Payables Landscape

April 21st, 2020
Welcome

Fifth Third Bank

- Fifth Third Bancorp ("Fifth Third") is a diversified financial services company headquartered in Cincinnati, Ohio, in 1858
- Fifth Third has $169B in assets, we are the 17th largest bank in the US
- We operate 4 main businesses: Commercial Banking, Branch Banking, Consumer Lending, Wealth & Asset Management
- We operate 1,154 full-service banking centers
- Third largest MasterCard issuer in the US

Adam Keck

Adam Keck has been with Fifth Third for 9 years and has spent the last 6 in Product Development. In the past 6 years Adam has led the inception, design, and launch of several Payables products including, most recently, Expert AP. Products launched have incorporated the following components: Invoice Digitization, Dynamic Discounting, Commercial Card, ACH, and Check Outsource.
Agenda

• Payables Landscape on March 1\textsuperscript{st}
• Payables Landscape on April 21\textsuperscript{st}
• Shifting the Payment Mix
• Solution Evaluation Cheat Sheet
• Overview of Real Time Payments
• Parting Thought
• Questions
Payables Landscape on March 1st
Invoice market data

- 54% Invoice manually entered by AP staff
- 70% Invoices received in mail or emailed attachment
- 45% Invoices approved manually
- 23% Companies with AP fully automated

Impact on automation¹

| Days to get an invoice approved in an average AP process (manual) | 16.6 |
| Days to get an invoice approved in an automated AP process | 3.6 |
| Improvement of invoice approval time when using an automated AP process | 5x |

Source: PayStream Advisors, 2018 Payable Insight Report, 2018
Payments market view

50% Payments made via Check

$7.78 Avg all in cost per check

72% Suppliers prefer electronic payments (ACH & VCN)

All inclusive check cost

- Check volume
- Labor costs
- Checks & envelopes
- Printing/mailing prep
- Lockbox service fees
- Postage fees
- Bank processing fees
- Check reconciliation
- Lost check handling
- Vendor questions

Goldman Sachs: B2B how the next payments frontier will unleash small business, 2018
Aberdeen Group Survey 2016
PYMNTS.com What Suppliers Want, 2016
Payments fraud

58% of attempted fraud through email compromise

82% of companies experience attempted fraud

43% of companies experience actual financial losses

76% of companies focused on stronger controls & employee training

70% of companies experience attempted check fraud

Source: 2019 AFP Payments Fraud and Control Survey Report
Source of fraud

Sources of Attempted and/or Actual Payments Fraud in 2018
(Percent of Organizations that Experienced Attempted and/or Actual Payments Fraud)

Outside individual (e.g., check forged, stolen card) 64%

Business Email Compromise (BEC Fraud) 58%

Third-party or outsourcer (e.g., vendor, professional services provider, business trading partner) 22%

Account takeover (e.g., hacked system, malicious code – spyware or malware from social network) 21%

Source: 2019 AFP Payments Fraud and Control Survey Report
Payables Landscape on April 21\textsuperscript{st}
COVID-19 macro impact

• 140 countries imposed international travel restrictions\(^1\)

• 60 US retailers temporarily closed, representing $370B in sales and 50,000 locations\(^2\)

• 54.8% of surveyed companies did not have a continuity plan covering a global shutdown\(^3\)

• 48% of surveyed companies continuity plans only cover 2-3 weeks of disruption\(^3\)

• Only 46% of US employees feel there company successfully responded to the pandemic\(^4\)

• China imposed travel restrictions and shelter in place policy lasted over 3 months\(^1\)

Source:
1) Mercator Advisory: Commercial Payments and COVID-19, April 2020
2) McKinsey: Adapting Customer Experience in the time of Coronavirus, April 2020
3) AvidXchange Business Continuity Survey 2020
4) Hinge: Marketing in an age of uncertainty, April 2020
COVID-19 incremental tests & cases per day

United States

- Mar 11 - U.S. begins to suspend travel from Europe, except U.K.
- Mar 13 - Drive-through testing in the U.S. begins in New Rochelle, NY
- Mar 16 - President Trump announces public health measures as part of “15 Days to Slow the Spread” campaign
- Mar 20 - Government bars entry to foreign nationals who had been in 26 EU countries within the last 14 days
- Mar 29 - New York announces stay-at-home order to curb transmission

- Mar 5 - U.S. Vice President Mike Pence announces there are not enough tests to meet demand

China

- Jan 23 - City of Wuhan is locked down and travel from nearby cities is restricted
- Jan 24 - All tourist activity in Hubei canceled
- Feb 3 - Hong Kong closes all 11 of its border control points
- Feb 7 - All students asked not to return to school following Chinese New Year
- Feb 19 - China begins to sustain daily new case reports below 2,000
- Feb 21 - Government eases traffic restrictions, encourages work to resume in less-affected areas
- Feb 24 - 330,000 tests conducted to date in Guangdong
- Mar 10 - Closure of last of 16 temporary hospitals

Italy

- Feb 21 - Cluster of 16 cases identified in northern Italy
- Feb 23 - Authorities begin testing all 3,300 residents of northern town of V0 (new cases now zero)
- Mar 8 - Authorities begin testing all of Lombardy and 14 other northern provinces
- Mar 20 - Italy extends physical distancing measures in the U.S. through April 30
- Mar 29 - President Trump extends physical distancing measures in the U.S. through April 30

