

AFP®



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The Latest Trends in Bank Relationship Management: A Hot Debate!

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Agenda & Topics of Discussion

- Regulations & Trends
- Share the Wallet
- Current Rate Environment
- FDIC Insurance
- Mobile Chanel and Virtual Banking
- Business Prepaid Cards
- Benchmarking
- Scorecards
- Final Thoughts

Overview of Regulation & Industry Trends

- **Increase of Capital** - New proposed legislation would require largest 8 banks to increase capital from 3% to 5%. Big banks counter by saying this will limit their ability to lend.
- **Cyber Legislation** - OCC suggests new legislation may be necessary to help counter cyber-attacks on banks.
- **Federal Reserve Pass-Through** - Dodd Frank provision goes into effect this fall that allows the Federal Reserve to pass through examination costs only to the big banks
- **FDIC** - Full coverage went away. Dodd Frank changed the banks' formula in 2011 from Deposits to Assets, but no change (other than name) has been seen to FDIC Assessments passed through from banks to Corporate customers.



Share of the Wallet

Share of the Wallet

Banker Perspective

– Pros

- Relationship is already established
- Easier Sell
- Allows more flexibility in pricing

– Cons

- Reduced revenue if FI has to go with a loss leader product
- Challenge to “upsell”
- Introduction of new products

Share of the Wallet

Corporate Perspective

Share of the Wallet is evaluated by ensuring fees paid are proportional to a bank's credit commitment to the company.

Questions we ask:

- Is the bank in the company's revolver?
- Does the bank offer something so unique that they should have a percentage of the spend wallet?
- Does the bank understand our business needs or are they simply presenting the "product of the day"?

Share of the Wallet

Corporate Perspective

- **Pros**
 - Reduced Pricing
 - Fewer Relationships to Manage
- **Cons**
 - Risk – “All Eggs in One Basket”
 - Separated Revenue Streams at the Bank so entire “relationship” not always considered when negotiating
 - Difficulty moving business if changes are needed



Current Rate Environment

Hybrid & Interest Only Accounts

	ECR Only Account Rate	Hybrid Account ECR Rate	ECR Only Account Monthly Fee	Hybrid Account Monthly Fee
Low	0.10%	0.10%	\$14.00	\$16.00
Median	0.225%	0.20%	\$20.00	\$23.00
High	0.45%	0.28%	\$27.00	\$40.00
Average (\$100K Tier)	0.25%	0.1875%	\$21.10	\$25.27

Statistics based on all institutions in the top 25 by asset size (source: American Banker) that offer HYB - Best rate out of any ECR or HYB product at \$100K - Rates as of August 2013

New Hybrid Accounts – Top 25

Statistics based on all institutions in the top 25 by asset size (source: American Banker) that offer HYB - Best rate out of any ECR or HYB product at \$100K - Rates as of March 2013 - Change Column reflects change in rates from April 2012 - March 2013:

- **64% of institutions surveyed offer both a commercial hybrid checking and a traditional analyzed ECR product**
- **72% of institutions surveyed offer a commercial interest checking product**
- **60% of institutions surveyed offer all three product options**

The first hybrid product was introduced on 9/1/2011

The most recent new hybrid product was introduced on 3/5/2013



FDIC Insurance

FDIC Insurance – New Names

Account Balance Assessment

Account Balance Fee

Administrative Fee

Administrative Charge Fees

Analysis Fee

Analyzed Account Charge

Assessment Fee

Balance Assessment Fee

Balance Based Charge

Balance Deposit Fee

Balance Fee

Balance Management Fee

Bank Administrative Fee

Bank Administrative Fee/Regulation Fee

Commercial Balance Assessment

Deposit Account Usage Fee

Deposit Administration Fee

Deposit Assessment Fee

Deposit Balance Fee

Deposit Balance Maintenance Fee

Deposit Balance Protection

Deposit Coverage Fee

Deposit Fee

Deposit Insurance – Bank Assessment

Deposit Insurance Allocation

Deposit Insurance Assessment

Deposit Insurance Fee

Deposit Protection Fee

Deposit Security Fee

Deposit Service Assessment Fee

Deposit Services Fee

Deposit Supervisory Fee

Insurance Allocation Fee

Insurance Fee

Insurance Recovery Charge

Recoupment Fee

Regulatory Assessment Fee

Regulatory Balance Fee

Regulatory Fee

Supervision & Assessment Fee

Supervisor Assessment

FDIC

Banker Perspective

- **Fee income that is desperately needed by the banks in the current environment**
- **If not charged here, prices will increase elsewhere**
- **Been charged for over 10 years. Why stop now?**

