

**Best Bank in Town Since 1872**

The logo for BB&T, featuring the letters "BB&T" in a white, serif font with a slight shadow effect, set against a dark red square background.

# **“What’s Happening In Payments”**

**Hampton Roads Association for Financial Professionals**

***Joseph Blount***

***BB&T***

***April 20, 2010***



- Payments Defined
- Payment Trends
- What's Happening In Payments
- Fraud/Risk Management
- Predictions
- Strategic Drivers



# Payments Defined

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## What are “Payments”?

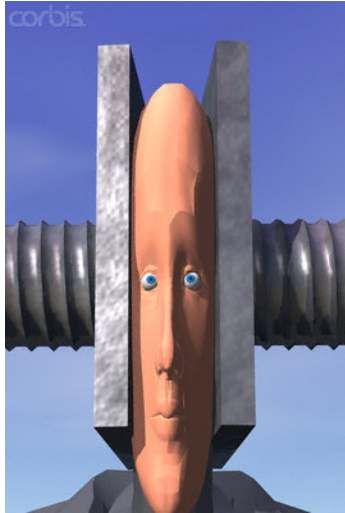
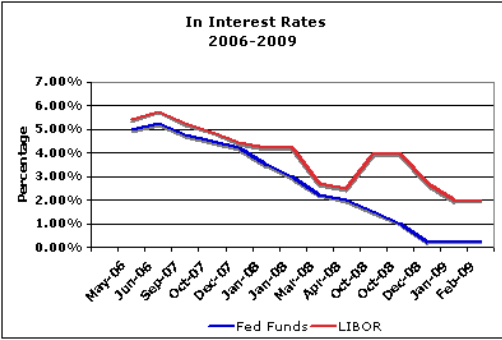
- ACH
- ATM Transactions
- Cash
- Cash Management
- Checks
- Credit Cards
- Debit Cards
- International
- Merchant
- Mobile Payments
- Online Bill Payments
- Prepaid Cards
- Wire Transfers

Payment activities represent the primary link between banks and their clients.

Payment processes provide much of the day-to-day client experience with the bank.



# Payment Trends – Economic Environment



Courtesy: [www.treasurystrategies.com](http://www.treasurystrategies.com)

# Payment Trends - Current Environment

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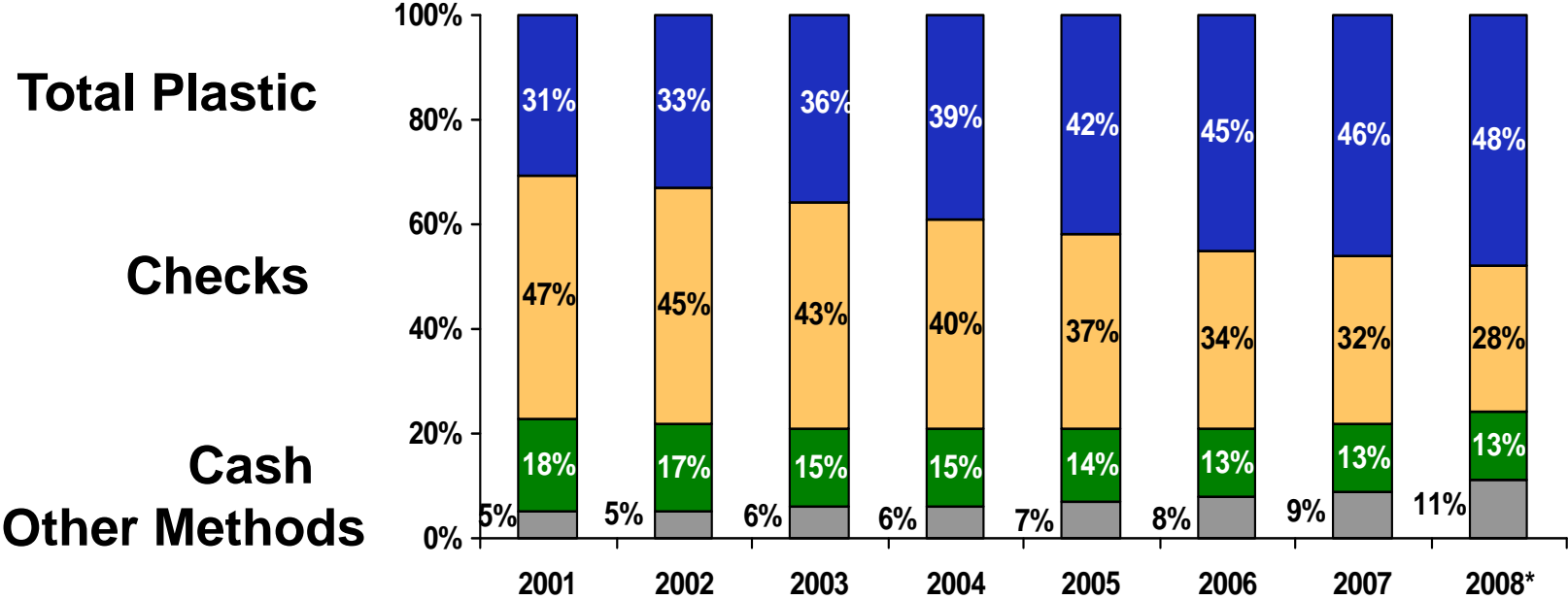


*“Today’s generation has never known a time without ATMs, Debit Cards, the Internet, On-Line Banking and cell phones.”*



