

Electronic Payables

Government Finance Officers Association of Arizona

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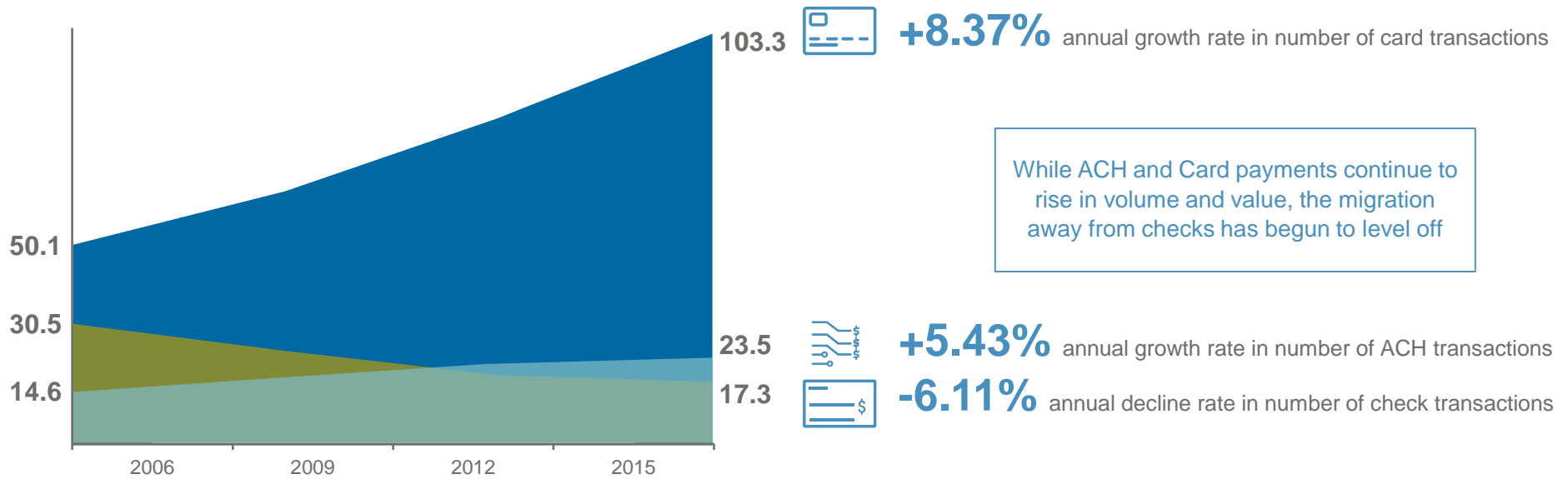
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Payments trends and the continued move to electronic

Change in payment type by number of transactions in billions¹



High volume for card, high value for ACH

- Card payments account for 65% of transaction volume but only 3% of transaction value
- ACH transaction account for 16% of transaction volume and 82% of transaction value



Alternative forms of payments increase

- Consumer mobile payments volume has increased at an annualized rate of 28% since 2013
 - 2011: \$29bn in mobile payments
 - 2017E: \$179bn in mobile payments