FDIC

Corporate Perspective

- **Formula changed from Deposits to Assets**
- **What service do I get?**
- **Effectively reduces ECR, sometimes to below zero.**
- **Disclosure of FDIC rate reveals risk rating of the bank.**



Virtual Banking

Mobile Banking – Commercial

	BANK A	BANK B	BANK C	BANK D	BANK E
MARKET SEGMENT	COMMERCIAL	COMMERCIAL	COMMERCIAL	COMMERCIAL	COMMERCIAL
VIEW BALANCE	YES	YES	YES	YES	YES
PREVIOUS DAY HISTORY	YES	YES	YES	YES	YES
CURRENT DAY HISTORY	YES	YES	YES	YES	YES
REAL TIME REPORTING	YES	YES	YES	YES	YES
ADMINISTER USERS	YES	YES	YES	YES	YES
RESET PASSWORDS	YES	YES	YES	NO	YES
BRANCH LOCATOR	YES	NO	NO	NO	NO
PAY BILLS	YES	NO	YES	NO	NO
INTERNAL ACCOUNT TRANSFERS	YES	YES	YES	NO	YES
APPROVE WIRE TRANSFERS	YES	YES	YES	YES	YES
INITIATE WIRE TRANSFERS	NO	YES	YES	NO	YES
FRAUD PROTECTION	AUDIT LOG, FRAUD FILTERS, POSITIVE PAY	PAYMENT AUTHORIZATION, SEND TO REPAIR	POSITIVE PAY, CHECK IMAGE, ACH FRAUD PROTECTION	NO	ACH FRAUD FILTER, IMAGE POSITIVE PAY
FOREIGN CURRENCY	YES	YES	YES	NO	NO
MOBILE REMOTE DEPOSIT	IN TESTING	NO	YES	NO	NOT FULLY AVAILABLE
ALERTS	EMAIL, TEXT, PHONE	EMAIL, TEXT	EMAIL, TEXT, PHONE	YES - EMAIL, MESSAGE CENTER	EMAIL, TEXT, PHONE

Mobile Banking

Banker Perspective

Pros:

- **Debate of Convenience vs. Cost**
- **Reduces the need for live customer service**

Cons:

- **In the corporate world – needs to be actionable**
- **Security concerns**

Mobile Banking

Corporate Perspective

- **AT&T does not currently utilize Mobile Banking products for Corporate Treasury functions.**
- **We rely heavily on bank systems but we always access from a laptop or a desktop.**
- **In 2014, we may pilot mobile banking for implementation.**

Mobile Banking

Corporate Perspective

Pros

- Convenience, especially with smaller Treasury staffs
- Ease of availability – cell phones and tablets are small; everyone carries one

Cons

- Security – unencrypted messages
- Limited anti-virus software for phones and tablets
- Slow adoption of policies regarding liability if a transaction “goes bad”

Mobile Wallet

Corporate Perspective – Customer Offerings

A form of mobile payment that allows a consumer to use their phone to pay for things at the point of sale.

In North America,

- Mobile payment transaction values expected to surpass \$37B in 2013, up 53% from 2012.
- Mobile payment users will top 90M by 2016.
- By the end of 2013, 1.3M US merchant locations will be “contactless”. By 2017, ~86% of all terminals in North America will be contactless.

Technology centers around NFC (near field communication) which sends data between smart phone and merchant terminal only within very short distances.

Mobile Wallet

Corporate Perspective – Customer Offerings

Isis™ is a joint venture between AT&T, T-Mobile and Verizon.

Security

- Safer than exists with wallets
- The wallet app is PIN protected
- The app doesn't show the user's account number
- All sensitive data is stored on the secure element within the smart phone
- If smart phone is lost/stolen, one call or one click can freeze your wallet
- The CCV number, which remains same with card transactions, changes with every mobile purchase

Mobile Wallet

Corporate Perspective – Customer Offerings

- 86% of US consumers are interested in adopting mobile wallets.
- 73% want to add store loyalty cards.

