



The Next Generation Takes The Corner Office. Will Our Payments And Treasury Change?

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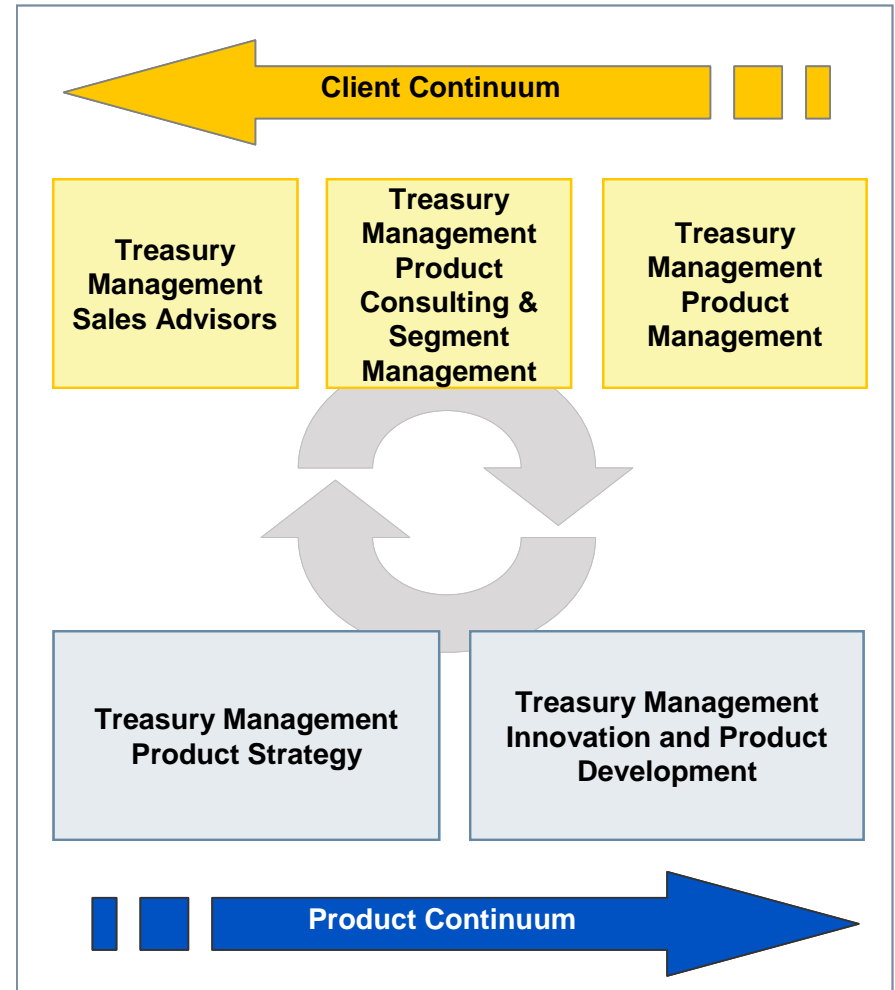
September 17, 2014



Introduction – About Me

Product Consulting & Commercialization, Treasury Management division of Commercial Banking

- Support commercial client solution structuring
- Identify market trends
- Drive innovation
- Communicate across the client and product continuum
- Help launch new products



Agenda

- **Foundations – Where We've Been**
- **Payment Method Statistics – Where We Are**
- **What's Next – Matching Business Activity to Payment Methods**
- **Treasury Technology**
- **Adapting in Your Organization**

The Next Generation: Will Our Payments And Treasury Change?

Headlines – Commercial Card

“Providing efficiency and cost-savings over paper payments (cash and checks), commercial payment cards are among the fastest growing card segments in recent years.”

From a discussion paper Getting Down to Business: Commercial Cards in Business-to-Business Payments, March 2011

Susan Herbst-Murphy

Payments Cards Center

Federal Reserve Bank of Philadelphia

Headlines – Check

The Check is Still in the Mail? USPS Planning Changes in Delivery Times

In December 2011, the USPS wants to eliminate the expectation of next-day delivery for first-class mail and alter delivery standards so that mail arrives within two-to-five days, instead of the current one-to-three.

-www.theaccountspayablenetwork.com

U.S. Postal Service to move to five-day delivery if mail volume falls below 140 billion pieces a year, which would amount to a 10 percent decline over 2012. This is forecast for 2017. The postal service insists that carrying letters six days a week is no longer cost-effective.

-Bloomberg BusinessWeek February 11, 2014

The effect on accounts payable would be complicated. On the one hand, paper invoices will arrive in AP two days later, making discount capture more difficult. On the other, the delay will increase cash-on-hand by extending days payable outstanding on check payments thanks to the increased mail float.

www.theaccountspayablenetwork.com

Headlines – ACH

ACH Volume Grows to Nearly 22 Billion Payments in 2013

In 2013, the volume of B2B transactions increased 6.7 percent over 2012.

Specifically, CTX volume grew 10.6 percent and CCD volume grew 6.6 percent.

Addenda record use associated with these payments grew as well, increasing almost 10 percent across both transaction categories.

www.NACHA.org/news

April 7, 2014

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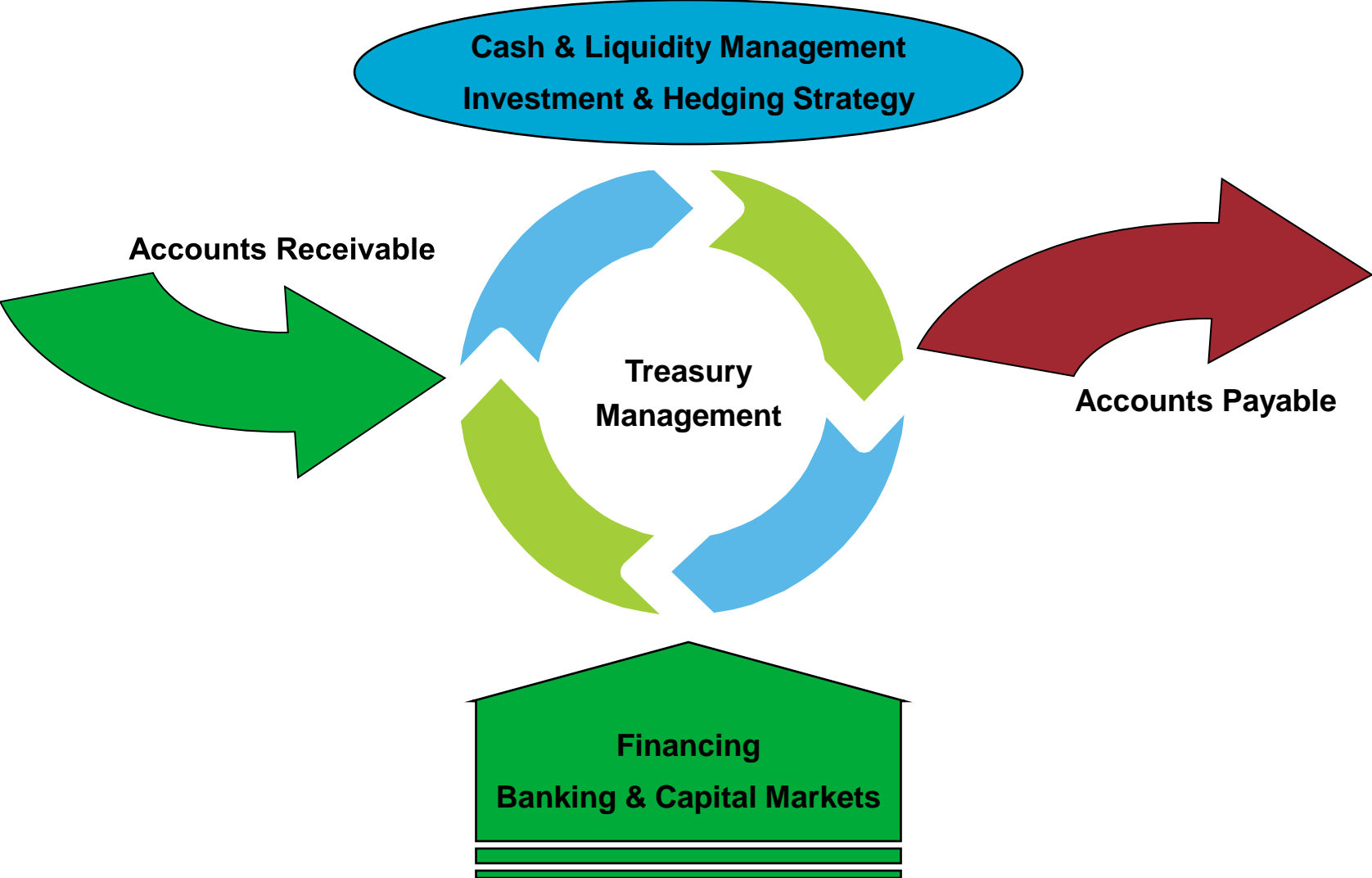
Foundations – Treasury Management

