

# Panini North America

## Banking Industry Overview



# Agenda

- ❑ U.S. Check Market
- ❑ E-Payments
- ❑ Industry Segmentation
- ❑ Conclusions

***The industry is experiencing a decline in check volume, a correlated growth in e-payments, and consolidation of FIs. The combined effect of these industry changes, particularly within the context of the hallmark Check 21 federal legislation, is a strong mandate for banks to improve operational efficiencies in the area of check processing. This has created an unparalleled opportunity for distributed check capture solutions.***

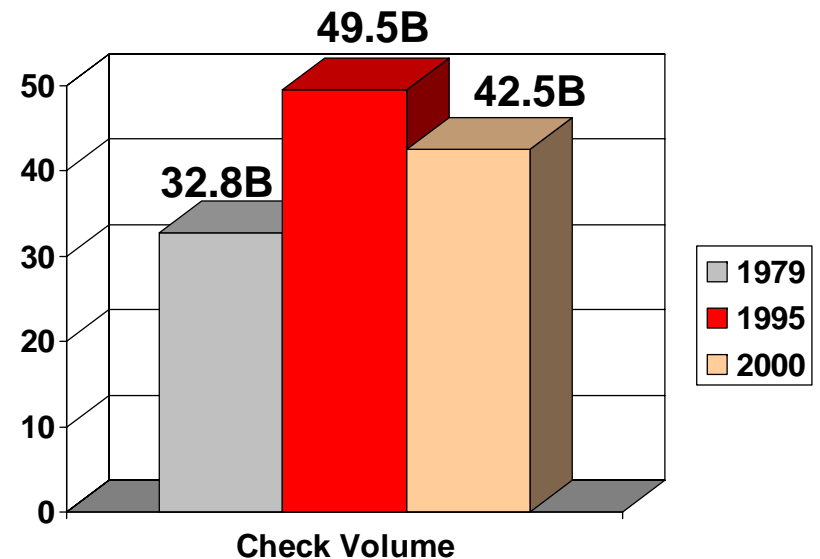
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## U.S. Check Market



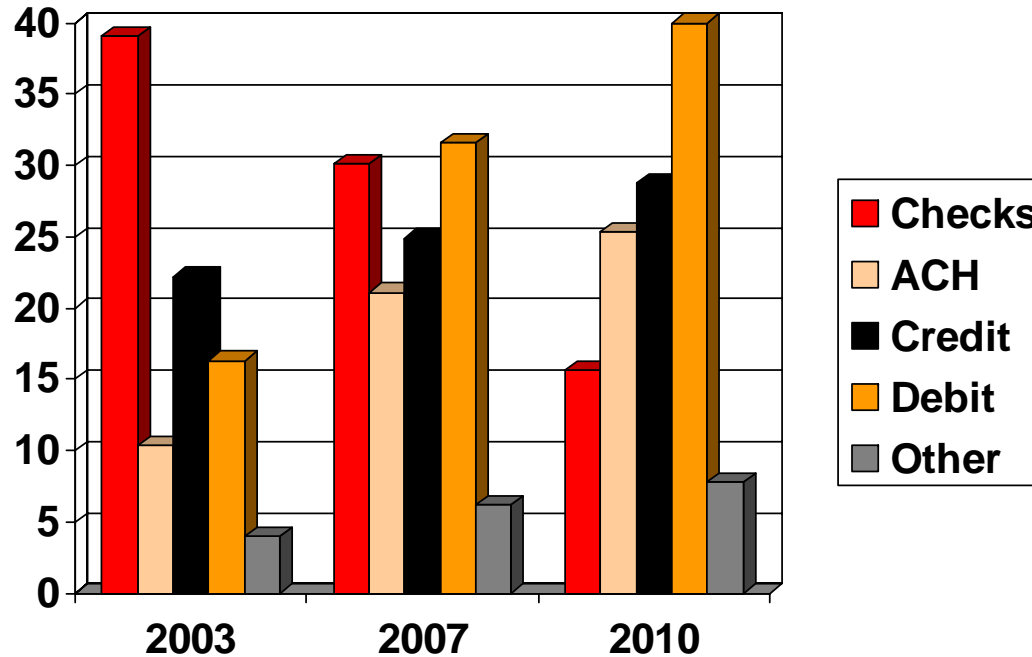
# The Real Story of Checks

- ❑ Historical check volume has been significantly overestimated.
  - ❑ Estimates had check volume declining from 60B to 40B over the past 10 years.
  - ❑ Actual historical volume is much lower and rate of decline is lower than previous estimates. However, the rate of check decline is beginning to accelerate.



Source:  
Federal Reserve  
Payment Study

# Payment Migration from Checks to E-Payments

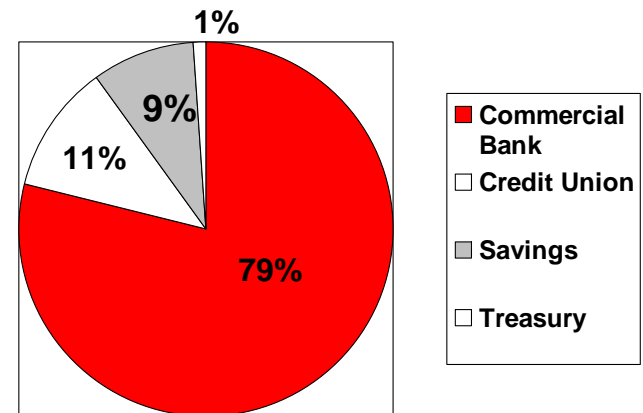
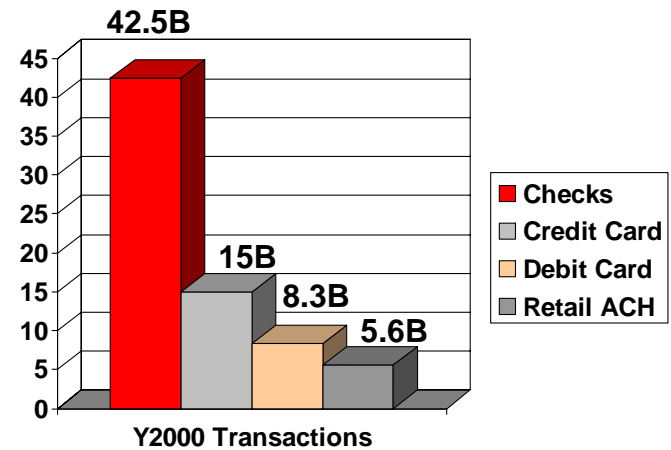


