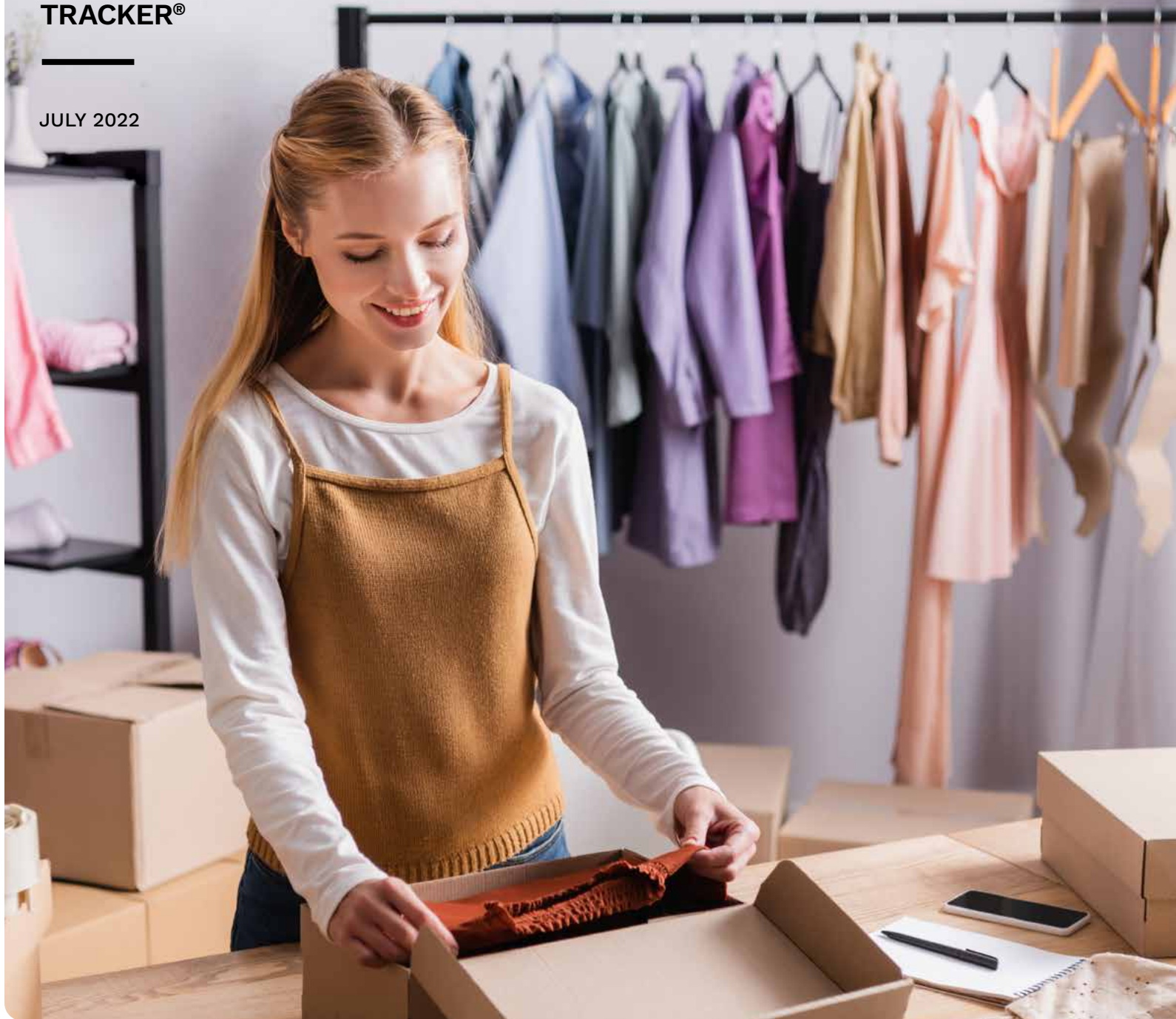


# NEXT-GEN COMMERCIAL BANKING

TRACKER®

JULY 2022



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TD Bank on meeting SMBs' digital needs

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How FIs can maintain SMB customer loyalty with robust digital offerings

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# NEXT-GEN COMMERCIAL BANKING TRACKER®

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## ACKNOWLEDGMENT

The Next-Gen Commercial Banking Tracker® was produced in collaboration with FISPAN, and PYMNTS is grateful for the company's support and insight. [PYMNTS.com](https://pymnts.com) retains full editorial control over the following findings, methodology and data analysis.

