

# IMPEDING THE MISSION OR DRIVING IT FORWARD? WHAT GOVERNMENTS CAN LEARN FROM 2020



**Governments can't afford to fall behind in addressing these unprecedented challenges. However, federal agency CFOs are facing significant headwinds in retooling their systems to deal with the new normal.**

### **Aligning Management Systems with Citizen Expectations**

The COVID-19 pandemic has upended the economy and accelerated changes in the ways citizens think about how they live, work, shop, and pay for purchases and services. A few recent statistics underscore the magnitude of the disruption and, consequently, the opportunity to realign systems with citizen expectations:

- In June, the national unemployment rate exceeded that during the Great Recession at 11.1%.<sup>1</sup>
- U.S. e-commerce jumped 49% in April, compared to the baseline period in early March before shelter-in-place restrictions went into effect.<sup>2</sup>
- Adding to the disruption, 39% of urban dwellers said the COVID-19 crisis has prompted them to consider leaving for a less crowded place.<sup>3</sup> How will relocation affect tax receipts and the demand for digital payments?

Financial institutions can deliver innovative tools to help support advances and make space for higher-purposed work.



### Challenges to Change for CFOs

Grant Thornton and AGA conducted a public sector survey<sup>4</sup> of federal agency CFOs to identify their top challenges. In 2019, participants raised four significant concerns:

- 1 Core responsibilities of the CFO function and whether current requirements were foreseen by the authors of the CFO Act, which promised “to be a new era not only in federal management and accountability, but also in efforts to gain financial control of government operations”<sup>5</sup>
- 2 Human capital and the critical need for qualified staff to meet the new requirements
- 3 Budget uncertainty — a key concern only in recent years, as continuing resolutions (CR) and shutdowns severely disrupted management operations and mission activities
- 4 Adoption of technology and tools to increase efficiency of financial operations

These challenges aren’t unique to government but are reflected across all industries. Creating an environment that enables leadership to execute their plans can be informed by advances in the business world. Financial institutions can deliver innovative tools to help support advances and make space for higher-purposed work.

### The Role of Government CFOs

CFOs, and the federal financial management community in general, think the government’s management and performance would improve if CFOs had a stronger, more consistent role in oversight of their agencies’ various management improvement functions.

They do not believe the community focuses adequately on what’s required to recruit and retain the talent needed to adapt to a rapidly changing technical environment.

The impact of budget uncertainty falls disproportionately on CFOs as they not only share the same consequences of delay and indecision as their program and functional counterparts, but they must manage the fits and starts of the appropriations process on behalf of the enterprises they manage. Because of these and other difficulties, CFOs are having a hard time adopting rapidly evolving technology that could make them more efficient and effective.<sup>6</sup>

### The Evolution of Citizen Expectations

In so many ways, the retail experience is now the benchmark against which our citizens measure all other experiences — and set their expectations. The banking industry has irrevocably transformed itself by focusing on delivering customizable experiences tailored to consumers’ lifestyles and choices. That bank ubiquity and services have expanded while their brick-and-mortar presence has diminished<sup>7</sup> speaks to the success of this transformation.

Paying an individual with the push of a few buttons from a smartphone or tapping a smart device at the point of sale are examples of recent innovation, which has yet to achieve its apex. “Bankers’ hours” have evolved into 24/7/365 information and accessibility of funds and services, from any connected device.

#### In Light of COVID-19, Consumer Demand for Tap to Pay Has Grown Significantly

**30%** Of surveyed consumers have started using contactless payments since COVID-19 was declared a global pandemic

**70%** Of surveyed consumers who are new to contactless payments report they will continue to use this payment method after the pandemic

**44%** Of surveyed consumers said they tapped to pay more often due to COVID-19

**2,060%** Increase in contactless conversation in the U.S.

**80%** Of surveyed consumers are motivated to apply for a card with contactless functionality

**80%** Of surveyed consumers are concerned about touching payment readers

Source: Infegy Atlas, February 23 – May 23, 2020



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And while these expectations span the generations, younger people have even stronger feelings about consumer-centric services delivered on “any connected device.”<sup>8</sup> A survey published in McKinsey Financial Insights illustrates these differences: Gen X and Gen Y respondents said they expected to increase online banking by 17% and 22%, respectively, over pre-COVID usage, compared to 13% of respondents in the general population.<sup>9</sup>

The overall reviews of the experience were positive, and given the desire to reduce exposure to the virus, respondents indicated telemedicine would become an even more attractive option in the future.<sup>10</sup> Other innovations, including expanded electronic health records, “smart contracts” and distributed ledgers are closing the communication gap between patient/consumer expectations, providers and insurance companies.

