B2C Payments – A New Way to Pay

The road to customer centric payments

MN AFP – 34th Annual Conference
Dana Christensen, CTP
April 26, 2016
Agenda
Let the journey begin

- Digital advancements and consumer behavior
- The resulting adoption of electronic payments
- Let’s split the bill... the P2P payments revolution
- B2C Solution... Digital Disbursements has arrived
- Questions
Digital advancements and consumer behavior
Digital advancements are accelerating

Select companies, products and services that have shaped digital connectivity and e-commerce

<table>
<thead>
<tr>
<th>40 years</th>
<th>25 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Foundation</td>
<td>E-Commerce</td>
</tr>
<tr>
<td>Packet networking</td>
<td>1st packet network systems to use an internet protocol</td>
</tr>
</tbody>
</table>

New Products & Services

Major Foundings / Mergers

1950
1990
1995
2000
2005
2010
2014

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Large Scale data Security Breaches at Target, Home Depot, Snapchat, and Accounts Compromised at Apple
For decades consumers had the same shopping process

“I need to buy a birthday present”

“What are some gift ideas?”

“How am I going to Pay?”

“Where should I buy the present?”

The Commerce Lifecycle
Today the process is much more complex

“I need to buy a birthday present”

Search

Consider

Pay

Shop

The Commerce Lifecycle

“We need to buy a birthday present”

“I need to buy a birthday present”

I ask my friends on Facebook

I read product reviews on Amazon

I look for deals and coupons

I check out the blog post my Facebook friend sent me

I found something I like... but want to make sure it’s safe

Consumer Reports

“We need to buy a birthday present”

How am I going to Pay?”

Do I get a reward or points?

Which account has extra $$$?

What is easiest and fast?

PayPal

mint

Square

amazon payments

“We need to buy the present?”

Who has the best price?

What do people think about the store with the best price?

RedLaser

pricegrabber

Google

Waze

Red Laser

BBB

“We need to buy the present?”

What store with the product is closest to me?

Who has the best price?

What do people think about the store with the best price?

Red Laser

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BBB
Consumer online shopping trends mean ...

In-store sales have plummeted

**U.S. retail store closings**

- **Barnes & Noble**: 226*
- **Staples**: 225*
- **GameStop**: 200*
- **Gap**: 189*
- **Abercrombie & Fitch**: 180*
- **Aéropostale**: 175*
- **JCP**: 33*

* To close between 2011-2021
* To close by end of 2015
* Closed in 2013
* Closed in 2012-13
* To close by 2015
* To close between 2014-19
* To close by 2014

Source: comScore, Q3 2013

The USPS is closing facilities and introducing new delivery standards

What happens to bank branches?
Interaction with financial institutions is changing too

- Customer transaction trends moving rapidly towards online, mobile and ATM options
- Resulting in significantly lower volume of over-the-counter transactions
- Geographic redundancy and distance to replacement services

- Customers seeking convenient, self-service options for transaction banking
- Desire for transactions that are faster, expedient and cost-effective
- Desire for more personalized service, financial expertise and advice
The resulting adoption of electronic payments
Credit usage is growing quickly at 5.8% per year

Debit volumes increase by 5.7% annually

'Other' payment types increase by 8.81% annually

Alternative payments capture share of online payment volume

'Other' U.S. Online Payment Volumes

- Online alternative payments grow by 7.4% per year adding $21.4 BB in volumes annually by 2018
- Prepaid cards continue to show strong growth prospects with a 6.9% CAGR and $29 BB in online volumes by 2018
- Online Credit services (e.g. BML) grow at the fastest rate of 20.7% annually

<table>
<thead>
<tr>
<th>Other Online Payment Volumes</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>CAGRs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Online Alternative Payments</td>
<td>$50.0</td>
<td>$53.7</td>
<td>$57.7</td>
<td>$61.9</td>
<td>$66.5</td>
<td>$71.4</td>
<td>7.40%</td>
</tr>
<tr>
<td>Prepaid card</td>
<td>$20.8</td>
<td>$22.2</td>
<td>$23.8</td>
<td>$25.4</td>
<td>$27.2</td>
<td>$29.0</td>
<td>6.90%</td>
</tr>
<tr>
<td>Store-Branded Credit Card</td>
<td>$19.6</td>
<td>21.0</td>
<td>$22.4</td>
<td>$23.9</td>
<td>$25.6</td>
<td>$27.4</td>
<td>6.90%</td>
</tr>
<tr>
<td>Online Credit Service</td>
<td>$9.4</td>
<td>$11.3</td>
<td>$13.7</td>
<td>$16.5</td>
<td>$20.0</td>
<td>$24.1</td>
<td>20.70%</td>
</tr>
<tr>
<td>Gift Card</td>
<td>$2.2</td>
<td>$2.4</td>
<td>$2.7</td>
<td>$3.0</td>
<td>$3.3</td>
<td>$3.6</td>
<td>10.60%</td>
</tr>
<tr>
<td>Total Online Payment Volume</td>
<td>$102.0</td>
<td>$110.7</td>
<td>$120.2</td>
<td>$130.8</td>
<td>$142.5</td>
<td>$155.6</td>
<td>8.81%</td>
</tr>
</tbody>
</table>

