The Small Business & Entrepreneur Opportunity for Credit Unions

IN PARTNERSHIP WITH

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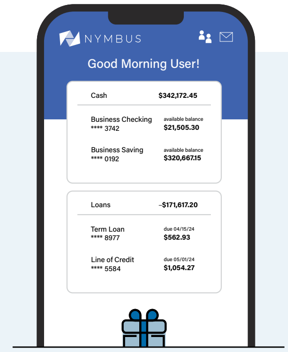
OVERVIEW

Serving small businesses, entrepreneurs, and independent workers should be a top priority for credit unions looking to grow. By providing financial services that truly meet the complex needs of this market, credit unions have the ability to grow membership and revenue and fulfill their mission of strengthening their communities' financial well-being.

Key takeaways from the research include:

- **Small businesses are smaller than you think they are**, especially as more Americans shift from salaried to independent work or side hustles.
- **These business owners and independent workers don't simply need checking accounts and loans.** They want support with administrative and business functions through digital technology.
- In many cases, **small business owners and independent workers are already paying for services** (e.g., accounting invoicing) that may not integrate well with their financial institutions.
- **If credit unions can integrate comprehensive business services into a single, personalized offering and dashboard**, with the help of a trusted technology partner, they can shore up small businesses while improving their own sustainability.

NYMBUS LAUNCH SMB



Nymbus, a fintech provider specializing in cloud-based banking solutions, launched a credit union service organization (CUSO) to better serve credit unions in March 2021. In August 2023, Nymbus announced Launch SMB —a feature-rich, compliant "bank in a box" solution designed to enable credit unions to serve the rapidly growing small and medium-sized business (SMB) market—in partnership with Michigan State University Federal Credit Union (MSUFCU).

With a "bank-in-a-box" approach, Launch SMB equips credit unions to quickly launch a full-service digital bank for SMBs, offering business deposits, checking, savings, money market accounts, loans, debit card management, item processing & ACH, and business intelligence and reporting. Rather than plugging into a credit union's core or needing to integrate with other services, Launch SMB is a parallel tech stack that runs alongside a credit union's existing technology architecture. This makes it possible to provide business members with a modern digital banking platform and best-in-class user experience, regardless of where a credit union finds themselves in the process of digital transformation.

Many small business owners mix and match financial services from banks and fintechs for cashflow, taxes, invoicing, and more. Studies indicate a preference for a unified platform for all financial data and processes. Addressing this unmet need that large banks overlook, Launch SMB supplies credit unions' business members with an integrated financial toolkit accessible via a single dashboard. This toolkit features a centralized payment hub, invoicing, expense management, categorized transactions, cash flow insights, and swift online loan approvals.

MSUFCU President and CEO April Clobes points out that a platform like Nymbus SMB can give credit unions a competitive advantage in attracting and retaining small business members. "Aligning with Nymbus on this vital project is a strategic move for MSUFCU, as it allows us to enhance our product offerings and deliver top-tier services to small business owners," Clobes said in announcing the launch. "Through this collaboration, we're showing our dedication to the businesses that are the connectors of our communities."

INTRODUCTION

Small businesses are essential to the U.S. economy, accounting for 63% of new job creation.[1] They are also critical to the financial health and flourishing of their communities. But when it comes to their financial service providers, small business owners overwhelmingly (although not enthusiastically) work with large banks. More than two out of three small businesses (68%) use one of the six largest banks as their primary financial institution, although more than half (51%) say they would consider switching to a community financial institution.[2]

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Credit unions have long focused on individual consumers and historically have not offered a broad range of products and services to businesses. Many credit unions were originally chartered to provide financial services to employees rather than to their employers. Until recently, federal regulations limited and constrained commercial lending by credit unions, and so while some credit unions offer a basic business deposit account and business lending, previous Filene research has found that few credit unions offer more wide-ranging business services, such as ACH payment processing, automated payroll and tax management, or investment services.[3] Although many small business owners are seeking more a more comprehensive suite of business services—including capabilities like fraud management, automated account reconciliation, advanced online security, and accounting—as of 2020, no credit union in the U.S. offered business members these features.[4] Despite years of talking about the opportunity, for many credit unions, serving business members is barely on the radar, and certainly not a priority.