# Payment Trends - Check Volumes Declining

## Share of Total Dollar Volume: By Major Payment Method



\*Source: 2009 Visa Payment Panel Study – representative sample of approximately 4,800 U.S. adults recording and reporting payment activity on a quarterly basis



# Payment Trends – Check Volumes Declining

## Percentage of Total Transaction Volume Consumer Accounts Only

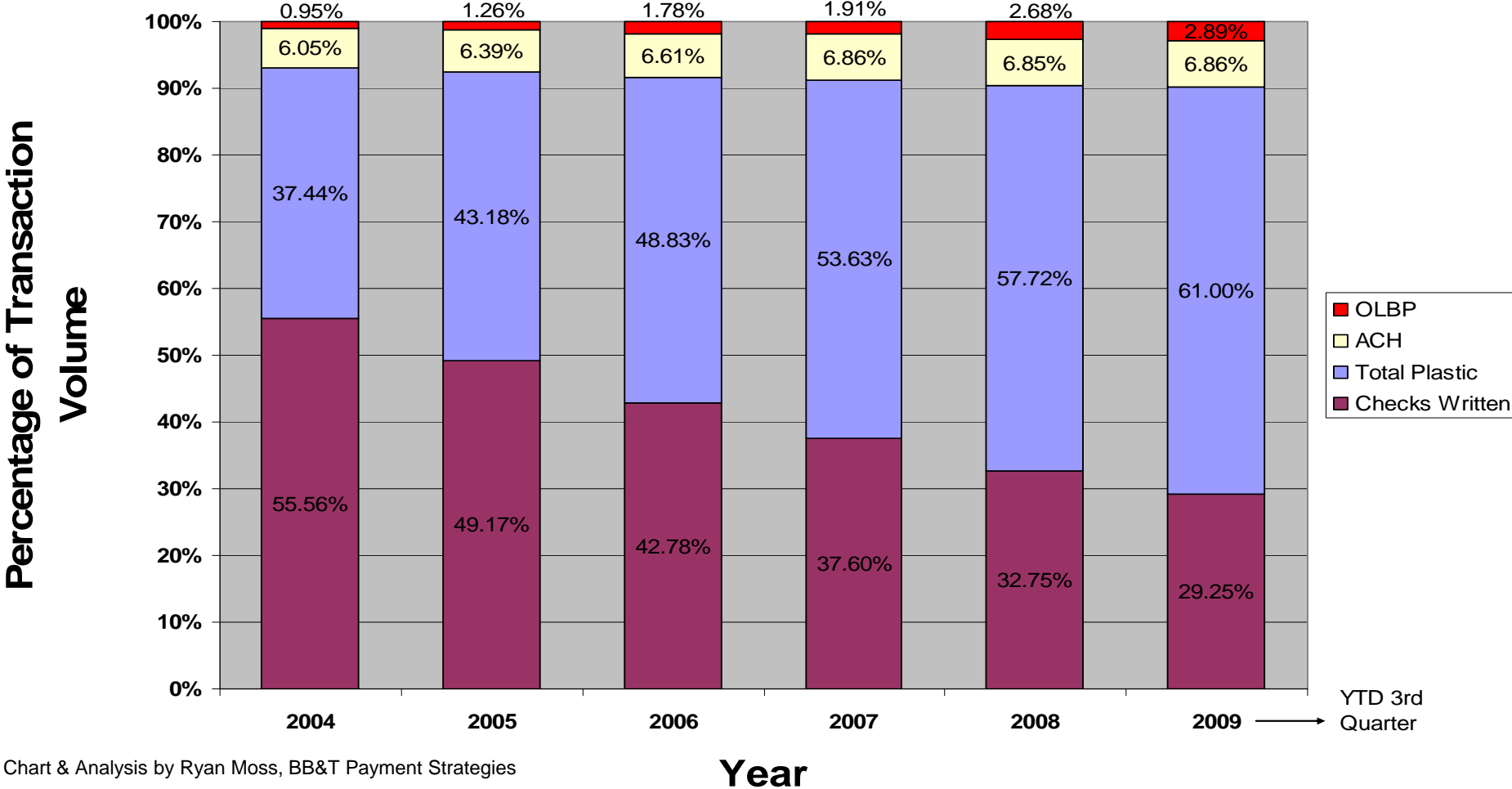