Mobile adoption

Half of the world’s population now has a mobile subscription. With an additional billion by 2020, taking the global penetration rate to 60%.1

- Now 50.3% of ecommerce website traffic comes through a mobile device2
- In 2013, 95 million U.S. adults used mobile banking—27 million more than 20123
- By 2018, 63% of the mobile consumer population is forecasted to be using mobile banking3

Mobile mindset4

Nearly half (44%) of Americans say they couldn’t make it a day without their mobile device. Older millennials (ages 25-34) and Gen X (ages 35-49) are even more dependent on their smartphones.

<table>
<thead>
<tr>
<th>How long could you last without your smartphone?</th>
<th>Less than one hour</th>
<th>24 hours</th>
<th>About a week</th>
<th>Indefinitely</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total respondents</td>
<td>11%</td>
<td>33%</td>
<td>24%</td>
<td>21%</td>
</tr>
<tr>
<td>Older millennials</td>
<td>11%</td>
<td>41%</td>
<td>22%</td>
<td>14%</td>
</tr>
<tr>
<td>Gen X</td>
<td>15%</td>
<td>37%</td>
<td>21%</td>
<td>16%</td>
</tr>
</tbody>
</table>

Adoption of Digital Wallets

Digital or “e-wallets” are the fastest growing payment type globally

U.S. Digital Wallet Payments

Transaction value and market share

<table>
<thead>
<tr>
<th>Year</th>
<th>Transactional Value</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$295B</td>
<td>17%</td>
</tr>
<tr>
<td>2017e</td>
<td>$1,656B</td>
<td>41%</td>
</tr>
</tbody>
</table>

- They’re easy to use
- Favored for digital content (books, music, games, etc.)
- Young shoppers are driving this growth
- Globally, Alipay and PayPal continue to dominate

U.S. most used digital wallets as of January 2015

<table>
<thead>
<tr>
<th>Wallet</th>
<th>Share of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Google Wallet</td>
<td>35%</td>
</tr>
<tr>
<td>Apple Pay</td>
<td>24%</td>
</tr>
<tr>
<td>PayPal</td>
<td>22%</td>
</tr>
<tr>
<td>Others</td>
<td>6%</td>
</tr>
<tr>
<td>ISIS</td>
<td>4%</td>
</tr>
<tr>
<td>Venmo</td>
<td>3%</td>
</tr>
</tbody>
</table>
Adoption of mobile banking

Smartphones are changing the way consumers access financial services

Fifty-two percent of Smartphone owners with a bank account have use mobile banking in the past 12 months\(^1\)

Mobile banking

Of those using mobile banking apps, more than four in five (82%) access it once a week or more.

Nearly a third (31%) access mobile banking at least once a day or more.

Trends in Consumer Mobility Report, Bank of America, 2014

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Let’s split the bill... The P2P payments revolution
Consumers are driving a payment paradigm shift to alias-based payments

Traditional Payments
- Account Numbers
- Rigid payment/settlement rules
- Storing static account data
- Lost payments data

Future Payments
- Tokenization for added security
- Phone number, email address
- Simplified payment/settlement rules
- Data capture flexibility

VS.

Leading North America Alias Networks

PayPal users have nearly doubled from 84.1 MM in Q1 2010 to 148.4 MM in Q1 2014.

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Global adoption of alias-based payments

Alias-based platforms are critical enablers of increasing global payment needs

Benefits: Broad acceptance and penetration across the globe

Local alias-based payment networks have solved geographic interoperability challenges

The growth of these alias-based payment networks has brought millions into the formal economy

PayPal users have more than doubled from 84.1MM in Q1 2010 to 173MM in Q3 2015

More users of Alipay (800MM) than internet users (629MM) in China at year end 2013

Used by 2/3 of Kenya’s adult population with 25% of the country’s GDP flowing through it

Sources: 1. Statista.com; 2. Mercator ’14; 3. theeconomist.com
Bank of America and clearXchange

Supporting P2P transfers since 2011
Now used for B2C payments

- The first U.S. P2P payment network created by financial institutions for financial institutions
- clearXchange members reach over 50% of all U.S. online and mobile banking customers
- Now includes 5 of the largest banks in the United States, along with multiple regional financial institutions, who together serve over 100 million customers
- Early Warning purchased clearXchange in January 2016
Adoption of mobile money transfers

In the US, the number of mobile P2P users is expected to grow from 69 million adults in 2015 to 126 million (57% of all mobile device owners) by 2020.