But there is a persuasive case to be made that it should be—and increasingly, credit unions are taking notice. For one, small businesses lie at the heart of community financial well-being. They fill main streets with life and buoy communities with the spark and grit of entrepreneurship. Moreover, four out of five small businesses have no employees—they are freelancers, solopreneurs, or full-time employees with side hustles. Even credit unions that do not offer business products and services are already serving small businesses through individual retail accounts and perhaps credit cards, personal loans, and lines of credit, but these hard-working entrepreneurs want so much more support from their financial institutions. They wear many hats, spending too much of their valuable time handling administrative duties like HR, accounting, and tax preparation. Many are eager for financial education, business strategy support, and solutions to smooth cashflow. And crucially, these small business owners are already paying for services, including accounting, data analytics, payment processing, and online security. Two-thirds of them (67%) say they would be willing to switch to a financial institution that offered them these services, especially if they were integrated into a single dashboard—and they would be willing to pay for them.[5]

> More Americans trust small businesses than any other institution, including the medical system and the military.

For many credit unions, then, small businesses are an untapped market, potentially full of new members, increased earnings, and enhanced impact on the communities credit unions are already serving. In an era of tightening margins and the ongoing quest for new growth opportunities (for deposits, interest income, and non-interest income), serving small businesses is an ideal way for credit unions to simultaneously fulfill their mission and strengthen their bottom line.

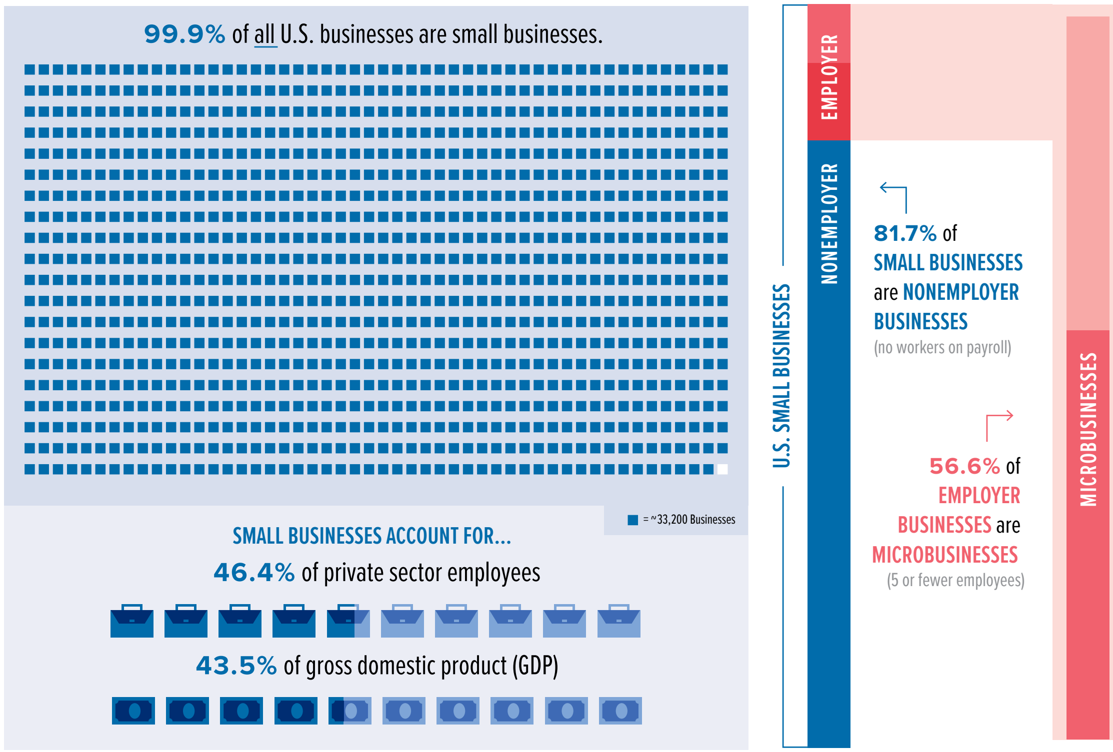
To fully explore the small business opportunity for credit unions, it is critical to understand how the landscape of work in the U.S. is changing. We will examine how credit unions have historically served small businesses and explore the possibilities for expanding and innovating to meet the needs of this growing market. Finally, we will take a close look at how partnerships with technology providers, including fintechs and CUSOs, can marry cutting-edge technology with the credit union calling card: a trusted reputation for friendly service and community care.

