

AFP[®] Annual Conference



November 7-10, 2010 | San Antonio

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INFORMATION



Making a Smart Call on Payments: How Verizon Consolidates its Receipts Electronically

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Agenda

- Verizon Facts
- Verizon Operations Overview
 - Payment Trends
 - Evolution of Current Payment Mix and Process
- Electronic Payments
 - System Standardization and Consolidation
 - Results
 - Challenges/Lessons Learned
 - Future Strategies
- Direct Mail Payments
 - Consolidation
 - Challenges/Lessons Learned
 - Future Strategies

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Verizon Overview

- Dow 30 company
- Two Lines of Business
 - Verizon Communications - Wireline
 - Voice, broadband video and data services, network access and long distance
 - Verizon Wireless
 - Wireless voice and data services on the most reliable network
- Operating Revenues - \$107 Billion
- 32.5M Access lines across 25 states + DC
- 9.2M Broadband customers
- 3.4M FIOS Data customers
- 2.8M FIOS Video customers
- 91M Wireless customers

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Verizon Operations Overview

- Three Verizon Remittance Processing Centers
 - Lewisville TX, Albany NY, Cranford NJ
 - One remote keying center – Baltimore MD
 - Process 31M payments/month for both business units

Business Unit	Direct Mail		Electronic		Total	
	Volume	\$\$\$	Volume	\$\$\$	Volume	\$\$\$
Verizon Wireline	9.3M	\$1.3B	7.5M	\$1.5B	16.8M	\$2.8B
Verizon Wireless	9.7M	\$1.8B	4.5M	\$0.9M	14.2M	\$2.7B
TOTAL	19.0M	\$3.1B	12.0M	\$2.4B	31.0M	\$5.5B

- External lockbox processors - 2
- Number of Billing Systems – 15 major systems
- Number of Payment Channels - 6

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Payment Trends

Payment Method	Payment Mix		
	Aug '08	Aug '09	Aug '10
Auto Pay	9.7%	10.9%	15.0%
▪ Direct Debit	8.8%	8.9%	9.1%
▪ Credit/Debit Card	0.9%	2.0%	5.9%
Pay-by-Phone	2.2%	3.1%	3.7%
1X Credit/Debit Card	2.5%	2.8%	3.3%
1X ACH	19.4%	22.6%	22.3%
▪ Biller Direct (Verizon.com)	4.7%	5.0%	5.0%
▪ All Other (Home Banking/Business)	14.7%	17.6%	17.3%
Walk-in	2.5%	2.3%	2.1%
Total Electronic	36.3%	41.7%	46.3%
Direct Mail	63.7%	58.3%	53.6%

- Consumers are demanding payment alternatives
- Declining consumer check usage has resulted in a shift towards debit card usage
 - The debit card is the new “checkbook” of America
 - 73% of one-time “credit card” payments are actually made using a debit card
- Payment method with the highest cost (credit card) is experiencing highest growth rate

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Evolution of Current Electronic Payment Mix and Process

- ***The Early Years***

- Priority was to implement an electronic payment process to reduce cost and support the business strategies
- No centralized electronic payment system
 - Electronic payments had to be split by billing system before could be sent to Verizon and processed
 - Auto pay was embedded in one billing system and outsourced for the other systems
- Launched both biller direct and electronic payments through consolidators
- Subsequently added pay-by-phone channel with a convenience fee
- ACH was the only payment option: one time and recurring
- System standardization and consolidation became a priority

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Evolution of Current Electronic Payment Mix and Process (cont'd)

- ***The Growth Years***

- Focus on providing the best customer experience and supporting the business strategies
 - Meet the competition to grow revenue
 - Align payment options across the business units
 - Reduce customer churn
- Added credit card payment option to the pay-by-phone channel
- Expanded credit card payment option to Verizon.com – drivers due to:
 - One bill payment strategy
 - FIOS deployment

- ***Current Environment***

- Focus on cost reduction
 - Driving customers to lowest cost payment option and paperless billing
- Managing the declining paper check volumes

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System Standardization and Consolidation – E-mittance

