

Jumping in the Deep End

Understanding and Embracing the New Payments Landscape

Presented To:
SoCal AFP – LA EXPO

May 10, 2018



- Looking Over the Edge and Surveying the Current Landscape
- Evaluating the Contenders
- Taking the Plunge – Start Thinking About Strategic Applications and Potential Use Cases
- Making a Splash Within Your Organization

Looking Over the Edge

Surveying the Current Landscape



Surveying the Current Landscape

Payments Are Speeding Up Around The World

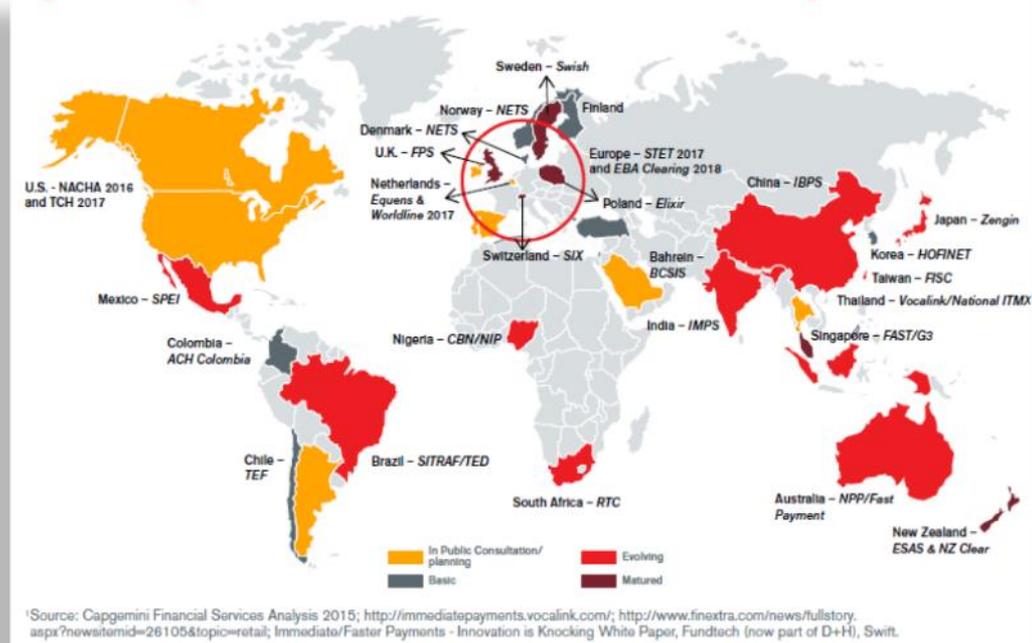


- Many countries are developing “faster payment” systems to increase the speed that transferred funds are made available to recipients
- Over 20 immediate payments systems in operation and/or planned¹
- Majority of countries that have or will implement new payments systems had regulatory mandates to institute them



- Traditional US payment system infrastructure does not enable ubiquitous, faster e-solutions that make immediate funds movement possible
- The US’s RTP system is being driven and developed by the private sector

Figure 1: RTP Adoption Around the World: The Race to Real-Time and 24x7 Availability¹



- Ties into Faster Payments as The Clearing House RTP system and existing real-time global networks are based on ISO 20022
- Adoption of ISO by Corporates will position them to take full advantage of the data that can be sent within the ISO messages — Remittances/Invoices
- ERP systems are adopting ISO 20022 as standard inputs and outputs — for domestic and international transactions

TOP FIVE REASONS CITED FOR ADOPTION OF ISO 20022

Future-proof payment operations

Align with international requirements for payments such as SEPA

Communicate with multiple banks using a common set of standards

Implement common payment processes across multiple business units and geographies

