Optimizing Payments
Efficiency, Risk and Incentives
March 14th, 2018
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The Start
Spaceship Earth
The History – Where Did We Start?

The Communication Progression

Carving, Painting, Writing
Immovable

Papyrus - Transportable

Books – Knowledge Consolidation

Printing Press
Knowledge for the Masses

Cars
Expanding Reasonable Business

The Internet
The Future Is Now

Blockchain

- Security
- Speed
- Savings

Payment Technology Enhances Profits

Abstract or Indirect Profit

- Think of opportunity
- Improve the customer relationship and experience
- Benefit your suppliers business for B2B payments

The Treasury Department

Cost Center  Profit Center
Why Is This Important?

Your accounts payable environment has transitioned away from ‘how you pay’.

**Ratios**

- Days Payables = Accounts Payable/COGS x 365
- Cash Conversion Cycle = Days Inventory + Days Receivable – Days Payable
- Cash Turnover = 365/Cash conversion Cycle

*You are using your working capital more efficiently*

**When?**

Your suppliers’ terms are no longer your terms, to a certain extent
Your payment float is increased

**Where?**

Anywhere
Virtual Cards
Payments via smartphones/tablets

**Why?**

Challenge the status quo
Why do you have to pay now? Pay later
Liquidity
• Timing can be more important than you think
• Intraday vs. EOD
• Do more with the same Profit Center mindset
• Earnings Credit Rate (ECR)

Example
• Starting Balance = 100
• Credits = 7
• Debits = 7
Balancing Your Payment Environment

What is a ‘Payment Environment’?

What are the challenges?

• Complex and confusing terminology
• Many unique products
• Hidden costs
• Sales tactics may drive profit to vendor and not maximize benefit to business
• Understanding how each payment type can affect your business
## Payment Types – Pros and Cons

### Checks

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Check Float</td>
<td>Overall Cost</td>
</tr>
<tr>
<td>Customization</td>
<td>Fraud</td>
</tr>
<tr>
<td>Widely Accepted</td>
<td>Bounced Checks</td>
</tr>
<tr>
<td></td>
<td>Physical Deposits</td>
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</tbody>
</table>

### ACH

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Fees</td>
<td>Fraud Trends</td>
</tr>
<tr>
<td>Speed</td>
<td>Shared Banking Information</td>
</tr>
<tr>
<td>Security Over Checks</td>
<td>No Funds Guarantee</td>
</tr>
</tbody>
</table>

### Purchasing Cards

<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options</td>
<td>Processing Fees</td>
</tr>
<tr>
<td>Security</td>
<td>Acceptance</td>
</tr>
<tr>
<td>Rebate</td>
<td></td>
</tr>
<tr>
<td>Streamlined AP/AR</td>
<td></td>
</tr>
<tr>
<td>Float</td>
<td></td>
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</tbody>
</table>
Payment Acceptance Costs

Costs to Consider

– Maintenance/Labor
– Interchange
– ACH enrollment and maintenance
– Time and financial loss dealing with fraud
– Re-associating remittance advice with payments

Example - Checks

– Buy, maintain, print, burst/separate and envelope with postage.
– AP employee receives invoice
– Reconciliation and matching
– IT support for internal programs
– Mailroom processing
– Scanning checks/invoices and keying information if applicable

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>Avg. Amount</th>
<th>Processing Cost</th>
<th>Staff/Labor Cost</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACH</td>
<td>$156.11</td>
<td>$1.68</td>
<td>$9.42</td>
<td>$11.10</td>
</tr>
<tr>
<td>Check</td>
<td>$146.61</td>
<td>$2.57</td>
<td>$12.23</td>
<td>$14.80</td>
</tr>
<tr>
<td>Virtual Card</td>
<td>$148.92</td>
<td>$3.48</td>
<td>$6.39</td>
<td>$9.87</td>
</tr>
</tbody>
</table>

* Aite Group’s Q1 2016 survey of 2014 U.S. Healthcare Providers with less than US$50 million in revenue
Trends in the Payment Industry

70% of businesses will shift majority of payments to electronic payments

21% are already significantly using electronic payments (e-payments)

