37th Annual Cash Management Services Survey

2020 top line preview

Building a better working world

Cash Management Services Survey

2020 top line preview

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Introduction

The EY Cash Management practice has conducted the annual Cash Management Services (CMS) Survey for 37 years. In January 2020 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 42 financial institutions, including 90% of the top 20 targeted banks, based on asset size, and 72% of the top 50.

The responding 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 six banks, with assets less than US$21 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.

2020 bank peer group profile

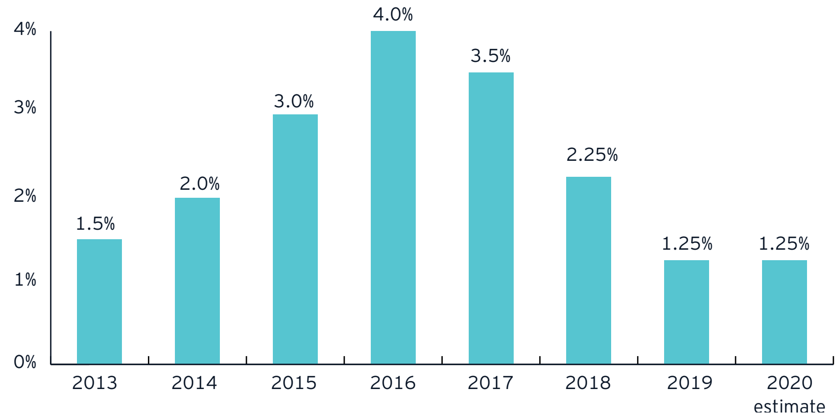
Peer 1	
Assets:	*More than US$115 billion*
Respondents:	*18*
Peer 2	
Assets:	*US$21 billion to US$115 billion*
Respondents:	*18*
Peer 3	
Assets:	*Less than US$21 billion*
Respondents:	*6*

Cash management revenue

Minimal revenue growth

Cash management revenue increased marginally in 2019, rising a paltry 1.25%. This growth rate was below both the 2.25% increase measured for 2018 and the survey's respondent forecast for 2.75% growth in 2019. As the accompanying chart displays, revenue growth has been declining since 2016.

Fee-equivalent cash management revenue growth



Multiple factors influence a bank's cash management revenue, including the regional economy, the global economy, prevailing interest rates, the regulatory regime, and competitive pressures from other banks and nonbank entrants. A minority of players have the resources required to significantly enhance, evolve and differentiate their cash management offerings, leaving most banks providing largely commoditized services. Without significant product differentiation, banks rely on the strength of their overall client relationships and superior customer service to sustain their cash management business.

FinTech firms and other payment aggregators typically develop new front-end or ancillary services, often piggybacking on the financial infrastructure maintained by the banks. Free from serving a broad array of clients and services, FinTech companies narrowly focus on exploiting existing gaps; over time, they displace some of the value-added services banks offer.

On another front, the continuing ultra-low interest rate environment, in place to sustain the economy, diminishes the value proposition of some cash management services as the time value of money has become nearly immaterial. However, low interest rates have not rendered cash management irrelevant. Enabling efficient payments and collections, providing transparency to cash flows and assisting clients' efforts to digitize their treasury processes continue to be essential services. Beyond these basics, banking mirrors our society, which continues to transition to more remote services and a more virtual life experience. The COVID-19 pandemic has accelerated this tendency to shift services away from the physical world.

The CMS Survey respondents collectively forecast another year of a meager 1.25% revenue growth in 2020. This forecast largely excluded the impact of the COVID-19 economic shutdowns, and therefore actual results are almost certain to fall short of even these very modest expectations. Nearly half the participants had submitted revenue data before the severity of the pandemic was palpable in the US. And in the case of the later responses, attempting to estimate the impact of COVID-19 was highly problematic as circumstances continued to evolve and pertinent data was not yet available. We are aware of only a few banks that attempted to include the impact of this pandemic in their 2020 estimates, but we believe those downward revisions to their forecasts had at most a marginal impact on the overall 2020 estimates.

Limited product gains eclipsed by setbacks elsewhere

In last year's top line preview, we noted that multiple product areas had fallen precipitously in 2018, and we expected some level of bounce-back in 2019. Two product areas that are important revenue generators did report a resurgence in 2019, equaling recent highs. Automated clearinghouse (ACH) revenue grew by 6.5% in 2019, topping the uncharacteristically tepid 3.5% increase recorded in 2018. Information reporting also improved upon the 3% increase realized in 2018, with 4.5% growth in 2019.

