



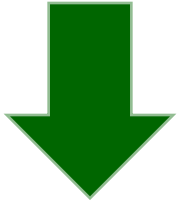
Is Lockbox a Payment Acceptance Survivor?

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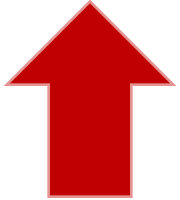
How Does Lockbox Fit Into Managing Your Working Capital?



Working Capital Management Objectives



Reduce Days Sales Outstanding (DSO)



Optimize (Increase) Days Payable Outstanding (DPO)



Enhance Return on Cash

Banking Product Development Timeline

Concentration of Funds (DTC)

T&E Cards

Concentration of Funds (ACH)

Interstate Banking

Remote Deposit

Electronic Bill Presentment

LOCKBOX

Account Reconciliation

Online Info. Reporting

Positive Pay

Imaging Deposits & Disbursements

Purchasing Cards

1970s

1980s

1990s

2000s

Lockbox Studies

Money Market Funds

Remote Disbursements

Controlled Disbursement

Reverse Positive Pay

Direct Deposit

Receivable Item Posting

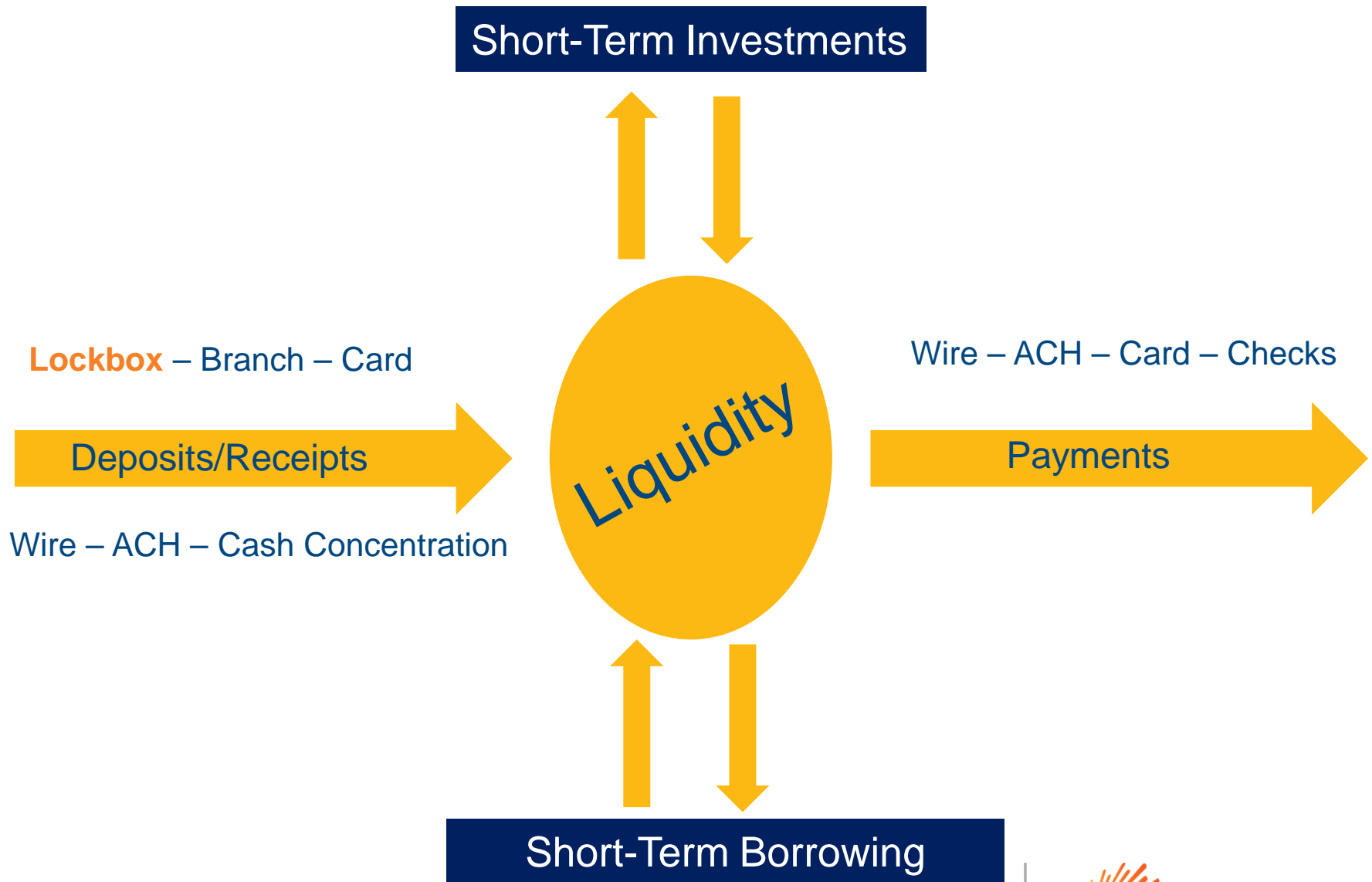
Merchant Services

Integrated Payables

Working Capital Management and Lockbox

Product Features	Impact on Working Capital
<p>Accelerates receivables and cash flow through a reduction in mail float, processing float, and clearing float</p> <p>Improves security and posting accuracy</p> <p>Frees internal resources to focus on other higher value efforts</p>	<p>Reduces Days Sales Outstanding</p>

Working Capital Management Cash Flows



2013 Federal Reserve Payments Study



2013 Federal Reserve Payments Study

- Fifth in a series of triennial studies
- Estimates based on survey data gathered from DFIs, payment networks, processors, and issuers
- First study to include estimates of total unauthorized transactions involving checks, ACH, and cards
- Executive summary available
- Study details available by the end of Q1 2014

Highlights