Chart & Analysis by Ryan Moss, BB&T Payment Strategies

Year

YTD 3rd Quarter



# Payment Trends – Check Volumes Declining

## Monthly Check Transactions Per Consumer DDA Account

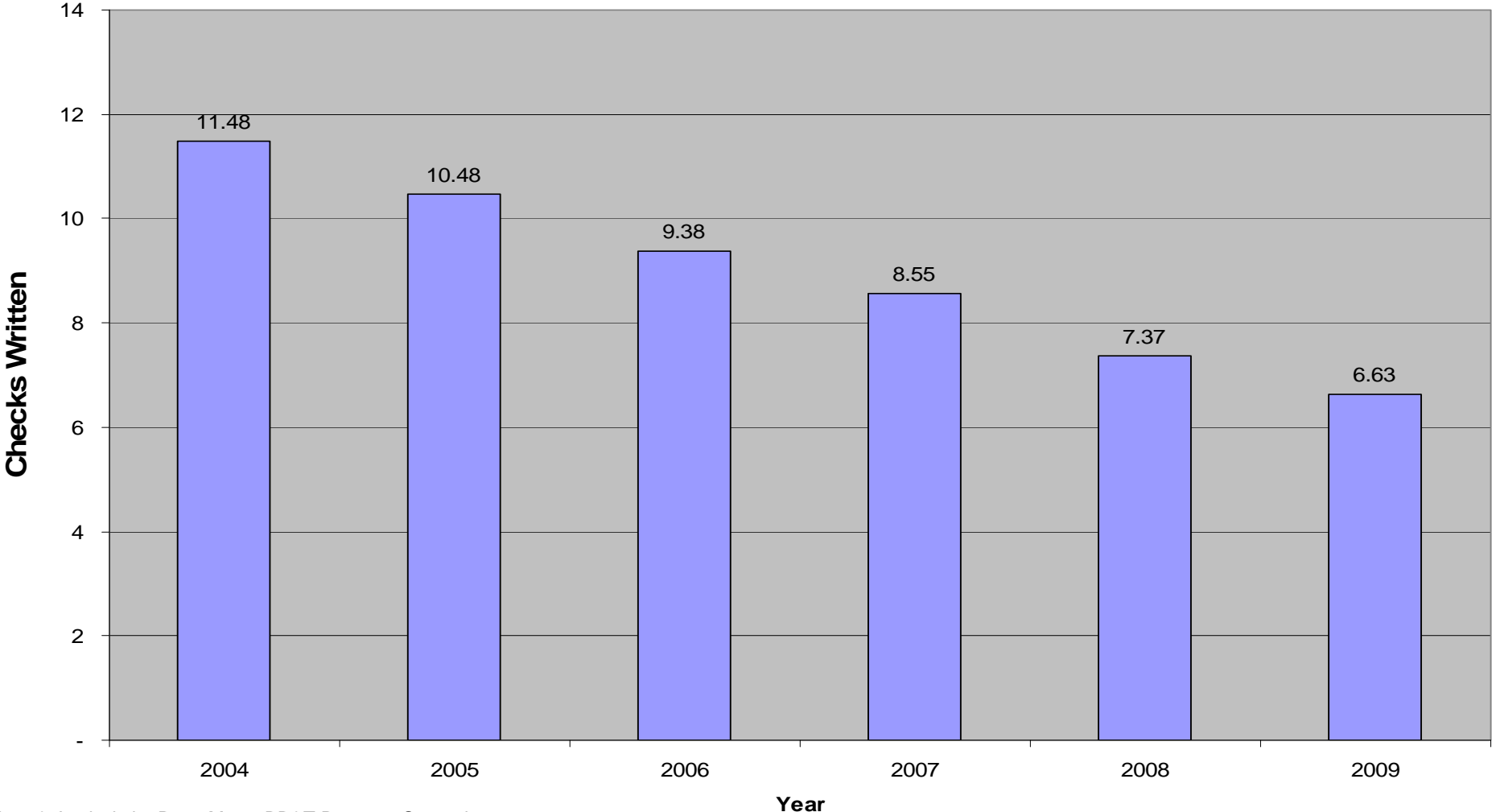


Chart & Analysis by Ryan Moss, BB&T Payment Strategies



# Payment Trends – Check Volumes Declining

### Percentage of Total