

CPIM
CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

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CASH MANAGEMENT 210

Banking in the 21st Century

2014 CPIM Academy

The Banking Environment – Current & Future Trends

- ◉ Provide a high-level overview of current banking marketplace
- ◉ Reveal projected trends in the banking industry
- ◉ Factors impacting access and types of services
- ◉ Economic factors
- ◉ Cash management trends and tools

Banking Marketplace

Local Banking Footprint

- ◉ Size of footprint
- ◉ Electronic Banking vs. Local Branch



Banking Marketplace

Factors impacting deposit availability

Factors impacting account access

Factors impacting types of service

Projected Trends

- ◉ Trends in bank consolidation
- ◉ Trends in possible branch expansion /contraction
- ◉ Changes in “Too Big to Fail”
- ◉ Small Banks vs. BIG Banks

Regulation/Requirements

Dodd Frank & Consumer Protection Act 2010

Objective: Promote financial stability of US by:

- Improving accountability & transparency
- Ending “Too Big to Fail”
- Protecting taxpayers from bailouts and abusive financial services practices

More than 243 provisions calling for 67 studies and 22 periodic regulatory reports!

Highlights of Dodd-Frank

- ◉ New regulation and supervision of financial institutions
- ◉ Repeal of Regulation Q authorizing interest bearing transaction accounts for corporations
- ◉ Volker Rule restricts banks from making certain types of private equity and hedge fund investments
- ◉ Changed FDIC limits, assessments and guarantees
- ◉ Durbin Amendment provides the Federal Reserve regulatory power over interchange
- ◉ Collins Amendment now added to establish minimum leverage and risk based capital requirements

Highlights of Basel III

The BASEL III Accords are new regulatory standards released by the Basel Committee on Banking Supervision that address capital adequacy and liquidity of banks.

“A landmark achievement that will help protect financial stability and promote sustainable economic growth. The higher level of capital, combined with a global liquidity network, will significantly reduce the probability and severity of banking crises in the future.”

– Nout Wellink, Chairman
Basel Committee on Banking &
Supervision

Basel III's Approach to Liquidity

- ◉ Focuses on unencumbered liquid assets on the bank's balance sheet – **Liquidity Coverage Ratio (LCR)**.
- ◉ Liquid assets should be sufficient to cover “acute liquidity stress scenario” – which assumes significant deposit runoff and high loan commitment takedowns.
- ◉ Result will be larger balance sheets, higher proportion of securities, and increased pricing for committed facilities, assets, and liabilities.

**Liquid Assets \geq 100% Stressed
Cash Outflows**
(Cash, Treasuries,
Limited Agencies)

(Liquidity Crisis: Withdrawals of Deposits, Draws on Letters of Credits, etc.)

Basel's Significant Regulatory Impact

- Historically, the focus of regulatory structure has been capital, not liquidity – provided by the Federal Reserve Discount Window, Federal Home Loan Bank System, and other banks.
- The future focus will be on capital **AND** liquidity. Bank balance sheets will be “de-risked” holding more lower risk securities and fewer loans.

	<u>2010</u>	<u>2015</u>
Bank Holding of Treasuries	\$181 billion	\$675 billion
Total Treasuries Outstanding	\$8.4 trillion	\$12.5 trillion
Bank Ownership Share	2.2%	5.4%

Other Significant Basel Impacts

- ◉ Depositors will likely see significant pricing decrease for deposits based on their run-off factor.
- ◉ New products will be developed emphasizing 31+ day puttable or callable features or 31 day withdrawal notice requirements.
- ◉ Credit commitments will become more expensive and more difficult to get without other “relationship” with financial institution due to SAL requirements.

New Regulation & Supervision of Financial Institutions

- ◉ **Ends Bank Bailouts** – Creates safe ways to liquidate failed banks and mandates new capital requirements.
- ◉ **Increases Regulation of Payment, Clearing & Settlement Systems** – Provides uniform risk management standards for bank payment, clearing, and settlement activities.
- ◉ **Exposes Executive Compensation & Corporate Governance** – Gives shareholders a nonbinding vote on executive compensation and golden parachutes.

New Regulation & Supervision of Financial Institutions

- ◉ **Increases Transparency & Accountability for Exotic Instruments** – Provides more regulation for asset-backed securities, hedge funds, and over-the-counter derivatives.
- ◉ **Provides More Protection for Investors** – Increases accountability and transparency for credit rating agencies.
- ◉ **Enforces Oversight Regulations** – Allows regulators to pursue financial fraud and conflicts of interest.