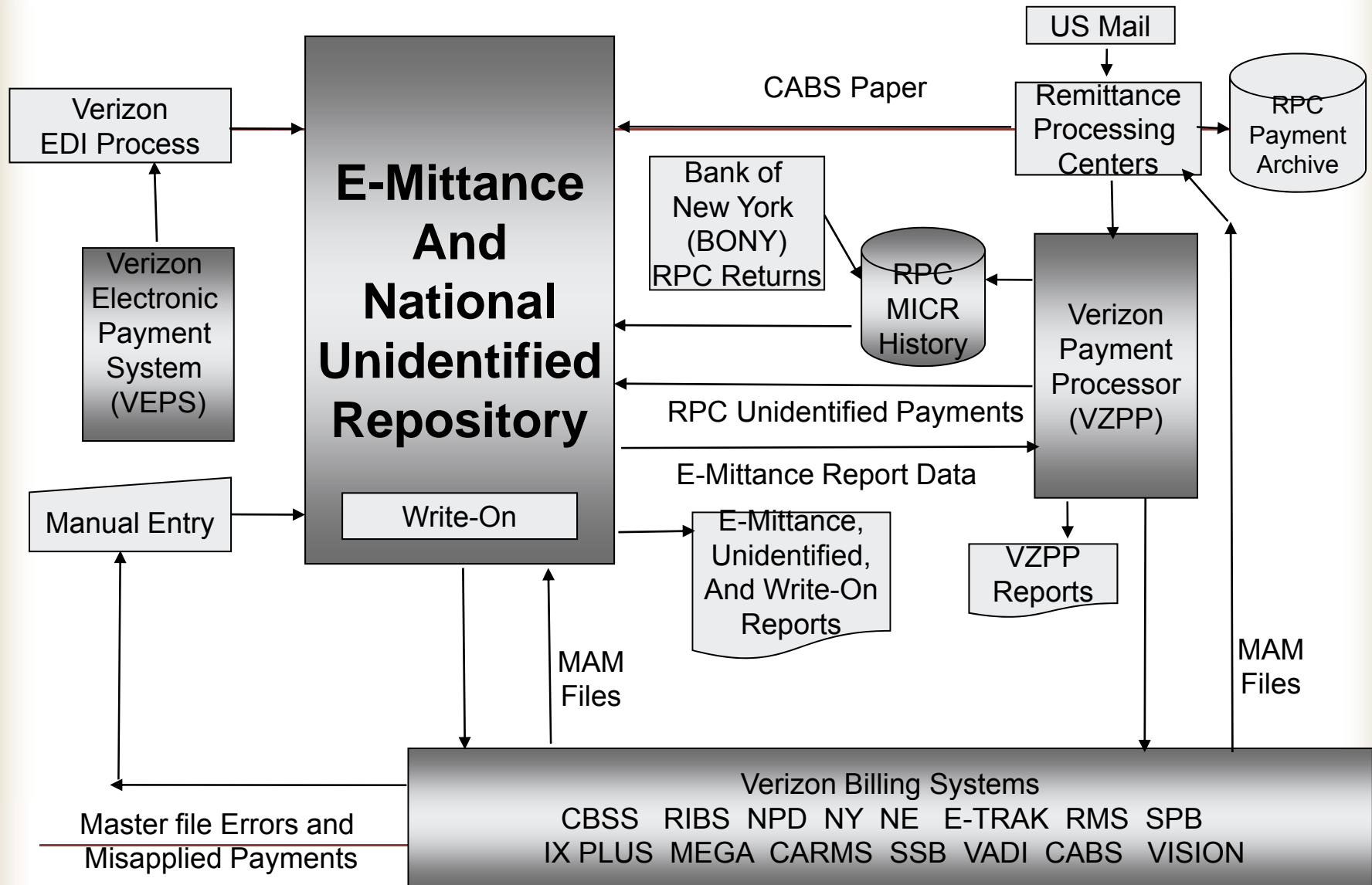
- Single gateway for all Verizon ***“inbound”*** electronic payments
 - Allows for consolidation of all Verizon payments on a single file regardless of business unit or billing system
 - Flexibility to create any posting file(s) to billing system
- Flexible file formats accepted:
 - CCD, CTX, E-mittance proprietary, comma delimited
- Mechanized account validation eliminating manual look-ups
- Online electronic payment exception and error correction processing with knowledge database for ***“auto”*** error correction and enhanced guiding logic
 - ***“Auto”*** correct, ***“Auto”*** resolve, ***“Auto”*** retry
- Centralized cash control reporting and balancing for ***“all”*** payments
- Consolidated ***“all”*** unidentified payments in a central payment repository
- Centralized escheatment process
- Vendor error feedback and report cards
 - 0.3% error rate objective

