

The Next Step Toward a Paperless Business to Consumer Experience

How Millennials are Changing the Payments Landscape

Presented by:

Dana DiOstilio, APPSC

Vice President, PNC Treasury Solutions Group

May 8, 2018



- Introduction
- Millennials – Better Understanding This Generation
- Current Landscape
- Emerging Alternative Solution for B2C Check Payments
- Getting to the Details
- Potential Use Cases and Recent Developments

1 Defining a New Generation of Financial Consumers



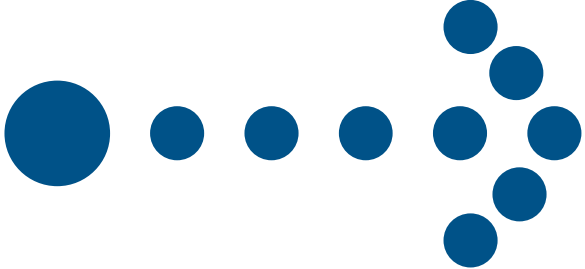
2 Examining the Current Payment Landscape



3 Introducing a Business-to-Consumer ePayment channel



Improved customer experience



Transformative progress in corporate banking

Millennials Changing the Payments Landscape

An ePayments Discussion



Millennials are now the **largest** segment of our population,
and are continuing to **drive change**.

The U.S. banking industry launched its first digital payments network : 

- I. Allows millions of bank customers to make person-to-person (P2P) payments
- II. Allows businesses to send money to individual consumers through **ePayments**

-
- For **PAYORS**: ePayments can help reduce escheatment, reduce stop payment and reissue costs for lost checks, and can help overcome challenges in obtaining and securing banking information needed to execute traditional electronic payments.
 - For **PAYEES**, ePayments offer expedited settlement, control over preferred payment method, and a preference for mobile payment solutions.

We are Far from a Check-less Society

Latest Federal Reserve View



	2012			2015			CAGR	
	#	Value	Average	#	Value	Average	#	Value
Checks Written	22.9B	\$27.83T	\$1,239	19.4B	\$27.34T	\$1,410	-4.8%	-0.6%
Checks Converted	2.7B	0.62T	227	2.7B	0.50T	\$238	-8.0%	-6.4%
Checks Paid	19.7B	27.21T	1,378	17.3B	26.83T	1,554	-4.8%	-0.5%
ACH - Credit	8.5B	76.56T	9,007	9.9B				
ACH - Debit	11.9B	52.46T	4,408	13.7B				
Total ACH Payments	20.4B	129.02T	6,322	23.5B				4.0%
Debit Card	47.2B	1.87T	40.0	59.6B	2.29T	38.0	8.0%	7.0%
Credit Card	26.8B	2.55T	95.0	33.8B	3.16T	93.0	8.0%	7.4%
Prepaid Card	9.3B	0.23T	25.0	9.9B	0.27T	27.0	2.3%	5.5%
Total	123.4B	\$166.88T	\$1,352	144.10B	\$177.85T	\$1,234		

How much of this is B2C? ...
15% reflects close to 3 billion checks

Source: 2016 Federal Reserve Payment Survey

Millennials

Better Understanding This Generation



Millennials

Millennials are Key Transformation Drivers – Who are They?



GENERATION	AGE	SIZE ¹
Millennials	15-35	92 million
Generation X	36-51	61 million
Baby Boomers	52-70	77 million