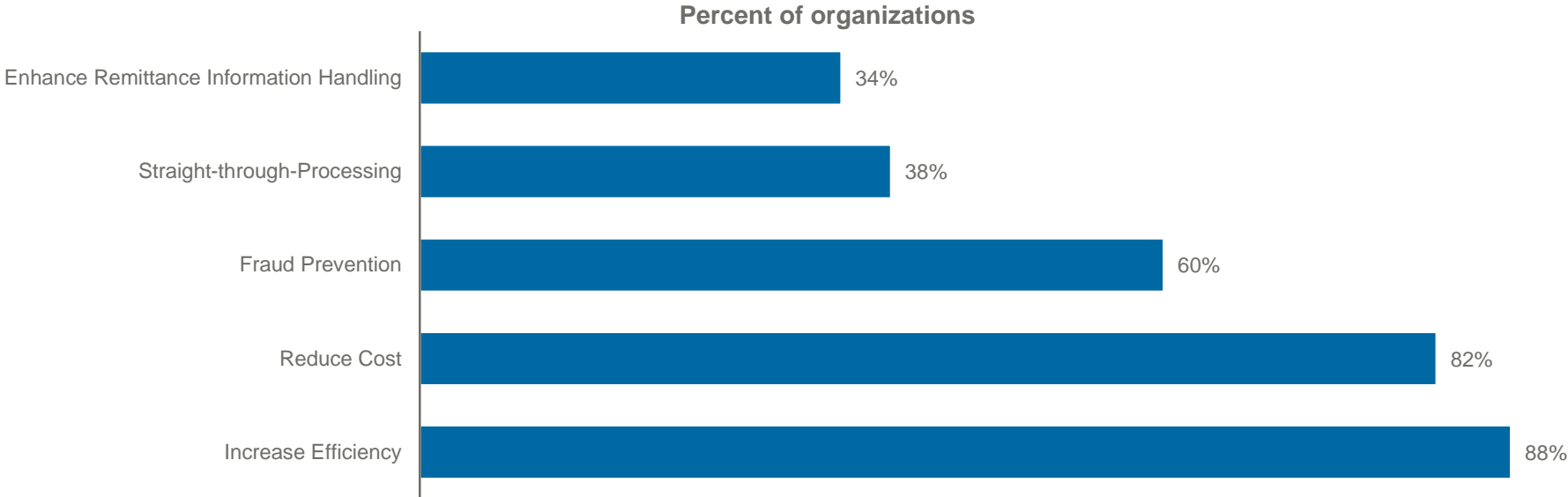


Business Check volume remains high

- 15.4bn B2B, B2C, and C2B business checks remain in circulation – opportunity exists to invest to reduce further

¹ Source: 2016 Federal Reserve Payments Study; ² Source: Federal Reserve Consumer and Mobile Financial Services 2016 Report; ³ Source: IPSG, United States Census Bureau

Primary reason to transition from paper checks to electronic payments

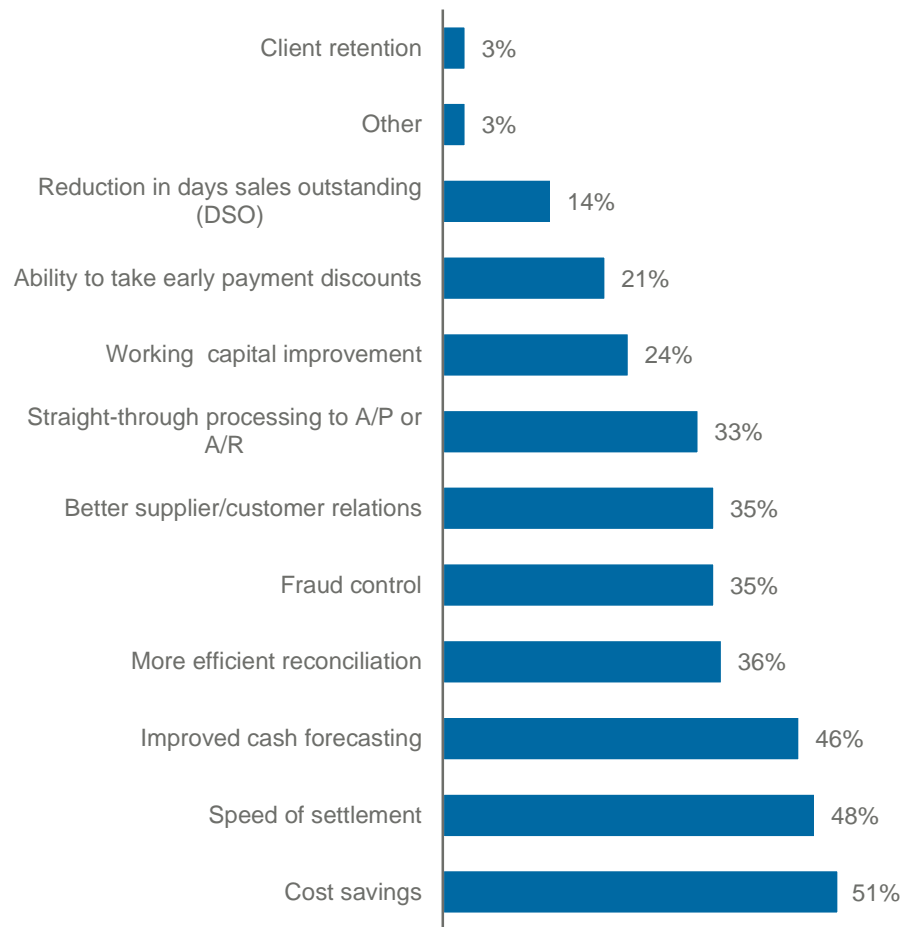


Optimizing payables offers substantial benefits including freeing capital, reducing processing costs, and mitigating operational risk