Transaction Volume For Commercial Accounts Only

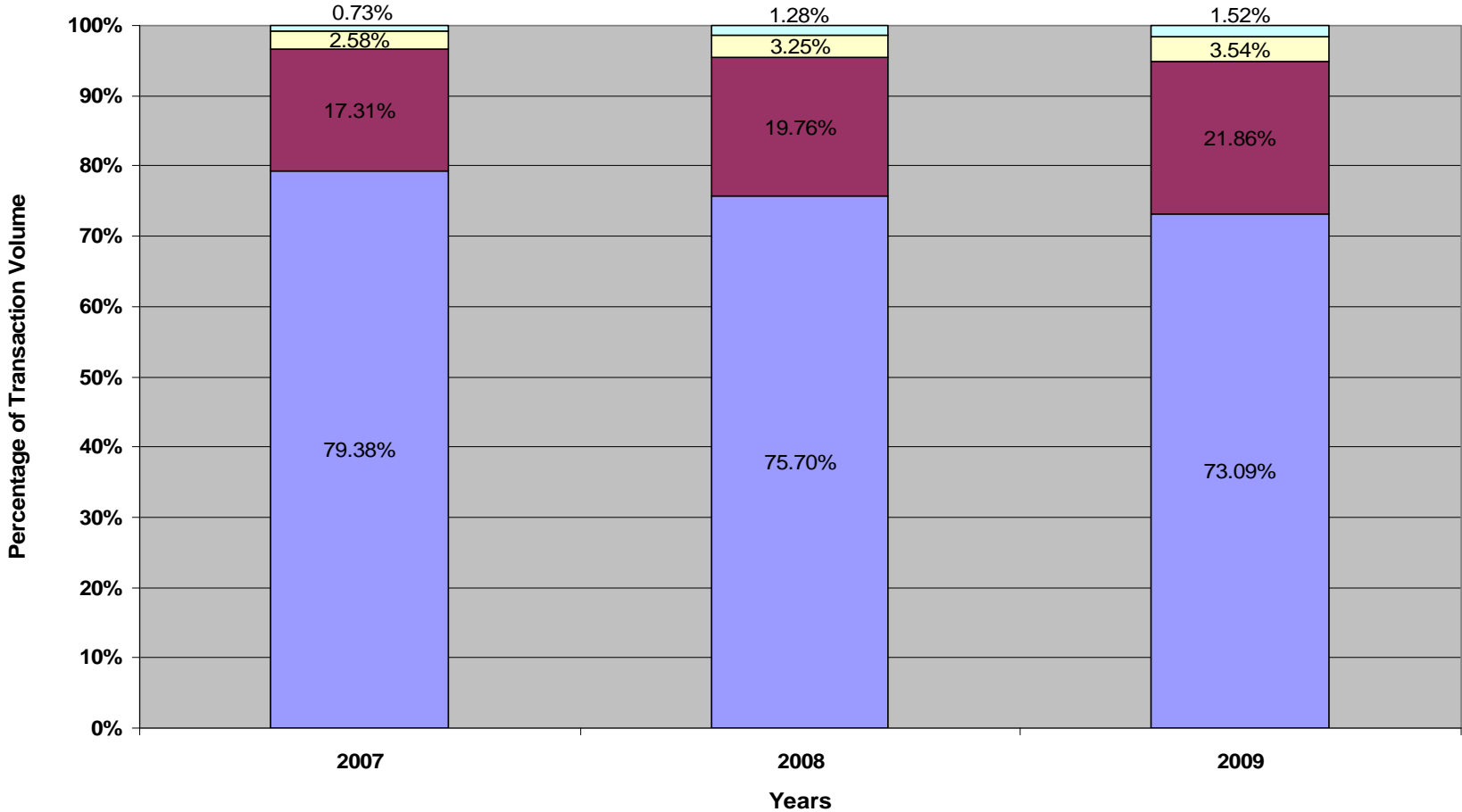


Chart & Analysis by Ryan Moss, BB&T Payment Strategies

■ Checks Written ■ Total Plastic ■ ACH ■ OLBP



# Payment Trends – Check Volumes Declining

### Monthly Check Transaction Per Commercial DDA Account

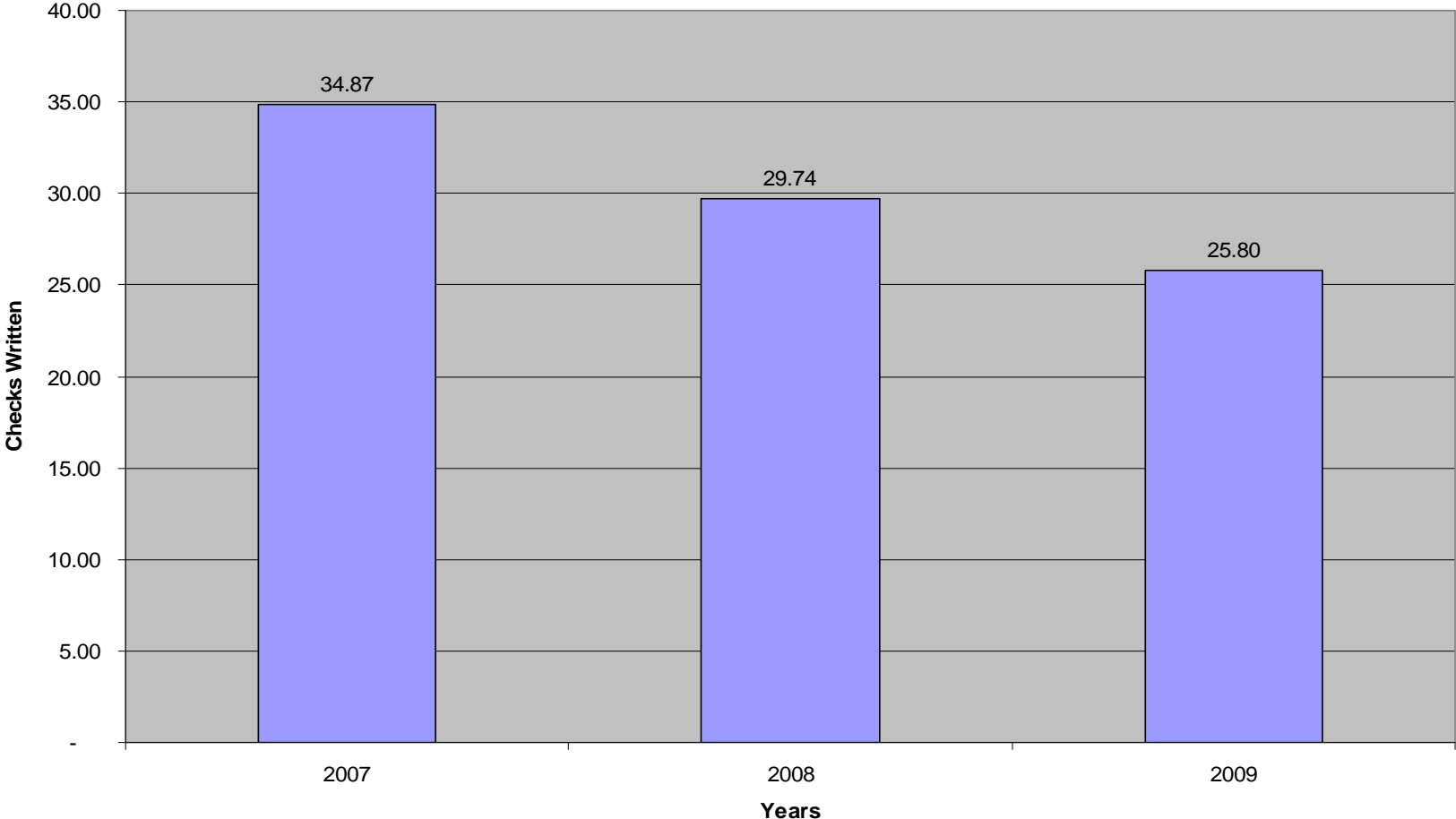
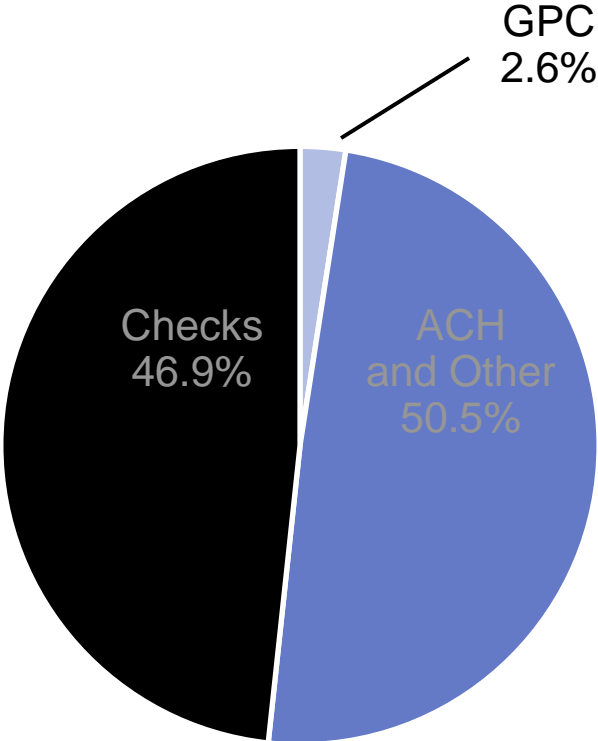