CHARACTERISTICS



Raised in a digital world

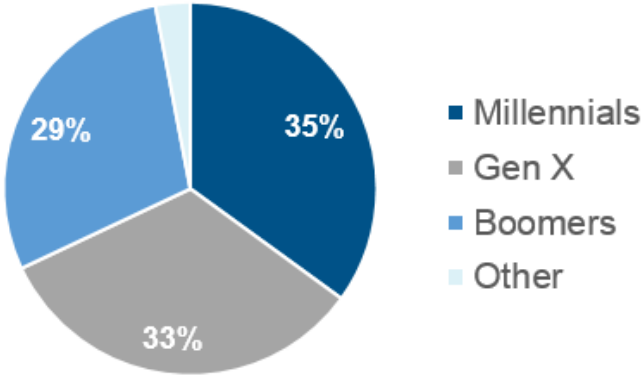


Thrive on peer acceptance



Don't embrace traditional financial processes

2016 Workplace

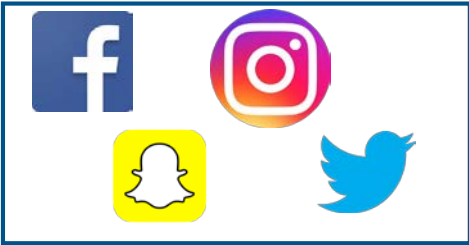


*By 2025, Millennials & Gen Z will represent **75% of the workplace**²*

¹ US Census Bureau, 2015
² Salesforce Blog, How Millennials are Shaping Mobile Payments, 2015

Millennials

What do we use?



2004+



1994



1997+

Disruption

Social Media

- FB: \$460B
- SNAP: \$18B
- TWTR: \$22B

\$500,000,000,000

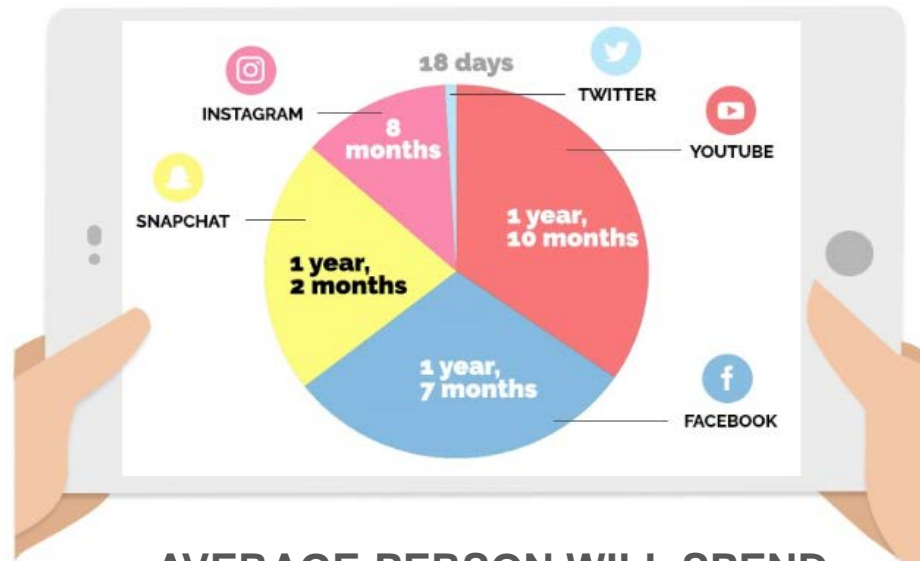
Information & Media

- GOOG: \$717B
- NFLX: \$129B

\$846,000,000,000

1 Logos used are the property of the respective third parties
Market Valuation Source: CapitalIQ

We're Social (...digitally)



= AVERAGE PERSON WILL SPEND
5 YEARS, 4 MONTHS
ON SOCIAL MEDIA IN A LIFETIME

...this is second only to
Time Spent Watching TV (7 years, 8 months)
and more than Eating and Drinking (3 years, 5 months)

1 Logos used are the property of the respective third parties

Image and Data Source: <http://www.adweek.com/digital/mediakix-time-spent-social-media-infographic/> - from Mediakix study - March 2017



We use the internet to learn about almost everything



We are early adopters of technology and seek out opportunities to innovate



We put a premium on convenience, innovation, and flexible payment options



UBER

Ridesharing services such as Uber highlight the importance of delivering these preferences through a mobile experience.



Millennials grew up during the 2008 Financial Crisis

“**38%** of employed millennial parents who are currently contributing a percentage of their annual income to their retirement savings report contributing more than **15%** of their income.