Consumer Input

- 68% - want the convenience and ease
- 52% - want to receive mobile offers and store discounts
- 45% - want to redeem points or other offers directly from their phone
- 41% - indicate it would improve their “loyalty rewards”

Technology allows consumer to clip digital coupons and store on their smart phones or scan OCR boxes on print material.

Remote Capture

Banker Perspective

Pros

- Self service product
- Appeals to multiple business segments
- Goes well with mobile technology

Cons

- Some risk concerns

Remote Capture

Corporate Perspective

- **AT&T is using remote deposit capture in three of our business segments**
 - Remittance Operations Centers – our high speed equipment converts ~18M checks into ARC or ICL monthly.
 - Company Owned Retail Stores – we perform RDC on ~60k checks monthly
 - A/R and A/P Back Office – we process ~300 miscellaneous checks monthly via RDC

Remote Capture

Corporate Perspective

Pros

- Convenience of depositing funds
- Makes funds available earlier/faster
- Reduce return item risk and processing costs
- Larger footprint

Cons

- Quality vs Cost
- Duplicate detection software
- Encrypted connection with the bank is necessary
- Retention period and destruction process



Business Prepaid Cards

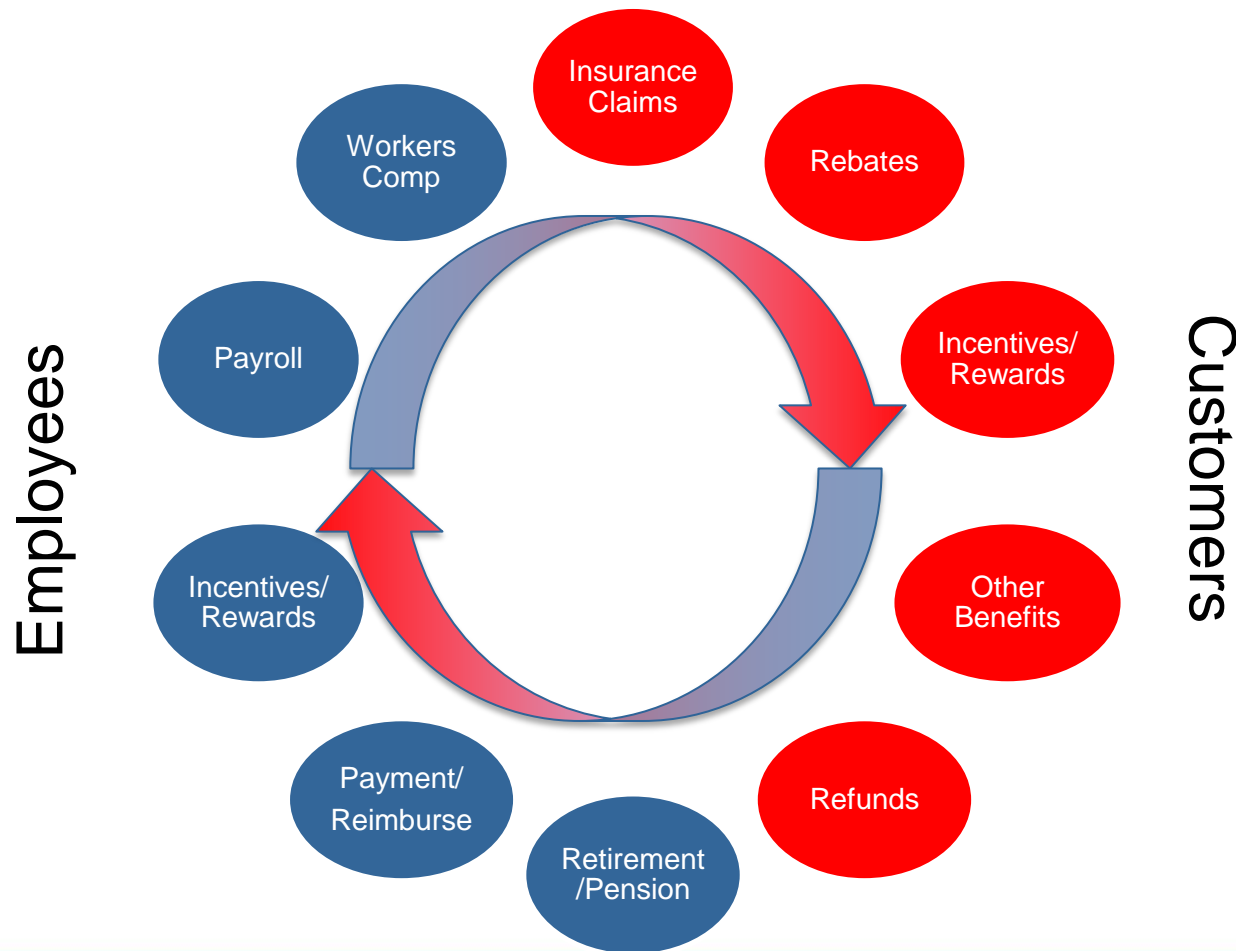
Prepaid Card Trends

- Payroll Cards
- Merchant Card Processing
- Pre-paid business cards



Prepaid Card Services

Corporate Perspective



Card Services

Corporate Perspective

- **Customizable**
 - Card can be customized with company's logo
- **Purchase Power**
 - Accepted anywhere Visa/MasterCard can be used
- **Direct Deposit**
 - Allows companies to directly deposit funds
- **Easy**
 - Relatively easy implementation and account enrollment
