35th Annual Cash Management Services Survey

2018 top line preview

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Building a better working world

Cash Management Services Survey

2018 top line preview

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Introduction

EY has conducted the annual Cash Management Services (CMS) Survey for 35 years. In January 2018 we sent the survey questionnaire to previously responding financial institutions and other top 100 bank holding companies that actively market treasury services to wholesale customers in the United States.

We received data from 47 financial institutions, including 44 respondents from the 2017 CMS Survey and three additional banks. The new participants were Flagstar Bank, IberiaBank and PlainsCapital Bank. The 2018 survey's participants included 19 of the top 20 targeted banks, based on asset size, and 86% of the top 50.

The responding financial institutions were segmented into three peer groups based on their US assets. The 19 largest institutions were assigned to the first peer group (Peer 1). The next 24 banks, in assets order, were placed in the second group (Peer 2). The remaining four banks, with assets less than US$20 billion, were placed into the third group (Peer 3). Since Peer 3 contains fewer banks and generally has more turnover, for most measures we combine Peers 2 and 3 to produce more stable and comparable results between years.

We also asked several non-bank lockbox providers to participate in the survey to give us another perspective on outsourcing trends and the broader lockbox marketplace. Fiserv, Inc., responded and we hope more non-banks opt to participate next year.

2018 bank peer group profile

Peer 1	
Assets:	*More than US$125 billion*
Respondents:	*19*
Peer 2	
Assets:	*US$20 billion to US$125 billion*
Respondents:	*24*
Peer 3	
Assets:	*Less than US$20 billion*
Respondents:	*4*

2018 participant list

Peer group 1 *More than US$125 billion in assets*

Bank of America Corporation
BB&T Corporation
BMO Harris Bank, N.A.
BNY Mellon Corporation
Capital One Financial Corporation
Citibank, N.A.
Citizens Financial Group, Inc.
Fifth Third Bancorp
HSBC Bank USA NA
JPMorgan Chase & Co.
KeyCorp
MUFG Americas Holdings Corporation
Northern Trust Corporation
PNC Financial Services Group, Inc.
Santander Holdings USA, Inc.
SunTrust Banks, Inc.
TD Bank, N.A.
U.S. Bancorp
Wells Fargo and Company

Peer group 2 *US$20 billion to US$125 billion in assets*

Associated Banc-Corp
Bank of the West
BBVA Compass
BOK Financial Corporation
CIBC Bancorp USA Inc.
City National Corporation
Comerica Incorporated
Commerce Bancshares, Inc.
East West Bank
First Citizens BancShares
First Horizon National Corporation
First National Bank of Omaha
Hancock Bank Holding Company
Huntington Bancshares
IberiaBank
MB Financial Bank
M&T Bank Corporation
People's United Bank
Regions Financial Corporation
Silicon Valley Bank
Synovus Financial Corporation
Webster Financial Corporation
Wintrust Financial Corporation
Zions Bancorporation

Peer group 3 *Less than US$20 billion in assets*

Flagstar Bank
First Midwest Bank
Great Western Bank
PlainsCapital Bank

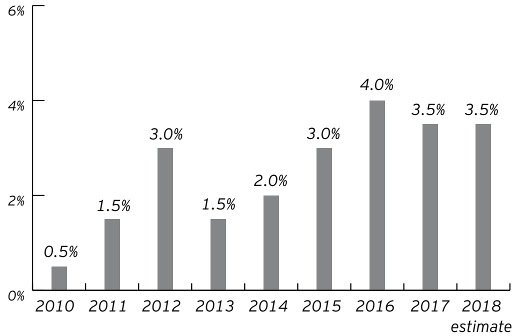
Non-banks

Fiserv, Inc.

Cash management revenue

Cash management revenue increased by 3.5% in 2017, adding approximately US$600 million. This was less than the 4% increase measured for 2016, and fell short of the respondent prediction for a second year of 4% growth. However, 3.5% growth surpassed the 3% increase recorded in 2015, and every other year since the 2008 financial crisis except 2016. The respondent forecast for 2018 was for another year of 3.5% growth.

Fee-equivalent cash management revenue growth



As the chart illustrates, cash management revenue growth has climbed to a plateau of about 3% to 4%. While recent increases have generally been above the concomitant overall growth rate of the US economy, we believe cash management growth and overall economic growth are inexorably linked. We expect near-term growth rates will be similar to recent performance, but change is coming. Gradually rising interest rates will increase the relevance and value of cash management services. Many other indicators of the US economy also remain very positive. However, current uncertainty on global trade has the potential to negatively impact sectors of the US economy. Any slowdown in the long-running economic expansion is likely to inhibit payment growth. While the payments business continues to undergo transformation, to a more real-time, electronic and virtual world, we believe external economic conditions will continue to be the dominant factor influencing cash management growth.

