38th Annual Cash Management Services Survey

2021 top line preview

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Cash Management Services Survey

2021 top line preview

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Introduction

90% of the top 20 banks participated

The EY Cash Management practice has conducted the annual Cash Management Services (CMS) Survey for 38 years. In January 2021 we sent the survey questionnaire to previously participating 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 44 financial institutions, up from 42 responses in the 2020 survey. The 2021 participants included 90% of the top 20 targeted banks, based on asset size, and 72% of the top 50.

Segmentation of the 44 respondents

Participating financial institutions were segmented into three peer groups based on their US assets. The 18 largest institutions were assigned to the first peer group (Peer 1). The next 18 banks, in assets order, were placed in the second group (Peer 2). The remaining eight banks, with assets less than US$24 billion, were placed into the third group (Peer 3). Since Peer 3 contains fewer banks and generally has more turnover, we often combine Peers 2 and 3 to produce more stable and comparable results between years.

2021 bank peer group profile

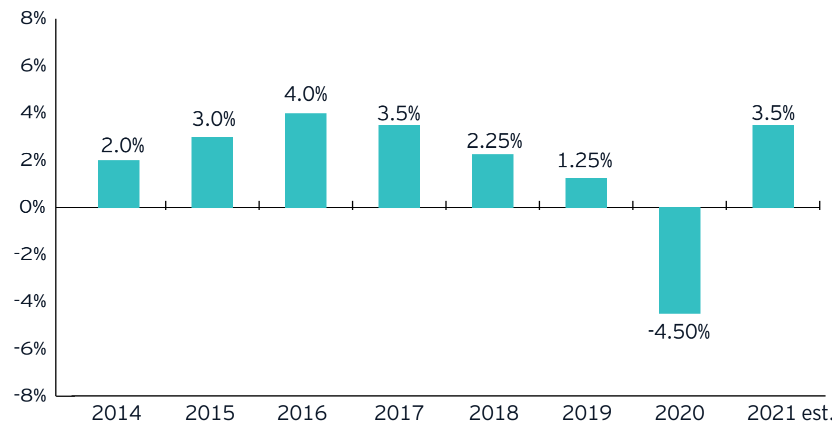
Peer 1	
Asset parameter:	*More than US$140 billion*
Respondents:	*18*
Peer 2	
Asset parameter:	*US$24 billion to US$140 billion*
Respondents:	*18*
Peer 3	
Asset parameter:	*Less than US$24 billion*
Respondents:	*8*

Cash management revenue

Record-breaking revenue decline

The pandemic shutdowns of 2020 led to a 4.5% decline in cash management revenue. This was by far the biggest decline seen in the CMS Survey's nearly four decades of chronicling cash management revenue. The drop was comparable to, but slightly larger than, the 3.5% decline measured in 2020 US gross domestic product.

Fee-equivalent cash management revenue growth



In dollar terms, revenue plummeted about US$850 million, from US$18.60 billion in 2019 to US$17.75 billion in 2020. Early in 2020, the survey's respondents had collectively forecast 1.25% revenue growth for that year. That forecast essentially excluded the impact of COVID-19, as most data was delivered to Ernst & Young LLP before the severity of the pandemic in the US was evident. Even late-reporting banks found estimating the impact of COVID-19 problematic as conditions continued to evolve, pertinent data wasn't available and existing models didn't correspond to the unprecedented circumstances.

Big disparities by peer group

The 2020 CMS report was written around mid-year, giving us more time to grasp the impact of the pandemic. In the 2020 report, we anticipated that overall revenue losses were near certain, contradicting the respondent forecast for slow growth. We also speculated that the impact of COVID-19 was likely to be uneven, with banks more reliant on heavily affected sectors suffering sharp declines, while others experienced minimal effects.

The results for 2020 revealed large disparities in the impact of the pandemic, with more than 80% of the larger banks in Peer 1 reporting losses, while about two-thirds of the banks in Peers 2 and 3 recorded mostly modest gains. For more on these divergent results, see "Growth rates by bank segments" later in this report.