Greater straight-through processing

Surveying the Current Landscape

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

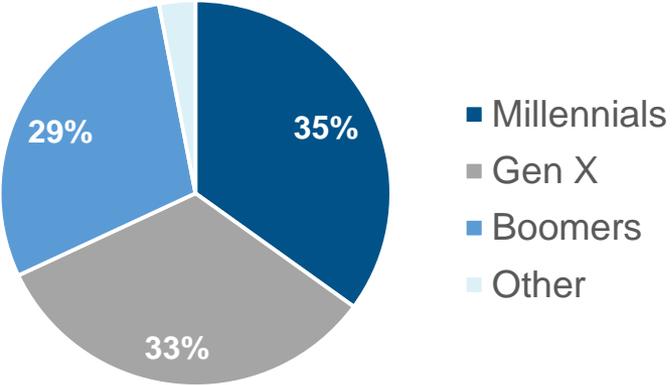


Thrive on peer acceptance



Don't embrace traditional financial processes

2016 Workplace



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

¹ US Census Bureau
² Salesforce Blog, How Millennials are Shaping Mobile Payments, 2015
³ Social Media Week, 2016

Surveying the Current Landscape

Millennials are Key Transformation Drivers – What do They Use? Why?



Believe everything on the internet, or at least use it to learn about almost everything



Are early adopters of technology and seek out opportunities to innovate



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.

Surveying the Current Landscape

Peer to Peer Networks Offer New Financial Connection Channels



Millennial Phone Access

Average smartphone users tap, click or swipe their phones **2,617** times per day (DSCOUT 2017)



Peer-to-Peer Network Growth

Person-to-person electronic-based payments are projected to increase 4x by 2018, reaching \$90 billion (Statista 2016)

Surveying the Current Landscape

Financial Technology Companies Introduce 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

