



## FUTURE OF PAYMENTS AND THE MILLENNIAL IMPACT

2017 TASSCUBO Winter Meeting

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J.P.Morgan

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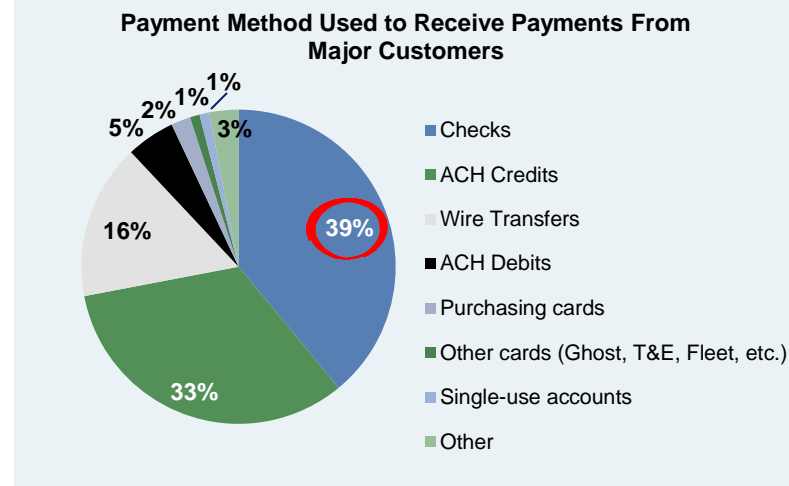
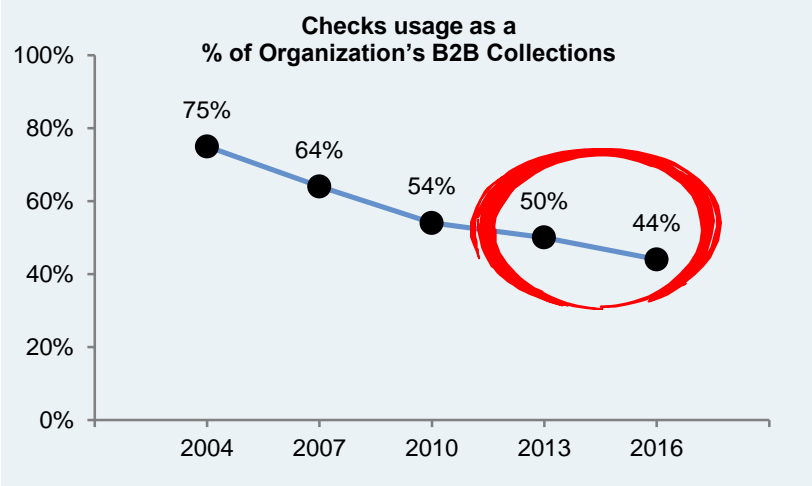
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# Agenda