Last year we noted that repeating 4% growth in 2017 was plausible, but we saw a lower growth rate of 3.5% as equally likely. We speculated that purchasing card revenue would be weaker than expected, and this was true in some cases. However, rather than finding one weak link in 2017, we saw a number of products falling a little below expectations, resulting in slightly slower growth. At the product level, the two biggest deviations from the 2017 respondent forecast were weakness in wholesale lockbox, up only 0.5% vs. a prediction for a 3.5% rise, and continued robust growth in coin and currency, up 6% vs. an estimate for a more average 3.5% increase.

Estimated changes in revenue contribution between 2016 and 2017

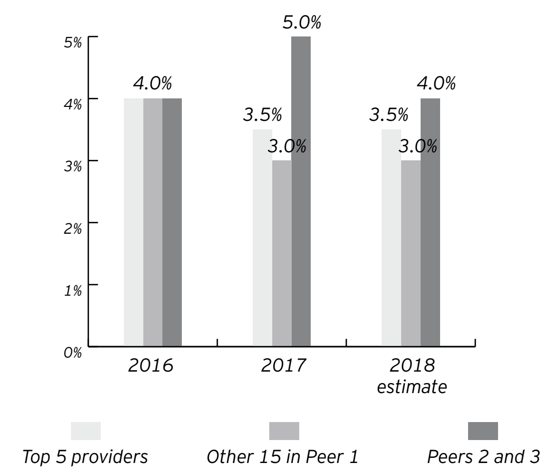
	US dollars in millions	Percentage of total
Purchasing cards	144	24.0%
Wire transfer	127	21.0
ACH/EDI	111	18.5
Information reporting	87	14.5
Coin and currency	78	13.0
DDA	45	7.5
Account reconciliation	13	2.0
Wholesale lockbox	9	1.5
Retail lockbox	(3)	(0.5)
Check clearing	(4)	(0.5)
Controlled disbursement	(7)	(1.0)
Total	*$600*	*100%*

Electronic payments, including wire transfers and automated clearinghouse (ACH), and purchasing cards continued to propel growth, producing nearly two-thirds of the US$600 million increase over 2016. See the accompanying table. Information reporting and coin and currency services played supporting roles, delivering 14.5% and 13% of overall growth, respectively. Demand deposit accounts (DDA) were a comparatively minor contributor, adding 7.5%. The survey's DDA category includes fee income from general disbursement checks, account maintenance, statement services, zero-balance accounts and non-interest-related overdraft and sweep account fees. The small revenue declines seen in retail lockbox, check clearing and controlled disbursement were relatively inconsequential.

Growth rates by bank segments

The CMS Survey endeavors to measure revenue growth on a "same-bank" basis (i.e., discounting revenue gains associated with acquiring other banks) by collecting equivalent revenue for the last two completed calendar years. Collectively, the top five banks in fee-equivalent cash management revenue generated 3.5% growth in 2017. This was less than the 4% increase realized by these banks in 2016. Total revenue from the other 15 banks in Peer 1 grew by 3%. This was also lower than the 4% growth this group realized in 2016. The remaining banks surveyed, Peers 2 and 3, improved upon their 4% growth attained in 2016, rising 5% in 2017.

Fee-equivalent cash management revenue growth by bank segment



Both the top five banks and the other 15 banks in Peer 1 forecast maintaining their 2017 growth rates in 2018. Peers 2 and 3 gave a more cautious forecast of 4% growth in 2018.

What is fee-equivalent revenue and how was it measured?

The 2018 CMS Survey asked participants to report fee-equivalent cash management revenue collected from their cash and treasury management customers. These encompass corporations, the middle market, small businesses, government, correspondents and other non-retail customers on account analyses that allocate revenue to the products and services used. Fee-equivalent revenue includes service charges and penalty fees (e.g., per-item charges for overdrafts), regardless of whether payment was made via compensating balances or fees. Respondents were instructed to exclude any revenue returned to customers (i.e., rebates or waivers). Income earned from excess balances, float and the spread between the customer's rate (e.g., earnings credit rate or sweep account rate) and the bank's actual investment rate was also excluded, as were rate-based charges for negative balances and income from deposit assessment fees.

