PREVENTING A CASH MANAGEMENT ISLAND

by Steve Brown

Back in 1541, Spanish explorer Hernan Cortes left Mexico to explore what is now California. His crew sailed up the coast into the Gulf of Baja California and saw land on both his east and his west side. After running low on time and provisions, he was forced to turn back and concluded that CA was an island (since he sailed almost 1,000 miles and did not hit land to the north). Shortly after this discovery, another Spanish expedition was launched that traveled up the coast near San Francisco. Also running low on supplies and time, they made land and quickly ran into the Mendocino River (which ran parallel to the ocean at their point of exploration). Not having any reason to doubt their fellow explorer and having a "mental map" that CA was an island, the expedition concluded that Cortes was right.

Oddly enough, other explorers expecting CA to be an island concluded the same thing. The belief that CA was an island lasted an amazing 200Ys until 1745, when a Spanish royal proclamation set forth the truth.

The point here is that sometimes, preconceived notions die hard. Many banks continue to live with the belief that they are in the business of collecting deposits. The fact is, the industry changed 10Ys ago and customers are demanding that banks become masters of cash management. As such, every bank should have "expansion of cash management services" as part of its strategic plan.

Having a strategy starts with a product view and includes offerings such as the checking account, credit cards, ATM, online banking/bill pay, remote deposit capture ("RDC") and mobile banking. An action plan should also include the review of policies and fee structures every year, to ensure that they support revenue generation, customer satisfaction and profit optimization. Banks need to get away from the notion that they are doing customers a favor by allowing them to keep their funds on deposit. Overly complicated fees, restrictive policies and punitive fees often hinder long-term goals of increasing profitability or gaining market share. Of course, the opposite side of the coin is considering what fees you could be waiving, such as foreign ATM and RDC to drive more business.

Integration should be another key part of long-range cash management planning. The classic example is the fact that while most banks offer RDC, few present an integrated view to the customer. RDC is often treated as a stand alone product, instead of a complete solution combined with card processing, payroll/expense management, QuickBooks and lines of credit.

Other items top performing banks put in the plan is how to counter competitive threats like Paypal or decoupled credit cards. For that matter, resources for the plan should be identified and someone within the bank should be assigned to monitor and assess new payment innovations to update the strategy every year. Finally, having a marking strategy to promote cash management offerings is often critical. Does the bank want to offer a reward's program, bundled pricing or co-branded products? Items like these should be set at the senior management level and then turned over to line management to provide tactical expertise.

We believe the future of community banking will be won and lost within the cash management space and putting a plan in place now will help change the notion that the bank is not a chain of product islands. While we will be talking more about this at our upcoming High Performance Workshop (Sept. 17th in Amelia Island, FL), we can tell you that a trademark of a High Performing bank is to have a set of articulated priorities and objectives that will push the bank into expanding its cash management offerings in an effective manner. In so doing, those banks become a solid mass of cash management solutions.

BANK NEWS

Bank Earnings

Financial institutions earned $5B in net income for 2Q, nearly 85% less than same period in 2007. Overall, earnings were the 2nd lowest in 17Y.

Problem List

The FDIC released its list of "problem" institutions, reporting the number of troubled banks rose 30%, to 117. This is the highest level in 5Ys and up from 90 in the 1Q. FDIC Chair Sheila Bair said she expected "more banks will come on the list as credit problems worsen." Meanwhile, assets of "problem" institutions (including IndyMac) jumped to $78B in the 2Q (up from $26B in 1Q).

More Stress

The WSJ is reporting that the FDIC may need to borrow from the Treasury to cover an expected wave of bank failures. Borrowings would be repaid once assets of failed institutions were sold off.

GSE Good News

FNMA and FHLMC are reporting their biggest profits on new investments since 1998, as the difference between where they borrow and where they can invest in mortgages widened to 40bp. It is interesting to note that this spread has only been above 20bp twice in the past 10Ys (in 1998 and in 2003).