Mobile P2P Transfers in 2015
Over a third of all consumers made a mobile P2P transfer in 2015

Here’s why:

- With mobile P2P you don’t need the correct change, a paper check, or a nearby ATM
- Transactions are also fast compared to the time it often takes to wait for a check or bank transfer to clear
- Mobile P2P payments remove some of the stigma of asking for money—users can request money remotely

Source: Javelin, Mobile P2P Payments in 2015: The Growth and Adoption of Mobile Money Transfers, 9/15
Person-to-person mobile payments

Smartphones are also changing the way consumers make and receive payments

Transfer of funds from one person’s bank account to another person’s bank account via online/mobile using an email address or mobile phone number

In Q1 2013, did you use your mobile device to...

<table>
<thead>
<tr>
<th></th>
<th>Transfer money to another person's bank account?</th>
<th>Receive money from another person?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gen Y (22-36 years old)</td>
<td>56%</td>
<td>52%</td>
</tr>
<tr>
<td>Gen X (37-50 years old)</td>
<td>36%</td>
<td>27%</td>
</tr>
<tr>
<td>Boomers (51-69 years old)</td>
<td>16%</td>
<td>9%</td>
</tr>
</tbody>
</table>

>50% of Gen Y are already sending and receiving mobile payments

Bank of America has 1.5 million P2P transactions each month—with 89% year over year growth

1. Alite Impact Notice: How Millennials Manage Their Money, 5/14
2. Statistics provided by Bank of America’s Consumer Banking division 2/11/15
Mobile P2P payments growth projections

U.S. Mobile Peer-To-Peer Payments Forecast to reach $50 - $86 Billion in flows by 2018

Data Source: BI Intelligence – April 2014.
B2C Solution... Digital Disbursements has arrived
The move away from paper payments

Top reasons cited for P2E Migration

- Increased efficiency 88%
- Reduced costs 82%

Check challenges driving decline:
- Increasing cost of paper processes—including postage costs
- Slow to reach customers—perceived as poor customer service
- Loses from fraud and theft—plus the additional costs for stop-payment and reissues

79%
Working to achieve P2E check conversion

Non-cash payments are growing while check payments decline

- ACH 10.4%
- Card 5.1%
- B2B 3.8%
- B2C Checks 15.2%
- Other payments 79%

Initiate Reconcile Research Forecast

paper process ~$6 Reduced Costs

vs.

electronic process

For electronic payments

Average cost per check payment

1. 2015 AFP Payments Cost Benchmarking Survey; Best Estimated Cost for issuing a paper check on a per item basis—mean: $5.91, median: $3.00
2. 2013 Federal Reserve Payments Study
Electronic payments may help reduce fraud

Companies are moving away from manual, paper-based payments to help deter fraudulent activity.¹

62% of companies surveyed experience attempted or actual payments fraud¹

77% reported checks were the primary target for fraud attacks at their companies¹

As the EMV is adopted in the United States, and credit cards become a less attractive payment method to attack, fraudsters will follow the path of least resistance: checks.²

The ripple effect of one event

The check was only for $21.22 but that’s not what the thief cared about. The value was the paper itself—that supplied:

- The company’s logo
- Their DDA number
- Their bank’s routing number
- The check number series
- And an authorized signature

¹ 2015 AFP Payments Fraud and Control Survey, 3/15
² KOFAX White Paper • Verify Checks in Real-Time: Meet Customer Expectations While Reducing Fraud, 1/2015
B2C payment solutions

Solutions have evolved to lower your costs while increasing customer satisfaction

