

2009 ICBA Community Bank Payments Survey

Executive Summary

The ICBA logo features the letters 'ICBA' in a bold, white, sans-serif font. The 'I' and 'C' are connected, and the 'B' and 'A' are also connected. A blue, stylized wave or swoosh element is positioned behind the letters, curving under the 'I' and 'C' and extending to the right under the 'B' and 'A'.

ICBA

**INDEPENDENT COMMUNITY
BANKERS of AMERICA**

The Nation's Voice for Community Banks®

2009 ICBA Community Bank Payments Survey

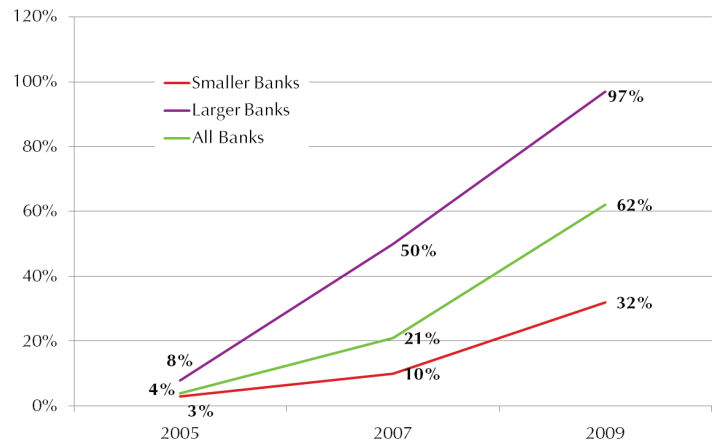
Executive Summary

The Independent Community Bankers of America (ICBA) conducted its third biennial Community Bank Payments Survey during the second quarter of 2009. The survey, designed to track community bank trends and strategies in payments, was sent to 7,957 community banks. A total of 909 community banks responded, a response rate of 11 percent. Several valuable findings resulted from the survey:

Community banks are implementing merchant remote deposit capture at an unprecedented rate.

Community banks are seizing the opportunities created by the Check 21 Act. Sixty-two percent of the survey's respondents offer merchant remote deposit capture (RDC), up 58 percent since 2005. This rapid growth is expected to continue in the near future, with another 16 percent planning to offer RDC by 2011. RDC adoption rates are strongest among the largest community banks, with 97 percent of those with more than \$500 million in assets offering merchant RDC versus 32 percent of those with assets less than \$100 million doing so.

Remote Deposit Capture Growth in Community Banks



Debit cards remain the dominant consumer-payments vehicle for community banks.

Debit cards are considered the most important payments product or service for community banks, pulling in a mean score of 4.18 points (on a five-point scale used, with 5 being "very important" and 1 being "not important at all") among community banks that offer them (98 percent). Checks, which are universally offered, are ranked as the second most important payments product or service, with a mean score of 3.99 points. Online bill payment is ranked as the third most important payments product or service (87 percent of community banks offer the service; giving the service a mean score of 3.91 points), overdraft lines of credit (76 percent offer; a mean score of 3.23 points), and credit cards (74 percent of community banks offer them; a mean score of 3.04 points) round out the top five. Gift cards are the most offered prepaid card (63 percent of community banks offer them), followed by travel cards (36 percent) and health savings cards (13 percent).

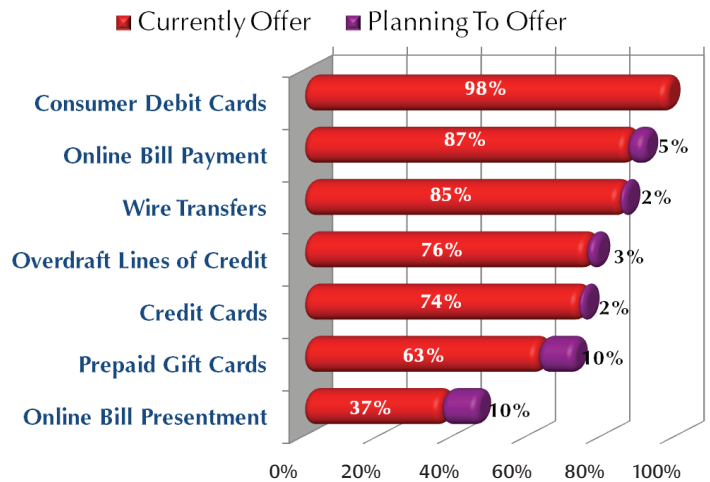
Both debit card and check fraud are pain points for community banks.

Payments fraud is a major concern for community banks, with 88 percent reporting an associated monetary loss from fraud from a customer's credit or debit card last year. Debit cards have been hit particularly hard from fraud. Ninety-one percent of community banks reissued a debit card last year as a result of fraud, and 78 percent suffered a monetary fraud loss. Check fraud also continues to be a problem, with 56 percent of community banks experiencing monetary losses due to check fraud. Community banks that issue credit cards and tend to be more selective in issuing cards reported less fraud. Forty-five percent of community banks reissued credit cards as a result of fraud. Of those that reissued cards, 32 percent reported a monetary loss last year due to credit card fraud. Overall, 65 percent of community banks noted that they increased their spending to address payments fraud. Less than 1 percent decreased their resources to mitigate payments fraud.

Online bill payment is becoming a universal consumer-product offering.

