Reducing & Eliminating Checks: What's So Hard About That?

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Today’s speaker

Ron Trimmer

National Sales Leader
Government & Higher Education
U.S. Bank

What we’ll cover

- State of the Industry: Checks
- Check Fraud
- The First Step Away From Checks
- AP Automation
- Key Takeaways

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State of the Industry: Checks

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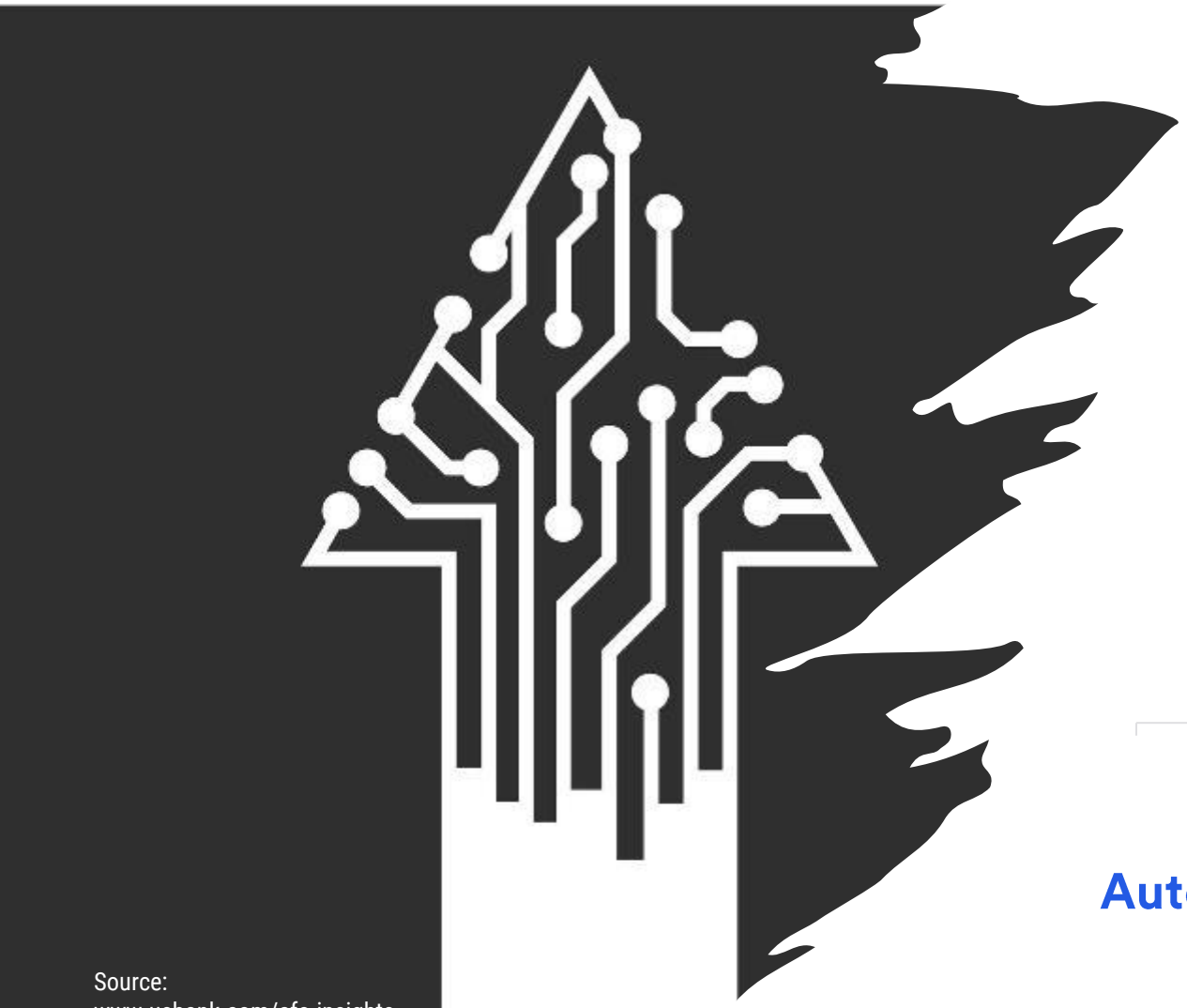
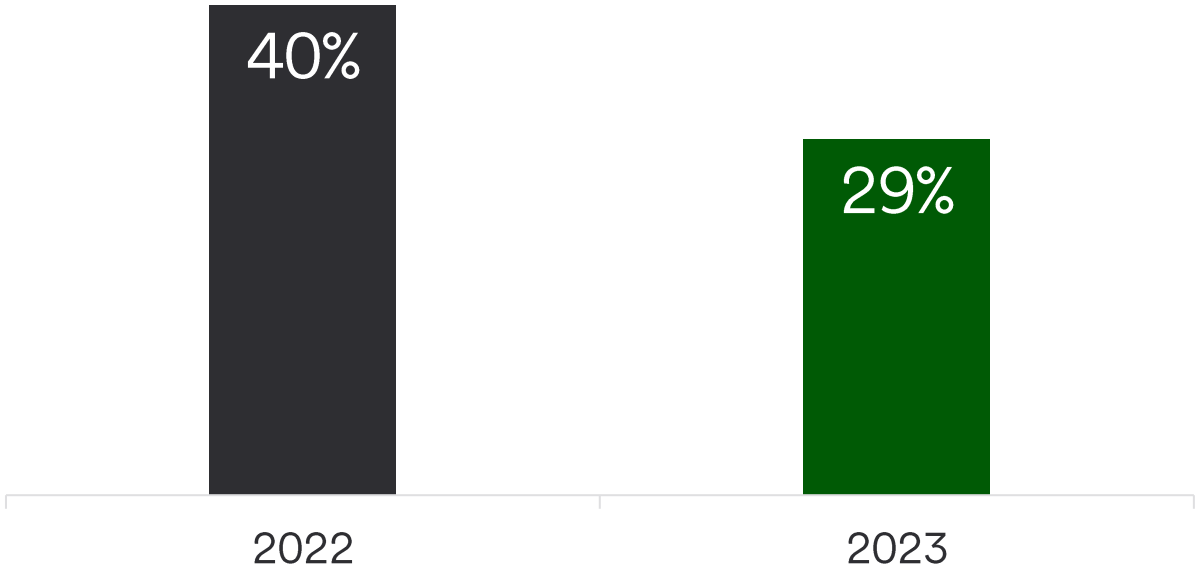
Change isn’t easy, but is it getting easier?



