

Good times roll again for cash management

Higher rates, low-cost technology, and remote deposit capture spur growth, especially among small and midsize players

At \$125 million in assets and with two locations, MainStreet Bank may be small in size, but it's *big* in cash management. The Herndon, Va.,-based bank offers business customers such sophisticated services as automated escrow management, image-based lockbox, and remote deposit capture as well as more traditional cash management fare such as wire transfers and the ability to download banking transactions into accounting software.

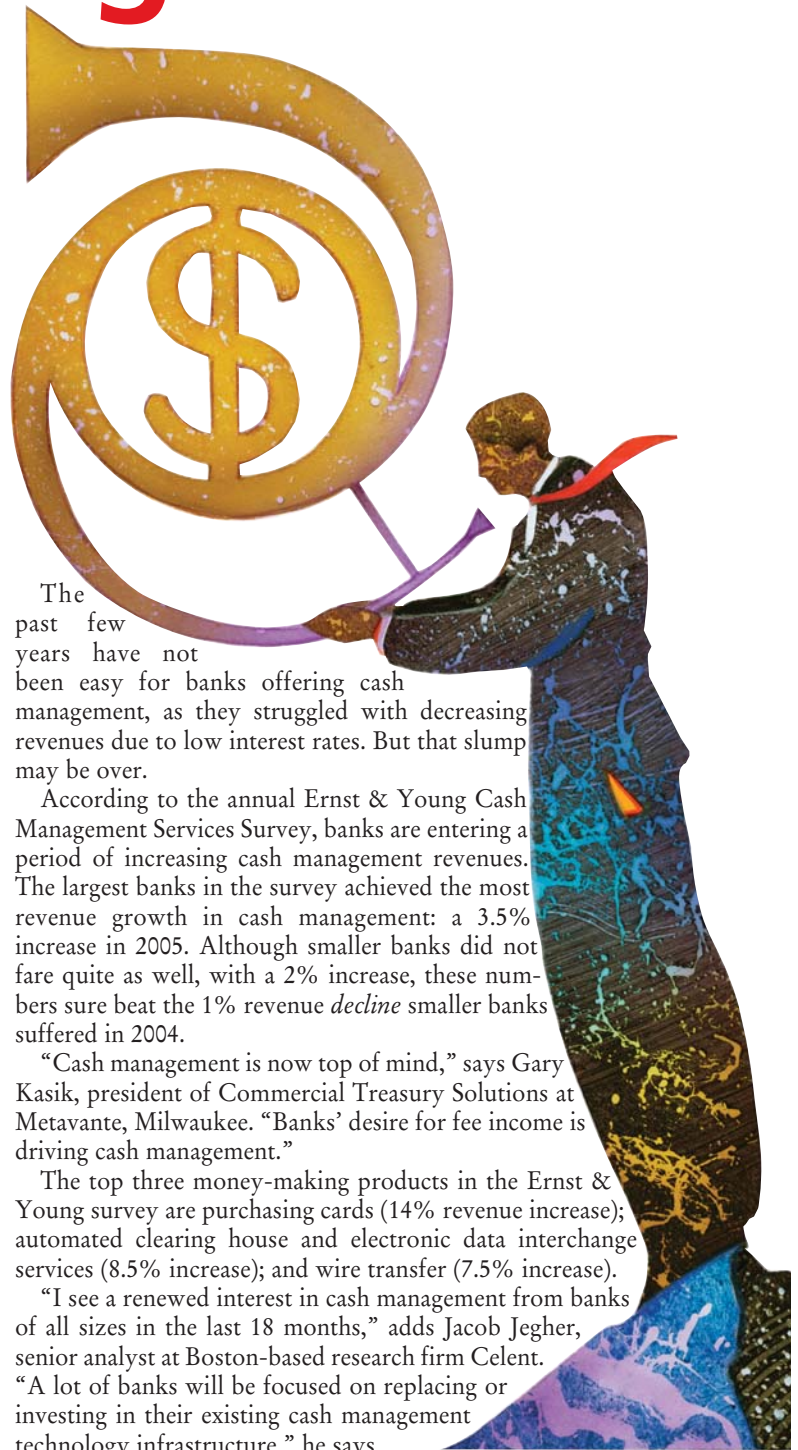
"In pure cash management, we could go head-to-head with anybody," says president and CEO Jeff Dick. "We're in the metro D.C. area and we need a cash management platform that will allow us to compete with the biggest and the best."