Possible Side Effects

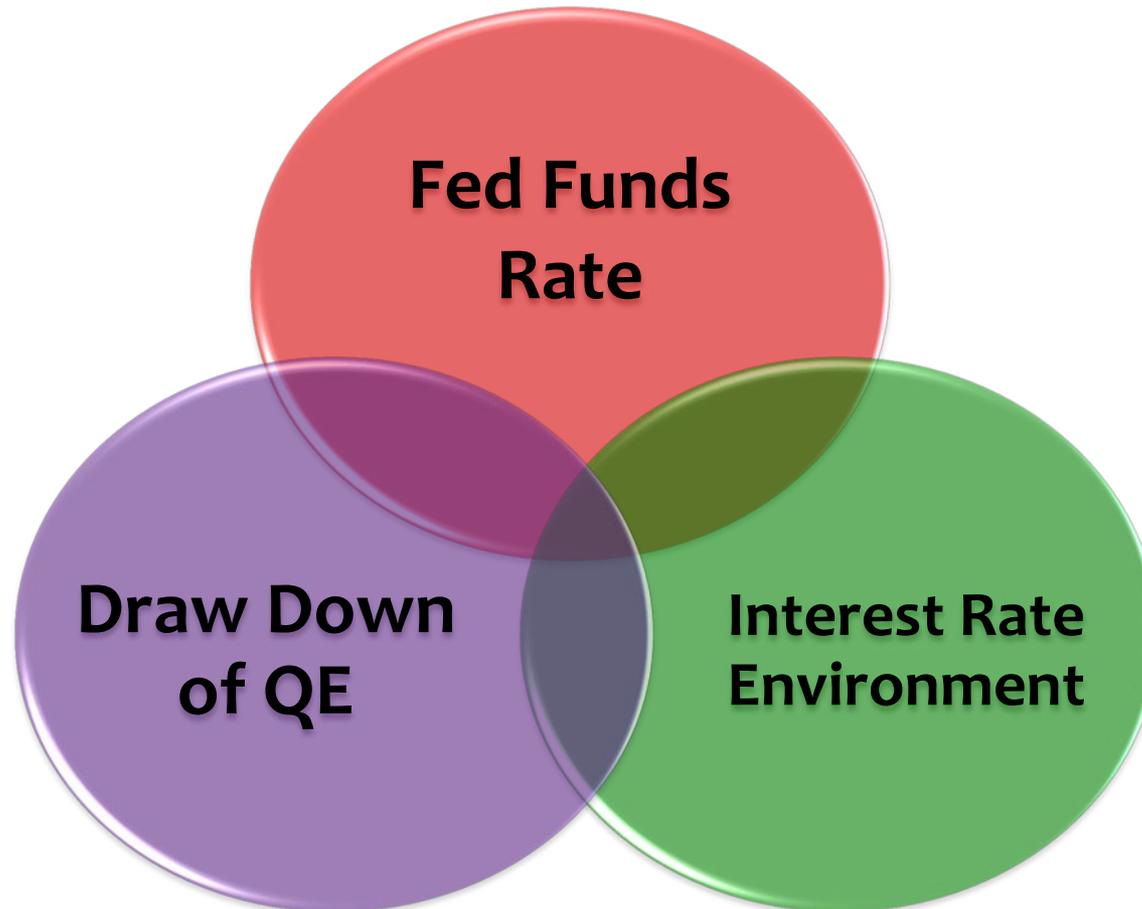
Req Q Effects:

- ◉ Significantly impact the way in which banks structure their product offerings.
- ◉ Influence the way in which banks calculate account analysis.

FDIC Effects:

- ◉ Increases potential banking fees to you as higher FDIC rates are passed through.
- ◉ Reduces rates banks are willing to pay.

Impact of Economic Factors



QE: Fed's Quantitative Easing

Finance Manager Asking for More Funding



Trends in Fees & ECRs

- ◉ Earnings Credit Rates (ECR) tiered or tied to Average Balance Levels
- ◉ Different bank appetite for balances to cover fees
- ◉ Hard Charges vs. Soft Charges

Finance Manager Being Pulled In Many Directions



Mobile ATMs To Support Government Functions, Events, Emergencies



Cash Management Trends & Tools

- ◉ **Collection** – to deposit collections timely.
- ◉ **Investment** – to eliminate idle balances.
- ◉ **Payment** – to properly time disbursements.

Electronic Payments Vs. Checks

- ◉ **Increased Efficiencies**

- Streamlined Process
- Creates Check Copies and Deposit Record

- ◉ **Funds Availability**

- Always Next Day/No Branch Cut-off/Same day until 8 p.m.
- Elimination of Float

- ◉ **Security and Accountability** – does your bank provide same day availability for all or part of check deposits made via scanner?

- ◉ **ACH Payments** –cost effective payment method.



Automated Clearing House (ACH)

- ◉ **Payments** – Banks now provide initiation of recurring and pre-dated ACH transactions two weeks or more in advance of the settlement date.
- ◉ Same Day ACH – When?
- ◉ **Collection** – The most cost effective collection method.

Credit/ Debit Cards

- ◉ Acceptance From Consumers Still Expensive
- ◉ Ability to Charge “Convenience Fee” Directly
- ◉ PCI Compliance Requirements

Commercial/Purchasing Cards

Can some purchases be migrated to a Centrally Managed Purchasing Card Program?

Purchasing Card Rebate

Annual Net Spend	\$500,000
Cash Rebate @ .50%	\$2,500

Investment – Star Ohio

Balance	\$3,500,000
Investment Earnings @ .07%	\$2,500

Stored Value Cards (Pre-Paid Cards)

- ◉ Used for payroll
- ◉ Look and feel just like a bank account
- ◉ Only allow payments of actual balance*

**Some allow paper checks that can still bounce.*

Mobile Banking/Payments



Mobile Banking/Payments

DEPOSITS MADE EASY



Text Alerts For Critical Updates...



Coming Soon Products...



The vision

How it works

Where it works

[Notify me >](#)

A fast way to pay

Tap to pay with Citi® MasterCard® or the Google Prepaid Card.

[Learn how it works >](#)



payments

Commercial/Purchasing Cards – Better Reporting...



- ◉ Program Manager for every 400-500 cards
- ◉ Most users not taking advantage of all features
- ◉ Revenue Sharing
- ◉ Discount Negotiation
- ◉ Vendor List
- ◉ Control of Activity
- ◉ Self-Service Changes

Remote Deposit Capture

- ◉ ***Increased Efficiencies***

- Streamlined Process
- Creates Check Copies and Deposit Record

- ◉ ***Funds Availability***

- Always Next Day/No Branch Cut-off/Same day until 8 p.m.
- Elimination of Float

- ◉ ***Security and Accountability***

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Questions

