

ANALYSIS
OF THE
BANK PROCESSING
SERVICES MARKET



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Analysis
of the
Bank Processing Services Market
for
Ackerman, Hood, and McQueen
and
First Data Management Company

by
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PRESENTATION CONTENTS

Respondent Characteristics

Outside Service Use

Vendor Ratings

Bank Performance

Respondent Processing Services

Correspondent Banking Services

Attitudes toward Outside Services

Decision Makers



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Survey Prospecting Results

<u>Activity</u>	<u>Quantity</u>
Phone calls	850
Executives contacted	360
Banks contacted	144
Interviews completed	73
Prospects identified	40
Leads generated	25

Research Results

Surveys completed	76
Surveys tabulated	73
Market intelligence items	8,000
Volume of information (characters)	154,000



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Respondent Characteristics



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Interest in Outside Services

	Asset Size (Billions)	U.S. Rank	DP Svcs To Cor. (Percent)	Use Outside Vendor (Percent)
No interest (48)	2.0	276	27	15
All respondents (73)	1.9	385	35	25
Interested (25)	1.7	302	54	40

- Smaller banks showed most interest
- Banks providing services to correspondent banks were twice as likely to have interest
- Banks using outside service twice as likely to have interest
- 34% of all respondents interested in outside services



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Business Activity Profile of Respondents

	Average Item Capture per Day (Thousands)	Average Number of DDA Accounts (Thousands)	Average Number of Debit Card Acts (Thousands)	Average Number Auto Teller Machines Owned
Respondents	(47)	(58)	(41)	(70)
Interested in-house	534	79	37	71
Interested outside services	276	110	58	46
Interested all	434	90	46	61
No interest in-house	2116	2189	72	50
No interest outside services	74	33	15	25
No interest all	1905	1829	62	46
TOTAL	1341	1169	75	51

Item capture, and DDA accounts skewed by a few very large institutions

The characteristics of a good prospect are extremely diverse but the following is typical:

Processes 200 to 400 thousand items per day

Has about 85 thousand demand deposit accounts



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In-House Item Capture Process

Method	Number of Respondents
Reader sorter - 3803	3
Sorter	3
Remote capture	2
Courrier	2
Courrier and 3890	1
IBM 3890	1
EDS	1
Data entry	1
Old National Bank	1
Systematics	1
Proof machines	1
TOTAL	17

Respondents had difficulty understanding question

Actual techniques employed unclear

94% of 70 respondents did in-house

Respondents offered answers

Should have given multiple choice



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Recommendations based on Respondent Characteristics

FDMC should target banks offering correspondent banks data processing services

Banks already using outside service vendors may be best prospects

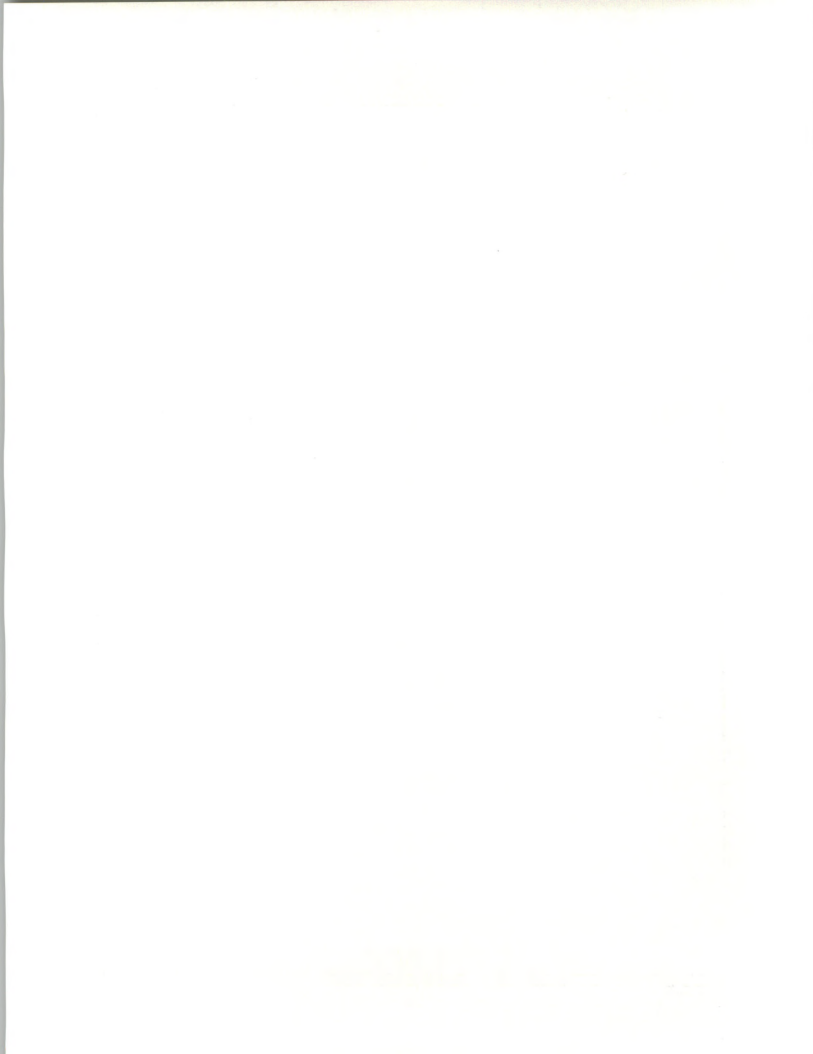
Good prospects will typically have about 85,000 DDA's and process from 200,000 to 400,000 items per day

