

# THE DRIVE FOR OPTIMIZATION

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## A NOTE FROM JEFF FELSER, SENIOR VICE PRESIDENT



As businesses of all sizes continue to deal with a low-revenue growth environment, with annual changes in real U.S. gross output below 3% every year since 2010<sup>1</sup>, they are looking to drive greater efficiencies and returns from their various operations.

For many, new technologies provide significant opportunities for achieving that transformation.

One of the operational areas that offer considerable potential for technology-based transformation is the payments system. Over the past decade, commercial payments have shifted significantly towards electronic payments methods.

U.S. commercial card volume rose from less than \$400 billion in 2005 to more than \$1 trillion in 2015.<sup>2</sup>

Commercial ACH transaction volume reached 4.7 billion in 3Q16, up 6.5% y/y.<sup>3</sup>

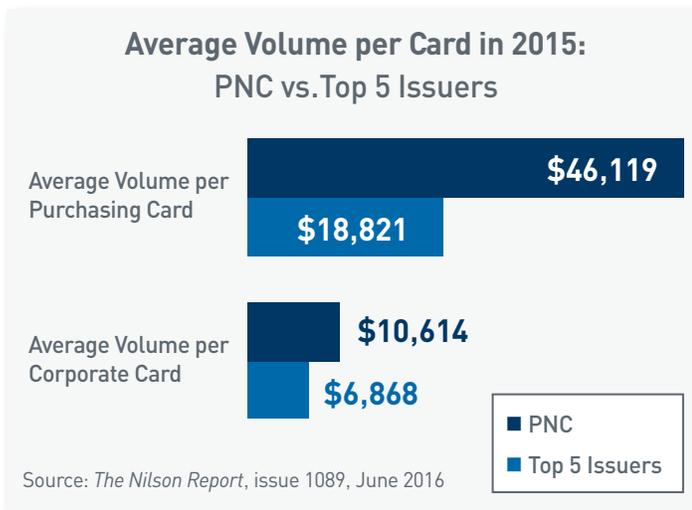
However, there has been a recent slowdown in the growth rate of electronic commercial payments.

- Following a dip in the immediate aftermath of the Financial Crisis, total U.S. commercial card volume rose by annual double-digit rates between 2010 and 2014, but this rate slowed to just 8% in 2015.<sup>4</sup>
- A recent AFP survey found that checks' share of B2B payments rose slightly from 50% in 2013 to 51% in 2016, thereby reversing a long-term downward trend.<sup>5</sup>

This can be partially attributed to the fact that many technology-centric companies have already converted to electronic payments. Additionally, a significant percentage of organizations may be reluctant to fully commit to electronic payments due to a number of factors, including organizational inertia and the perceived cost of adapting legacy payment systems to handle the new payment methods. It can also be due to a company's lack of in-house resources and external support to transition from trialing new payment methods to broad company-wide adoption.

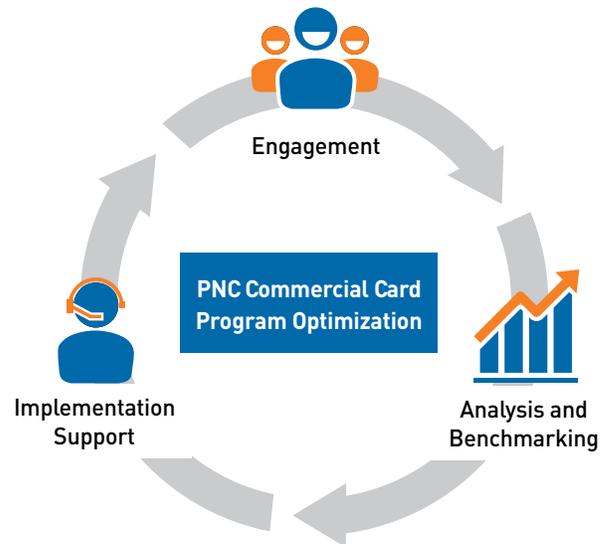
To address these challenges, companies are looking to commercial card issuers for a range of payment solutions, as well as comprehensive onboarding and optimization support.