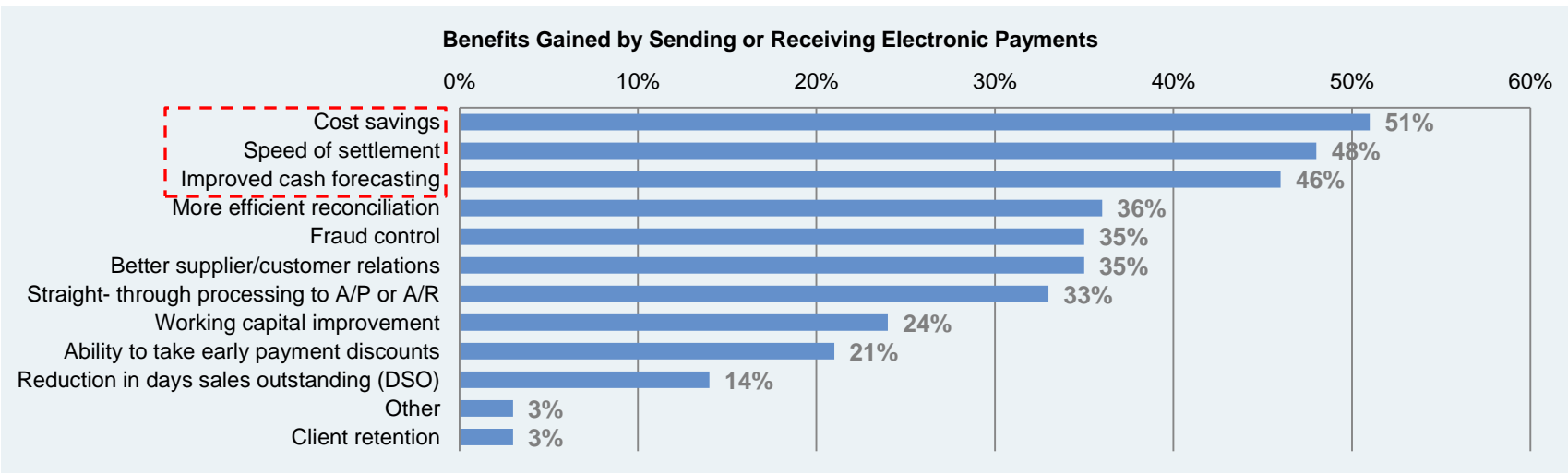
Topic	Page
<b>Trends, Insights, Implications</b>	<b>2</b>
<b>Banks and Fintechs: Collaboration and Innovation</b>	<b>5</b>
<b>Payment Ecosystem Changes</b>	<b>7</b>
<b>Millennials: Driving and Embracing Payment Technology</b>	<b>10</b>
<b>Question &amp; Discussion</b>	<b>13</b>

# Receivables: Range of benefits continue to drive down check collections

Check collection volumes continue to fall but corporates continue to see major customers paying them via check



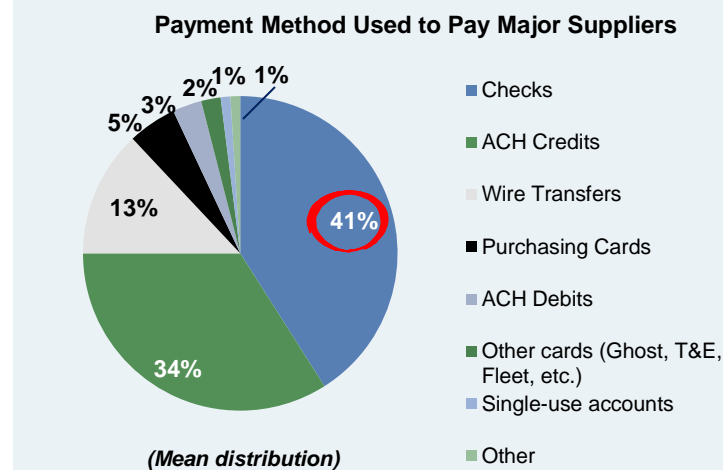
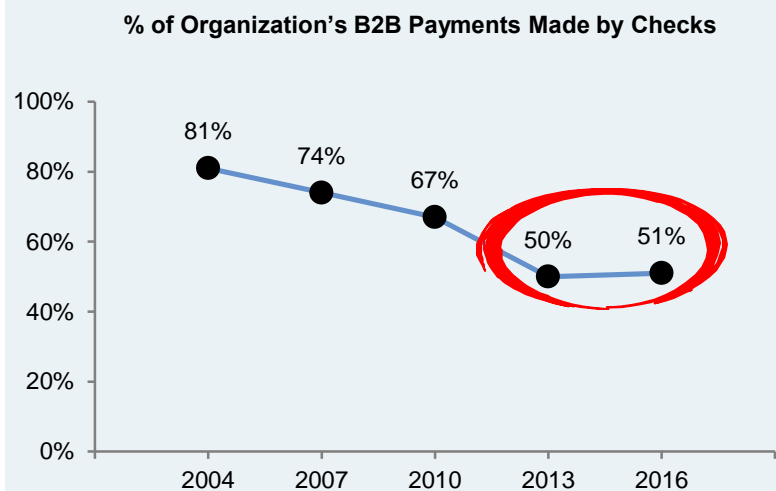
The decrease in overall check collection volumes largely stems from the wider appeal of electronic channels: Cost, Timeliness, and Quality of information