ALL banks that do processing for correspondents should be contacted by sales



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Outside Service Use



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Debit Card Processors Used by Respondents

Service Vendor	Number of Respondents
First Data Resources	2
CBNT	1
CSI Credit	1
Eastern States Bank Association	1
EDS	1
Express	1
First Data of Omaha	1
Girard Bank (Mellon)	1
Honor & Cirrus	1
MAC	1
MTech	1
Systematics	1
Total Systems	1
TOTAL	14

First Data Resources was the only vendor used by more than one respondent

Seemed to be some confusion about debit versus credit cards

Some respondents also referred to ATM cards

75% of 56 respondents process debit cards in-house



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ATM Processors Used by Respondents

Service Vendor	Number of Respondents
MAC	3
Exchange	2
Plus	2
CSI	1
MTech	1
EDS	1
GTE	1
Cash Station	1
Cirrus (and Banking 24)	1
Systematics	1
TOTAL	14

57 respondents process ATM in-house

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Outside Service Vendors, Expenditures, and Contract Type

	Number Interested		Number with No Interest		Total Services
	(10 Resp)	FM	(7 Resp)	FM	(17 Resp)
Systematics	2	Yes	2	Yes	4
Mellon Data Center	1	No	2	No	3
Marshall & Isley (Milwk)	1	No	1	No	2
NCR	1	No	1	No	2
Carlton Financial	1	Yes			1
American Automated	1	No			1
First Data Resources	1	No			1
ADP	1	No			1
ADP - Payroll	1	Yes			1
Mellon Data Center			1	Yes	
Banks of Iowa	1	No			1
SEI - Trust Operation	1	No			1
Service Bureau Corp	1	Yes			1
EDS	1	Yes			1
Total Systems - Atlanta	1	No			1
Total	16		7		23



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Outside Service Vendors, Expenditures, and Contract Type

	FM	FM
Percent of services under FM contract	36	40
Percent Renewing FM Cont.	60	0
Average Expenditures (M\$)	4.4	1.2

FM contract not a major inhibitor in considering outside services.

60% of banks using outside services interested in other offerings

Banks interested in new services very likely to be pleased with current service suppliers

Banks interested in new services spend almost four times as much on outside services as banks with no interest

Mellon users are most satisfied with current vendor

Highly fragmented market. Largest supplier has only 17% share



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Expiration of Service Contracts

	Interested Respondents	No Interest Respondents	All Respondents
Three months	1	1	2
One year	2	2	4
Two years	1	1	2
Three years	1	—	1
Four years	1	1	2
Five years	—	—	—
Six years	—	—	—
Seven years	—	1	1
TOTAL	6	6	12

Two thirds of interested respondents' contracts expire within two years



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Plans on Expiration of Contract

	Interested Respondents	No Interest Respondents	All Respondents
Renew	3	1	4
Re-evaluate	—	3	3
No response	1	2	3
Don't know	1	1	2
Bring in-house	1	1	2
Shop around	1	—	1
Renegotiate	1	—	1
No contract	1	—	1
No plans	1	—	1
TOTAL	10	8	18

Lower renewal rate of no interest respondents implies a lack of satisfaction with current supplier

The high number who intend to reevaluate their contract also indicates a low level of satisfaction

Interested respondents have a much more positive attitude toward outside services



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Recommendations based on Outside Service Use

Pursue banks having FM contracts because they may seriously consider alternative services

Pursue banks already using outside service

Banks highly satisfied with current supplier may be most receptive to FDMC services

30% of leads FDMC must be prepared to compete with Systematics and Mellon

70% of leads FDMC could plan on 3-6 month sales cycle

FDMC must plan on a sales cycle that will often be two years long

Since 40% of respondents who were not interested plan to reevaluate their options on contract expiration, a consistent market presence must be expressed by FDMC

Contract expiration tickler file must be established



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Vendor Ratings



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Vendor Ratings (Scale of 10)