<table>
<thead>
<tr>
<th>Payment Profile</th>
<th>Anticipated Benefits</th>
</tr>
</thead>
</table>
| **NEW Digital Disbursements** | ▪ Best for B2C non-recurring payments  
▪ U.S. bank account required—but NO account info needed  
▪ Use email or phone number for payment file | ▪ Innovative, customer-centric option provides fast payment  
▪ Eliminates need to ask for and store bank account info  
▪ More predictable settlement than checks |
| **Prepaid Card** | ▪ Use for recurring and non-recurring payments  
▪ No bank account required  
▪ Established payment type—accepted world-wide | ▪ Full escheatoment management  
▪ Faster, less costly than check and more secure than cash  
▪ Provides a branded reminder |
| **ACH Transfer (Automated Clearing House)** | ▪ Recipient must provide bank account info  
▪ Robust remittance capabilities  
▪ Credit push and debit pull | ▪ Most cost effective electronic payment method  
▪ Broadly used, highly reliable  
▪ Flexible payment value date |
| **Checks** | ▪ Customers who will not accept an electronic payment method | ▪ Broadly used, existing process |
It’s time to rethink your payment process

Distribute funds without paper

To anyone with a U.S. bank account

Using mobile phone number or email address

Recipients receive payments more quickly

Higher customer satisfaction

Reduce payment expenses

No need to obtain sensitive bank account information
B2C Payments using Digital Disbursements

An innovative solution that uses a credit push model providing faster payments with near real-time messaging

1. **METHOD CONFIRMATION**
   - **Business**
     - Confirm recipient agrees to receive a digital disbursement.

2. **PAYMENT INITIATION**
   - **Business**
     - Send us your recipient’s name, email address or mobile number and the payment amount.

3. **PAYMENT NOTIFICATION**
   - **Recipient**
     - The recipient receives an email or text with instructions for receiving the money.

4. **FUNDING RECEIVED**
   - **Registered Recipient**
     - Payment is deposited on an automated basis into the recipient’s account the same or next day.\(^*\)

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**ONE-TIME REGISTRATION**

- **Unregistered Recipient**
  - The unregistered recipient connects an email address or mobile number to his bank account one time—registration information is maintained at clearXchange™.

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\* Please note: Refers to period of time during which payments are generally available. Depending on the receiving bank and time of day, payments could be received same day or next business day. Actual times may vary.
Registered recipients receive notification from their bank or clearXchange and the funds are deposited same or next business day.*

* Please note: Refers to period of time during which payments are generally available. Depending on the receiving bank and time of day, payments could be received same day or next business day. Actual times may vary.
Unregistered recipients receive notification of funds with a call-to-action to enroll to accept the funds.

After choosing their bank to enroll in the service, they are able to accept funds.
Unregistered recipients receive notification of funds with a call-to-action to enroll to accept the funds.

After choosing their bank to enroll in the service, they are able to accept funds.
clearXchange registration process
Four simple steps

1. Sign up to establish clearXchange profile and register. Enter email or mobile where notification was sent and create password. Agree to terms and select “Get Started”

2. Enter your Name, Date of Birth and Account information

3. Verify your email or mobile number

4. Click on link to verify

Registration is Complete!
Potential Digital Disbursements
Industry specific use examples

**AIRCRAFTS:** Lost luggage claims, involuntary off-loading reimbursements

**GOVERNMENT:** Tax refunds, jury duty

**HEALTHCARE:** Patient/member refunds, conference travel, clinical trials

**HIGHER EDUCATION:** Stipends, housing allowance, research studies

**INSURANCE:** Claim settlements, annuities, membership dividends

**OIL & GAS:** Royalty and right-of-way payments

**RETAIL:** Returns, cancelled services, deposit refunds, employee rewards

**STUDIOS:** Residual payments

**TECHNOLOGY:** Developer dollars

**UTILITIES:** Account closures, overpayments, deposit refunds

**WIRELESS CARRIERS:** Customer incentives, employee bonuses, account closures, overpayments, deposit refunds

**ANY:** Loan/account overpayments, conference travel, recruitment travel reimbursement, company-paid relocation expenses, charitable donations or sponsorships, class action awards, employee tuition reimbursement
Benefits for businesses and customers

Delight customers by offering:
- Faster payment—funds are deposited directly into customers’ accounts
- Convenience—easy to use mobile technology
- Privacy—no need for customers to share sensitive bank account information

Anticipated benefits:
- Replaces high cost check payments—reducing your costs disbursement expenses
- Reduces risk—eliminates the need to store and maintain bank account information
- Reduces fraud and escheatment issues related to check payments
- Promotes your brand as being customer-centric and innovative
Addressing Enrollment Concerns

Three phase approach to mitigate phishing concerns

COMMUNICATION
- Obtain recipient’s opt-in
- Let them know what to expect and when

RAPID EXECUTION
- Payment sent soon after communication
- Logo or branding is included with the notification

ACCURATE INFORMATION
- Amount sent matches expectation
- Reminder of payment reason may be included in memo field email notification
Focus group reactions to a B2C solution

Question: What would you think of an organization that used this method of payment?
Questions?

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