THE CHANGING NATURE OF WORK

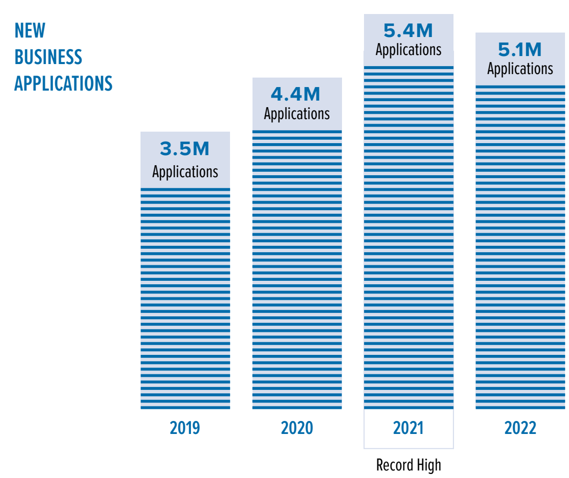
The term "small business" evokes images of brick-and-mortar, mom-and-pop stores—a coffee shop, independent bookstore, or local restaurant. But while these small businesses certainly exist, they are not representative of the category as a whole, which is heterogenous and spans a wide variety of industries: construction, agriculture, healthcare, insurance, legal services, technology and software development, entertainment, and more. Your local plumber may be a small business owner, and so might your veterinarian—along with the social media influencer who posted the last video you mindlessly scrolled through, or the owner of the Etsy shop where you just purchased a gift for a family member. Some small businesses sell B2B services or serve specialized, niche audiences. The category includes startups poised for aggressive growth as well as full-time employees monetizing their hobbies. Small businesses are as varied as they are well-regarded; a 2022 poll found that more Americans (68%) trust small businesses than any other institution, including the medical system and the military.[6]

There are approximately **33,200,000 SMALL BUSINESSES** in the U.S. as of March 2023.

(Small Business = Fewer than 500 Employees)



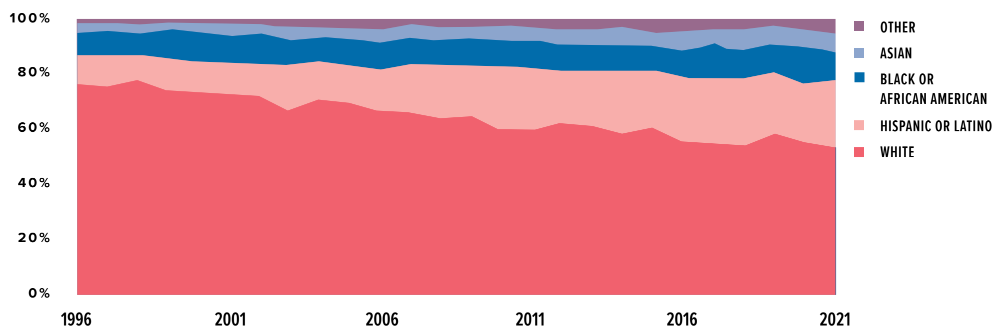
As of March 2023, the U.S. was home to roughly 33.2 million small businesses (defined as businesses with fewer than 500 employees). More than four out of five (81.7%) of these were nonemployer businesses—that is, businesses with no workers on payroll. Among employer firms, more than half (56.6%) are microbusinesses with five or fewer employees.[7] In fact, the vast majority of American businesses are small businesses—they comprise 99.9% of all firms in the U.S. and account for 46.4% of private sector employees (61.7 million workers) and 43.5% of GDP.[8] Beyond job creation, they are also an important source of revenue generation and revenue growth.[9]



After declines during the Great Recession, the number of small employer businesses has been steadily increasing.[10] In fact, applications for new businesses spiked in the wake of the pandemic, as businesses shuttered and employees struck out on their own. In 2021, a record high of 5.4 million new business applications were filed in the U.S., followed by 5.1 million in 2022.[11] One recent study of business formation during and after the pandemic found that new businesses started up in the past few years are smaller and more dynamic than in the past, with great job creation potential.[12]

Small business owners in America are disproportionately immigrants, and as a group are steadily becoming more racially and ethnically diverse. From 1996 to 2021, the share of new entrepreneurs who are Hispanic or Latino more than doubled (from 10% to 24.2%), and so did the percentage who are Asian (3.4% to 7.3%). Meanwhile, the share of new entrepreneurs who are Black grew from 8.4% to 10.1%, while the percentage who are white shrank from 77.1% to 54.5%. Compared to their white counterparts, minority small business owners struggle to access credit and were denied access to pandemic relief programs at much higher rates.[13]

FIGURE 1: Share of New Entrepreneurs by Race and Ethnicity (1996–2021)



Source: Ewing Marion Kauffman Foundation, "Who is the Entrepreneur? New Entrepreneurs in the United States, 1996–2021," Trends in Entrepreneurship, 2022.

