



SMBs Catching On To Cashless

by [Steve Brown](#) Topics: [business customers](#), [millennials](#), [payments](#)

Summary: Almost 33% of consumers and business owners agree that new technology will lead to safer payments. Subsequently, businesses are increasingly accepting card and digital payments. Can your bank support them?

The brain can really mess with you. Look no further than work done by psychologists at the University of Notre Dame. They found that when people open a door and walk into another room, their brains may clear the slate to deal with whatever is going on in the new location. That is why you may sometimes forget what you walked into the room to get in the first place.

Community banks on the other hand never forget the value of small and medium-sized business customers (SMBs). When it comes to credit cards, SMBs have long resisted card payments, due to the cost of interchange. But with new payments options coming to the fore, SMBs are increasingly accepting card and digital payments as new processing and payment options become available and more secure.

According to a [recent study](#), SMBs are adopting cashless options in droves, basically because their customers are demanding it. Indeed, non-cash payments are increasing at an [annual rate of about 6% a year](#), and in the last quarter of 2018, some \$164B in cashless payments were transacted. What is driving the move to cashless payment with SMBs?

Greater security. Almost 33% of consumers and business owners agree that new technology will lead to safer payments, with 31% of business owners admitting they feel safer using new payment tech, as it means they have less cash on their premises.

Consumer demand. Bank customers are increasingly asking for cashless payment, as a means of making payment more efficient and also reducing risk.

More efficiency. While the number of card transactions will reach 47mm by 2020, the average spend per card transaction will decrease, alluding to an increase in other payment methods to alleviate the hassle of current payment methods.

With these issues in mind, how should your institution approach offering non-cash payment options in a way that supports SMB customers?

First, ask whether your customers are eager for cashless payment. Not all demographics and markets are equal. Apple Pay and similar mobile wallet technologies have been around for more than 4Ys, and credit cards have been available for 70Ys. Consider how aggressive your market of business and retail customers is when it comes to using cashless payment options.

Next, think about how cashless options might improve efficiency. Many studies show that both card and digital payments help speed up checkout lines. This could be an important selling point for SMBs that are concerned about speedy service for their own customers.

Finally, ask whether you are engaging younger customers. Customers age 20 to 35Ys old are particularly eager to use digital payment methods. They are comfortable, because they grew up making digital payments and using cards more frequently.

Since the Fed recently announced the development of its own real time payment system, it should become easier to offer a variety of payment options for all customers soon. Although the system won't be ready until 2023/2024, it could be worthwhile to start planning.

ECONOMY & RATES

Rates As Of: 08/30/2019 11:02AM (PDT)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.98	-0.09	-0.38
6M	1.87	-0.19	-0.60
1Y	1.76	-0.22	-0.84
2Y	1.53	-0.34	-0.96
5Y	1.42	-0.41	-1.10
10Y	1.52	-0.49	-1.16
30Y	1.99	-0.53	-1.02
FF Market	FF Target	Fed Disc	
2.12	2.25	2.75	
SOFR	Prime	Unemp	
2.12	5.25	3.70	

[More Market Rates](#)

BANK NEWS

Smaller Share

While US banks overall recorded profitability highs in Q2 2019, financial institutions under \$10B saw a lower share of the industry's net income - 14.9% vs. 19.9% in Q1 2016.

BK Pressure

[MarketWatch reports](#) US based companies announced 42,937 job cuts related to bankruptcy through the first 7 months of the year (a 40% increase over the same period last year), with most coming in the retail sector (7,567 stores have closed so far this year vs. 4,864 for all of last year).

Cash Buying

The National Association of Realtors (NAR) reports 21% of all home sales purchases from Apr 2018 to Mar 2019 were made in all-cash.

M&A

1) CBI Bank & Trust (\$911mm, IA) will acquire Walcott Trust and Savings Bank (\$130mm, IA) for an undisclosed sum. **2)** First Midwest Bank (\$15.8B, IL) will acquire Park Bank (\$950mm, WI) for \$195mm in cash and stock or 1.67x tangible book.

Going Longer

Treasury Secretary Mnuchin said the US is looking at potentially issuing debt for 50Y and 100Y maturities given the precipitous decline in market yields.

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