- The total number of noncash payments, excluding wire transfers, was 122.8 billion – a **growth rate of 4.4 percent** annually from 2009 to 2012. The rate of growth was down slightly from the previous 10 year (2003 - 2012) growth rate of 4.7%.
- The total value of noncash payments **grew** from \$72.2 trillion in 2009 to just under \$79 trillion in 2012.
- The number of credit card payments, which had shown a decline in the 2010 study, **grew** at an annual rate of 7.6% from 2009 to 2012. Debit card payments grew at a rate of 7.7% over that same period.
- ACH growth **slowed** to 5.1% annually from 2009 to 2012 – down from the average annual growth of 10.9% over the previous 10 years.

Highlights (continued)

- The number of checks paid continues to decline, **falling to 18.3 billion** – less than half the number a decade earlier (37.3 billion), **but still a significant number of payments** (approximately 15% of non-cash payments).
- Checks are increasingly being deposited as images, with 17% deposited as an image at the bank of first deposit versus 13% as reported in the 2010 study.
- The 2013 study estimates that there were 31.1 million unauthorized payment transactions in 2012, with a value of \$6.1 billion.

What Trends Are Most Affecting Lockbox?

- Average value of check payments continues to be significantly lower than that of ACH payments, and significantly higher than the averages of the various types of card payments.
- The decline in the number of consumer-to-business (C2B) checks written slowed to rate of 7.8% per year from 2009 to 2012, compared with 9.1% per year from 2006 to 2012.
- The rate of decline for the number of business-to-business (B2B) checks **accelerated to 9.2%** per year compared with a decline of 5.5% per year from 2006 to 2012.

What is Going on With the United States Postal Service?