In contrast to these two positive outcomes, two other major revenue sources failed to improve. After a somewhat disappointing 2.5% revenue increase in 2018, wire transfer revenue declined by 1% in 2019. We see no evidence of declining wire volumes and therefore theorize that pricing power diminished.

The second product that fell short of 2018 growth levels was purchasing card. Following an extraordinary 8% increase in 2018, which largely supported the overall growth measured that year, purchasing card eked out a 1.5% gain in 2019. Here a small subset of our respondents reported substantial revenue declines, in dollar terms. Those losses largely offset the gains recorded by most banks offering purchasing card. If we excluded the few banks with losses from our sample, the growth rate for purchasing cards would have been about 4%, still well shy of the 8% growth seen in 2018. Please see the product details section later in this report for more on the individual product growth rates.

ACH and information reporting were top contributors

Although revenue growth was very limited, there was growth in 2019. The 1.25% increase translated into an increase of approximately US$200 million over 2018. ACH and electronic data interchange (EDI) contributed a little more than half of this gain. Information reporting, which typically plays a supporting role in delivering revenue growth, filled the void left by underperformance elsewhere, producing about one-third of overall growth. Purchasing card, often the lead contributor, fell to third place, producing 17% of the added revenue in 2019. See the table on page 5.

While demand deposit accounts (DDA) revenue grew a scant 1%, the size of the DDA revenue stream magnified that small increase, yielding 12.5% of new revenue. 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. Account reconciliation had a slightly smaller contribution, adding 11.0%. Coin and currency and wholesale lockbox were the last two product areas adding revenue.

Estimated changes in revenue contribution between 2018 and 2019

	US dollars in millions	Percentage of total
ACH/EDI	$107	53.5%
Information reporting	69	34.5
Purchasing cards	34	17.0
DDA	25	12.5
Account reconciliation	22	11.0
Coin and currency	11	5.5
Wholesale lockbox	7	3.5
Controlled disbursement	(3)	(1.5)
Retail lockbox	(5)	(2.5)
Wire transfer	(28)	(14.0)
Check clearing	(39)	(19.5)
Total	*$200*	*100%*

The revenue declines seen in controlled disbursement and retail lockbox were relatively inconsequential, while the losses from wire transfer had a more significant impact, subtracting US$28 million in revenue. Reduced revenue from paper-related products has been a recurring facet of the overall revenue picture for many years, but the check clearing declines recorded in 2019 surpassed even the large losses seen in 2018. The US$39 million decline in check clearing more than offset all added purchasing card revenue.

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 the top five banks in fee-equivalent cash

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

The 2020 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.

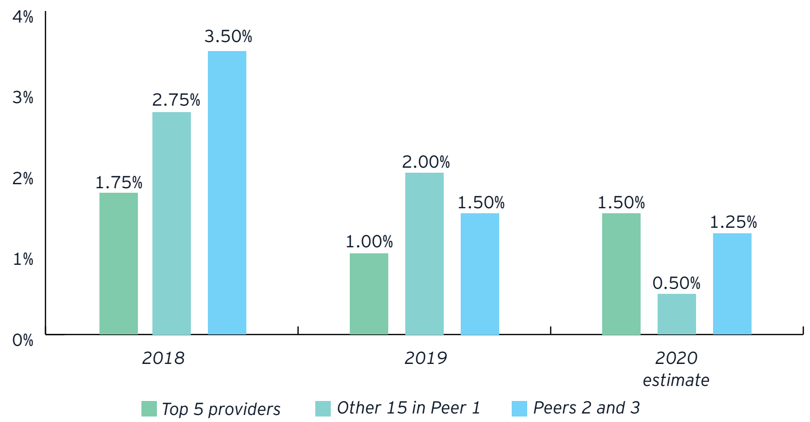
The 2020 survey collected banks' fee-equivalent cash management revenue for the last two completed calendar years (2018 and 2019), enabling us to calculate revenue growth and the overall size of the business for the top 100 banks. Our methodology includes estimating the revenue of nonrespondents based on their previously received data or on data from their peers. Respondents were also asked to provide a revenue estimate for 2020, 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.

management revenue grew 1% growth in 2019. This was down from the 1.75% increase realized by these banks in 2018. Revenue from the other 15 banks in Peer 1 grew by 2%. This was also lower than the 2.75% growth this group realized in 2018. Similarly, the remaining banks in Peers 2 and 3 reported notably weaker growth, increasing by 1.5% vs. their 3.5% growth attained in 2018.