The growth in entrepreneurship among immigrants is a notable trend. From 2012 to 2020, the share of employer small business owners who are immigrants increased from 15.1% to 19%. Immigrant employer owners outnumber U.S.-born employer owners in most demographic categories; for example, among Hispanic employer owners, immigrants made up 18.4% of the group, versus 3.8% who were born in the U.S.[14]

Men outnumber women among small business owners. The percentage of new entrepreneurs who are women (roughly 40%) has remained consistent over the past few decades.[15] In 2019, two out of ten (21.7%) employer firms were owned by women, as well as four out of ten (42%) nonemployer firms.[16] Women-owned small businesses are also underrepresented among financed growth firms.[17]

Small business owners report a wide variety of reasons for starting a business, but the majority say they wanted to be their own boss (64%), have greater income (64%), and wanted a better balance between work and family life (57%). Only 7.4% of employer business owners in 2019 said that they struck out on their own because they could not find a job.[18]

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Running a small business is difficult and time-consuming. By a wide margin, small business owners cite the cost of health insurance as their greatest challenge (54% say it is a "critical" problem), which has remained the case for three decades. Over the last 10 years, the costs for small firms to offer health insurance have risen by 43%, outpacing wages and inflation. In 2020, small business owners also said they were struggling to locate qualified employees and pay federal income taxes.[19] More recently, small business owners are also worried about inflation, with 21% reporting in Q2 2023 that it was their single most important problem in operating their business.[20]

The rise of the gig economy

The pandemic accelerated some ongoing shifts in the way Americans work and make a living. Job creation levels fell among startups in their first year, from 5.1 jobs per 1,000 people in 2019 to 4.7 per 1,000 people in 2021.[21] Despite the rise in new business applications, the overall share of new businesses that ultimately hire employees has fallen steadily over the past decade.[22] Meanwhile, the number of nonemployer businesses nearly doubled, from 15.4 million in 1997 to 27.1 million in 2019.[23]

One factor driving the decrease in employer businesses may be the rise of freelancing and the gig economy. The U.S. Small Business Administration reports that in 2021, 9.4% of workers were self-employed,[24] but this figure does not adequately capture the number of Americans who performed at least some independent work. MBO Partners puts the number at 64.6 million independent workers in 2022, up 26% over 2021, including

21.6 million full-time independent workers.[25] Upwork, a freelancing platform, estimates that 36% of the U.S. workforce performed some level of supplemental, temporary, project-, or contract-based work in 2021, including more than half (51%) of workers with a postgraduate degree. Research suggests that even these numbers may be an undercount, overlooking workers who perform odd jobs alongside more traditional work.[26] It is estimated that by 2027, independent workers will make up more than half of the U.S. workforce.[27]

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Skilled freelance workers say that they value independent work for its flexibility, career ownership, and the ability to pursue meaningful work. Nearly half of freelancers surveyed told Upwork that there was no amount of money that would convince them to take a traditional job.[28] For gig workers, on the other hand, who perform activities such as delivery work, ridesharing, short-term rentals, and odd jobs, the situation is somewhat different. An estimated one in six (16%) U.S. adults performed gig work in the past year, but most don't do this full-time (only 6% receive more than 90% of their income this way, and 58% have a full-time job).[29]

Gig workers skew younger, lower-income, and more disproportionately Hispanic than the average worker. While only 31% of respondents to Pew Research Center survey said that gig work was their main job, that figure was 42% for lower-income gig workers. About half of gig workers cite wanting to save extra money (56%) or needing to cover gaps in their income (52%) as reasons for picking up gig work.[30] While most (72%) say that the companies who run the platforms through which they find work (like Uber, Taskrabbit, and Doordash) treat them at least somewhat fairly, more than one third (35%) of gig workers have felt unsafe while on the job, and a similar number (37%) have been harassed or treated poorly by customers.

