

THE GREAT  
RECESSION CHANGES  
BANK RELATIONSHIPS  
2010



PHOENIX-HECHT

# 2010 REPORT TO TREASURY MANAGEMENT MONITOR RESPONDENTS

This report presents a basic overview of the findings from the 2010 Treasury Management Monitor™ survey.

The report has been prepared for survey respondents who so graciously lent their valuable time and knowledge to this project.



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## THE SURVEY

From August to November 2009, Phoenix-Hecht conducted its annual survey of corporate users of bank treasury management services. The survey respondents were senior financial executives responsible for managing the bank relationships for treasury management services. This survey targeted public and private U.S. corporations with annual sales of \$40 million or more.

The Treasury Management Monitor surveys companies across a broad array of treasury management issues, including credit, assessments of banking relationships, pricing, quality of service, product usage and future plans and intentions. The resulting survey database combined with historical data gives Phoenix-Hecht an unparalleled ability to analyze the treasury management marketplace.

The 2010 Treasury Management Monitor is based on 1,907 completed questionnaires from approximately 4.0% of all eligible companies from the Dun and Bradstreet universe of companies with sales of \$40 million or more.

Respondents are divided into two segments defined as: Large corporate (annual sales greater than \$500 million) and middle market (annual sales between \$40 million and \$499 million).

Phoenix-Hecht research shows that there are four key dimensions a company considers when purchasing treasury management services: credit, quality, product features and pricing. We address these elements in various sections of our analysis.



## KEY FINDINGS

- Corporations experienced credit issues and reacted by adding new credit relationships.
- Large corporations tend to “lock up” their bank credit commitments more frequently with revolving lines of credit than does the middle market.
- Price places a major role in awarding treasury management business for one quarter of the market.
- Internet-related services are of very high importance with a focus on transaction initiation (wire transfer, ACH and stop payments).
- Efforts to expand electronic payments rank high on the corporate “to do” list even though the percentage of B2B payment transactions by check stabilized in the large corporate market and slightly increased in the middle market.
- Service quality declined in categories related to electronic payments.

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## CREDIT

In the Great Recession of 2009, corporations experienced very severe credit issues. This effect was strongest in the large corporate market. Although nearly 50% of large companies have access to the public debt markets, debt issuance was compromised as investors sought only the safest fixed-income investments. This put greater stress on the banking component of credit resources.

Credit Stress	Middle Market	Large Corporate
Have any credit banks reduced or withdrawn credit commitments in the last year?	17.7%	27.5%
Have any of your credit banks denied your request for additional credit in the last year?	10.9%	17.2%
Have tightening credit standards caused you to scale back bank borrowing?	24.1%	25.2%
Have you experienced a loan covenant violation in the last two years?	20.2%	8.8%
If covenant violation, were you happy with the bank's resolution?	70.7%	94.4%
If you were seeking new credit, would you be more likely to approach:		
A local or regional bank	38.4%	9.3%
One of the large national banks	55.2%	82.3%
A non-bank provider	6.4%	8.4%

The number of large corporate customers experiencing a reduction or withdrawal of credit commitments increased from 11.8% to 27.5%, a significant change of 15.7 percentage points. In the middle market, the number of companies seeing reductions increased significantly from 5.8% to 17.7%. The middle market experienced significantly more problems with existing bank loan covenants and was less satisfied with their resolution. Both the middle market and the large corporate market reacted to this environment by adding new banks that could provide credit. Where corporations seek new credit relationships differs markedly between the middle and large corporate market. Large corporations concentrated their search for new credit primarily at the large national banks, while the middle market spread its search much more widely, including many regional and local banks. These searches generated a significant increase in the total number of banking relationships.

The credit issues had a dramatic impact on the landscape of bank relationships. Bank relationships can be divided into three types: (1) treasury management and credit, (2) credit only, and (3) treasury management only.

## Bank Relationship Types

Middle Market	2009	2010
Lead credit and treasury management	33.5%	34.6%
Other credit and treasury management	13.7	9.9
Credit only	24.5	29.7
Treasury management only	28.3	25.8
Large Corporate	2009	2010
Lead credit and treasury management	13.9%	12.2%
Other credit and treasury management	25.6	23.3
Credit only	34.7	44.2
Treasury management only	25.8	20.1

Credit only relationships increased from 24.5% to 29.7% in the middle market and from 34.7% to 44.2% in the large corporate market. We believe that credit margins improved enough that some banks, for acceptable credits, were more willing to have credit only relationships. The increase in credit relationships also resulted in the movement of some treasury management services to the newly selected credit banks. However, large corporations significantly reduced their expectations from 43.6% to 31.9% of using these new credit banks for treasury management services.

Credit Influence	Middle Market	Large Corporate
If you accepted a credit package from a new bank, would you expect to move treasury management business to that bank?	54.3%	31.9%
Have you moved treasury management services as a result of a credit issue?	12.4%	18.6%

It is important to understand the credit products used by the corporate market, since credit plays a crucial role in a bank's ability to sell and retain treasury management business. The data show these two market segments have somewhat differing credit needs, especially with regard to revolving credit versus simple lines of credit.