The percentage of financial leaders that see reluctance and resistance as a barrier to transforming payments is dropping.



Automation and **risk management** are top drivers for payments transformation.

Source:
www.usbank.com/cfo-insights

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Rebalancing offensive and defensive payment goals

44%

of surveyed finance leaders say that cutting costs and driving efficiencies in the finance function is a top priority

34%

of surveyed finance leaders say they are exploring emerging technology

Source: www.usbank.com/cfo-insights

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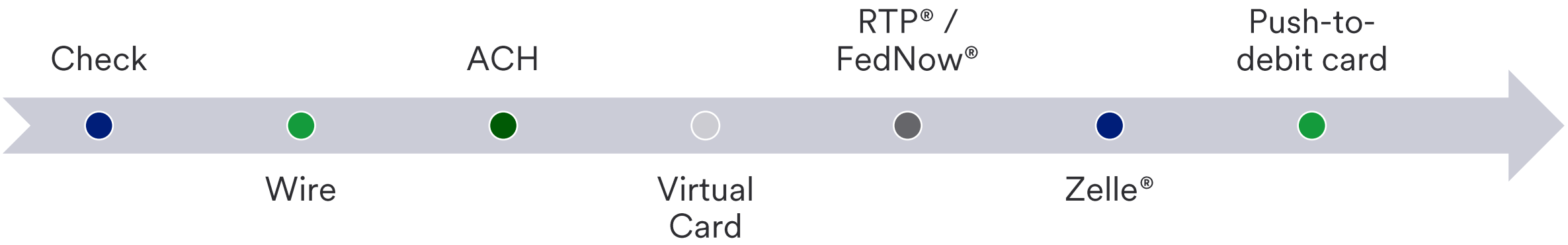
Traditional payments still linger