Utilizing cash as efficiently as possible and in a manner consistent with a company's overall strategic objectives

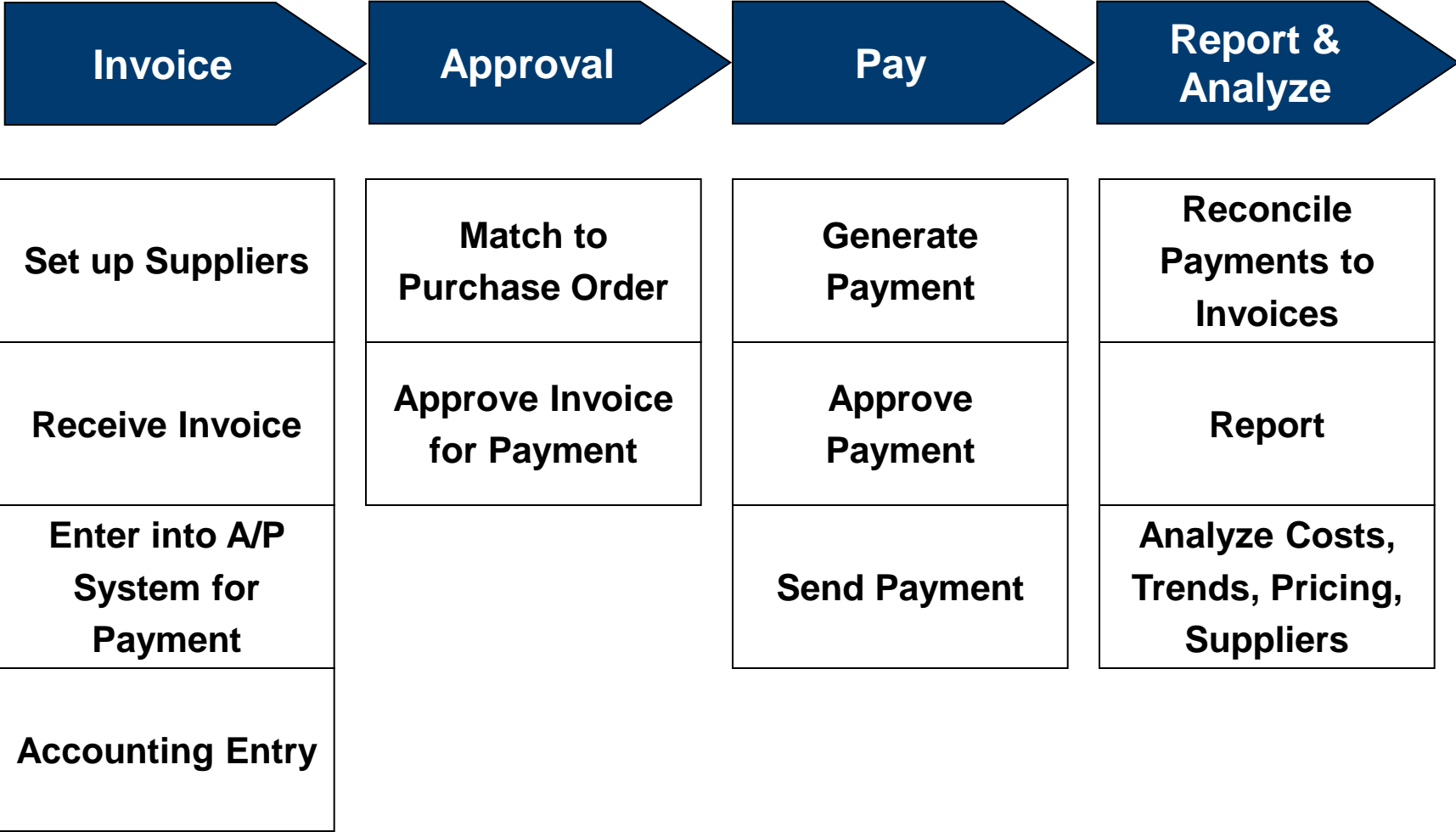
Defined as having the right information at the right time to be able to manage money effectively

