Virginia Bankers Association

"Treasury Management Basics"

September 20, 2021

Presented By: Debra E. Knox, CCM

KNOX ADVISORS, LLC TREASURY MANAGEMENT ADVISORY SERVICES 717.468.1227

Let's Get Started – Our Goals for Today

Join In, Share & Have Fun

Payments/Cash
Management/Treasury
Management – What is it &
how do these products
provide value?

How are these products evolving & who is our competition?

How can you guide your business customers & prospects to the right TM solutions? (Best Practices)

Let's Get Started – It's All About You ©

Please tell us your name, your bank, your position & how long you have been engaging business clients.

Feel free to share your goal for today's session or any other tidbits that the group may benefit from.

How Did We Get Here? (A little bit of history...)

Cash Management – 1970s & 1980s

Interest rates were high
Funds moved slowly
Float management was key

Treasury
Management - 1990s
to present

Data management is
key
Fraud control

Digital revolution

The dinosaur known as the check would have been extinct years ago if remittance details supporting the payment would be more easily accessible

The introduction of Fintechs as an alternative payment provider has accelerated the movement to electronic payments

Artificial Intelligence
(AI) is aiding in the
processing of
remittance details.

The cost savings between receiving a paper check (\$4.57) & receiving an ACH (\$0.30) is too compelling to ignore

How Did We Get Here?



The September
11, 2001 national
disaster
prompted "The
Check Clearing
for the 21st Act"
or "Check 21"



We needed to move to an electronic check clearing system and we did in 2004



20 years later
"Check 21" is
being put to the
test with the
COVID-19
shutdown
bringing inperson banking
to a standstill.

With the genie out of the bottle on contactless payment preferences, it isn't likely to return to "normal"

How Did We Get Here?

Payments/Treasury
Management generated
\$250B of revenue in
2019 and grew more
than 10% in 2020 with a
forecast of 5% growth
per annum over the next
5 years

Some say that the ROE for PTM can be as high as 40%

Banks earn fees from payment processing & account management services, as well as interest income from deposits & operational account balances. PTM is an anchor-relationship product line that provides cross-selling opportunities.

Although fee margins have compressed due to increased competition, payment volumes are growing so the forecasts still look good. If interest rates rise, margins will be stronger.

Treasury Management Services are important to your bank's success!

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"Treasury Management at a Crossroads"*

1/28/2020
*Webinar
conducted by
Deluxe Treasury
Advisory Services
and Capital
Performance
Group with results
of bank/corporate
survey

"Expectations are being raised for Treasury Management as a growth engine. This is a change from the old days when TM was looked at as a support group".

"You don't get commercial deposits if you don't do Treasury" "Today's Treasury
is a self-sustaining
line of business
that is strategic
and generates
clients, deposits,
revenue and
value"

Where Are We Going?

To non-paper based payment solutions

That exist in a rapidly changing competitive landscape

With more informed and proactive clients

And more creative non-bank providers

Are you up to the challenge?

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Deposit Trends – A Direct Effect on TM Sales

Shifting Demographics -

The power of the Baby Boomers is declining as millennials become the dominant demographic group. They appear to have lower excess dollars to keep on deposit and are prone to store funds on Starbucks cards or use Venmo. The emerging Gen Z group likely offers an additional & different set of challenges.

Faster Payments -

Businesses are expecting faster payments with round-the-clock settlement and the Fed is working to accomplish this. The impact will be that dollars in DDAs will be there for a shorter time.

What can you do?

- Put someone in charge of deposit acquisition/Consider a deposit-only sales staff
- Focus on current customers first (retention is far less expensive)
- Revisit your product set (how are you going to attract new depositors)
- Emphasize/Target deposit-rich customer segments
- Review, measure, react and reinvent quickly to ensure success

Deposits & Treasury Management – A Perfect Marriage



All banks can benefit from a cohesive product packaging & pricing strategy



Although the bundling of basic information reporting & other TM products with a basic business DDA is now common, this has a negative effect on the bank's ability to gain service fees. TM products are an expense that the bank hopes to recover plus a profit so the packaging of products needs to reflect this goal.