Only 24% of Generation X parents and 23% of baby boomer parents report the same.”¹

¹ NerdWallet Study <https://www.nerdwallet.com/blog/investing/parents-retirement-study/>

Current Landscape

Trends in Payments

Consumers

expect expedited payment access on mobile devices



Average smartphone users tap, click or swipe their phones **2,617** times per day¹

Corporates

want lower processing/settlement costs



74% of organizations were targets for payments fraud, and checks continue to be payment type most often exposed²

¹ dscout, 2017
² AFP Payments Fraud and Control Survey, 2017

C-Suite View

Making Do With Less = Need for Productivity Gains



Revenue Growth
4.1%

Productivity and Efficiency Gap



Finance Staffing (FTE)
-4.4%



Operating Budget
-3.8%

Source: The Hackett Group – 2017 Finance Executive Insight Study

Current Landscape

Other Key Change Drivers



Millennial Phone Access

83% of millennials keep their phone on all day and night¹



Peer-to-Peer Network Growth

100,000 consumers enrolling in Zelle®, daily²



Control Over Payment Method

Consumers looking to dictate how and where they are paid – check, ACH, prepaid card



Escheatment Costs

Compliance, control and reporting activities in addition to actual recovered amounts



Stop Payment and Reissue Costs

For lost or otherwise outstanding payments



Obtaining and Securing Banking Information

Challenges with obtaining, validating and securing banking details needed to initiate electronic payment

¹ ReportLinker, "For Most Smartphone User, It's a 'Round-the-Clock' Connection", January 2017 (<https://www.reportlinker.com/insight/smartphone-connection.html>)

² Zelle, 2018

Zelle and the Zelle related marks and logos are property of Early Warning Services, LLC

Current Landscape

Impact of Financial Technology Companies - Innovation and Disruption



PARTNERSHIP

- 82% of financial institutions (FI's) expect to increase FinTech partnerships in the next 3–5 years
- 45% are currently engaging with FinTechs



INTERNAL INNOVATION

- 77% of FI's expect to increase internal efforts to innovate



CUSTOMER ALIGNMENT

- 84% of customers conduct payment activity with FinTechs



DISTRIBUTION

- 27% of FI's are offering services through FinTechs



BARRIERS

- Primary barrier to innovation: 54% cite data storage, privacy and protection considerations

Source: 2017 PWC Global Fintech Report

Current Landscape

Top of Mind Considerations When Considering Fintech Solutions

Safety and Soundness

- Regulatory oversight
- Financial strength and adequacy of capital
- Data privacy / security



Reconciliation

- More than just facilitating a transaction
- Need for integration and support of associated reconciliation

Emerging Alternative to B2C Check Payments

Solution Overview



Emerging Alternatives

Same Day, Expedited, Real Time



	Same Day ACH	ePayments	Real-Time Payments
Network	ACH	Zelle®,	Real-Time Payments
Network Availability	Send/receive on business days (cutoff times apply)	Send transactions ¹ 24x7x365	Send and receive transactions 24x7x365
Funds Availability	Same day	Within minutes (in-network) ² 1-3 days (out of network)	Instant
Finality	Reversals and returns allowed	Disputes may result in reversals and returns	Irrevocable
Status Visibility	Not available	Real-time	Real-time
Messaging	9,999 addenda records of 94 characters each	200 characters of remittance information	Real-time messaging
Payee Information	Routing # + Account #	Email or mobile phone	Routing # + Account #

¹ ePayments is limited to business-to-consumer (B2C) transactions. Recipients can receive payments 24x7x365.

² Funds availability is dependent on whether the originator has enabled expedited payments and whether the recipient is able to receive expedited payments via an in-network bank or a debit card as an out-of-network user.

³ Transactions to recipients accepting funds on a debit card are limited to \$50,000. Transactions to recipients accepting funds on a prepaid card are limited to \$1,000.

Zelle and the Zelle related marks and logos are property of Early Warning Services, LLC

What's so great about Zelle®?