Source:  
Tower Group

	<u>2003</u>	<u>2007</u>	<u>2010</u>	<u>CAGR</u>
Checks	39.1	30.1	15.6	-12.00%
ACH	10.4	21.1	25.3	14.00%
Credit	22.2	24.9	28.8	4.00%
Debit	16.3	31.6	40	14.00%
Other	4	6.2	7.8	10.00%

# Check Erosion

- ❑ The erosion of checks is due to significant growth of electronic payments.
  - ❑ 1979 Checks = 85% noncash payments.
  - ❑ 2000 Checks = 59% noncash payments.
- ❑ The checks that are written are predominantly cleared by large banks.
  - ❑ 79% cleared by commercial banks.
    - ❑ 56% by banks with > 250M Assets.
    - ❑ 170 Banks clear half of the U.S. check market.



Source:  
Federal Reserve  
Payment Study

# Distribution of Checks

- ❑ Consumers write over half of the checks written, with 2/3 of those checks written to businesses.
- ❑ The US leads all developed countries in the use of checks (144.6 per capita, next closest is France at 71.2).

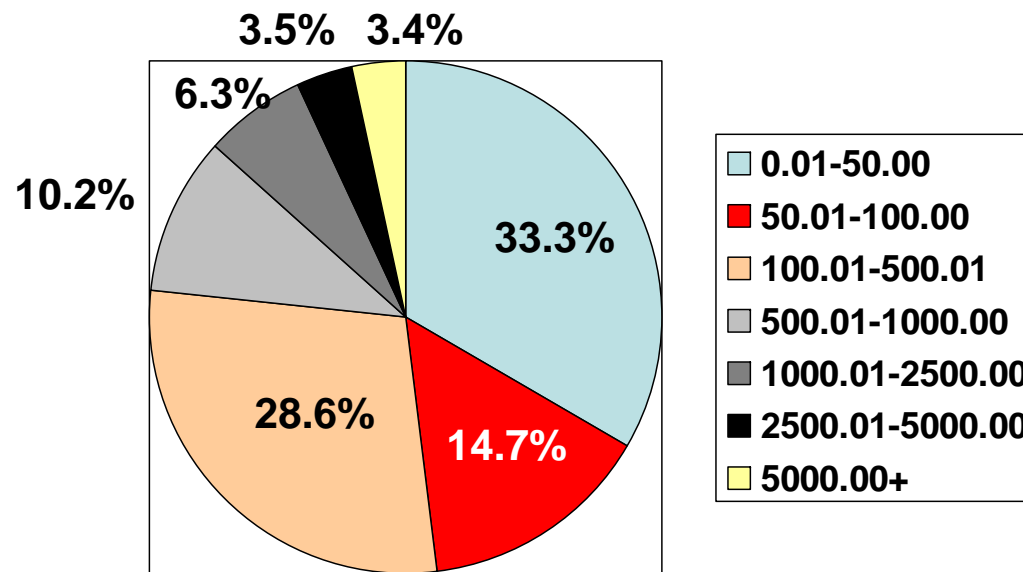
CHECK DISTRIBUTION		PAYER					PAYEE	
		Consumer	Business	Gov't.	Bus. Or Gov't.	Unknown		
PAYER							TOTALS	
Consumer		11.2	33.8	1.7	2.7	1.6	51.0	
Business		14.6	15.0	0.8	1.0	0.9	32.3	
Gov't.		2.5	0.7	0.2	0.0	0.1	3.5	
Bus. Or Gov't.		0.6	0.4	0.0	0.1	0.1	1.2	
Unknown		0.1	0.2	0.0	0.0	11.6	11.9	
	<b>TOTALS</b>	29.0	50.1	2.7	3.8	14.3	99.9	