This is where the acquisition of business deposit accounts, the sale of TM products, product bundling/packaging & pricing intersect with target market strategy & calling program management.



The bank will be

Employee training & development as well as compensation should be tied to the overall strategic goals for the retention & expansion of business relationships.

Poll Question: Thinking about the past 12 months, what Treasury Management Service(s) was your best seller?

- □ACH Origination (Collection and/or Payment)/Same-Day ACH
- ACH Positive Pay and/or Blocks/Filters
- Business Credit Cards
- Merchant Services
- Mobile Deposit/Remote Deposit/Online Banking

Poll Question: Thinking about the past 12 months, what Treasury Management Service(s) was not requested at all (or very infrequently)?

- **□**Account Reconcilement
- ■Cash Vault Services and/or Smart Safe
- ■Lockbox Services (Retail and/or Wholesale)
- ■Sweep Services (Investment)
- **■Wire Transfer Origination**

First Break

Please be back in 15 minutes 🚳



Treasury Management Basics

Collections/Concentration (Accounts Receivable)

Disbursement (Accounts Payable)

Funds Management & Liquidity (short-term investing and/or borrowing)

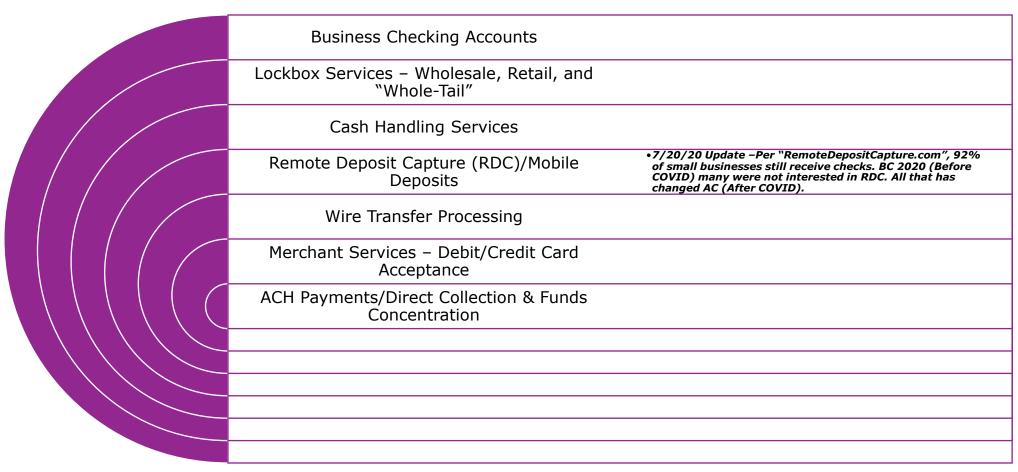
Information Technology & Fraud Control Management (ties that bind)

Risk Management (both funds and data)

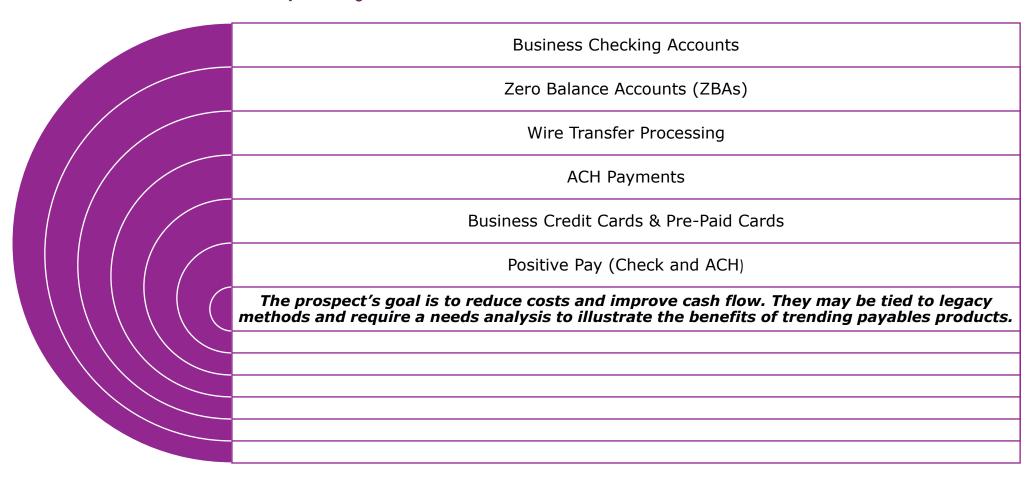
The role of the corporate Treasury Manager usually includes all of the above plus cash forecasting, borrowing, bank relations, management reporting and budgeting.