The 2018 survey collected banks' fee-equivalent cash management revenue for the last two completed calendar years (2016 and 2017), enabling us to calculate revenue growth and the overall size of the business for the top 100 banks. Our methodology includes estimating the revenue of non-respondents based on their previously received data or on data from their peers. Respondents were also asked to provide a revenue estimate for 2018, the current year.

The specific product lines and services included were account reconciliation, controlled disbursement, ACH, electronic data interchange (EDI), DDA, wire transfer, information reporting, retail and wholesale lockbox, check clearing (including remote and mobile deposit), coin and currency, and purchasing card.

Measured purchasing card revenue comprised all non-interest-related fees (i.e., interchange fees and any penalty fees for late payments) even if some portion of this revenue was shared with other areas of the bank or an outside vendor. Respondents were asked to exclude revenue returned to customers via rebates and card association fees. Finally, respondents were instructed not to deduct the cost of funds.

Total revenue reaches US$18 billion in 2017

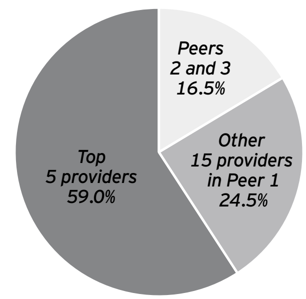
As previously noted, the 2018 CMS Survey asked responding banks to record their fee-equivalent cash management revenue from the last two completed calendar years, 2016 and 2017, along with an estimate for 2018. This enabled respondents to revisit and, if needed, adjust their previously reported totals for 2016 to reflect recent acquisitions and revised methodologies. While there were revenue adjustments to some 2016 numbers, the previous revenue estimate of US$17.4 billion for 2016 for the top 100 banks held up.

The 3.5% growth realized in 2017 raised fee-equivalent revenue to about US$18 billion. If the respondent forecast for another 3.5% increase in 2018 is attained, total fee-equivalent revenue for the top 100 banks will increase to approximately US$18.6 billion.

Revenue segmentation

The top five cash management providers received 59% of the revenue measured in 2017, down slightly from 59.5% in 2016. The share of the other 15 banks in Peer 1 also declined, dropping from 25.5% in 2016 to 24.5%. Peers 2 and 3, the segment with the highest growth rate, accounted for the remaining 16.5%, up from 15%. Changes in market share among these three bank segments were principally influenced by changes in group membership (due to changes in assets), mergers and acquisitions, and the differing growth rates of the segments.

Share of 2017 fee-equivalent revenue



Revenue contribution from customer segments

The CMS Survey asked respondents to indicate what portion of their cash management revenue came from each of the five prelisted customer groups. In the following table, the total was calculated by weighting each bank group's answers by its percentage of total revenue.

In total, the respondents reported that 28% of their 2017 revenue came from large corporations, defined as firms having more than US$250 million in annual sales. The middle market (firms with US$50 million to US$250 million in sales) delivered the largest share, contributing 32%, while small business (firms with less than US$50 million in sales) accounted for 20%. Financial institutions (other banks, thrifts and credit unions) and the government and nonprofit sector were the smallest segments, each responsible for 10% of 2017 revenue.

Revenue segmentation

Compared with the results for 2016, there were only relatively minor changes. The portion of revenue coming from middle-market customers increased from 30% in 2016 to 32% in 2017 as the share from small businesses contracted, from 22% to 20%. Revenue from large corporations also declined marginally, from 29% to 28%. Revenue from other financial institutions grew from 8% to 10%, while the share from the government and nonprofit sector declined from 11% to 10%.

Share of 2017 fee-equivalent revenue by customer segment

	Large corporate	Middle market	Small business	Financial institution	Government and nonprofit
Top 5	32%	29%	17%	12%	10%
Next 15	28%	36%	15%	11%	10%
Peers 2 & 3	15%	34%	42%	2%	7%
Total	*28%*	*32%*	*20%*	*10%*	*10%*