By User's of Outside Services



By Non-Users of Outside Services



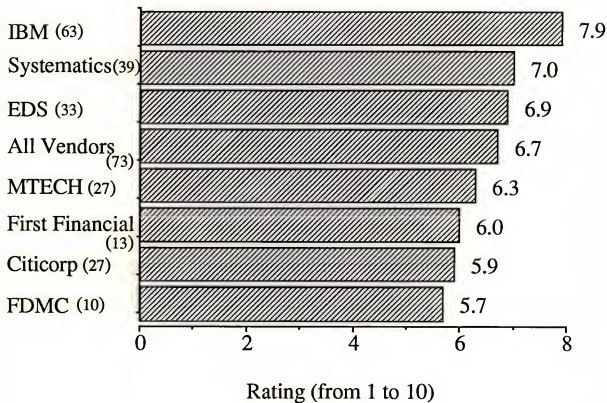
Users rate outside service much higher than non-users

Interested prospects give 30% higher rating (8.6) than no interest prospects (6.6)



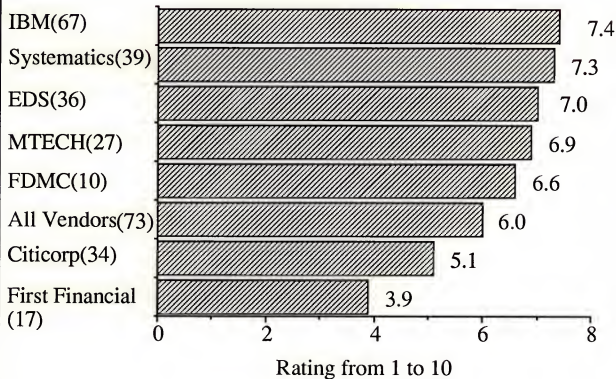
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Respondent's Rating of Vendors



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Respondent's Familiarity with Vendor's Services



Respondents who knew FDMC rated FDMC's knowledge of the company fairly high



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Vendor Ratings by Interested Respondents (Given Suppliers)

Given Supplier	Vendor Rating	Familiarity with Service
IBM	8.0	7.5
EDS	7.8	6.4
Systematics	7.6	6.8
MTECH	6.0	6.0
Citicorp	5.8	5.4
First Fin.	5.8	3.3
First Data	5.6	6.2
All suppliers	7.5	6.4

First Data is rated at the bottom of the given suppliers

IBM is top rated in both categories for given suppliers

First Financial has lowest rating for familiarity with banking industry



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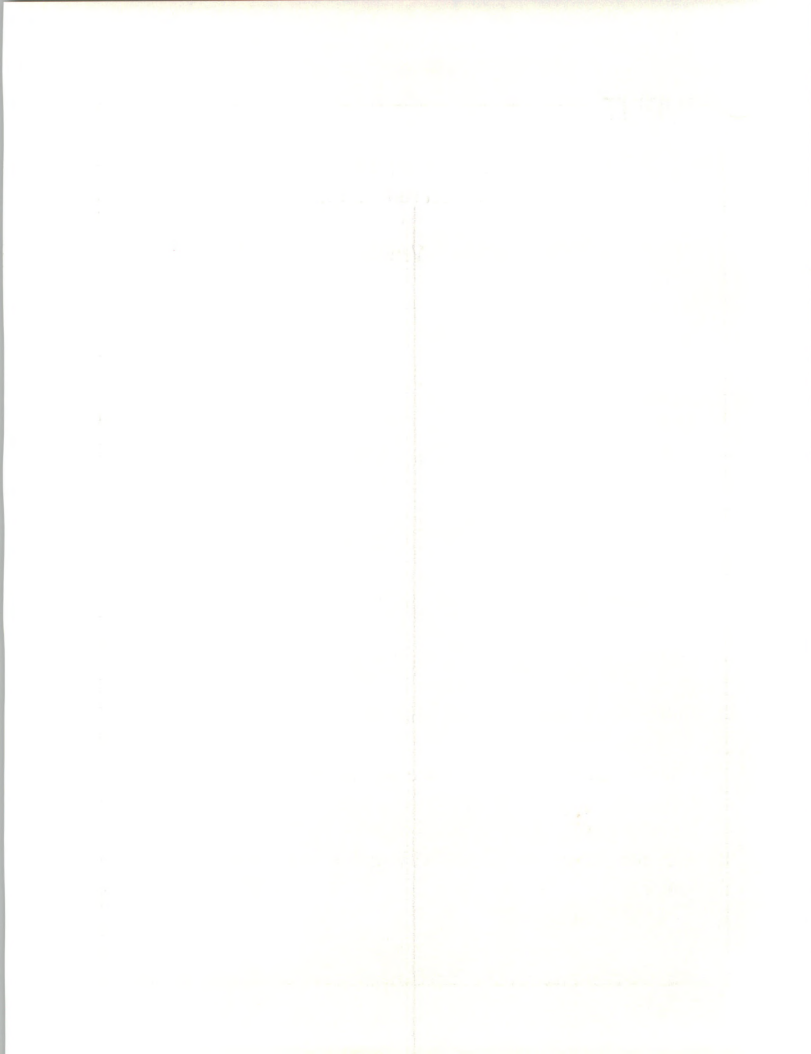
Vendor Ratings by Interested Respondents (Volunteered Suppliers)