Source: Association for Financial Professional, 2016 Electronic Payment Survey, Oct 2016

# Payments: Continued focus on electrification with limited results

Check payment volumes remain flat after a period of sustained decline and continue to be a primary instrument for paying suppliers



Although check payment volumes continue to be quite significant, treasurers are confident that the majority of supplier payments can be migrated to electronic alternatives over the next three years

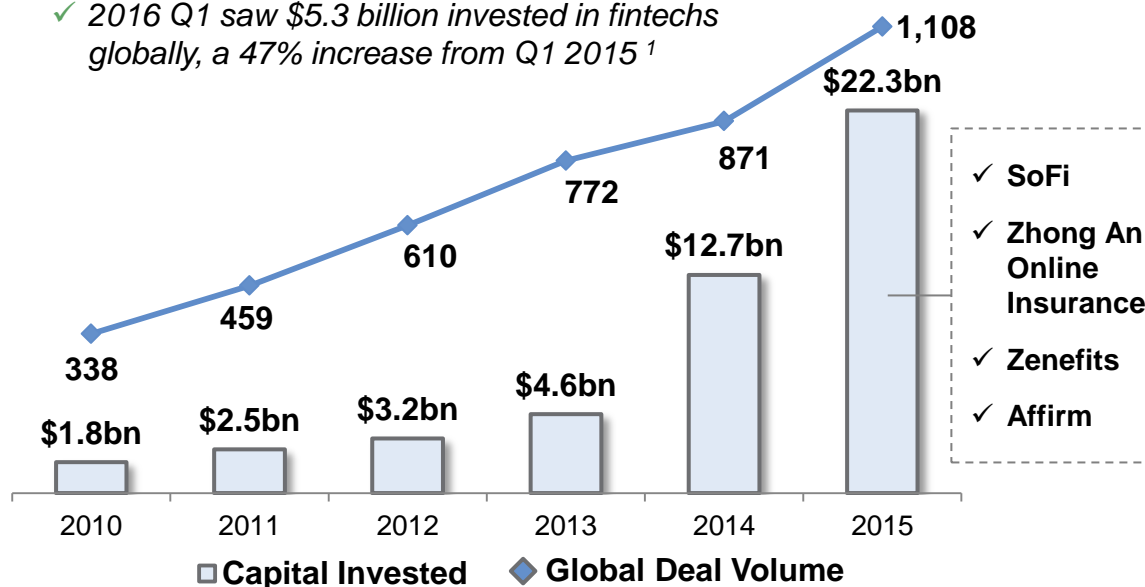


Source: Association for Financial Professional, 2016 Electronic Payment Survey, Oct 2016

The Fintech ecosystem has been rapidly expanding over the past 2 years

### Global FinTech Investment in the Past 5 Years<sup>1</sup>

✓ 2016 Q1 saw \$5.3 billion invested in fintechs globally, a 47% increase from Q1 2015<sup>1</sup>



Currently, fewer regulatory hurdles for fintechs than for large financial institutions



Fintechs are providing a robust user experience, but still depend on banks for back end transactions and rails

