Cash Management Strategies: Update, Educate & Mitigate

Pam Howe & Sara Palmer
Commerce Bank
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What We Will Cover

**UPDATE**
- Economic Update
- Payment Innovations

**EDUCATE**
- Back Office Automation & Efficiencies
- Bank Relationship Reviews

**MITIGATE**
- Fraud & Risk Mitigation Solutions
- Case Studies & Best Practices
UPDATE
In a decreasing rate environment what can you control?
Outside Your Control

Recession or New Normal?

• The Fed cut its benchmark rate by 25bps on 9/18/19 and Chances of an October 30 rate cut are now at 83%, according to FedWatch.
• The Fed announced on 10/11/19 it will launch a new program will purchase $60 billion of Treasury bills per month, further boosting the size of its already-massive $4 trillion balance sheet.
• US Treasury Bond yields curve inversion persists, as the yield curve has been distorted by more than $15 to $17 trillion worth of foreign bonds that pay negative interest rates. (These negative global interest rates are driving investors worldwide to buy U.S. Treasury bonds, pushing yields down.
• As societies age and the birth rates slow, interest rates have historically come down as investors rotate from consumption to saving.
Within Your Control

**Technology**
- Awareness of Tomorrow’s capabilities
- Today’s Technology
  - Your understanding
  - Is it worth embracing
  - ROI

**Efficiency**
- Current Process
  - From your perspective
  - From an outside perspective
- Business Objectives
  - Your Objectives
  - Staff Objectives
- Analysis & Prioritization

**Safekeeping**
- Allocation of Assets
- Time Horizon
- Fraud Management
  - Awareness
  - Mitigation
Cash Cycle Evolution

**RECEIVABLES**
- Electronic Transactions
- Remote Check + Cash Deposit
- Merchant Services
- Online Payments
- Integrated Receivables

**PAYABLES**
- Cash + Check
- Electronic Transactions
- Payroll + Expense Card
- Payment Automation
  - Commercial Cards
  - AP Card
  - Integrated Payables
  - Invoice Capture + Workflow Approval

**FUNDING & INVESTING**
- Term Loans + Lines of Credit
- Short + Long-Term Investments

**MANAGING RISK & INFORMATION REPORTING**
- Fraud Prevention
- Online Balance Reporting

**SOLUTIONS**
- Consulting
- Implementation
- Client Support
- Continuous Education
The Evolution of Real Time Payments

**Faster Payments Taskforce**
- Started May 2015
- Focused on identifying goals and attributes for faster payments between 2015-2016

**FFPTF Final Report & TCH**
- Launched RTP
  - Part 1 Approach – January 2017
  - Part 2: Call to Action – July 2017
  - RTP launched first live “test” Nov 2017
  - BNY Mellon & US Bank initiated first real-time payment 11/13/17
  - Connected over 50% of DDAs

**Federal Reserve RFC**
- Issued Request for Comment asking if the Fed should create a real time solution to reach ubiquity.
- 400+ respondents

**Fed Announcement**
- August 5th
- The Fed will be creating their own real time payment solution
- RFC on the details around their proposed solution

**Faster Payments Council**
- Formed in November 2018
- Created out of the Fed’s Faster Payments Task Force
- Helping facilitate adoption, enhance security, and increase user awareness of faster payments.
Sample RTP Payment

Step 1
• John goes to the website of the college that sent him a bill

Step 2
• John sees the option to pay with a credit card, ACH or real-time

Step 3
• John selects to pay in real-time

Step 4
• John selects the checking account to pay from

Step 5
• John receives notification on his mobile phone from his bank

Step 6
• John uses his fingerprint to authenticate and complete the payment from his bank’s mobile app
EDUCATE
Cash Flow Optimization - A Hybrid Approach
Earning Capacity

Daily Operations
General operating funds

Armageddon Funds
Long term reserves which have not been historically utilized and aren’t projected to be used

Interim Funds
Use of budgeting to ladder short term investments to maximize return

Project Funds
Cash reserves & bond proceeds invested to meet construction draws
Efficiency Review

Payment Cycle Review Process

1. DISCOVERY & PROCESS REVIEW
   Let's take a look at your current processes.
   - Payment types
   - Payment approval process
   - Card strategy
   - Invoice capture
   - Information reporting
   - Fraud prevention

2. GOALS & OBJECTIVES
   What do you want to achieve?
   - How will we get there?
   - Is the bar set high enough?

3. CREATE PAYABLES & RECEIVABLES STRATEGY
   Insight and innovation that produce results.
   - Spend & process analysis
   - Automation
   - Risk management

4. APPLY SOLUTIONS
   Implement the plan.
   - Modular implementation
   - Complete payment spectrum
   - Facilitate buy-in from your organization

5. WHAT'S NEXT?
   Continuous service.
   - Full in-house customer support
   - Dedicated account team
   - Ongoing consultation for growth opportunities
   - Continuous education on industry trends
New Approaches

“...We used to have to request a check for a cash advance a week ahead of time. Now there’s no cash to handle. We can drop money onto a card, and an athlete can use it five minutes later.”
Challenge Accepted

Current clients provide feedback on how the Card has impacted their expense process. Answers are provided by actual client administrators.

Do you use the Card for team or staff travel?

Yes, we provide Cards to our team operations directors. They like the flexibility of using the card to make purchases or to access cash, without the hassle of cashing advance checks and securing cash while traveling. We also like that we can set different functionality and Card limits for different user groups.