Source:  
Federal Reserve  
Payment Study

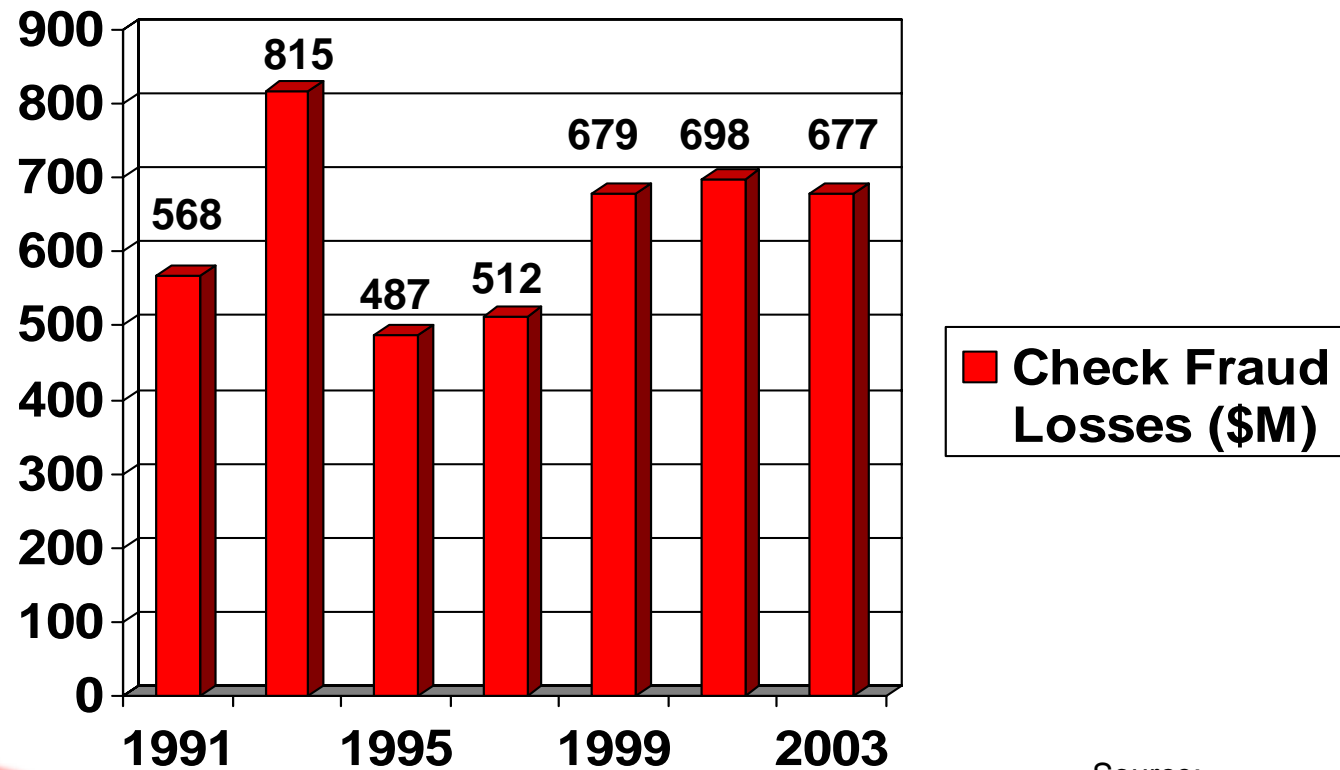
# Check Amounts

- ❑ Most checks are written for a relatively small amount.
  - ❑ Nearly 1/3 of checks are for \$50 or less.
  - ❑ Over 75% of checks are for \$500 or less.



# Check Fraud

- In recent years, check fraud loss has been relatively steady in terms of dollar loss, but the number of cases increased 3% in 2003 to 616,469.



Source:  
American Banker

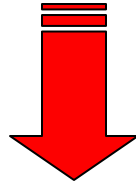
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## E-Payments

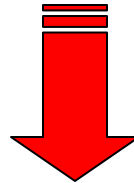


# E-Payment Market Segmentation

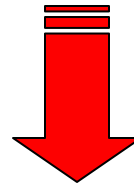
**Electronic Payments Market**



**ACH Market Segment**



**E-Checks Market Segment**

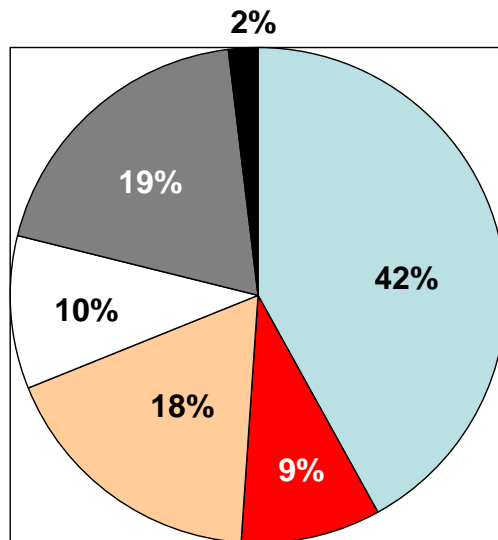


**POP & ARC Market Segments**

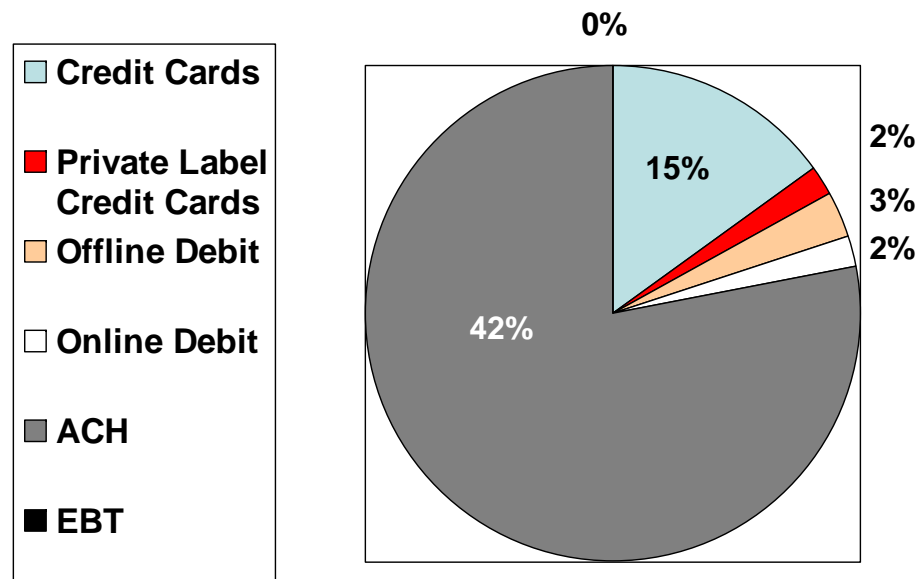
# E-Payments Market

Electronic Payments is a broad and rapidly growing market.