Association for Financial Professionals

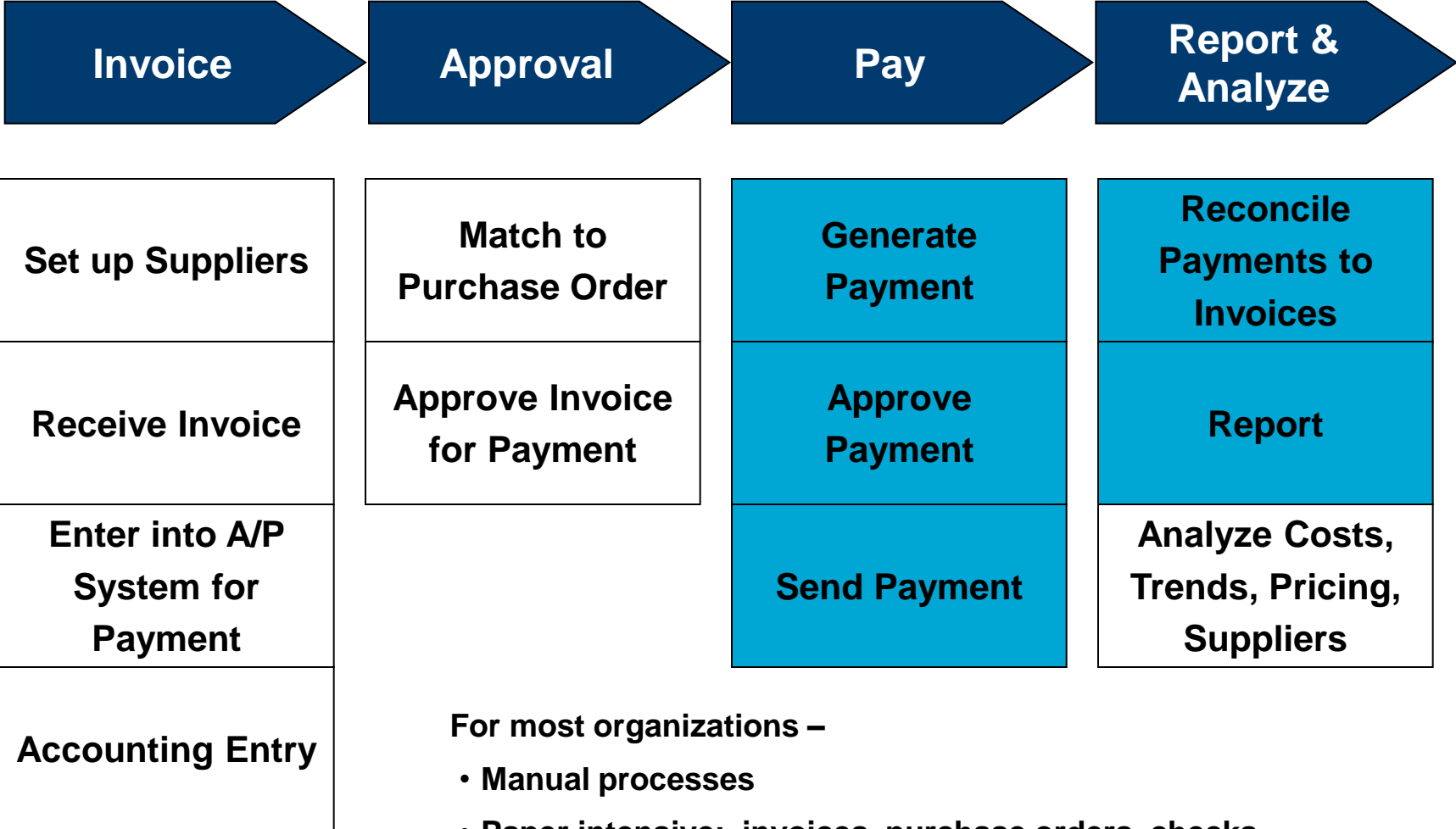
Foundations – Treasury Management Cycle



Foundations – The Standard Accounts Payable Process



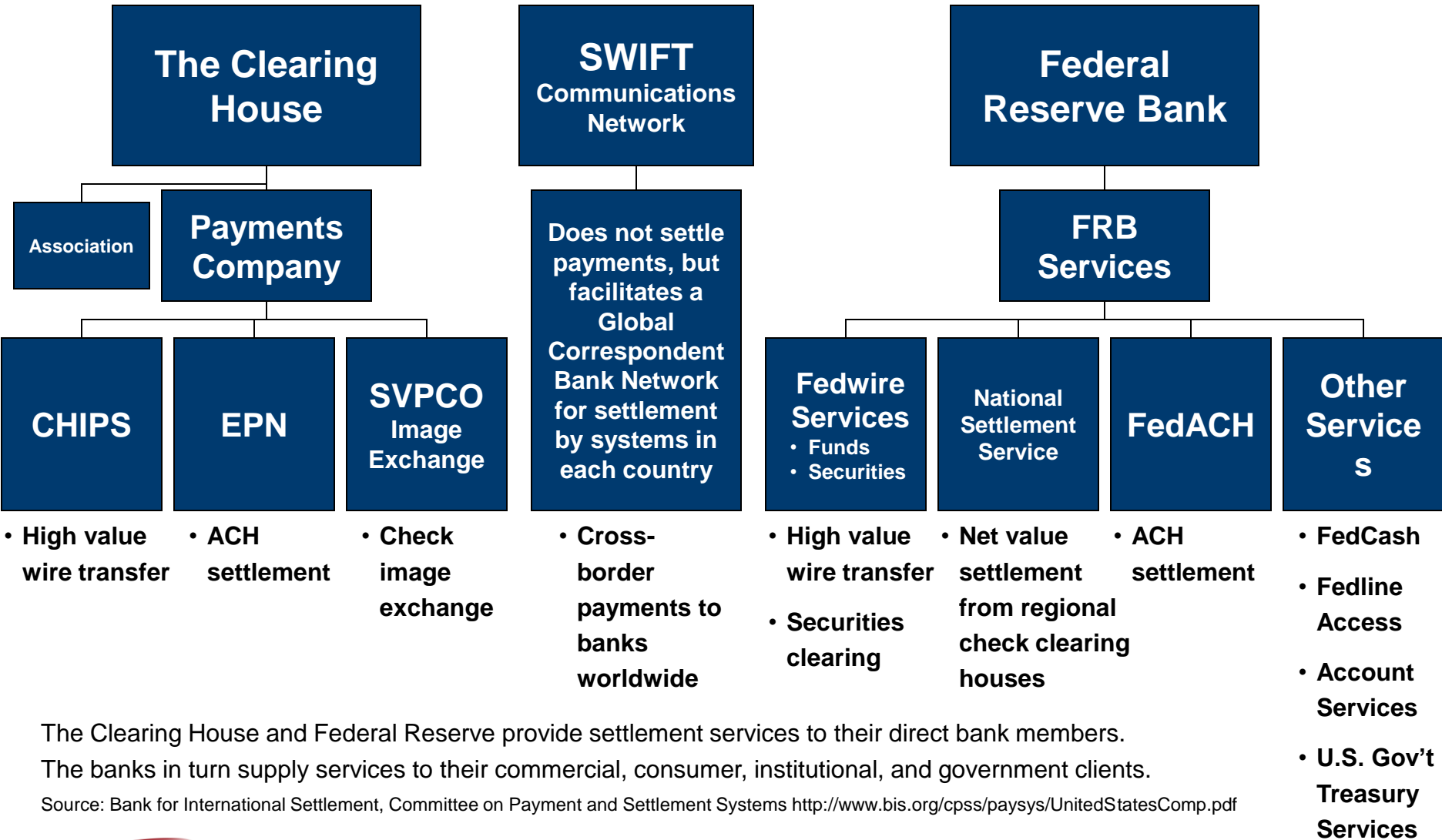
Foundations – The Standard Accounts Payable Process



For most organizations –

- Manual processes
- Paper intensive: invoices, purchase orders, checks
- No treasury workstation or not utilizing it fully

Foundations – Payment System Infrastructure



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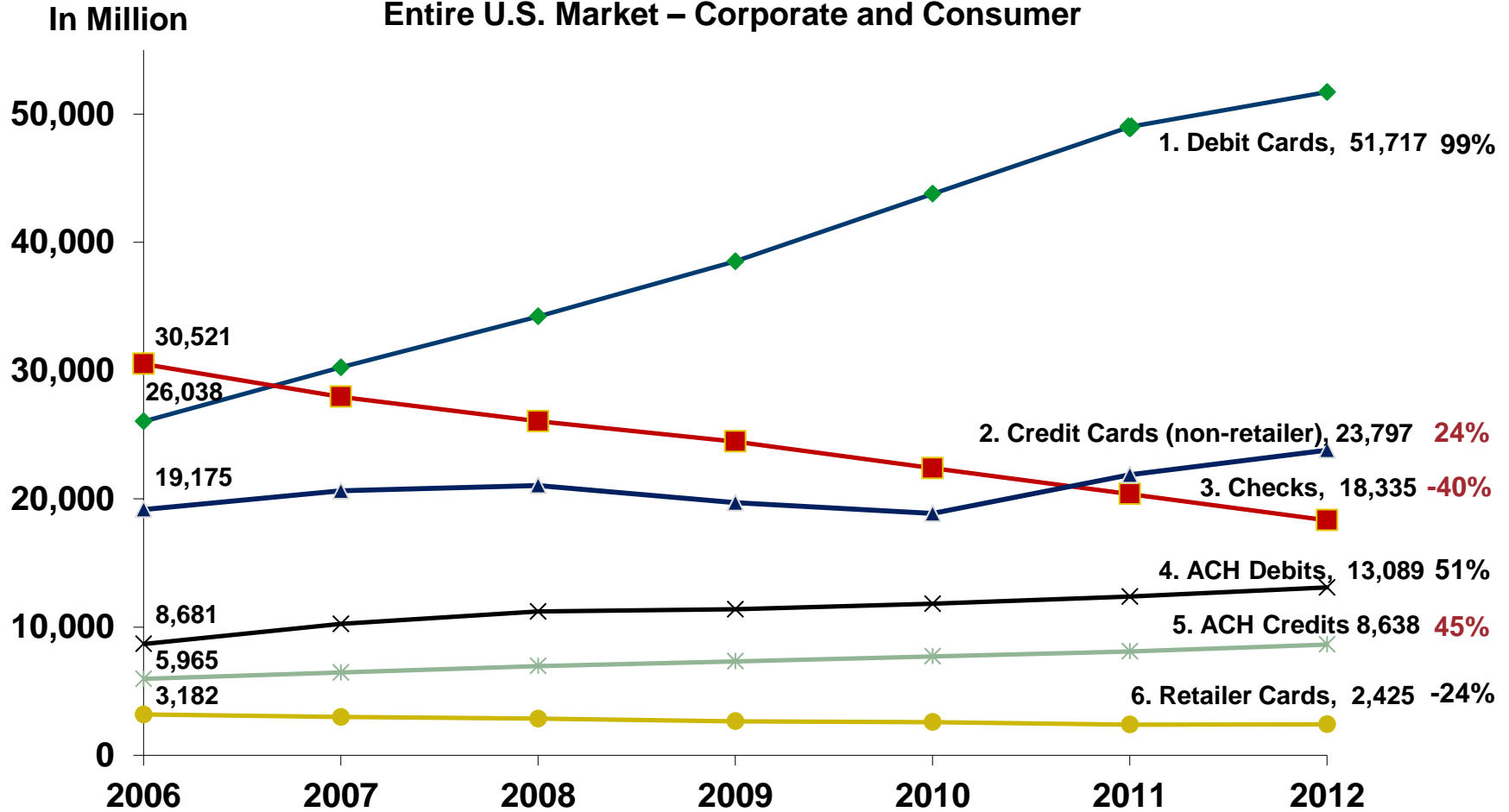
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Transaction Volume – ACH Surpassed Check Usage in 2011, In 6 Years Card Volume Doubled

