

AiteNovarica

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THE 2022 IMPACT AWARDS IN CASH MANAGEMENT & PAYMENTS

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IMPACT REPORT

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INTRODUCTION

Customer needs and expectations continue to evolve faster than ever. FIs must strive to meet expectations and innovate to stay one step ahead. FI capabilities and the breadth of their product portfolios must go beyond traditional offerings to address new market challenges and capture new opportunities.

Aite-Novarica Group’s Impact Awards are designed to recognize and celebrate the innovation that FIs have achieved by leveraging technology to surpass the status quo. Award recipients are leading the industry by identifying and implementing new products, capabilities, and levels of automation and effectiveness that are bringing the industry one step closer to next-generation banking. They are the FIs, regardless of size, that others will follow.

QUALIFICATION AND EVALUATION METHODOLOGY

Aite-Novarica Group solicited nominations for its 2022 Impact Awards in Cash Management & Payments from May to July 2022. All nominated initiatives were required to be in production within FIs. Aite-Novarica Group analysts reviewed all nominations and narrowed the field to the top three to four submissions in each category.

A panel of external judges representing leading FIs, industry thought leaders, and consultants/implementers, along with Aite-Novarica Group analysts, determined the winners. Each nomination was evaluated based on eight attributes (Figure 1).

FIGURE 1: EVALUATION CRITERIA FOR IMPACT AWARDS

Impact Award Evaluation Criteria			
Level of innovation and competitive advantage	Ability to meet market needs	Impact on customer experience	Impact on customer operational efficiency
Level of new revenue opportunity for the bank	Impact on customer retention/new customer attraction	Level of scalability across customer base	Future roadmap

Source: Aite-Novarica Group

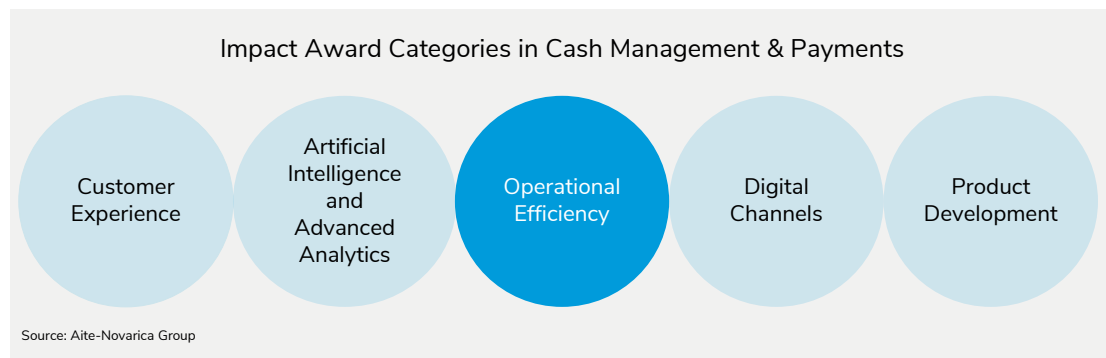
U.S. BANK: AUTOMATED ESCHEATMENT SERVICE

U.S. Bancorp (NYSE: USB) is the parent company of U.S. Bank National Association. It has approximately 70,000 employees and US\$591 billion in assets as of June 30, 2022. The Minneapolis-based bank blends its relationship teams, branches, and ATM network with mobile and online tools to allow customers to bank how, when, and where they prefer. U.S. Bank is committed to serving its millions of retail, business, wealth management, payment, commercial and corporate, and investment services customers worldwide.

Within U.S. Bank, Corporate Payment and Treasury Solutions provides simple and secure solutions to move the business forward. Collaborative relationship teams aim to work with clients by listening first and exploring solutions together. Developing best practices and implementing solutions is approached as a partnership.

U.S. Bank is the recipient of the 2002 Impact Award for Operational Efficiency (Figure 2).

FIGURE 2: IMPACT AWARD FOR OPERATIONAL EFFICIENCY—U.S. BANK



MARKET CHALLENGES AND NEED

Companies have long struggled with managing the complexities of the escheatment process. Unfortunately, this has led many companies to be out of compliance with escheatment laws.