### Volume Share



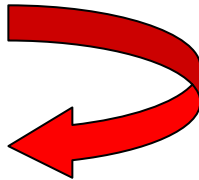
### Value Share



# ACH & E-Check Market Segments

## ACH Primary Market Segments

- 1) Direct Deposit Services
- 2) Direct Payment / Home Banking
- 3) Electronic Commerce
- 4) Electronic Benefits Transfer
- 5) Electronic Checks



## Electronic Check Market Segments

- 1) TEL (telephone initiated)
- 2) WEB (web initiated)
- 3) RCK (return check)
- 4) POP (point of purchase conversion)**
- 5) ARC (accounts receivable conversion)**

# E-Check Market

There is tremendous growth in all E-Check transaction segments.

<u>Segment</u>	<u>2003</u>	<u>2002</u>	<u>% Change</u>
ARC	220,128,778	24,031,903	815.99%
POP	203,523,294	166,687,783	22.10%
RCK	31,321,059	25,979,053	20.56%
TEL	170,385,602	67,923,357	150.85%
WEB	688,758,042	233,088,771	195.49%

Notes:

- In the RCK segment, there is a US average return rate of 0.6%, or 255,000 items.
- In 2Q, 2004 ARC became the largest ACH segment (in terms of transaction value) for the first time.

Source:  
NACHA



## POP Market Segment (Retail)

- 13 million Point of Sale (POS) stations in the United States.
- POP typically involves MICR scan, key in the amount, obtain consumer authorization, then transfer transaction via ACH.
  - Check is returned to consumer.
  - No image captured.
- POP may decline with migration of POS payment method from check to Credit/Debit cards.

# U.S. Retail Market Segments

- The combined segments of automotive dealer, general merchandise, and food & beverage equal \$1.8T, or 53% of the \$3.4T U.S. retail market.

<b>US Retail Segments</b>	
source: Patrick O'Rourke CPA Washington DC	
<u>Segment</u>	<u>Revenues (\$B)</u>
New & used car dealers	\$780.2
General merchandise stores	\$542.0
Food & beverage stores	\$491.8
Misc. store retailers	\$214.0
Clothing stores	\$181.1
Electronics & appliances stores	\$166.3
Health & personal care stores	\$160.2
Gasoline stations	\$158.5
Other motor vehicle / parts	\$147.7
Nonstore retailers	\$139.0
Furniture & home furnishing stores	\$100.2
Sporting goods, hobby, music & book stores	\$86.8
Other building material dealers	\$81.8
Home centers, paint, wallpaper stores	\$78.8
Hardware stores	\$29.2
Beer, wine & liquor stores	\$16.5
Lawn & garden stores	\$15.8

# ARC Market Segment

- ❑ Lower transaction cost (source American Banker).
  - ❑ \$0.26 charge for check processing.
  - ❑ \$0.10 charge for ARC.
- ❑ Faster settlement & cash flow (same/next day versus 4-5 days).
- ❑ Eliminate courier and transportation costs associated with moving checks.
- ❑ Reduce fraud (less human handling, encrypted transactions).
- ❑ Substantial market size.
  - ❑ Consumer write 50% of US Checks, 2/3 to businesses, equals market size of approx. 14B checks transactions.

# ARC Originators

- ❑ Primary ARC originators (according to NACHA)
  - ❑ Insurance Companies
  - ❑ Financial Institutions
  - ❑ Mortgage Companies
  - ❑ Credit Card Issuers
  - ❑ Loan Companies
  - ❑ Utilities
  - ❑ Property Management Firms
  - ❑ Medical Service Providers
  - ❑ Telecommunication Companies

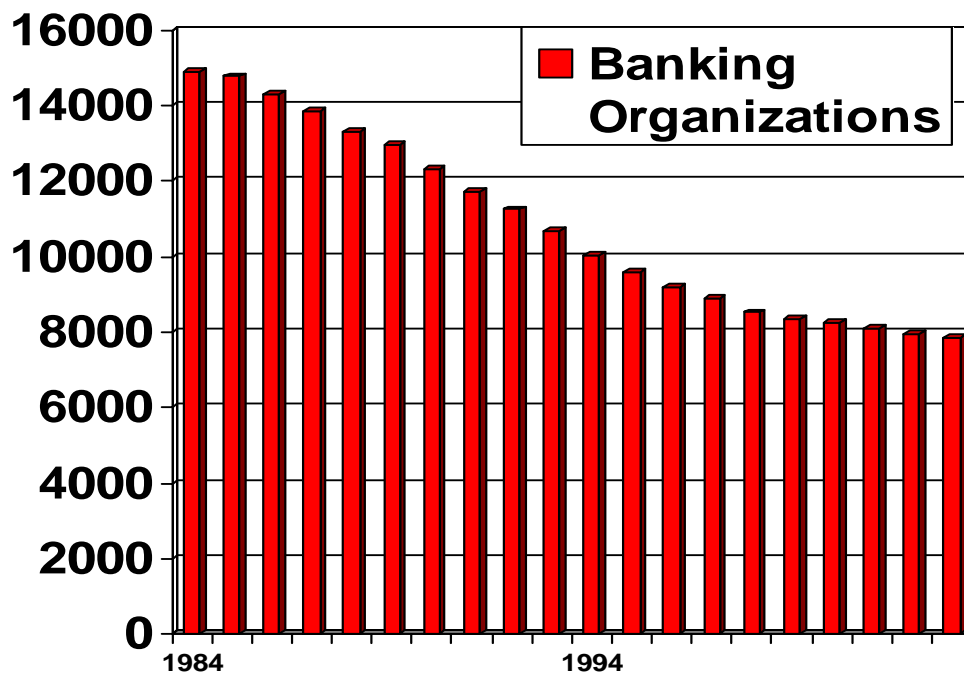
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## Industry Segmentation



# Industry Dynamics

The banking industry is experiencing dramatic consolidation.