Number of Transaction Per Type of Payment Instrument

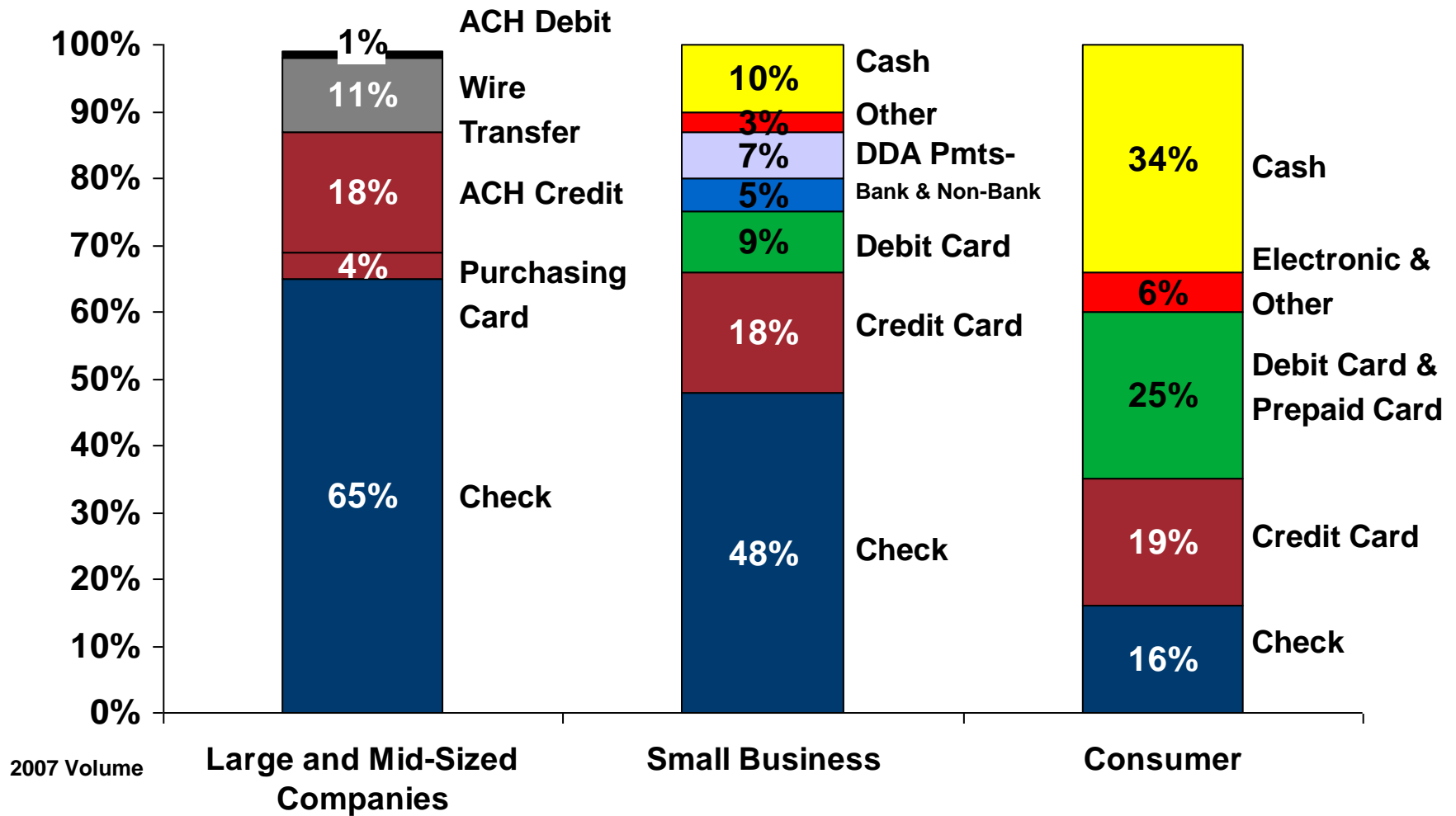
Entire U.S. Market – Corporate and Consumer



Source: Bank for International Settlement, Committee on Payment and Settlement Systems <http://www.bis.org/cpss/paysys/UnitedStatesComp.pdf>