**COVID-19 Has Accelerated Digital Adoption, Making Human-Centered Customer Experience Even More Critical**

*How often do you expect to use the following services relative to your pre-COVID usage?*

Age Group	Online Banking (paying bills online)	Mobile Banking (using a mobile app)
<b>General Population</b> Net Change	+13%	+6%
<b>Gen Y</b> (Ages 24–39)	+22%	+19%
<b>Gen X</b> (Ages 40–55)	+17%	+8%

Source: McKinsey Financial Insights Pulse Survey

**So in this citizen-centric environment, what do taxpayers expect?**

- *End-to-end solutions allowing single sign-on and interaction with one system throughout the process of a transaction.* APIs have the potential to integrate disparate systems and provide a seamless consumer experience.
- *The correct payment, going to the correct payee the first time, every time.* Account verification services vet payees prior to issuance and enhance security on both sides of the transaction.
- *Resilient support and infrastructure, available 24/7/365.* This creates a requirement for rigorous stress testing of networks, back-up data centers, and people and bots working around the clock. Recent experiences with state unemployment application systems have highlighted the extreme frustration individuals experienced when outdated or poorly designed systems failed to serve them.

Other industries, including healthcare, have followed suit. For example, patient expectations now include self-scheduling; upfront estimates for services; accurate, timely and easily readable consolidated billing statements; and online communications with providers. Patients want the ability to search for providers online, make comparisons and read reviews.

As a result of COVID-19, telemedicine is enjoying tremendous growth, as are fitness devices and technology to monitor health conditions like diabetes. A research initiative surveying female family “Chief Medical Officers” indicated that the pandemic had spurred them to have their first telemedicine visit, either by phone or video.

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Of the 159 million stimulus payments made in the spring of 2020, 120 million were made by direct deposit, 35 million by paper check and 4 million by prepaid debit card.



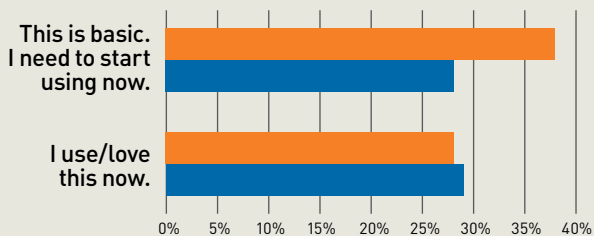
- **The best experience for their tax dollars.** New technologies like robotic process automation (RPA) allow bots and systems to automate otherwise labor-intensive processes and enhance the output of critical human resources, enabling governments to “do more with less.”
- **Contactless transactions.** Electronic and real-time payments help to eliminate the need for contact with people or equipment. These expectations are accelerating in the wake of the COVID-19 pandemic. Citizens must be able to remit and receive payments conveniently, securely and with a reasonable expectation of maintaining personal safety.

Typical manual “touches” required when cash, checks and cards are used as primary payment mechanisms all fall short and are subject to loss and fraud. Cash can be lost or stolen, theft of checks or information on them can be a portal to identity theft, and cards are subject to skimming or online theft. In contrast, secure transactions initiated via laptop, tablet, iPhone or any other internet-accessible device eliminate the need for consumers to jeopardize their physical well-being and provide an extra layer of security.

- **Payment transparency from initiation to receipt, with tracking and messaging modifications.** Transparency and speed foster trust.

### Consumers Moving Away from Cash to Contactless Payment

#### Current Contactless Adoption



Increasingly, consumers see contactless as a safer, cleaner and easier way to pay.

63% of consumers in March claimed to be using more debit/credit to avoid handling cash.

From our survey: “Cash is dirty” — movement to contactless accelerating rapidly

Source: yStats, “COVID-19 Impact on Global B2C E-Commerce and Online Payments,” April 2020 (data sourced from Futures Group), Shopkick Survey, March 2020

### Facing a Reputational Risk

With more citizens expecting electronic alternatives for transacting business, governments at all levels run the risk of being seen as archaic by a growing demographic of the population. Agencies that fail to move down the digital path will miss out on opportunities to develop greater efficiencies and a higher degree of trust.

<https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf>

We have seen that federal, state and local governments are willing to modernize, but time, resources, competing priorities and budget constraints created barriers. Delayed and uncertain tax revenues can affect the desire to move forward with a more digital approach. In order to capitalize on the mandate and enthusiasm for innovating, collaboration with the private sector should not be overlooked.

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**Case in Point: Federal Stimulus Payments**

The massive, urgent need to provide individual stimulus payments demonstrated where the federal government stands when it comes to payments disbursement. Of the 159 million stimulus payments made in the spring of 2020, 120 million were made by direct deposit, 35 million by paper check and 4 million by prepaid debit card. These statistics highlight the fact that millions of taxpayers remain unbanked or have not updated their banking information with the IRS. In some cases, those who had updated their banking information still received a check or a prepaid debit card. This resulted in delays and improper payments, and will ultimately prove costlier for both the government and the recipient than a process that used today’s tools. Unbanked payment recipients face even more difficulty as they must find a bank that would allow them to cash a check at a branch or resort to an expensive check cashing business that may or may not be open during times of crisis.