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Notably, as sociologist Tressie McMillan Cottom has warned, the "hustle economy," which is often held out as an alternative for people of color, especially women, who face systemic discrimination in the workforce, can be rife with predatory inclusion, putting entrepreneurs at greater risk of being offered credit or capital on predatory terms. Freelancers and small business owners lack the protection and benefits of full-time jobs, including health insurance and retirement savings, and they face higher income volatility. Thus, the movement from full-time to independent work shifts risk away from companies onto individual workers, many of whom are already economically disadvantaged.[31]

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A BRIEF HISTORY OF CREDIT UNIONS & SMALL BUSINESSES

Credit unions have not traditionally focused on serving businesses. Until recently, tight restrictions on commercial lending hampered many institutions' ability to offer business loans, although there were exemptions for CDFIs and special circumstances. Even after these rules were relaxed in 2017, and even if many credit unions recognize the opportunity to serve the small businesses, there has been little movement to build out comprehensive business offerings, and so credit unions continue to offer little in the way of business services beyond checking accounts and loans.

When credit unions do serve businesses, they tend to view them primarily as borrowers. Of course, access to credit is a lifeline for many small businesses. Credit unions were able to extend loans to small businesses during the Great Recession when banks were unwilling or unable to do so, prompting an influx of new small business members.[32] And funding can be an ongoing struggle for small businesses—in a 2023 NFIB survey, small business owners said that over the past 12 months, they had tapped into a variety of funding sources, including a credit card (70%), a line of credit (33%), personal savings (32%), a business loan (26%), home equity (4%), and a loan from family or friends (4%).[33] Independent workers, with unpredictable incomes, also often need credit-based solutions for smoother cashflow.

Perhaps the biggest movement among credit unions to serve small businesses was initiated by the Small Business Administration's Paycheck Protection Program (PPP), an expansive pandemic initiative to provide government-backed loans for small businesses to support employment

Small business owners have challenges that extend beyond the need for loans. They wear many hats and often spend more of their time than they would like on administrative tasks like invoicing, accounting, IT, payroll, and the like. In fact, many small business owners are paying technology companies for services that simplify their administrative burden and inform their decision-making.

and avoid their closure. Many credit unions quickly spun up or expanded small business lending through the PPP.[34]

Nonetheless, small business owners have challenges that extend beyond the need for loans. They wear many hats and often spend more of their time than they would like on administrative tasks like invoicing, accounting, IT, payroll, and the like. They know they could be using their business data to extract insights and make strategic decisions, but they don't currently have the capacity to do so. In fact, many small business owners are paying technology companies for services that simplify their administrative burden and inform their decision-making.

But small business owners would actually prefer to receive these services from their financial institutions. Research in 2018 found that two-thirds (67%) of small business owners said they would consider switching to a competing financial services provider if that institution offered products and services to help them manage and grow their business, and over half (54%) would consider switching to a non-bank alternative for the same reasons.[35] Small business owners are also looking for digital solutions that offer real-time account reconciliation, faster payments, mobile receipt capture, payroll services, tax estimates and reports, predictive analytics, and cashflow management solutions. And they would strongly prefer that these services be seamlessly integrated and available via an all-in-one dashboard, so they can see the full financial picture of their business in one place.[36]

Two-thirds (67%) of small business owners said they would consider switching to a competing financial services provider if that institution offered products and services to help them manage and grow their business.

The good and bad news for credit unions is that fintechs are already beginning to offer these capabilities. In 2020, Intuit, purveyor of popular accounting software QuickBooks, rolled out a new offering to its 8 million small business customers: fee-free checking accounts through a banking-as-a-service (BAAS) partnership with Green Dot Bank. By late 2021, the company had opened 150,000 new accounts. Rob Daniel, Director of Product Management for Intuit QuickBooks Money Offerings, told the Financial Brand that the accounts filled a crucial gap for many firms: “We have been surprised at how many customers come to QuickBooks and yet they don’t have a business banking account yet.” Intuit quickly added bill pay, payment acceptance, and a business debit card for checking account holders. About 50,000 users subscribed to the accounting software just to access business checking.[37]

And then there’s Square, the payment processor, which currently offers an entire ecosystem of financial services, including checking accounts through Sutton Bank; savings accounts and AI-powered lending (via Square Financial Services, a de novo bank launched in March 2021 with an industrial banking charter); a P2P app that has expanded into a payments solution (CashApp and CashApp Pay); and AfterPay, a buy now, pay later service. Square’s goal is to eliminate the pain points that small businesses often experience with traditional financial services.

In order to serve this market, credit unions will need to deliver similarly powerful tools and frictionless user experiences.