- **Cash**
 - Allows cash access
- **Security**
 - Protected against unauthorized transactions (subject to terms and conditions)
- **Familiarity**
 - Consumers becoming familiar with cards and their uses

Card Services

Corporate Perspective

Benefits

Organization

- Reduces risk
- Streamlines administration
- Eliminates check processing expense
- Reduces bank fees & account reconciliation
- Improves efficiency

Cardholder

- No checks
- Convenient
- Provides access to cash
- Secure
- 24/7 customer service

Card Services

Banker Perspective

- **Per diem cards**
- **Prepaid employee cards**
- **Rise of quasi merchant**
- **Use of technology to process transactions**



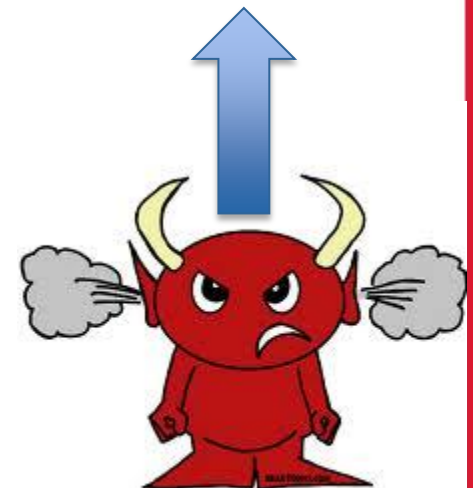
Benchmarking

Benchmarking

- **Why is benchmarking important?**
- **What are the options and why?**
 - AFP Pricing powered by Informa Research Services, Inc.
 - Blue Book
 - Third Party Consultants
- **How effective is it?**

Benchmarking – The Dangers Corporate Perspective

Line Item	Client Price	Distinct Prices This Month for Bank
Prem PDR Account	\$ 25.00	0, 25, 30, 35, 38.68, 65, 70.81, 75, 95



Benchmarking

Corporate Perspective

Allocating business to banks – it isn't all about pricing

- Know each bank's strengths and choose partners accordingly
- Balance number of bank relationships
- Evaluate wallet share
- Determine if an RFP is needed when looking at new or moving business

Benchmarking

Corporate Perspective – AFP Codes

- Last year AT&T looked at the bank expenses generated by our ~2,300 company owned retail stores.
- Among 10 banks, we found the cost per deposit varied by as much as \$7 per deposit.
- Trying to compare banks' fees “apples to apples” was difficult, at best.