We also call your attention to the "Perspectives on FinTech" section, which reveals some interesting divergence in how larger and smaller banks perceive FinTechs and the various roles that FinTech firms play in their relationships with traditional banks. In addition to FinTech, the survey continues to monitor emerging digital technologies, such as real-time payments, blockchain solutions for treasury clients and virtual account management (VAM).

Will pandemic adaptations persist?

In our 2020 survey communications, we noted that the COVID-19 pandemic was accelerating the transition to more remote and virtual services. Revenue associated with supporting the use of physical currency and paper checks cratered in 2020, while electronic payments and information services were able to grow even as the economy buckled. These outcomes were not difficult to predict and, in retrospect, seem inevitable given the circumstances.

The degree to which pandemic-driven changes will become permanent is still an open question. It seems likely that many adaptations to the pandemic will remain with us or, at the least, become accepted alternatives. However, old habits die hard. We are seeing some major employers attempting to partially or completely return to pre-COVID-19 office norms, jettisoning or limiting work-from-home options. While the pandemic has been both a traumatic and transformative experience on many levels, several years from now the impact may be more subtle, serving principally as an accelerant rather than fostering a revolution.

Revenue won't return to pre-pandemic levels until 2022

The respondents' estimate for 2021 was for 3.5% revenue growth. Participants submitted their predictions in March, April and May of 2021, when the vaccine rollout was well underway and a broad reopening was widely anticipated by the summer. While a 3.5% increase will not bring the cash management business back to pre-pandemic levels in 2021, this trajectory suggests we can reach or top US$18.6 billion (the total fee-equivalent revenue measure for 2019) by 2022.

Given the US government's massive stimulus effort and pent-up consumer demand, at first blush the 2021 estimate might seem overly cautious. However, while many facets of the economy are now roaring back, other sectors remained scared. Unemployment levels continue to be above normal, supply bottlenecks have formed, and realizing the potential within our reconfigured economy may take time, which is why we see merit in a more restrained forecast.

In reviewing the events of the past 18 months, we would be negligent if we didn't mention what we should all be thankful for. The heroic efforts of health care workers immediately come to mind, followed by the near-miraculous speed in creating and providing highly effective vaccines to the US population. Our society is just beginning to process what has occurred, and these events will resonate with us for many years now that pandemics are more recognized as a present danger.

Massive declines overwhelmed growth in electronic payments

Later in this report we'll detail each product's growth rate and its percentage contributions to the overall business. (See the "Product details" section.) Here we'll look at where revenue dollars were lost and gained in 2020 at the product level. Products that contributed substantial revenues and experienced significant declines in 2020 had the biggest influence.

As the following table illustrates, purchasing card revenue fell by more than US$500 million, making up approximately 60% of the total US$850 million decline measured in 2020. Purchasing card, consistently the third-largest source of cash management revenue, suffered the second-largest percentage decline in 2020, falling 18%. Business travel was virtually eliminated by the pandemic, and other card usage tied to in-person or in-office activity also lessened dramatically. To illustrate the profound impact of the plunge in card income, we calculated the change in cash management revenue excluding purchasing card. Total non-card revenue fell by only 2% vs. the measured 4.5% drop including purchasing cards.

Coin and currency revenue declined by slightly over US$200 million, accounting for about one-quarter of the loss. Most businesses tried to avoid accepting cash during the pandemic and more retail trade transitioned to online merchants. While coin and currency suffered a percentage decline similar to purchasing cards, the category typically adds less than half the revenue, resulting in a proportionally lower impact.

