2010 Electronic Payments Survey Results

David Bellinger
Director of Payments
Association for Financial Professionals
Agenda

Demographics
Benefits and Barriers
Payment Method Trends
Electronic Payments Practices
Cross-Border
Industry Initiatives

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Broad industry representation with some concentration in “Manufacturing”
Survey response skews moderately toward larger ($1B+) organizations

Percent of Respondents Distributed by Organization’s Annual Revenues

Median = $2.3B
Payment Volume Stats show balance in the U.S. and limited volumes the norm for global payments.

Number of Business-to-Business Payments Made per Month

**In U.S.**
- Up to 500: 25%
- 501-1,000: 29%
- 1,000-5,000: 16%
- 5,001-10,000: 14%
- Over 10,000: 16%

**Cross-Border/International**
- Up to 500: 7%
- 501-1,000: 1%
- 1,000-5,000: 0%
- 5,001-10,000: 0%
- Over 10,000: 0%

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Broad array of benefits supports the drive to adopt electronic payments

Top Three Benefits of Sending or Receiving Electronic Payments

- Cost savings
- Cash forecast
- Fraud control
- STP to A/P or A/R
- Efficient recon
- Working capital
- Supplier/cust relations
- Reduce DSO
- Early discounts

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But going electronic means resolving IT/structural barriers & overcoming inertia

Barriers to Increasing Use of Electronic Payments

- Not a Barrier
- Minor Barrier
- Major Barrier
At least current laws, rules and regulations are (generally) not significant barriers.

Legal/Regulatory Barriers to Organizations Moving From Checks to Electronic Payments

- None are barrier: 90%
- PCI: 10%
- NACHA Rules: 20%
- Card Network Rules: 30%
- OFAC: 40%
- Regulation E: 50%
- Other: 60%

Will the DFA Change This?
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Corporates see most success moving major trading partners to electronic payments

Payment Methods Used to Pay Major Suppliers

- Checks
- ACH Credits
- Wires
- Purchasing Cards
- ACH Debits

Payment Methods Received from Major Customers

- Checks
- ACH Credits
- Wires
- Purchasing Cards
- ACH Debits

1st Time Checks < 50%

Wires & ACH Credits gaining

2004 2007 2010
Corporates have some success moving other trading partners, but checks still primary

Checks well above 50%
 Corporates appear committed to their push to move more trading partners to electronic payments.
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**Electronic Payments Practices**
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Payment practices vary widely by industry

Payment Method by Industry

How they Pay Major Suppliers

What they Receive from Major Customers

- ACH Debits
- Purchasing Cards
- Wires
- ACH Credits
- Checks

Manufact Retail Energy Gov Health Tech

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Manufact Retail Energy Gov Health Tech

40 6 8 73 36 32

20% 30% 40% 50% 60% 70% 80% 90% 100%

Manufact Retail Energy Gov Health Tech

40

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E-Mail gains ground as “method of choice” for remittance info.; Others still widely used
More systems integration is supporting the drive to electronic payments, better STP

Integration of Payment Systems with Accounting Systems

- Neither are Integrated
- A/R Only
- A/P Only
- Both A/P and A/R

ACH-2007
ACH-2010
Card-2007
Card-2010

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Business payments via card are restricted by limited acceptance, especially larger buys

Percent of Organizations that Accept Card Payments for Business Customer Purchases

- **Size Matters**
  - Small dollar (e.g. off. supplies)
  - Large dollar (> $5,000)

- **Location Matters**
  - At POS
  - Phone or Web Store
  - Supply Chain Network

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Business payments to employees via cards has plenty of room for wider adoption

Focus of EPC

Cards Utilized to Disburse Employee Pay and Benefits

- FSA
- None of Above
- Gift/Incentive
- HSA
- Payroll
- Emergency
- Other

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Cross-border payments have smaller share, but broad base of global trade is supported.
Wire Transfers currently the dominant method used for cross-border payments

How Cross-Border/International Payments are Completed

- Purchasing Cards
- Cross-border ACH/IAT
- Treasury ops in local countries send/receive
- Checks
- Wire transfers
Payment method decision for cross-border payments is primarily purpose-driven

Primary Factor Driving How Cross-Border/International Payments Sent

- Currency risk
- Other
- Transaction costs
- Depends on size and purpose of transaction
- Contract requirement

All Respondents  Revenues Under $1 billion  Revenues Over $1 Billion

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Industry Initiatives
Corporates remain “float aware”, but reduced float in payments system has supported shift to electronic payments

Impact of Reduced Float from Check Imaging on Migration to E-Payments

- Less float = Less Checks
- Less float = No impact

<table>
<thead>
<tr>
<th>Impact Description</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Has caused our company to migrate more quickly to electronic payments</td>
<td>20%</td>
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<tr>
<td>Have converted more payments, but selectively</td>
<td>15%</td>
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<tr>
<td>Recognize the impact, but other obstacles have caused our company to migrate more slowly to electronic payments</td>
<td>40%</td>
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<tr>
<td>Checks work well and there is still enough float to hold off converting to electronic</td>
<td>30%</td>
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<tr>
<td>Have had no impact on use of checks</td>
<td>25%</td>
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Converting Business Checks to ACH Won’t Happen Unless/Until Concerns Addressed

What impact (if any) would this rule change have on your organization?

- Major negative impact
- Minor negative impact
- No impact
- Somewhat positive
- Very Positive
Broad interest in availability of Same-Day ACH services

Services Organizations Expect to Use when Same-Day ACH Settlement Services Available

- Tax payments: 70%
- Cash Concentration: 60%
- Payroll (contingency): 50%
- Consumer debits: 40%
- Consumer credits: 30%
- Require COD: 20%
- Cross-border: 10%
- Online bill payments: 5%
- Contingency: 5%
- POS (card + ACH): 10%
Wire Remittances availability—modest support for trend to increase use of wires

Impacts of Federal Reserve Enhancement on Organization’s Use of Wire Transfers

Will displace mainly checks

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<th>Domestic</th>
<th>Cross-Border</th>
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<td>Send more wires</td>
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Most Corporates Still Skeptical of Mobile, but Usage Expected to Rise Over Next 3 Years

Organizational Plans to Implement Mobile Payments Over the Next Three Years

- Initiate Payments
- Approve Payments
- Review Payments/Info.
- Accept Consumer Pmts

May be skewed low: ~25% do not get consumer payments
Lack of Awareness is Key Issue for eBAM

- No interest
- Have evaluated and not implementing
- Know very little about it, but sounds interesting
- No active project, but likely to implement
- Have an active project to implement
- Have already implemented

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Questions?

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2010 Electronic Payment Survey online:
http://www.afponline.org/Payments