In addition to bringing in certified cash manager Michelle Parker as senior vice-president of commercial and treasury services, Dick's team includes eight full-time sales people dedicated to selling cash management products and services. "They are out there every day trying to sell to business customers," he explains.

Does MainStreet Bank represent the new face of cash management: small, community banks aggressively offering robust cash management services typically found only in the largest of financial institutions?

Could be. Although MainStreet Bank is perhaps one of only a few small institutions with such a large-scale cash management offering, cash management is increasingly important to community banks as well as regional and national players, says Charles Wendel of Financial Institutions Consulting, Ridgefield, Conn. "Cash management allows these banks to add significant value to the customer relationship and helps preclude a big bank from taking away their customers. Plus, cash management is a significant source of revenue and income," says Wendel.

By Lisa Valentine, contributing editor



The past few years have not been easy for banks offering cash management, as they struggled with decreasing revenues due to low interest rates. But that slump may be over.

According to the annual Ernst & Young Cash Management Services Survey, banks are entering a period of increasing cash management revenues. The largest banks in the survey achieved the most revenue growth in cash management: a 3.5% increase in 2005. Although smaller banks did not fare quite as well, with a 2% increase, these numbers sure beat the 1% revenue *decline* smaller banks suffered in 2004.

"Cash management is now top of mind," says Gary Kasik, president of Commercial Treasury Solutions at Metavante, Milwaukee. "Banks' desire for fee income is driving cash management."

The top three money-making products in the Ernst & Young survey are purchasing cards (14% revenue increase); automated clearing house and electronic data interchange services (8.5% increase); and wire transfer (7.5% increase).

"I see a renewed interest in cash management from banks of all sizes in the last 18 months," adds Jacob Jegher, senior analyst at Boston-based research firm Celent. "A lot of banks will be focused on replacing or investing in their existing cash management technology infrastructure," he says.

Vendors are gearing up for increased demand with providers such as Open Solutions, Inc., Glastonbury, Conn., rewriting its existing e-Commerce Banker client/server business banking product to take advantage of the newer .NET environment, says Harvey Foster, product manager.

“More than 50% of banks with packaged solutions drink from ASP-based implementations,” says Financial Insights’ Maggie Scarborough, referring to application service providers, the term for providing computer-based service over a network. “The cash management market growth is from increasing transaction volumes over the ASP, continued adoption by the community banking market (sweetened by new solutions such as remote deposit and urged by compliance), and banks of all sizes driving new revenues through the portal,” says Scarborough, who is FI’s research manager for corporate banking.

Business banking was such an attractive market to ViewPoint Bank that the \$1.5 billion former credit union became a mutual savings bank in January 2006 and went public in the third quarter in order to bust loose from credit union restrictions from offering certain cash management products (*ABA Banking Journal*, April 2006, p. 26).

“We had a good portion of the market share of consumers, and a lot of those consumers have businesses,” explains Tracy Marshall, vice-president of Treasury Management Operations. “We wanted to offer these customers an all-encompassing solution while allowing us to grow in size.”

Plano, Tex.-based ViewPoint selected Fiserv Banklink, New York, as its cash management platform, partly because it was already a Fiserv core banking customer, but mostly because Banklink offers an integrated group of cash management products that enables the bank to employ a single vendor for all its cash management offerings, says Marshall.