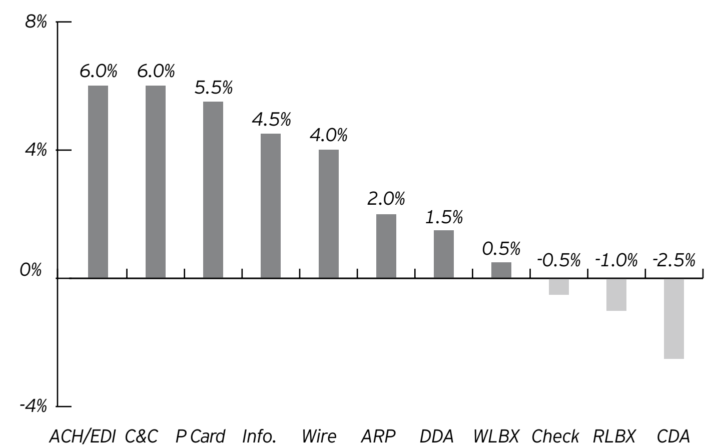
The top five providers continued to be most reliant on revenue from large corporations (32%) with middle-market customers running a close second, delivering 29% of measured revenue.

The next 15 banks had the largest share of their revenue coming from the middle market (36%), but large corporations (28%) were also an important segment. While some distinctions between the top five banks and the next 15 remain, the differences are narrowing. The last group, Peers 2 and 3, continued to be heavily dependent on small business revenue (42%), with middle-market clients playing a significant role, contributing about a third of income (34%).

Product details

The same nine product lines that reported revenue growth in 2015 and 2016 also increased in 2017. Combined ACH and electronic data interchange (EDI) revenue grew 6%. On an individual basis, ACH added 5.5% and EDI revenue was up 8%. Coin and currency (C&C) revenue also increased by 6%, improving upon its 2016 performance of 5%. Purchasing card (P Card) bested its 3.5% increase from 2016 with 5.5% growth in 2017. Information reporting (Info.) also surpassed 2016 growth of 4% with a 4.5% increase. Conversely, wire transfer (Wire) revenue growth decelerated, from 6% in 2016 to 4%. Both account reconciliation (ARP) and DDA also had slightly weaker performances in 2017, relative to 2016. Account reconciliation was up 2%, vs. a 2.5% increase in 2016, while DDA revenue grew 1.5%, falling short of 2016's 2% rise. The final product with any revenue growth in 2017 was wholesale lockbox (WLBX). After a 3.5% increase in 2016, wholesale lockbox eked out a meager 0.5% growth in 2017.

Revenue growth rates for cash management products during 2017



Check clearing (Check) revenue fell 0.5% and retail lockbox (RLBX) revenue declined 1%. Both these product lines were flat in 2016, reporting neither gains nor losses. Finally, controlled disbursement (CDA) revenue fell by 2.5% in 2017, similar to this product's 2016 decline of 2%.

Six of 12 surveyed products failed to meet forecast

Six products underperformed, relative to respondents' estimates for 2017. The most consequential misses from a revenue perspective were in wholesale lockbox, purchasing card and DDA. Wholesale lockbox failed to meet the respondent forecast for 3.5% growth, increasing by only 0.5%. The short falls in purchasing card and DDA were less acute, but their slower growth had a material impact since these products are large contributors to overall revenue. Purchasing card was predicted to rise by 6.5%, but measured growth was up 5.5%. DDA revenue increased by only 1.5%, vs. a predicted 2.5% rise. Account reconciliation, controlled disbursement and retail lockbox also missed their targets, but their shortfalls were relatively inconsequential.

Five products met respondent expectations for 2017 revenue growth. They included ACH, EDI, wire transfer, information reporting and check clearing. The only product that exceeded expectations was coin and currency, up 6% vs. the forecast for a more pedestrian 3.5% increase.

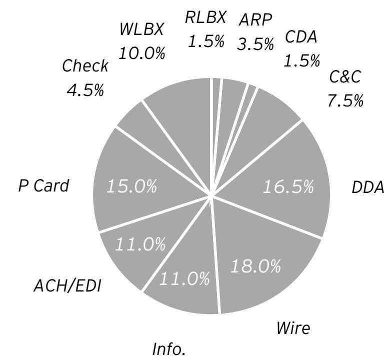
Share of revenue by product

The accompanying pie chart illustrates the 2017 fee-equivalent revenue contributions of the product lines included in the CMS Survey. The three largest slices are wire transfer, with an 18% share; DDA, with 16.5%; and purchasing card, delivering 15% of revenue. DDA's share declined from 17% in 2016. The next tier in size order included information reporting and ACH/EDI, each with an 11% share, and wholesale lockbox, with 10%. ACH/EDI expanded from 10% in 2016.

Coin and currency's share remained at 7.5% in 2017. The next product in descending order, check clearing, declined from 5% to 4.5%. The three smallest product slices were unchanged. Account reconciliation contributed 3.5%, and retail lockbox and controlled disbursement each added 1.5%.