- Multi-Bank, Peer-to-Peer system comprised of largest financial institutions
- Recently rebranded from clearXchange® (*B2C focus*)
- Acquired by Early Warning, combining payment capabilities and enhanced security
- Expedited payments occur across member institutions within **seconds**

** Zelle®, facilitates a direct payment to a DDA or debit card, others do not**

- Can be C2C, B2C, or G2C
 - Current P2P apps involve extra time to transfer funds between non-bank FinTech and their bank
-
- What Zelle®, is **Not**:
 - International
 - Consumer-to-Business (C2B) and Business-to-Business (B2B)

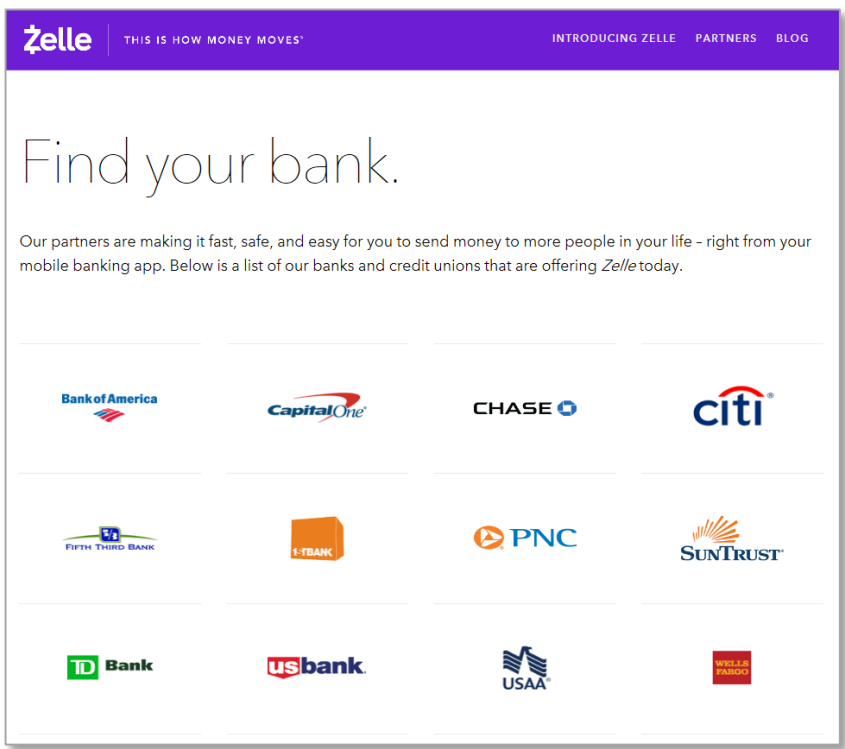
Emerging Alternatives

Leveraging Peer-to-Peer Payment Network

- Zelle®, previously clearXchange®, was formed in 2011 as the first digital payment network created by banks for the transfer of payments for:
 - consumer-to-consumer
 - business-to-consumer
 - government-to-consumer