Businesses have many competing priorities, and most lack the resources to keep up to date on laws in 55 jurisdictions. As a result, filing, remitting and due diligence can be very challenging.

When it comes to uncashed checks going through the escheatment process, each jurisdiction has different requirements for when to send a due diligence letter and to whom it must be sent. Each one also has rules about dormancy periods (how long a check must be aged) and the minimum dollar values for funds to be considered unclaimed property.

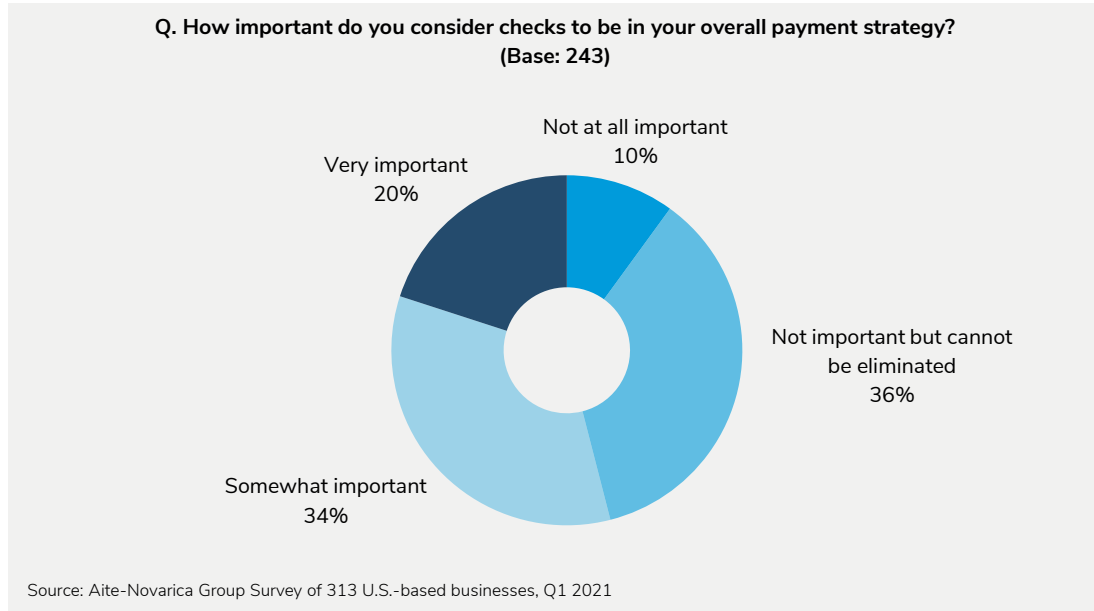
The tracking work related to escheatment has traditionally been manual and time-consuming. Financial managers at businesses have had to pull lists of outstanding checks from their ERP systems and refer to their online banking systems before manually updating those lists as checks are cleared or canceled. This manual work adds little to no value to a company's bottom line, but it must be done.

Many businesses are digitizing payments, but checks are still a viable component in their payables ecosystems. According to a 2021 Federal Reserve study, checks still comprised 6.5% of all noncash payments and almost 23% of the total value of those payments.¹ Businesses will continue to rely on checks if their CRM systems do not currently store payment details, email addresses, or cellphone numbers. They will want to seek ways to streamline and automate what are otherwise manual and costly processes.

In fact, over a third of businesses state that checks are not important to their overall payment strategy, but they cannot be eliminated (Figure 3). Along with checks come unavoidable escheatment issues.

¹ "Federal Reserve Payments Study (FRPS)," Federal Reserve, updated January 14, 2022, accessed October 7, 2022, <https://www.federalreserve.gov/paymentsystems/december-2021-findings-from-the-federal-reserve-payments-study.htm>.

FIGURE 3: IMPORTANCE OF CHECKS TO OVERALL PAYMENT STRATEGY



INNOVATION: AUTOMATED ESCHEATMENT SERVICE

U.S. Bank launched Automated Escheatment Service (AES) as an end-to-end solution for unclaimed funds (referred to as property) and escheatment. It is integrated into the U.S. Bank SinglePoint treasury platform. AES automatically identifies and processes uncashed checks as they age, following the rules of the applicable jurisdictions until the money is delivered to the rightful owner or turned over to the respective government entity.