Estimated changes in revenue contribution between 2019 and 2020

	US dollars in millions	Percentage of total
Purchasing cards	($517)	(61.0%)
Coin and currency	(208)	(24.5)
DDA	(125)	(14.5)
Check clearing	(104)	(12.0)
Retail lockbox	(45)	(5.5)
Wholesale lockbox	(19)	(2.5)
Controlled disbursement	(16)	(2.0)
Account reconciliation	(9)	(1.0)
Wire transfer	35	4.0
Information reporting	58	7.0
ACH/EDI	100	12.0
Total loss	*($850)*	*100%*

The third-largest revenue decline in dollar terms was in demand deposit accounts (DDA). DDA revenue fell by US$125 million with the shortfall equaling nearly 15% of the total loss. Reduced usage of paper checks helped foster this decline. 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. DDA is one of the top three revenue sources, and this core product's 4% decline was near-equal to the 4.5% drop of the overall cash management business.

Reduced revenue from paper-related products has been a recurring facet of the overall revenue picture for many years, but check clearing's 2020 loss in excess of US$100 million far outstripped the US$39 million decline recorded in 2019. Both the retail and wholesale lockbox categories also lost revenue but to profoundly different degrees. Retail lockbox had a severe 20% drop, fomented more by large players exiting the service than by changes in customer behavior. Wholesale lockbox fared better than most products, with revenue falling a mere 1%, losing a relatively modest US$19 million. Controlled disbursement and account reconciliation also reported relatively small losses.

In contrast to all those losses, combined automated clearing house (ACH) and electronic data interchange (EDI) revenue grew by 4.5% in 2020, producing an additional US$100 million in revenue. Information reporting revenue increased by 3%, producing nearly US$60 million in new income, while wire transfer eked out a 1% gain, contributing US$35 million.

Estimated 2020 fee-equivalent revenue was US$17.75 billion

The 2021 CMS Survey asked responding banks to record their fee-equivalent cash management revenue from the last two completed calendar years, 2019 and 2020, along with an estimate for 2021. This enabled respondents to revisit and, if needed, adjust their previously reported totals for 2019 to reflect recent acquisitions and revised methodologies. While there were some revenue adjustments to previously reported 2019 numbers, our top 100 banks revenue estimate for 2019 of US$18.6 billion remains unchanged.

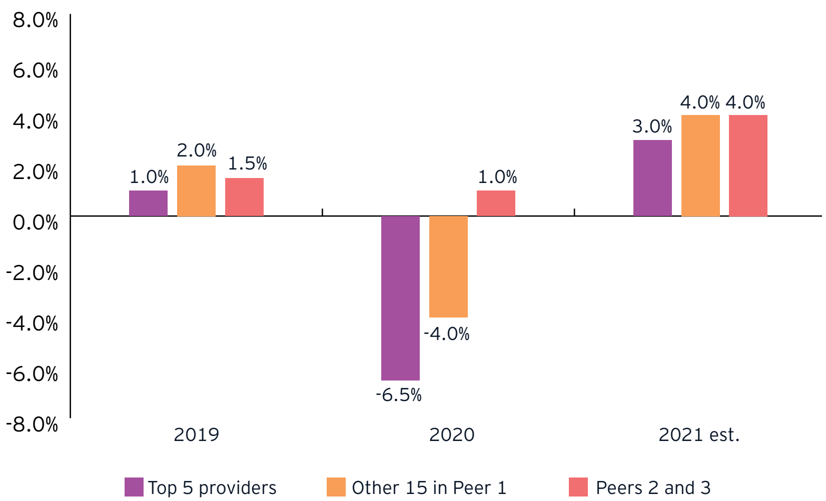
The 4.5% decline calculated for 2020 reduced measured fee-equivalent revenue to approximately US$17.75 billion. If the respondent forecast for a

3.5% increase in 2021 is achieved, total fee-equivalent revenue for the top 100 banks will increase to about US$18.35 billion.

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, we estimated that revenue declined 6.5% in 2020 among the five banks with the highest revenue totals. This followed a modest 1.0% growth realized by the top five banks in 2019. Revenue from the other 15 banks in Peer 1 fell by 4%. This was on the heels of 2.0% growth for this group in 2019. Pronounced revenue declines in purchasing card revenue among the top five and the remainder of the top 20 heavily contributed to these losses.