Volunteered Supplier	Vendor Rating	Familiarity with Service
M and I	10.0	9.0
Carlton	9.0	5.0
ADP	9.0	5.0
SEI	8.0	7.0
Columbus	8.0	6.0
Mellon	6.5	10.0
Norwest	6.0	8.0
First Bk. Minn.	5.0	8.0
All suppliers	7.5	6.4

Volunteered names rated higher than given names

User's familiarity with service not necessarily related to rating

All ratings by respondents with no interest were similar but lower



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Recommendations based on Vendor Ratings

A missionary sales effort is called for with banks not using outside services; they do not appreciate the features and benefits of outside services and are often skeptical about them

FDMC must promote itself as a company and its services to improve the banking communities perception of both

Extensive advertising is called for since less than 14% of the respondents could rate the company



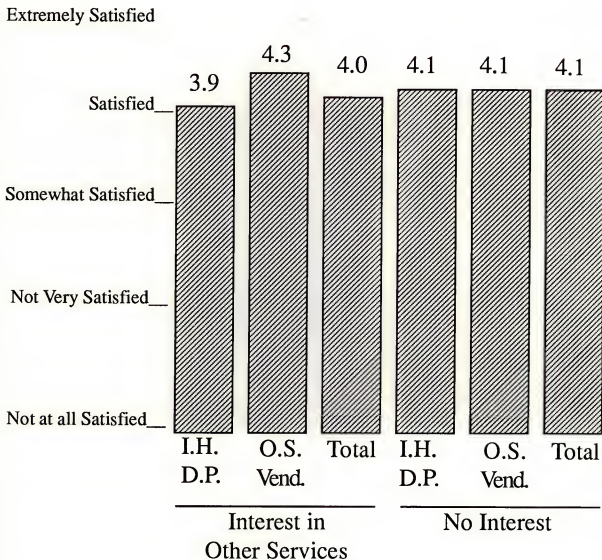
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Bank Performance



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Satisfaction with Financial Performance



Only 10% were less than satisfied

Most satisfied were banks using outside services which are interested in other outside services

Banks are either doing very well or CEO is not willing to admit to poor performance

Least satisfied are banks interested in outside services who have in-house processing

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Actions Taken to Reduce Operating Expenses by Respondents Dissatisfied with Financial Performance (7 Respondents)

Action	Number of Respondents
Travel and entertainment cut	7
Limited equipment and supply purchase	6
Hiring freeze	6
Cut in executive perks and bonuses	5
Contributions reduced	5
Early retirements	4
Layoffs	4
Benefit reductions	3
Salary reductions	0



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Rating of Internal Data Processing Operation (73 Respondents)

Factor	Total	Interested	No Interest
Budget efficiency	8.2	8.6	7.9
Meet current needs	7.8	7.8	7.7
Overall rating	7.6	7.7	7.4
Contribute to stra. goals	7.5	7.7	7.7
Enhancements			
responsiveness	7.2	7.7	7.3
Deliver systems on time	6.8	6.6	7.1
Deliver new systems	6.7	7.5	7.2

There is no material difference in attitude towards in-house data processing operation between banks wanting information on new outside vendors and those with no interest.

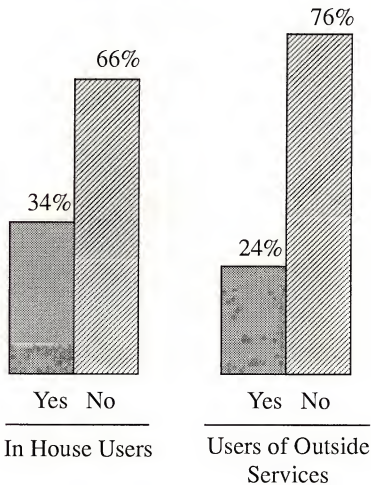
All respondents rated all factors above average.

Lowest ratings for all respondents were in regard to responsiveness to user needs (bottom three factors).