Although timing was of great importance, could the check reduction initiative underway at the Bureau of the Fiscal Service have been integrated by using technology that exists today across the private sector? What if some payees could have received real-time, digital payments, employing fraud detection capabilities to verify the authenticity of the payee account?

Utilizing account verification services and intelligent routing functionality, which determines the optimum payment method based on information about the payee, can deliver on the expediency and security that tax payers want and the efficiency, cost-effectiveness and security the government demands.

These services, once implemented, integrate into existing systems through the use of APIs, creating a payment infrastructure that can meet taxpayer expectations. It also allows for the incorporation of existing database information such as Do Not Pay®, the Treasury Offset Program and centralized receivable service. This functionality exists today within the private sector, along with the ability to execute with dedicated resources. And there are many more use cases.

**The Federal Reserve’s Five Desired Outcomes for an Improved Payment System**

<b>1 Speed</b>	A ubiquitous, safe, faster electronic solution(s) for making a broad variety of business and personal payments, supported by a flexible and cost-effective means for payment clearing and settlement groups to settle their positions rapidly and with finality
<b>2 Security</b>	U.S. payment system security that remains very strong, with public confidence that remains high, and protections and incident response that keeps pace with the rapidly evolving and expanding threat environment
<b>3 Efficiency</b>	Greater proportion of payments originated and received electronically to help reduce the average end-to-end (societal) costs of payment transactions and enable innovative payment services that help deliver value to consumers and businesses
<b>4 International</b>	Better choices for U.S. consumers and businesses to send and receive convenient, cost-effective and timely cross-border payments
<b>5 Collaboration</b>	Needed payment system improvements are collectively identified and embraced by a broad array of payment participants, with material progress in implementing them.

Source: <https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf>



Governments can't afford to fall behind in addressing these unprecedented challenges.

## When Will Government Embrace Emerging Technologies? **The Next Time**

As scrutiny increases on individual governmental agencies to deliver on mandates, current processes and day-to-day operations will not be sustainable. At the federal level, laws such as the Payment Integrity Information Act of 2019 are being passed at a regular rate. The onus and accountability for change is being placed squarely on each agency.

At the state and local level, services must continue to be delivered to taxpayers, potentially with fewer resources to do so. What will it take for government entities to more quickly implement emerging technologies? Recent history is replete with examples, including the events of 9/11 accelerating Check 21. Could we see migration of ACH/EFT to increasing volume of Same Day ACH/RTP/push to debit? Could Fiscal Service (Administrative Resource Center [ARC]), or any other government-shared service provider, provide payment/collection services on a "schedule" similar to GSA? And would designated financial agents embrace payments/collections as a service?

We know that another significant business disruption will occur at some point in time. The experiences of government agencies during the recent crisis should not impede their ability to perform their mission but spark adoption of better solutions that will enhance cost efficiency, security, accuracy and the citizen experience.

The current and future state of payments, fraud and reporting will differ widely among government agencies due to their varying levels of technology adoption. Over time, though, agencies that have collaborated with the right financial institution to implement solutions that comply with changing laws and that satisfy their citizens will stand out. The new policies and laws put into place will slowly align all agencies, but CFOs who act now will be better positioned to stay ahead of the curve as future innovations continue to present themselves.



### LET'S TALK

For more information, please visit our websites or contact Jean Hippert, Public Sector Executive, PNC Bank, at [jean.hippert@pnc.com](mailto:jean.hippert@pnc.com).

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**Federal Services:** [pnc.com/en/corporate-and-institutional/topics/specialty-segments/federal-services.html](https://pnc.com/en/corporate-and-institutional/topics/specialty-segments/federal-services.html)

1 U.S. Bureau of Labor Statistics

2 <https://techcrunch.com/2020/05/12/us-e-commerce-sales-jump-49-in-april-led-by-online-grocery/>

3 <https://www.axios.com/coronavirus-migration-american-cities-survey-aba181ba-a4ce-45b2-931c-6c479889ad37.html>

4 <https://www.grantthornton.com/-/media/content-page-files/public-sector/pdfs/surveys/2019/2019-public-sector-annual-CFO-survey-1.ashx>

5 <https://www.gao.gov/special.pubs/af12194.pdf>

6 <https://www.grantthornton.com/-/media/content-page-files/public-sector/pdfs/surveys/2019/2019-public-sector-annual-CFO-survey-1.ashx>

7 8,803 in 1998 to 4,718 in 2018

8 Will Patients Take the Wheel? PNC publication

9 McKinsey Financial Insights Pulse Survey, 6/8/2020

10 PNC/Willow Research: Empowering Women as Healthcare Change Agents, Spring 2020

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