PNC provides industry-leading support when implementing and optimizing our commercial card clients' programs. The strength of this support is demonstrated by better client performance: Our average spending per corporate card and purchasing card in 2015 was significantly higher than that of other leading commercial card providers.



PNC provides program optimization support for all our commercial card clients, which includes:

- A commitment to **engaging** with our clients at all stages of the relationship.
- Providing a number of **benchmarks and analyses** to help clients gain insight into their commercial card program performance relative to peers.
- **Implementation** support for a select number of support activities, such as recruiting suppliers to accept card payments.



## ENGAGEMENT

The impetus for program optimization is initiated by both the client and PNC. Clients looking to drive efficiencies throughout their organizations are increasingly interested in the types of program optimization support offered by PNC. We regularly reach out to clients to encourage and help them analyze their commercial spending patterns and then implement recommendations based on these analyses. We also provide insights and practical tips on program optimization, which are shared in articles, videos and webinars on the *Ideas, Insights & Solutions* section of the PNC website.

Consistent with our client relationship focus, PNC sees program optimization as an ongoing process, with new opportunities emerging as businesses continue to shift towards electronic payment systems.

PNC account managers lead teams that provide additional program optimization support, acting as a single point of contact for client interactions. These account managers, over time, gain a strong understanding of a client's operations and unique financial needs. For program optimization, account managers:

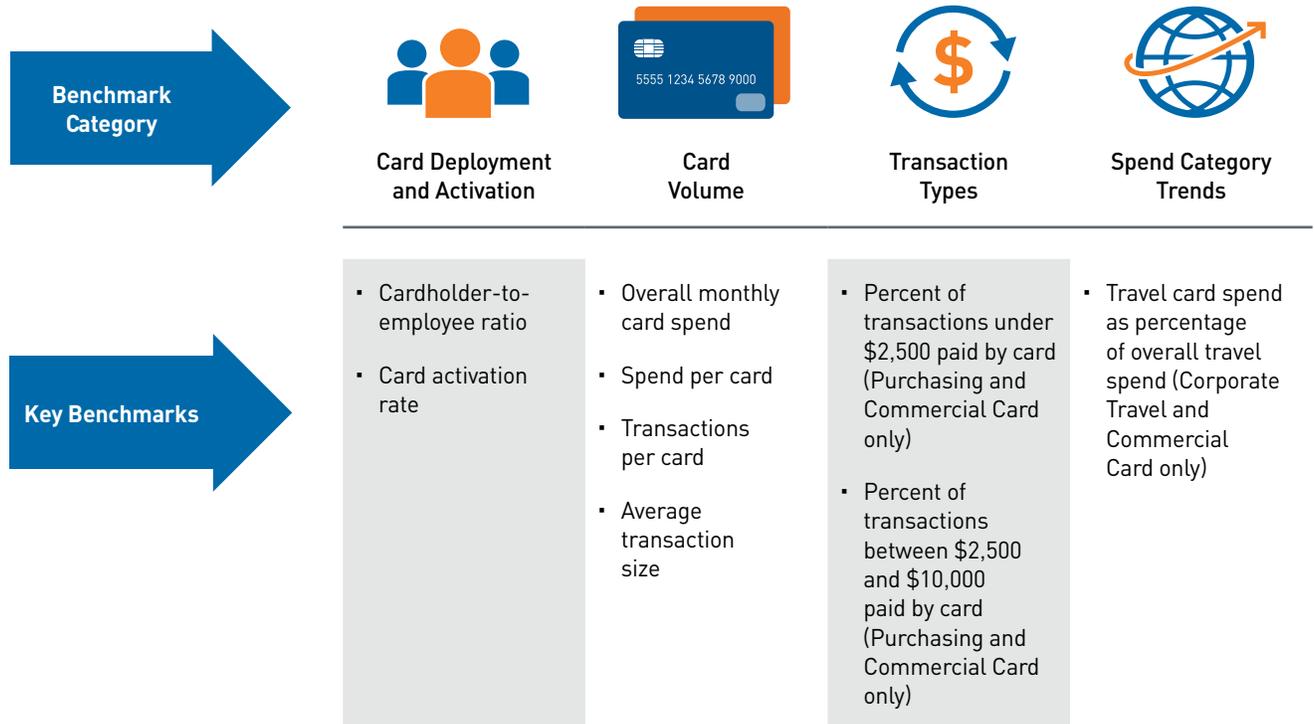
- Work with the client's program administrator to obtain detailed spend data on both distributed cards and accounts payable.
- Establish a tailored program optimization plan, based on the account manager's knowledge of the client, as well as on a detailed analysis of the client's spending patterns.
- Coordinate the type and level of optimization support from PNC.
- Develop recommendations to improve program performance.
- Work with the client to prioritize activities to be undertaken; and
- Support implementation.