PROCEEDING WITH CONSOLIDATIONS OVER A LONGER TIME SPAN

**Summer
2012:
Phase 1
Begins**

Consolidating
activity at 48
locations within
schedule
constraints



**Spring
2013:
Phase 1
Concludes**

Consolidating
activity at 140
locations; \$1.2B
in annual
savings



**Spring
2014:
Phase 2**

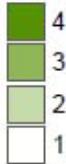
Consolidating
activity at 89
locations;
\$2.1B
combined
savings

Interim Delivery Standards (1-day intra-plant)

Loss of 1-day
Full 8a – 4a plan

Baltimore Previous Receiving Standards

Baltimore Previous Receiving Stds

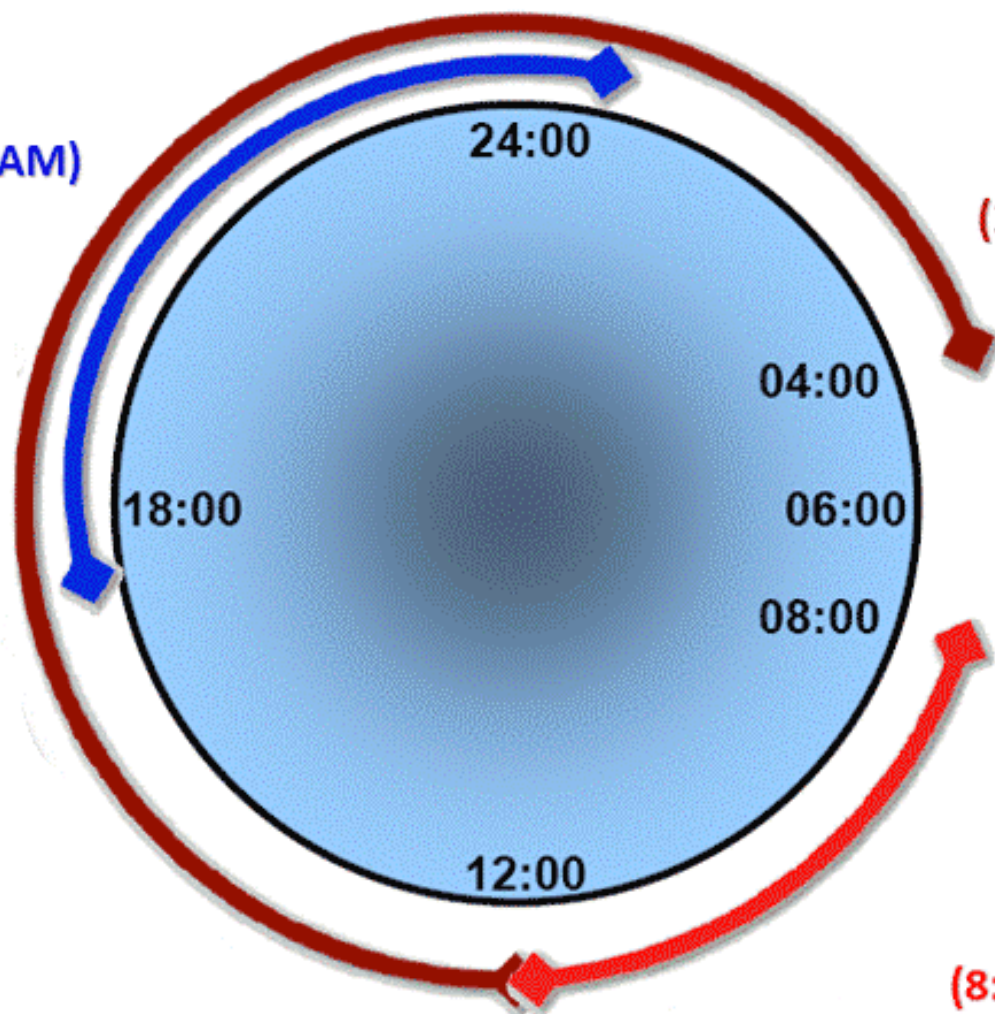


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Proposed 24-Hour Plant Operations