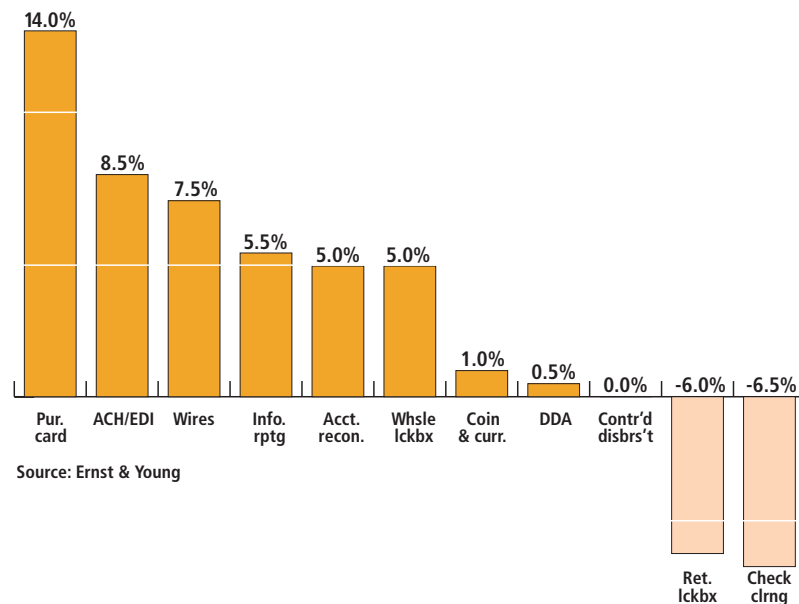
ViewPoint currently offers online banking, information reporting, and ACH and wire transfers, and will expand the offering to include remote deposit capture, positive pay, and controlled disbursements.

Energy from remote deposit capture

Most cash management products and services—wire transfer, ACH, positive pay, lockbox, sweep accounts—have been around for quite some time. The only new entrant to the cash management list is remote deposit capture. Percentages vary as to how many banks provide this service, from 16%, with 33% planning to add in 2007 (*ABA Banking Journal’s 2007 Community Bank Competitiveness Survey*); to 26% (Grant Thornton); to about 40% (Financial Insights).

Remote deposit capture has really revolutionized cash man-

Revenue growth rates for cash management products during 2005



agement in some ways, says Susan Feinberg, research director of the Wholesale Banking practice at TowerGroup, Needham, Mass. “For banks that may have been a bit pessimistic about their future in the cash management business, seeing the success of remote deposit capture has reinvigorated the appetite for investing in other types of cash management services,” she says.

At some banks, remote deposit capture is still viewed as an item-processing product out of the limelight of CEO attention, while other banks consider it a cash management product. But most analysts agree that the best move for banks is to integrate remote capture into a more comprehensive solution and to market it within the larger umbrella of cash management.

Remote capture serves as a lead-in product for \$6.6 billion-asset Bremer Bank, St. Paul, Minn., with more than 100 locations throughout Minnesota, Wisconsin, and North Dakota. “We’ve been pretty aggressive with remote deposit capture and are bringing in more cash management business as a result,” relates Steve Downhour, vice-president.

The success of remote capture is starting to make senior bank management sit up and take notice of what was once considered an operational, non-strategic area of the business. “At the end of the day, CEOs care about loans more than anything else,” explains Lee Wetherington, vice-president at Goldleaf Financial Solutions, Brentwood, Tenn. “If they don’t have deposits, they are limited by the amount of money they can loan. And remote deposit capture is an unbelievably effective low-cost way of getting the deposits needed to make loans.”

He adds that this “all-out land grab to get every core deposit you can” will be over in 12 months. “From the CEO perspective, not only is remote deposit capture strategically critical, but so are all these other cash management services.”

Others, such as Metavante’s Gary Kasik, don’t attribute the renewed focus on cash management to an overflow of excitement

from remote capture.

“Remote deposit capture is an industry-changing product,” he says, “but I’m not sure it’s pushing cash management.”