Transaction Volume – Payment Method By Segment

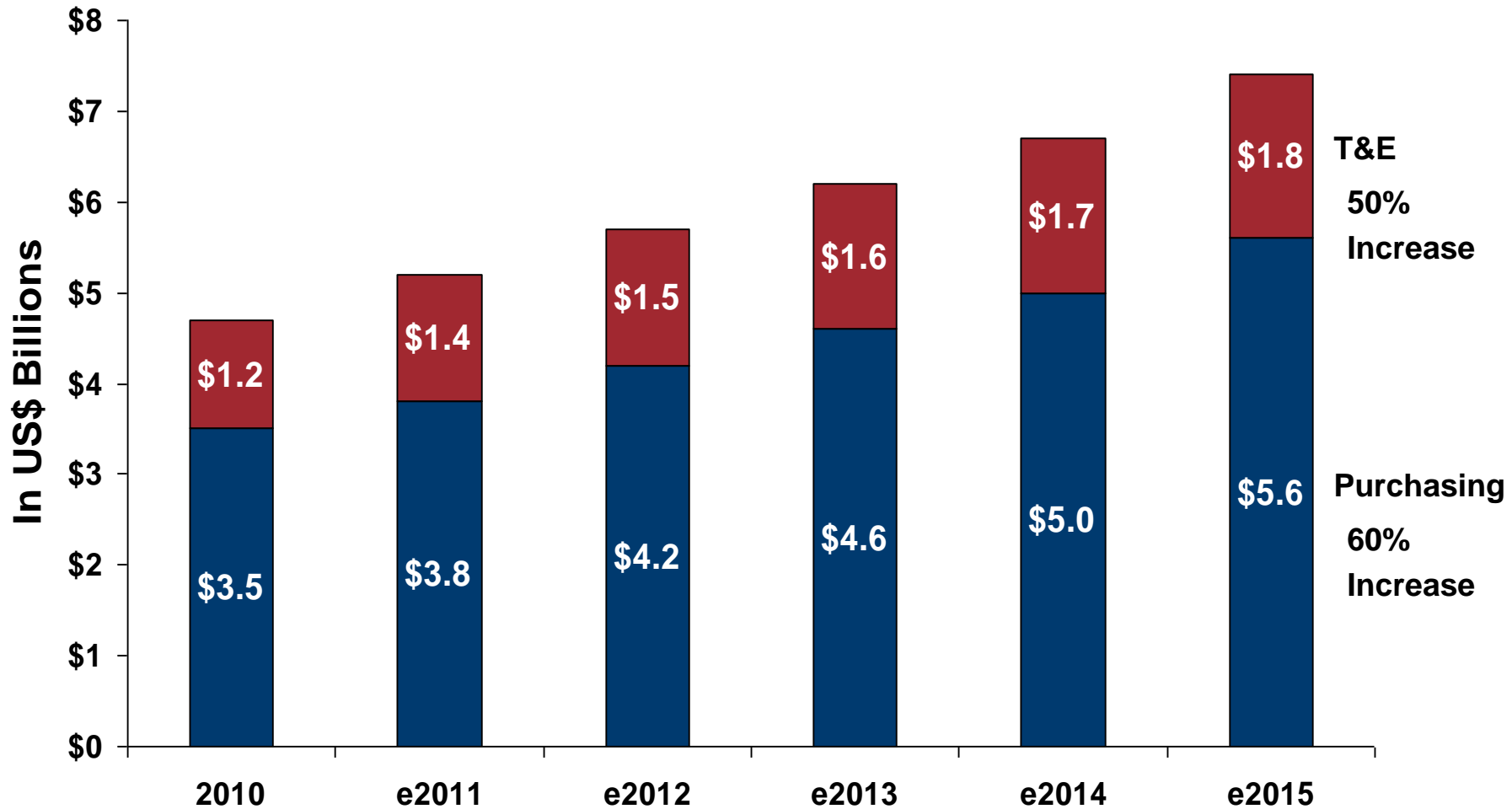


Summary Source: Federal Reserve Bank of Philadelphia, "Getting Down to Business: Commercial Cards in Business-to-Business Payments" March 2011



Transaction Volume – Commercial Card

Growth expected to continue



Source: Aite, "Way Beyond Plastic: The Status and Prognosis of Purchasing and Corporate Cards" March 22, 2012

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What's Next – Consumer Trends Will Influence Business Payments

- **Younger generation will question paper intensive practices and payment delays**
 - Question check usage
 - Cost
 - Need for balance estimation
 - Vendors will question the cost of depositing checks
 - Question paper invoices
- **Demand for more electronic and real-time payment methods**
- **Demand for remittance data delivered electronically**
 - Banks will need to process and report data
 - Treasury workstations to report data

These trends will lead to changing practices

- Matching business activity to payment method
- Minimize challenges of paper-intensive and inefficient practices
- Leverage advantages of electronic methods

Check – Ideal for One-Time Payments and By Request

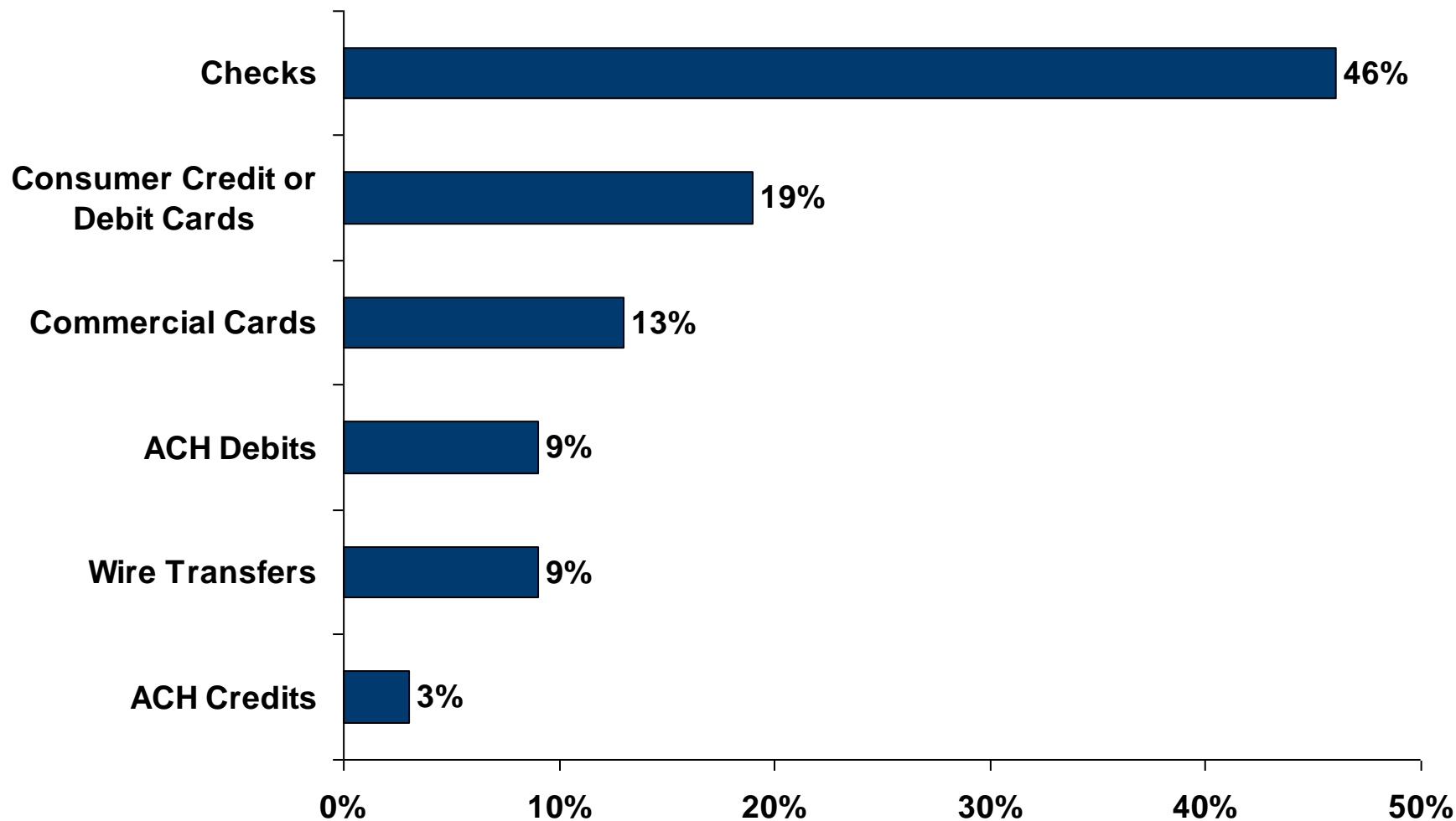
Advantages

- **Supplier acceptance**
 - May be declining due to cost of receiving and depositing checks
- **Set-up**
 - No supplier routing information required
 - Ideal for one-time payments
 - Permits supplier to use several bank accounts
 - Supplier privacy
- **Ability to transfer invoice information**
 - Everything can be written on the check itself
- **Control over delivery**
 - When delivered in person
- **Fraud control measures available**
 - Positive Pay

Challenges

- **Higher cost of issuance due to manual handling**
- **Payment timing uncertainty**
 - Postal delivery times changing
 - Delayed deposits
 - Escheatment
- **Controls required over check stock and issued checks in office**
- **Invoice information transferred manually on check or remittance advice/coupon**
- **High instance of fraud**

Check – Important to Mitigate Fraud with Positive Pay, Electronic Debit Protection and even Account Reconciliation



3rd Annual Survey of 160 companies worldwide who experienced attempted or actual payments fraud.