- ✓ SoFi
- ✓ Zhong An Online Insurance
- ✓ Zenefits
- ✓ Affirm

<sup>1</sup>Source: Accenture, Fintech and the Evolving Landscape

Focus on Lending, Payments, and Retail segments of fintech

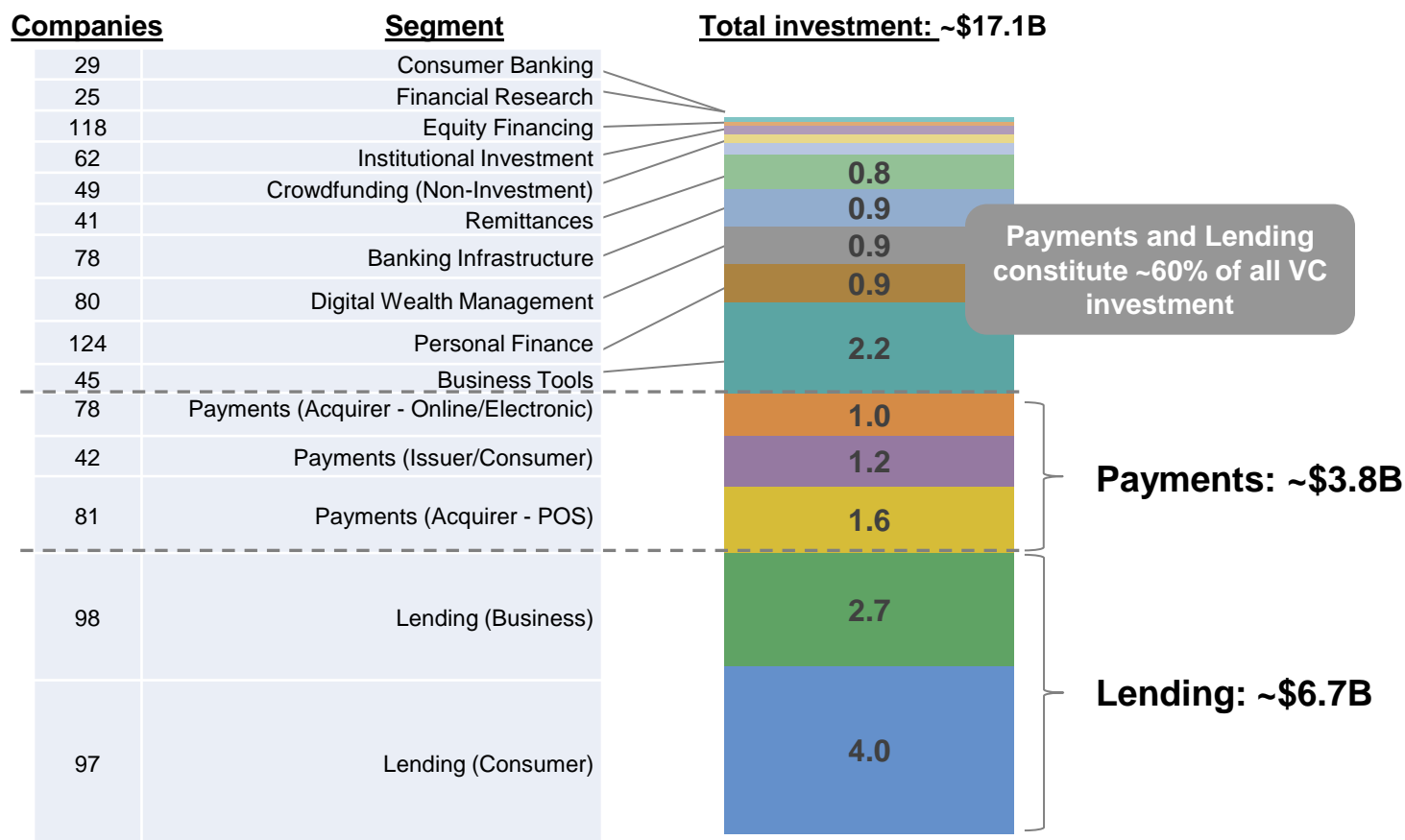
44% of 2015 fintech investment has been in collaborative firms<sup>1</sup>

Maturation of the Lending, Payments, and Retail spaces, shift to other segments such as **B2B Payments**

Fintechs viewing banks and companies as partners rather than competitors, which presents opportunity

# Fintech disruption and collaboration span all areas of the financial industry

## VC FinTech Financing Activity by Product Segment



Source: Venture Scanner (multi-year information not reconciled with CB insights annual fund raising data)  
 Note: Not exhaustive. Data does not include Crypto companies; estimated to have ~\$0.3B by 107 startups