Were you able to incorporate the PEC into your existing approval and business processes?

Implementing the PEC program didn’t really impact our existing approval and tracking processes for per diem and operations expenses. It just gave us a better and more secure disbursement option that allows us to more efficiently manage expense funds.

Can we manage the PEC program independent of other banking relationships on campus?

Yes, the PEC program can be used by any department on any campus, no matter what bank your school uses as your primary bank. You can issue and fund cards using more than one funding method, and you can manage the Card program without any impact to existing university systems.
AP Solution – How It Works

1. Payment instruction file sent
2. Supplier receives email remittance notification
3. Supplier takes payment via Credit Card or PNT
4. Reconciliation Report generated
Card Program Considerations

- Monthly Rebate
- Spending Control
- Reporting & Management Tools
- Customer Support
- Fraud Prevention
MITIGATE
Q & A

What percentage of businesses experienced fraud last year?

a. 20%

b. 53%

c. 82%

d. 95%
Key Highlights From 2019 AFP Fraud Study

- **Overall Fraud**: 82% of organizations experienced attempted and/or actual payments fraud.
- **ACH Fraud**: Fraud via ACH debits and ACH credits increased.
- **BEC Fraud**: Fraud originating from BEC continues to be on the uptick – 80%.
- **Check Fraud**: Check fraud has declined since 2010, and in 2018 was at its lowest level since the study began.
- **BEC Losses**: 54% of organizations were impacted by a financial loss as a result of BEC.

**2019 AFP Payments Fraud & Control Survey**
What is the Cost?

In 2018, 33% of organizations were exposed to ACH Debit Fraud.

64% of payment fraud initiates from an external source such as stolen card info and check fraud.

Of companies that incurred fraud,
- 25% <$25,000
- 32% $25,000 – $249,999
- 29% $250,000 or more

**2019 AFP Payments Fraud & Control Survey**
Behind The Scenes
Types of Fraud
Email Account Compromise Scams

78,617 incidents reported globally*

$12.5B lost to email compromise*

What is it?

Business Email Compromise (BEC) targets businesses of all sizes, and Email Account Compromise (EAC) targets individuals by hacking a legitimate email account and fooling recipients into sending funds to fraudulent accounts.

*Between Oct 2013 and May 2018, Internet Crime Complaint Center (IC3)
Email Account Compromise Scams

How does it work?

1. Scammer unlawfully gains access to the email account.
2. Email is sent containing fraudulent payment instructions, invoices, etc.
3. Customer initiates payment, unaware they're communicating with the scammer.
4. Scammer receives funds and withdraws it before they're discovered.
What Is Vendor Impersonation Fraud?

Occurs when a business receives an unsolicited request, purportedly from a valid vendor, to update the payment information for that vendor, when in fact it is a fraudster impersonating the vendor.

- Fraudster monitors a business for publicly available vendor information using the same tactics as BEC.
- Fraudster contacts the business by posing as the legitimate vendor to request updates or changes to the payment information.
- Using fraudulent instructions, funds are transferred to an account controlled by the fraudster.
What To Do If You Are A Victim

How To Protect Yourself From Email Compromise

1. Be mindful of your social media and online presence
2. Be suspicious of unsolicited emails and phone calls
3. Verbally confirm payment instructions with the individual using verified contact information
4. Be cautious of requests for secrecy or pressure to act quickly
5. Look for red flags in emails (spoofed email address, grammar errors, and sentence structure)
6. Ensure you follow best practices related to anti-virus software, firewalls, etc.

What To Do If You Are A Victim

- Notify your financial institution
- Businesses should notify their IT Department
- Contact your local FBI Field Office
- File a complaint with ic3.gov
Best Practices & Banking Tools to Reduce Risk
### Banking Tools & Solutions

#### Online Reporting
- Review activity daily
- Out of Band Authentication Processes
- Dual Control when initiating ACH or Wires

#### Positive Pay
- Company submits a check-issued file to bank
- Bank verifies data points when check is presented
- Exception items are reviewed prior to payment

#### ACH/ Paper Blocks or Filters
- Capability to block all ACH/ Paper Transactions
- Set limits for dollar or frequency of approved ACH
- Receive notifications for exception items coming through
What Can You Do?

• If you print checks on preprinted stock, switch to plain paper with a MICR printer.

• Use a reputable shredding company or a cross-cut or Micro-cut shredder.

• If you use preprinted check stock, keep it in a locked, secure place with proper checks and balances to prevent theft.

• If you use a digital signature on checks, keep it in a locked location.

• Consider outsourcing your check writing or moving to electronic payments.
Let us know how we can help.

Pam Howe – pam.howe@commercebank.com
Sara Palmer – sara.palmer@commercebank.com

The Strategies referred to in today's presentation assume that your organization has a commercially reasonable base security infrastructure in place. Furthermore, these Strategies should not be your organization's sole means of protection against fraud losses, but rather they should be included as part of a more comprehensive program implemented by your organization to identify, mitigate, and insulate against potential risk from fraud losses. Even if complied with in its entirety, these Strategies do not guarantee against becoming a victim of fraud. This is only an attempt to provide some commonly-accepted practices that may help reduce the likelihood that you become the victim of fraud. Commerce Bank, which is not holding itself out as a security consultant or expert, makes no guaranty, warranty, or representation of any kind as to the results that you may achieve by following the Strategies and disclaims any liability related thereto. The term Strategies does not mean or imply that these practices are a definitive or uniformly-accepted compilation of optimal security practices.