This integrated offering and automated approach to handling unclaimed property is currently unique to U.S. Bank. A few banks offer an escheatment service, and those solutions typically leverage a third-party provider using a referral model.

Nonbank third parties can help companies manage the legal and compliance aspects of escheatment and even do some or all the filing work. Yet their offerings aren't integrated with the processing of those payables because they don't provide the check payables service. Third parties can't provide the type of comprehensive solution now available with AES, which enables financial managers to log into a treasury platform to monitor and manage the end-to-end check payables process flow.

AES is a comprehensive solution. The service relieves users of the difficult and time-consuming work of escheatment—from analyzing aging items and fulfilling due diligence correspondence and responses to completing state reports.

Table A lists key information about this initiative.

TABLE A: AUTOMATED ESCHEATMENT SERVICE

CATEGORY	DETAILS
FI	U.S. Bank
Key vendor partner	Developed internally with assistance through a partnership with Sovos
Innovation	An end-to-end solution for unclaimed funds and escheatment
Implementation time	<ul style="list-style-type: none"> July 2020: Business case approved and development begins May 2021: Limited rollout with two customers for fall 2021 cycle September 2021: Full commercialization November 2021: Added two new clients for the spring 2022 cycle Spring 2022: Completed filing for both participants and added three additional for the fall cycle
Official launch date	September 2021
How it works	The service provides visibility and reporting of aging property to help prevent it from becoming unclaimed in the first place. Then it executes all aspects of the escheatment process to help resolve items that will eventually be unclaimed, from liability analysis to due diligence mailings, state filings, and remittance.
Key benefits	<ul style="list-style-type: none"> Proactive prevention of unclaimed property Visibility into aging property Automates time-consuming tasks, including liability analysis, due diligence mailings, and state filings Integrated directly with the bank’s check disbursement solutions

CATEGORY	DETAILS
Future roadmap	<ul style="list-style-type: none">• Multicycle tracker to allow clients to view the status of checks in spring and fall annual cycles simultaneously• Historical archive for clients to access information from previous escheatment cycles• Off-us capability for clients to be able to import check data for items issued through non-U.S. Bank accounts• Payment choice capability to allow recipients to choose how they will be paid, including faster payment methods such as ACH or Zelle

Source: U.S. Bank, Aite-Novarica Group

Target Market

The company targets any firm managing unclaimed property, particularly public utilities, commercial real estate entities, universities, and healthcare companies that often deal with stale deposits or small overpayments on accounts.

How It Works

AES is an end-to-end solution for unclaimed property and escheatment, providing a new solution to a longtime challenge for many companies.

Escheatment is a regulatory process that transfers unclaimed property, such as uncashed checks, over to state governments. Companies are focusing on digital payments these days, but checks are a major payment rail that isn't going away any time soon. Managing outstanding check payments for most organizations involves tedious, manual processes. Coupled with trying to stay up to date and compliant with differing laws and requirements across 55 jurisdictions, escheating unclaimed property takes a lot of time and resources.

AES responds to these challenges. The service provides visibility and reporting of aging property to help prevent it from becoming unclaimed in the first place. Then it executes all aspects of the escheatment process to help resolve items when escheatment becomes necessary, from liability analysis to due diligence mailings, state filings, and remittance. Through a partnership with Sovos, a legal and compliance firm, U.S. Bank has built right into the application the expertise needed to execute escheatment according to rules in all jurisdictions, reducing the risk of regulatory fines.

AES is integrated with U.S. Bank check disbursement solutions and pulls checks into outstanding, canceled, or paid “buckets” where they can be viewed. The application pulls in daily updates of outstanding items to reflect cleared and canceled payments. This integration eliminates the need for manual tracking from potentially disparate systems and spreadsheet utilization.

Escheatment occurs in two annual cycles, each requiring a business to take certain steps. AES performs these steps with minimal user intervention. It automates time-consuming tasks, including liability analysis, due diligence mailings, and state filings. Linking escheatment to a digital treasury management platform creates a fully integrated, easy-to-follow workflow.

The application provides end-to-end visibility. It is exception-based, with priority alerts to let users know when any action on their part is required.