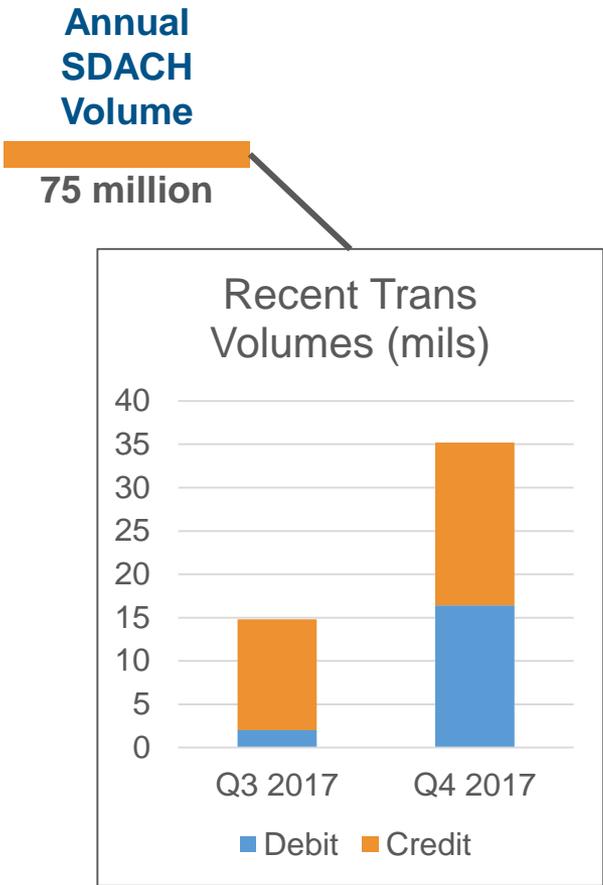
Evaluating the Contenders

Introducing a Variety of New Accelerated Payment Channels

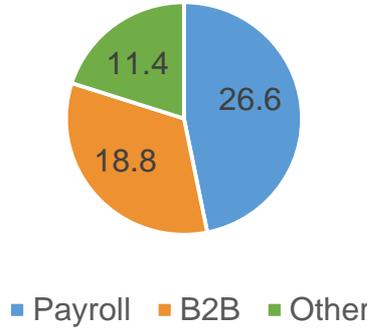


Evaluating the Contenders

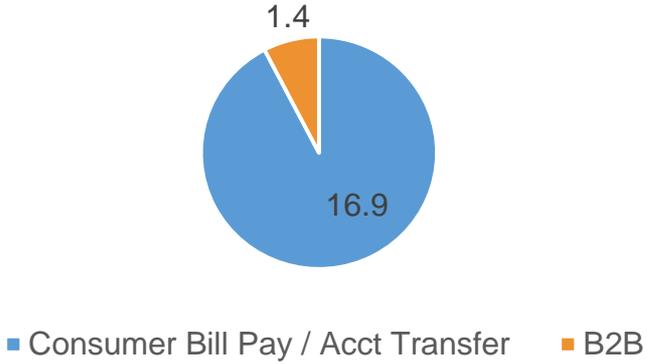
What About Same Day ACH?



2017 Same Day Credits



2017 Same Day Debits



Source: NACHA

Evaluating the Contenders

Same Day ACH – Ripple or Tidal Wave?



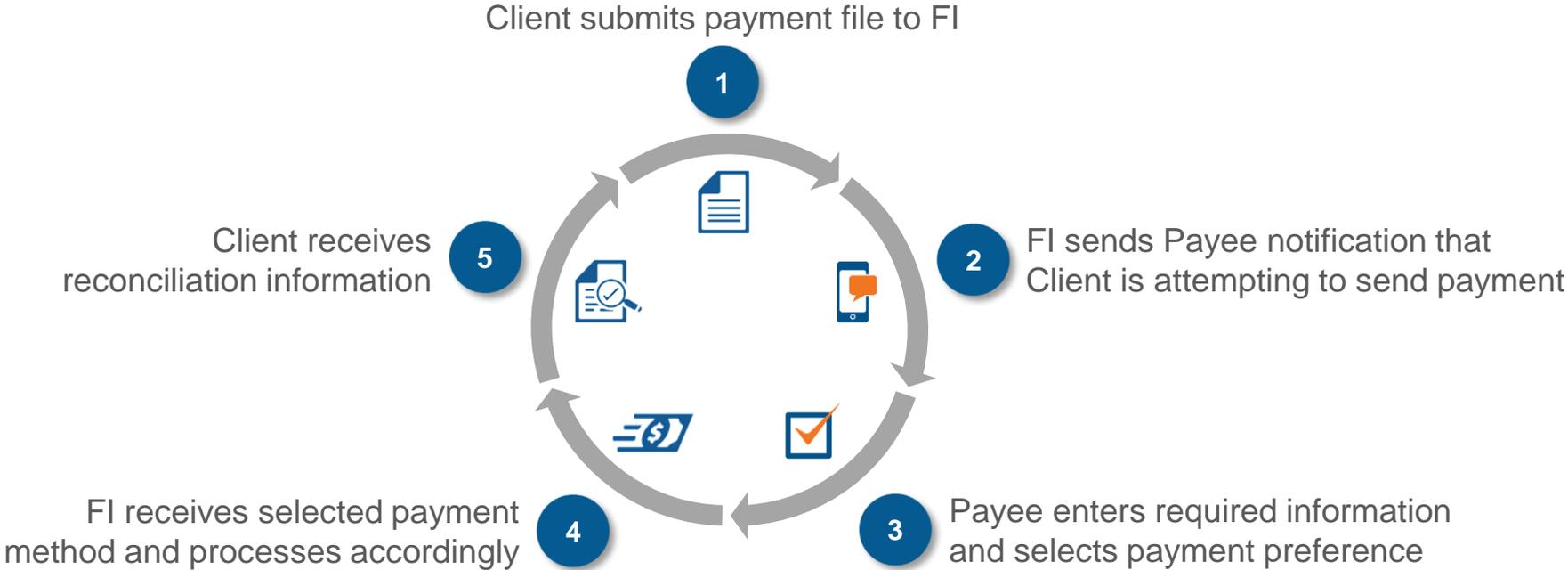
- Same-day processing of ACH credits became a reality in September 2016, with ACH debits following in September 2017
- Brought improvements in speed for bulk payments within existing legacy systems
- Primarily used for emergency payroll
- However, Same Day ACH is tied to east coast banking hours, end of day processing schedules and subject to returns
- Phase III, effective March 16, expands window for credit as late as 5pm ET (2:45pm submission deadline)

