State of Payments
Study of the Payments of the State of New York
NASC Conference
Atlanta, GA

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New York State Office of the Comptroller

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Agenda

What we did and why we did it
How we did it
Overview: taking checks out of the system
  Approach
  Current State
Overview of Alternative Payment Products
  High-value Opportunities
  Three use cases
Additional considerations
Conclusions
Introduction

- Initiative started at the last NASACT conference
- Question – “Are there more effective ways to make payments beyond checks and ACH?”
- Belief – State governments operate in many industries – finance, education, construction, insurance, healthcare. States make similar payments regardless of the size of the state.
- Business Question – Can states learn from the experience of each other and leaders in other industries for more effective payment alternatives?
- Mastercard, a great New York State corporate citizen, expressed willingness to sponsor a study of the payments made by New York to answer those questions
- Mastercard exercised no control over the findings resulting from the work by Mercator Advisory Group
- Data used is available through our NYS transparency initiatives or Freedom of Information Law
- The study will available through NASACT for use by all states later this year
The Goal: Get Paper out of the System

• New York State issues more than 6 million checks every year
  o Through the State Financial System
    • 52% of payments are checks
  o And agency sole custody systems (e.g., WIC)
    • Roughly 20% of payments are checks

• Mercator Advisory Group detailed 11 use cases in which digital can replace paper with the goal of
  • expense reduction through e-payments versus checks
  • improved experiences for both NYS citizens and the supplier base
Introduction: Project Approach

Mercator Advisory Group:

• Reviewed documentation provided by New York State to better understand state government nomenclature, structure and operations

• Had ongoing discussions to clarify open questions

• Analyzed the provided data to understand the current state of payments

• Identified opportunities based on:
  1) Current high-volume use of a less efficient payment type, primarily checks
  2) Current use cases where a payment application is identified as being particularly cumbersome
  3) Where a change in payment solution could make a meaningful, positive difference to the recipient

• Provided summary matrix of payment type attributes that may help to identify solutions for additional use cases
# Summary of Payment Applications

<table>
<thead>
<tr>
<th>Suppliers</th>
<th>Recipient Data Requirements</th>
<th>Timing</th>
<th>Credits/Debits</th>
<th>Audience</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Checking Account</td>
<td>Debit Card Data</td>
<td>Contact Details</td>
<td>Full Acct. Data</td>
</tr>
<tr>
<td>ACH</td>
<td>Banks Vendors</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Same Day ACH</td>
<td>Banks Vendors</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Debit Push</td>
<td>Banks Vendors</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>P2P</td>
<td>Banks Vendors</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Virtual Card</td>
<td>Banks Vendors</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Prepaid Card</td>
<td>Banks Vendors</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Wire Transfer</td>
<td>Banks Wire Systems</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
</tbody>
</table>

*Business recipient needs to be card-enabled; individual citizen just requires contact details*

** In order to establish a prepaid account, data such as cardholder name, address, social security, drivers license, etc., is required.
Through SFS Alone NY Processes 6.53 Million Payments, Largely Split between Checks and ACH

Total # Payments Processed and General Categories

- Total Payments: 6.53 million
- Regular Vendors: 4.06 million
- Specialty Vendors: 2.18 million
- Travel Expense: 0.3 million
- Foreign: 0.01 million

Percentage Payment Type

- ACH: 48.2%
- Wire: 0.0%
- Check: 51.7%
- MAN: 0.1%

Source: Mercator Advisory Group analysis, NYS payment data files
SFS Payment Transactions to Specialty Vendors Are Highly Skewed towards Inefficient Checks

<table>
<thead>
<tr>
<th>Source: Mercator Advisory Group analysis, NYS payment data files</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Vendors</td>
<td>Specialty Vendors</td>
</tr>
<tr>
<td>Payment Value %</td>
<td>Payment Transactions %</td>
</tr>
<tr>
<td>ACH</td>
<td>84%</td>
</tr>
<tr>
<td>Check</td>
<td>5%</td>
</tr>
<tr>
<td>MAN</td>
<td>6%</td>
</tr>
<tr>
<td>Wire</td>
<td>4%</td>
</tr>
<tr>
<td>Regular Vendors</td>
<td>Specialty Vendors</td>
</tr>
<tr>
<td>Payment Value %</td>
<td>Payment Transactions %</td>
</tr>
<tr>
<td>32%</td>
<td>94%</td>
</tr>
</tbody>
</table>
Nearly One Half of all Regular and Specialty Account Checks (47%) Are to Pay Refunds