Note: The terms Cash Management & Treasury Management are used interchangeably by both Corporates & Banks. The transition in terms to Treasury Management has occurred over the past 15 years.

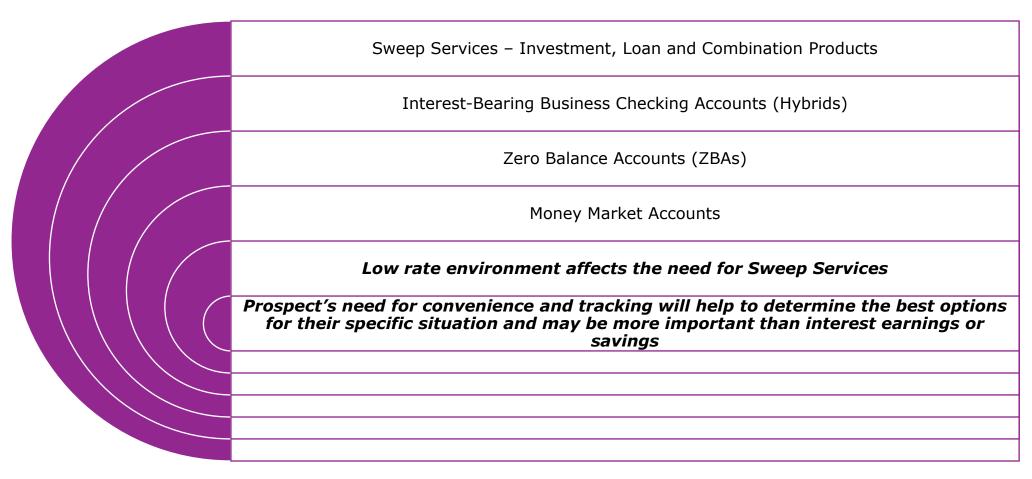
Collection, Concentration & Receivables



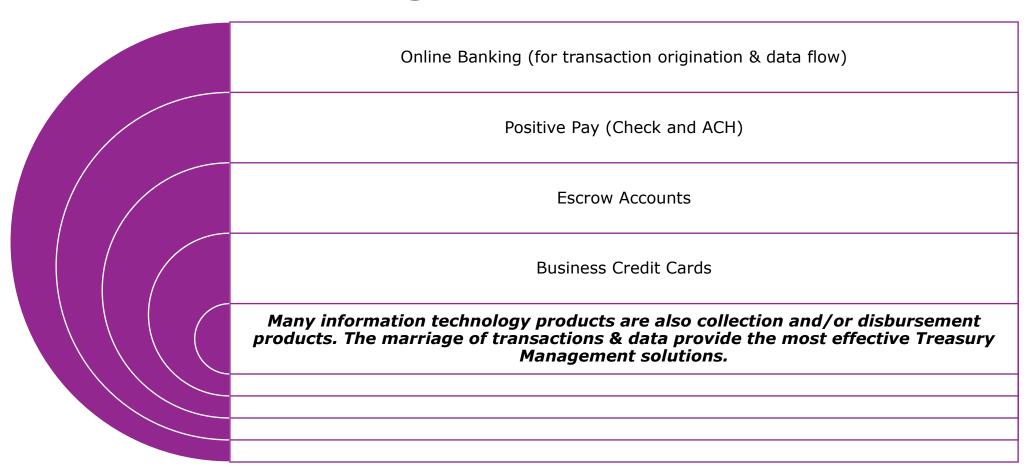
Disbursement/Payables Products



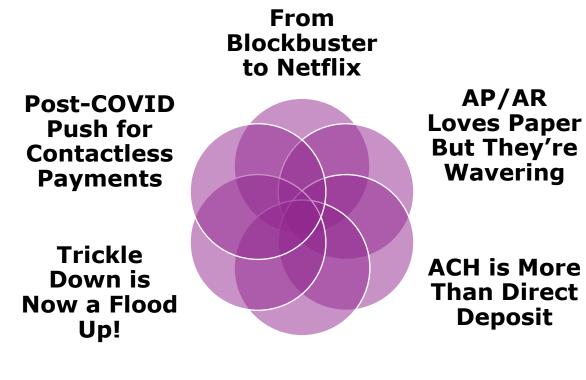
Funds Management & Liquidity Products



Information Technology & Fraud Control Management



Product Direction/Transitioning From Paper to?



Plastic for All

Product Direction – Consider Aligning Jargon with Business Needs

Accept payments from your customers however they want to pay

Merchant Services

Card Payments

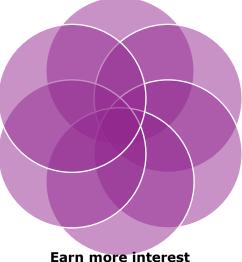
Collect payments and pay employees & vendors electronically

ACH Debits/Credits

Electronic Payments

Monitor and transfer your money online from anywhere

Online/Mobile Banking



Earn more interest
automatically by letting
the bank move your
money between
accounts

Sweep Services

Transfers

Auto

Protect your business from fraudulent checks & electronic payments

Positive Pay → Fraud Protection

Avoid trips to the bank by depositing checks digitally via scanner or a mobile app

Remote/Mobile
Deposit → Digital
Deposits

Trending Payments & Solutions

Henry Ford was quoted as saying: "If I had asked people what they wanted, they would have said faster horses"

A faster horse doesn't win in banking anymore. We need product alternatives that work for our specific markets.

Be aware of technology trends and solutions and align your organization with partners who share your vision and goals (you may even find yourself partnering with current competitors!) – Who knew!

Trending Payments & Solutions- FedNow Pilot

January 25, 2021 – Federal Reserve Bank announced a pilot program with 110 participants to support FedNow.

Goal to provide around the clock payments through financial institutions using the FedLine network. No specific launch date is available but there is surely pressure on the Fed to counter the movement of payments from wire to ACH.

Trending Payments & Solutions – Quickbooks Cash

QuickBooks Cash (8/2020) – A business bank account with a debit card, bill pay, no minimum balance requirement and no monthly service fee (but other fees may apply).