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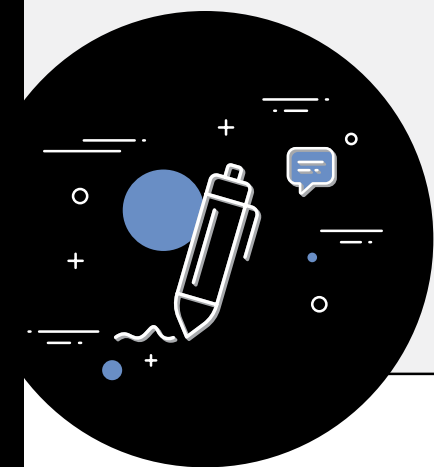
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## EDITOR'S LETTER

# NEXT-GEN COMMERCIAL BANKING TRACKER®

Though the pandemic did not initiate banking's digital transformation, it rapidly accelerated the trend toward digitization. Due to the pandemic's many disruptions, there has been an extraordinary growth in the adoption of online banking tools. One [report](#) estimates that the pandemic has sped up both consumers' and businesses' adoption of digital banking by five years. Digital banking solutions have now become so widespread and important that what businesses have come to expect from their financial institutions (FIs) has fundamentally changed. This change has been especially notable for small to mid-sized businesses (SMBs).

Instead of merely having access to online bank accounts or payment rails, many businesses seek FIs that can take digital integration to a deeper level. Companies increasingly want FIs that can integrate financial products and services directly into their accounting tools. These products and services must allow companies to send and receive both data and funds securely and easily. Many firms now [utilize](#) cloud-based enterprise resource planning (ERP) systems, for example, enabling them to conduct accounts payable (AP) and accounts receivable (AR) processes in a quicker and more transparent manner. Quite simply, businesses want to access emerging technologies to stay competitive in the digital-first world that the pandemic helped usher in.

Businesses are also [looking](#) for their FIs to meet them where they are in their digital transformations. Banks must ensure that banking services can connect easily to cloud-based ERP systems, with application programming interfaces (APIs) being one of the best tools to offer such connectivity. This is especially true now that FinTechs [offer](#) an ever-expanding array of virtual tools, many of which utilize APIs to create a seamless banking experience. One [study](#) found that 72% of FIs have seen an increase in the use of API-based connections in corporate banking since the pandemic's onset.

Banks seeking to earn and maintain their business customers' loyalty in this digital-first ecosystem must rethink their approaches to corporate banking, providing not only the digital tools and services SMBs have come to expect but also the guidance and expertise they need to navigate the changing payments landscape.

This edition of the Next-Gen Commercial Banking Tracker®, a PYMNTS and FISPAN collaboration, examines how banks can secure their SMB clients' loyalty in a digital-first world. It explores the importance of offering tools such as APIs both to meet SMBs' needs and to stay competitive with FinTechs' digital offerings.

Thought Leadership Team

PYMNTS.com



# TD Bank On Meeting SMBs' Digital Needs

## SMBs HAD BEEN GRADUALLY EMBRACING DIGITAL SOLUTIONS FOR YEARS.

Then the pandemic hit. A world of closed stores, shuttered offices and remote workforces forced many SMBs to adopt digital solutions to keep operating. Digital tools became indispensable, and they remain so even as pandemic-related disruptions abate.

Running and growing a business is challenging in the best of times, and the pandemic has only added to the difficulty. Business owners are looking for tools and services to improve efficiency, raise productivity and guide decision-making to overcome these challenges.

“SMBs expect their FIs to make it easy to pay and get paid in convenient ways for their customers,” Paul Margarites, head of commercial digital platforms at [TD Bank](#), told PYMNTS in a recent interview.