Top 10 Reasons for Checks

- Number of Checks (mil) -

<table>
<thead>
<tr>
<th>Reason</th>
<th>Number of Checks (mil)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Refunds</td>
<td>1.58</td>
</tr>
<tr>
<td>Local Grants and Public Assist</td>
<td>.28</td>
</tr>
<tr>
<td>Clinical &amp; Laboratory Services</td>
<td>.23</td>
</tr>
<tr>
<td>Jury Svs-Per Diem</td>
<td>.22</td>
</tr>
<tr>
<td>Dental SupMat</td>
<td>.06</td>
</tr>
<tr>
<td>Medical SupMat</td>
<td>.06</td>
</tr>
<tr>
<td>Attorney For Child</td>
<td>.05</td>
</tr>
<tr>
<td>Postage</td>
<td>.04</td>
</tr>
<tr>
<td>Phone-Local &amp; Long Distance</td>
<td>.04</td>
</tr>
<tr>
<td>Food &amp; Related Consum SupMat</td>
<td>.04</td>
</tr>
</tbody>
</table>

- Total number of CHK = 3.36MM
- Total value= $7.5B
- Average CHK size = $2,289

Source: Mercator Advisory Group analysis, NYS payment data files
The Top 10 Departments Account for 71% of All T&E checks

Top 10 Departments for T&E Checks

Department | Checks |
---|---|
Dept of Corrctns_Cmmnty Sprvsn | 3851 |
State University of New York | 2766 |
Department of Transportation | 2541 |
Division of Homeland Security | 1587 |
State Education Department | 1232 |
Assembly | 1037 |
Ofc for People w/ Disabilities | 802 |
Department of Health | 651 |
Division of State Police | 521 |
Off of Children & Family Serv | 486 |

Total number of CHK = 21,735
Total Spent = $4.6M
Average Check Size = $215

Source: Mercator Advisory Group analysis, NYS payment data files
Alternative Payment Products Can Address This Problem Today

- Debit Push Payments
- Virtual Cards
- Person-to-Person Payments
- Same Day ACH
  - Mastercard Vocalink
- Prepaid Cards
Payments Data Led to Primary and Secondary Opportunities to Generate More ePayments

Heat map of low-to-high agency-based opportunities

**Low Opportunity**
- Not consequential value at this time

  - 39 agencies

**Medium**
- Longer term opportunity

  - 12 agencies

  - Annual check payments volume > 50% of total payments for each agency

- Selected reviews advised

  - 23 agencies

  - Some substantial check volume (e.g.; 48,000 in one agency) but < 50% of total payments for each agency

**Highest**
- Secondary use cases and other potential opportunity

  - 5 agencies

  - Various departments & accounts

  - Inmate wages are a cumbersome process to manage

- Primary use cases opportunities are concentrated here

  - 8 agencies

  - Various departments & accounts

  - 1.5 million checks disbursed from DMV to a ‘refund’ account

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Category A
High general payment volume (> 175K) and high number of checks

Category B
Medium payment volumes or friction process w/ high percentage of checks

Category C
Medium payments volume (10K-175K) and mix between e-payments & checks

Category D
Low payments volume (<10K) and mixed between checks and e-payments

Category E
Low payments volume (<10K) and high percentage of e-payments

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Use cases identified by high check volumes and drill downs into departments, programs and accounts, both through SFS and other provided data.
G2B Use Case: Clinical and Laboratory Services

Case Taxonomy:

- **Agency/Business Unit:** Office of Temporary & Disability Assistance
- **Department:** DD-Main
- **Program:** Consultative Exams & MER
- **Account:** Clinical & Laboratory Services

Use Case Explanation:

- Approximately 206,000 checks are disbursed for Clinical and Laboratory Services.

- Over 80% of the recipients are categorized as a “specialty vendor” in payment for records and services used in making disability determinations.

- A frequent use case example is $10.00 checks sent to providers, clinics, medical records companies and professionals for providing requested patient medical records to support disability claims.

- The State of New York has already achieved positive results to secure DDA credentials to begin ACH rather than check disbursements. (decrease of over 10,000 from 2017-2018)
G2B: Clinical and Laboratory Services

**Recommendations:**

1. Consider the use of virtual cards as a check disbursement alternative.

2. Efforts already underway to contact vendors through the mail and request checking account details to conduct ACH payments will return reasonable results and should continue.