60+
Participating
network banks¹



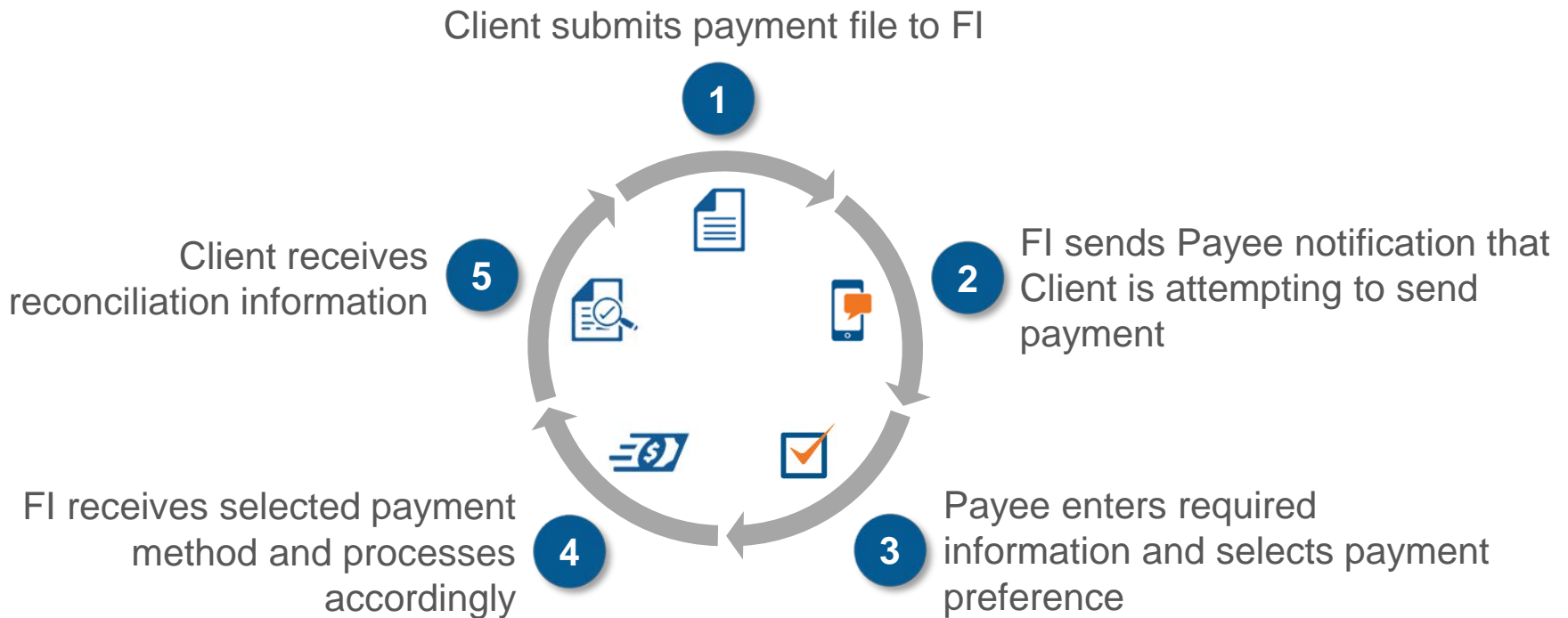
\$75 billion
Value of network payments
in 2017¹

¹ Zelle, 2018
PNC is a member/owner of Zelle
Zelle and the Zelle related marks and logos are property of Early Warning Services, LLC

Emerging Alternatives

How do ePayments work?

Enables Payees to easily and effectively accept electronic payments



Getting to the Details

Getting to the Details

What Information do I need?



Payee

- Name
- Email
- Mobile # (optional)
- Mailing Address



Payment

- Amount
- Origination Date
- Days to Expiration
- Action – New, Modify, Cancel
- Addenda Fields (3) and Memo