Increasing options demand a strategy



“Businesses and consumers are of one mind in favoring the adoption of instant payments, yet the enduring use of traditional payment methods hints at the challenges of this transition.”

Source:
https://www.pymnts.com/tracker_posts/are-challenges-still-holding-back-instant-payments-adoption-in-the-united-states/

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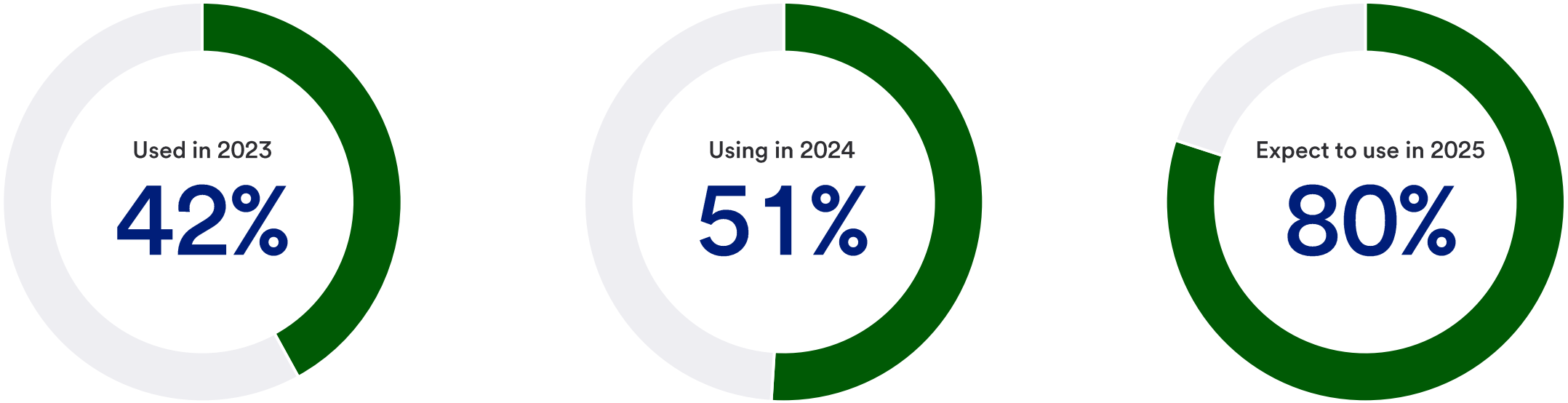
The growth of new payment options accelerates



Current and expected usage of FedNow® and RTP® payment options

Source: www.usbank.com/cfo-insights

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Trends driving financial strategy: A leadership perspective

47% Operational change demands is the biggest hurdle to make changes to payments[3]

44% Cutting costs and driving efficiencies is finance's greatest priority[2]

51% Are prioritizing investing in AI in the finance function[2]

82% Expect to see their cross-border volume rise in 2024[1]

41% Identify talent shortages as the risk on the top of their agenda[2]

54% Improving the customer and/or vendor payment experience drives their interest in payments transformation[2]

Sources: 1. Top 10 Trends in Commercial Banking & Payments, 2024: Modernization Creates New Opportunities Across the Industry, Datos Insights, 1/2024. 2. 2024 CFO Insights Report, U.S. Bank .
3. Instant Payments in the U.S.: How to Seize the Opportunity, Datos Insights, 2/2024.