Evaluating the Contenders

ePayments – Directing Consumer Payments Through P2P Network



Enables expedited, electronic payment without associated banking information – payee email address is the token used to execute notification and payment



zelleSM



100,000

Consumers enrolling daily



247 million+

Payments processed in 2017



\$75 billion

Value of network payments in 2017



60+

Participating network banks

Evaluating the Contenders

The Clearing House Introduces Real Time Payments



First New Core Payments System in the U.S. in more than 40 Years Initiates First Live Payments (November 14, 2017)



J.P.Morgan



Evaluating the Contenders

Real Time Payments



INNOVATION



First new payment channel in over 40 years

SECURITY & UBIQUITY



Introduced by The Clearing House (TCH)...targeting ubiquity by 2020

SPEED



Funds sent and received 24/7/365

TRANSPARENCY



Real-Time confirmation to both parties

INFORMATION



Extended remittance details delivered in ISO 20022

COLLABORATION



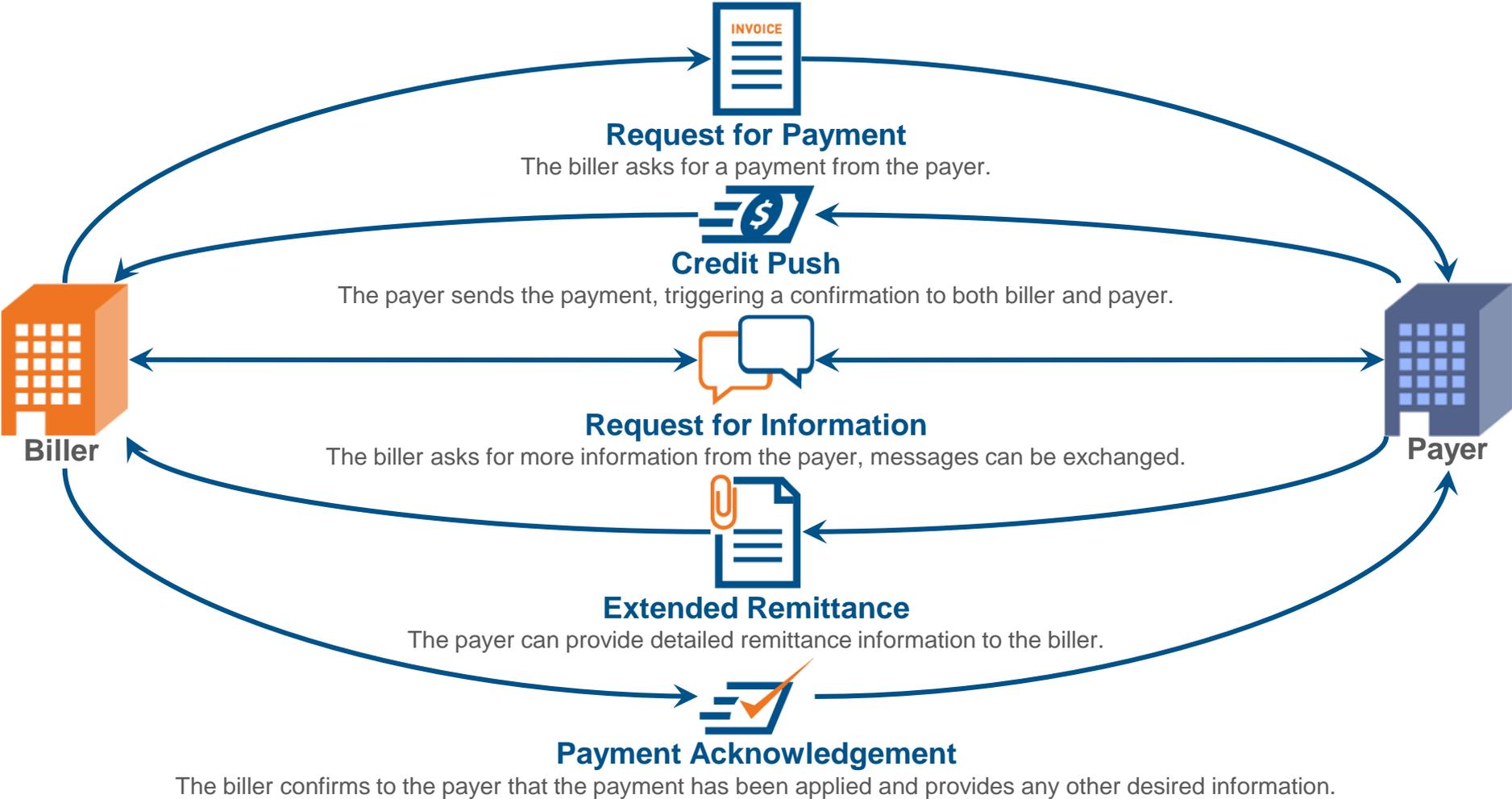
RFI, RFP, Payment Acknowledgement Messaging

