

The Emerging 21st-Century Business Banking Relationship

February 2010

Although Internet banking has become a critical channel for many small and mid-sized companies, very few of these companies use social media, mobile banking or other emerging technologies as part of their business banking. That could soon change, however. Some of the country's largest banks are making major investments in technology that would incorporate elements of both mobile technology and social networking into their business banking platforms — and they are doing so well in advance of any real expression of demand from their customer base. The reason: Banks see new technology platforms as both a huge opportunity and a potentially dangerous threat.

The Rise of the Internet Platform

Internet banking has rapidly evolved to become a core channel of the business banking relationship. In some ways, Internet platforms have become the primary channel: It now ranks as the most frequently used banking channel for small and mid-sized U.S. companies. Two-thirds of mid-sized businesses and approximately 60% of small business use their banks' Internet platforms "very frequently," topping usage rates for bank branches, Relationship Managers, call centers, and e-mail by a wide margin. While both small and mid-sized businesses still cite their Relationship Manager as their most important point of contact with their banks, Internet platforms have become the preferred channel for dealing with day-to-day banking issues such as investigating the status of an unpaid check.

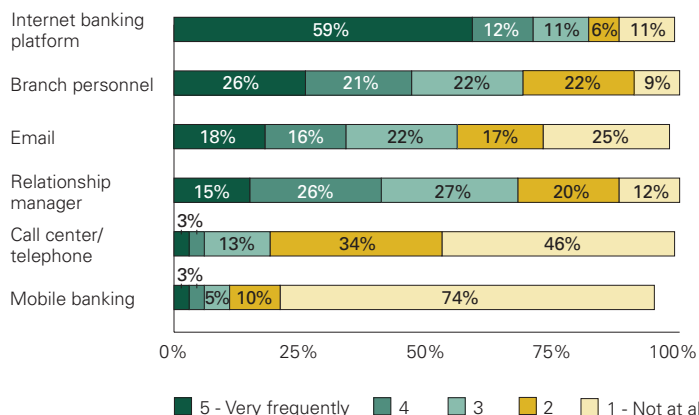
The Next Wave: Mobile Banking and Social Networking

Based on the speed with which Internet platforms and advances such as remote deposit have changed the industry, large banks are determined to be prepared for the next wave of transformative technology. The incorporation of mobile banking and social networking into bank technology platforms should allow banks to deepen their relationships with customers. The application of these technologies could allow businesses to more fully integrate information from their own bank accounts and services from their banking providers into their daily work flows.

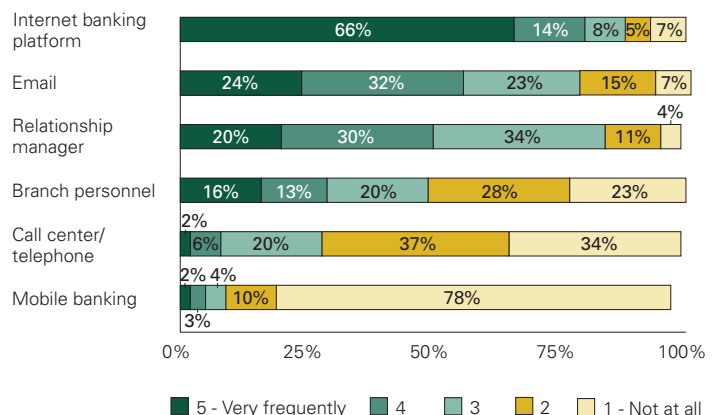
"The potential for these technologies goes well beyond simple convenience," explains Greenwich Associates consultant Marc Harrison. "Businesses will be able to use these platforms to get information into the hands of key employees in real time. In most small and mid-sized companies, no more than four or five people have access to the bank's e-commerce platform for commercial banking. But to give just one example, using these new technologies, salespeople and warehouse managers could get real-time access to updated information on customer payments that could be used in negotiating new orders, setting pricing and terms or even green-lighting the release of goods."