**ANALYSIS AND IMPLEMENTATION SUPPORT**

**DISTRIBUTED CARDS**

For distributed card programs, PNC provides a wide range of analyses and benchmarks that enable clients to see how their programs perform in comparison to their (industry and revenue) peers.

Key benchmarks for distributed cards include:



The following report screenshot illustrates how companies can easily see how their distributed cards are performing for specific benchmarks relative to their industry and revenue-size peers. This enables companies to quickly identify areas of opportunity.

Comparison to Peer Industry and Revenue Groups			Below Median Performance	Above Median Performance		
Transportation, Warehousing, and Delivery Services	Your Metric	Benchmark*	0-25%	25-50%	50-75%	75-100%
Monthly total purchasing card spend	\$415,000	\$8,250,000	■			
Monthly spend per card	\$3,800	\$3,807				■
Monthly transactions per card	5.25	8.30			■	
Total card spend per \$ million in revenue	\$1,250	\$5,822	■			
Total card spend per employee	\$350	\$347				
Average transactions size	\$3,755	\$587			■	
Card-to-employee ratio	0.5	9.0%		■		
Percent of active cards	90.1%	91.0%				■
Percent of transactions under \$2,500 paid by purchasing card	N/A	58.0%				
Percent of transactions between \$2,500 and \$10,000 paid by purchasing card	N/A	21.0%				

\*Benchmark is the 75<sup>th</sup> percentile.

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PNC also provides tools, such as our Cost Savings Calculator and ROI Analysis, enabling clients to assess the potential impact of improving performance and closing gaps relative to peers.

Once the benchmarking and analyses identify opportunities for program optimization, PNC works with the client to prioritize these opportunities, makes recommendations for improving performance in targeted areas, and provides advice and tips on the best way to implement these recommendations. In addition, bank representatives regularly interact with program administrators to see if their efforts are bearing fruit.

**ACCOUNTS PAYABLE**

An important part of program implementation is to analyze accounts payable data and identify suppliers who could be converted to an automated payment method, thus increasing the opportunity to generate financial benefits through revenue share and working capital improvements.

Once we receive a client's vendor file, PNC performs a vendor analysis to identify specific suppliers who are likely to accept card payments from the client. These could be large suppliers who want to retain the client's business or suppliers in PNC's extensive database of suppliers that have already accepted electronic payments from other clients. Our vendor enrollment database contains thousands of suppliers and has doubled over the past three years. PNC and clients use the vendor analysis to identify spend categories in which clients have lower commercial card usage than their industry peers. Additionally, the vendor analysis can help to quantify the potential impact of converting a portion of the client's suppliers to commercial card payments.