This product arrives at a vital moment for small businesses. It provides faster access to their money and can be opened remotely.

- Free "instant deposit" (RDC) for eligible depositors
- High-Yield interest (25 times the industry average) – 1% on 7/20/2020
- "Envelopes" allow business owners to set aside money for specific planned or unexpected expenditures such as quarterly taxes, bonuses, or supply purchases
- Includes a Cash Flow Planner and full integration to QuickBooks
- •The account is provided via Green Dot Bank, Member FDIC

Trending Payments & Solutions – Kabbage Checking

Kabbage, Inc. (7/2020) – A data & tech company from Atlanta GA who provides small business cash flow solutions including a new business checking account.

- Kabbage became the third-largest PPP lender in the nation by application volume during the COVID response
- They launched <u>www.helpsmallbusiness.com</u> to generate more revenue by selling online gift certificates
- Acquired by American Express 7/2021

"A business checking account built for the smallest of companies, but fit for the largest".

- Gives small businesses the same capabilities as larger ones.
- High-Yield interest 1.1% on 7/20/2020
- Free ATM access at 19,000 in-network ATMs
- Bill Pay and Kabbage Debit MasterCard
- Create up to 5 "wallets" to track savings goals or manage cash flow
- The account is provided via Green Dot Bank, Member FDIC (AGAIN!)

Trending Payments & Solutions – PNC "Direct to Debit Card"

PNC (9/2020) To provide businesses with the option to send consumer payments through an eligible debit card.

Collaboration with Visa's Push Payments Platform.

- Bridges the gap in business-toconsumer payments in real time
- No need for bank account numbers or third-party payment apps
- Routes payments to consumers using their 16-digit debit card number
- Can be used for payroll, paying on demand, and independent contractor payments

Trending Payments & Solutions - Square

Square has been successful in serving a previously difficult market for traditional merchant services providers - the micro business. Over time they have moved up market and now serve larger businesses as well.