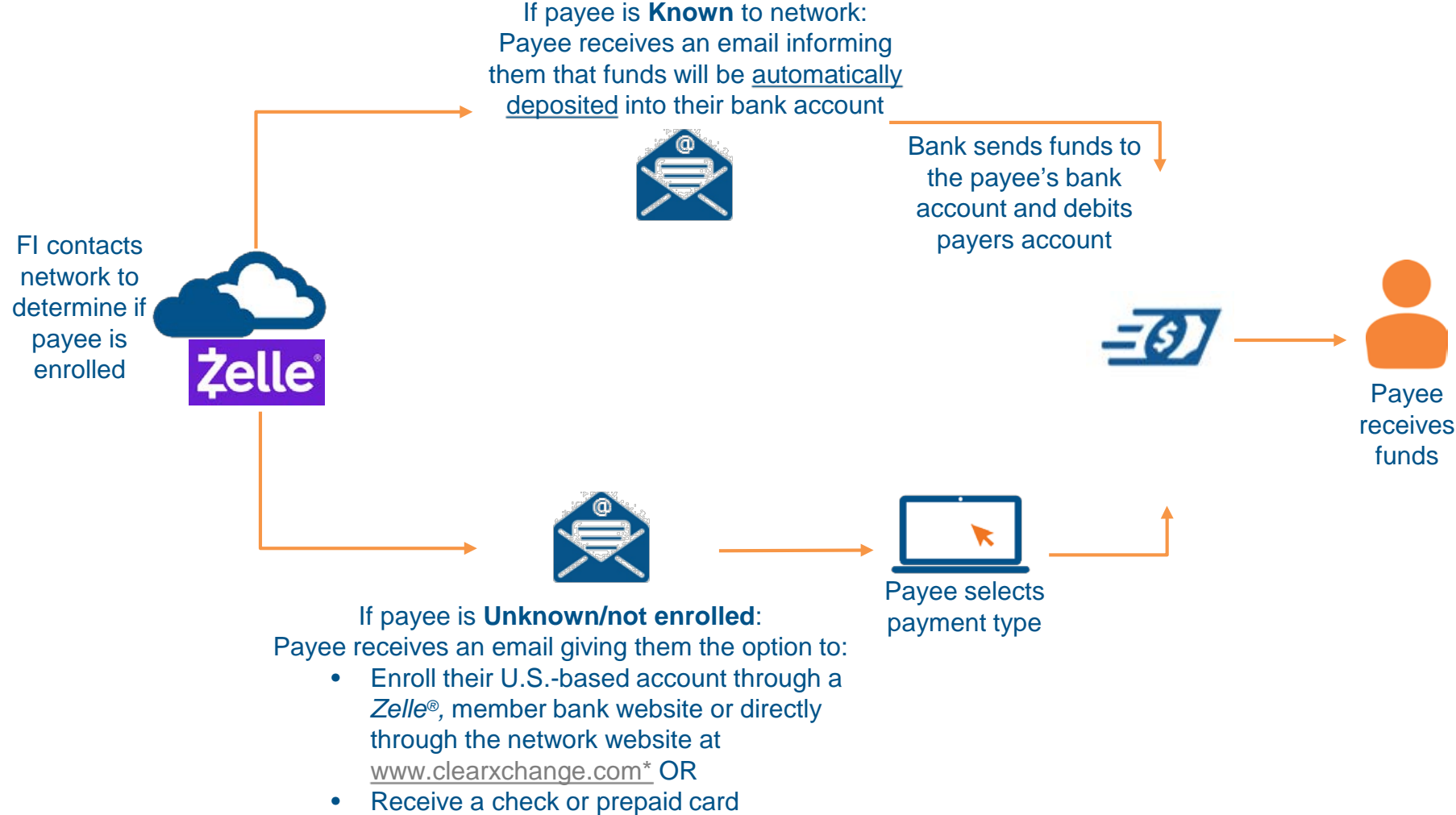


Payer

- Payer ID
- Settlement Account

Emerging Alternatives

Providing Ease and Effectiveness in Accepting Electronic Payment



*Zelle registration process facilitated through www.clearxchange.com during rebranding efforts
Zelle and the Zelle related marks and logos are property of Early Warning Services, LLC

Known / Unknown

- Registered in P2P network?
- Impacts notification
- Payee action needed to accept payment



Network/ Non-Network

- Is the payee's bank in the P2P network?
- Impacts settlement process and timing


Expedited / Standard

- Applies to network banks
- Bank decision to support expedited vs. standard settlement
- Affects ultimate settlement timing

Getting to the Details

Payment Notification

Payer Logo



<Payee Name>, <Payer Name> has sent you money!