# Federal Reserve Faster Payments

The Federal Reserve has identified 5 strategies that would improve the U.S. payment system

Stakeholder Engagement	Faster Payments	Payment Security	Payment Efficiency	Enhanced Federal Reserve Services
<ul style="list-style-type: none"> <li>500+ members engaging on Faster Payments and Secure Payments Task Forces</li> <li>Implementation of ISO 20022 for wire transfer and ACH</li> <li>The Fed has created many ways for stakeholders to stay informed and offer feedback</li> </ul>	<ul style="list-style-type: none"> <li>B2B, B2P, P2P, and P2B payments all in scope</li> <li>Federal Reserve is exploring options to                             <ul style="list-style-type: none"> <li>Evolve ACH</li> <li>Evolve ATM/PIN debit infrastructure</li> <li>Direct clearing over public IP networks</li> <li>Build new infrastructure for retain payments</li> </ul> </li> <li>Faster Payments Task Force established in 2015</li> </ul>	<ul style="list-style-type: none"> <li>Reduce fraud risk and advance the safety, security, and resiliency of the payment system</li> <li>Payment Identity Management work group is addressing the lack of universally accepted methods of establishing and confirming the identity of payers and payees</li> <li>Secure Payments Task Force focusing on data protection, information sharing, law coordination</li> </ul>	<ul style="list-style-type: none"> <li>Attain better end-to-end efficiency for domestic and international payments</li> <li>Remittance Coalition creating B2B directory, which seeks to allow businesses to make more electronic payments to vendors, suppliers, and other payees</li> <li>ISO 20022 as a standard</li> </ul>	<ul style="list-style-type: none"> <li>Hours of the National Settlement Service were expanded in 2015</li> <li>FedACH SameDay Service will support implementation of a universal Same Day ACH</li> </ul>