Benchmarking

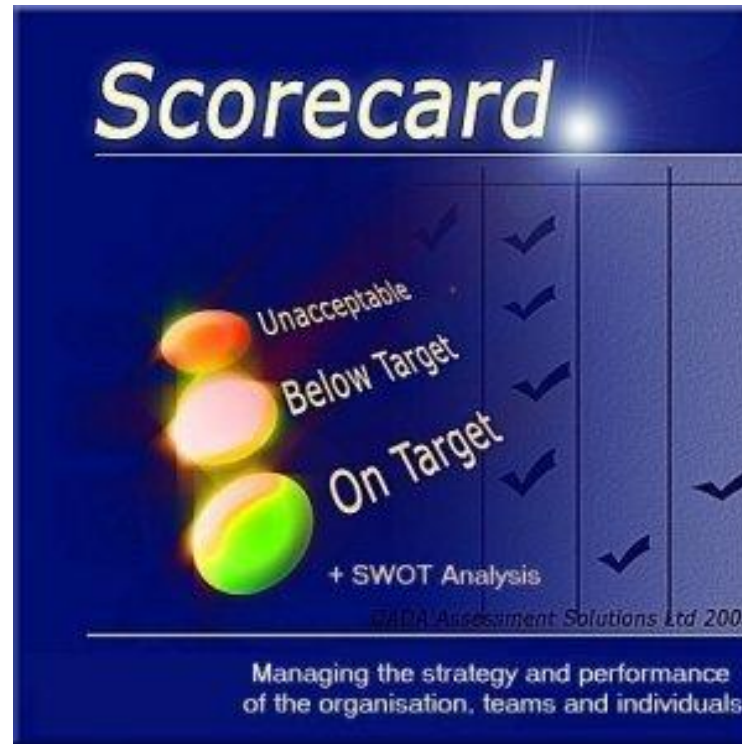
Corporate Perspective – AFP Codes

- AFP Codes not used by all banks and, when used, bank definitions vary
- Some banks use AFP Codes broadly; other banks get very detailed
- Some banks include certain fees only at the master account; other banks include those fees at the sub-account
- The basis for charges isn't consistent among banks
- Companies are left making educated assumptions when trying to compare Bank A to Bank B to Bank C.

Benchmarking

Banker Perspective

- **Banks benchmark to get a pulse on the market to determine price increases and reasonability**
- **Is it an effective negotiating tool for corporate treasurers?**



Scorecards

Scorecards/Report Cards

A scorecard is a management tool used to measure activities in both a qualitative and quantitative method of a bank's performance.

How to Use a Scorecard?

- As a quantitative measure of service provided/benefit received
- As feedback from customer to bank on the value/quality/cost of services provided
- As an evaluative method to support continuous improvement both internally and externally
- As a tool to evaluate all service providers on those issues important to a company
- As a way to provide clarity on how well issues/services are delivered or handled by the bank

Scorecards/Report Cards

Best Practices

- Have more than one person within the company provide input, include both senior and junior members of teams that interact with the banks or relay on bank information
- Have the bank present their version of a scorecard back to the company; helps identify gaps in value perceived

Advantages

- Effective relationship management tool for banks to receive critical feedback
- Identifies opportunities for improvement
- Provides a shared understanding of goals with clear performance measures
- Establishes confidence, trust and a collaborative partnership between company and bank

“Opportunities”

- Not all services, relationship areas can be measured or have a numerical value placed on them
 - What is “adequate/timely follow-up”?
 - How meaningful are the solutions a bank presents?
 - How innovative is the bank?
 - How well does the bank know your business and its needs?
- Initially identify those areas that are most important to the company to include in a scorecard; don’t make the mistake of having the scorecard so cumbersome that managing it becomes a full time job

Scorecards/Report Cards

AFP has a very robust scorecard template available at their website,
www.afponline.org.

			Bank Name:	Any Bank Name		
Banking Services Evaluation			Acct Officer:	Any Relationship Manager		
			Time Period:	Any Time Period		
* See Appendix for suggested scoring option						
SECTION 1	GENERAL CUSTOMER SERVICE					
	<u>N/A</u>	<u>Excellent</u>	<u>Satisfactory</u>	<u>Poor</u>	<u>Unacceptable</u>	<u>Rating</u>
1. Level of Competence	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
2. Courteous Professional Behavior	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
3. Telephone Availability	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
4. Back-up coverage	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
5. Response Correctness	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
6. Timeliness of Response	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
7. Follow Through on Commitments	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
8. Overall Problem Solving	<input checked="" type="radio"/> Not Applicable	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
9. Knowledge of Bank's Policies/Procedures	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
10. Knowledge of Bank's Cash Mgmt Products	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	
Custom Field	<input checked="" type="radio"/> Not	<input type="radio"/> Rating of 4	<input type="radio"/> Rating of 3	<input type="radio"/> Rating of 2	<input type="radio"/> Rating of 1	

Scorecards/Report Cards

- The AFP scorecard template contains categories such as
 - Qualitative
 - Quantitative
 - Payments
 - Information Reporting
 - Lockbox
 - Miscellaneous
 - Scoring Summary
- Scorecards can take whatever format a company chooses.

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