**Outgoing
Operations
(5:00 PM – 12:30 AM)**



**Continuous
DPS/Secondary
Operations
(12:00 PM – 4:00 AM)**

**Incoming
Primary
Operations
(8:00 AM – 12:00 PM)**

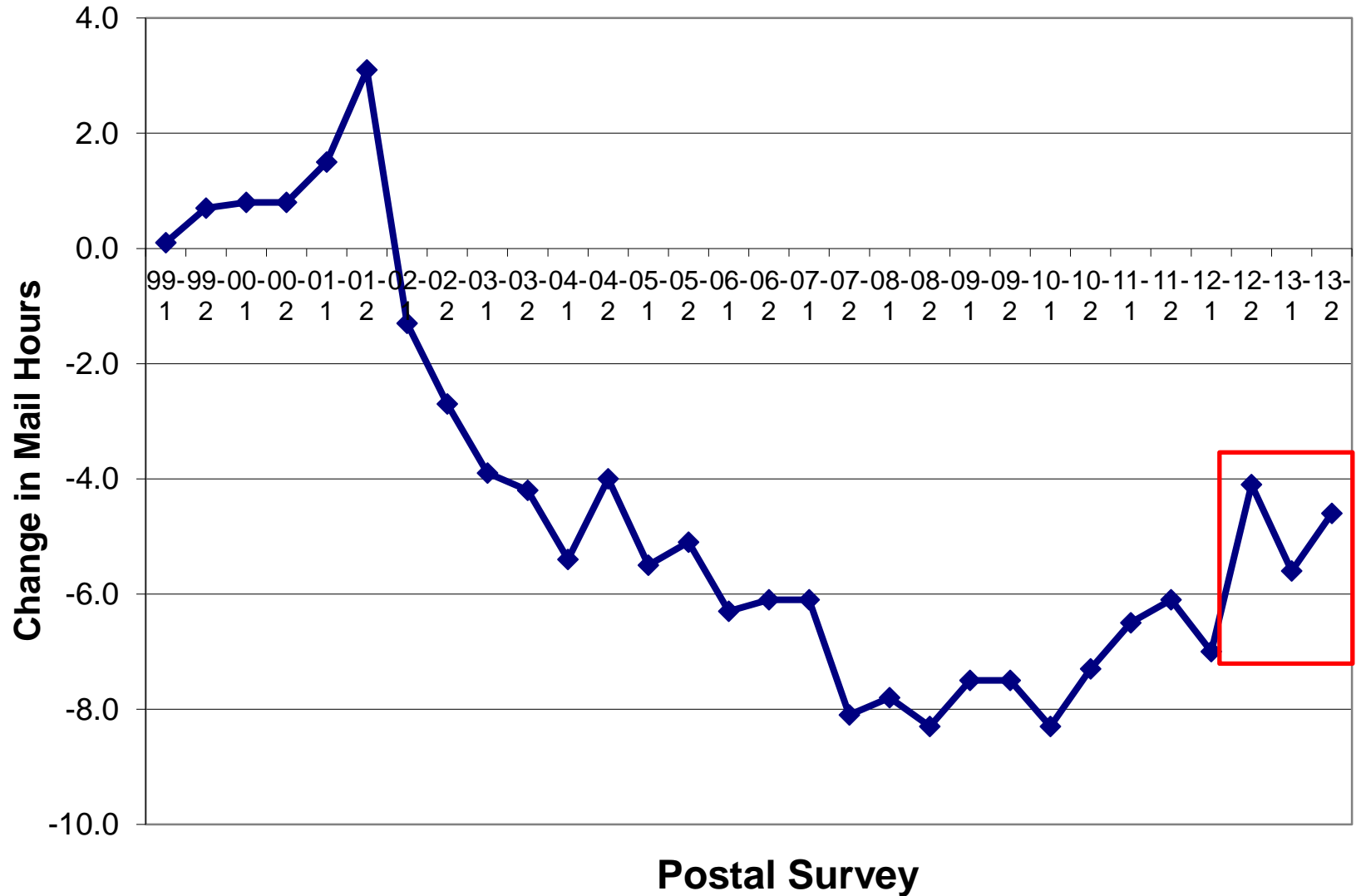
What This Means to Lockbox

- USPS still actively working on cost reduction
- USPS changes include lengthening mail delivery standards
- Changes will continue to occur as volume continues to decline
- Remittance mail (lockbox mail) will remain fastest type of first class mail delivery even when more extreme changes are implemented

