

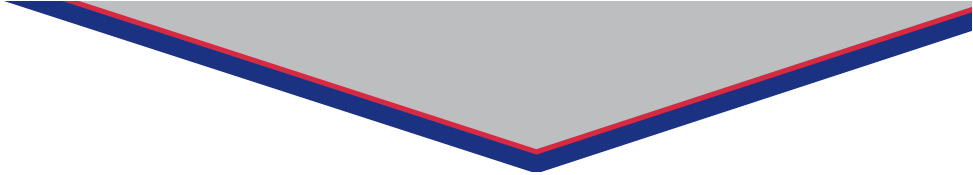
# Reality Checks: Why Paper Payments Persist in the Digital Age

All of **us** serving you™

**Presented by:**  
**Scott Shannon, U.S. Bank Global Treasury Management**  
**Mark Silverman, U.S. Bank Corporate Payment Systems**

*June 16, 2011*





# Agenda

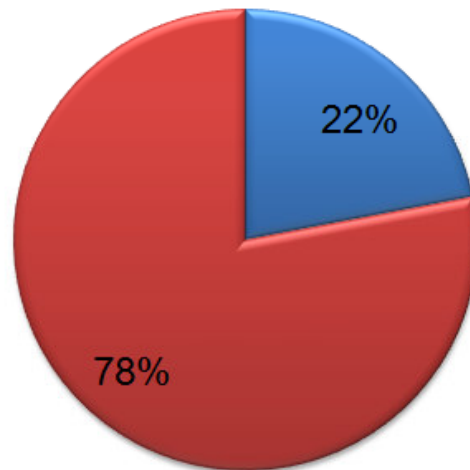
- Why do checks remain popular for B2B?
- Evolution of Electronic Payment Alternatives
  - Corporate Purchasing Cards
  - EIPP
  - ACH
  - Wires
- Checks still have value in B2B
- Factors that may influence the future
- Questions