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30% of 73 Respondents (22) Found it Necessary to Reduce Data Processing Expenditures

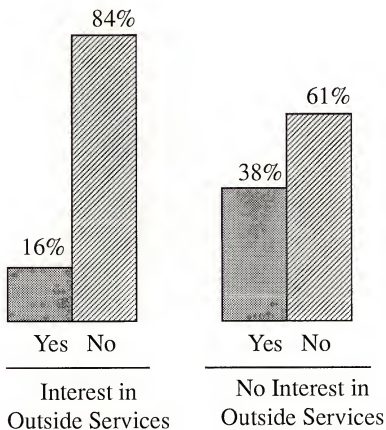


- 30% fewer users of outside services found it necessary to reduce data processing expenditures than in-house users



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**30% of 73 Respondents (22)
Found it Necessary to
Reduce Data Processing Expenditures**



- Less than half as many banks interested in outside services found it necessary to reduce expenditure than no interest group
- Need to reduce cost not closely related to interest in outside services



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Methods Used to Reduce Data Processing Expenditures

Listed Actions	Total (22 Resp)	Interested Group (4 Resp)	No Interest Group (18 Resp)
Hiring freeze	17	3	14
Layoffs	10	4	6
Service cutbacks	8	1	7
Equipment	7	2	5
Salary reductions	2	0	2
TOTAL	44	10	34
Other Actions			
New software	2	-	2
Sold operations	2	-	2
Staff reduction	1	1	-
Increase efficiency	1	-	1
Cut maintenance	1	-	1
Salary freeze	1	-	1
Cancel Software	1	1	-
Attrition	1	-	1
Closed department	1	-	1
Hired consultants	1	-	1
TOTAL	12	2	10
GRAND TOTAL	56	12	44

Staff and salary reductions accounted for 59% of all methods

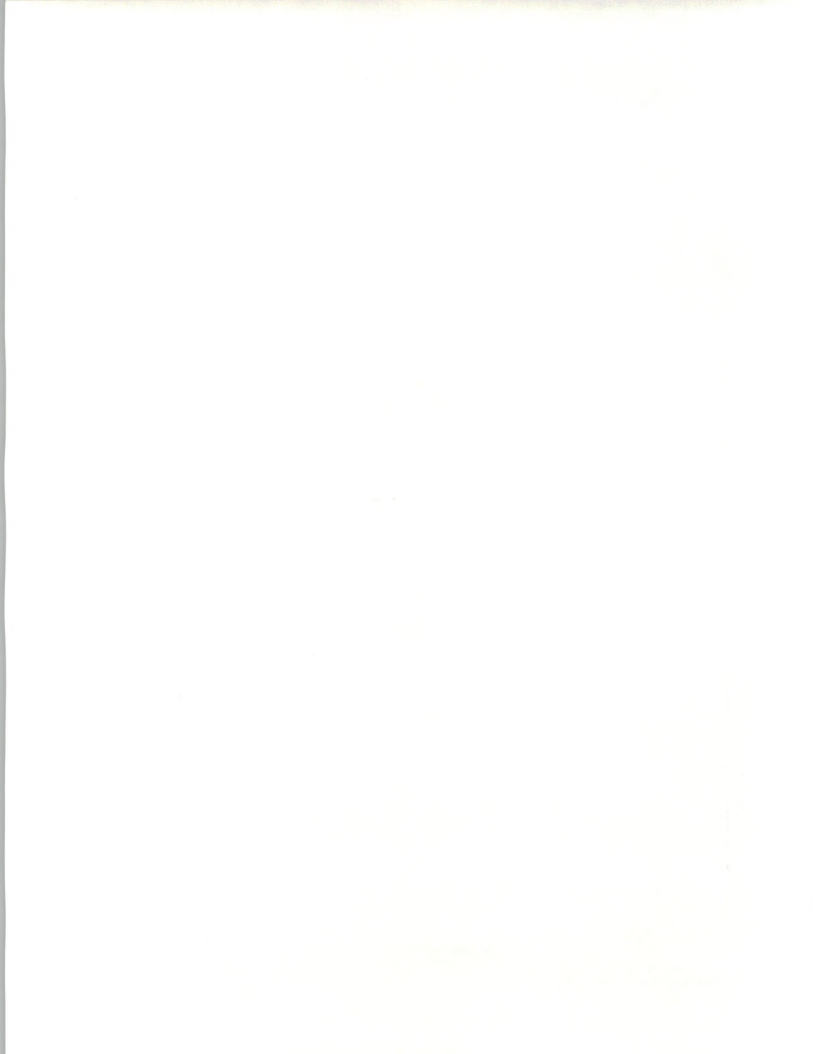
Service cutbacks and equipment were also significant



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Recommendations based on Bank Performance