Margarites explained that SMBs expect — and need — financial service providers to offer digital solutions now more than ever. FIs seeking to strengthen relationships with SMB clients and attract new customers must meet the rising demand for digital solutions. To do so, FIs must understand SMB expectations and needs and identify where FIs are not doing enough to meet them.

### WHAT SMBs EXPECT

Margarites said that SMBs today want to send and receive funds quickly and securely across multiple payment rails, and FIs not currently supporting a range of digital

payment methods — including real-time payment functionality — should explore doing so. Cash management solutions are another critical focus area for SMBs. Businesses are increasingly replacing manual, paper-based cash management processes — known to be slow, inflexible and prone to errors — with more effective digital solutions.

“Treasury teams must operate efficiently to appropriately manage their liquidity and ensure the business can grow,” he said. “To continue to operate effectively, they need tools that will improve automation and reduce the chance of errors.”

The best treasury tools automate parts of the cash cycle while also providing business owners with data and analytics to guide decision-making.

“The context of a client’s current financial position and the ability to move money within that context is critical to our client’s ability to manage their businesses,” Margarites explained.

He noted that business customers now expect FIs to offer treasury solutions that provide this context and aid decision-making.

INTEGRATION IS KEY

All businesses, regardless of size, want to access digital platforms easily, securely and on their own terms, Margarites said, but the need for connectivity and integration is even greater for SMBs. Smaller firms have limited funds to invest in expensive infrastructure projects and often lack the in-house expertise needed to get complex digital systems up and running.

“In speaking with our clients, the theme of integration has been front and center,” he said.

FIs should therefore pay considerable attention to integration when designing products and services. FIs need to realize that an online payment or treasury solution packed with powerful features is not that useful if a company cannot easily integrate it into its workflow. It is important to meet SMBs where they are, he emphasized, and this entails knowing their level of expertise and comfort with

online tools, their current business infrastructure and their short- and long-term business objectives.

“The more integrated [they are] into the [software-as-a-service] ecosystem and real-time capabilities, the less time small businesses are spending on manual tasks and the more time they have for scaling their businesses,” Margarites said.

Proper integration should allow users to move seamlessly between essential business systems. This means that there is integration between the banking platforms and ERP systems, he noted, as well as integration between the bank and other banking or FinTech platforms. When done correctly, integration results in a frictionless workflow that reduces errors, increases controls and improves efficiency.

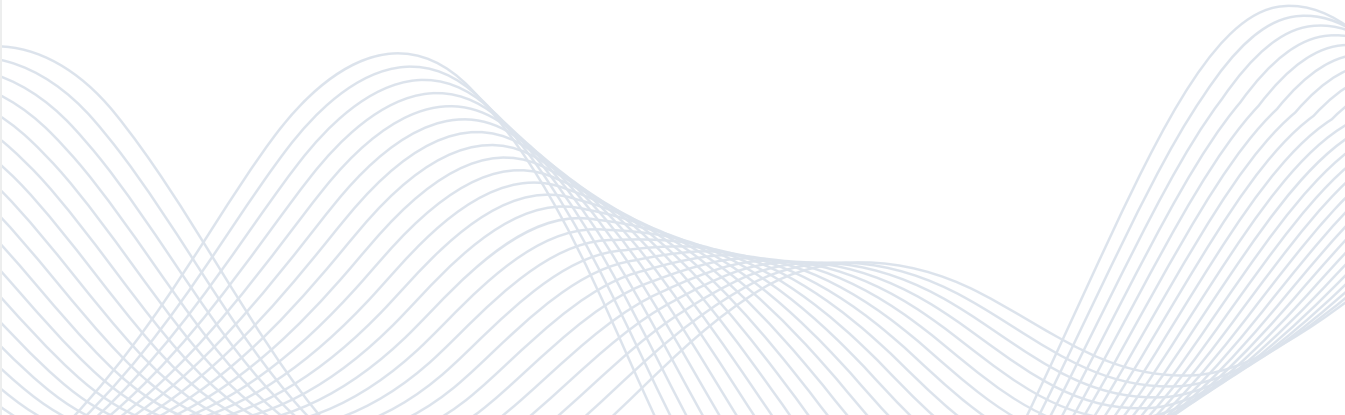
ROOM FOR IMPROVEMENT

Though FIs have made many improvements to their digital strategies, there is still work to be done. According to Margarites, while banks are getting better at integrating into client systems, the lack of integration is the biggest shortcoming in FIs’ digital portfolios for business customers.