They are focused on their "instant funding" feature which provides merchants with cash today via the debit card (Pulse) network. Having access to funds immediately is a very attractive pull for a small business. The fee is 100bp (paying \$5 to receive \$500 is worth it for many)

Trending Payments & Solutions - Square

March 2020 – Square received approval for a "lite" bank (industrial loan company) that isn't subject to Federal Reserve supervision. The new bank will be called Square Financial Services and will be based in Utah (opened March 2021).



Square Financial
Services will be
permitted to collect
deposits and lend
money to
merchants that use
Square devices.



The FDIC and the Utah Department of Banking will require a significantly higher level of capital than other banks (\$56million is the initial capital). The FDIC will also have the right to examine the new bank.



This approval signals a more friendly regulatory atmosphere for Fintechs that will definitely impact traditional banks (unless the new political climate reverses strategy).

Trending Payments & Solutions – Business Credit Cards

Cards have come a long way since Diner's Club launched in 1950 More businesses are obtaining credit cards which means there will be more merchant acceptance (and more nontraditional merchants)

Virtual P-Cards with one-time account numbers are driving this trend Fraud controls have improved dramatically and encouraged business card usage

Integration with traditional accounts payable functions provide even more incentive to ditch checks in favor of cards

Businesses need to purchase online so card issuance will continue to grow

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Trending Payments & Solutions – Business Credit Cards



- Increasing use of contactless cards (offering rewards/perks for usage)
- Enhanced security with tokenization (payments are processed without exposing personal account numbers because the token only works for that consumer, on that device at that merchant)
- 10/2019 One-Click checkout option (American Express, Discover, MasterCard, & Visa joined forces (WOW!) to create this new option. Participating merchants so far are Cinemark, Rakuten, Papa John's, & Saks 5th Avenue. More merchants to join in 2021. Click-to-Pay is more secure and convenient & reduces the amount of info needed to complete the sale).

Trending Payments & Solutions – MasterCard Business Card

Posted 8/6/2019 – MasterCard adds value to their small business program by aligning with Salesforce

MasterCard Business Card customers can now tap into the power of Salesforce's CRM (customer relationship management) solution through Salesforce Essentials. This app has sales and customer support tools specifically designed for small businesses.

For only \$9.99/user/month customers are able to use a sophisticated sales tool for a fraction of the standard cost.

Other enhancements include: Intuit's QuickBooks®, TurboTax®, ID Theft Protection®, MasterCard Easy Savings®, cell phone insurance and MasterCard Receipt Management by Itemize® (some benefits are fee-free while others are discounted)

Trending Payments & Solutions – The Beat Goes On!

Card-based receivables and payables products will continue to evolve and decrease paper-based products

Electronic and digital products will also increase and change the overall payment landscape

Treasury Management banks will need to be flexible and be prepared to evolve with business client needs or risk being replaced by other financial service providers

Second Break

Please be back in 15 minutes 🚳

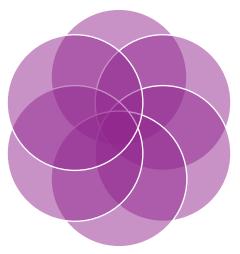


Why Do Prospective Customers Buy Bank Products?



Scheduled RFP (Request for Proposal)

Money (earn interest or save expenses)



Relationship issues

Credit – New or renewal

Specific product request or need

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Treasury Management Sales Professionals

Getting the right sales opportunities (via internal & external prospecting)

Developing a solution or solutions (in the context of the product/service capabilities available) that deliver benefits to the business prospects

Working in concert with other bank business development team members to retain and expand business relationships

Understanding the Treasury Management situation of business prospects

Communicating the value proposition (closing the deal) to the business prospects

High-performing
Treasury Management
salespeople apply the
tools of consulting to
achieve success using
pre-call planning,
cost/benefit analyses,
funds flows, pro forma
analysis, & intellectual
capital (prior
experiences &
knowledge)

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Internal Prospecting Tips (Underserved Customers?)