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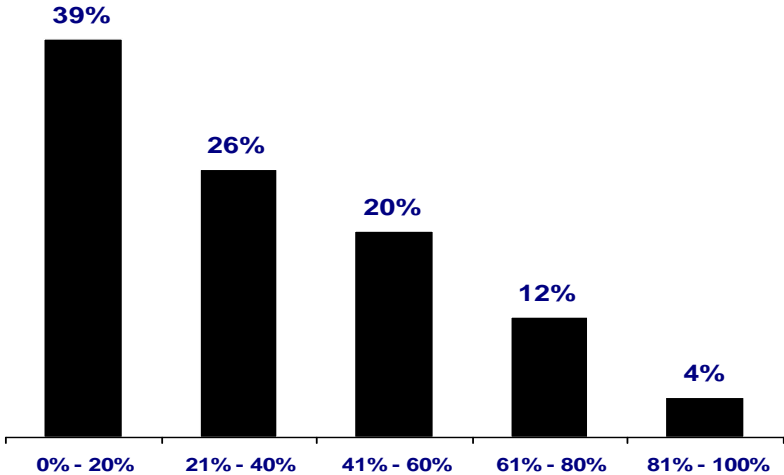


# Payment Trends – Businesses Still Using Checks

2008 CCE\* by Payment Type  
100% = \$20.3T



Shift from Checks and Other Payment Methods to Commercial Payment Cards



% Shift to Commercial Payment Cards

*What percentage of your commercial payments do you anticipate shifting from checks/other payment methods to commercial payment cards in the next 12 – 18 months?*

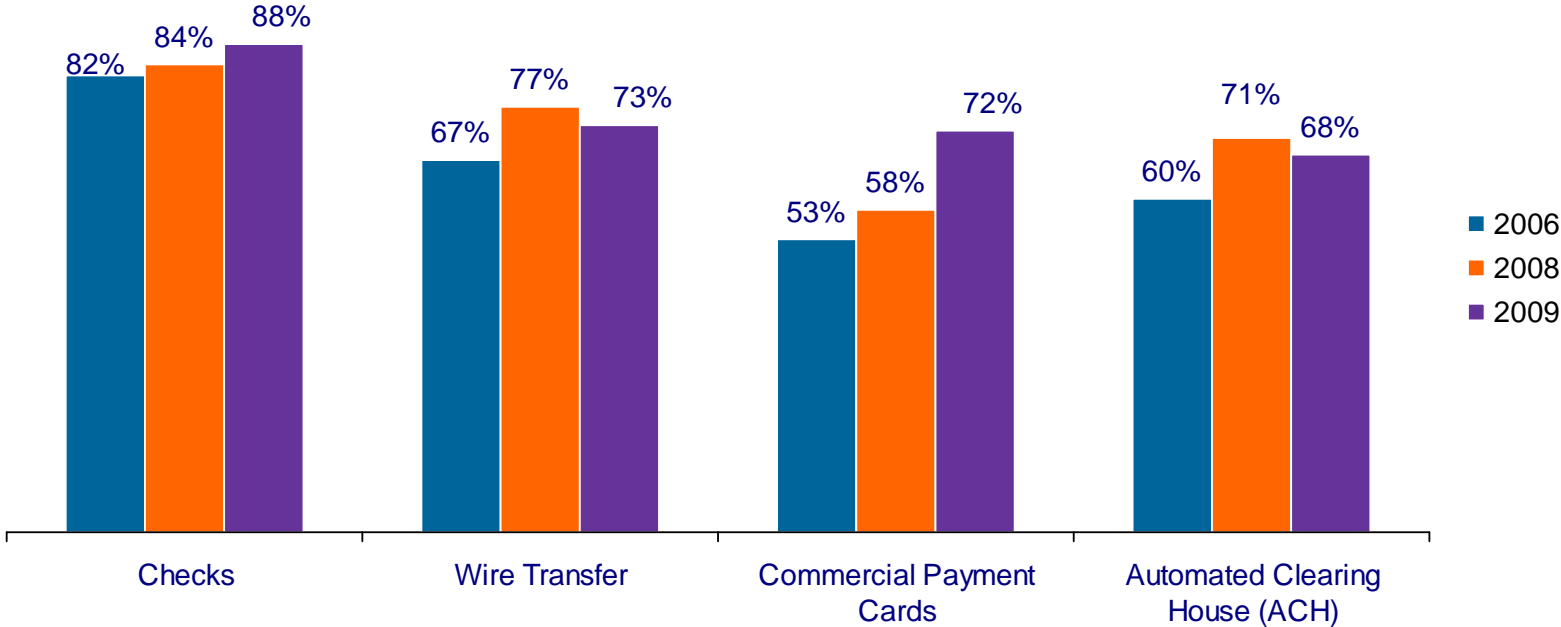
\*CCE=Commercial Consumption Expenditures; data provided by Visa