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Bringing It Home – State Government

- What will the cost be to move to electronic payments?
  - Can the costs to transition from paper to digital be offset?
- Understanding the current payment process across agencies and departments and breaking down payments between consumer and business entities will drive what tools are needed to reduce paper.
  - For consumer payments, prepaid cards and the ability to choose how to get paid (including real time settlement options) are key.
  - Businesses continue to focus on accelerating accounts receivable but with data that can easily be posted which can be achieved via ACH, Card, and real-time payments.
- A word about Warrants.
  - Can be regulatory or even constitutional.
  - Often harder to leverage fraud tools against.

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Check Fraud

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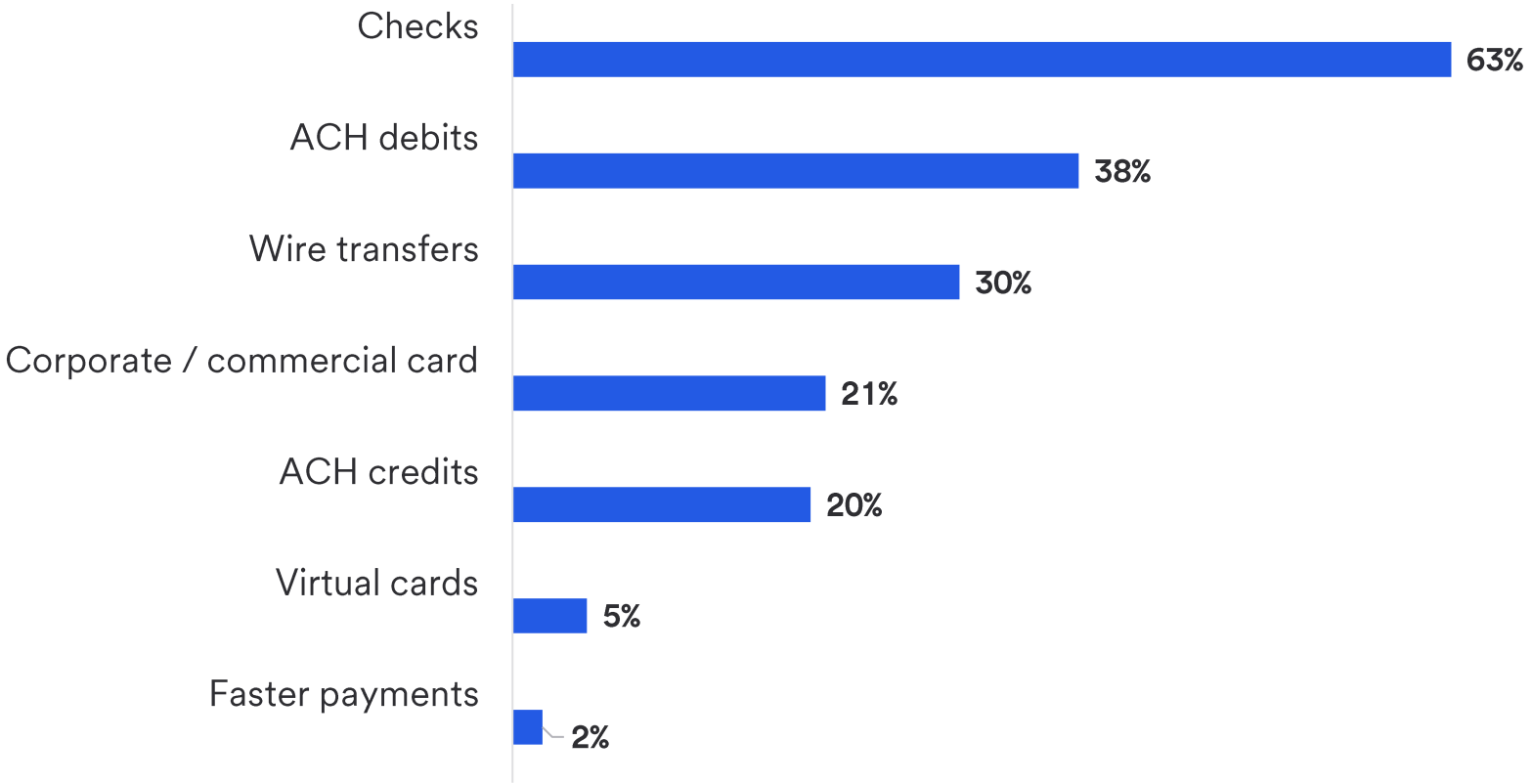
Payment methods subject to fraud by type