High-Volume Deposits (more than 10 per month) High-Volume of Deposited Checks (more than 10 per deposit)

Large or
Frequent Sums
of Cash
Deposited (Are
there other safer &
less costly receipt
options?)

High-Volume of Checks Paid (more than 50 per month) High-Volume of
Incoming
Electronic
Credits (may
indicate merchant
services
processing
elsewhere or
movement of
funds from/to
another bank

Recurring High-Dollar ACH Debits (may indicate a thirdparty payroll service) Incoming or
Outgoing
International
Transactions
(may indicate
need for ACH
and/or Wire
services as well as
traditional
International
products

HINT: Account
Analysis will
provide this
valuable data to
aid in
discovering
underserved
customers and
potential
Treasury
Management
prospects

Prospecting Tips

<u>Third-Party Referrals</u> (from an existing client or professional – "Sue from XYZ suggested that I contact you")

Industry Experience & Expertise ("Over the past few years, I've worked with a number of businesses/organizations like yours & I'd like to discuss some of these ideas with you"

References (from the company website, the news or publication – "I saw on your website that you do..."

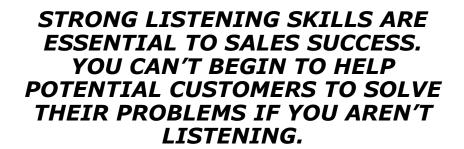
New Situations or Products/Services (something that provides value – "We recently enhanced our XYZ product to provide (specific industry) with new benefits")

<u>Send a Letter or Email Prior to Calling</u> (tailored to the prospect's situation or industry, send out a limited number to allow for follow-up, be specific as to when you will call & then do it)

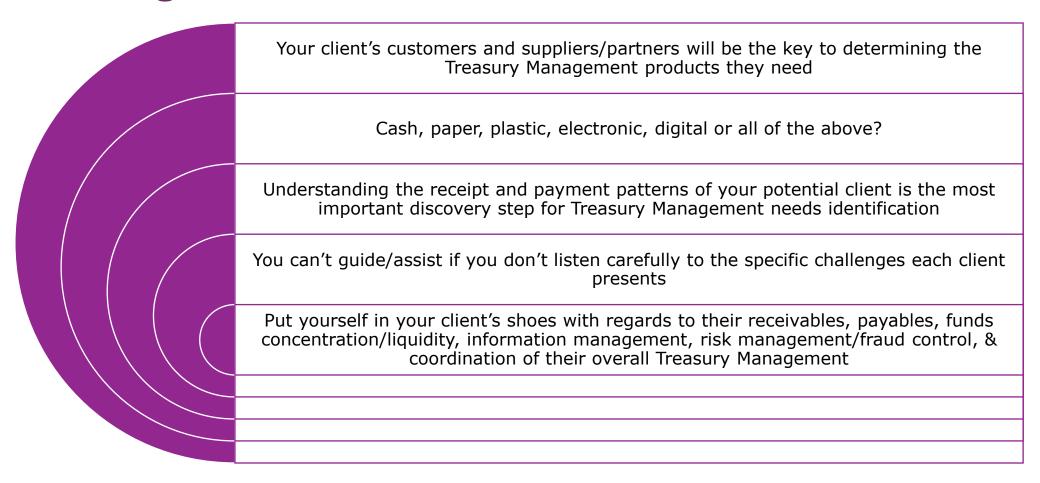
☐ "Please Don't Let Me Be Misunderstood" ☐ The Animals 1965

* Barlow Research 7/2020

- Only 39% of businesses think that their banks understand them
- 90% of businesses wish that their banks understood them



Guiding TM Clients to Solutions



Competing with Focus on Verticals

Focused banks outperform others with segments/verticals/niches because of:

- •Lower Origination Costs
- •Higher Risk Quality & Reduced Costs
- •Relationship Based Pricing
- •Sustainable Customer Relationships

Criteria for choosing segments/verticals/niches:

- Demographic
- Industry Sector
- •Company Turnover/Company Lifecycle
- Loan Type
- •Linkages to Current Customers

Challenges and Opportunities

Group
Discussion/Roundtable

What do we need to succeed?

What have we missed?