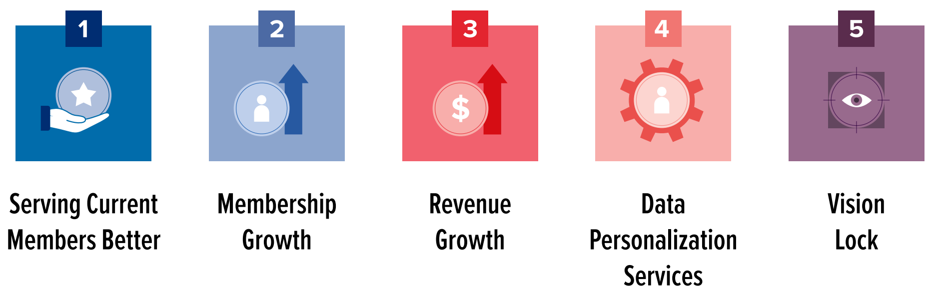
How can credit unions begin to understand their local small business market? Previous Filene research demonstrated that increased business lending by credit unions drives the development of more comprehensive business services; loans give credit unions facetime with small business owners, providing the opportunity to listen and learn about their needs.[38] And many small business owners still face barriers to accessing credit. Research from FIS in 2018 found that more than a quarter (27%) of small businesses were using alternative lenders like SoFI, Funding Circle, or LendingClub—including nearly half (48%) of Millennial business owners. In most cases, traditional lenders offer better rates; small business owners use alternative lenders because they are accessible, digital, and have found ways to eliminate key barriers between small business owners and financial services.[39] Notably, in a 2017 Raddon survey, 14% of small business owners said they weren’t even aware that credit unions provided business services or loans.[40] To reach small businesses, credit unions will need to be much more holistic and intentional about how they target this market.

Small business owners want financial products and services that better fit their needs and are able to integrate wraparound services, which currently exist as a patchwork of apps from a variety of providers. They are looking for financial providers who will support them as entrepreneurs, as people, and as community leaders.

Meanwhile, credit unions crave sustainability, which means steady membership and revenue growth. They also want to serve their members well—including members who are currently small business owners, freelancers, and gig workers, as well as hopeful future entrepreneurs. But most of all, credit unions want to be true to their mission to serve and support their communities. Supporting small businesses and entrepreneurs is a vital way for credit unions to live the vision of cooperative, community-based finance.

In short, serving small businesses offers credit unions vital opportunities to achieve their goals, including the following five opportunities.

5 Opportunities for Credit Unions Serving Small Businesses



Opportunity #1: Serving current members better

Every credit union's membership most likely already includes small business owners and independent workers, including solo entrepreneurs, freelancers, and gig workers. These members may be running a business using their personal checking account, or they may be facing income precarity as they string together a series of contract jobs with no benefits and no guarantee of future income. Unless the credit union has worked to identify these members and offer them targeted services (and most haven't), these are members who would be better served with products and services that are built around their shared financial realities.

When Vancity, a credit union based in Vancouver, Canada, surveyed the needs of independent workers in its community, leaders found that this population faced two distinct problems: high levels of income volatility and a lack of access to health insurance. In response, Vancity piloted two new products: enhanced loan adjudication via a fintech partnership to smooth independent workers' cashflow, and health benefits for self-employed members. Members liked both products and initial uptake was promising. The health benefits, in particular, attracted new members and created a new revenue stream for the credit union through a commission model with the insurance provider. Vancity found a way to better serve a vulnerable population and position their organization as a good choice for independent workers.[41]

Opportunity #2: Membership growth

The small business market is, for many credit unions, relatively untapped. At the same time, research suggests that small business owners are not thrilled with their financial service providers. One survey of the small business digital user experience at ten large national and regional banks found that the existing tools are frustrating and lack robust payment options, cashflow tools, personalized customer service, and the ability to aggregate accounts across multiple banks.[42] If big commercial banks aren't serving these populations well, the door is open for credit unions to compete for these members. By providing small business owners with a better user experience and more effective tools, credit unions could draw a steady stream of new members.