Solution Development

This product was developed internally to provide integration to U.S. Bank’s check payment rails and data. Doing an internal build allowed the bank to control the design, development timeline, and product roadmap, enabling U.S. Bank to react quickly to user feedback and changes in the marketplace. The Agile methodology created a continual feedback loop with users/practitioners and facilitated development in small chunks of work, allowing for continued iteration with those users and the development team.

Key Quantitative and Qualitative Results

- AES has six billing components. In the initial full escheatment cycle, with just three clients, the total volume of services used was 2,438. The two highest-volume services provided were the preparation of due diligence letters (851) and the filing of escheatable items (668).
- In a survey following the initial escheatment cycle, pilot users reported a high degree of satisfaction with AES. On a scale of 1 to 10, where 10 indicates “extremely satisfied,” the average response was a “9.” Representative comments from users explaining their ratings included “Easy to use” and “I was able to easily access the system and navigate through the different functionalities.”

Future Roadmap

- **Historical archive:** Clients will be able to access information from previous escheatment cycles. As states have ramped up their review of companies within their jurisdiction for compliance with unclaimed property laws, the incidence of state escheatment audits is rising. Third-party auditing firms are actively calling on states to assist with completing these audits, free of charge for the state, with payment coming from noncompliance fines and penalties. Clients will use the historical archive for audit defense, providing a history of records, due diligence, and filing activity. AES will store these materials for up to seven years.
- **Multicycle tracker:** Currently, clients can view only checks in one escheatment cycle at a time. But a planned enhancement will allow clients to view the status of checks in both annual cycles simultaneously. This latter point is important because most clients will escheat to an average of more than 20 jurisdictions. Commonly, these jurisdictions will overlap between the spring and fall cycles. A multicycle tracker will provide clients with a snapshot view of where in each cycle the company is and what steps are necessary to complete escheatment.
- **Off-us capability:** Clients will be able to import into application check data from items issued through non-U.S. Bank accounts, allowing them to manage all unclaimed property in a unified process within the AES. This will enable the bank to expand the potential client base for this product and earn additional check payables business from new clients over time.
- **Payment choice capability:** U.S. Bank Payee Choice enables businesses to give consumers the option of choosing how they will be paid, including using a faster payment method such as ACH or Zelle. The team is building Payee Choice into the AES application so that, for instance, if the business has a consumer's mobile number or email address, it can easily convert an outstanding paper payment into a digital Zelle payment to clear the item and remove it from the escheatment pipeline.

AITE-NOVARICA GROUP'S TAKE

The market lacks comprehensive escheatment services; the unclaimed property space has been ripe for disruption. Checks are ingrained in the payment process, so it is necessary to innovate in this space to create automation and ease the pain points of the manual processes associated with checks. Additionally, emerging payment types such

as Zelle and RTP provide alternatives to offer a fresh infusion of alternative options to mitigate some dependence on checks, though these workflows also generally default to checks when the necessary payment details are not provided. Aite-Novarica Group research shows that even while the total number of checks in the landscape is declining, some businesses are experiencing an increase in the number of checks as the total number of payments is rapidly increasing.

Several factors make U.S. Bank's offering innovative:

- Creating a new value-added service within a legacy payment stream that eliminates manual processes and removes a substantial point of friction significantly improves the customer experience.
- Incorporating the AES tool directly into the bank's online banking platform with the ability to integrate directly with the bank's check disbursement solutions creates a differentiated solution not offered by other banks.
- The commitment to continued innovation through strategic roadmap items that allow businesses to take advantage of critical market differentiators (e.g., recipient payment choice, off-us capabilities) demonstrates U.S. Bank's commitment to the service and recognition of current market trends.

In summary, a product like AES—one that reduces time and dollars spent on escheatment duties—is a natural complement to a bank's check payables solution. U.S. Bank has created a complete payables product, making the bank "stickier" with current clients. It also makes the bank's check payables offering more attractive from a new client acquisition perspective. AES enables U.S. Bank's clients to provide a nice benefit to their own customers by promptly reuniting them with the money they are owed.

ABOUT AITE-NOVARICA GROUP

Aite-Novarica Group is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms—as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base, leveraging deep insights developed via our extensive network of clients and other industry contacts.

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