To: **<Payee Name>**
 From: <Payer Name>
 Sent On: <MM/DD/YYYY>
 Payment Amount: **\$<000.00>**
 <Predefined Field 1>: <Predefined Field 1 Memo>
 <Predefined Field 2>: <Predefined Field 2 Memo>
 <Predefined Field 3>: <Predefined Field 3 Memo>
 Message: <Memo>

GET YOUR MONEY NOW

<> = Provided in client file
■ = Optional in client file

Please contact <Payer Name> if you have any questions or need more information about this payment

Only one payment method may be selected per payment. Payment must be claimed by <Expiration Date>, or will be expired.

Payment service email notification sent by PNC Bank, NA

DO NOT REPLY TO THIS E-MAIL. Replies to this e-mail will not be received

- Payment notification delivered via email
 - registered users may configure for text notification

- Example of notice for unknown payee

- *Get Your Money Now* Link directs to network for registration

- In-network or out of network bank?

- **In-Network:** directed to bank landing page and enrollment experience

- **Out of Network:** create account, accept terms and enter account information

Getting to the Details

Settlement

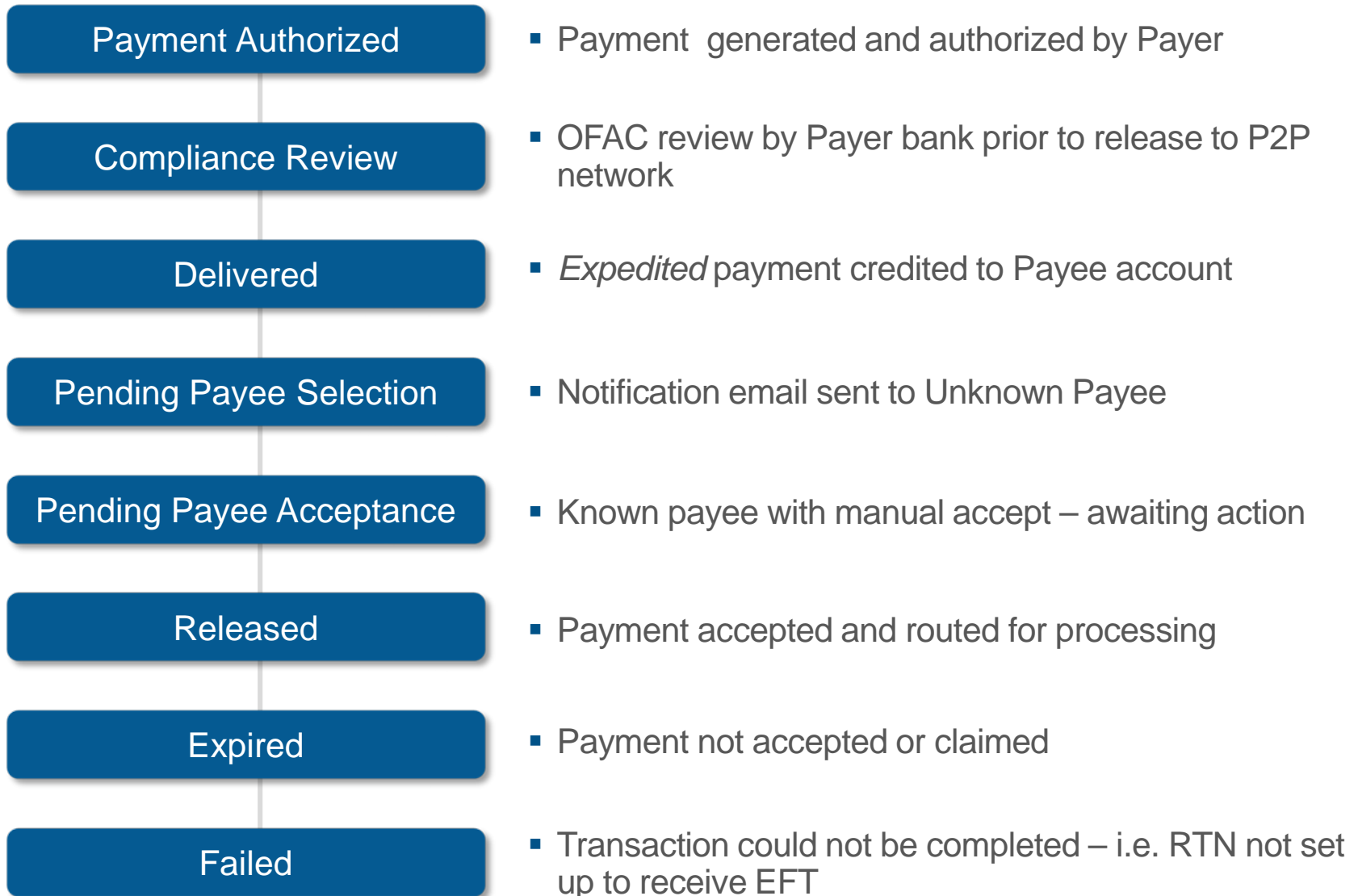


	PAYEE	PAYER ¹
In - Network		
• Expedited	Same Day Electronic Payment (< 5 minutes)	ACH Debit +1 business day
• Standard	Electronic Payment within 2 business days	
Out - of - Network		
• ACH Credit	ACH Credit received +2 or 3 business days	ACH Debit +2 business days
• Check	Mailed and received within 3-5 business days	Funds debited upon presentment
• Debit Card	Same day credit (<30 minutes)	ACH Debit +0/1 business days
• Pre-paid Card	Created, mailed and received within 3-5 business days	ACH Debit +1 business day

¹ ACH Debits from Payer are aggregate of all ePayments

Getting to the Details

Follow the Status – Leading to Reconciliation Discussion





Payment Status

- Intraday status files
- Record for each payment where status has changed
- Includes ACH effective date



Manage

- Payment search
- Expired and Failed transaction reporting
- History – payment level with time stamping of status migration
- Other – audit, import activity, etc.



Settlement

- BAI and Web-based Information Reporting
- Visibility by type

Potential Use Cases



Insurance

- Claims Payments



Healthcare

- Patient Refunds



Higher Education

- Selected uses such as per diem for athletic teams;
restrictions on tuition refunds (Title IV)



Other