- Possible prospects, in addition to twenty-five leads, could be banks who have been experiencing poor financial performance and use in-house data processing. These prospects have:
 - limited capital equipment purchases
 - had or have hiring freezes
- Promotion should focus on ability of FDMC services to respond to user needs with:
 - new systems
 - enhancements
- Market should be responsive to lower and/or fix cost theme
- Prospects should be responsive to marketing approach that emphasizes that they can avoid the following:
 - hiring freezes
 - layoffs
 - services cutback



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Respondent Processing Services



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Business Activity Profile of Respondents

Category	Sub Category	Total in Category	Bank Offers Computer Services to Correspondent Banks		Bank Offers Computer Services to Other Banks	
			Number of Respondents	Number Yes	Percent	Number Yes
Interested	In-house	15	10	67	5	33
	Outside	9	4	44	4	44
	All	24	14	58	9	38
Not interested	In-house	40	12	30	14	35
	Outside	8	1	13	2	25
	All	48	13	27	16	33
TOTAL	Total	72	27	38	25	35

Banks offering data processing services are twice as likely to be interested in outside service offerings

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Business Activity Profile of Respondents

Category	Sub Category	Average Number of Corresp. Bank Customers (34 Resp.)	Average Customer Size in Assets \$ Millions (30 Resp.)	Average Annual Revenue DP Service \$ Millions (23 Resp.)
Interested	In-house	27	68	1.90
	Outside	76	249	3.25
	All	45	133	2.25
Not interested	In-house	37	819	2.10
	Outside	22	70	0.25
	All	35	772	1.90
TOTAL	Total	40	474	2.20

Good prospect likely to have:

25 to 35 correspondent bank customers

Correspondent customer has from 40 to 80 million dollars in assets

Two to three million dollars in data processing services revenue

Asset size of customers skewed by few large institutions



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Business Activity Profile of Respondents

Data Processing Services Revenues

Category	Sub Category	Increasing Respondents	Decreasing Respondents	Total Respondents
Interested	In-house	6	6	12
	Outside	2	3	5
	All	8	9	17
Not interested	In-house	10	3	13
	Outside	1	1	2
	All	11	4	15
TOTAL	Total	19	13	32

Good prospects may not be experiencing revenue growth



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Reasons Your Revenues are Decreasing for Services You Sell to Other Banks

Reason	Number of Mentions
Customers going in-house	5
Losing customers because of acquisitions	4
Decision to leave business	3
New laws prevent us from expanding geographically	1
New competitors	1
TOTAL	14

Number of Respondents = 13



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Reasons Your Revenues are Increasing for Services You Sell to Other Banks

Reason	Number of Mentions
Increasing volume	4
New banks being created	3
Adding new services	2
Low cost and good service	2
Lowered prices	2
Adding new customers	1
Deregulation permits us to expand	1
Good marketing	1
More banks becoming buyers	1
Other banks leaving business	1
Price increases	1
TOTAL	16

Number of Respondents = 19



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Correspondent Banking Services



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Reasons Correspondent Banking is Important to Respondents

Reason	Number of Respondents
It's our business	8
Revenue	5
Profits	5
Volume	2
Source of funds	2
Active regional focus	1
Solidifies relationships	1
Deregulation provides opportunities	1
TOTAL	25



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Reasons Correspondent Banking is Not Important to Respondents

Reason	Number of Respondents
Not our business	6
No correspondents	6
Not profitable	5
Competition from Federal Reserve bank	2
Competition from larger banks	2
Can't do it well enough	2
DP services not important	2
Growing too fast	2
We are too small	1
Not enough prospects	1
Conflicts with our priorities	1
No capability	1
State owned	1
No response	8
TOTAL	40

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Year	1880	1881	1882	1883	1884	1885	1886	1887	1888	1889	1890	1891	1892	1893	1894	1895	1896	1897	1898	1899	1900	
Population	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	
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Major Advantages of Selling Data Processing Services to Other Banks

Advantages	Number of Mentions
Increase Income	14
None	13
Build stronger correspondent relationships	10
Increase profit	9
Increase profits through cost economies of scale	8
Provide additional services	5
Improve services	2
Cross selling relationship	1
Experience will help improve our operations	1
Gain network access	1
Improve control	1
Increase confidence in correspondents	1
Increase correspondent balances	1
TOTAL	67

Number of Respondents = 57



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Percentage of Respondents Who Believe that offering Data Processing Services has a Positive Impact (Yes Responses)

Question	Interested Group	Not Interested Group	All	Not Interested Users of Outside Services
Enhance correspondent bank relationships	59	68	65	88
Profitable	52	48	49	71
Protect correspondent bank relationships	55	56	55	63

Responses were fairly consistent between the two groups

The users of outside services who were not interested in a new outside vendor did have a distinctly more positive attitude



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Major Disadvantages of Selling Data Processing Services to Other Banks