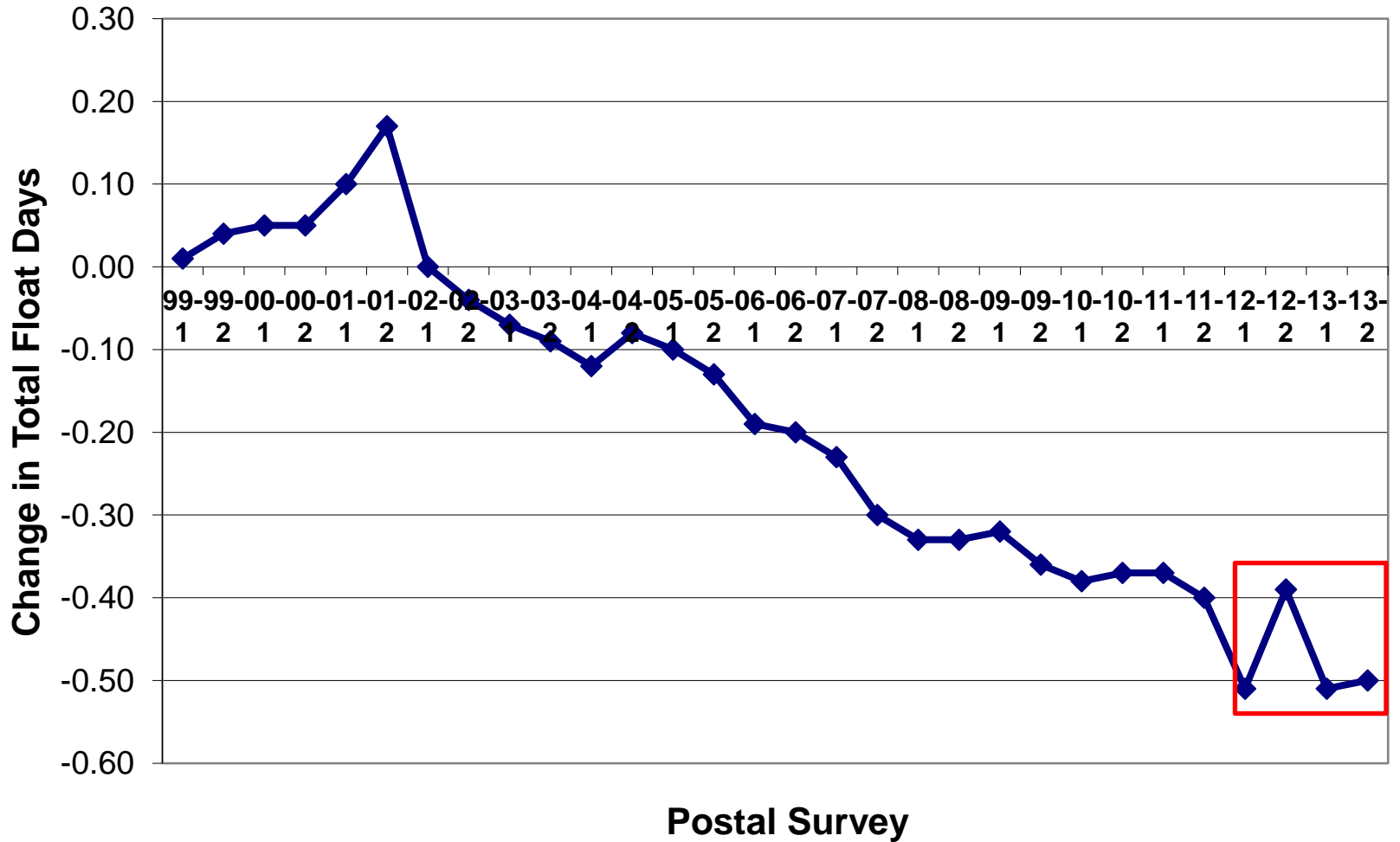
What do the Phoenix Hecht Mail Studies Report?