PNC actively supports clients in recruiting suppliers to accept electronic payments from clients. And account managers continually monitor the effectiveness of optimization efforts. Working with program administrators, they identify issues with supplier recruitment, as well as activation of suppliers who have agreed to accept electronic payments from clients. We continue to analyze client spend data to determine whether current efforts are succeeding, as well as to identify emerging spend categories and/or suppliers that would benefit from a switch from paper-based to commercial card payments.

5 Year Value of AP Program		\$ 843,677			
Client File	Transactions**	Spend			
Sample Client Vendor Analysis	NOT PROVIDED	\$ 258,297.039			
Vendor Match Summary					
AP Matched Vendor Spend	\$	6,525,045			
PNC Matched Vendor Spend	\$	10,678,628			
Visa Matched Vendor Spend	\$	51,293,900			
ACH Matched Vendor Spend	\$	68,497,573			
Total Potential Vendor Spend	\$	137,995,146			
AP Matched Vendor Transactions		2,610			
PNC Matched Vendor Transactions		4,271			
Visa Matched Vendor Transactions		20,518			
ACH Matched Vendor Transactions		0			
Total Potential Vendor Transactions**		27,399			
Conservative Vendor Enrollment					
80% of AP Matched Vendor Trans.		2,088			
40% of PNC Matched Vendor Trans.		1,709			
15% of Visa Matched Vendor Trans.		3,078			
1% of ACH Matched Vendor Trans.		0			
Projected AP Spend	\$	17,185,572			
Projected AP Transactions		6,874			
Projected Value of PNC Based on AP Spend Analysis					
	Ramp up period		Continued Growth <sup>1</sup> (10% Annually)		
	75% enrollment	100% enrollment	110% enrollment	120% enrollment	130% of enrollment
AP Card Program Spend	\$ 12,889,179	\$ 17,185,572	\$ 18,904,129	\$ 20,622,687	\$ 22,341,244
Additional spend	\$ -	\$ -	\$ -	\$ -	\$ -
AP Card Program Combined	\$ 12,889,179	\$ 17,185,572	\$ 18,904,129	\$ 20,622,687	\$ 22,341,244
AP Card Program Transactions	1,156	6,874	7,563	8,249	8,936
AP Card Program Average Transaction	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
Basis Points Earned (30/7 cycle) <sup>2</sup>	0.80%	0.80%	0.80%	0.80%	0.80%
Value of Check Elimination <sup>3</sup>	\$ 3,506	\$ 4,674	\$ 5,142	\$ 5,609	\$ 6,077
Cost of Capital <sup>4</sup>	\$ 11,653	\$ 15,538	\$ 17,091	\$ 18,645	\$ 20,199
Value of Revenue Share <sup>5</sup>	\$ 103,113	\$ 137,485	\$ 151,233	\$ 164,981	\$ 178,730
Annual Value of Program	\$ 118,273	\$ 157,687	\$ 173,466	\$ 189,236	\$ 205,006
<sup>1</sup> If transaction counts are not provided transaction counts are based on an estimated per transaction average of: <b>\$2,500</b> <sup>2</sup> Growth is based on conservative vendor enrollment and moderate annual growth. <sup>3</sup> Actual Rebate schedule to be provided <sup>4</sup> Utilizing a 1 to 1 ratio of transaction to check and savings per check <b>\$0.68</b> Interest Rate <b>1.5%</b> Days <b>22</b> <sup>5</sup> Cost of Capital: Based on potential spend					
Vendor Match Summary					
Description	Match Status*	Spend	Vendor Count	Transaction Count	Average Ticket
PNC AP Matched Vendors	AP	\$ 6,525,045	39	0	Trans not Provided
PNC Matched Vendors	P	\$ 10,678,628	45	0	Trans not Provided
Visa Matched Vendors	V	\$ 51,293,900	250	0	Trans not Provided
Distributed Card Vendors (excluded from conservative spend)	V-Distr	\$ 118,476	6	0	Trans not Provided
ACH Matched Vendors	X-ACH	\$ -	-	0	Trans not Provided
Matched Vendors Unlikely Due to Volume	X-LRG	\$ 91,933,216	11	0	Trans not Provided
Unknown Vendors	X-LINK	\$ 155,856	655	0	Trans not Provided
Unlikely Vendors	X-UNL	\$ 97,591,917	330	0	Trans not Provided
<b>Totals</b>		<b>\$ 258,297,039</b>	<b>1,336</b>	<b>0</b>	<b>Trans not Provided</b>
PNC Match Status Description Definitions*					
AP (AP Matched Vendors) = Vendors known by PNC to have accepted commercial card payments from another PNC client post invoice.					
P (PNC Matched Vendors) = Vendors known by PNC to have accepted commercial card payments from another PNC client.					
V (Visa Matched Vendors) = Vendors known by VISA to have accepted commercial card payments.					
V-Distr (Distributed Card Vendors) = Vendors that typically accept card payments, however acceptance is typically limited to point of purchase or point of shipment.					
X-ACH (ACH Vendors) = Vendors the client identified as being paid by ACH.					
X-LRG (higher spend vendors) = Matched Vendors Unlikely Due to Volume					
X-LINK (Not Yet-Evaluated Vendors) = Vendors that are not known by PNC or VISA to have accepted a commercial card payment.					
X-UNL (Unlikely Vendors) = Vendors known to have accepted commercial card payments but are unlikely to accept AP commercial card payments.					
The results of this vendor analysis are based upon a programmatic search based on vendor name and past Purchasing Card transaction history. PNC's experiences have shown us while the results do provide guidance as to which vendor might be willing to accept a Purchasing Card as payment, it does not necessarily guarantee a vendor's participation in your particular Purchasing Card program. It also does not determine what method the vendor will want to process your Purchasing Card transaction - including up-front payment or post invoice. Many specific factors (variables) impact a vendors willingness to participate in your particular Purchasing Card program including: product/service price, invoice/payment terms, invoice size and \$ volumes, current payment method, and relationship. PNC recommends that each vendor be contacted individually to determine their actual participation in your program. PNC has the support tools and staff resources to assist you with your vendor enrollment.					