“The most significant gap I’m seeing is around bringing the full view of the client directly to them, where they want it,” he said. “Clients still don’t have access to the full spectrum of banking products and services as well as their own data to provide them with the key insights and information they need in a single, well-integrated connection to manage their business.”

It is never too late for FIs to address gaps in digital offerings, but they should address them soon, as traditional banks and FIs face stiffer competition than in the past. FinTechs, digital-savvy neobanks and even other FIs are eager to step into this void to meet SMBs’ digital needs. By putting better integrations at the forefront of their digital strategies, FIs can empower SMBs to take real-time actions, improve productivity and reduce reliance on cumbersome legacy tools and processes, Margarites said.

“My recommendation to FIs [is to] focus on bringing the banking experience to SMBs and allowing the context of their financial position to drive their decision-making,” he concluded.







# Q&A

**CLAIRE ROBINSON**  
Vice president, product



## NEXT-GEN COMMERCIAL BANKING TRACKER®

### How has the pandemic changed the relationship between SMBs and their financial services providers?

SMBs — like every other market segment — want automation. They expect their digital banking experience to be intuitive, simple and without burden. They are looking for the same data points that their midmarket counterparts have access to in order to make financial decisions. They want improved visibility into their cash flow management, predictive analytics on their expected future position and automated insights into cost areas.

SMBs rely heavily on their financial service providers, but as the industry shifts, SMBs are not afraid to look at other FIs or even other non-FI solutions if they do not feel they are getting their needs met. SMBs are technology-first and expect their FIs to be the same, so the need for FIs to act to maintain and deepen their relationships with their SMB clients is greater than ever.

### What advice do you have for FIs seeking to stay competitive with FinTechs in gaining SMBs' loyalty?

The advice I would give to FIs is to invest in your SMB market. There has long been a narrative in the banking world that SMBs aren't profitable, but that is far from the truth. SMBs represent 90% of businesses and more than 50% of employment worldwide, so the revenue opportunities are massive. The good news for FIs is that it's not too late. This market has been underserved for some time, but there is still time to begin properly serving your SMB customers — though FIs must act now. SMB customers' loyalty comes from showing a willingness to invest in products and services that improve their banking experience, whether that be through integration with SMB accounting systems, easier access to capital or preferred rates for customers just starting out.

To expedite your journey to serving your SMB customers, lean on FinTechs that have done the market research, have already spoken with your customers and have already developed the products you need to better serve them. Outsource the work. FIs are always faced with the 'build, partner or buy' dilemma, but from what I have seen, when it comes to the SMB market, FinTechs are typically an FI's fastest path to revenue generation.

## SMBs Turn Toward Banks Offering Digital Solutions



**S**MBs were already shifting toward digital solutions before COVID-19 disrupted daily life for businesses and consumers around the world. The pandemic has turned this digitization effort from a walk into a sprint. Now more than ever, SMBs are driving sales through eCommerce and marketplace platforms and adopting an array of digital solutions to streamline business operations. According to [data](#) from EY, more than half of SMBs — 56% — decided to change their business models to utilize digital channels.

In turn, the types of tools and services SMBs expect from their FIs are changing. Of 260 corporate decision-makers in a [Citizens survey](#), 83% expect their company's bank to provide the latest technological tools as well as offer self-service capabilities. At the top of the list of desired services is real-time payments functionality, with 85% of business leaders ranking that as the most important factor when selecting a banking partner. They indicated that the most common use cases for real-time

payments were managing cash flow and processing payments that require "immediate attention." Moreover, 81% of business leaders viewed the adoption of real-time payment capabilities as very or somewhat transformative to the company's payment process.