Source: 2009 Visa Inc. Global Cash Management Survey commissioned by Visa Inc. and conducted by Survey.com



# Payment Trends – Businesses Still Using Checks

➤ U.S. Commercial Payment Usage



Source: 2009 Visa Inc. Global Cash Management Survey commissioned by Visa Inc. and conducted by Survey.com

## Payment Trends - Recent Developments

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- As of February 2010, the Federal Reserve has only one paper check processing site, in Cleveland
  - There were 45 Fed paper check processing sites in 2003
  - All checks are now “local” under Federal funds availability rules
- Paper checks increasingly being converted to electronic transactions through:
  - ACH eCheck conversion at lockbox facilities and point of sale
  - Remote Deposit Capture
  - Image Exchange
- Coupled with check safekeeping and image statements, depositors today receive very few of their original cancelled checks in their monthly statements
- As paper check volumes decline, per check processing costs will increase

## Payment Trends - Recent Developments

- Widespread adoption of online bill payment driving reduction in checks; online bill payment expected to grow at a rate of 18.7% through 2012\*
- Increased acceptance of card payments, especially for small dollar transactions
  - Debit/credit cards now commonly accepted at fast food outlets    movie theaters    taxis  
vending machines    parking meters  
even Salvation Army Red Kettles
  - No signature required for purchases <\$25 (Card Network Rules)
  - No terminal receipts for purchases <\$15 (Regulation E)
- New services available for casual Person to Person Payments via mobile phone or e-mail (PayPal Mobile, CashEdge POP Money, etc.)



\*Source: Tower Group

## Payment Trends - Benefits of Electronic Payments

### ➤ Convenience

- No need to write and mail a paper check
- No need to travel to the bank to deposit checks received
- Easy to set up recurring payments via card or ACH debit
- Checks not practical for internet shopping

### ➤ Safety and Reliability

- Most common type of payments fraud is from checks (91%), followed by ACH (28%) and debit/credit card (<20%)\*
- Card network rules protect consumers from losses from unauthorized use of lost/stolen cards, and with purchase protection programs
- Electronic payment transactions covered by Regulation E consumer protections
- Merchants are guaranteed payment for authorized card transactions

\*2009 Association of Financial Professionals Payments Fraud and Control Survey

# Payment Trends - Cash is Still King

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**1939**  
First mechanical cash dispenser installed in the US

**403 000**  
Estimated number of ATMs in the US today

**6 months**  
Length of time before this ATM precursor was removed due to nonuse

**85%**  
Global transactions that are made in cash

**239**  
Number of new ATMs installed per day worldwide

**\$2805**  
US currency in circulation in 2008, per capita

**\$9 million**  
Largest amount ever stolen from ATMs in one heist

**130**  
Number of ATMs targeted in the robbery

**30 minutes**  
Duration of crime

**18%**  
**9%**  
**18%**  
**55%**  
ATM transactions in US that are

- withdrawals
- deposits
- balance inquiries
- other

**1:761**  
Ratio of ATMs to permanent residents in the US

**2:0**  
Ratio of ATMs to permanent residents in Antarctica

**16 mcg**  
Average amount of cocaine found on each US bill in circulation

# Payment Trends – Prepaid Cards

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- Prepaid cards as substitutes for checking accounts
  - Reloadable through direct deposit, reload networks
  - Portable – not tied to current employment
  - Additional features
    - Bill payment
    - A2A transfers
    - Overdraft Protection
    - Alerts
    - Rewards
    - Credit builder (credit reporting features)
    - Online/telephone VRU for customer service
  - Alternative to checking accounts for un/underbanked segment
  - Increasingly used for payment of government benefits



## ➤ Technology

- New payment applications for mobile devices
  - Near Field Communications (NFC) for in-person POS payments
    - NFC chip imbedded in cell phone
    - NFC sticker affixed to phone
  - Access to online banking applications
  - Payment-related alerts (overdrafts, payments received)
  - Initiation/approval of transactions (bill payment, approve a wire)
  - P2P payments
  - Delivery of coupons, smart poster advertising
  - Remote deposit capture
- \$22 million in cell phone text donations to Red Cross Haiti relief



# Payment Trends - Technology

## ➤ Mobile Technology in the Last Decade\*

- 6 in 10 people own a cell phone (up from 1 in 10 in 2000)
- 4 trillion text messages sent in 2009
  - A 23,500% increase since 2000
  - \$130 billion in revenues from texting plans alone
- 1,500 mobile applications submitted to the Apple store daily
  - 4.5 billion mobile application downloads expected in 2010
  - Will result in approximately \$6.8 billion in revenue for Apple
- 50% of young adults never use a land line phone
  - Land line revenues have decreased by 30% in the last decade
- 2000 Price – Samsung 64MB cell phone      **\$399**  
(no camera, GPS, WIFI; 110 minutes battery life)
- 2010 Price – Apple iPhone 3GS                      **\$199**  
(includes camera, GPS, WiFi, 100,000+ applications available from Apple store; 300 minutes battery life)