- Feb 20 - Testing criteria are relaxed, allowing contacts of confirmed cases to be tested
- Mar 9 - Italy begins national lockdown; travel banned
- Mar 19 - Italy testing at rate of ~2,000 per million, amongst highest in western Europe

COVID-19 impact on employees

Successful response\(^1\)
- Frequent communication
- Detailed plan of action
- Proactive decision making

Increased energy levels\(^2\)
- Frequent communication
- Clear set objectives
- Efficient remote processes
- Right tools & technology

Decreased energy levels\(^2\)
- Mixed home/work roles
- Anxiety of unknown
- Insufficient tools/processes

Source:
1) Hinge: Marketing in an age of uncertainty, April 2020
COVID-19 impact on payments

- 53.4% of companies surveyed stated working remotely would significantly impact their ability to process invoices\(^1\)

- Only 54% of companies surveyed stated they could make all their payments remotely\(^1\)

- 73% of banking US adults will use digital payment options through the crisis\(^2\)

“Bad actors thrive in times of chaos and uncertainty, and are quick to capitalize”\(^4\)

Impact of economic crisis on non-cash payments\(^3\)

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th>2009</th>
<th>CAGR*</th>
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</thead>
<tbody>
<tr>
<td>Total (billions)</td>
<td>55.2</td>
<td>109.0</td>
<td>4.6%</td>
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<tr>
<td>Checks (paid)</td>
<td>30.5</td>
<td>24.5</td>
<td>-7.1%</td>
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<tr>
<td>ACH</td>
<td>14.6</td>
<td>19.1</td>
<td>9.4%</td>
</tr>
<tr>
<td>Credit card</td>
<td>21.7</td>
<td>21.6</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Debit card</td>
<td>25.0</td>
<td>37.9</td>
<td>14.8%</td>
</tr>
<tr>
<td>Prepaid card</td>
<td>3.3</td>
<td>6.0</td>
<td>21.5%</td>
</tr>
</tbody>
</table>

Figures may not add due to rounding.
* CAGR is compound annual growth rate.

Source:
1) AvidXchange Business Continuity Survey 2020
2) Aite: COVID-19 impact on payments, April 2020
3) Mercator Advisory Group, April 2020
4) Aite: COVID-19: Challenges and Opportunities in Financial Services, March 2020
Summary of COVID-19 impact on payments

• Social distancing measures likely to last longer than initially anticipated
• Shifting short term business continuity plans to scalable BAU processes critical
• Proactive decisions about changes to tools and workflows directly impact employee morale
• Rise in electronic payment usage as purchases shift to online platforms
• Fraudsters will evolve as new opportunities present themselves with COVID-19
Shifting the Payment Mix
Why now is the time to shift the mix

- Printing checks in house is costly and challenging in a remote environment
- Managing a remote business requires different controls to ensure appropriate oversight
- Electronic payments provide reduced fraud risk compared to paper checks
- Due to health crisis many looking to minimize physical handling of paper
- Many new payment automation solutions and products produced in last 5 years
Manual AP process

Manual invoice handling

Manual approval process

Budget
Accounting system entry
Post to GL
Check
Invoice filed
Research

Disputes, audits, late payments

Manual payment management

Accounting system integration
Automated AP process
Virtual credit card

Benefits of a virtual card

- Greatly reduces fraud risk
- Control over amounts and timing of payment
- Visibility into all card activity via online portals

Generate financial incentives like traditional P-Card
Solution Evaluation Cheat Sheet
Solution evaluation cheat sheet

Questions about the product:
• What percent of check payments will be converted to electronic?
• Does the solution integrate with your accounting system?
• What controls are available with the solution (Approval workflow, Positive Pay, ability to cancel payments)?
• Is there a limit on the number of users that can access the solution (Are their per-user license fees)?
• What are the post-implementation or annual costs?
• How will the solution be supported and any impact due to COVID-19?
• Can my Bank relationship offset costs?

Questions about the ROI:
• What assumptions were made in the ROI (cost per invoice, cost per check, number of payment converted)?
• What is the assumed ramp time to reach the estimated payment conversion levels?
Overview of Real Time Payments

The new way to get rid of the paper
Real Time Payments (RTP®)

Several “Real Time Payments” initiatives underway in the US
RTP®: A new payment rail

U.S. Payments Systems or “Rails”

- Check Image Exchange
- ACH
- Wire
- RTP

Source: The Clearing House Payments Company
RTP® features

- Credit push only
- 24 X 7 processing
- Immediate availability of funds
- Payment certainty
- Global ready
- Immediate confirmation
Parting Thought
Parting thought: Think beyond today

• **Resolve**: Address immediate issues to keep business running
• **Resilience**: Address areas to ensure stability of the business beyond today
• **Return**: Plan for how to scale business back up quickly
• **Reimagine**: Prepare for what the new normal will look like post COVID-19
• **Reform**: Understand how regulatory changes will impact your business ongoing

*Source: McKinsey: COVID-19 Briefing, April 2020*
Questions?

Thank you.

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