- Large volumes of check-based payment activity directed to consumers (i.e. rebates)



- Reduce costly and inefficient check payments by replacing them with a **more convenient and secure** electronic payment settlement solution



- Keep account information **confidential** for both payer and payee by utilizing an email address or mobile phone number to initiate payment
 - No need to store sensitive consumer banking information
 - Payer provides customer's email or mobile phone number at payment origination
 - Payment instructions are maintained by the network for electronic payments



- Provide banked and unbanked consumer clients with an **array of payment methods**:
 - ACH
 - Check
 - Debit Card
 - Prepaid Card



- Speed up funds availability with **expedited payment options**
 - Expedited payments facilitated through member banks
 - Debit card payments facilitated through member bank partnerships with Visa and MasterCard

100MM transactions in the first half of 2017

- **More than 50,000 consumers enrolling daily**, contributing to more than 100 million real-time, person-to-person (P2P) payments, totaling \$33.6 Billion, in the first half of 2017.
- **50% average increase in P2P Enrollments:** *Zelle® Network* enrollments soar, with financial institutions achieving up to a 300% increase in enrollments since June 2017
- **Zelle® App in App Store and Google Play:** Network expands by offering free app
 - Allows almost anyone with a Visa or MasterCard debit card issued in conjunction with a U.S. bank account to transact in real-time with participating Zelle® Network banks and credit unions



Thank
You!



This presentation was prepared for general information purposes only and is not intended as legal, tax or accounting advice or as a recommendation to engage in any specific transaction, including with respect to any securities of PNC, and does not purport to be comprehensive. Under no circumstances should any information contained in this presentation be used or considered as an offer or commitment, or a solicitation of an offer or commitment, to participate in any particular transaction or strategy.

Any reliance upon the presentation is solely and exclusively at your own risk. Please consult your own counsel, accountant or other professional advisor regarding your specific situation. Any opinions expressed in this presentation are subject to change without notice.