Evaluating the Contenders

RTP is Much More Than a New Form of *Payment*



The messaging capabilities of Real-Time Payments allow both the payer and payee to engage in a conversation throughout the full payment lifecycle.



Evaluating the Contenders

Strong Alignment of Zelle and TCH Financial Institutions

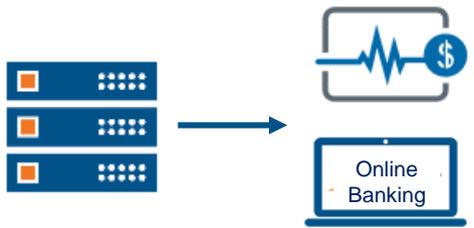


Zelle Owner Bank

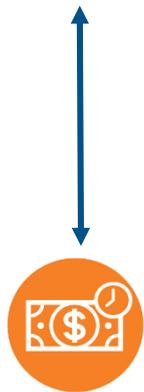
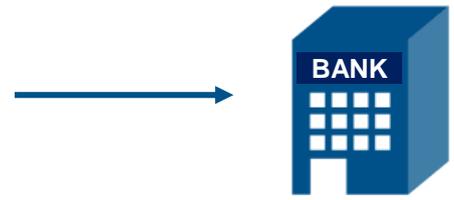
Zelle Member Bank

Evaluating the Contenders

Envisioning the RTP Future – Leveraging Zelle Directory...And More



Payer submits RTP payment file to FI via online banking platform, file transmission or API



