

INTERSECTION OF CASH MGMT & CUSTOMERS

by [Steve Brown](#)

It is inevitable when driving around town that one will eventually reach an intersection. That premise holds equally true in banking, particularly when it comes to the intersection between delivering cash management products and increasing profitability.

For community banks, the cash management product can deliver significant results and increase customer acquisition and retention. To increase effectiveness, many banks we know have expanded from a single deposit gathering expert to a broader team that works closely with the lending group.

When "cash management" is mentioned, most bankers invariably think about check imaging, so we will start there. Over the past few years, this technological innovation has seen massive adoption. In fact, studies show that nearly 50% of all community banks now image cash letters and close to 90% will do so within the next 2Ys. Whether processing check images from the ATM, branch or business customers, it is clear community banks have found check image capture to be a strategic component of their product suite. Specifically, community banks have found imaging to be a critical way to reduce processing costs, accelerate clearing cycles and enhance customer service.

Community banks are also zeroing in on merchant capture. In fact, surveys show nearly 50% of all community banks will offer merchant remote deposit capture within the next 2Ys. Bankers have found their customers truly enjoy the convenience that comes with being able to make check deposits from their own office on their own timeframe. Customer satisfaction is increased through faster funds availability, improved timing of bank deposits, reduced courier costs, lower fraud costs and improved reporting capabilities. Clearly, this tool has become a key cash management offering for small business clients and an integral component of any capture program.

Next, we focus on ACH. In short, ACH has become a primary system behind such products as online bill payment and remote capture. For the business customer in particular, ACH has come to be seen as a virtual credit card. Customers simply supply their checking account details (including routing and account number), instead of their credit card number. Small businesses love the flexibility of ACH and bankers appreciate the flat fee structure and added safety it provides (i.e. only operates within the U.S. and account numbers are of limited value to thieves). While ACH transactions do carry risk (i.e. can be authorized over the internet or telephone, may not require written authorization, third-party senders, etc.), banks with proper policies, procedures and controls can feel confident in offering ACH to customers.

The next key aspect of cash management involves debit, credit and prepaid payment cards. Debit cards have become an important product for community banks, with over 94% considering them a critical cash management tool. All told, about 65% of community banks currently offer debit cards to their business customers. Prepaid card usage is also increasing. More than 25mm prepaid cards have been issued and businesses now use them for recurring payments such as payroll, incentives, monitor petty cash and build brand marketing (through rebates to customers). Community banks enjoy the float these cards offer, fees and improved customer retention.

Finally, we close with a discussion of online bill payment. While this product is well known to community banks, the value it delivers may not be. Studies show that over the next 5Ys, online bill payment adoption will soar nearly 225% and that these customers are some of the most profitable ones for banks. Consider that compared to other customers, online bill payers hold loan balances up to 40% higher and checking balances up to 45% higher. In addition, these customers buy up to 10% more financial products and are 80% less likely to leave.

Focus on improving cash management offerings to increase customer satisfaction, enhance retention, boost profitability and decrease costs. Clearly, cash management is one area where value and profitability do intersect.

BANK NEWS

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Premier Financial Bancorp (\$547mm, W. VA) will acquire Citizens First Bank (\$59mm, W. VA) for about \$11.7mm, or roughly 2x book. Citizen's has 2 branches and about 12% of deposits are non-interest bearing.

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Porter Bancorp (\$1.2B, KY) will acquire Paramount Bank (\$75mm, KY) for about \$5mm.

Outside Competition

Wachovia reports about 5% of its business customers now use remote capture, but that 67% of those are from outside the bank's geographic branch network.

More Training Needed

A recent survey finds only 11% of bankers feel their employee's skill level was at the top of the industry, while 27% said they were very satisfied with the progress in their training programs.

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