This month, PYMNTS Intelligence examines what SMB banking customers currently demand from their banks and how FIs can increase these customers' loyalty.

### WHAT SMBs WANT

In addition to real-time payments, companies want FIs to provide tools and services that are convenient and easy to use. According to a Chase [survey](#), 83% of small business owners feel that being easy to work with is a key attribute when selecting a financial services partner. In particular, the online platform’s ease of use and the easy ability to contact live support are top considerations for a significant share of small business owners, 82% and 81%, respectively. Small businesses also want advice and strategy recommendations. Sixty-nine percent of owners consider it important that an FI offer “customer insights and business intelligence services.”

Another major area of concern centers around business-to-business (B2B) payments. PYMNTS’ [research](#) shows that companies face two main pain points regarding B2B payments: problems related to invoice reconciliation and a lack of supplier portals. In a PYMNTS survey of FIs, 42% identified invoice reconciliation complexity as “an important source of friction for corporate clients,” and nearly the same share cited the lack of supplier portals. Though these friction points have been problems for a while, they have worsened since the pandemic began. This is especially true for the lack of supplier portals: Nearly one in five FIs reported that this issue has worsened during the pandemic.

### HOW FIs CAN DRIVE LOYALTY IN SMB CUSTOMERS

The PYMNTS [survey](#) shows that FIs are not only aware of the problems facing SMBs but are also actively working on solutions. Sixty-five percent of FIs are either planning on or actively implementing solutions to address the lack of dedicated supplier portals. An even more significant portion of FIs, 79%, are working to develop solutions that will provide SMBs with a single view of their “real-time cash flow management,” which will, in turn, grant SMBs a foundation for financial forecasts and effective business strategies.

FIs also need to look beyond supplier portals and cash flow tools to secure and sustain SMB loyalty. Just as consumers want quick, safe and personalized payment methods, it is clear that SMBs want the ability to harness technology to conduct business more easily. In addition, as SMBs increasingly seek digital tools, FIs increasingly must offer them. In terms of B2B payments, the most common digital solutions [offered](#) by FIs are automated account validation functionality and digital lockboxes.

There is still work to be done, however. PYMNTS’ [research](#) shows that although most FIs recognize the need to offer new digital B2B payment solutions, just three out of 10 currently offer clients the tools necessary to reduce friction in B2B payments. Whether by developing APIs or offering real-time payment capabilities, it is essential that FIs offer an array of digital services.

In addition to offering specific tools, FIs must develop a broader approach to meeting clients’ digital needs. SMBs are looking for long-term partners that provide business advice and effective strategies. To do this, FIs must understand the specific needs of individual clients as well as their degree of digital familiarity and comfort using emerging technologies. If FIs can provide SMBs with both the digital tools needed to do business in a digital-first world and the knowledge and expertise to use these tools, they will better attract and retain their SMB customers.





# NEWS & TRENDS

## SMB BANKING LOYALTY

### PAYCHECK PROTECTION PROGRAM GAVE FINTECHS A LEG UP ON SMB BANKING LOYALTY

The hundreds of billions of dollars distributed through the Paycheck Protection Program (PPP) offered FinTechs an opportunity to develop relationships with SMBs, challenging traditional FIs' role with these clients. Sam Graziano, executive vice president of Amount, told PYMNTS in a recent [interview](#) that FinTechs benefited from the PPP program in two key ways.

First, in addition to helping some of the largest FIs disburse PPP funds at scale, many FinTechs became PPP lenders themselves, a move that allowed them to begin working directly with SMBs. Second, the distribution of PPP funds often occurred through digital

channels, resulting in SMBs becoming more comfortable using these channels — and ultimately changing their banking expectations. This increased comfort in the digital space created an opening for FinTechs to gain SMBs' loyalty.

This does not put traditional FIs out of the running, however. Graziano explained that banks should broaden their commercial lending mindset when dealing with SMBs, aiming to serve as more of a platform for banking bundled with other business services. By changing their approach, corporate banks can develop similarly loyal relationships with their small business clients.