Credit Products Currently Used	Middle Market	Large Corporate
Bank line of credit (renewed yearly)	61.5%	43.9%
Revolving line of credit (>1 year)	50.1%	74.6%
Term loan	46.5%	41.4%
Equipment leasing	29.0%	38.8%
Building mortgage	27.4%	16.4%

Large corporations tend to “lock up” their bank credit commitments much more frequently with revolvers than does the middle market. Revolving credit lines are typically associated with commitment fees. However, commitment fees are not a universal characteristic of credit arrangements.

Annual Commitment Fee	Middle Market	Large Corporate
<b>Companies Who Have a Revolving Line of Credit</b>		
Does company pay an annual commitment fee?	57.7%	88.1%
Average fee on unused portion	0.53%	0.43%
Average fee on total commitment	0.97%	0.52%
<b>Companies Who Do NOT Have a Revolving Line of Credit</b>		
Does company pay an annual commitment fee?	36.9%	44.3%
Average fee on unused portion	0.57%	0.39%
Average fee on total commitment	1.23%	0.52%

Besides commitment fees, corporations also pay interest rates, primarily based on LIBOR, but a fair number still have credit lines based on the prime rate. In some instances, a company may have credit based both on LIBOR and prime, depending upon the particular facility’s terms. The table below shows the distribution of credit pricing and the averages the different segments are paying.

### Lines of Credit Pricing

Middle Market	Percent Using	Average Spread
LIBOR plus	66.8%	1.96%
Prime	20.1%	
Prime plus	23.9%	1.25%
Prime minus	13.0%	0.75%
Large Corporate	Percent Using	Average Spread
LIBOR plus	89.1%	1.70%
Prime	24.5%	
Prime plus	20.8%	2.05%
Prime minus	3.5%	1.48%

Spreads based on Aug-Nov 2009 data

To understand what corporations look for in a new banking relationship, it is helpful to analyze the factors that are the reasons companies end a bank relationship. Two factors have long been associated with why corporations terminate bank relationships: credit availability and customer service.

## Primary Reason to End a Bank Relationship

Middle Market	2009	2010
Availability of credit	19.0%	23.9%*
Customer service	25.6	26.5
Pricing of treasury management services	5.4	8.7*
Availability of treasury management services	9.5	8.6
Pricing of credit	6.4	13.3*

Large Corporate	2009	2010
Availability of credit	20.7%	26.5%*
Customer service	20.1	26.1*
Pricing of treasury management services	9.7	12.7*
Availability of treasury management services	11.5	12.5
Pricing of credit	4.1	4.4

\*Statistically significant

## TREASURY MANAGEMENT SERVICES

For a number of years the Monitor has been tracking the shifting pattern in payment mechanisms with a long-term trend of an increase in ACH payments, both initiated and received. Remarkably, this pattern was broken in this last survey.

### Payment Transactions

Middle Market	% of Payments Made <i>BY</i> Corporation			% of Payments Made <i>TO</i> Corporation		
	2009	2010	Diff	2009	2010	Diff
Check	72.9%	74.1%	1.2%	62.9%	63.5%	0.6%
ACH	14.3	13.1	(1.2)	16.0	15.6	(0.4)
Wire transfer	7.1	7.7	0.6	9.6	10.4	0.8
Credit/debit card	3.9	4.6	0.7	8.0	7.2	(0.8)
Cash	n/a	n/a	n/a	2.8	2.7	(0.1)
Other	1.8	0.5	(1.3)	0.7	0.6	(0.1)

Large Corporate	% of Payments Made <i>BY</i> Corporation			% of Payments Made <i>TO</i> Corporation		
	2009	2010	Diff	2009	2010	Diff
Check	59.3%	61.8%	2.5%	50.3%	51.4%	1.1%
ACH	24.0	23.2	(0.8)	22.5	23.2	0.7
Wire transfer	11.8	10.7	(1.1)	14.7	12.2	(2.5)
Credit/debit card	4.1	3.9	(0.2)	9.0	8.5	(0.5)
Cash	n/a	n/a	n/a	3.4	4.1	0.7
Other	0.8	0.4	(0.4)	0.1	0.6	0.5

B2B checks, which have been declining as a payment mechanism for many years, suddenly stabilized in 2009. In point of fact, we saw slight up ticks in the use of checks by corporations and to corporations in both market segments. In addition, ACH transactions as a percent of payments flattened. This is quite remarkable and has impacts across a number of bank product areas including lockbox, controlled disbursement and ACH services.

We posit two explanations for this stabilization in the use of checks. First, the Great Recession has substantially cut most corporate budgets, especially those related to new projects. Thus, many electronic payment initiatives were put on hold. That reluctance to spend money for the conversion to electronics is likely to continue through at least 2010. Second, checks have an inherent advantage over the ACH when it comes to delaying payments. When a company is expecting an ACH corporate payment, it usually knows almost precisely when that payment is due to arrive and thus takes quick action when it doesn't arrive on time. Corporations cannot impose this same stringent criterion on check payments, primarily because of the vagaries of the postal system through whose hands the payments must pass. Thus, paying by check can buy corporations a little more time than paying by ACH.