Fee-equivalent cash management revenue growth by bank segment



The top five banks forecast 1.5% growth in 2020 while the other 15 banks in Peer 1 anticipated a mere 0.5% increase. Peers 2 and 3 had a forecast similar to the top five, predicting a 1.25% rise. As stated earlier in this report, these restrained forecasts largely reflect pessimism in place before COVID-19 had gripped the US and caused economic shutdowns. Therefore, given that estimated results were barely positive, it seems likely that actual 2020 results will show revenue losses. We believe the impact of COVID-19 is likely to be uneven, with some banks experiencing minimal setbacks while others in specific geographies and those more reliant on heavily affected sectors experiencing sharp declines in revenue.

2019 fee-equivalent revenue reaches US$18.6 billion

As previously noted, the 2020 CMS Survey asked responding banks to record their fee-equivalent cash management revenue from the last two completed calendar years, 2018 and 2019, along with an estimate for 2020. This enabled respondents to revisit and, if needed, adjust their previously reported totals for 2018 to reflect recent acquisitions and revised methodologies. While there were some revenue adjustments to previously reported 2018 numbers, our top 100 banks revenue estimate for 2018 of US$18.4 billion was unchanged.

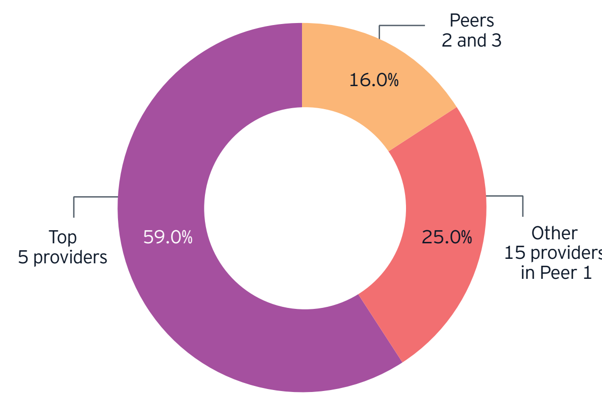
The 1.25% growth realized in 2019 raised measured fee-equivalent revenue to approximately US$18.6 billion. If the respondent forecast for another 1.25% increase in 2020 is achieved, total fee-equivalent revenue for the top 100 banks will increase to about US$18.8 billion.

Revenue segmentation

The top five cash management providers received 59.0% of the revenue measured in 2019, nearly equal to the 59.5% reported in 2018. The share of the other 15 banks in Peer 1 increased, growing from 23.5% in 2018 to 25.0% in 2019. Peers 2 and 3 accounted for the remaining 16.0%, down marginally from 17.0%.

Two major regional banks that were in the Peer 1 "other 15" group in the 2019 CMS Survey have merged since that survey was completed, making room for another bank in this segment. What had been the largest bank in Peer 2 moved into Peer 1 in the 2020 survey, joining the other 15. As a result, Peers 2 and 3 lost revenue share, and the other 15 group displayed a noteworthy increase. Aside from merger and acquisition activity, changes in market share among these three bank segments are also influenced by changes in group membership due to more subtle changes in assets and the differing growth rates of the segments.

Share of 2019 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 several customer groups. In total, the respondents reported that 28% of their 2019 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 a slightly larger share, contributing 29%, while small business (firms with less than US$50 million in sales) accounted for 21%. Financial institutions (other banks, thrifts and credit unions) and the government and nonprofit sector were the smallest segments, responsible for 13% and 9%, 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 2019 fee-equivalent revenue by customer segment

	Large corporate	Middle market	Small business	Financial institution	Government and nonprofit
Top 5	32%	24%	16%	17%	11%
Next 15	25%	38%	19%	11%	7%
Peers 2 and 3	15%	33%	41%	3%	8%
Total	*28%*	*29%*	*21%*	*13%*	*9%*