***Faster Payments final payments report to be released Q1 2017***

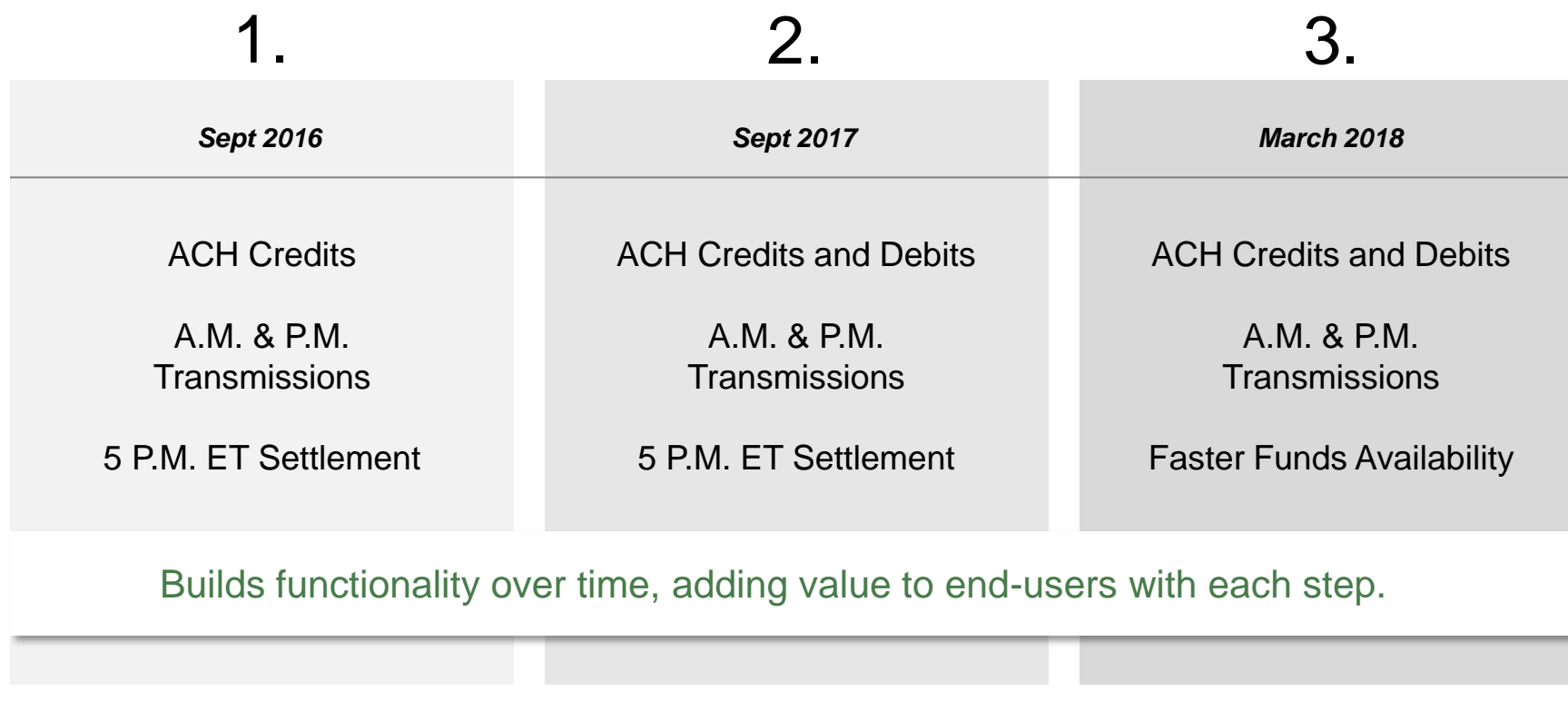
***J.P. Morgan's Engagement***

- ✓ J.P. Morgan is a member of the Federal Reserve Faster Payments Task Force as of May 2016
- ✓ Commitment to efficient change
- ✓ Preparing to adopt and support new payments rails that are created

Source: Federal Reserve FedPayments Improvement



# NACHA – ACH Same-Day



## Client Use Cases



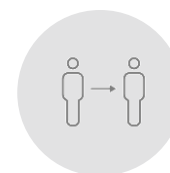
**Payroll**



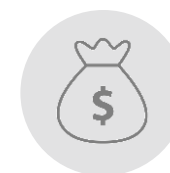
**Business-to-business**



**Bill Pay**



**Person-to-person**



**Funding**

# New Payments Rails

	The Clearing House	Early Warning Systems	Networks	Book Transfer	Digital Currency
<b>Name</b>	Faster Payments	clearXchange	Visa OCT/ MC Send	E.g. Earthport	E.g. Bitcoin
<b>Attributes</b>					
■ Irrevocable	✓	✓	✓	✓	✓
■ Real-time	✓	✓	✓		✓
■ Alias driven	3 <sup>rd</sup> parties	✓	3 <sup>rd</sup> parties		Wallets
<b>Use cases</b>	(ISO 20022)				
■ P2P		✓	✓		✓
■ B2C	✓	✓	✓		✓
■ Bill Pay	✓	✓	✓		✓
■ B2B	✓			✓	✓
<b>Pros</b>	20022 messaging; x-border	Integrated with 7 major banks	Ubiquitous, including x-border	Limited to low-value	Low cost in theory; x-border
<b>Cons</b>	Still building; cost?	60% 2016 real-time ubiquity; no x-border	Content limits; 3 <sup>rd</sup> parties provide alias	Limited to x-border use cases	Lack full AML compliance
<b>When?</b>	2017	2016	2016	2016	2016

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# The Millennial Impact

	Millennials	GenXers	Boomers
Used a bank's mobile app	67%	55%	33%
Used a bank's website or online portal	78	75	67
Used the mobile app to transfer money	26	19	8
Used the mobile app to pay a friend or family	21	12	5

Source: 2015 Chase Digital Adoption Survey

**Chase's Digital Adoption Survey** shows a high percentage of millennials using mobile apps and websites for banking and to transfer money

