

Banking

July 2007

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SMALL BUSINESS BANKING

from remote capture.

"Remote deposit capture is an industry-changing product," he says, "but I'm not sure it's pushing cash management."

Small bank challenges and advantages
"It's an interesting time for smaller banks," says TowerGroup's Feinberg. "They struggle with the fact that their customers' needs for cash management are becoming more sophisticated. There is a tremendous amount of change happening in the cash management environment and it does require ongoing technology investments to be able to support those changes. The challenge is funding the technology investments they need."

In small banks' favor is their agility. "In many cases these smaller banks can manage technology projects much more efficiently, and they tend to rely more on partnerships with technology companies to help them get there," says Feinberg.

Smaller banks are also using ASP-versions of cash management software to compete with big banks which tend to have, proprietary cash management systems. "The prevalence of ASP-based solutions enables banks to pay low fees for fairly sophisticated products," explains Financial Insights' Scarborough.

In the case of Virginia's MainStreet Bank, it outsources core processing to Jack Henry & Associates, but retains in-house design and control of some cash management functions, including lockbox and escrow management, according to CEO Jeff Dick.

Feinberg says that as cash management products become increasingly commoditized, smaller banks are focusing on service quality as way to differentiate themselves from the largest banks. Some are focusing on niche markets that allow them to offer deep industry expertise to their customers, such as providing lockbox services for health care providers.

Kasik echoes this, saying he has seen a trend toward segmentation where banks narrowly market their cash management offerings to veterinary clinics or apartment rental companies.

The smaller institutions are really focusing on the weaknesses of the larger institutions—such as nickel-and-dime-ing customers for every little service—and using those weaknesses to their advan-

tage, says ViewPoint Bank's Marshall. Good service makes good business sense: "Small businesses, depending on their services, can be just as profitable as the mid-market and corporates," she says.

One value-added service ViewPoint offers to business customers is free seminars on business topics where the bank gets a chance to pitch cash management services not only to the businesses themselves, but to their customers as well.

Bremer Bank also counts servicing as a key differentiator in its cash management offering. The bank competes with banks such as US Bank and Wells Fargo as well as small community banks that are becoming more aggressive about going after the business banking market.

"We really focus on the servicing of these cash management products. We don't want to compete always on price—that's not our niche and not our market," says Downhour. "Part of our strength is that we offer a full line of services."

Shift to electronic payments helps

Payments are becoming an increasingly important component of cash management solutions as paper checks are replaced with ACH transactions, wire transfers, and card payments. Indeed, CM services can help banks stay competitive in the payments arena where nonbank players have grown increasingly aggressive (see cover story, p. 25).

Downhour explains that a few years ago Bremer Bank started analyzing its revenue and determined that much of it was derived from paper-based products. The bank has created a payments group and is making a conscious effort to replace that paper-based revenue with revenue from electronic products.

"Smaller banks are looking at electronic payments as another way to compete since they don't need a big infrastructure to process high volumes of corporate payments," explains Feinberg. Yet for some of their customers in the global environment that need sophisticated international cash management, small banks are trying to figure out how to compete, she says. Do they partner with Canadian or European banks? Do they rely on correspondent banks?

Few things are easy, but it's clear from the success of several small and midsize banks that cash management—and winning customers—is worth the effort. *BJ*

A different approach to deposit capture

Although not specifically marketed as a cash management product, Wincor Nixdorf USA is rolling out bulk check deposit ATMs that allow consumers or businesses to deposit up to 50 checks at the same time without using deposit envelopes. Wells Fargo has installed approximately 700 of these machines, says Alan Walsh, vice-president of banking for Wincor Nixdorf USA, Austin, Tex. Walsh cites after-hours convenience, real-time access to deposited funds, and receiving an imaged receipt of the deposited checks as key advantages to business customers.

Banks benefit from reduced costs. Walsh estimates the cost of processing a deposit envelope transaction made at a regular ATM to be \$1.70, compared with \$.40 at the bulk deposit ATM. Because the ATM images the check as it's deposited, fraud from empty deposit envelopes is eliminated. This fraud costs the banking industry up to \$1.5 billion each year, according to Wincor Nixdorf.