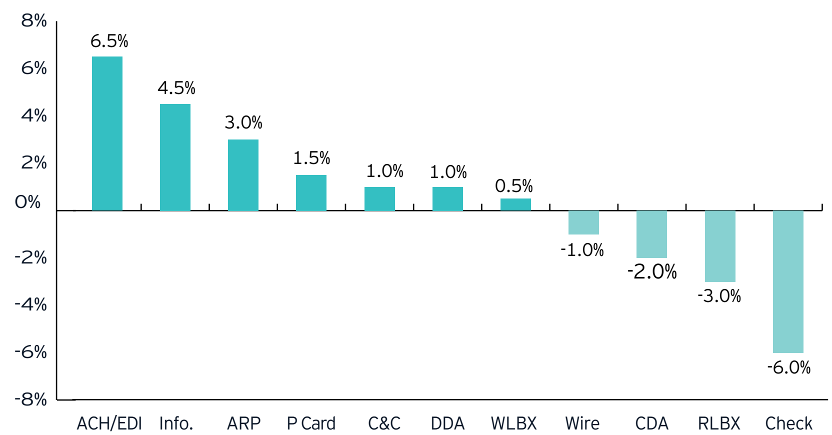
Compared with the overall results for 2018, there were no notable changes. The top five providers continued to be most reliant on revenue from large corporations (32%). Middle-market customers were also important, responsible for nearly a quarter of the top five's income. The super-regional banks that dominate the next 15 reported that a plurality of their revenue came from the middle market (38%), with large corporations playing a secondary role, contributing 25%. Peers 2 and 3 continued to be most dependent on small business revenue (41%), with middle-market clients also playing a major role, contributing a third of income (33%).

Product details

Eight of the 12 product lines included in the CMS Survey reported some level of revenue growth in 2019. Combined ACH and EDI revenue had the highest growth rate, improving upon a 4.5% increase in 2018 with 6.5% growth in 2019. On an individual basis, ACH surpassed the 3.5% growth registered in 2018 with a 6.5% increase, while EDI's 6.5% growth was equal to its 2018 performance. Information reporting (Info.) also improved upon its 2018 growth of 3%, with a 4.5% increase. Similarly, account reconciliation (ARP) bested its 2018 2% growth, rising by 3% in 2019.

Following first-rate 8% revenue growth in 2018, purchasing card (P Card) eked out a meager 1.5% increase in 2018. As explained earlier in this report, revenue losses among a small group of major players offset much of the broadly attained gains, resulting in surprisingly poor performance overall. Next, coin and currency (C&C) revenue increased by 1%, marginally lower than the 2% growth garnered in 2018. Following no growth in 2018, DDA produced a 1% increase in 2019, while wholesale lockbox (WLBX) improved upon a 2018 0.5% revenue decline in 2018 by adding 0.5% in 2019.

Revenue growth rates for cash management products during 2019

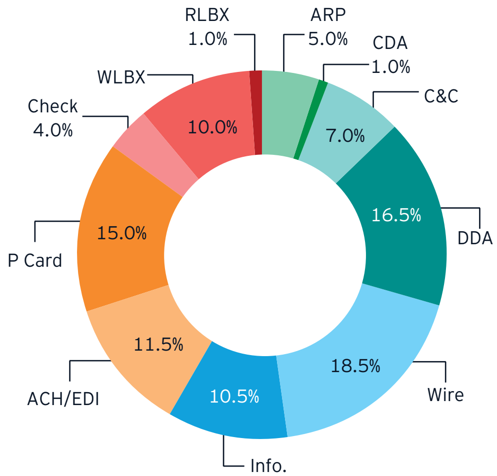


Wire transfer (Wire) revenue growth continued its deceleration, falling from 4% growth in 2017 to a 2.5% increase in 2018, to a decline of 1% in 2019. Controlled disbursement (CDA), retail lockbox (RLBX) and check clearing (Check) had larger losses. Controlled disbursement revenue was down 2% and retail lockbox dropped 3%. Check clearing turned in the biggest decline, falling 6%.

Share of revenue by product

The accompanying chart illustrates the 2019 fee-equivalent revenue contributions of the product lines included in the survey. The three largest slices are wire transfer, with an 18.5% share; DDA, with 16.5%; and purchasing card, delivering 15% of revenue. The next tier in size order included ACH/EDI, with an 11.5% share; information reporting, with 10.5%; and wholesale lockbox, with 10%. Coin and currency added 7%.

2019 cash management revenue by product



The last four products in descending order are: account reconciliation (5%), check clearing (4%), and retail lockbox and controlled disbursement (each with 1%).

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.

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 2020 CMS Survey respondents receive this top line preview as well as a more detailed participant report to be distributed in the fall. 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:

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