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

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Director, Remittance Processing
Verizon Communications
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
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
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

<table>
<thead>
<tr>
<th>Business Unit</th>
<th>Direct Mail</th>
<th>Electronic</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>$$</td>
<td>Volume</td>
</tr>
<tr>
<td>Verizon Wireline</td>
<td>9.3M</td>
<td>$1.3B</td>
<td>7.5M</td>
</tr>
<tr>
<td>Verizon Wireless</td>
<td>9.7M</td>
<td>$1.8B</td>
<td>4.5M</td>
</tr>
<tr>
<td>TOTAL</td>
<td>19.0M</td>
<td>$3.1B</td>
<td>12.0M</td>
</tr>
</tbody>
</table>

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

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

- 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
Evolution of Current Electronic Payment Mix and Process

**The Early Years**
- Priority was to implement and 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
**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
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
E-mittance High Level Flow

E-Mittance and National Unidentified Repository

- Verizon EDI Process
- Verizon Electronic Payment System (VEPS)
- Manual Entry

Write-On

- E-Mittance, Unidentified, and Write-On Reports
- MAM Files

- E-Mittance Report Data
- Bank of New York (BONY) RPC Returns
- RPC Unidentified Payments
- RPC MICR History

Verizon Payment Processor (VZPP)

- VZPP Reports
- MAM Files

US Mail

- RPC Payment Archive
- Remittance Processing Centers
- CBS Paper

Verizon Billing Systems
- CBSS
- RIBS
- NPD
- NY
- NE
- E-TRAK
- RMS
- SPB
- IX PLUS
- MEGA
- CARMS
- SSB
- VADI
- CABS
- VISION

AFP Annual Conference
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
VEPS High Level Flow

**1X Payments – CC/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/DD**
- Vz.com BillPay
- Vz.com eOrdering
- fMCI/RMS – eCommerce
- Vz.Net/Walled Garden 06/08
- VASIP/valista 06/08

**Authorization/Enrollment – CC Only**
- COFEE EastWest
- SSP GUI
- CFS/CSSC Reps
- fMCI System One

**1X Payments – CC Only**
- COFEE EastWest Deposits

**1X Payments/Authorization/Enrollment**
- SPOT - Deposit
- SPOT - Authorization for Recurring Enrollment

**1X Payments – CC/DD**
- VZW Handset
- VZW IVR

**Authorization/Enrollment – CC only**
- RMVP - Voice Portal

**1X Payments – CC/PP**
- VZW - KIOSK

**Enrollment – Direct Debit only**
- RPC

**Recurring Billing Records CC/DD**
- Legacy Billing (CBSS, NFD, BOSS, ICRIS, NBBE-Etech)
- FIOS Billing RIBS
- Arbor Billing

JPMorgan Chase
Chase Paymenttech

ACH

Credit Card
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
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 on paperless billing have poorer payment behavior
    - 27% of paper free billing customers NOT on auto-pay are 30-90 days late

- **Doing paperless SMART!!!**
### Paperless Billing Enrollment Payment Behavior

<table>
<thead>
<tr>
<th>Pay Method</th>
<th>Before PLB</th>
<th>After PLB</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check</td>
<td>DD</td>
<td></td>
<td>17.5%</td>
</tr>
<tr>
<td>Check</td>
<td>CC</td>
<td></td>
<td>7.0%</td>
</tr>
<tr>
<td>Check</td>
<td>RDD</td>
<td></td>
<td>16.6%</td>
</tr>
<tr>
<td>Check</td>
<td>RCC</td>
<td></td>
<td>11.9%</td>
</tr>
<tr>
<td>DD</td>
<td>CC</td>
<td></td>
<td>0.9%</td>
</tr>
<tr>
<td>CC</td>
<td>DD</td>
<td></td>
<td>2.0%</td>
</tr>
<tr>
<td>RDD</td>
<td>CC</td>
<td></td>
<td>0.2%</td>
</tr>
<tr>
<td>DD</td>
<td>RDD</td>
<td></td>
<td>0.2%</td>
</tr>
<tr>
<td>No change in pay method</td>
<td></td>
<td></td>
<td>42.4%</td>
</tr>
<tr>
<td>Multiple pay methods</td>
<td></td>
<td></td>
<td>1.3%</td>
</tr>
</tbody>
</table>

- 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
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
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
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)
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
- Insourcing external lockbox processing to utilize excess capacity
Questions?

Thank You!