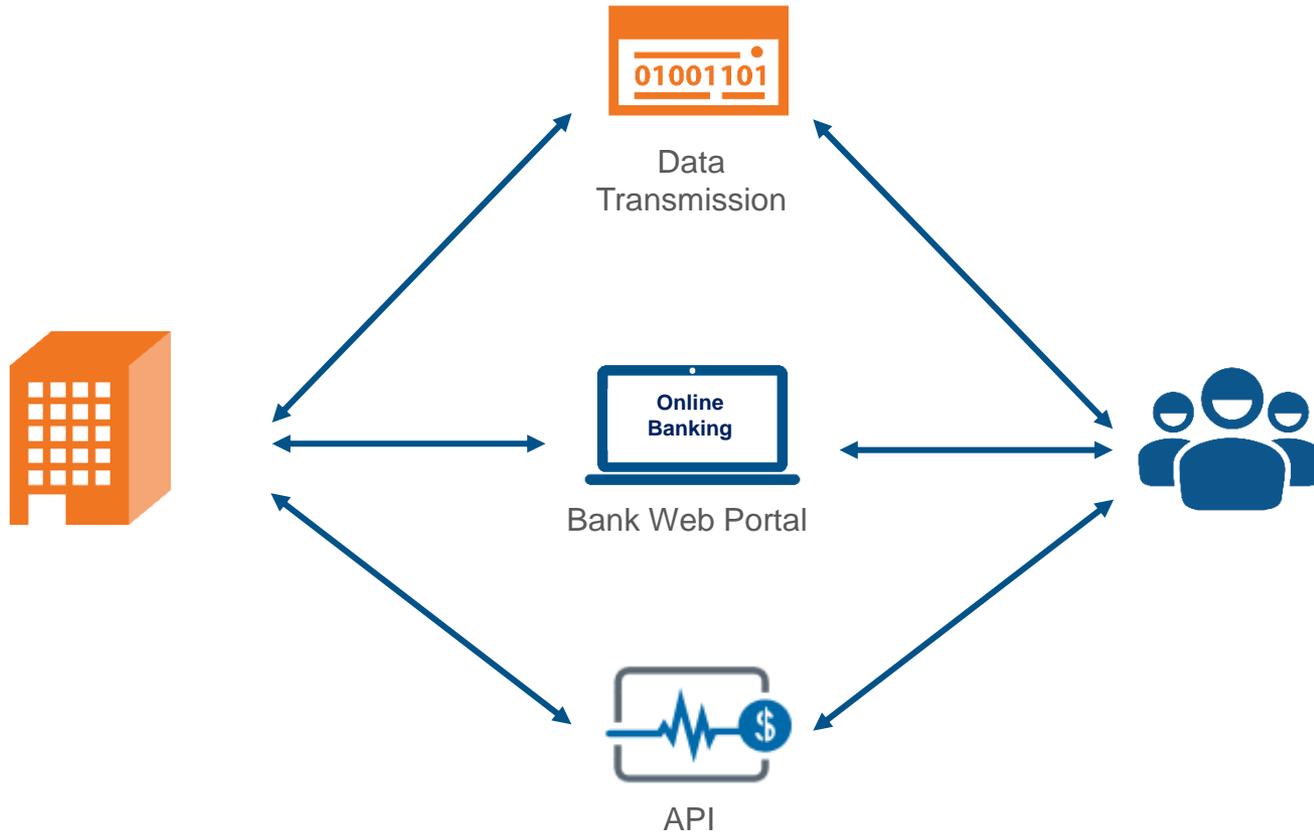
In cases where banking information is not available, access Zelle participant directory



Utilizes secure token to incorporate banking information and initiate RTP

Defining The RTP Solution

Clients Will Have A Variety Of Ways To Access And Integrate RTP



Evaluating the Contenders

Summary of Key Attributes



Payment Type	Same Day ACH	ePayments	Real-Time Payments
Network	ACH	Zelle SM	Real-Time Payments
Network Availability	Send and receive transactions 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
Type of Payment	Credit or Debit \$25,000	Credits only Limits are based on recipient's payment preference ³	Credits only \$25,000 to start
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	Robust real-time messaging: Request for Payment, Payment Acknowledgement, Request for Information and Extensive Remittance Advice
Confirmation	Only if returned	Yes, End-to-End	Yes, End-to-End
Payee Information	Routing # + Account #	Email or mobile phone	Routing # + Account #
International Availability	No	No	Domestic U.S. transactions to start

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.