For the last several studies, fraud in the payment system has been a rising concern among respondents. That trend was reversed in this latest survey, particularly in the large corporate market.

Fraud Concerns	Middle Market			Large Corporate		
	2009	2010	Diff	2009	2010	Diff
Scale 1=Not important, 5=Very important						
Concern about fraud from specific sources						
Checks	4.39	4.37	(.02)	4.53	4.41	(.12)*
ACH debits	4.06	4.03	(.03)	4.24	4.12	(.12)*
Wire transfers	3.82	3.75	(.07)	3.78	3.77	(.01)
Internet fraud impacting retail payments	3.16	3.04	(.12)*	3.23	2.98	(.25)*

\*Statistically significant

Companies are just not reporting as many “major” fraud incidents as in the past. In the large corporate market, major fraud incidents were down from 35.5% to 27.9%, with the vast majority of these occurring from checks (88.5%). Similarly, major fraud issues were down from 24% to 21.9% in the middle market, with 88.2% of those occurring with checks. We found that the lower incidents of fraud have caused a rather significant drop in plans by these two market segments to implement the positive pay feature. We have long believed that sometimes it takes “an arrow in the chest” for a company to act. Less fraud incidents translate into fewer arrows, which in turn translate into lower interest for fraud prevention products.

A corporation’s overall satisfaction with a banking relationship frequently hinges on the ability of the relationship manager. The most important way corporations obtain information about treasury management is from in-person calling from bankers. That said, its importance has declined slightly. In the large corporate market, web-based seminars now rank second as a source of information, with the bank website being the second most important information source for the middle market.

## Importance of Information Sources for Treasury Management

Scale 1 to 5 with 5= Very Important	Middle Market	Large Corporate
	In-person bank calls	3.63
Bank web site	3.27	3.13
Trade publications	2.78	3.25
Trade meetings	2.45	3.34
Web-based seminars	2.77	3.37

## TREASURY SERVICES PRICING

Competitive bidding situations have become much more prevalent in the large corporate market, with approximately two-thirds of our respondents indicating they do competitive bidding when awarding new treasury management business. They are also less likely to buy new services only from existing banks. For one quarter of the market, price still plays a major role in awarding treasury business.

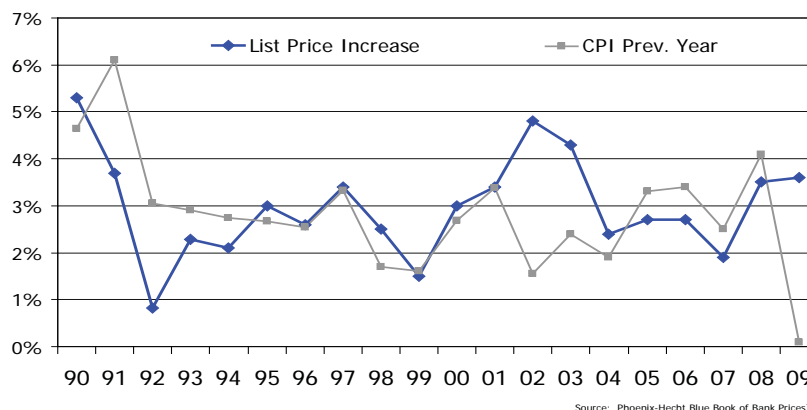
### Corporate Buying Behavior for Treasury Services

(Percentage Who Agree)	Middle Market			Large Corporate		
	2009	2010	Diff	2009	2010	Diff
Company requests competitive bids for <b>new</b> cash management services	45.2%	45.5%	0.3%	55.7%	64.5%	8.8%*
Company buys new services only from existing banks	77.1	77.8	0.7	74.0	68.8	(5.2)*
Bank has won cash management business principally because of low prices	23.6	23.1	(0.5)	29.7	26.7	(3.0)*
Company has changed banks primarily because of price increases	12.9	13.5	0.6	15.2	13.0	(2.2)*

\*Statistically significant

The period from 2005 through 2008 saw bank list prices, as observed by The Phoenix-Hecht Blue Book of Bank Pricing™ based on account analysis statements, come in below the Consumer Price Index. In 2009 this dramatically changed, with bank list prices increasing by 3.6% from 2008 while the Consumer Price Index fell to near zero. Phoenix-Hecht found a relationship between credit stress and higher treasury management prices. Because credit-stressed companies are more dependent on their banks and have in many cases already seen increased fees for their credit relationships, they are more susceptible to price increases for their treasury management services. These findings are a direct reflection of the way credit availability is dominating this market and permitting the banks to increase their margins on treasury management products.