\*newsobserver.com (Raleigh, NC) posted April 8, 2010

# Payment Trends - Regulation

- Regulation E – Overdrafts – effective July 1 (new accounts) & August 15 (existing accounts)
  - Consumers must opt-in to allow debit card and ATM transactions to overdraw their account
    - Merchants can expect a significant increase in declined debit card transactions at checkout lines
- 2 Overdraft Bills Pending in Congress
  - Limit consumer overdraft fees to  $\leq 1$  per month, 6 per year
- Regulation E – Gift Card rules
  - Covers merchant and bank issued gift cards
  - Significant restrictions on fees, funds expiration dates
  - New disclosure and marketing requirements
- IRS reporting of merchant receipts from card payments, beginning January 1, 2011
- Unlawful Internet Gambling Enforcement Act – effective June 1
  - Prohibits use of cards, ACH and other payment vehicles for unlawful internet gambling purposes

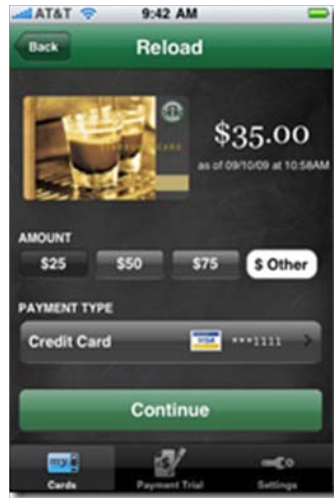


# Payment Trends - Regulation

- Credit CARD Act of 2009
  - Restrictions on rate increases, penalty fees, other practices
  - May result in tightened credit standards, higher interest rates, scaled back rewards programs
- 3 Interchange Bills Pending in Congress
  - Interchange is the fee paid to card issuers for each card transaction; fee is passed on to the card accepting merchant
  - Bills would
    - Provide anti-trust exemptions for merchant groups to negotiate interchange fees with card networks/issuers
    - Establish an appointed panel to set interchange rates
    - Prohibit certain card network rules, e.g.
      - Accept all cards rules
      - Required minimum transaction volumes



- Target and Starbucks Mobile Card Applications
  - Prepaid/gift card applications include
    - Make purchases by scanning bar code displayed on Smartphone
    - Add funds to the card, check card balance
    - Starbucks application includes access to store menus, store locations



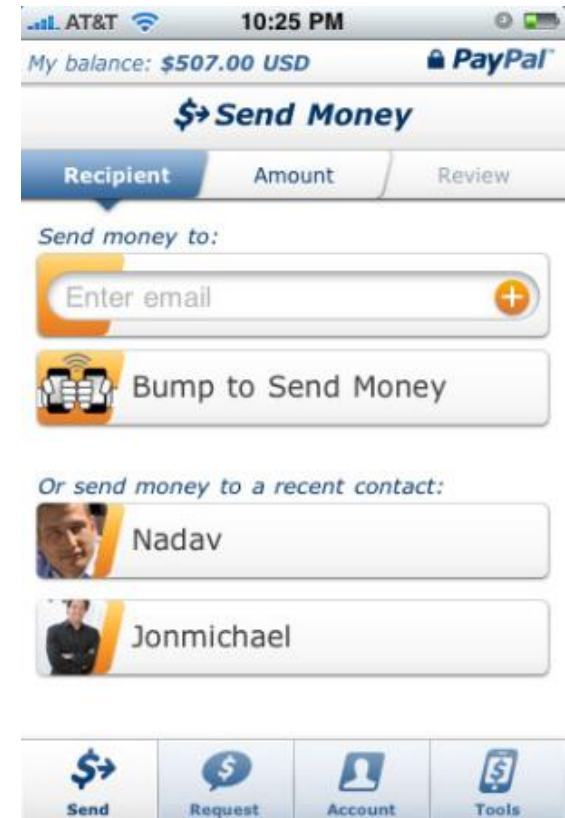
# What's Happening in Payments

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## ➤ PayPal iPhone Application

- Send or collect funds with recipient's/payer's e-mail address
- Split the check feature to collect from multiple parties
- "Bump" feature
  - Send/request funds to/from other PayPal iPhone users by tapping phones
- The PayPal iPhone application was downloaded more than one million times in the 3 weeks following its March 15, 2010 introduction





## ➤ Remote Deposit Capture

### How Remote Deposit Capture Works

Merchant / Business Location



#### Remote Deposit Application

- Validation of authorities
- Capture of deposits
- Keying and balancing support
- Submission of deposits
- Short-term viewing archive
- Support for client user id and password maintenance

Application allows business to securely connect to the depository bank for delivery of check deposits.



