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

<table>
<thead>
<tr>
<th></th>
<th>ECR Only Account Rate</th>
<th>Hybrid Account ECR Rate</th>
<th>ECR Only Account Monthly Fee</th>
<th>Hybrid Account Monthly Fee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Low</strong></td>
<td>0.10%</td>
<td>0.10%</td>
<td>$14.00</td>
<td>$16.00</td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td>0.225%</td>
<td>0.20%</td>
<td>$20.00</td>
<td>$23.00</td>
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<td><strong>High</strong></td>
<td>0.45%</td>
<td>0.28%</td>
<td>$27.00</td>
<td>$40.00</td>
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<tr>
<td><strong>Average ($100K Tier)</strong></td>
<td>0.25%</td>
<td>0.1875%</td>
<td>$21.10</td>
<td>$25.27</td>
</tr>
</tbody>
</table>

*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

<table>
<thead>
<tr>
<th>Account Balance Assessment</th>
<th>Deposit Coverage Fee</th>
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</thead>
<tbody>
<tr>
<td>Account Balance Fee</td>
<td>Deposit Fee</td>
</tr>
<tr>
<td>Administrative Fee</td>
<td>Deposit Insurance – Bank Assessment</td>
</tr>
<tr>
<td>Administrative Charge Fees</td>
<td>Deposit Insurance Allocation</td>
</tr>
<tr>
<td>Analysis Fee</td>
<td>Deposit Insurance Assessment</td>
</tr>
<tr>
<td>Analyzed Account Charge</td>
<td>Deposit Insurance Fee</td>
</tr>
<tr>
<td>Assessment Fee</td>
<td>Deposit Protection Fee</td>
</tr>
<tr>
<td>Balance Assessment Fee</td>
<td>Deposit Security Fee</td>
</tr>
<tr>
<td>Balance Based Charge</td>
<td>Deposit Service Assessment Fee</td>
</tr>
<tr>
<td>Balance Deposit Fee</td>
<td>Deposit Services Fee</td>
</tr>
<tr>
<td>Balance Fee</td>
<td>Deposit Supervisory Fee</td>
</tr>
<tr>
<td>Balance Management Fee</td>
<td>Insurance Allocation Fee</td>
</tr>
<tr>
<td>Bank Administrative Fee</td>
<td>Insurance Fee</td>
</tr>
<tr>
<td>Bank Administrative Fee/Regulation Fee</td>
<td>Insurance Recovery Charge</td>
</tr>
<tr>
<td>Commercial Balance Assessment</td>
<td>Recoupment Fee</td>
</tr>
<tr>
<td>Deposit Account Usage Fee</td>
<td>Regulatory Assessment Fee</td>
</tr>
<tr>
<td>Deposit Administration Fee</td>
<td>Regulatory Balance Fee</td>
</tr>
<tr>
<td>Deposit Assessment Fee</td>
<td>Regulatory Fee</td>
</tr>
<tr>
<td>Deposit Balance Fee</td>
<td>Supervision &amp; Assessment Fee</td>
</tr>
<tr>
<td>Deposit Balance Maintenance Fee</td>
<td>Supervisor Assessment</td>
</tr>
<tr>
<td>Deposit Balance Protection</td>
<td></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Feature</th>
<th>BANK A</th>
<th>BANK B</th>
<th>BANK C</th>
<th>BANK D</th>
<th>BANK E</th>
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<tr>
<td><strong>MARKET SEGMENT</strong></td>
<td>COMMERCIAL</td>
<td>COMMERCIAL</td>
<td>COMMERCIAL</td>
<td>COMMERCIAL</td>
<td>COMMERCIAL</td>
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<td>VIEW BALANCE</td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>PREVIOUS DAY HISTORY</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>CURRENT DAY HISTORY</td>
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<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
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<td>REAL TIME REPORTING</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
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<td>ADMINISTER USERS</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
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<tr>
<td>RESET PASSWORDS</td>
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<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
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<tr>
<td>BRANCH LOCATOR</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
<td>NO</td>
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<tr>
<td>PAY BILLS</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
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<tr>
<td>INTERNAL ACCOUNT TRANSFERS</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
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<tr>
<td>APPROVE WIRE TRANSFERS</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>INITIATE WIRE TRANSFERS</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>YES</td>
</tr>
<tr>
<td>FRAUD PROTECTION</td>
<td>Audit Log, Fraud Filters, Positive Pay</td>
<td>Payment Authorization, Send to Repair</td>
<td>Positive Pay, Check Image, ACH Fraud Protection</td>
<td>NO</td>
<td>ACH Fraud Filter, Image Positive Pay</td>
</tr>
<tr>
<td>FOREIGN CURRENCY</td>
<td>YES</td>
<td>YES</td>
<td>YES</td>
<td>NO</td>
<td>NO</td>
</tr>
<tr>
<td>MOBILE REMOTE DEPOSIT</td>
<td>IN TESTING</td>
<td>NO</td>
<td>YES</td>
<td>NO</td>
<td>NOT FULLY AVAILABLE</td>
</tr>
<tr>
<td>ALERTS</td>
<td>EMAIL, TEXT, PHONE</td>
<td>EMAIL, TEXT</td>
<td>EMAIL, TEXT</td>
<td>YES - EMAIL, MESSAGE CENTER</td>
<td>EMAIL, TEXT, PHONE</td>
</tr>
</tbody>
</table>