## List Price Increase versus Previous Year CPI Increase



The recession has dampened the movement from paper to electronic during the past year. Still efforts to expand electronic payments rank high on the corporate “to do” list most likely because it is a “politically correct” response.

In the world of B2B payments, straight-through processing (STP) of remittance data and payment is done in the U.S. via a CTX entry class ACH payment (ASC X12 820) sent by the payor to its bank via a secure FTP file transmission. There has been some adoption of the newer STP820 format, which has fewer required data elements than an 820. Large global companies now have the option of becoming corporate members of SWIFT and are using the network to transmit payment files (frequently in XLM format.) Phoenix-Hecht believes that much of this “intent” to expand electronic payments will actually not come to fruition because the expense of the project and issues associated with formatting remittance documents. In the middle market, the next two most frequently mentioned projects are to increase credit capacity and replace a current credit bank. In the large corporate market, reallocating treasury management business at existing banks is the second most frequently mentioned project.

### Plans and Intentions

#### Middle Market

Percentage assigning 4 or 5 rating Scale 1 to 5, 5=Likely

	2009	2010	Diff
Add positive pay to disbursement accounts	23.4%	17.9%	(5.5%)
Increase bank credit capacity	17.7	20.5	2.8
Add or change international services bank	9.5	8.2	(1.3)
Reallocate treasury management business at existing banks	12.1	9.1	(3.0)
Add or change a lockbox bank	9.7	8.7	(1.0)
Add or change an ACH bank	11.1	9.6	(1.5)
Add or change a controlled disbursement site	11.7	11.3	(0.4)
Expand number of credit banks	12.3	12.9	0.6
Add remote deposit service	20.2	12.6	(7.6)
Replace current credit bank	n/a	14.7	n/a
Expand effort to pay suppliers electronically	n/a	38.7	n/a

#### Large Corporate

	2009	2010	Diff
Add positive pay to disbursement accounts	30.5%	20.4%	(10.5%)
Increase bank credit capacity	22.4	23.2	0.8
Add or change international services bank	22.1	19.1	(3.0)
Reallocate treasury management business at existing banks	21.7	26.0	4.3
Add or change a lockbox bank	19.2	22.2	3.0
Add or change an ACH bank	18.6	13.5	(5.1)
Add or change a controlled disbursement site	16.8	17.7	0.9
Expand number of credit banks	15.1	21.0	5.9
Add remote deposit service	34.0	23.9	(10.1)
Replace current credit bank	n/a	17.9	n/a
Expand effort to pay suppliers electronically	n/a	66.4	n/a

# QUALITY

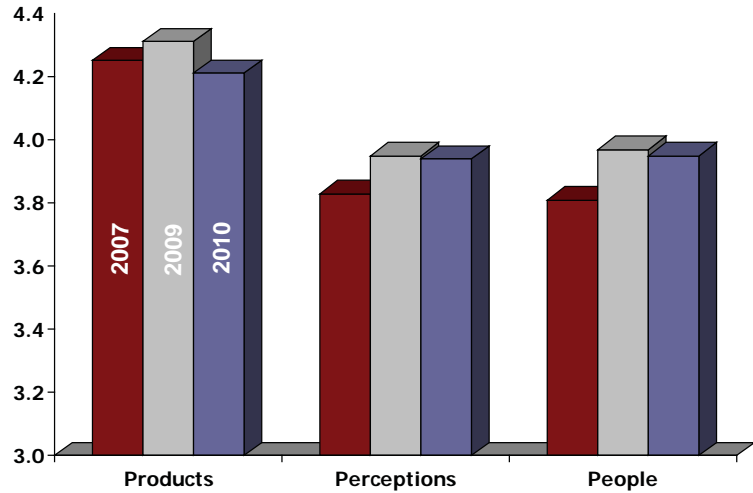
The survey shows a drop in average product ratings for both the large corporate and middle market. Some of this decline is generated by lower evaluations of categories related to electronic payments. ACH services in the middle market and P-cards in the large corporate market showed significant declines. Image-enabled products and Internet delivery had virtually no change in perceptions.

In the middle market, customer service and product specialist perceptions improved slightly; but the overall bank perception category fell because of changes in the perceived quality of customer calling programs. Based on industry discussions, Phoenix-Hecht believes the decline in relationship management scores is the result of an increase in credit relationships by companies in this segment. The added credit relationships increased the account load of many treasury management relationship managers. We also suspect that friction in the credit relationship added to the decline. The decline in relationship scores is also larger at banks more stressed by negative general economic conditions.

In the large corporate market, ratings of the primary treasury management relationship manager improved. Based on industry discussions, Phoenix-Hecht believes that this improvement is driven by the consolidation of treasury management business coupled with low turnover in relationship managers. Large corporate companies reduced their treasury management relationships by 5.6% over the last two years. Low turnover leads to a better understanding of a company's business and better overall effectiveness as client expectations are better met. We believe better calling performance also drove increases in the bank perception category along with improvements from customer service and product specialists. New for the 2010 Quality Index are refinements in the wire transfer evaluations to distinguish between incoming and outgoing transfers along with grades for purchasing card, on-line short-term investment program, foreign trade services, and cash vault services.