Aberdeen Group, May 2010



Wire Transfer – Ideal for High Value, Same-Day Priority Payments and International Payments

Advantages

- **Same-day / real-time gross value transfer**
 - Secure Fedwire Funds Service
- **Payment timing certainty**
- **Ability to transfer invoice information**
- **Availability of bank interface for instruction initiation and approvals**
- **Ability to send money virtually anywhere in the world**
 - Established correspondent bank network supported by SWIFT messaging

Challenges

- **Higher price per transaction**
- **Higher value, more control needed**
- **Inability of vendor to receive or read invoice information**
- **Batch instruction capability varies by bank and may require manual entry**
- **Variety of file formats can reduce bank relationship flexibility**
- **Instruction formatting use can vary by bank and country even using SWIFT**

ACH Credit – Ideal for Repetitive Payments with Known Instructions

Advantages

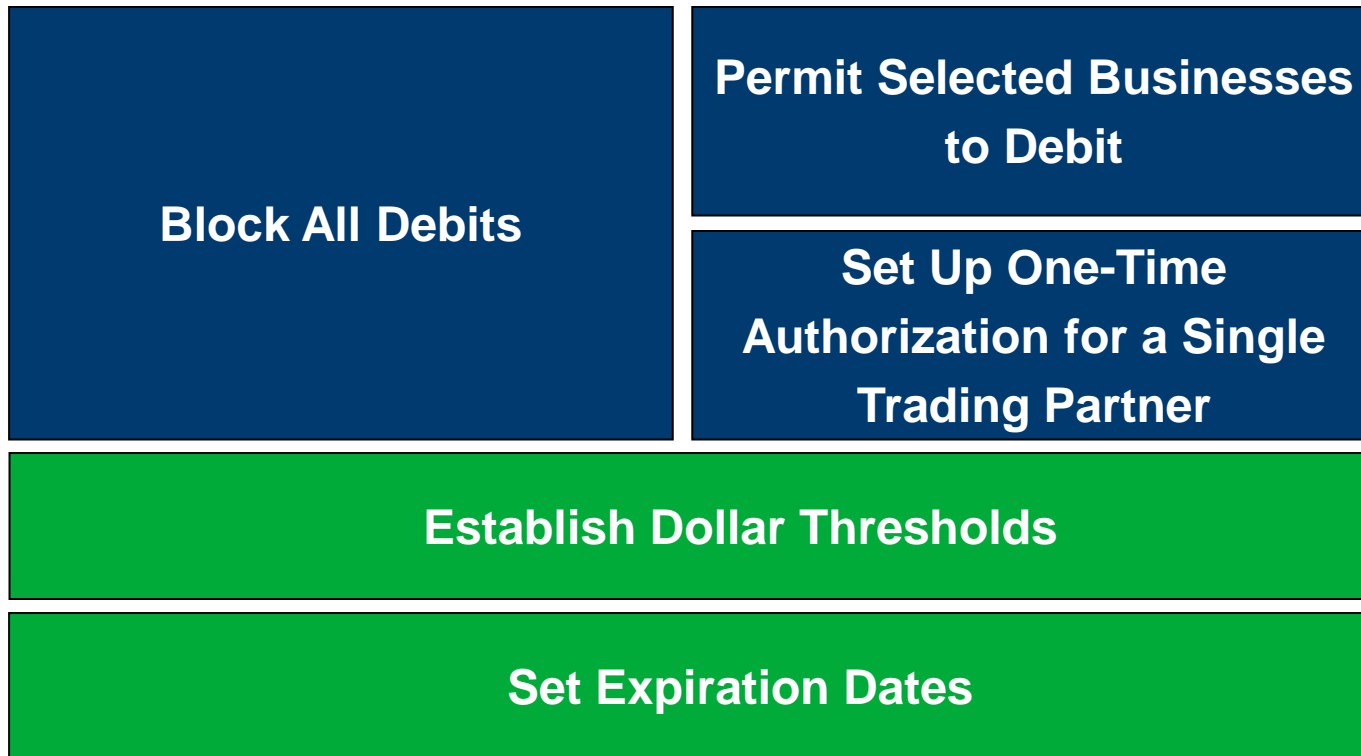
- **Low price per transaction**
- **Payment timing certainty**
 - Established rules-based settlement network
- **Ability to transfer invoice information**
- **Commonly used file format for transaction initiation**

Challenges

- **Vendor acceptance and migration**
- **Accounts Payable/Treasury System with file delivery capabilities required**
- **Set-up of routing information**
- **Maintenance of routing information**
- **Inability of vendor to receive or read invoice information**

ACH Debit – Recurring Payments from Well-Known Vendors

- Pre-authorization may be adopted with higher technology comfort level
- Suggested control – Electronic (ACH) Debit Protection
 - Control criteria applied to your account to limit or block debits:



Commercial Card – Ideal for Higher Spend Amounts, Large Suppliers, Travel & Entertainment

Advantages

- Pricing with rebate can be cost effective
- Reduced procure-to-pay processing time with delayed funding extending days payable outstanding
- Ability to perform spend analysis and decision-making to rationalize suppliers, negotiate pricing
- Eliminate paper-based purchase orders
- Transaction information tracking with approval and transaction limit controls
- Variety of specialized services for procurement, T&E and fleet type purchases
- Automate transaction information flow via file interface to card network
- Available virtual cards with single-use numbers increases value and reduces fraud potential
- Automate reconciliation process

Challenges

T&E/Travel

- Employee acceptance
 - No more cash advances or immediate cash reimbursements

Purchasing

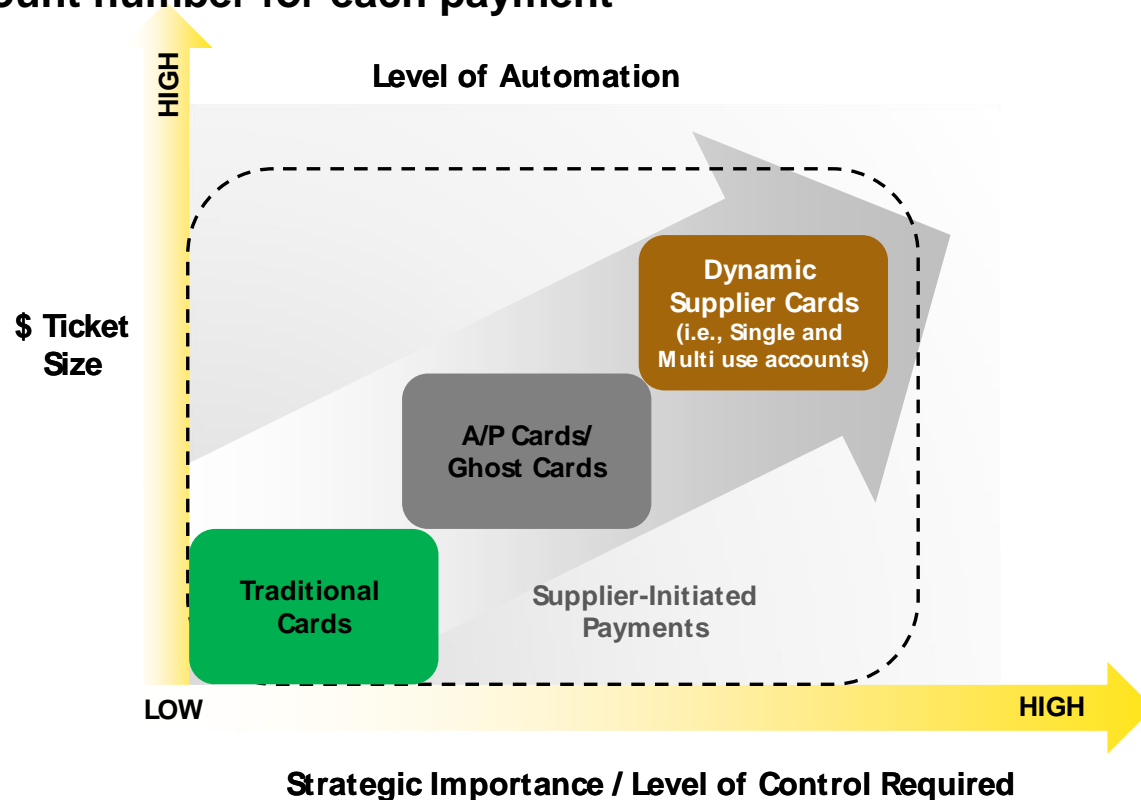
- Vendor acceptance and migration
- Merchant services cost to vendor
- Potential for vendors to have challenges receiving or reading invoice information