The CMS Survey collects domestic cash management revenue, with the exception of the cross-border components of wire transfer, ACH, EDI and remote capture. Wire transfer revenue includes income associated with same-day US dollar transfers between US and foreign locations and within the US (excluding revenue from transfers between two non-US locations). Small portions of ACH, EDI and remote deposit revenues were from cross-border transactions.

2017 cash management revenue by product



Profitability

Pretax profit margins

All 42 banks that answered the survey's question on overall profitability said that in aggregate their cash management area was profitable. The banks in Peer 1 reported an average pretax profit margin of 52% for 2017. This was slightly higher than the 50% mean measured for 2016.

The banks outside the top 20 had an even more impressive average pretax profit margin of 58%. That was notably higher than the 2016 average of 48%, measured from Peers 2 and 3. The higher margins reported by Peers 2 and 3 pushed the 2017 all-bank average margin to 56%, easily surpassing the 2016 overall average of 48%.

The survey's instructions stated that cash management profitability metrics could include both fee-equivalent revenue and float and spread income, since both can contribute to profitability. Sixty-six percent of the 2018 respondents said they included both direct and transfer costs in their profitability calculations, while the remaining 34% only included direct costs. In the 2017 survey, three-quarters (75%) included both direct and transfer costs, and one-quarter (25%) included only direct costs. Excluding transfer costs was more prevalent in Peers 2 and 3, and the increase in this practice likely contributed to the higher profit margins we observed.

Product profitability

The survey questionnaire asked respondents if each of the product lines their organization offered generated a net profit, broke even or generated a net loss in 2017. Forty-one banks provided data for at least some of their products. Eleven of the 14 products we asked about were characterized as being profitable by 90% or more of the responding banks.

Three products shared top honors with 100% of the responding banks reporting a profit. These three products were ACH, wire transfer and sweep accounts. DDA was just below that elite level with 98% recording a profit. Next in line were purchasing cards with 97% reporting profits, followed by information reporting and check clearing, each with 95% asserting profitability. EDI was seen as profitable by 94%. While only 13 banks answered our profitability question for prepaid cards, 12 of the 13 (92%) considered these cards profitable. Finally, account reconciliation and controlled disbursement were said to be profitable by 90% of the responding banks.

Scoring below the 90% level and receiving notably lower scores were wholesale lockbox, with 80% claiming a profit, retail lockbox with 71%, and finally coin and currency, declared profitable by only 65% of those answering.

Products with highest profit margins

The CMS Survey also asked banks to list, in order of rank, the three products that had the highest profit margins. Thirty-two banks supplied answers. ACH and wire transfer came in first, each with seven banks citing them as the most profitable product, followed closely by information reporting, with six first mentions. DDA and sweep accounts were tied for fourth place, with four mentions each.

When we tabulated the number of times each product was placed in the top three, regardless of the specific rank (1, 2 or 3), the same three products most frequently ranked number one also received the greatest number of mentions. ACH was on top with 20 mentions, followed closely by wire transfer, with 19. Information reporting was in third place, receiving 15 mentions.

DDA was fourth, earning a total of 12 mentions. Sweep accounts had substantially fewer mentions, garnering seven votes and placing fifth. Finally, purchasing cards received six mentions while check clearing and controlled disbursement each obtained four.

For more information

The EY Cash Management Services Survey is a survey of the US cash management business performed annually by the Cash Management practice of Ernst & Young LLP. In consideration of their participation and assistance, all 2018 CMS Survey respondents receive this top line preview as well as a more detailed participant report to be distributed in the fall. Participating organizations may also purchase a ranking report. In addition to the CMS Survey, the Cash Management practice of Ernst & Young LLP assists financial institutions in reducing their non-earning assets and enhancing revenue. For more information on the survey, the ranking report or the Cash Management practice's capabilities, please visit our website, www.ey.com, or contact us directly.

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CMS Survey ranking report

The CMS Survey ranking report provides your organization's national rank among the participants for about 30 cash management categories. Ranks are based on quantitative measures, such as transaction or remittance volumes. In addition to your organization's ranks, for each category the report provides the total volume reported among all respondents and your organization's percentage of market share. The ranking report helps organizations evaluate their market position as well as strengths and weaknesses across product lines. The price for the 2018 CMS Survey ranking report is US$32,000. For more information about cash management market research and the ranking report contact Larry Forman at +1 212 773 1111 or by email at lawrence.forman@ey.com.

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