## Statistic

**75%** of the workforce will be made up of Millennials by 2030<sup>1</sup>

**>50%** of Millennials are using non-traditional payment companies like PayPal and Venmo<sup>2</sup>

## Insight

- Millennials are highly **tech savvy** and grew up with internet and mobile devices, and as more and more become decision makers in businesses, the **shift to electronic B2B payments** could increase
- **User friendliness** and **customer experience** is driving Millennials toward **non-traditional banking** options, so companies must be willing to adapt

<sup>1</sup>Source: US Bureau of Labor Statistics

<sup>2</sup>Source: FICO Millennial Insight Report

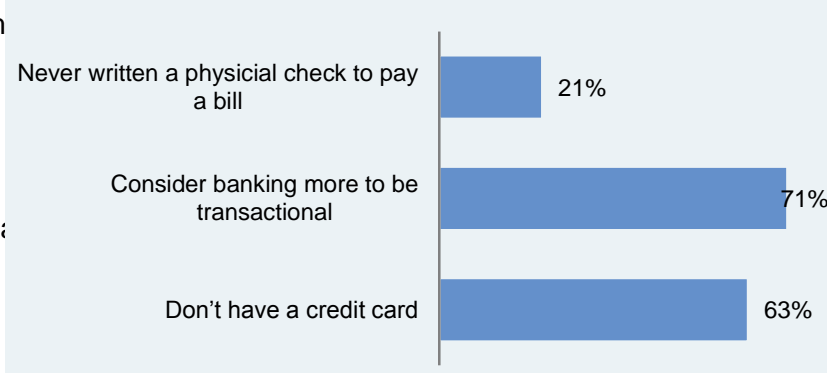
## Millennials are an online and mobile generation.

### Why is millennials important to study?

- Population of U.S. millennials is 80 million, which is 3 million more than the entire U.S. population in 1960.
- In 2014, Millennials' total liquid asset was \$2 trillion.
- Millennials will have \$7 trillion liquid assets by 2020.
- By 2025, 46% of U.S. income will be generated by the millennials.

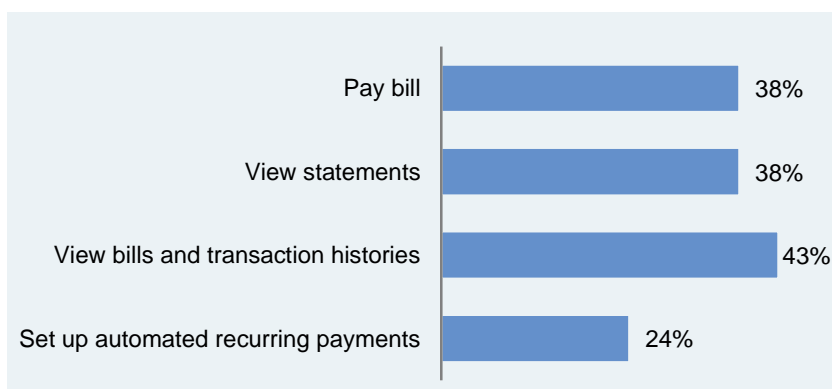
Source: First Data Millennial White Paper