# Paper remains the rule, not the exception

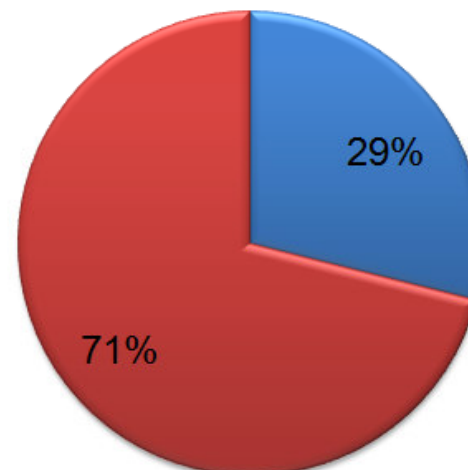
**Number of Payments**

■ Electronic ■ Paper



**Overall Spend**

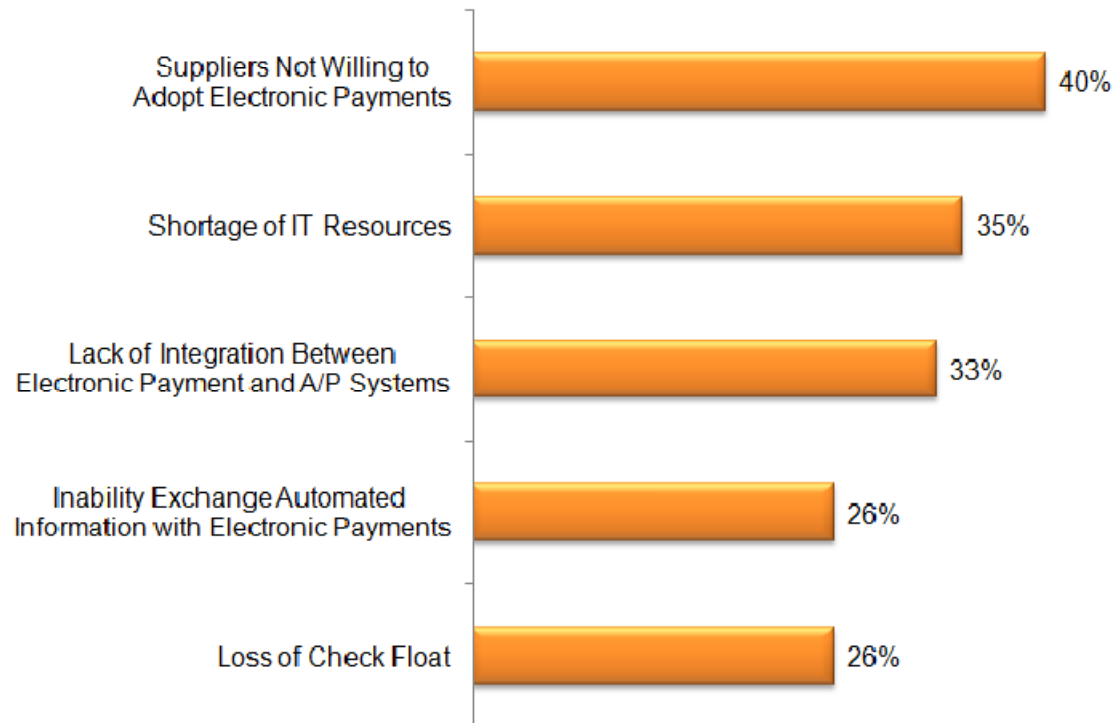
■ Electronic ■ Paper



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# Why do Checks Remain Popular for Business?



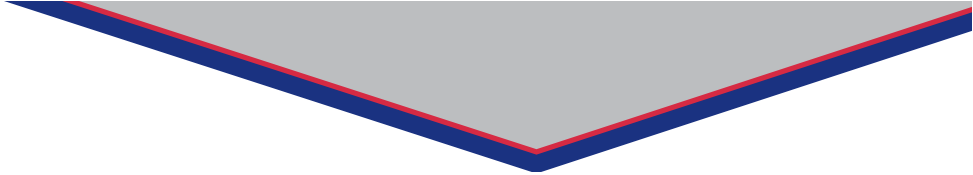
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# Why do Checks Remain Popular for Business?

“Companies want to collect payments at the speed of light, but would prefer to disburse funds by Pony Express.”

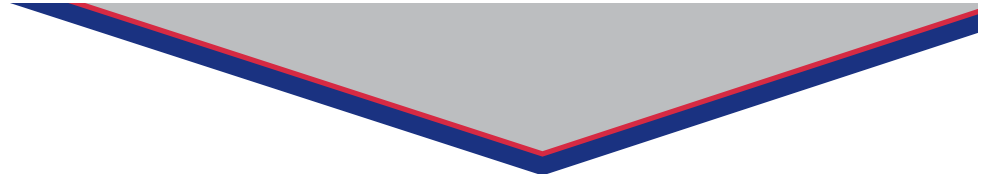
*Patty Murphy, the Tacoma Group*



# Why do Checks Remain Popular for Business?

“Payment is a group exercise ... Group exercises require standards. This is clearly lacking in the transportation industry.”

Transportation Invoice Processing and Payment  
– Benchmark Report 2010, *American Shipper*



## Why do Checks Remain Popular for Business?

“Many invoices are disputed ... (and) end up in the hands of people making phone calls, sending e-mails, and eventually mailing checks. A cycle that started in an electronic environment has derailed into a manual exercise.”

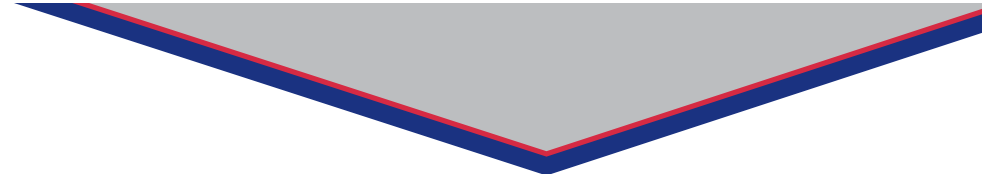
Transportation Invoice Processing and Payment  
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## Why do Checks Remain Popular for Business?

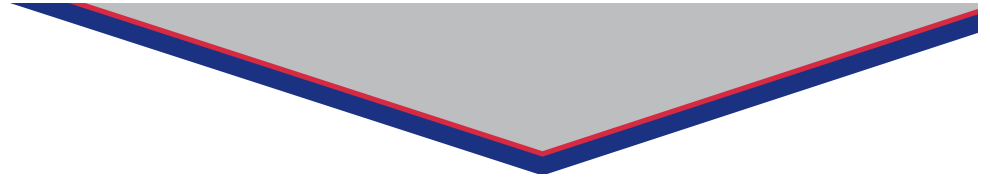
“...change is not pursued because there is a fear of losing valuable eProcurement data, especially line item detail. These perceptions enable less efficient processes such as paper check payments to remain in place.”