**IN THIS ISSUE**

- The [Product Spotlight](#) announces the launch of the PNC Fleet Card, scheduled for early 2017.
- This issue's [Quick Tips](#) provides 7 strategies on how to maximize supplier acceptance of commercial cards.
- [By the Numbers](#) looks at how commercial card volume is still growing, but at a significantly lower rate.

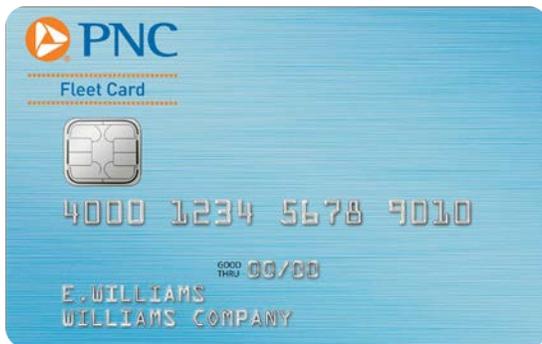
Discover how PNC can deliver ideas, insights and solutions to help you achieve your objectives.

Contact your PNC Treasury Management Officer or Account Manager, or visit [pnc.com/treasury](http://pnc.com/treasury).

# PNC FLEET CARD

Companies with vehicle fleets want payment solutions that offer convenience for drivers as well as specific card controls to manage fleet-related expenses. In addition, they also want program administrators and controllers to be able to obtain data on spending patterns so they can utilize the data to drive greater efficiencies in managing their fleet of vehicles.

Driven by these needs, PNC is pleased to announce that we will be launching our Fleet Card in the second quarter of 2017—an important addition to our comprehensive commercial card suite. The PNC Fleet Card will complement PNC clients' existing commercial card solutions and will provide clients with additional features such as enabling them to separate, track and analyze fuel spending.