Fee-equivalent cash management revenue growth by bank segment



The remaining banks in Peers 2 and 3 reported notably better results, growing revenue by 1.0% in 2020, down only slightly from 1.5% growth attained in 2019. All three segments have similarly positive views for growth in 2021. The top five banks forecast 3% revenue growth in 2021, while the next 15 banks in Peer 1 anticipated a 4% increase. Peers 2 and 3 also forecast a 4% rise.

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

The 2021 CMS Survey asked participants to report fee-equivalent cash management revenue collected from their cash and treasury management customers. These encompass large 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 2021 survey collected banks' fee-equivalent cash management revenue for the last two completed calendar years (2019 and 2020), 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 nonrespondents based on their previously received data or on data from their peers. Respondents were also asked to provide a revenue estimate for 2021, the current year.

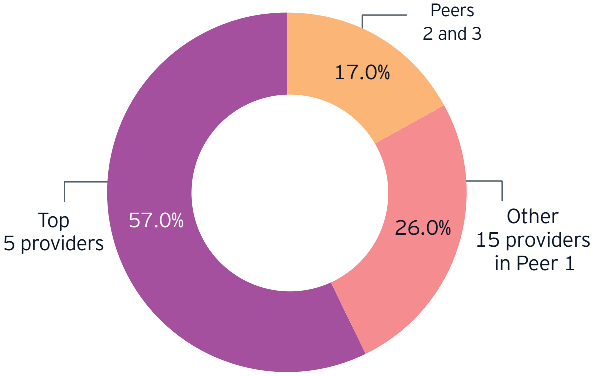
The specific product lines and services included were account reconciliation, controlled disbursement, ACH, EDI, DDA, wire transfer, information reporting, retail and wholesale lockbox, check clearing (including remote and mobile deposit), coin and currency, and purchasing card.

Measured purchasing card revenue encompassed 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.

Revenue segmentation

The top five cash management providers received 57% of the revenue measured in 2020, down from the 59% reported in 2019. The share of the other 15 banks in Peer 1 increased, growing from 25% in 2019 to 26% in 2020. Peers 2 and 3 accounted for the remaining 17%, up from 16%.

Share of 2020 fee-equivalent revenue



Changes in market share among these three bank segments were influenced by the differing growth rates of the segments. Other factors in play include merger and acquisition activity and changes in asset size that can result in changes in group membership.

Revenue contribution from customer segments

The CMS Survey asked respondents to indicate what portion of their cash management revenue came from each of several customer groups. In total, the respondents reported that 28% of their 2020 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 31%, while small business (firms with less than US$50 million in sales) accounted for 19%. Financial institutions (other banks, thrifts and credit unions) and the government and nonprofit sector were the smallest segments, responsible for 12% and 10%, respectively. These totals, displayed in the following table, were calculated by weighting each bank group's answers by its percentage of total revenue.

Share of 2020 fee-equivalent revenue by customer segment

	Large corporate	Middle market	Small business	Financial institution	Government and nonprofit
Top 5	34%	24%	15%	16%	11%
Next 15	24%	41%	19%	10%	6%
Peers 2 and 3	14%	40%	34%	3%	9%
Total	*28%*	*31%*	*19%*	*12%*	*10%*