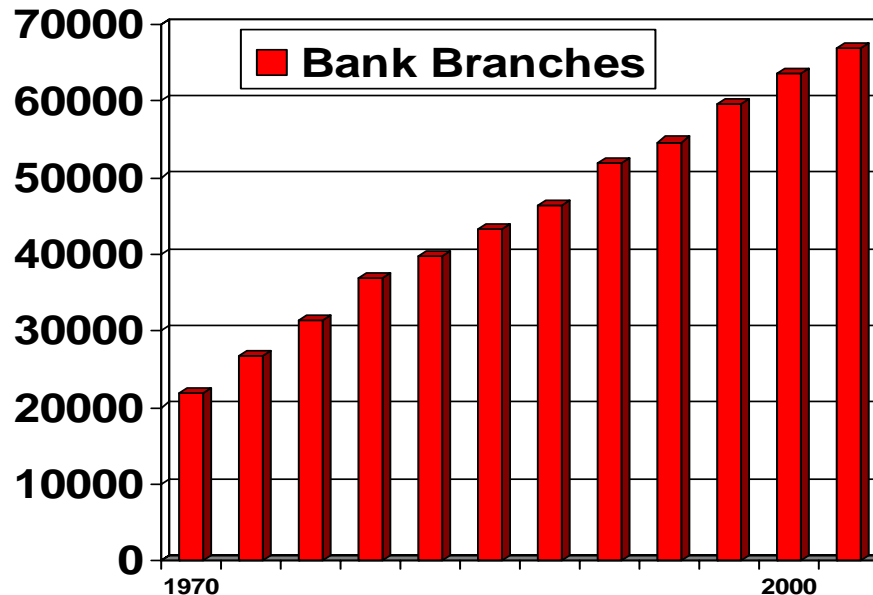
20 consecutive years of consolidation.

Number of organizations declined from 14,884 in 1984 to 7,842 in 2003 (47% reduction).

Source:  
BAI

# Industry Dynamics

Although the number of organizations is declining, the number of branches is increasing.



Number of branches has increased from 26,673 in 1973 to 66,775 in 2003 (150% increase).

539,000 tellers.

**The trend is towards a greater number of decentralized points of presentment.**

Source:  
BAI

# Continued Decline in the Number of Banks

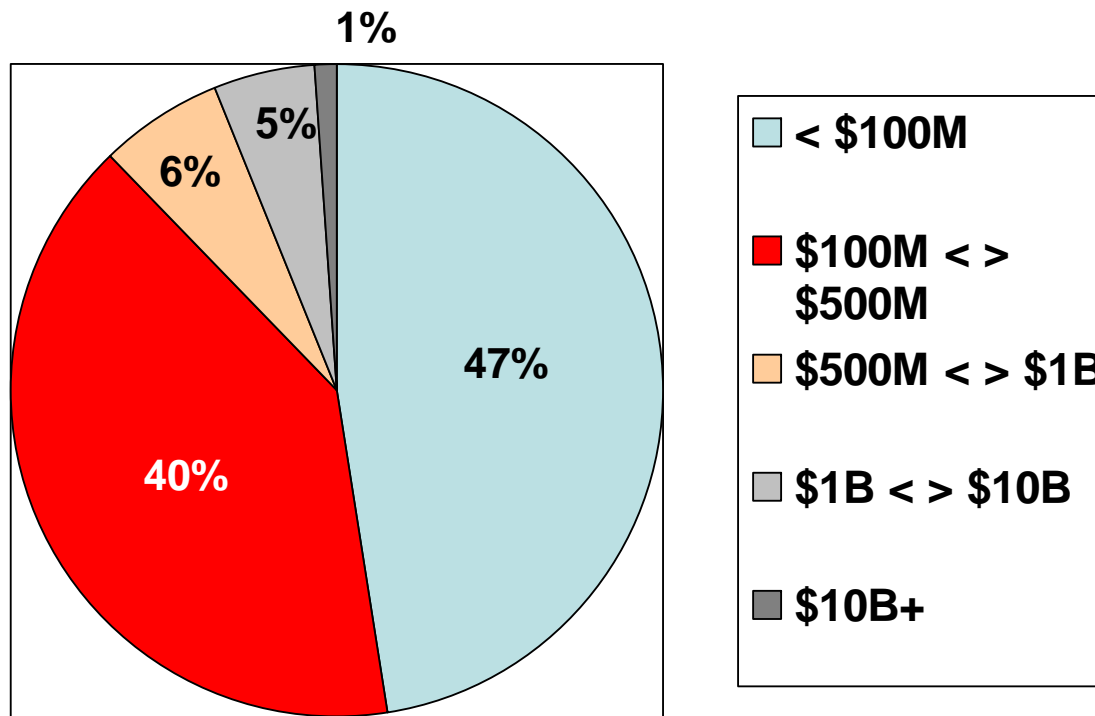
- ❑ Industry consolidation is likely to continue at the expense of the smaller banks.
- ❑ Projected decrease from 7,842 organizations in 2003 to 6,480 by 2013.

FDIC Banking Organization Projections						
Commercial & Thrifts						
	ASSET SIZE					
	< \$100M	\$100M < > \$500M	\$500M < > \$1B	\$1B < > \$10B	> \$10B	TOTAL
YEAR						
2003	3683	3172	481	411	95	7842
2008	2672	3329	584	461	115	7161
2013	1661	3486	687	511	135	6480
Increase / Decrease	-54.9%	9.9%	42.8%	24.3%	42.1%	-17.4%