Percent of organizations



Source: 2025 AFP® Payments Fraud and Control Survey Report
https://www.afponline.org/publications-data-tools/reports/survey-research-economic-data/Details/payments-fraud

Checks continue to be the payment method most impacted by fraud activity.

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Types of check fraud

Check signature and endorsement forgery	Check alteration	Check counterfeiting	Embezzlement
• Fraudsters forge either the authorized signature on the face of the check or the endorsement on the back	• Fraudsters obtain and alter checks and negotiate them for personal gain • Methods include: – Check washing, scraping and erasure – Inserting new payee – Adding letters, words or numbers	• Fraudsters create a completely bogus check • Often resembles the actual check, but sometimes not at all (except for the account, routing and transit numbers) • Payee options – Shell company – Cash – Accomplice – Vendor (for personal purchases)	• Maker will exploit lack of controls, prepare check, sign it and convert it for personal gain • Payee options: – Maker – Shell company – Cash – Accomplice – Vendor (for personal purchases)

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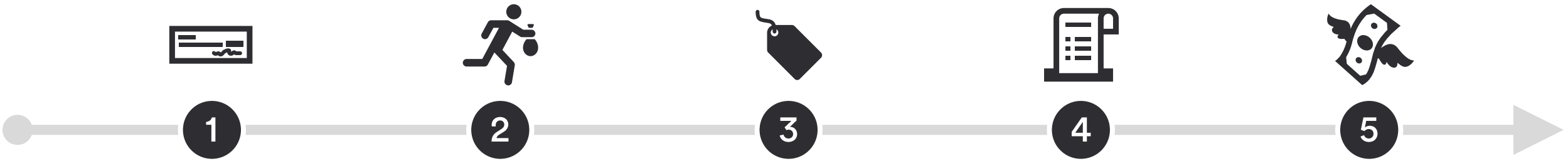
New approach to check fraud prevention

Stolen check transaction lifecycle



1. Client creates and mails check.
2. Check is stolen from the mail.
3. Check is posted for sale online.
4. Check is purchased by threat actor.
5. Threat actor attempts to obtain funds.

Fraud Threat Disruption team intervention methods

1. Team locates compromised item
2. FTDT team researches and attempts to identify impacted customer
3. FTDT team performs outreach to branch, RM's and Ops as needed
4. Branch or RM performs outreach to customer
5. Branch and/or RM works with customer to take any necessary action

Standard fraud intervention methods
(holds, escalations)

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The First Step Away From Checks