# What's Happening in Payments

- Remote Deposit Capture (cont.)
  - New offerings, pricing for small business/low volume clients
    - Less expensive, low volume scanners
    - Option to lease scanner vs. purchase
  - Integration with accounts receivable packages (e.g., Quicken)
    - Automatic reconciliation of payments to invoices
  - Remote deposit capture for consumers
  - Remote deposit capture using cell phone camera
  - Increased focus on risk by regulators, bank examiners
    - New requirements for screening new clients, transaction monitoring, training
  - Online tools for calculating benefits/savings



# What's Happening in Payments

## ➤ Commercial Vault Services

- Bank partnerships with armored car/vault services to provide nationwide coverage, additional services
  - Businesses with geographically dispersed locations can deposit funds to a single bank/account, nationwide
    - ✓ Simplifies accounting/reconciliation processing
    - ✓ Concentrates cash in a single account
  - Availability of remote deposit capture service allows for consolidated processing of cash and checks
    - ✓ Further reduces need for trips to the bank
- In-store safes
  - Business deposits cash in secured on-premises vault
  - Bill reader tracks cash deposited, transmits totals to bank
    - ✓ Can track currency deposited by individual cashier/employee
    - ✓ Real-time reporting of balance and deposit data
  - Business receives credit for cash deposited in safe daily
  - Armored car service picks up deposits on scheduled basis



# What's Happening in Payments

## ➤ Electronic Payment Order (EPO)

- An electronic image of a check that was initiated in an electronic form – it never existed as a paper document
- Technically feasible today – but not defined under U.S. payment laws or check clearing house rules
- Numerous potential applications
  - Mobile payments
    - ✓ Use your mobile phone to download an digital image of your check
    - ✓ Enter the payee name and amount
    - ✓ E-mail the check image to the payee
    - ✓ Payee uses Remote Capture to deposit the check electronically
  - Corporate payments
    - ✓ Create digital check images for corporate payments
    - ✓ Compatible with existing systems/procedures for handling check payments
- Federal Reserve & Electronic Check Clearing House Organization investigating rule changes to support EPOs



# Fraud/Risk Management

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- Despite declining check volumes, most payments fraud related to checks
- Data breaches - frequent and expensive
  - TJ Maxx in 2007: 45 million cardholder records, \$256 million in costs
  - Hannaford Supermarkets 2008: estimated 4.2 million records
  - Heartland Payment Systems 2009: up to 100 million records
    - Heartland stock price dropped 42% following announcement
    - \$60 million settlement with Visa in early 2010
  - CheckFree website hijacked in December
    - Site visitors redirected to bogus log-in page
    - Incident tied to previous phishing against network domain registration service





- Data breaches more frequent and expensive (cont.)
  - Average cost per breached record is \$202\*
  - Average cost per breach incident is \$6.6 million\*
  - 53% of worldwide phishing attacks target U. S. Banks\*\*
- Corporate Account Takeovers
  - Client responds to phishing e-mail, key logging software installed on client's computer
  - Fraudster obtains client's online banking credentials
  - Fraudster uses online credentials to wire funds out of account to a "mule" account at another bank
  - Mule subsequently moves funds overseas



\* Ponemon Insititue, LLC

\*\* RSA Security, Inc., Online Fraud Report

# Fraud/Risk Management

## ➤ Banks encouraging client involvement in fraud detection and prevention

- Positive Pay
- ACH Debit Block
- Online Banking
- Mobile and e-mail alerts
- PCI Compliance
- Additional online authentication tools (tokens, etc.)
- UPIC for receipt of ACH payments



## ➤ Client best practices

Dual Control

Authority Limits

Dedicated PC for online banking

Report suspicious activity

Frequent account reconciliations

PC Firewalls/Virus Detection

Be suspicious of e-mail claiming to be from bank

Tokens/multifactor authentication for online banking

# Predictions

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- **Celent LLC, a Boston-based consulting firm, expects the small-business use of remote deposit capture to increase by more than 400% in the next three years.**
- **2.1 Billion Mobile users may buy digital goods by phone in 2013:** More than 2 billion mobile-phone subscribers will purchase digital goods by phone by 2013, according to a report from United Kingdom-based Juniper Research Ltd. Juniper expects mobile-phone users to make at least two payment transactions per month for digital goods by 2013, according to the report.
- **Electronic P2P and P2B transfers projected to reach up to 1.98 billion transactions and \$116 billion by 2013,** according to Edgar, Dunn & Co.
- **U.S. Mobile Banking transactions expected to grow at 116% CAGR and reach 14 billion per year by 2013,** according to Tower Group
- Tower Group predicts that **40% of U.S. bank transactions will occur online by 2012**
- **43% of all U.S. consumers expect to upgrade to a smart phone/high end mobile device in the next two years** (VeriSign/FiServ survey)



## Expected Changes in Use of Payment Instruments 2008-2011\*

	Decrease a Lot	Decrease Somewhat	About the Same	Increase Somewhat	Increase a Lot
<b>Checks</b>	19.0%	20.0%	52.7%	6.1%	2.2%
<b>Debit Cards</b>	6.2%	4.8%	54.1%	22.8%	12.1%
<b>Credit Cards</b>	12.2%	14.1%	53.6%	15.0%	5.2%
<b>ACH Debit</b>	10.8%	4.4%	58.0%	20.3%	6.5%

**“...if not within five years certainly within ten paper checks will no longer be in use, replaced by debit cards and other plastic.” (J. Neckopulos, Hitachi Consulting.**

\* Source: The 2008 Survey of Consumer Payment Choice, Federal Reserve Bank of Boston

# Strategic Drivers

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- **Declining check volumes**
- **New check origination and clearing methods**
- **Government regulation and intervention**
- **Continued growth and innovation in electronic payments**
- **Shifts in consumer behavior**
- **Increased adoption/functionality of mobile devices and smart phones**
- **Merchants' desire to reduce payment costs**
- **New non-bank competitors**
- **New payments-related fraud risk**
- **Increasing importance of payments in banking relationships**



Questions?

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