Source: 2015 AFP Payments Cost Benchmarking Survey

Barriers vs. Benefits of Transitioning to Electronic Payments

Top Benefits (% of organizations)



Industry Trends

77%

76%

69%

Top Barrier

IT resources to support implementation

Convincing Suppliers to accept electronic payments

Integration between electronic payment and account systems

Source: 2016 AFP Electronic Payments Survey. Percentages represent respondents in survey

Managing risk is highly complex in today's payables environment

Risk management



Countering fraud and mitigating risk



Accelerate conversion to electronic payments



Utilize technology to monitor and reconcile transactions



Keep abreast of the latest potential threats



Outsourcing non-key functions i.e. check printing

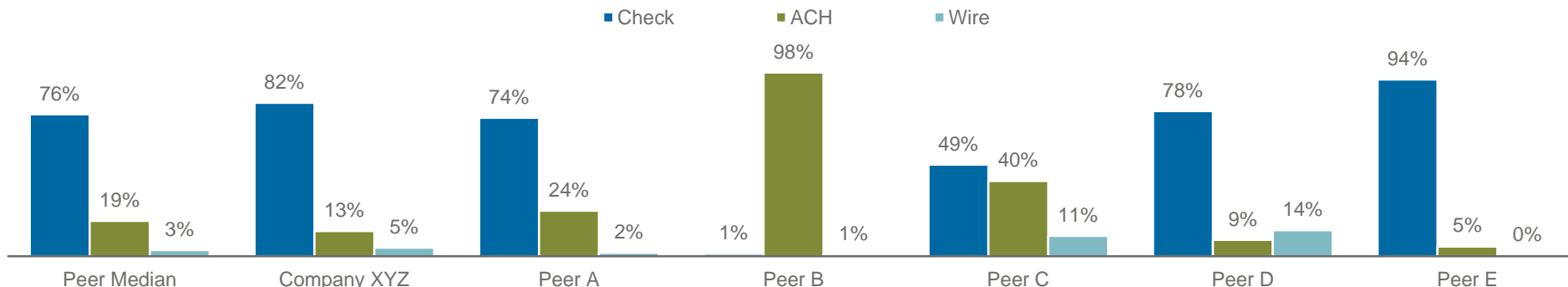
Source: 2013 AFP Payments Fraud and Control Survey

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Payables paper to electronic opportunity

Percentage of payment transaction types



- XYZ's current paper transaction count, currently 82% of all payable transactions, is higher than their peer group's median at 76%. Converting ~7% of checks to ACH, to be more in line with their peer group, could potentially save XYZ \$9,531 annually
- Moving away from checks will also allow Company XYZ to benefit from greater ability to forecast cash as well as reduce potential risk of fraud