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Building the Digital Bridge

Consider the impacts for your state

Span cost to contribution

Make the shift away from paper

Connect progress with optimization

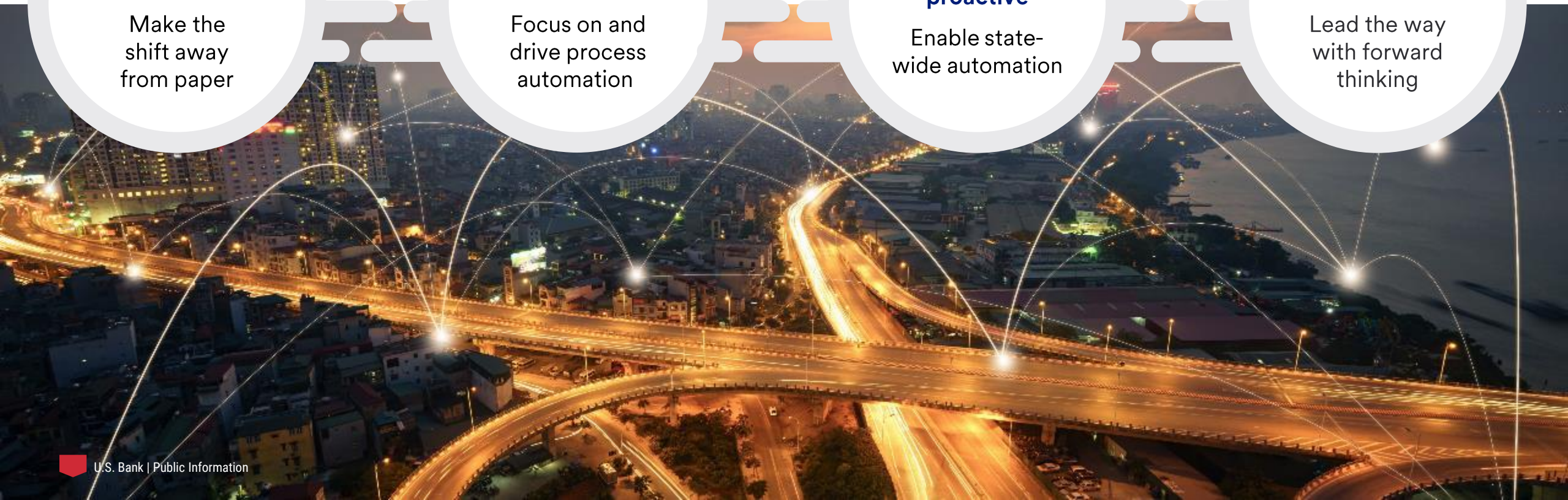
Focus on and drive process automation

Go from from reactive to proactive

Enable state-wide automation

Become boundaryless in your approach

Lead the way with forward thinking



Where is your State on the technological journey?

..... 01

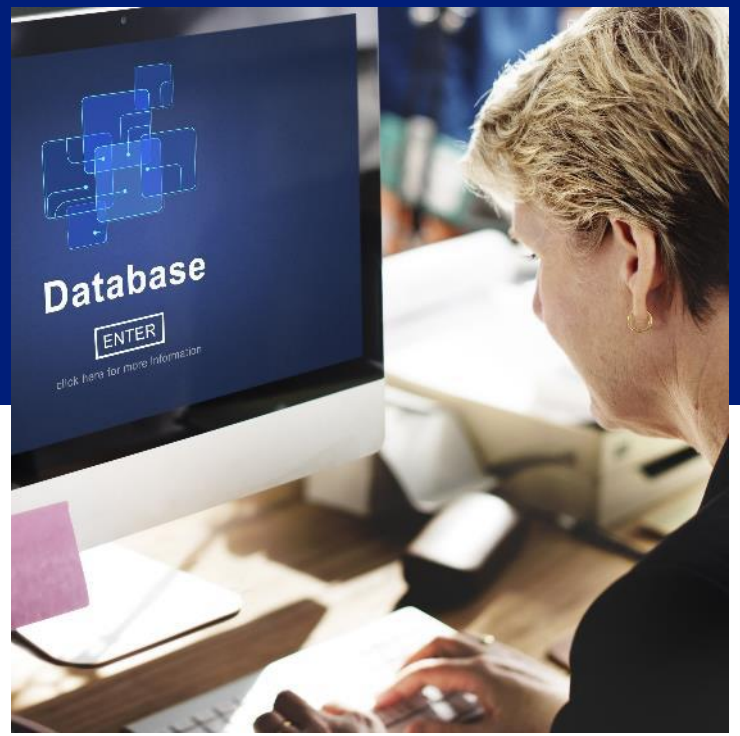
- Unfamiliar with options
- File transmission or manual processing
- No set digital initiative

..... 02

- Basic understanding of options
- There is a set digital initiative
- You don’t need persuasion to adopt best practices

..... 03

- Digital first approach
- APIs used internally and/or with partners
- Continually seeking new opportunities to enhance your disbursement practices



Validate the destination of electronic payments

Before approving disbursements

Confirm account status and registered account owner.