There are a wide range of benefits for clients who consolidate their fuel spending on a dedicated fleet card program:

Category	Benefit
<b>Reducing Costs and Driving Efficiency</b>	<ul style="list-style-type: none"> <li>Negotiate volume discounts with particular suppliers (through our closed-loop program)</li> <li>Reduce administration costs</li> <li>Streamline reconciliation and reduce disputes</li> </ul>
<b>Enhancing Driver Productivity and Satisfaction</b>	<ul style="list-style-type: none"> <li>Provide a convenient payment method to drivers while easing the burden of filing expense reports. Companies in general need to invest in tools that improve driver satisfaction and enhance driver retention</li> </ul>
<b>Controlling Spending and Reducing Fraud Exposure</b>	<ul style="list-style-type: none"> <li>Control fuel-related spending through restrictions on fuel type, merchant-category code (MCC) and volume limits</li> <li>Restrict Fleet card purchases to Automated Fuel Dispensers only</li> <li>Reduce the potential for fraud through at-the-pump verification (drivers must enter the assigned driver or vehicle ID in order to use the card)</li> </ul>
<b>Generating Insights to Inform Business Decisions</b>	<ul style="list-style-type: none"> <li>Monitor fuel spending by capturing comprehensive data at the pump (a key feature of PNC Fleet Card)</li> <li>Identify patterns in fuel spending through user-friendly Transaction reports (see sample report on next page), which can be used to identify opportunities for program optimization, as well as provide senior executives with performance updates</li> </ul>

Fleet card spend data is consolidated in a PNC Fleet Direct transaction report, enabling program administrators to analyze spending patterns.

Transaction Report														2017-01-25 07:37																						
Carrier:		Start Date:		End Date:		Carrier Id:		Contract Id:				All																								
Group by:		Card Number:		Sort by:		Transaction Date		Total Records: 12																												
Card #	Tran Date	Tran Time	Invoice	Unit	Driver Name	Odometer	Location Name	City	State/Prov	Fees	Item	Unit Price	Qty	Amt	DB	Currency																				
'0008	2017-01-15	01:13	279781	FreightLine		544059	SHELL OIL 5742430957	CLAYTON	OH		FUEL	2.499	39.62	99.00	N	USD/Gallon																				
'0008	2017-01-25	01:37	151144	FreightLine		543845	SHELL OIL 5742430957	CLAYTON	OH		FUEL	2.559	38.09	99.00	N	USD/Gallon																				
Group: 1 00008				<table border="1"> <thead> <tr> <th></th> <th>Amount</th> <th>Quantity</th> <th>Avg PPU</th> </tr> </thead> <tbody> <tr> <td>FUEL</td> <td>198.00</td> <td>78.31</td> <td>2.529</td> </tr> <tr> <td>Fees</td> <td>0.00</td> <td>0.000</td> <td></td> </tr> <tr> <td>Totals</td> <td>198.00</td> <td>0.000</td> <td></td> </tr> <tr> <td>Total Fuel</td> <td>198.00</td> <td>78.31</td> <td></td> </tr> </tbody> </table>														Amount	Quantity	Avg PPU	FUEL	198.00	78.31	2.529	Fees	0.00	0.000		Totals	198.00	0.000		Total Fuel	198.00	78.31	
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'0004	2017-01-25	01:37	124929	Intermation		197539	SHELL OIL 5742430957	CLAYTON	OH		FUEL	2.559	38.09	99.00	N	USD/Gallon																				
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'0000	2017-01-25	01:37	658772	Box Truck		115275	SHELL OIL 5742430957	CLAYTON	OH		FUEL	2.499	39.62	99.00	N	USD/Gallon																				
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'0005	2017-01-12	01:24	108948	Cargo Van		89478	SHELL OIL 5742430957	CLAYTON	OH		UNRG	2.399	23.04	55.26	N	USD/Gallon																				
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Fees	0.00	0.000																																		
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In addition to providing a robust range of features that streamline, control, monitor and analyze fuel spending, PNC Fleet Card clients will also have access to industry-leading dedicated onboarding and program optimization support.