Disadvantage	Number of Mentions
Operating problems will upset correspondents	12
Not worth the resources required	11
Unprofitable	10
Overburdens operations	7
Customizing for customers too expensive	6
Conflict of priorities with customers	6
Too expensive	5
Inability to do a good job	4
Can't keep up with technology	3
Large fixed asset commitment	3
It's not our (banking) business	2
It's aggravating	1
Turnover of customer base	1
Adversely affect relationship with other banks	1
Must deliver good service at low price	1
Restricts ability to change systems	1
TOTAL	74

Number of Respondents = 70

10-11-19

Dear Sir,
I have the pleasure to
acknowledge the receipt of
your letter of the 10th inst.

and in reply to inform you
that the same has been
forwarded to the
proper authorities for
their consideration.

I am, Sir, very
truly yours,
Yours faithfully,
[Signature]

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Percentage of Respondents Who Believe that Offering Data Processing Services has a Negative Impact (Yes Responses)

Question	Interested Group	Not Interested Group	All
Overburdens staff (66)	59	64	62
Diverts the staff (68)	52	73	66

The respondents not interested in offering services felt more negatively about offering services on these issues



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Reasons Respondents Have Not Offered Data Processing Services to Correspondent Banks

Reason	Number of Respondents
Not profitable	6
No capacity	6
Not in our strategic plan	5
High growth internally or from acquisitions	4
Discontinued	3
Diversion from primary business	3
Not our business	3
Competition	2
Inability	2
Too expensive	2
Disadvantages outweigh advantages	1
Insufficient market	1
No need	1
Our system (common) too sophisticated	1
Too small	1
Won't be major line of business	1
TOTAL	42



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Attitudes
Towards
Outside Services



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Reasons Respondents Have Not Considered an Outside Vendor for their Data Processing Operation

Reasons	Number of Mentions
We want control	12
Cost too high	3
We are too big	2
Not our business	1
Too complex	1
TOTAL	19

42% of 60 respondents have not considered an outside service

Keeping control was cited by 63% who gave reasons

Assumption that cost would be too high also important

1914

[The following text is extremely faint and largely illegible. It appears to be a list or a set of notes, possibly related to the year 1914. The text is organized into several paragraphs or sections, but the specific content cannot be accurately transcribed due to the low contrast and blurriness of the image.]

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Reasons Respondents Have Considered an Outside Vendor for their Data Processing Operation

Reasons	Number of Mentions
Doing it now	8
Considered and rejected	6
Did it but cancelled	6
Reduce cost	5
No response	4
Considering now	3
Reduce work load	2
Doing it on small applications	1
Considered joint venture with other banks	1
TOTAL	32

58% of 60 respondents have considered an outside service

Reducing cost or workload were most frequent reasons

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Reasons Respondents Want to Offer DP Services with a Strategic Partner as Vendor

Reasons	Number of Respondents
Increase profits	16
No response	6
Enhance relationship with correspondents	3
We have the business but not the problems	2
We are doing it	2
Low priority	2
Changes increasing in data center	1
Need flexibility in applications	1
Other banks in our holding co. doing it	1
It's in our plan	1
Have looked at it	1
Reduce work load	1
Small degree because of heavy equipment investment	1
TOTAL	38

38 respondents reflect why there are 40 prospects

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Reasons Respondents Don't Want to Offer DP Services with a Strategic Partner as Vendor

Reasons	Number of Respondents
Don't want to give up control	8
Not our business (banking)	6
No response or interest	5
Low priority	2
We are already doing it	2
We do it with banks in our holding company	1
Maybe in the future	1
Too expensive	1
Will increase fixed cost because we own equipment	1
Declining business	1
Our correspondents already using service bureaus	1
We are state owned - don't know	1
Don't want the responsibility	1
TOTAL	31



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Reasons They Have Considered an Outside Service Partner

Reasons	Number of Respondents
Reduce cost (3 found no savings)	4
ATM-GTE, Cirrus, Plus, supermarket chain	4
Network	3
Lacked internal expertise	1
Considered Anacomp - decided not to	1
Considered EDS - decided not to	1
Decided to use service bureaus	1
Selected ADP cash management	1
Selected First Data	1
Selected holding company	1
Selected MAC System (Phil. Nat. Bank)	1
Selected Systematics	1
No response	3
TOTAL	23

35% of 69 respondents have considered an outside
service partner



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Reasons They Have Not Considered an Outside Partner

Reasons	Number of Respondents
Higher cost using outside firm	10
Using a service	4
Satisfied with own operations	4
No response	4
Control	3
Too small	3
No need	3
In house culture	2
Never thought about it	2
We have the best service	1
Vendor may take our business	1
Bad prior experience	1
Too large	1
Integral part of our system	1
Not our decision (holding company owns them)	1
We need flexibility for changing environment	1
Have not found enough higher value	1
TOTAL	43