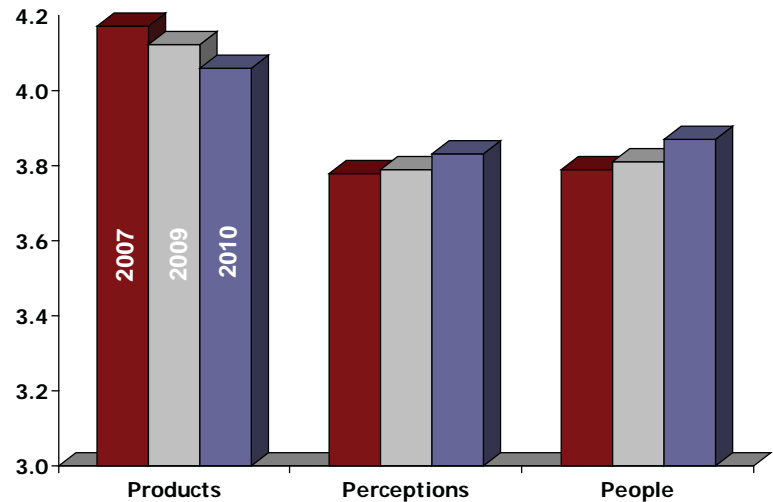
### Average Quality Ratings

Middle Market Quality Index™



### Average Quality Ratings

Large Corporate Quality Index™



# OVERALL QUALITY CHANGE IN ALL BANK AVERAGES

PRODUCTS	Middle Market		Large Corporate	
	Rating	Change	Rating	Change
<b>Wholesale Lockbox</b>				
Speed of processing	4.21	0.01	4.09	0.00
Accuracy of processing and reporting	4.25	0.01	4.07	0.01
Timeliness of receiving images	4.25	0.01	4.12	0.01
Overall features and capabilities	4.18	0.01	4.07	0.01
<b>Wire Transfer</b>				
Timeliness of incoming wire notification	4.30	n/a	4.16	n/a
Outgoing wire features and capabilities	4.27	n/a	4.13	n/a
<b>Balance Reporting</b>				
Timeliness of information	4.38	0.01	4.26	0.00
Overall features and capabilities	4.25	0.01	4.11	(0.01)
<b>Controlled Disbursement</b>				
Timeliness and accuracy of notification	4.35	0.00	4.22	0.02
Retrieval of archived images	4.19	0.00	4.08	(0.01)
Overall features and capabilities	4.25	0.00	4.12	0.00
<b>ACH</b>				
Speed of error correction	4.19	(0.03)	4.03	(0.01)
Overall features and capabilities	4.23	(0.04)*	4.04	(0.03)
<b>Depository Services</b>				
Accuracy of processing and reporting	4.33	(0.01)	4.18	(0.01)
Remote deposit features and capabilities	4.24	0.03	4.02	0.09*
<b>Internet Services</b>				
Ease of use	4.16	0.01	4.00	0.00
Overall features and capabilities	4.14	0.00	3.99	0.01
<b>Other Services</b>				
Sweep accounts	4.31	(0.05)*	4.19	(0.05)*
Fraud prevention services	4.21	(0.01)	4.14	n/a
Foreign trade services	3.86	(0.01)	3.80	(0.08)*
Purchasing card	3.83	0.00	3.70	(0.13)*
On-line short-term investment program	3.89	n/a	3.79	n/a
Cash vault service	3.84	n/a	3.72	n/a
<b>PERCEPTIONS ABOUT BANK</b>				
Product specialists	4.06	0.02	3.98	0.02
Customer service	4.11	0.03	3.96	0.04
Customer calling program	3.77	(0.02)	3.69	0.04
<b>TREASURY MANAGEMENT RELATIONSHIP MANAGER</b>				
Calling officer knowledge	4.11	(0.01)	4.09	0.01
Anticipates service needs	3.72	(0.05)*	3.63	0.01
Prompt call follow-up	4.04	(0.02)	3.93	0.02
Problem resolution	4.11	(0.02)	3.99	0.02
Accessible when needed	4.04	(0.02)	3.92	0.04
Understands your business and industry	3.94	(0.02)	3.94	0.04*
Overall effectiveness	3.99	0.00	3.90	0.04
<b>NON-CUSTOMERS</b>				
Prospect calling program	2.64	(0.07)*	2.85	0.01

\*Statistically significant change

New Quality Index Categories and Rating Ranges		Middle Market	Large Corporate
Purchasing Card	High	4.14	4.08
	Low	3.34	3.46
Cash Vault Service	High	3.95	4.21
	Low	3.53	3.56
Foreign Trade Services	High	4.21	4.11
	Low	3.57	3.47
Online Short Term Investment Program	High	4.26	4.16
	Low	3.57	3.69

High and Low scores of rated banks with sufficient sample size.