Source:  
FDIC

# Segmentation By Asset Size

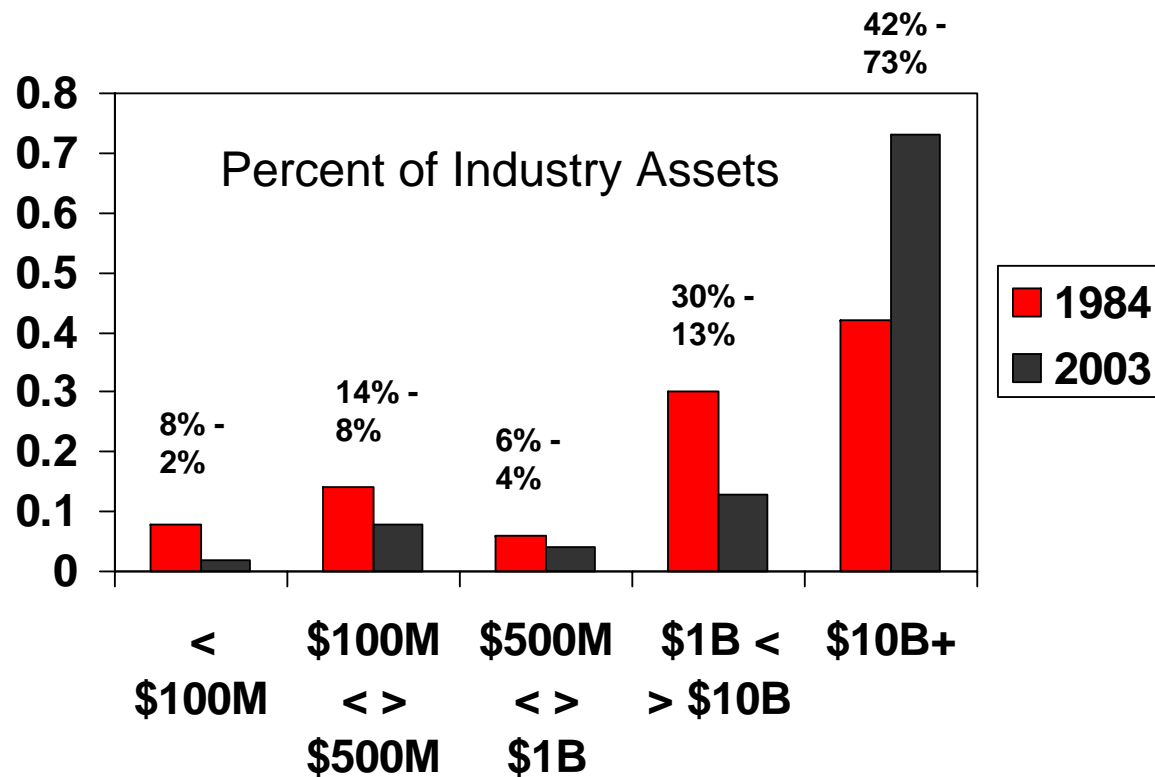
The largest banks represent a very tightly defined market segment, representing only 1% of FIIs.



Source:  
FDIC

# Change in Asset Size By Industry Segment

- ❑ The largest banks manage 73% of industry assets.
- ❑ The top 25 banks manage 27,475 branch locations (41.1% of industry total).

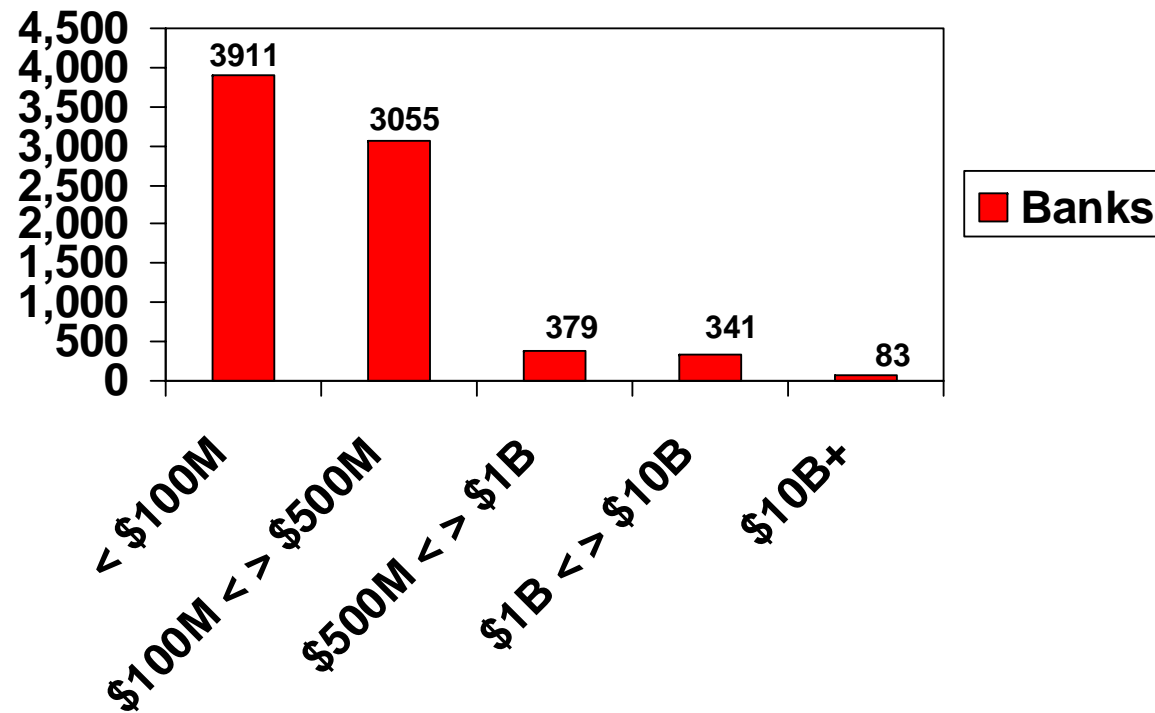


All segment sizes decreased over this period with the exception of \$10B+, which increased from 42% to **73%** of industry assets.

Source:  
FDIC

# FI Organizations by Segment

Number of FIs by segment (commercial banks, FDIC).