Check-ACH migration analysis

Notes: Total annual payment volume: 58,956

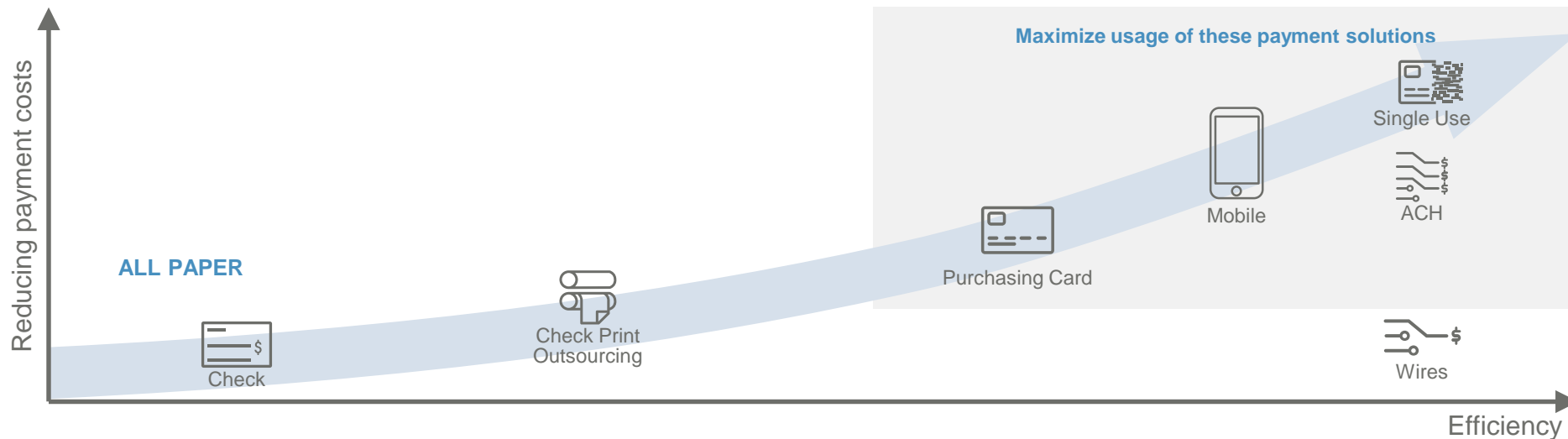
Check-ACH savings: \$2.71 p/Item

	Annualized Payment Volumes				Check-ACH conversion savings	
	Check	ACH	% Check	% Electronic	Checks migrated to ACH	Estimated annual fee reduction ²
Current	48,324	7,920	82%	18%	-	-
Median	44,807	11,437	76%	24%	3,517	\$9,531
Top Quartile	32,426	23,818	55%	45%	15,898	\$43,084

¹ Company XYZ operating volume from September 2017 was annualized and compared to 5 J.P. Morgan clients with similar payment transaction volumes in the United States classified under similar NAICs codes; ² Cost saving estimates are taken from the 2015 AFP Payments Cost Benchmarking Survey

Payment options

Reducing payment costs and increasing efficiencies



CHECKS

- Controlled Disbursements
- Account Reconciliation
- Positive Pay
- Online check image storage and inquiry

CHECK PRINT

- Print and distribution
- Payment types
 - AP Checks
 - Claims
 - Payroll
 - Quick Checks
- Official Checks

CARD

- Card solutions
 - Purchasing Card
 - Single Use Accounts
- Rebates

E- PAYMENTS

- Timeliness and certainty of payments
- FedWire/CHIPS
- Business to Consumer enrollment

ACH

- Payroll direct deposit
- Electronic tax payments

Building a comprehensive roadmap to payment automation

Strategy and planning

- Identify goals and objectives
- Establish payment strategy by segment
- Design enrollment campaign
 - Set timelines and targets
 - Establish platform
 - Online enrollment engine
 - Targeted inserts and checks
 - Telephone
 - Email
- Ensure security and accessibility of enrollment data
- Establish incentives and best practices

Implementation

- Establish internal and external touchpoints
- Leverage mixed payment files and industry standard formats for bank connectivity
- Utilize third-party capabilities to accelerate goals

Outsourcing

Consider outsourcing non-core payables functions allows for greater focus on payment conversion activities while reducing costs and increasing efficiency.

- Check printing and distribution
- Email campaign
- Telephone outreach
- Account reconciliation and exception management
- Returns processing

Selectively leverage technology and outsourced resources to drive payment automation.

Payables: Best practices

Best practice area	Industry best practices	Benefits
<p>Use optimal payment method</p>	<ul style="list-style-type: none"> ■ Replace check and paper-based payments with electronic, i.e. ACH ■ Segment your supplier base to avoid a “one size fits all” approach 	<ul style="list-style-type: none"> ■ Check replacement reduces cost ■ Maximize the DPO opportunity and reduce working capital
<p>Electronic invoice processing</p>	<ul style="list-style-type: none"> ■ Replace paper invoices with e-invoices ■ Sell-in the benefits to the supplier base to get active participation 	<ul style="list-style-type: none"> ■ Reduce invoice processing costs ■ Both the supplier community and buyer get better visibility of invoice approval process
<p>Centralize payment disbursement</p>	<ul style="list-style-type: none"> ■ Utilize an integrated file management system to centralize payment processing ■ Consider benefits of a implementing a shared service center, in-house bank or payment factory 	<ul style="list-style-type: none"> ■ Improve cost effectiveness and payment accuracy ■ Gain visibility and control over payments ■ Gain increased efficiency through specialization of tasks