Trend of the Average Site in Mail Hours



Trend of the Average Site in Total Float Days



15 Fastest Mail Cities 2012-1 v. 2013-2

2012-1		2013-2	
Boston, MA	39.4	Boston, MA	41.7
Memphis, TN	43.2	San Francisco CA	41.8
Baltimore, MD	44.3	Atlanta, GA	43.2
Atlanta, GA	44.4	Louisville, KY	43.3
Cincinnati, OH	44.6	Saint Louis, MO	46.0
Dallas, TX	44.7	Charlotte, NC	47.3
San Francisco, CA	44.9	Dallas, TX	47.7
Louisville, KY	45.8	Philadelphia, PA	48.2
Los Angeles, CA	45.9	Pittsburgh, PA	49.6
Detroit, MI	46.5	Cleveland, OH	49.6
Houston, TX	46.7	Baltimore, MD	50.3
Saint Louis, MO	47.2	Portland, OR	50.3
Charlotte, NC	47.5	Memphis, TN	51.0
Cleveland, OH	48.2	Los Angeles, CA	51.0
Chicago, IL	48.3	Cincinnati, OH	51.3

Cities with Largest Hours Mail Increase

(Three surveys - 1.5 Years)

<u>City</u>	<u>Increase</u>
Phoenix, AZ	13.5
Seattle, WA	12.0
Memphis, TN	7.8
Detroit, MI	7.6
Cincinnati, OH	6.7
Baltimore, MD	6.0
Denver, CO	5.7
Kansas City, MO	5.5
Los Angeles, CA	5.1

Disadvantage of Non-remittance Address Versus City Average

	Atlanta	Chicago	Dallas	LA	Philadelphia
Mail Hours	24.6	24.6	20.5	21.7	23.4
Mail Days	0.03	0.12	(0.06)	(0.02)	(0.01)
Available Days	0.98	0.78	0.73	0.89	1.07