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E-mittance High Level Flow



System Standardization and Consolidation – VEPS

- Single system for all Verizon “**outbound**” electronic payments
 - Auto payments
 - One time Web payments
 - Allowed insourcing of Verizon.com payments which accelerated posting by 3 days leveraging E-mittance and eliminated dependency of third party processors
 - Real-time payment notifier sent within 15 minutes of payment
 - Other: Kiosks, rep assisted, handsets
- Standardized and centralized auto payment processes across the footprint
- Mechanized the enrollment process eliminating manual keying
 - Implemented enrollment on back of remittance document
- Online error correction process
- Allows for centralized inbound and outbound point for EBIDS for both business units
 - Online correction for e-Bill errors

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VEPS High Level Flow

1X Payments – CC/DC/DD

- Vz.Com BillPay
- Vz.Com eOrdering (Deposits/Final Bills)
- VZB ePayments Portal
- VoiceWing – Decommission 07/09
- fMCI/RMS – eCommerce
- VZ.Net/Walled Garden 06/08
- VASIP/Valista 06/08

Authorization/Enrollment – CC/DC/DD

- Vz.Com BillPay
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- VZ.Net/Walled Garden 06/08
- VASIP/Valista 06/08

Authorization/Enrollment – CC Only

- COFEE East/West
- SSP GUI
- CFS/CSSC Reps
- fMCI System One

1X Payments – CC Only

- COFEE East/West Deposits

1X Payments/Authorization/Enrollment

- SPOT - Deposit
- SPOT - Authorization for Recurring Enrollment

1X Payments – CC/DC/DD

- VZW Handset
- VZW IVR

Authorization/Enrollment – CC only

- RMVP – Voice Portal

1X Payments – CC/DC/DD

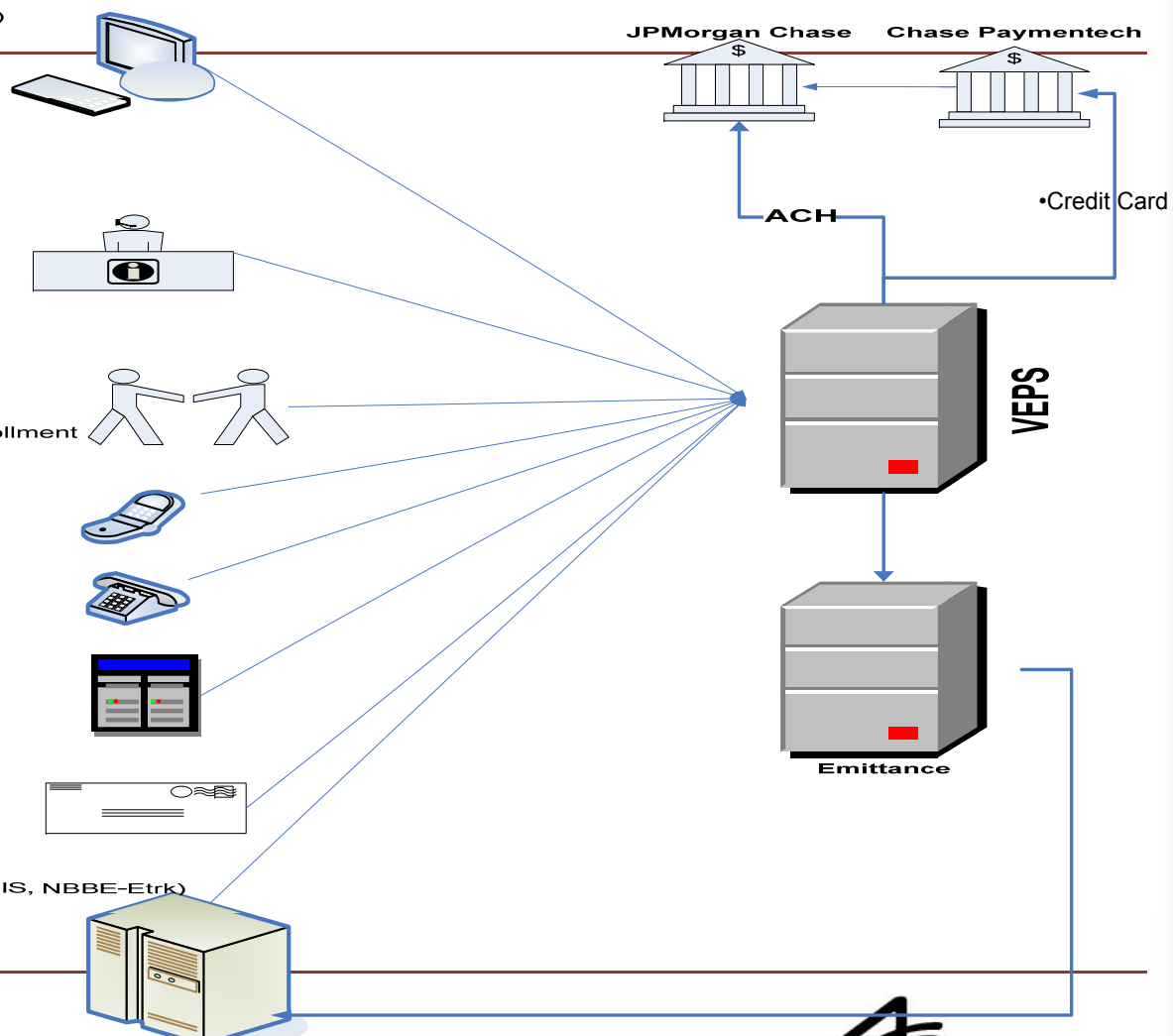
- VZW - KIOSK

Enrollment – Direct Debit only

- RPC

Recurring Billing Records CC/DC/DD

- Legacy Billing (CBSS, NPD, BOSS, ICRIS, NBBE-Etrk)
- FiOS Billing RiBS
- Arbor Billing



Results

- 36% growth rate in electronic payments over last 3 years
 - Doubled auto pay enrollments
- Accelerated payment posting 3 days