The Internet Platform is Now the Most Frequently Used Channel for Small and Mid-Sized Businesses

Small Businesses



Mid-Sized Companies

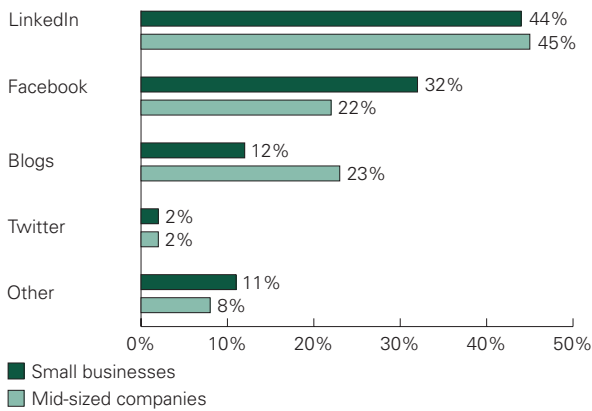


Note: "Don't Know" responses were removed. Source: Greenwich Market Pulse v34

In fact, some large banks think these technologies will have so much resonance with a new generation already hooked on the likes of Facebook, Twitter and LinkedIn that they are beginning to recognize the providers of such platforms as potential rivals. In a recent conversation between a Greenwich Associates consultant and a senior executive at a large U.S. bank regarding the bank's competitors, the senior executive threw his Blackberry on the table and said, "This is who I'm going to have to compete against in the future."

In particular, bank executives are concerned about getting cut out of fee-generating transactions if technology players adopt a strategy similar to that of Paypal in person-to-person payments.

More Than a Third of Small/Mid-Sized Business Execs Hooked on LinkedIn or Facebook

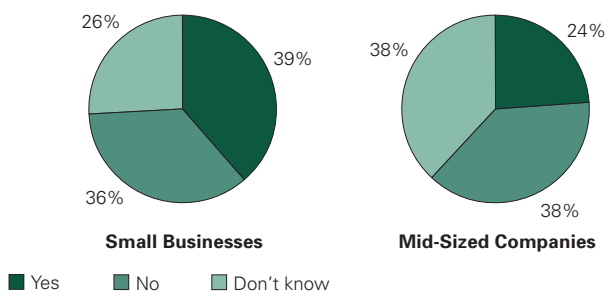


Source: Greenwich Market Pulse v34

For the moment, however, both the threat and the opportunity remain matters of long-term possibility. Only 4–5% of the 560 small and mid-sized companies participating in the Greenwich Associates study currently use mobile banking, and the share of these businesses using any social networking technology as a direct part of their banking is even smaller.

That is not to say these technologies are without influence in today's business banking industry. To the contrary,

Mobile Banking: If You Build It, Some Will Come

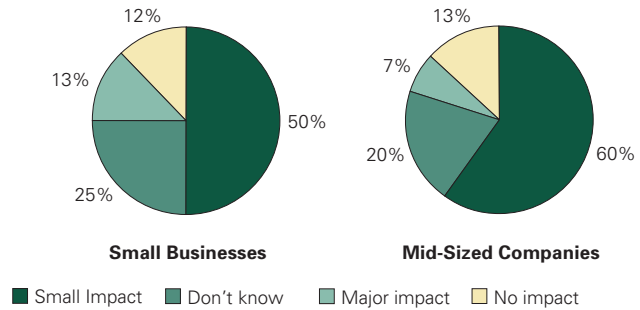


Source: Greenwich Market Pulse v34

more than 20% of small and mid-sized businesses say they use social media for networking with other executives and entrepreneurs. "It's entirely natural that companies would look to these platforms for information about banks given the extent to which social networking has permeated other areas of life and business," says Greenwich Associates consultant Jesse Neumyer.