*The state of B2B Payments, Mastercard Advisors, July 2008*



## Why do Checks Remain Popular for Business?

- Inertia (banks and customers)
- Data security standards
- Float
- Accounting software flexibility
- Existing lockbox infrastructure
- Fear factor
- Reconciliation processes built around pre-existing payment methods
- Cultural and regional factors



# Current Electronic Payment Alternatives



# Card-Based Payment Alternatives

- Benefits
  - Ease of use
  - Ubiquity of acceptance
  - Network standardization
  - Transfer of risk from supplier to card issuer
- Challenges
  - Fear of misuse
  - Challenging value proposition for higher dollar transactions



# EIPP–Electronic Invoice Presentment and Payment

## ■ Benefits

- Easily converts paper invoices to electronic
- Level of automation can grow and expand over time
- Buyer and supplier to have equal access to data – promotes collaboration, mitigates disputes
- Rules-based approval and centralized payment
- Payment method neutrality
- Flexible finance options for buyers and suppliers allow both to maximize float

## ■ Challenges

- Lack of network and file uniformity
- Supplier adoption and readiness
- Can be lengthy and challenging for buyers to implement



# ACH – Automated Clearing House

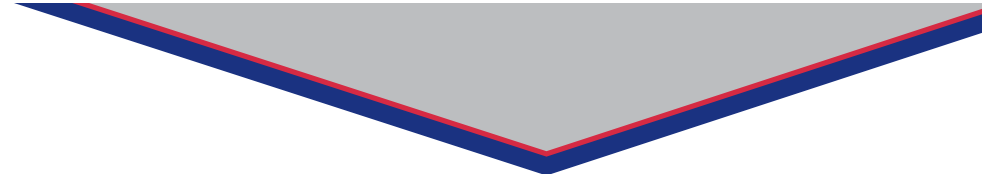
- Benefits
  - Ubiquitous network with format and rules for remittance data
  - Risk and anti-fraud controls
  - Multiple NACHA initiatives to promote electronic B2B payments
    - Simplified rules for 2011
    - International ACH
    - Same Day ACH (future options)
    - EBIDS Electronic Bill Presentment
    - Business and Consumer education <http://www.electronicpayments.org/>
    - Environmental benefits - <http://www.payitgreen.org/>



# ACH – Automated Clearing House

## ▪ Challenges

- Learning curve for new Originators
  - need to learn and comply with rules
  - engage IT resources to implement ACH and drive automation.
- Communication challenges with trading partners
- Potential for fraud if safeguards and best practices not followed
- Differences in abilities for Receivers to process addenda information and reconcile in their environment.
- Exceptions make straight through processing difficult
- Increased demand for faster processing



# Wire Transfers

- Benefits
  - Speed of payment processing and receipt of funds
  - Immediate availability of funds transferred - collected funds
  - Available for both domestic and international funds transfers in either USD or foreign currency
  - International capabilities for funds transfer and requests of transfers
  - Multiple levels of security for approval and payment processing
  
- Challenges
  - High cost per payment (until the remittance data goes into effect)
  - Current Fed system is lacking robust remittance information
  - Additional remittance will allow trading partners to improve processing and cash flow, but wires will still be used for selective payments



## Checks Still Have Value for B2B Payments

- Trading partners terms and abilities do not allow payment electronically or offer discounts for doing so
- Low volume of transactions does not offer meaningful opportunity for savings by moving to electronic
- Tangible float benefits are still available
- Accounting software or internal systems are designed around checks
- Anti-fraud controls in place to control check fraud
- Processing payments electronically causes increased reconciliation issues that cannot be resolved through available solutions



## Factors that may Influence the Future

- Widespread adoption of standards by payment networks
- Technological evolution of paperless solutions
- Focus on benefits to customers, not to financial institutions.
- More measurable return on time and money invested to go electronic
- More turn-key solutions that minimize IT expense.
- Scalable solutions that match customer abilities and budgets.
- Better education to help customers get started or expand adoption
- Environmental impact of paper intensive payments



# Questions