Eighty-seven percent of community banks that participated in the survey offer consumer online bill payment. Larger community banks have slightly higher rates of adopting online bill payment than smaller community banks. Online bill payment is offered by 99 percent of community banks with more than \$250 million in assets and by 90 percent of banks with \$100 million to \$250 million in assets. The number of community banks with less than \$100 million in assets offering the product rose by 20 percentage points, with 74 percent of community banks now offering consumer bill pay compared with 53 percent doing so two years ago. More community banks continue to adopt consumer bill presentment as well. Thirty-seven percent currently offer the service, up 16 percentage points from 2007.

Consumer Payment Products Offered at Community Banks



Wire transfer, checks and ACH origination are ubiquitous business-payments products, regardless of the community bank's strategy.

Wire transfer (97 percent) and ACH origination of payroll (84 percent) and recurring debits (82 percent) are the business payments services most offered by community banks. Seventy-two percent of community banks offer debit cards to their business customers, and 69 percent provide their business customers international payments services. Business-payments products that community banks plan to offer in the next two years include positive pay (17 percent), merchant RDC (16 percent), ACH debit origination (14 percent), check-to-ACH conversion (14 percent), invoice presentment (13 percent), business prepaid cards (11 percent), bill payment (11 percent) and account reconciliation (10 percent). Checks are still considered the most important business-payments product, with a mean score of 4.28 points (on a five-point scale, with 5 being "very important" and 1 being "not important at all"), followed by ACH origination (3.99-point mean score), cash management (3.40-point mean score), bill payment (3.31-point mean score) and payment-card merchant processing (3.19-point mean score).

Mobile payments, while in its infancy, is a technology to watch.

While just 6 percent of community banks surveyed offer mobile payments services to their customers, 27 percent plan to increase their technology spending for mobile payments over the next two years. Interest in providing mobile payments is driven by larger, more urban community banks; 47 percent of community banks with more than \$500 million in assets plan to offer mobile payments by 2011 (versus 17 percent of community banks with less than \$100 million in assets offering the service).

Check image clearing and settlement are almost universal among community banks.

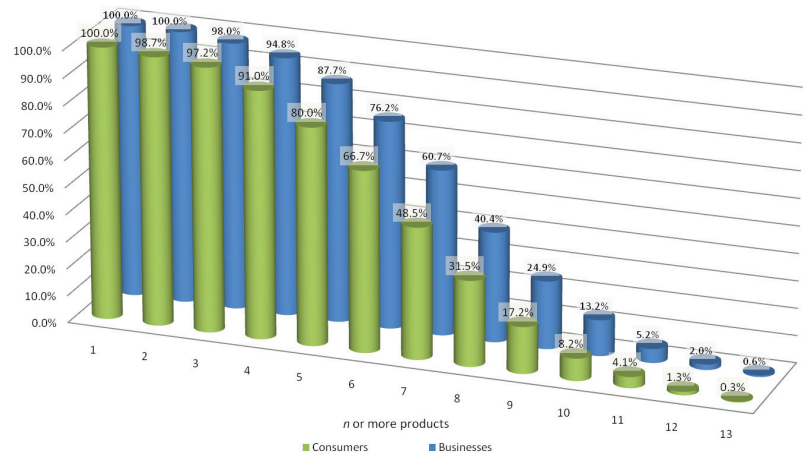
Efforts by community banks to convert to an all-image check-clearing environment, while considerable, are not yet complete. While 85 percent of the community banks surveyed currently deposit their cash letters electronically and 8 percent plan to implement image cash letter deposit next year, the remaining 8 percent have no plans to implement the process before 2011. Additionally, 82 percent receive their cash letters electronically, 9 percent plan to implement image cash letter receipt next year, and the remaining 9 percent

have no plans to implement the process before 2011. The community banks that do not plan to adopt image cash letter deposit and receipt will be subject to the eroding service levels and higher costs associated with paper check clearing and generally have \$250 million in assets or less.

Business-focused community banks have a stronger strategic commitment to payments.

Community banks that focus their payments strategy on acquiring and retaining business customers tend to offer a wider selection of payments products to all of their customers. While banks that place a greater focus on business customers offer, on average, 12.1 business payments products (as opposed to 9.2 payments products for consumer-focused banks), they also offer an average of 7 consumer payments products (compared with 6.4 for consumer-focused banks). Additionally, business-focused community banks are more likely to use the following sources to formulate their payments strategy: customer suggestions, industry conferences, industry peer groups, outside consultants and responding to competition.

Number of Consumer Payments Products Offered: Business vs. Consumer Focus



Business-focused community banks offer a greater array of business payments products.

In addition to wire transfer, ACH origination and international payments, community banks whose payments strategy focuses on business customers usually offer RDC (80 percent), business debit cards (80 percent), payment-card merchant processing (79 percent), business credit cards (70 percent), cash services (68 percent), overnight investments (67 percent), zero-balance accounts (61 percent) and balance reporting (60 percent). Merchant RDC has emerged as a standard product offering among the 47 percent of community banks listing the service as important to their payments strategy. Eighty percent of these banks offer RDC, as opposed to 45 percent of consumer-focused institutions.

Community banks are increasing their investment in payments products and services.

Investments in payments products by community banks remain strong despite a harsh economic climate. Fifty-two percent of community banks increased their investment in consumer payments products and services during the past two years, 29 percent maintained investment levels and only 11 percent decreased their investment. For business-related payments products and services, 44 percent of community banks reported an increase in their investment in payments products and services, 38 percent held steady and 8 percent reported a decrease. Most community banks see their payments products and services as a way to improve profitability (98 percent), deepen their relationships with customers (96 percent), improve efficiency (95 percent), create new revenue streams (89 percent) and differentiate themselves from their competitors (84 percent). However, only about a third of community banks surveyed (39 percent) viewed their payments products and services as a means of expanding their marketplace's geographical footprint.