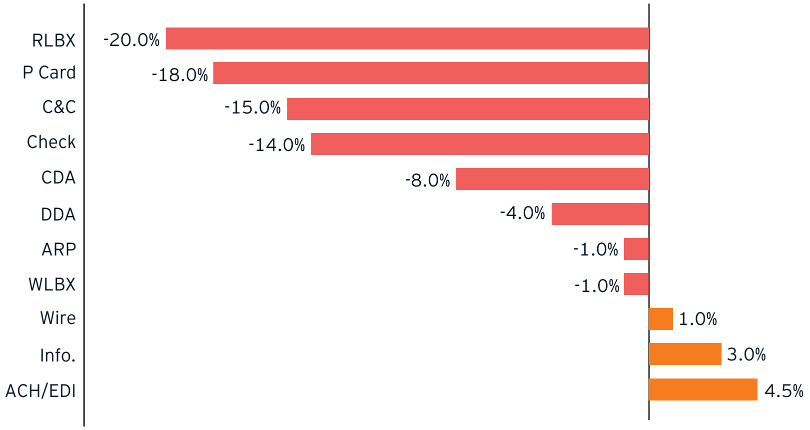
Compared with the overall results for 2019, there were two noteworthy changes. The share of revenue from the middle market grew from 29% in 2019 to 31% in 2020, while the portion from small business declined from 21% to 19%.

The top five providers continued to be most reliant on revenue from large corporations (34%). Middle-market customers were also important, responsible for nearly a quarter of the top five's income. The super-regional banks that dominate the next 15 reported that a plurality of their revenue came from the middle market (41%), with large corporations playing a secondary role, contributing 24%. Peers 2 and 3 were most reliant on middle-market clients (40%) as their share from small business ebbed, declining from 41% in 2019 to 34% in 2020. Twenty-five banks supplied revenue by customer type. The mix of banks answering differs each year and may cause some of the variation in these results.

Product details

Only 4 of the 12 product lines reported on generated any revenue growth in 2020. Combined ACH and EDI revenue grew the most, increasing 4.5%. On an individual basis, ACH revenue was up 5%, while EDI revenue grew 2.5%. Information reporting (Info.) revenue was up 3%. However, each of these three products had higher growth rates in 2019 than they did in 2020. The final product registering any gain was wire transfer, up 1%, but that modest uptick was an improvement over the 0.5% decline wire transfer produced in 2019.

Revenue growth rates for cash management products during 2020



Retail lockbox (RLBX) had the steepest revenue decline, losing 20% of its revenue. Many banks have exited this product over the last decade and several of the largest banks in the survey jettisoned their retail lockbox service after 2019, triggering most of the revenue shortfall.

Following an uncharacteristically low 1.5% revenue growth in 2019, purchasing card revenue fell 18% in 2020. Substantial portions of purchasing card spend were tied to travel and in-person or in-office activities, all of which were decimated by the pandemic in 2020.

The decline in coin and currency (C&C) revenue, down 15%, was anticipated as retailers tried to avoid using physical currency and store locations suffered as more sales moved online. We noted that the respondents do anticipate a modest bounce back in the use of currency in 2021, predicting 5% growth.

Product details

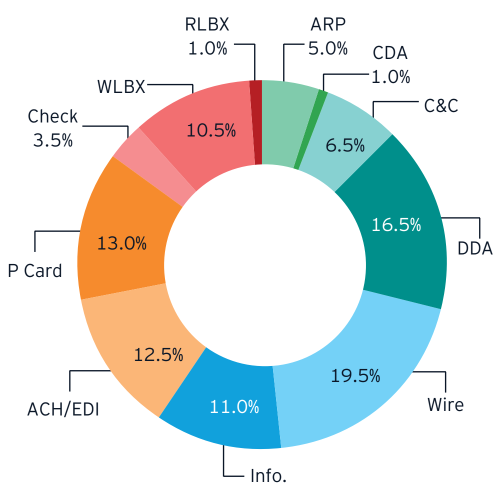
Check clearing (Check) endured a 14% loss, outstripping the 6% drop seen in 2019. We noted the respondents do not expect further declines in 2021, suggesting that, for check clearing anyway, they may believe multiple years of paper-to-electronic transition were squeezed into 2020. Consistent with less check usage, controlled disbursement (CDA) revenue was down 8%. This followed a 2% drop in 2019.

While DDA revenue declined by 4%, keep in mind that the overall business fell by 4.5%, so in a sense the product basically maintained its position. Undoubtedly fewer checks were issued during 2020, and any customer attrition that occurred during the pandemic would impact DDA revenue. Similarly, when you consider the overall decline measured, both account reconciliation (ARP) and wholesale lockbox (WLBX) fared well, losing only 1% of revenue.