65% of 69 respondents have not considered an outside service partner

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Why Have You Considered Selling Off Your Data Processing Services

Reason	Number of Respondents
Sold Services	8
Improve profits	7
Improve service for correspondents	2
Computer problems	1
TOTAL	18

39% of 69 respondents have considered selling off their data processing services



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Why Haven't You Considered Selling off Your Data Processing Services

Reason	Number of Respondents
Control	11
No need	5
No proposition	4
Strategic decision or management philosophy	2
Service level	2
Under contract with service firm	2
Investment too high	2
Investment in staff and equipment	1
Integrated system	1
We are a subsidiary	1
Customer relations	1
Too large	1
No interest	1
Considered merging with other banks	1
Bad experiences with vendors	1
State owned	1
Don't know	1
No response	4
TOTAL	42

61% of 69 respondents have not considered selling off their data processing services



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Reasons Respondents Would Sell Personnel and Assets in Exchange for a Service Contract

Reason	Number of Mentions
Did it	4
Good price	4
Substantial Savings	3
Responsiveness	1
Leading edge technology	1
Board membership	1
Vendor sets it up	1
Control	1
Flexibility	1
Work out with current vendor	1
Buy hardware and software	1
TOTAL	19

Number of Positive Responses = 24

33% of 73 respondents gave positive response

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Reasons Respondents Would Not Sell Personnel and Assets in Exchange for a Service Contract

Reason	Number of Mentions
Cost	3
Control	3
Doing it now	3
Flexibility	2
Bad prior experience	2
Want to keep in-house	2
Heavy investment in people and hardware	1
Expect to be acquired in few years	1
We have what we need	1
Responsiveness	1
We are too profitable	1
TOTAL	14

Number of Negative Responses = 49

67% of 73 respondents gave negative response



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Most Important Qualities in Evaluating a Data Processing Service Vendor

	Number of Comments	(Percent)
Low cost	24	17.6
Service quality	24	17.6
Track record	10	7.4
Reliability	9	6.6
Responsiveness	9	6.6
Financial strength	7	5.1
Reputation	7	5.1
Flexibility	6	4.4
Response time	6	4.4
Leading-edge technology	5	3.7



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Other Important Qualities in Evaluating a Data Processing Service Vendor

	Number of Comments	(Percent)
Support	4	2.9
Marketing	3	2.2
Software availability	3	2.2
Honesty	2	1.5
Accountability for problems	2	1.5
Breadth of customer base	2	1.5
Efficiency	2	1.5
Management	2	1.5
Accuracy	1	0.7
Amount of our time required	1	0.7
Compatibility of people	1	0.7
Confidentiality	1	0.7
Consistency	1	0.7
Daily P and L	1	0.7
Ease of conversion	1	0.7
Purchase our equipment	1	0.7
Quality people	1	0.7
TOTAL	136	

Number of respondents = 60

13 made statements such as

- Haven't considered
- Don't know
- Never done



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Recommendations based on Attitudes towards Outside Services

- **FDMC should emphasize how its services provide:**
 - the client with additional and stronger control over its operations
 - the client with a means of reducing and controlling cost
 - the client with a way to reduce his workload
 - higher profits
 - high level of control

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Recommendations based on Attitudes towards Outside Services (Cont.)

- Benefits for banks selling services to FDMC should include:
 - substantial savings
 - high price (immediate bottom-line profit)
 - leading-edge technology
 - increase controls
 - more flexibility
 - service quality
 - track record
 - financial strength and stability
 - responsiveness
 - excellent reputation
 - broad client base
 - excellent customer support
 - wide range of applications
 - FDMC problem resolution
 - eliminate people problems
 - eliminate hardware and software expenditures



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Decision Makers



**Summary of
Decision Makers Who Would
be Involved in
Spin Off or Sale of
Data Processing Service**

Decison Maker

Holding Company
Chairman
Vice Chairman
Chief Executive Officer
Chief Operating Officer
President
Executive Committee
Executive Vice President
Senior Vice President
Vice President
Financial Officer
Information System's Officer
Partners

Five respondents did not answer



**Recommendations
based on
Decision Makers**

FDMC's promotion and marketing should be directed at all offices at the senior vice president level or higher

FDMC must sell the key decision maker:

- chief executive officers
- chief financial officers
- executive in charge of operations

FDMC sales must be well trained:

- understand financial implications
- knowledge of bank's background
- banking trends (mergers and acquisitions)



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THANK YOU PACKAGE

INPUT will send an executive overview of the study to all respondents

FDMC will review and approve overview prior to mailing

Overview will be general and about 5 pages in length