- Funds received 5 – 10 days earlier depending on if it's a recurring ACH or recurring credit card
- Improved productivity and mechanization resulting in 28 headcount reduction
- Significant expense reductions in labor and non-labor
- Improved customer service and experience

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Business Challenges

- **Managing expenses while meeting needs of business**
 - Continual expense budget reduction year over year
 - Highest cost payment option
 - Needed to meet competition and One Bill strategy
 - Being used to reduce risk
 - Preferred payment channels/method declining or slower growth
- **Alignment across the business units**
 - Strategy in sync but approach different
 - Regulated versus non-regulated differences
- **Internal organizations' support of paper free billing and electronic payments**
 - Bill viewed as a monthly marketing opportunity
 - Including as part of bundle discounts may deter customers resulting in loss revenue
 - Customer experience more of a concern than cost reduction
 - Financial institutions viewed as competitor rather than a marketing partner
 - Collections concern that customers of paperless billing have poorer payment behavior
 - 27% of paper free billing customers NOT on auto-pay are 30- 90 days late
- **Doing paperless SMART!!!**

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Doing Paperless SMART!!!

Paperless Billing Enrollment Payment Behavior

Pay Method		% of Total
Before PLB	After PLB	
Check	DD	17.5%
Check	CC	7.0%
Check	RDD	16.6%
Check	RCC	11.9%
DD	CC	0.9%
CC	DD	2.0%
RDD	CC	0.2%
DD	RDD	0.2%
No change in pay method		42.4%
Multiple pay methods		1.3%

- 42% of paperless billing enrollees did not change payment method.
- 36% of enrollees selected a less expensive method but savings was more than offset by increased cost related to 20% of enrollees who transitioned to more expensive credit card payment

CONCLUSION: Paperless billing does drive cost savings, but with partial offset from higher payment processing costs.