Small bank challenges and advantages

“It’s an interesting time for smaller banks,” says TowerGroup’s Feinberg. “They struggle with the fact that their customers’ needs for cash management are becoming more sophisticated. There is a tremendous amount of change happening in the cash management environment and it does require ongoing technology investments to be able to support those changes. The challenge is funding the technology investments they need.”

In small banks’ favor is their agility. “In many cases these smaller banks can manage technology projects much more efficiently, and they tend to rely more on partnerships with technology companies to help them get there,” says Feinberg.

Smaller banks are also using ASP-versions of cash management software to compete with big banks which tend to have, proprietary cash management systems. “The prevalence of ASP-based solutions enables banks to pay low fees for fairly sophisticated products,” explains Financial Insights’ Scarborough.

In the case of Virginia’s MainStreet Bank, it outsources core processing to Jack Henry & Associates, but retains in-house design and control of some cash management functions, including lockbox and escrow management, according to CEO Jeff Dick.

Feinberg says that as cash management products become increasingly commoditized, smaller banks are focusing on service quality as way to differentiate themselves from the largest banks. Some are focusing on niche markets that allow them to offer deep industry expertise to their customers, such as providing lockbox services for health care providers.

Kasik echoes this, saying he has seen a trend toward segmentation where banks narrowly market their cash management offerings to veterinary clinics or apartment rental companies.

The smaller institutions are really focusing on the weaknesses of the larger institutions—such as nickel- and dime-ing customers for every little service—and using those weaknesses to their advan-

tage, says ViewPoint Bank’s Marshall. Good service makes good business sense: “Small businesses, depending on their services, can be just as profitable as the mid-market and corporates,” she says.

One value-added service ViewPoint offers to business customers is free seminars on business topics where the bank gets a chance to pitch cash management services not only to the businesses themselves, but to their customers as well.

Bremer Bank also counts servicing as a key differentiator in its cash management offering. The bank competes with banks such as US Bank and Wells Fargo as well as small community banks that are becoming more aggressive about going after the business banking market.

“We really focus on the servicing of these cash management products. We don’t want to compete always on price—that’s not our niche and not our market,” says Downhour. “Part of our strength is that we offer a full line of services.”

Shift to electronic payments helps

Payments are becoming an increasingly important component of cash management solutions as paper checks are replaced with ACH transactions, wire transfers, and card payments. Indeed, CM services can help banks stay competitive in the payments arena where nonbank players have grown increasingly aggressive (see cover story, p. 25).

Downhour explains that a few years ago Bremer Bank started analyzing its revenue and determined that much of it was derived from paper-based products. The bank has created a payments group and is making a conscious effort to replace that paper-based revenue with revenue from electronic products.

“Smaller banks are looking at electronic payments as another way to compete since they don’t need a big infrastructure to process high volumes of corporate payments,” explains Feinberg. Yet for some of their customers in the global environment that need sophisticated international cash management, small banks are trying to figure out how to compete, she says. Do they partner with Canadian or European banks? Do they rely on correspondent banks?

Few things are easy, but it’s clear from the success of several small and midsize banks that cash management—and winning customers—is worth the effort. *BJ*

A different approach to deposit capture

Although not specifically marketed as a cash management product, Wincor Nixdorf USA is rolling out bulk check deposit ATMs that allow consumers or businesses to deposit up to 50 checks at the same time without using deposit envelopes. Wells Fargo has installed approximately 700 of these machines, says Alan Walsh, vice-president of banking for Wincor Nixdorf USA, Austin, Tex. Walsh cites after-hours convenience, real-time access to deposited funds, and receiving an imaged receipt of the deposited checks as key advantages to business customers.

Banks benefit from reduced costs.

Walsh estimates the cost of processing a deposit envelope transaction made at a regular ATM to be \$1.70, compared with \$.40 at the bulk deposit ATM. Because the ATM images the check as it’s deposited, fraud from empty deposit envelopes is eliminated. This fraud costs the banking industry up to \$1.5 billion each year, according to Wincor Nixdorf.