3. Investigate the integration of new medical records providers to determine how to best secure checking account details with the first payment.
G2C Use Case: Jury Services Per Diem

Case Taxonomy:

Agency/Business Unit:
Courts Original Jurisdiction

Department:
8th Administrative District

Account:
Jury Svs-PerDiem

Use Case Explanation:

• Approximately 224,000 checks are disbursed for Jury Services Per Diem.

• A payment of $40 per day is provided to citizens who participate in jury duties. Checks are mailed to participants after their service has concluded.

• Most checks are mailed for one day of participation, however, some are for much larger amounts including those who serve on Grand Juries which can last for months. Those who receive over $600 in a calendar year need to receive form 1099MISC per tax reporting requirements.
G2C Use Case: Jury Services Per Diem

**Recommendations:**

1. When citizens appear for jury service, collecting checking account information is difficult as few carry checks with them or even know their checking account, routing and transit numbers.
   1. Most will have a debit card readily available, making **debit push payments** an option. This information can potentially be collected when citizens check in for jury service, during orientation or perhaps through an online link.

2. **P2P payments** which require only an email or cell phone number is also an option.

3. Mercator’s interpretation of the 1099 compliance question is that a $600 threshold must first be met, and that PSPs (e.g.; debit/prepaid card) have the capability to provide such services [https://www.irs.gov/businesses/small-businesses-self-employed/reporting-payments-to-independent-contractors](https://www.irs.gov/businesses/small-businesses-self-employed/reporting-payments-to-independent-contractors)
G2C Use Case: Local Grants and Public Assist

Example Taxonomy:

- **Agency/Business Unit:** Ofc for People w/Disabilities
- **Department:** OPD Long Island
- **Program:** Family Support (General)
- **Account:** Local Grants and Public Assist

Use Case Explanation:

- Approximately 228,000 checks in a fiscal year are dispersed from various departments for Local Grants and Public Assist.
- This includes a wide number of use cases such as school aid, energy assistance, adoption subsidies and payments of earned funds and other deposits to wards of the state. Many are government to citizen payments.
- Other use cases includes providing funds to citizens to cover respite care and the payment of earned funds and other deposits to wards of the state.
G2C Use Case: Local Grants and Public Assist

Recommendations:

• Infrequent payments may be suitable for Debit Push Payments or P2P disbursements
• For consistent payments a reloadable prepaid debit card may offer a secure means of distributing funds.
  o For the unbanked, prepaid cards operate very similarly to a checking account:
    ▪ Create a record of expenditures
    ▪ Can be central to teaching fundamental money management skills, encouraging financial inclusion.
    ▪ Eliminate expensive check cashing fees,
    ▪ Obviate the inconveniences of finding places to cash checks
    ▪ Are safer for citizens than carrying around large amounts of cash.
High level analysis of cost extraction for NYS volumes

1. Assuming similar estimates as for corporate payables process costs

<table>
<thead>
<tr>
<th>NYS Payments 1 year (SFS)</th>
<th>A/P Processing Costs (unit)</th>
<th>Opportunity (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Best-in-Class</td>
<td>Others</td>
</tr>
<tr>
<td></td>
<td>$2.74</td>
<td>$15.02</td>
</tr>
</tbody>
</table>

6.5 million

2. Looking at only payment execution*, the NYS unit process cost for an outbound check is about $5.00 versus less expensive ePayment alternatives

<table>
<thead>
<tr>
<th>NYS Check Payments 1 year (SFS)</th>
<th>Single Payment Processing Costs (unit)</th>
<th>Opportunity (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Check</td>
<td>ACH</td>
</tr>
<tr>
<td></td>
<td>$5.00</td>
<td>$0.10</td>
</tr>
</tbody>
</table>

3.4 million

Source: Mercator Advisory Group

*Note: Not including document review, other payables costs, errors and re-work
Conclusions

• Begin to focus on the highest volume areas
  • e.g., 1.5 million checks disbursed from the DMV to a “refund” account
• Define those use cases where the operational aspects and the ability to gather needed payment data is most straightforward.
• Solicit input from bank partners to understand their alternative payments capabilities, pricing and integration requirements.
• Review lower check volume scenarios for potential easy fixes
  • <50% of check volumes for 23 individual agencies add up
• Consider RFI for automated payables workflow solutions that can integrate with PeopleSoft
  • Payments optimization continues a major initiative in corporate America and with financial institutions
Questions

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