Lessons Learned

- Make it easy for customers **and** vendors/partners
- Educate customer
- Customer makes the choice, not Biller
- Financial institutions are **not** a competitor to Biller Direct site
- Synchronize strategy across all business units
 - Align billing and payment options
 - Insure same customer experience
 - Offer same payment options in all payment channels
- Insure strong front-end **and** back-end controls
 - Customers will make mistakes
 - “Idiot” proof your systems
- Manage exceptions
 - Can eliminate headcount savings if not under control
 - Hold processors accountable

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Future Electronic Bill Payment Strategies

- Drive customers to lowest cost payment method: **ACH!!!**
- Promote paper free billing with recurring direct debit to strategic customer segments
 - FIOS customers
 - Leverage “new bill estimator” to streamline secure E-bill process
 - Include in bundle discount
 - Target customers most likely to enroll
 - Enrollment at point of sale
 - Vmail to selected existing recurring direct debit customers – completed – 9% take rate
 - Existing recurring direct debit customers – outbound dialer campaign
- Leverage mobile options for payments and test messaging
 - E-bill and payment
 - Payment reminders
 - Payment confirmations
- Continue to streamline exception processing and manual handling of electronic payments
 - Wires with remittance data attached to mechanically process
 - Migrate all wireline customers to single electronic payment platform

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Direct Mail Consolidation

- Account Receivable Conversion (ARC)
 - Implemented in 1Q 2006
 - ARC files transmitted from five centers to one centralized point for transmission to bank and into centralized archive system
 - Key Driver: Cost reduction in bank clearing charges and check encoding
 - Achieved ROI in 2 years
- Image Cash Letter (ICL)
 - Implemented 4Q 2009
 - Key Drivers:
 - Cost reduction/avoidance
 - Hedge against future increase in bank fees
 - Headcount reduction
 - Operational efficiencies
 - Less encoding results in fewer encoding errors
 - Achieved ROI in one year
- Remittance Center consolidation – Two centers closed with implementation of ARC/ICL and declining check volumes

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Lessons Learned/Challenges

- ARC
 - Develop a solid “opt out” process
 - Encountered issues getting files delivered daily from IVR to “opt out” database
 - Initial script on IVR didn’t specifically tell customers NOT to call to verify “opt out” was processed
 - Maintain control over administrative returns
 - Maintain ownership of MICR database
 - Should be consideration in selecting vendor
 - Maintain history of MICR processed for leveraging in electronic payment process
 - Potential labor and supplies savings associated with check encoding could be offset by:
 - Need to research items disputed by customers
 - Shredding of checks (if done internally)
 - Working administrative returns (if done internally)

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Lessons Learned/Challenges (cont'd)

- Image Cash Letter
 - Shredding requirements offset labor savings associated with elimination of encoding
 - What to do about cash deposits
 - No bank branch in some cities with operation centers
 - Local bank branch may not accept a cash deposit
 - Can't delay processing a customer's cash payment
 - Can't process cash payment to billing system until cash deposited in bank unless you want to carry reconciliation items
 - Don't want to incur courier fees for cash deposits
 - Have to get money orders weekly
 - Potential delay of customer payment from 1 – 5 days

Future Direct Mail Strategies

- Leverage direct mail processing to drive customers to ACH and paperless
 - Use MICR data captured through ARC to pre-populate banking information on Verizon.com
 - Eliminates need for customer to enter MICR data
 - Expand auto pay enrollment on back of remit doc to include enrollment in paperless billing
- Continuing to streamline exceptions handling
 - Check and list processing – convert to wires with remit data attached
 - Centralized online reject queue
- Using global resource management, where feasible
 - Union contracts present challenges
- Insource external lockbox processing to utilize excess capacity

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Questions?

Thank You!