



*In an era of mobile payments and online banking, checks—and the availability of funds—are still the lifeblood of small businesses.*

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# Why your small business strategy needs to address checks

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BY VICTORIA DOUGHERTY

Cash flow problems represent the number one issue reported by small and micro-businesses, according to a 2018 [State of Small Business survey](#). Think about that: More small businesses worry about cash flow than sales. Inflows and outflows rarely match and so many resort to making payments out of personal funds just to stay in business another month. Plus the smallest of small businesses doesn't always have the luxury of accepting high-tech payments via mobile. They still rely heavily on checks.

In fact, the last [Federal Reserve Payments study](#) published in 2016 showed checks are not declining at the rate they once did. The number of checks issued slowed to a 4.4 percent annual decline while the total dollar value only fell 0.5 percent. At this rate, expect checks to stick around into the 2030s and beyond.

#### WHY DO SMALL BUSINESS OWNERS LIKE CHECKS?

It's simple: They already have a bank account and with that the unfettered privilege to deposit checks into it. And unlike other payment acceptance services, check deposits cost nothing. Small business owners don't have to pay a monthly fee, fill out a credit application or pass a credit check. Preferring checks as payments is a classic no-brainer. But it does have its downside.

#### BACK TO THE CASH FLOW ISSUE

When small business owners deposit checks into their accounts, the funds generally undergo some standard hold time while the check passes through the system and is paid by the issuing bank. This protects the financial institution from return risk.

So the small business owner has the funds but not the ability to use them—frustrating for sure. And according to a [2018 SBA Small Business Profile](#), 30.2 million

small businesses account for 99.9 percent of all businesses in the U.S. and provide 47.5 percent of private employment. The issue deserves more attention than we give it.

#### CORNER CHECK CASHERS HAVE ALREADY RESPONDED

Alternative financial services providers such as check cashers welcome small business owners and their checks with open arms, and reap substantial financial rewards. This trend caught the attention of the [Ewing Marion Kauffman Foundation](#) since it impacts their flagship platform of supporting entrepreneurship. They engaged CFSI, the [Center for Financial Services Innovation](#), to better understand the behavior and determine how financial institutions can respond—and perhaps preserve their existing relationship and wallet share with small business owners.

CFSI returned three recommendations:

- » *Offer a third-party, guaranteed, immediate funds availability solution.*
- » *Extend check processing cut-off times beyond branch banking hours.*
- » *Better communicate current funds availability policies.*

For those on the institution's operational side, we know extending processing times can have far-reaching implications and may require study to understand the internal impact. This could result in some check deposits being credited one business day sooner.

*Financial institutions can now provide account holders access to an immediate funds.*

Nearly every financial institution could do a better job communicating their funds availability policy. Perceived or actual, the difference between policy and practice could certainly disenfranchise many small business owners.

#### A PROMISING RECOMMENDATION

As the CFSI report notes, a new answer exists for the age-old problem of funds availability. Financial institutions can now provide account holders access to an immediate funds solution and offer depositors a way to receive instant access to funds from deposited checks for a set fee.

Should the check be returned later, the third party reimburses the financial institution for the loss. The depositor shares the fee charged to the third-party provider and everyone wins. The depositor obtains those much-needed funds and avoids the check casher. The financial institution gets more of their account

holders' loyalty and share of wallet, along with a new revenue stream.

Don't let the perception that your customers don't want another fee-based product sway you. Remember that small business owners (and consumers!) currently use alternative providers with notoriously high fee structures. CFSI's research shows that small business owners want their existing financial institution to offer this service.

You can also undertake channel strategies within the immediate-availability solution that help the financial institution pursue specific goals. For instance, deploying the solution in the digital channels (mobile and ATM) can help finally monetize these capital-intensive areas and migrate traffic from brick-and-mortar locations for routine deposit transactions.

A handful of larger U.S. financial institutions offer this service today and are seeing success in promoting their newly differentiated account features. It also spotlights the institution as an innovator in a very aggressive marketplace.

To better serve this important segment, give some serious consideration to these makeover strategies. It's a path that your new and potential small business clients will literally endorse. ↗

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