Given that fact — and the extent to which Internet platforms have already taken root in business banking — it's hardly a surprise that two-thirds of small and mid-sized businesses think social media applications will have a direct impact on the banking industry in the next 12 months, or that approximately 40% of small businesses and about a quarter of mid-sized companies would consider using mobile banking if it were offered by their current banking providers.

Businesses Expect Social Networking to Make a Splash... Soon



Source: Greenwich Market Pulse v34

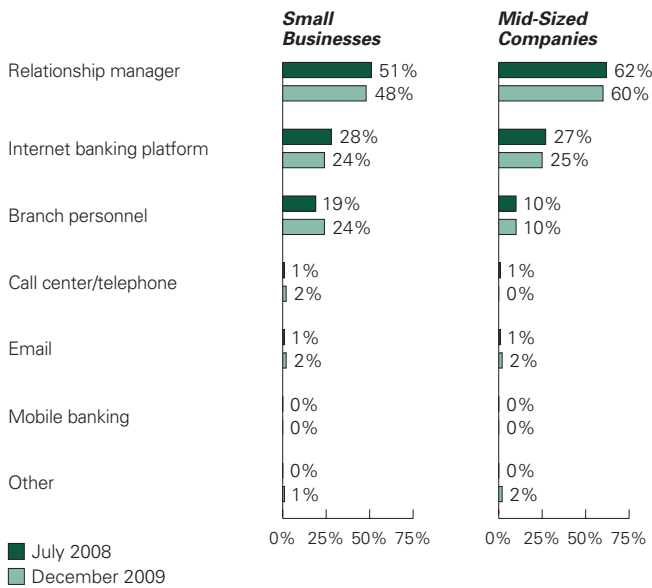
Conclusion: The Evolving Business Banking Relationship

The consultants at Greenwich Associates are bullish on the question of how emerging technologies will affect relationships between banks and their business clients. There is no doubt that the proliferation of new technologies will alter traditional relationships. The most direct and immediate change is already playing out as small and mid-sized businesses reduce the number and frequency of their visits to local bank branches. Despite the considerable efficiencies associated with the increased use of the Internet platform for day-to-day banking needs, banks face a real challenge in the need to replace selling opportunities formerly generated from branch visits.

But the good news for banks is that the cornerstone of their relationships remains in place. Both small and mid-sized companies still rank Relationship Managers as their most important point of contact with their banks. Greenwich Associates data suggests that gains in Internet platform usage seem to have come almost entirely at the expense of visits to bank branches, as opposed to interactions with Relationship Managers.

Businesses Still Place a High Value on Relationship Managers

Single Most Important Point of Interaction with Bank



Source: Greenwich Market Pulse v34

“For routine functions, the Internet is hard to match for convenience and efficiency,” says Greenwich Associates consultant Chris McDonnell. “However, there will always be an important role for the Relationship Manager because essential functions like negotiating loans and resolving errors are iterative processes between the company and the bank that require previous knowledge about the relationship.”

As Internet platforms shoulder a growing share of routine customer interactions, bank Relationship Managers will

be freed up for higher-value tasks — specifically, selling products to business customers who rarely step foot in the bank’s branches. These Relationship Managers will have the potential to be much more effective than branch personnel in this effort due to their deeper base of knowledge and experience and their familiarity with the businesses and needs of individual clients. “Finally, banks and their Relationship Managers will be armed with new mobile banking and social networking tools that we think — on net — will ultimately increase the number of regular interactions between banks and their business customers,” explains Greenwich Associates consultant Don Raftery.

Greenwich Associates consultants Marc Harrison, Jesse Neunmyer, Chris McDonnell, and Don Raftery advise on banking in the United States.

Methodology

The Greenwich Market Pulse is a panel of approximately 30,000 financial decision-makers at small (\$1 million–\$10 million) and mid-sized (\$10 million–\$500 million) companies in the United States. The current survey was conducted in December 2009 and included participation from 560 companies.

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