51% of B2B payments were made by check in 2016

*2016 AFP Electronic Payments Survey
Global Card losses have increased **18%** every year since 2013

*Driving the Future of Payments, Accenture*

**74%** of organizations were victims of payment fraud and over 60% of those victims experienced losses in excess of **$25,000**

*2017 AFP Payments Fraud and Control Survey*

**Eye on Security: 124 Breaches Already Reported in 2018; Cost of Malicious Cyber Activity May Exceed $100 Billion**

*Digital Transactions Article, Jim Daly - 2/21/18*
How to Optimize

**Optimize by Understanding**
- The available products
- Your environment
- Your customers
- How each option will affect your business
- ROI

**Funds and Program Consolidation**

**Payment Type**
- Checks
- ACH
- Purchasing Cards
- Virtual Card
  - Ghost Card/Account
  - Single-Use-Account (SUA)

**Optimize Risk**
**Optimize Relationships**
**Optimize AR/AP**
**Optimize Cost**
**Optimize Processes**
**Optimize Profits**
How to Optimize – Healthcare Example

Current

**Purchasing Cards**
- Physical card for office supplies, travel & entertainment (T&E) and employee events and services

**ACH**
- In-network claims reimbursements, payroll and a small portion of out-of-network claims

**Checks**
- Majority of out-of-network claims reimbursements

**Opportunity** – Virtual Cards & Single-Use-Account (SUA)

**Benefits**
- Rebate Potential
- Streamline AP
- Increased Float

**Concerns**
- Interchange Costs
- Provider Relationships

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**How do providers receive payer payments?**

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>EFT</td>
<td>91%</td>
</tr>
<tr>
<td>Paper checks</td>
<td>88%</td>
</tr>
<tr>
<td>Virtual card</td>
<td>50%</td>
</tr>
<tr>
<td>No/None</td>
<td>3%</td>
</tr>
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How to Optimize – Healthcare Example

Options & Communicate

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Cost of Acceptance for a Single Commercial Reimbursement Transaction

Source: Aite Group - U.S. Commercial Healthcare Reimbursements: An ACA Progress Report
Optimizing Payments - Inbound

What you know about outbound payments can have a significant impact on how you manage inbound payments.

Provide your customers with a better experience while driving internal efficiencies

• Security
• Speed
• Savings

Categories
In-Person
E-Payments
Mobile Payments
In-App
Internet-of-Things (IoT)
Connected Cars

Payment Types
Credit Cards
Debit Cards
ACH
Checks
Mobile Wallets
PayPal
Cryptocurrency
Giving the Option and Getting Paid

57% of online merchants surveyed in August 2016 offered 2 or 3 online payment options to their customers.

Global breakdown of the number of online payment options offered, in % of online merchants, January 2016

- 31% offered 3 options
- 26% offered 2 options
- 13% offered 4 options
- 7% offered 5 options
- 11% offered 6-10 options
- 9% offered 1 option
- 4% offered 10+ options

Note: may not add up to 100% due to rounding.

Survey based on a survey of 535 IT and business decision makers from consumer-focused digital commerce companies with at least 500 employees. 31% of respondents were from the USA, 23% from the UK, 23% from Germany and 23% from France.

How Does the Future Solve Today’s Issues?

Blockchain

Security
• Most secure technology

Speed
• Fastest settlement time – 4 Seconds

Savings
• Cheapest transaction type – no middleman

Beyond the Transfer of Money

Smart Contracts

Receipts, remittance advice, invoices, customized descriptions

Trusting the system - not the person
Moore’s Law – Transistors per Microprocessor
1971 – 2,000
2017 – 19,000,000,000

Mobile Technology
• Games
• Social media
• Texting
• Email
• Internet
• Business

Costly multi-day settlement processes → Instant international B2B payments – Secure and Low Cost
New Understanding

- Know what to ask and why
- *Positives* and *Investment* rather than *Burden* and *Cost*
- Offering payment types can improve supplier and customer relationships
- Communication can enhance profits
- Lifecycle Costs vs. Immediate Costs
- Preparing for the future
- No solution is “one size fits all”

Your Payments  Your Environment  Your Opportunity
Thank you!

Q & A