**AFP® Annual Conference**
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
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

<table>
<thead>
<tr>
<th>Line Item</th>
<th>Client Price</th>
<th>Distinct Prices This Month for Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prem PDR Account</td>
<td>$ 25.00</td>
<td>0, 25, 30, 35, 38.68, 65, 70.81, 75, 95</td>
</tr>
</tbody>
</table>
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](http://www.afponline.org).

<table>
<thead>
<tr>
<th>Banking Services Evaluation</th>
<th>Bank Name: Any Bank Name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Acct Officer: Any Relationship Manager</td>
</tr>
<tr>
<td></td>
<td>Time Period: Any Time Period</td>
</tr>
</tbody>
</table>

* See Appendix for suggested scoring option

### SECTION 1: GENERAL CUSTOMER SERVICE

<table>
<thead>
<tr>
<th></th>
<th>N/A</th>
<th>Excellent</th>
<th>Satisfactory</th>
<th>Poor</th>
<th>Unacceptable</th>
<th>Rating</th>
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</thead>
<tbody>
<tr>
<td>1. Level of Competence</td>
<td>Not</td>
<td>○ Rating of 4</td>
<td>○ Rating of 3</td>
<td>○ Rating of 2</td>
<td>○ Rating of 1</td>
<td></td>
</tr>
<tr>
<td>2. Courteous Professional Behavior</td>
<td>Not</td>
<td>○ Rating of 4</td>
<td>○ Rating of 3</td>
<td>○ Rating of 2</td>
<td>○ Rating of 1</td>
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</tr>
<tr>
<td>3. Telephone Availability</td>
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<td>○ Rating of 3</td>
<td>○ Rating of 2</td>
<td>○ Rating of 1</td>
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<tr>
<td>4. Back-up coverage</td>
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<td>○ Rating of 3</td>
<td>○ Rating of 2</td>
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<tr>
<td>5. Response Correctness</td>
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<td>○ Rating of 3</td>
<td>○ Rating of 2</td>
<td>○ Rating of 1</td>
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<tr>
<td>6. Timeliness of Response</td>
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<td>○ Rating of 3</td>
<td>○ Rating of 2</td>
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<tr>
<td>7. Follow Through on Commitments</td>
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<td>○ Rating of 4</td>
<td>○ Rating of 3</td>
<td>○ Rating of 2</td>
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<tr>
<td>8. Overall Problem Solving</td>
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<td>○ Rating of 3</td>
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<td>9. Knowledge of Bank's Policies/Procedures</td>
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<td>○ Rating of 4</td>
<td>○ Rating of 3</td>
<td>○ Rating of 2</td>
<td>○ Rating of 1</td>
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</tr>
<tr>
<td>10. Knowledge of Bank's Cash Mgmt Products</td>
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</tbody>
</table>
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.
Contact Information

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