All Programs

- Need a card program administrator
- Payment submission, approval and reporting interface
 - Card processor
 - Issuing bank
 - Integration into Accounts Payable process
- Securing plastic cards stored in office

Commercial Card – Virtual Card Adds Controls and Working Capital

- Eliminates many risks associated with plastic card
- One-time account number for each payment



- Time limit on card number use by vendor
- Useful for larger dollar purchases like a Wire Transfer
- Automate reconciliation leveraging single-use card number
- Increase working capital vs. Wire Transfer due to 30-day billing cycle

Payment Method Comparison

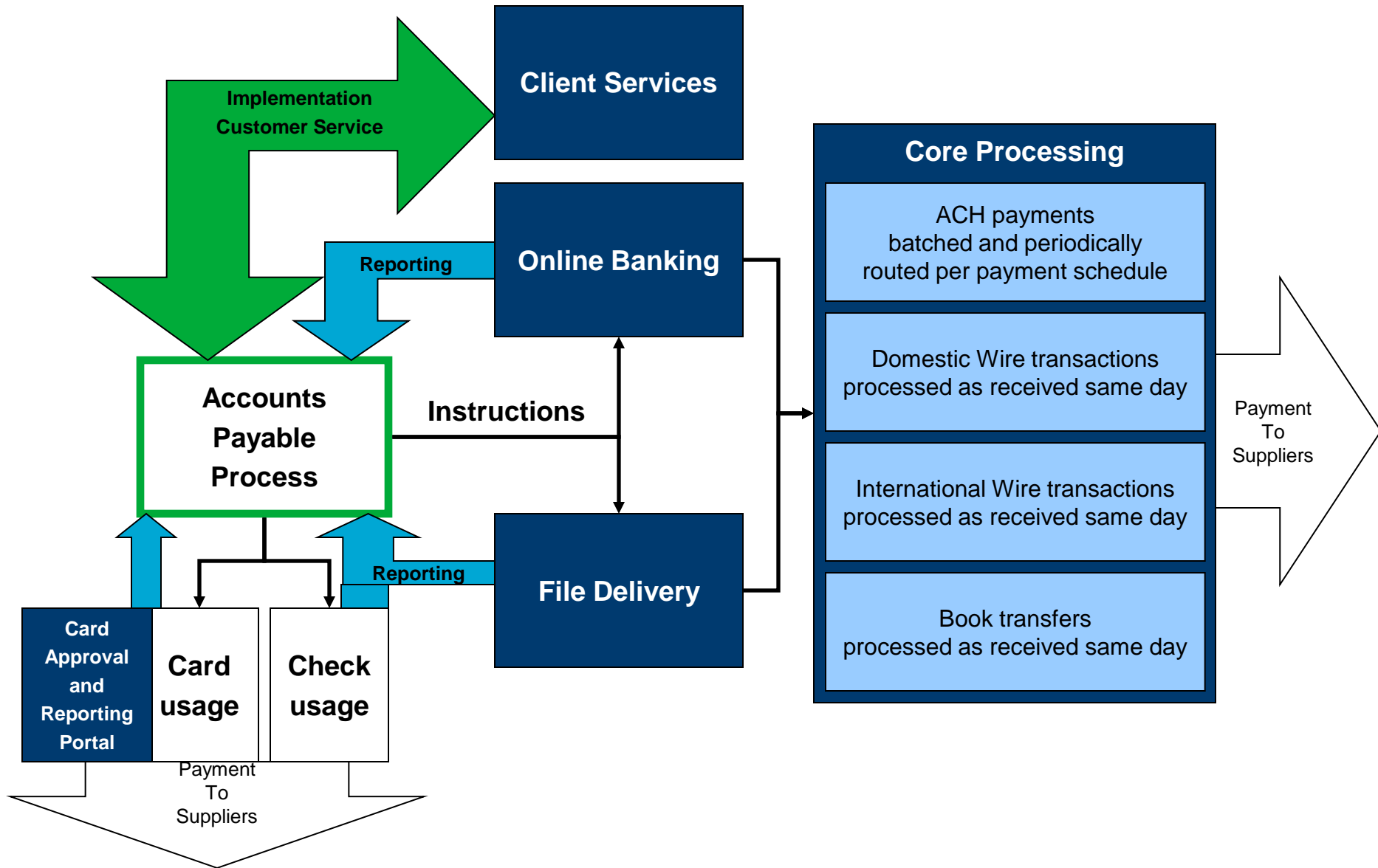
Criteria	Check	Wire Transfer	ACH Credit	Commercial Card
Vendor Acceptance	●	●	●	●
Set-up and Maintenance	●	●	●	●
Business Activity Applicability	●	●	●	●
Reconciliation of Payment to Invoice	●	●	●	●
Remittance (Invoice) Information	●	●	●	●
Provide Working Capital	●	○	●	●
Fraud Control	○	●	●	●
Cost Efficiency	○	○	●	●
Payment Timing	○	●	●	●

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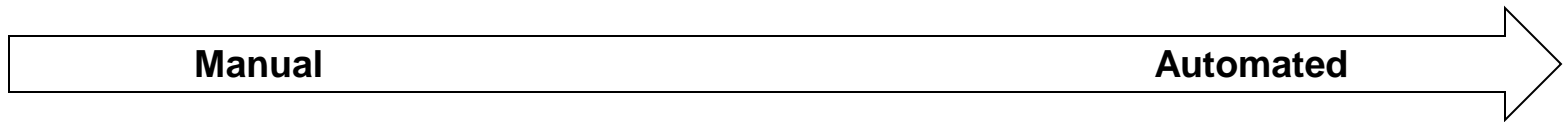
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Treasury Technology – Interfacing With Your Bank



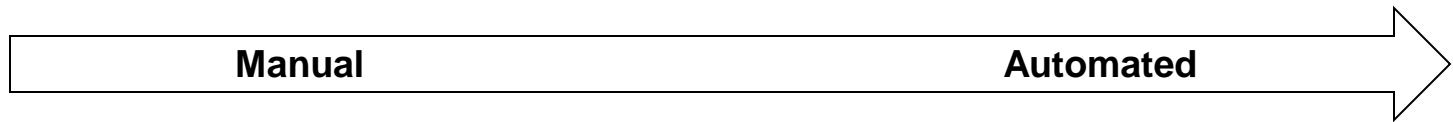
Treasury Technology: Interfacing with Your Bank – Submitting Instructions



Product	Online Banking Manual Entry	Online Banking Repetitive Template	Online Banking Instruction File Upload	Secure FTP or HTTPS	File Transfer Software Application
ACH Services	✓	✓ Payroll, vendor payments, tax payments and other database templates available	✓	✓	✓
Positive Pay	✓ Check Issue		✓ Check Issue	✓ Check Issue	✓ Check Issue
Wire Transfer	✓	✓	✓	✓	✓
Commercial Card	✓	✓	✓	✓	
Integrated Payables	Back-up	Back-up		✓	✓

File formats may vary by product. Which formats can be read by your ERP/treasury system?

