. This can range from documents like additional tax returns, or multiple months of bank statements. It’s a task-based approach that helps the employee identify necessary additional data needed to approve the application. The approach is powered by the intelligence built into the platform, but also configurable based on the bank's own policies and procedures.

The end result is intended to efficiently handle a higher volume of applications and scale the portfolio. This efficiency also frees up employees to have more time to deliver personalized customer service and interact with the customer to build a longer-term relationship.

**Knock-on benefits of a technology-driven SMB program**

Building and running a high-velocity SMB program can contribute to the overall health of the financial institution in a number of other ways.

A key knock-on benefit that comes with a bigger SMB book of business are the deposits that usually come along with it. In a time when financial institutions are still skittish about bank runs and fleeing deposits, SMB deposits are arguably stickier, and in turn, safer. This can also help fuel additional product opportunities.

SMB lending also provides financial opportunities and an opening to deepen customer relationships across other consumer product lines, bringing more overall value to those deposits and opening up valuable cross-sell opportunities.

## The right technology partner can provide the Performance Advantage

Historically, the choices available to financial institutions to combat these profitability chokepoints have been limited.

Do-it-yourself systems are resource-intensive with long implementation times and are often rigid and difficult to modify. Point solutions yield integration headaches, vendor management overhead, and high customization requirements. Alternatively, patching legacy loan origination systems don't scale, and its one-size-fits-all approach can't meet today's experience demands.

But that sentiment is changing. Many financial institutions are already on their way to digital lending modernization via the partnership model. More financial institutions than ever before are partnering with fintech companies like Amount to launch new products faster and in a more cost-efficient way. These banks and credit unions have realized that diversifying their product lineup with a high-level of detail on the digital customer experience, while balancing risk and profitability hurdles is the path to take to drive growth and combat market dynamics.

Financial institutions should view their technology partners as trusted advisors and sources of expertise to help gain a critical performance advantage when pursuing a new product strategy or entering a new market.

## Amount's SMB banking wellness check

Amount can help a financial institution reach that goal and is already doing so with many large commercial banks. But the flexibility of our offering also means we are able to make our enterprise-grade platform accessible to middle-market banks and credit unions. We offer end-to-end lending and deposit products that utilize the full platform and API-based platform services that seamlessly integrate with existing inhouse systems.

Going forward, financial institutions across the spectrum must understand that innovation and adaptability are crucial to driving success in the digital age, and competing with confidence. With Amount, you can be up and running in less than 90 days, achieving rapid time to value and seizing opportunity regardless of the market conditions.