Since 1992 Phoenix-Hecht has published a Quality Index™ as part of its Treasury Management Monitor series. The purpose of the Quality Index is to provide a simple means of comparing individual bank performance. The Index has five rating categories, with A+ the highest and D the lowest. The assignment of grades is based not only on how well a bank does relative to its peers in a category, but also on how a category scores overall in the survey. These two factors are weighted in the grade assignment process. Companies can obtain their bank's grades by requesting the grades from each individual bank.

## PRODUCT USAGE AND FEATURES

The large corporate and middle markets tend to closely parallel one another in their product usage. This year we report only modest changes in product usage. The large corporate market shows more product usage expansion than we see in the middle market. In particular, the use of ACH debit blocks or filters and remote deposit increased rather significantly. Neither of these increases was matched in the middle market. In addition, Phoenix-Hecht continues to believe that both wholesale lockbox and controlled disbursement represent product opportunities that have not been fully exploited by the middle market.

### Significant Product Usage Changes

	Middle Market		Large Corporate	
	2009	2010	2009	2010
Remote deposit	44.0%	43.3%	48.3%	52.8%
ACH debit blocks	53.6%	53.7%	80.4%	87.7%
ACH positive pay	41.7%	44.9%	n/a	52.2%

The importance ratings are exceptionally high in both market segments for Internet access, especially on receiving same-day information and transaction initiation (wire transfer, stop payment and ACH). The importance of initiating investment transactions declined somewhat, but this is no doubt a result of the very low interest rate environment in which companies are currently operating. The very high importance ratings lead us to conclude that a bank that fails to have competitive products in these areas will be at a clear marketing disadvantage.

## Importance of Internet Applications

Middle Market			
(Scale 1=Not Important, 5=Very Important)	2009	2010	Diff
Receiving real time/same-day bank info	4.62	4.53	(.09)*
Receiving same-day transaction details	4.44	4.44	.00
Initiating wire transfers	4.46	4.51	.05
Initiating stop payments	4.52	4.40	(.12)*
Initiating ACH transactions	4.56	4.55	(.05)
Initiating investment transactions	3.45	3.42	(.03)
Monitoring trade documentation (L of C)	2.84	2.87	.03
On-line account management	n/a	3.81	n/a
On-line loan payment and tracking	n/a	3.32	n/a

\*Statistically significant

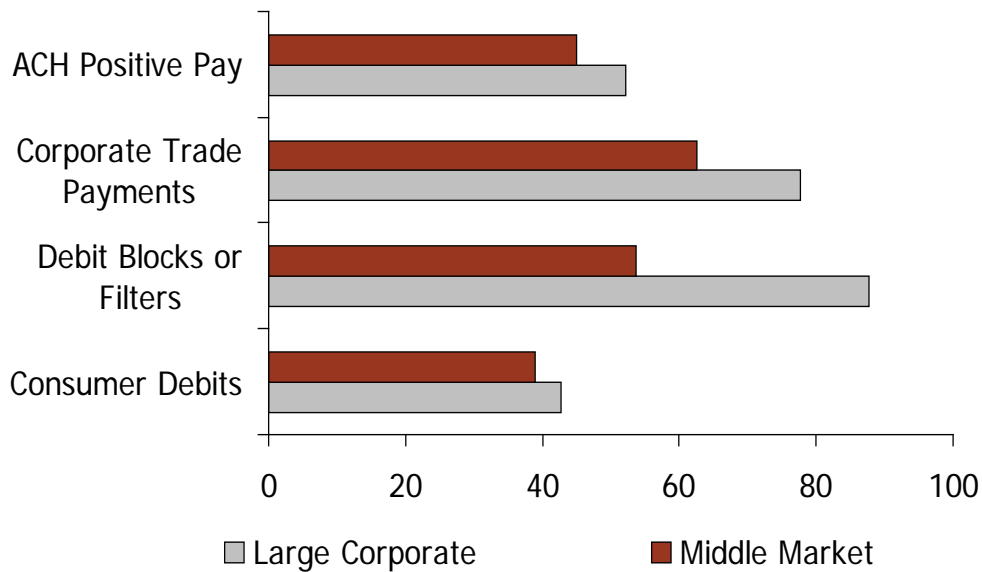
Large Corporate			
(Scale 1=Not Important, 5=Very Important)	2009	2010	Diff
Receiving real time/same-day bank info	4.73	4.71	(.02)
Receiving same-day transaction details	4.58	4.58	.00
Initiating wire transfers	4.82	4.83	.01
Initiating stop payments	4.65	4.58	(.07)
Initiating ACH transactions	4.71	4.68	(.03)
Initiating investment transactions	3.96	3.73	(.23)*
Monitoring trade documentation (L of C)	3.18	3.18	.00
On-line account management	n/a	3.76	n/a
On-line loan payment and tracking	n/a	3.01	n/a

\*Statistically significant

As we have noted in previous surveys, ACH usage is almost universal, with direct deposit of payroll being the most common service followed by automatic tax payments. Use of ACH debit blocks and filters continues to increase substantially in the large corporate market, moving up to 87.7% from 80.4%. However, there is no increase in this product in the middle market. ACH Positive Pay, a fairly new product at many banks, has been rapidly accepted as another fraud prevention tool.