Taking the Plunge

Start Thinking About Strategic Applications and Potential Use Cases



Taking the Plunge

Envisioning the Ideal Financial Ecosystem



- 1** Bills delivered without delay, in electronic format and including all details needed by the customer ability to effectively connect to both business and consumers
- 2** **Business** – remittance information received for straight-through processing into established payables environment
Consumer – received through preferred channels such as mobile device – and provides ease of use to return payment
- 3** Deliver electronic payment, with all associated remittance detail...with immediate confirmation to both parties
- 4** Collaborative ability to communicate for items requiring additional information to post

Taking the Plunge

RTP Makes This Vision Possible in the United States



1

Request for Payment...billers can deliver remittance document from a variety of connections to their enterprise and other relevant system environments – web, batch, API

2

Business – deliver ISO formatted data consistent with primary enterprise system development requirements
Consumer – delivery through retail banking online and web channels

3

RTP Credit...24/7/365 ability to execute a payment with extended remittance capability...both sender and receiver are notified in real time (Payment Acknowledgement)...future potential to affect cross-border transactions

4

Request for Information – biller can create a message asking for additional details on a received payment...original payment details consolidated with subsequent communication

Taking the Plunge

How Can RTP Transform Your Business Activities



USE CASE	IMAGINE	IMPACT
Expedited Payment to Supplier for Just-in-Time Inventory	<ul style="list-style-type: none"> ▪ Customer approaching credit limit ▪ Pushes RTP credit to supplier ▪ Payment includes remittance details ▪ Payment processed in supplier lockbox and account updated ▪ Payment confirmation to both parties 	<ul style="list-style-type: none"> ▪ Avoid supply chain disruption ▪ Eliminate need to maintain reserve inventory levels ▪ Optimize working capital by paying when needed
Cash Application Exception	<ul style="list-style-type: none"> ▪ RTP received with a deduction or other exception ▪ Request for Information delivered back to customer ▪ Reply includes all earlier messaging details 	<ul style="list-style-type: none"> ▪ Accelerated cash application resolution ▪ Reduction in unapplied cash
Collect Delinquent Account	<ul style="list-style-type: none"> ▪ Delinquent account identified for follow-up ▪ Request for Payment initiated and delivered ▪ Customer reviews and agrees to RFP ▪ Requested funds received – with all earlier messaging details ▪ Payment confirmation to both parties 	<ul style="list-style-type: none"> ▪ Accelerated collection of past due accounts ▪ Improved collection performance
Route Collections	<ul style="list-style-type: none"> ▪ Driver completes delivery and enters final order details in hand-held ▪ Billing system delivers Request for Payment to customer ▪ Customer reviews and agrees to RFP ▪ Requested funds received ▪ Payment confirmation to both parties ▪ Message clearing driver to proceed 	<ul style="list-style-type: none"> ▪ Increased driver efficiency ▪ Elimination of check, money order and currency handling costs for COD customers ▪ Accelerated collections

Looking to Make a Splash Within Your Organization

Envisioning the Future and Planning Tangible Next Steps



Make a Splash Within Your Organization

Evaluating Alternatives Based on Desired Focus and Scope



Desired Attribute	Same Day ACH	ePayments	RTP
Consumer Payees	✓	✓	✓
Corporate Payees	✓		✓
Debit	✓		
Credit	✓	✓	✓
Funds Availability	Same Day	Expedited - Varies	24/7/365
Immediate Payment Confirmation		✓	✓
Payment Finality			✓
Extended Remittance Information	✓		✓
Communication and Collaboration Throughout			✓
Enable End-to-End Experience			✓
Payee Banking Information not required		✓	?
International Expansion Potential			✓

Make a Splash Within Your Organization

Parting Shots



- Engage all stakeholders – this topic extends beyond a payment discussion
 - What is needed from IT perspective...connectivity and capability
- Plan for dealing with new channels originated from customers / suppliers
- Not mutually exclusive
- Consider both niche and end-to-end possibilities
- Be forward looking – imagine beyond current state

Make a Splash Within Your Organization

The World Will Keep Spinning Even if You Don't Act

Receivables Environment –

how will you process, recognize and reconcile an inbound RTP?



Payables Environment –

how will you receive, process, approve and pay a RFP?

Customers – how will you respond to evolving customer preferences for a robust digital experience?

Other – The rest of the world is continuing to pursue faster payments – will you begin to suffer competitively? Is your transaction processing model aligned with future ERP direction? What about new Fintech developments?



Thank
You!



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