Rely on a trusted source

Account validation, via Early Warning, connects you to a secure national shared database of checking and savings accounts formed by thousands of trusted financial institutions as a source for verification.

Use account validation with:

- ACH
- Check deposits
- Wire
- RTP® transactions

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Payables

Key considerations when integrating new technology

Less paper, more digital

New payment rails and capabilities will continue to change the landscape

Enhanced control and visibility help prevent fraud

Reconciliation and exception challenges are front and center

Potential barriers: What's stopping us from transforming faster

Change is hard

- Culture is important
- Legacy systems hold organizations back
- If it's not broken...

Resourcing

- Too many initiatives
- Too much evolution, where to focus?
- Prioritization

Funding and cost

- Competing investment opportunities
- Can be hard to quantify cost savings

Each state has unique challenges, but there are common themes from one agency to the other.

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Bringing It Home – State Government

- Identifying the multitude of disbursement points for both businesses and consumers.
  - Defining a vendor – business or individual consumer?
- Pursuing a best-in-class digital disbursement environment will require multiple stakeholders forming consensus.
  - Thorough review of internal and external solutions.
- What do we see as best in class?
  - Our experience is that best-in-class organizations reach 85%
- Technology and enterprise platforms continue to have the greatest impact on disbursement decisions.

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AP Automation

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Manual Processes

File Upload

Secure Transmission

How is the State connecting with FI partners today?

Home Grown Infrastructure

TM Software/ERP Connectors

APIs

Top issues A/P departments face today

Too much paper and too many manual processes

Inefficient and complex controls lead to errors and fraud losses

Inefficient routing and approval processes

Time consuming validation tasks and exception handling

Inability to make business and consumer payments from one file

Lack of visibility into invoice and payment data

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The role of automation in A/P

- Invoice processing
- Approval workflows
- Payment processing
- Vendor management
- Reporting and analytics
- Integration with accounting systems
- Compliance and security

- By automating various payables tasks organizations can make their A/P process more efficient, accurate and transparent.

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Communication is critical

- Build a communication strategy
- Identify all key stakeholders in your State
- Consider a change management framework
- Designate champions