Share of revenue by product

The accompanying chart illustrates the 2020 fee-equivalent revenue contributions of the product lines included in the survey. The three largest slices continued to be wire transfer, moving from 18.5% in 2019 to a 19.5% share; DDA, unchanged with 16.5%; and purchasing card, falling from 15% of revenue to 13%.

Share of 2020 revenue by product



The next three products in size order all increased their share. ACH/EDI swelled from 11.5% to a 12.5% share while information reporting grew from 10.5% to 11%. Wholesale lockbox expanded from 10% to 10.5%.

Two of the five remaining products had a decline in share. Coin and currency dropped from 7% to 6.5%, and check clearing was reduced from 4% down to a 3.5% share. Account reconciliation (5%) and retail lockbox and controlled disbursement (each with 1%) were unchanged.

The CMS Survey collects domestic cash management revenue, except for some 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 within the US and between US and foreign locations (excluding revenue from transfers between two non-US locations). Small portions of ACH, EDI and remote deposit revenues were from cross-border transactions.

Perspectives on FinTech

FinTech firms continue to expand their role in financial services as both disrupters and collaborators. We added a few new questions to the 2021 CMS Survey to determine how traditional banks are serving FinTech clients and how FinTech firms are being perceived. While all the responding Peer 1 banks said they currently had FinTech customers, outside the top 20 the percentage declined rapidly. One-quarter of Peer 2 respondents acknowledged having FinTech clients and in Peer 3, only 1 in 8 did (12.5%).

Within Peer 1, 60% of those answering said they targeted FinTech firms as a specific and distinct customer segment, and another 27% said that while they don't *now*, they plan to. Only three banks in Peers 2 and 3 specifically targeted FinTech clients, with another two planning to do so soon.

Forty-three percent of the responding Peer 1 banks said they had developed new product offerings to cater to FinTech customers, and another 50% said they had plans to do so. Only one bank in Peer 2 and another one in Peer 3 had developed new product offerings to cater to FinTech customers. Another four banks outside of Peer 1 had plans to develop new product offerings for FinTech clients.

Recognizing that a bank's view on FinTech firms was likely to be complex and nuanced, we asked the respondents to rank, from 1 to 4, various roles FinTech firms can play, with the prevailing or predominant role ranked 1 and the least probable or applicable role assigned as 4. The four prelisted roles we provided were vendors, partners, customers and competitors.

Average rank assigned to various roles FinTech firms can play

	Peer 1	Peers 2 and 3
Vendors	2.0	1.9
Partners	2.3	2.5
Customers	2.3	3.1
Competitors	3.2	2.5

Among the four roles we listed, both Peer 1 and the smaller institutions outside the top 20 saw FinTech firms primarily as vendors, that is, sources for new capabilities or offerings. Within Peer 1, FinTech firms were next seen as potential partners and as customers for the bank's services. The top 20 banks were least likely to see FinTech firms as competitors.

Peers 2 and 3 were least likely to view FinTech firms as potential customers, and our initial question on who was servicing FinTech firms seems to support that perception. Aside from seeing FinTech firms primarily as vendors, banks outside the top 20 saw an equal potential for them to be partners or competitors.

For more information

The EY Cash Management Services Survey is a survey of the US treasury services business performed annually by the Cash Management practice of Ernst & Young LLP. In consideration of their participation and assistance, all 2021 CMS Survey respondents receive this top line preview as well as a more detailed participant report. In addition to the CMS Survey, the Cash Management practice assists financial institutions in enhancing treasury services revenue and strategic position in the market. For more information, please contact us directly:

Alan Zimmerman, CCM +1 816 480 5317 alan.zimmerman@ey.com
Managing Director
Ernst & Young LLP

John Lothman, CTP +1 816 480 5146 john.lothman@ey.com
Senior Manager
Ernst & Young LLP

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