Source:  
FDIC



# Geographic Segmentation

- ❑ The largest FIs are located in metropolitan financial centers (number of top 50 banks in parenthesis)
  - ❑ Birmingham (4)
  - ❑ NYC (3)
  - ❑ Cleveland (3)
  - ❑ Boston, Buffalo, Charlotte, Chicago, Cincinnati, Columbus, Memphis, San Francisco, Sioux Falls (all with 2)

# Top 25 Commercial Banks

- The picture at the top has shifted dramatically via large scale industry consolidation.

Bank and Thrift Holding Companies with the Most Assets					
On Sept. 30, 2004. Dollars in thousands*					
Published January 25, 2005 by American Banker					
Rank		Type of holding Co.	Sept. 30	Year earlier	Change
1	Citigroup Inc. New York	bank	1,436,554,000	1,208,923,000	18.83
2	J.P. Morgan Chase & Co. New York	bank	1,138,469,000	792,700,000	43.62
3	Bank of America Corp. Charlotte	bank	1,089,312,372	736,935,000	47.82
4	Wachovia Corp. Charlotte	bank	436,698,000	388,767,000	12.33
5	Wells Fargo & Co. San Francisco	bank	421,549,000	390,813,000	7.86
6	MetLife Inc. New York	bank	346,177,404	314,982,797	9.90
7	Washington Mutual Inc. Seattle	thrift	281,856,619	247,814,747	13.74
8	U.S. Bancorp Minneapolis	bank	192,844,000	188,835,000	2.12
9	National City Corp. Cleveland	bank	136,372,583	121,065,218	12.64
10	Royal Bank of Scotland Group Edinburgh	foreign	134,243,288	116,738,168	15.00
11	SunTrust Banks Inc. Atlanta	bank	127,785,985	126,654,376	0.89
12	HSBC Holdings PLC London	foreign	122,834,160	94,639,682	29.79
13	Countrywide Financial Corp. Calabasas CA	bank	104,388,452	92,427,140	12.94
14	ABN Amro Amsterdam	foreign	102,983,112	113,318,487	-9.12
15	State Street Corp. Boston	bank	100,526,517	81,775,678	22.93
16	Golden West Financial Corp. Oakland Calif.	thrift	100,241,715	76,219,120	31.52
17	Fifth Third Bancorp Cincinnati	bank	98,293,074	89,422,223	9.92
18	BB&T Corp. Winston-Salem N.C.	bank	97,880,397	90,355,131	8.33
19	Bank of New York Co. Inc.	bank	93,692,293	95,279,036	-1.67
20	KeyCorp Cleveland	bank	88,086,347	83,936,911	4.94
21	Regions Financial Corp** Birmingham Ala.	bank	83,630,855	NA	NA
22	PNC Financial Services Group Pittsburgh	bank	77,310,144	72,270,713	6.97
23	MBNA Corp. Wilmington Del.	bank	62,051,861	58,716,985	5.68
24	Sovereign Bancorp Inc. Wyomissing Pa.	thrift	55,698,882	41,387,335	34.58
25	SouthTrust Corp. Birmingham Ala.	bank	53,888,169	51,717,769	4.20

# Largest Banks by Branch Locations

- The largest commercial banks manage almost half of the industry's branch locations.

<b>Top Commercial Banks - Ranked by Number of Branches</b>				
(as of 3/31/04)				
<u>Bank</u>	<u>Rank</u>	<u>Location</u>	<u>Assets (\$M)</u>	<u>Branches</u>
Bank of America	1	Charlotte, NC	\$690,573	4,645
Wells Fargo	5	Sioux Falls, SD	\$347,560	3,584
Wachovia	4	Charlotte, NC	\$364,474	3,174
US Bank	8	Cincinnati, OH	\$191,606	2,581
Bank One	6	Chicago, IL	\$256,701	1,754
FleetBoston	7	Providence, RI	\$195,323	1,553
Keybank	13	Cleveland, OH	\$73,927	1,364
Suntrust	9	Atlanta, GA	\$124,298	1,336
PNC	15	Pittsburgh, PA	\$67,822	881
BB&T	14	Winston-Salem, NC	\$70,840	863
Regions Bank	28	Birmingham, AL	\$45,268	797
Southtrust	22	Birmingham, AL	\$52,667	764
Union Planters	36	Memphis, TN	\$31,312	739
M&T	23	Buffalo, NY	\$50,218	728
JP Morgan Chase	2	New York, NY	\$648,692	718
Amsouth	24	Birmingham, AL	\$47,408	683
Fifth Third (second entry)	33	Grand Rapids, MI	\$36,330	627
Charter One	29	Cleveland, OH	\$41,342	610
BB&T (second entry)	50	Richmond, VA	\$20,827	534
National Commerce	46	Memphis, TN	\$22,772	486
Huntington	38	Columbus, OH	\$30,834	433
HSBC	10	Buffalo, NY	\$99,867	426
Fifth Third	18	Cincinnati, OH	\$58,943	426
Banknorth	43	Portland, ME	\$26,847	420
National City of MI/IL	53	Bannockburn, IL	\$19,200	419

# Community Bank Segment

- ❑ Although there is evidence of some decline, this segment remains a strong and viable component of the financial services market.
  - ❑ From 25.89% of Industry Assets in 1985 to 13.55% in 2003.
  - ❑ From 29.19% of Industry Deposits in 1985 to 16.72% in 2003.
  - ❑ From 47.29% of Industry Office Locations in 1985 to 33.70% in 2003.
  - ❑ From 14,351 organizations in 1985 to 7,489 in 2003.

# Community Bank Segment

- The community bank segment remains a significant component of the financial services industry.