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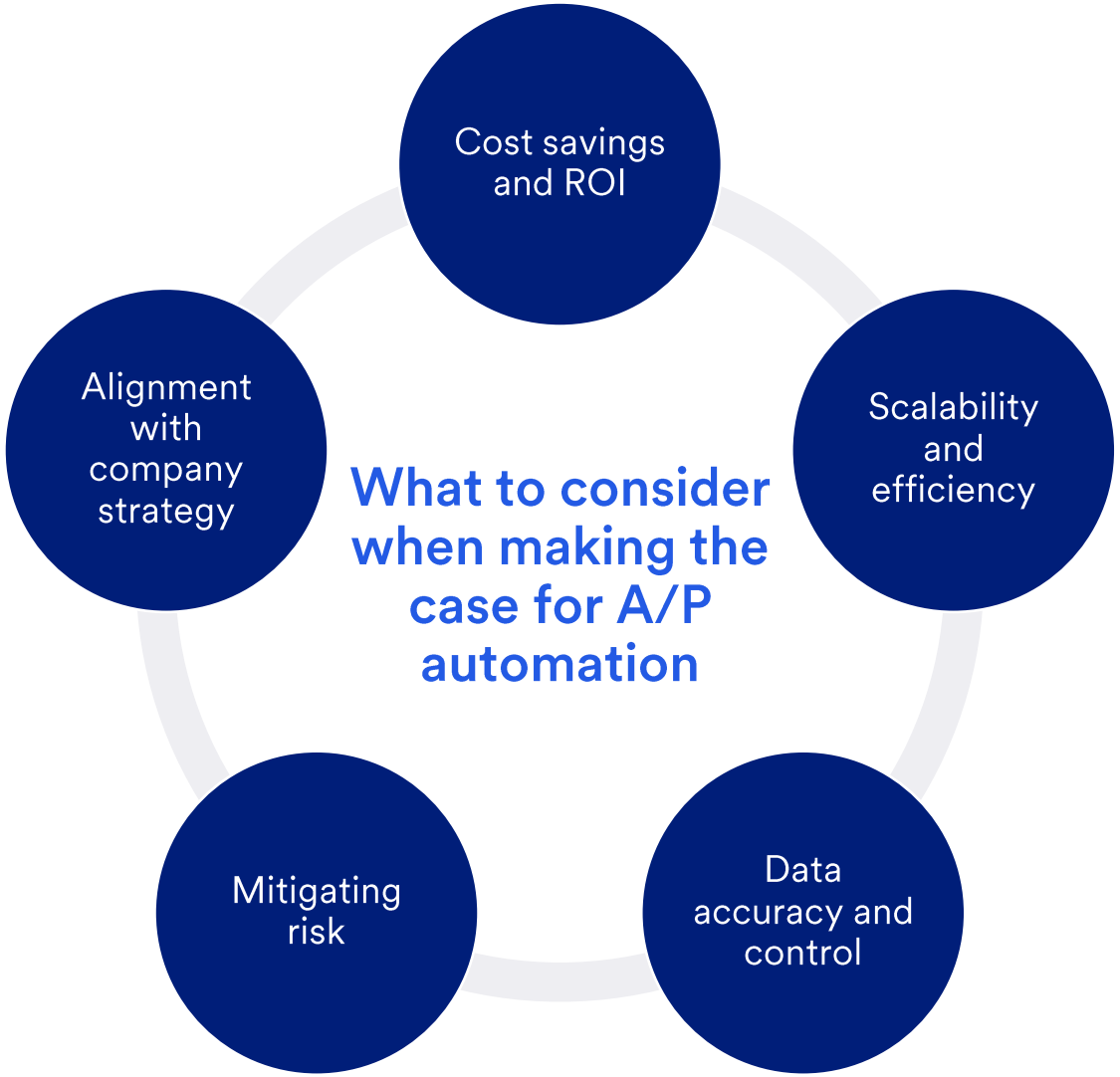
Prioritizing Initiatives



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Communicate an implementation approach

01

Define goals

- Understand expected end state
- Consider all key stakeholders for success
- Document the most impactful benefits

02

Acknowledge obstacles

- IT resourcing constraints
- Prioritization and getting initiative slated
- Budget/Funding constraints
- Competing initiatives
- Inflexible technology
- Culture

03

Execute

- Understand the process
- Document anticipated timeline
- Gain leadership support
- Bring in the right resources to execute
- Schedule checkpoints
- Launch and transition to BAU processes

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Key Takeaways

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Analyze current treasury processes and identify areas for opportunity

Consider all digital drivers and where the State can start

Enhance visibility	Increase payments control	Optimize operational efficiencies	Enhance stakeholder satisfaction	Manage risk	Maximize working capital	Capture revenue opportunities

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Session takeaways

Strike a balance between long-term offense and short-term defense strategies for the State.

Control costs, while continuing to invest in new technology and payments

Mitigate risk while striving for growth

Use automation to offset talent shortages and free staff to focus on strategic efforts

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The road to success

The key is understanding where you are today and where you want to go.

Understand where the State is at today

Account for steps already taken

Set short- and long-term goals

Confirm desired end state

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