When the Paycheck Protection Program (PPP) opened for applications in April 2020, small businesses in Baton Rouge, LA had trouble accessing the federal government relief loans through large banks. Meanwhile, the local Neighbors Federal Credit Union had just launched online account opening for commercial accounts. Desperate for PPP assistance, small business owners flocked to the credit union, which closed 435 PPP loans for about $16 million, adding 203 commercial members in the process. Word of mouth built the credit union a reputation for being a good partner to small businesses, and by early 2021, that initial influx of PPP seekers had turned into 1,000 new accounts. Neighbors has focused on building relationships with those small businesses, hoping to turn them into long-term members. In 2021, Vice President of Commercial Deposit Services Anthony Pitalo shared that business members were deepening their engagement with the credit union: "Right now, a lot of them are using our checking and savings accounts and our upgraded digital services within online banking. Some have opened new loans and credit cards. Our deposits grew about $19 million for the year 2020."[43]

Opportunity #3: Revenue growth

Many small business owners and independent workers are already paying for a variety of services that enable them to better run their businesses—from accounting services to invoicing solutions, to predictive analytics software that helps them to better seize market opportunities. But many of these services do not integrate well with each other, and pulling in transactional data can be a headache. Given the difficulties in aggregating data from multiple financial providers, owners are eager for all of their data and capabilities to be housed in a single dashboard. And as long as the provider is transparent about fees for these services, many small business owners would be willing to pay for them.[44]

Independent workers, too, are frustrated with their current banking options. Research by Abound, an AI-driven lender, found that more than a quarter (26.1%) of independent workers said the primary feature for which they would leave their current banks would be the ability to manage and categorize expenses. Their ideal business bank account, they suggest, would also be mobile-friendly and automatically set aside money for taxes.[45] For credit unions, small business owners' desire for and current use of digital tools presents a clear opportunity to generate additional noninterest income by offering full-feature business checking accounts and charging monthly fees that—if the product simplifies administrative work and saves time—entrepreneurs would be willing to pay.

Opportunity #4: Data personalization services

Credit unions sit atop a valuable and dynamic store of member data. With effective aggregation, powerful digital tools, and regular maintenance, that data could be put to use delivering personalized service to business members—something small business owners clearly want. In one survey, nearly half of small business owners (48%) said that a personalized banking experience was very important or required for keeping their business.[46]

Research suggests that many small businesses currently use simple spreadsheets for accounting, struggling to know how much cash they have on hand, and spend a lot of time on invoicing and following up on payment.[47] Credit unions have the opportunity to help small business owners and independent workers link together banking data, accounting data, and business strategy in order to have a clearer picture of how their business is doing and where to go next. Member data could also facilitate access to credit for more businesses, by using existing data creatively to underwrite loans without a hard credit pull.

5

Vision Lock

Opportunity #5: Vision lock

Credit unions' mission is to strengthen the financial health of their communities. Healthy communities need thriving small businesses and independent workers. According to the Financial Health Network, to be financially healthy, small business owners and entrepreneurs must be able to do the following:

- Manage personal and business income and expenses separately
- Protect their personal savings in order to build resiliency
- Establish, build, and maintain a prime credit score
- Plan for how to withstand personal and business volatility[48]

Helping members build these skills is already an area in which credit unions excel—and it is a critical way to shore up the financial well-being of not just these members, but their families, employees, customers, vendors, and communities.

Small business owners and entrepreneurs need more than just thoughtful, well-designed financial services, they need entrepreneurial ecosystems: an environment of supportive people and organizations and conditions that enable entrepreneurship to thrive. The Kauffman Foundation explains that "the essence of an entrepreneurial ecosystem is its people and the culture of trust and collaboration that allows them to interact successfully. An ecosystem that allows for the fast flow of talent, information, and resources helps entrepreneurs quickly find what they need at each stage of growth."[49]

Credit unions have the opportunity to become trusted partners of small business owners and independent workers, playing an important role in the support systems that help them to flourish. Rather than being peripheral to the credit union mission, small business services are arguably at its very core.

Small business owners and entrepreneurs need more than just thoughtful, well-designed financial services, they need entrepreneurial ecosystems: an environment of supportive people and organizations and conditions that enable entrepreneurship to thrive.