### How are millennials using banking services?



Source: First Data Millennial White Paper

### How are millennials using apps and mobile tools?



Source: First Data Millennial White Paper

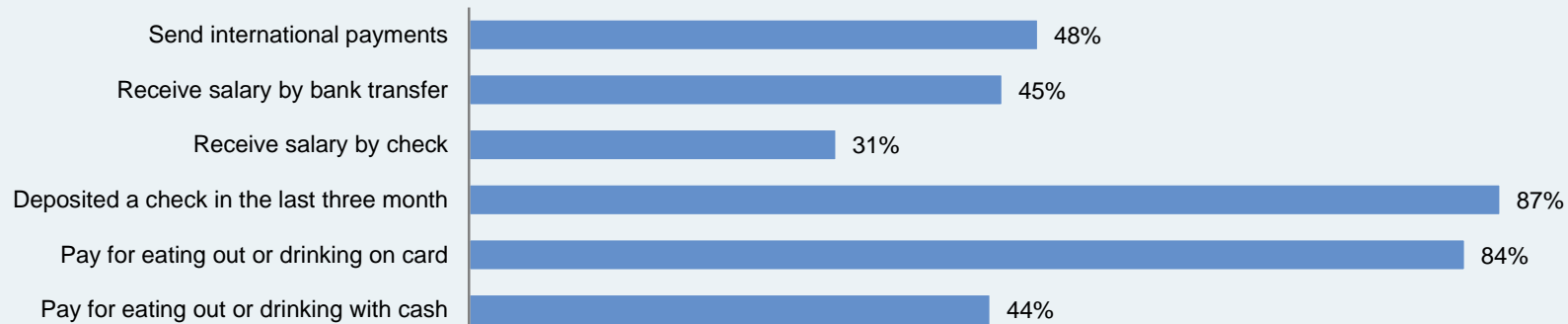
### Millennials are increasingly using online payments

- 47% of consumers have already transferred money to someone electronically.
- 43% list online banking as the first or second most valuable aspect of their day-to-day banking experience.
- 23% list mobile banking as the first or second most valuable aspect of their day-to-day banking experience.

Source: First Data Millennial White Paper

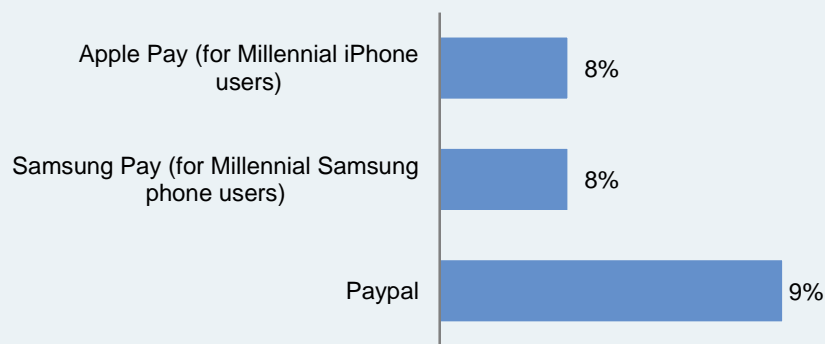
# Millennials are a tech-savvy generation and prefer convenient payment methods

## Millennials and their payment behavior



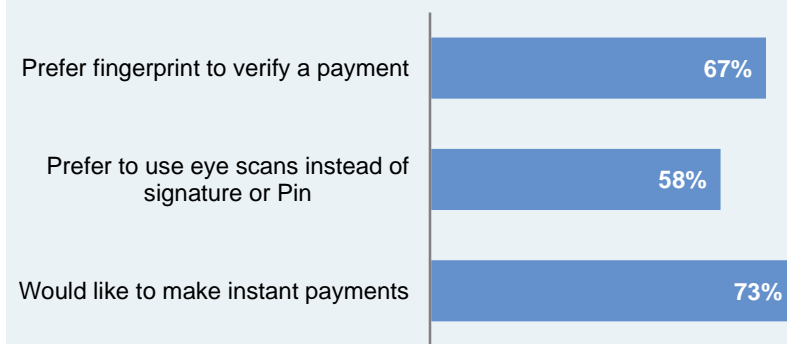
Source: The Financial Brand, "Why Don't Millennials Love Digital Payments?", Oct 2016

## Percentage of millennials who use alternative channels



Source: The Financial Brand, "Why Don't Millennials Love Digital Payments?", Oct 2016

## Millennials and the future



Source: The Financial Brand, "Why Don't Millennials Love Digital Payments?", Oct 2016

## Millennial Impact for you University Panel

### Questions for the audience to explore

- What has your university done to adapt to the changing demand from your millennials?
- Do you see challenges in the payments space as industry evolves and millennial further push the boundaries of what was once considered normal?
- What do you see as a threat to the existing practices for collecting payments from your students?
- What are your millennial students seeking from your respective schools today that you can and cannot deliver on?