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Pulling It All Together

Identify your competitors (local, regional, national & non-banks)

Develop a coordinated Treasury Management/Business Deposit calling strategy that drives new client growth & retention of current clients by focusing on your unique strengths

Market products based upon your organization's overall strategic goals that should include specific industry types and sizes

Identify niche markets and/or vertical markets

Search for trending/unique products that complement your chosen market(s)

Our Goals for Today - How'd We Do?

Payments/Cash
Management/Treasury
Management – What is it &
how do these products
provide value?

How are these products evolving & who is our competition?

How can you guide your business customers & prospects to the right TM solutions? (Best Practices)

Wrap Up, Questions, Comments

Remember why prospects buy bank services

Business
Deposits and
Treasury
Management
Services are
linked

Competitors are changing quickly and products are evolving











Deposit
acquisition
continues to
challenge banks
but TM product
sales are
essential to
retaining &
acquiring funds

The changing landscape requires banks to be more nimble in product development and the formation of alliances with FinTech partners and competitors

Stay Informed

(AFP) Association for Financial Professionals (www.afponline.org)

Strategic Treasurer (<u>www.strategictreasurer.</u> <u>com</u>)

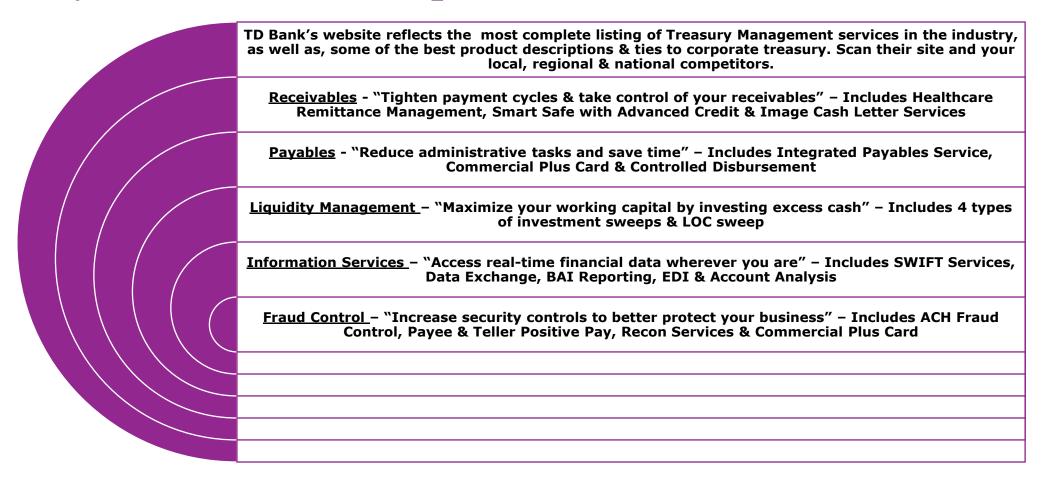
NACHA (<u>www.nacha.org</u>)

Barlow Research (<u>www.barlowresearch.com</u>)

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Pay Attention to Competitors & Learn



Knox Approved Pearls of Wisdom

"Knowledge is Power" – Francis Bacon "The bitterness of low quality remains long after the sweetness of low price is gone" – Benjamin Franklin "The positive thinker sees the invisible, feels the intangible, and achieves the impossible" – Winston Churchill

Poor planning on your part does not necessitate an emergency on mine – "Knox"















"A vision without action is merely a dream. Action without vision just passes the time. Vision with action can change the world" – Joel A. Barker

"Great things are done by a series of small things brought together" - Vincent van Gogh "Excellence is never an accident. It is always the result of high intention, sincere effort, and intelligent execution: it represents the wise choice of many alternatives – choice not chance determines your destiny" – Aristotle

MOTIVATION

"Motivation doesn't last
But neither does showering!

That's why both are recommended daily"

• Zig Ziglar

PERSEVERANCE DEFINED

"Perseverance is the hard work you do after you get tired of doing the hard work you already did"

• Newt Gingrich

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Thank you for your participation today!

KNOX ADVISORS, LLC Treasury Management Advisory Services Debra E. Knox, CCM 717.468.1227