THE IMPORTANCE OF PARTNERSHIPS

For most credit unions, the ability to provide small businesses and independent workers with a seamless digital experience is unlikely to be developed in-house. Instead, partnerships—with fintechs, CUSOs, and other third-party providers—will be essential to delivering the products and services that will meet the needs of this market. Small business owners don't want faulty technology or piecemeal solutions; fintechs offer a modern technology stack that can deliver a seamless user experience. In a 2021 survey of small business owners, more than half said that a seamless, single-login experience across the bank's capabilities was very important to keep their business.[50]

Many financial institutions are considering technology partnerships but have been hesitant to move forward. In a 2022 survey of bank leaders, 60% of respondents said that fintech partnerships were key to their growth strategy—but only 10% had actually established any such partnerships. But 45% of small business owners noted that they wanted to see their banks partnering with more fintech providers—which makes sense, given that more than 60% of those owners were already partnering with a fintech for a financial capability that could be offered by a bank.[51]

Tech developers, on the other hand, are eager to move into the financial services space, but they face critical limitations. Their data is niche and finite, compared to the wealth of historical transaction data that financial institutions can bring to the table. Fintechs also struggle with regulatory and legal compliance, an area where credit unions have much more expertise, and it makes far more sense for them to partner with a financial institution rather than seek a banking charter of their own. And unlike credit unions, which have built a strong reputation as a trusted community partner, many fintechs are relatively unknown and vying for attention in an increasingly crowded space.

Fintechs are not the only potential partners for credit unions for serving small businesses. Credit unions have long partnered with credit union service organizations, or CUSOs, to enhance their operations and access new capabilities. Previous Filene research suggests that partnering with CUSOs can lead to new sources of revenue that build on existing credit union business (e.g., property and casualty insurance from a CUSO that pairs with home and auto financing from the credit union).[52] Plus, as members of the credit union ecosystem, CUSOs have an intimate understanding of the movement, its ethos, and the day-to-day needs of credit unions and their members.

Traditionally, CUSOs and legacy providers have gradually built out digital solutions for their credit union members. However, tech entrepreneurs have begun developing digital financial solutions and approaching credit unions, with the intent of forming new CUSOs. This enables startups to reach a wider audience and demonstrate that the company is serious about serving credit unions. By one estimate, more than half of CUSOs today were formed this way. Credit unions that invest in or run CUSOs often view them as an additional source of noninterest income, as well as a way to access innovative approaches to member service. One credit union CEO told Filene that: "It is hard to innovate within your own walls. [CUSOs help credit unions] unshackle from what you see on a daily basis."[53]

CONCLUSION

Helping communities prosper is at the core of the credit union mission. And at the center of thriving communities are successful small businesses. These businesses represent a fresh source of members and revenue for credit unions. They offer a path toward a stronger credit union bottom line, and a way for credit unions to generate more value for their members.

However, small businesses need more than just the retail accounts and lending that most credit unions offer. They need comprehensive business services and an entire entrepreneurial ecosystem—community partners, funding, incubation, business education development, digital tools, and financial institutions that understand the full picture of their businesses. The vast majority of small businesses are nonemployer businesses such as solopreneurs and independent contractors. In fact, the majority of U.S. workers may soon be independent, upending the ways we have come to think about work. Independent workers may already be credit union members, but they, too, are underserved. Scrambling to run one-person firms, many don't even have a business checking account. They have complex financial needs that financial institutions are not currently meeting.

Small businesses and independent workers are looking for a suite of financial and business services that may frankly sound intimidating to credit unions that are struggling with digital transformation and product development for their retail members. To effectively serve this market, most credit unions will need to carefully choose the right partners. An ideal matchup would pair a credit union's back-end capabilities—its charter, offerings, and financial and regulatory experience—with a partner's cutting-edge technology stack, offering a seamless front-end user experience, marketing muscle, and ability to bundle the right products together for the right members at the right time. If small business owners are already paying for these services piecemeal, then credit unions stand to gain from investments in partnerships that allow them to serve this group better.

The small business opportunity for credit unions is an opportunity to partner with technology providers to create a best-in-class set of digital tools to make small business owners' lives and jobs easier.

However, the move to serve small businesses cannot be a one-time push or a trend. Credit unions must fully commit to the goal of forming a "forever home" for small businesses within your credit union. Ultimately, serving small businesses is not a distraction from a credit union's mission—it is at the core of what credit unions are hoping to accomplish.

MORE RESOURCES

Need more Filene research on serving small businesses?

REPORT #517 | filene.org/517
The Effects of Scale on the Development of Credit Union Business Services

REPORT #518 | filene.org/518
Case Studies on the Development of Credit Union Business Services

REPORT #475 | filene.org/475
Meeting the Needs of Independent Workers at Vancity Credit Union

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This research was commissioned by Nymbus and researched by Filene.

THANK YOU

Filene thanks Nymbus for its support of this research. Filene also thanks Kate Larson of Kate Larson Writes, LLC for her contributions in researching and writing this report.

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