Treasury Technology: Interfacing With Your Bank – Reporting



Product	Manual		Automated	
	Online Banking Report Viewing	Online Banking Report Download	Secure FTP or HTTPS	File Transfer Software Application
ACH Services	✓	✓	✓	✓
Controlled Disbursement	✓	✓		
Positive Pay	✓	✓	✓	✓
Account Reconciliation	✓	✓	✓	✓
Wire Transfer	✓	✓		
Commercial Card	✓	✓	✓	✓
Integrated Payables	✓	✓	✓	✓

File formats may vary by product. Which formats can be read by your ERP/treasury system?



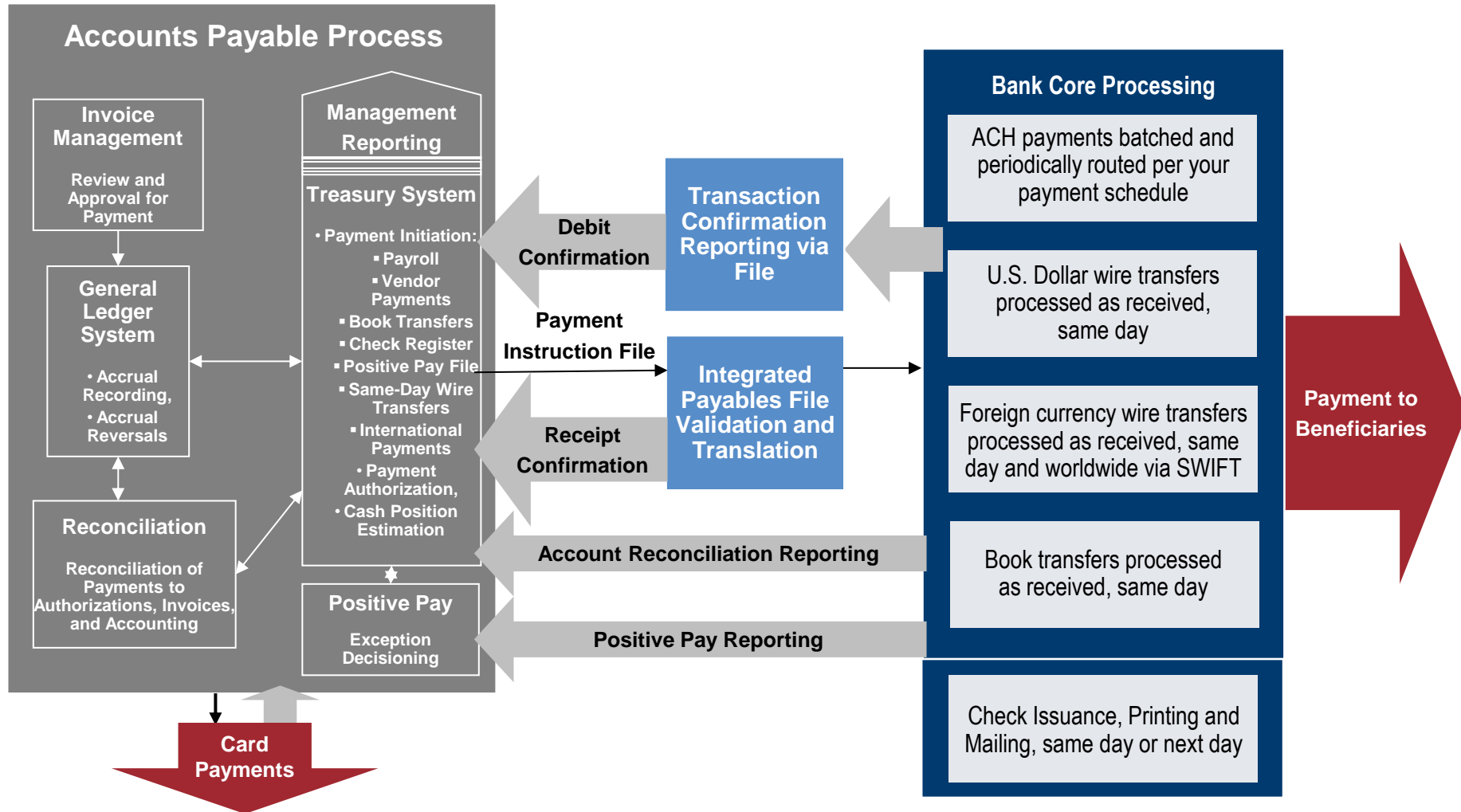
Treasury Technology: Interfacing With Your Bank

3 Examples of Mixing Online and File Delivery

Solution Option	Instruction Submission Service	Primary Reporting Service	Secondary Reporting to Other Departments and Contingency
A – Automated File	Secure FTP	Secure FTP	Online Banking <ul style="list-style-type: none"> • Manual Entry • File Upload • Balance Reporting • File Download
B – Mixed Online and File	Secure FTP, HTTPS, or FTP Software	Online Banking Balance Reporting, File Download	
C – Online Banking	Online Banking File Upload, Manual Entry	Online Banking Balance Reporting, File Download	

Online Banking interfaces can make a convenient contingency and auxiliary reporting tool

Integrated Payables – Consolidating Payment Instructions and Integrating Bank Information into the Entire Accounts Payable Process



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Adapting in Your Organization

- **Review your payables supplier list**

- Delete outdated suppliers and segment remaining by business activity

Type and Frequency	Domestic	International
Recurring Suppliers		
One-Time Suppliers		
Petty Cash		
Payroll		
T&E		
Treasury Transactions		

- Then, review actual payment methods you deploy today to identify inefficiencies

What Next?

- **Optimize use of each payment method**

- Consider migrating from one payment method to the most cost effective and efficient for each supplier or type of expenditure

- Commercial Card

- T&E for your employees
- Purchasing Card for vendors who accept card
- Petty cash

- ACH for recurring payments

- Vendor, Payroll, Tax

- Wire Transfer

- Limited to high priority payments requiring same-day transfer

- Checks

- Limited to one-time payments and those vendors who request check

- Best practice: migrate from check to electronic methods in phases

Phase 1 - Card

Phase 2 - ACH

Phase 3 - Check Outsourcing

Adapting in Your Organization

- **Review your policies**

- Do you always set up new suppliers on ACH or card from the outset?
- Do you require use of card below a certain spend amount on purchases?
- Do you require use of card for travel and entertainment expense?
- Do you have a card for petty cash expenditures?
- Do you require secondary approval for wire transfers?

- **Optimize and automate information**

- Would file integration with your bank lower the cost of transaction initiation and reconciliation?
- Would integrated payables streamline your process and lower process handling and maintenance costs?
- Are you leveraging all the modules and capabilities in your ERP/treasury system?

Adapting in Your Organization

- **Contact your support vendors**

- Talk with your banker about solution options and best practices
 - Ask about emerging payment methods

- Talk with your ERP/treasury system vendor about available solutions and best practices
 - Seek integration with your bank

Reference Material

- **Association for Financial Professionals**
<http://www.afponline.org/>
“Cash and Treasury Management Country Report – USA”
- **International Accounts Payable Professionals (IAPP)**
– <http://www.financialops.org/iapp>
- **Discussion Paper – “Getting Down to Business: Commercial Cards in the Business-to-Business Payments” March 2011**
– Susan Herbst-Murphy, Payment Cards Center, Federal Reserve Bank of Philadelphia
- **Research Report – “Way Beyond Plastic: The Status and Prognosis of Purchasing and Corporate Cards” March 22, 2012**
– Aite Group <http://www.aitegroup.com/>
- **Research Briefs – “Global Payments: Maximizing Cash Flow with Electronic Payments and Process Automation” May 2010, Nasreen Quibria and “Selecting the Right Payment Solutions Mix: Optimizing for Success “ October 8, 2009**
– Aberdeen Group <http://www.aberdeen.com/>
- **Research Report – “Top Trends in Corporate Payments: 2014 Edition” May 2014**
– Celent, Gareth Lodge



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