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### Percentage of Corporations Using ACH Product Features and Transaction Types



The transition to electronic payments appears to be placing a strain on servicing ACH problems and exposing capability shortfalls at many banks. As a group, large banks showed a greater decline in the speed of error correction for ACH activity, while smaller banks showed improvements.

ACH speed of error correction Change in all bank average	Middle Market	Large Corporate
Large Banks (Over 10% market share)	(0.08)	(0.10)
Regional Banks (Under 10% market share)	0.37	0.90

Our previous surveys have reported significant expansion in the use of purchasing cards. This trend appears to have slowed. As we have noted for many other services in the treasury management arena, companies have slowed their adoption of some of what were the hotter products just one or two years ago. The large corporate market also rated their satisfaction with P-cards lower regardless of the size of the bank providing the service. We suspect that card spend (dollar value) may be lower due to less economic activity. Consequently, the revenue sharing anticipated by some corporate customers may not be meeting expectations.

P-card rebates being received by both the middle and large corporate markets for making P-card payments have increased dramatically. Moreover, these rebates are quite large.

## Purchasing Cards

Middle Market	2009	2010
P-card usage	35.8%	32.1%
Plan to start using within two years	23.6%	12.1%
Percentage of vendor transactions to be converted	11.1%	9.3%
Receive a rebate	33.3%	56.8%
Accept for invoice greater than \$10,000	23.6%	25.7%
Change in product quality	n/a	0.00

Large Corporate	2009	2010
P-card usage	63.8%	65.0%
Plan to start using within two years	37.1%	30.9%
Percentage of vendor transactions to be converted	20.2%	16.0%
Receive a rebate	68.3%	81.7%
Accept for invoice greater than \$10,000	28.6%	26.9%
Change in product quality	n/a	(0.13)

## P-Card Rebate Size as a Percentage of Annual Spend

	Middle Market	Large Corporate
.50% or less	26.5%	25.9%
.51% to .75%	9.5%	7.0%
.76% to 1.00%	31.4%	37.7%
1.01% to 1.50%	7.8%	13.6%
Above 1.50%	24.7%	15.9%
Average Rebate Size	1.46%	1.18%

The case for controlled disbursement has been evolving over the years. Its origin as a float extension product has almost been eliminated as banks have moved to near universal check image exchange. We believe that today the product's acceptance comes both from its "control" aspect and the one-half day float difference over a non-controlled disbursement account. The use of a check still provides more corporate leeway of when to pay suppliers than does an ACH transaction. The following table shows three of its more salient characteristics and their importance to the corporate market.

Controlled Disbursement	Middle Market	Large Corporate
Controlled Disbursement Usage	65.7%	89.6%

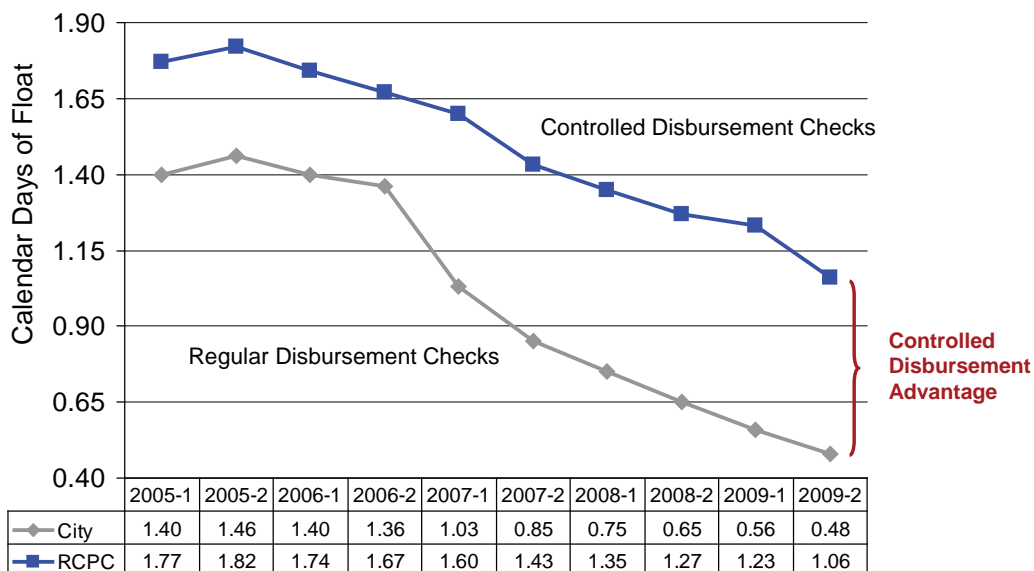
### Importance of Features

Percent rated 4 or 5 (1=low, 5=high)

Initiating stop payments via Internet	86.1%	91.3%
Positive pay with payee verification	72.5%	85.5%
Imaging for long-term storage of paid items	76.8%	80.8%

Timeliness of notification of presentments quality ratings, 4.35 in the middle market and 4.32 in the large corporate market remains unchanged due to the implementation of image exchange throughout the industry during 2009. Image exchange has resulted in 95% of all items meeting the 6:00 a.m. presentment deadline. Consequently, most of a company's check clearings are reported in the first presentment by 8:00 a.m.