What This Means to Lockbox

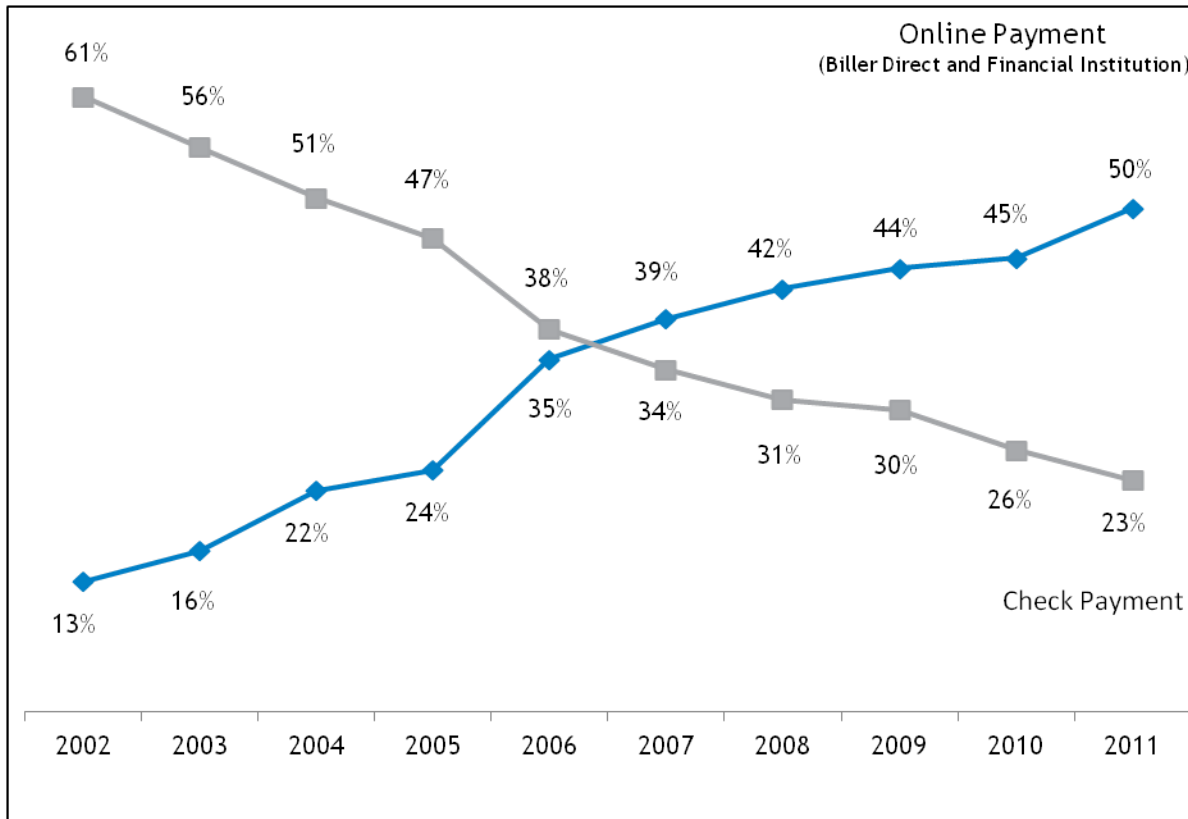
- As mail hours increase due to changes at the USPS, lockbox providers are reacting by expediting payment float to keep total float relatively stable.
- On mail float alone, remittance addresses (lockbox addresses) average one day faster than non-remittance addresses.

What Other Forces Are Changing Lockbox Volumes?



Trends in Online Bill Payment

Online bill payments accounted for half of all bill payments in 2011



- Convenience is driver
- Efficiency tied to online payment adoption
- Better control and visibility
- Keep capital requirements in check

Source: 2011 Consumer Trends Survey, Fiserv, Inc., August 2011

What This Means to Lockbox

- Retail Lockbox volume continues to decline. According to the Ernst & Young, LLP 2013 Cash Management Services Survey, banks and non-bank processors have a 6.0% decline in Retail Lockbox volume from 2012 to 2013.
- Consumers are split nearly in half between the number that prefer to go to the biller's site directly vs. using their bank's website.
- Billers have to actively monitor and work with their online processors to decrease payment exceptions.
- The introduction of Online Bill Payment has had minimal to no impact of wholesale volumes.

Source: 2013 Ernst & Young, LLP, "30th Annual Cash Management Services Survey", 2013 participant report

Our Conclusion



Lockbox Remains One Piece of a Successful Receivables Strategy

- In General
 - Mail time will remain relatively faster for remittance addresses.
 - Funds availability schedules are faster than they have ever been, but additional substantial improvement seems unlikely.
 - Combined relative reductions in mail float and clearing float will be more important as interest rates rise.
- Retail Lockboxes
 - Consumers are opting to pay bills online, so combined product offerings from banks will become more prevalent
 - Banks will likely lower their volume expectations for this more automated approach to lockbox processing
- Wholesale Lockboxes
 - The value proposition of Wholesale Lockbox will evolve into a data purification service.
 - It's value will be to provide a single feed of "scrubbed" data for seamless posting to AR systems. (Integrated Receivables)