<b>COMMUNITY BANK</b>	<b>ASSETS (\$000)</b>
Stearns Bank St. Cloud, Minn.	\$845,394
State Bank of Countryside Ill.	\$774,841
City Bank Lynnwood, Wash.	\$626,500
Meridian Bank Wickenburg, Ariz.	\$594,448
Jackson State Bank and Trust Wyo.	\$588,093
American Bank St. Paul	\$565,189
Broadway Bank Chicago	\$533,242
Arkansas National Bank Bentonville	\$519,013
Union Bank Kansas City, Mo.	\$501,964
Maine	\$481,748
National Republic Bank of Chicago	\$463,658
Farmers and Merchants Bank Dublin, Ga.	\$410,852
M&T Bank Oakfield, N.Y.	\$406,319
Mich.	\$394,255
First Credit Bank Los Angeles	\$364,548
Pueblo Bank and Trust Co. Colo.	\$339,879
Minn.	\$329,511
Western Bank St. Paul	\$329,238
Bank of Hemet Riverside, Calif.	\$323,325
Falcon International Bank Laredo, Tex.	\$321,801

# Credit Union Segment

- ❑ The credit union market has strong growth segments.
  - ❑ From 7.73% of industry deposits in 1994 to 9.45% in 2003.
  - ❑ Total assets increased 73% from 1997 to 2003.
  - ❑ Number of credit unions decreased from 11,369 in 1997 to 9,488 in 2003 (16.5% reduction).
  - ❑ Greatest growth is with the largest credit unions.
    - ❑ CUs with assets > \$1B increased from 0.86% market share to 2.67% ('97-'03).

# Credit Union Segment

- The Credit Union market has been increasing its share of industry assets.

## Credit Unions with the Most Assets

On March 31, 2004. Dollars in thousands  
Published June 11, 2004

Rank		March 31	Year earlier	Change
1	<b>Navy Federal Credit Union</b> Merrifield, Va.	\$21,066,134	\$18,560,686	13.50%
2	<b>State Employees Credit Union</b> Raleigh	11,821,567	10,404,491	13.62
3	<b>Pentagon Federal Credit Union</b> Alexandria, Va.	6,789,923	5,773,032	17.61
4	<b>Golden 1 Credit Union</b> Sacramento	5,002,955	4,461,032	12.15
5	<b>Orange County Teachers Federal Credit Union</b> Santa Ana, Calif.	4,743,486	4,248,216	11.66
6	<b>Boeing Employees Credit Union</b> Tukwila, Wash.	4,675,047	4,520,710	3.41
7	<b>Alliant Credit Union</b> Chicago	4,382,512	4,408,273	-0.58
8	<b>Suncoast Schools Federal Credit Union</b> Tampa	4,048,623	3,737,204	8.33
9	<b>American Airlines Federal Credit Union</b> Dallas	3,932,481	3,985,246	-1.32
10	<b>Patelco Credit Union</b> San Francisco	3,409,005	3,207,138	6.29
11	<b>Security Service Federal Credit Union</b> San Antonio	3,359,748	2,970,188	13.12
12	<b>America First Credit Union</b> Ogden, Utah	2,814,472	N/A	N/A
13	<b>Kinecta Federal Credit Union</b> Manhattan Beach, Calif.	2,813,654	3,070,896	-8.38
14	<b>Vystar Credit Union</b> Jacksonville, Fla.	2,766,219	2,580,198	7.21
15	<b>Citizens Equity First Credit Union</b> Peoria, Ill.	2,698,785	2,533,712	6.52
16	<b>Star One Credit Union</b> Sunnyvale, Calif.	2,694,134	2,498,939	7.81
17	<b>Wescom Credit Union</b> Pasadena, Calif.	2,662,876	2,390,815	11.38
18	<b>ESL Federal Credit Union</b> Rochester, N.Y.	2,611,355	2,428,979	7.51
19	<b>San Diego County Credit Union</b>	2,545,611	2,236,780	13.81
20	<b>Delta Employees Credit Union</b> Atlanta	2,536,504	2,382,709	6.45

# ATM Segment

- ❑ From first introduction in 1969, now over 371,000 ATMs in the U.S.
- ❑ 11 billion transactions per year.
- ❑ \$670B dispensed per year (up from \$165B in 1985).
- ❑ \$4B revenues to banks (surcharges, fees, etc.).
- ❑ Large banks actually lose money (\$250 per month per device).
  - ❑ Bulk of transactions are by the bank's own customers, negating opportunities for fees.
  - ❑ ATMs viewed as essential customer capture and retention channel.
- ❑ As transaction truncation moves to earliest point in the process, image capture will occur at the ATM.

Source:  
Fortune

# Panini North America

## Conclusions



# Conclusions

- ❑ While checks are declining, they will represent a significant component of the US Payments Market for the foreseeable future.
- ❑ Changes in the check market make it necessary for banks to adopt new technologies that lower overall processing costs.
- ❑ These market characteristics, combined with the Check 21 federal legislation, have created a tremendous market opportunity for our distributed capture technologies.
- ❑ The distributed capture opportunity exists across all banking industry segments – FIs of various size, Community Banks, Credit Unions, etc.
- ❑ The size of the distributed capture opportunity is related to the number of points of presentment. While the number of banking organizations has declined, the points of presentment (branches, tellers, ATMs) has dramatically increased, creating a larger market for distributed capture solutions.

# Conclusions

- ❑ Distributed capture opportunities are being extended by banks to their commercial accounts, creating operational savings for corporate customers (remote deposit capture) and the banks.
- ❑ The trend towards distributed points of presentment has reduced the economies of scale associated with centralized check processing while accelerating the business case for distributed capture.
- ❑ Distributed capture is creating substantial new market opportunities for banks including:
  - ❑ Fraud reduction (signature verification and matching)
  - ❑ Check related software applications (CAR/LAR, Image Exchange, Payment Processing, etc.)
  - ❑ Geographic market expansion (no “bricks & mortar” limitations)
  - ❑ Relationship management (integration of captured data to CRM)

# Conclusions

Thank You!