### Check Clearing Time Averages for Lockbox Deposits



Source: The Phoenix-Hecht Check Clearing Study™

Lockbox is one of the oldest offerings in the treasury management product set. However, it has also evolved greatly with the use of technology, in particular imaging and Internet-based information reporting. Four years ago we noted a significant improvement in product quality, no doubt because of this technology. This year we report that quality in lockbox remains very high and very stable.

Collection Products	Middle Market	Large Corporate
Lockbox Usage	44.3%	77.8%
Importance of lockbox features		
Same-day access to remittance document image	3.57	4.26
Data file of check and return document information	3.42	4.09
Consolidation of paper/electronic payments	3.38	4.03
Remote Deposit Usage	43.3%	52.8%
Importance of transmitting remittance info	3.78	3.73
Depository Services	84.3%	93.0%
Importance of fraud protection service	4.49	4.69

The gap in usage of wholesale lockbox has widened somewhat. There is now a 33.5 percentage point difference in adoption rates between the two market segments. For both market segments, receiving same-day check and remittance document images via the Internet is by far the most important feature. This is not that surprising. What is more interesting is the divergence in importance of some of the other features by market segment, where same-day access to remittance document images, a data file of check and return documents information for automated cash application, and the consolidation of paper and electronic payments have dropped significantly in the middle market while increasing in the large corporate market.

The use of remote deposit also grew rather significantly, reaching 52.8% penetration in the large corporate market, but this product showed literally no change (43.3%) in the middle market. We believe that the remote deposit service may have reached the plateau of its adoption, as both the large corporate and middle markets show much less interest in adding this service than they did two years ago. However, the large corporate market has an improved perception of the remote deposit product as new features such as scanning and sending remittance documents to the lockbox were rolled out. Perhaps recent enhancements to capture remittance data will increase demand for remote deposit.

Product Usage	Middle Market	Large Corporate
<small>Percent of Companies Using</small>		
Wire transfer	94.2%	99.5%
Balance reporting	93.1%	99.0%
Fraud prevention	79.2%	93.2%
Internet-related services	80.9%	90.5%
Sweep accounts	73.8%	75.5%
Foreign trade services	41.9%	47.7%
On-line short-term investments	36.1%	47.0%
Cash vault	27.2%	38.3%

The use of sweep accounts decreased as companies took advantage of the bank's participation in the Transaction Account Guarantee Program (FDIC coverage of corporate checking account balances over \$250,000.00) and in some cases the higher than market earnings credit rates that were offered. Not surprising was the higher ratings

given to the sweep product by smaller companies. Individual bank ratings may also be influenced by interest rates paid.

Investment Product Rating Ranges		Middle Market	Large Corporate
Sweep Account	High	4.72	4.51
	Low	3.99	3.99
On-line short-term investment program	High	4.13	4.16
	Low	3.57	3.69

High and low scores of rated banks with sufficient sample size.

We believe the on-line short-term investment programs or portals are lower rated than sweep accounts because of a high degree of variability in individual bank offerings. We further believe that in the current economy, companies are placing a high premium on risk reduction and safety over returns.

Virtually all corporations use some depository services. As bank consolidation has progressed, banks with large geographic footprints can provide low-cost funds concentration using their branch networks. However, new electronic versions of old products such as cash vault can be offered by banks outside of their footprint. A virtual vault can be as simple as getting credit for the cash held by the courier or the installation of cash counting machines at individual stores.

## CONCLUSION

The Great Recession of 2009 had a dramatic impact on the landscape of bank relationships. The credit crunch set off a chain of events that strained longstanding relationships. Banks denied credit to customers, corporations added more credit relationships, banks raised prices for treasury services above the CPI and companies put more treasury services out to bid. We expect that the fallout from this unique period in history is not over. One thing is certain; the effects will be felt for years to come.

## Surveyed Banks

Bank of America	Fifth Third	RBC Bank (USA)
BB&T	First Tennessee	RBS (Citizens)
BMO Capital/Harris Bank	HSBC (Bank of USA)	Regions Bank
BNY Mellon	Huntington Bank	Sovereign Bank
BOK Financial	JP Morgan Chase	SunTrust
Capital One Bank	KeyBank	TD Bank
Citibank	M & T Bank	UMB Banks
Comerica	Marshall & Ilsley (M&I Banks)	Union Bank
Commerce Bancshares K.C.	National City	US Bank
Compass Bank	Northern Trust	Wachovia
Deutsche Bank	PNC Bank	Wells Fargo



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