### SMALL BUSINESS OWNERS VIEW COMMUNITY FIs FAVORABLY

Although FinTechs have made inroads with SMBs during the pandemic, community FIs still enjoy high favorability ratings. According to a recent [report](#), 88% of small business owners agree that community FIs played a role in economic recovery, and 74% believed community banks and credit unions were important to regional management of economic conditions.

In fact, many small business owners indicated that community FIs were essential. More than one in four business customers reported that they would have gone out of business during the pandemic if not for the assistance of community banks and credit unions. All told, 37% of small business owners agreed that community banks had the most significant positive impact on local communities during the pandemic, compared with just 5% who agreed that neobanks had the most positive impact.

# SMB BANKING TRENDS

## SMALL BUSINESSES REPORT HEAVY USE OF FINTECH, OPEN BANKING AND DIGITAL TECHNOLOGY SOLUTIONS

A new [report](#) from Mastercard underscores just how ubiquitous using FinTech solutions is among small businesses. According to Mastercard’s findings, 95% of small business owners are heavy FinTech users for both business and personal needs. This reflects a greater interest in open banking and a strong desire to harness digital solutions for everyday business needs.

From banking to budgeting, an ever-larger portion of small businesses are turning to digital solutions for daily business needs. Banking is the top use case for FinTech, with 66% of owners currently using it for this purpose, followed by budgeting and forecasting at 60% and payroll management at 58%. The report noted that the top driver of FinTech use is a desire to make business more digital, with strong desires for convenience and automation also important factors.

## SMALL BUSINESSES ARE STRUGGLING WITH ERP ISSUES, NEW SURVEY REVEALS

SMBs face considerable challenges that present opportunities for banks to get more involved. A recent [survey](#) found that small merchants in the United States face difficulties in implementing ERP systems. The study revealed that major ERP projects were taking six months longer than the retailers were originally told, a significant chunk of time considering that major back-office software projects typically take months, if not years, to complete, even if on schedule. These time delays were accompanied by cost overruns, with the study finding that ERP investments cost 34% more than initially estimated. Overall, 38% of the surveyed companies had experienced “major failure” at some point in implementing new ERP systems.

The survey identified the biggest source of ERP difficulties as continuing integration issues at 27%, with a lack of scalability and flexibility the next most common issue at 25%. Challenges also stemmed from a specific ERP system not being a good fit for the respective merchant and an insufficient number of experts to help guide the overall process.

## SMBs PREFER SHARING DATA WITH FINTECHS OVER BANKS, SURVEY FINDS

A recent [survey](#) of more than 400 Canadian SMBs found that medium-sized businesses not only are more open than small businesses to sharing their data but also prefer sharing with challenger banks and FinTechs over traditional banks. The survey results were announced at Open Banking Expo’s Canadian Meetup. The survey revealed that these businesses are willing to share payroll, accounting platform data and eCommerce data but are reluctant to share sales, purchasing and inventory data.

During the event, Biswajit Das, partner, financial services, at EY, told those in attendance that there was a 64% preference for sharing this data with challenger banks or FinTechs compared to regular banks. He noted that this preference could be explained by the fact that more than 40% of respondents indicated they would like to share data with APIs. The survey found that in addition to security concerns, the ease of data sharing was a primary consideration for SMBs.

## MOST FIs EMBRACE EMBEDDED FINANCE TO IMPROVE CUSTOMER EXPERIENCE

With businesses rapidly shifting toward digital solutions, FIs are increasingly embracing embedded finance to reduce friction in B2B payments. A recent [PYMNTS survey](#) of more than 300 executives found that although timescales vary depending on the size of the FI, more than 90% of FIs are innovating or plan to innovate embedded finance experiences.

Payment processing is the number one embedded finance experience FIs are seeking to implement, with 52% planning to do so. Community banks and regional banks are the likeliest FIs to make such plans. For larger banks, however, the top objectives for innovating embedded finance solutions pertain to loans and cash flow management.

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For more information, find us at [www.fispan.com](http://www.fispan.com).

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