The PNC Fleet Card will be competitively priced, and currently there are no per-card or monthly maintenance fees. The new PNC Fleet Card is the latest addition to our comprehensive commercial card portfolio, which also includes Corporate (T&E) Cards, Purchasing Cards, Commercial "One" Cards, Virtual Cards, Multinational Commercial Cards and our suite of prepaid cards.

# 7 PROVEN STRATEGIES FOR MAXIMIZING SUPPLIER ACCEPTANCE

One of the key forms of support that PNC provides to our clients for optimizing their commercial card programs is information and advice.

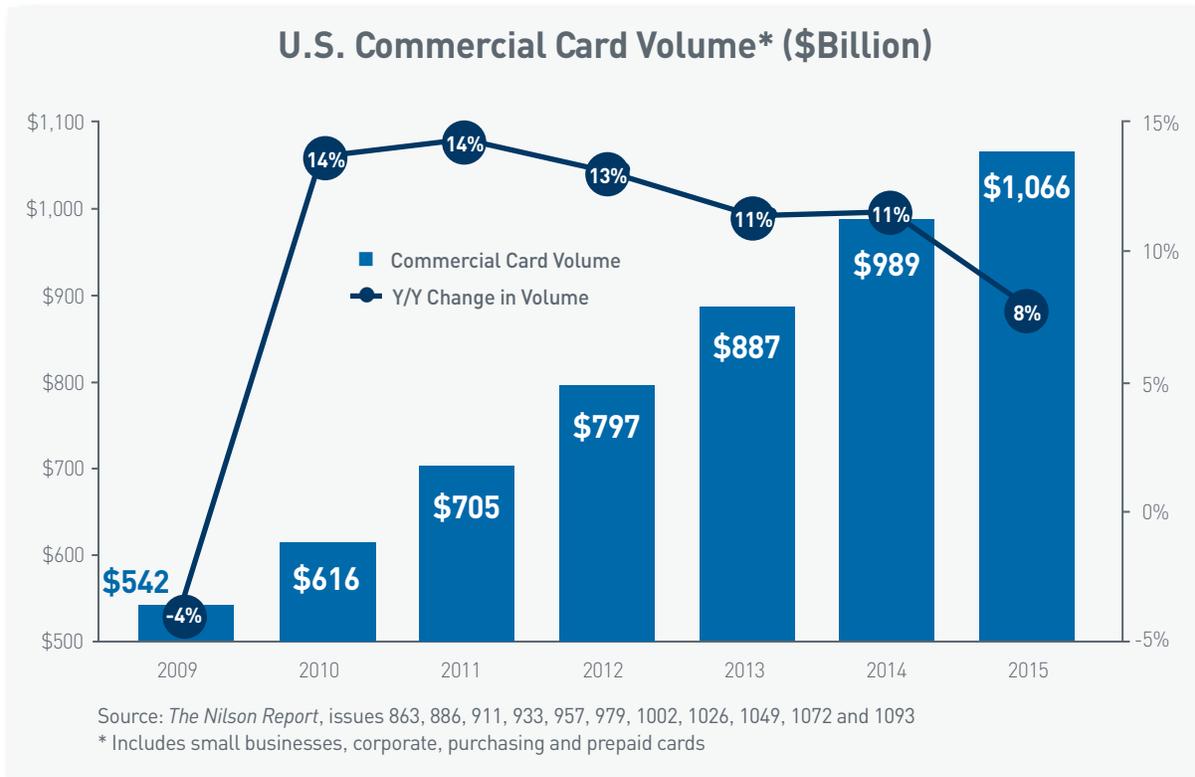
Many clients claim that one of the key barriers to greater usage of electronic payments is suppliers' reluctance or refusal to accept such payments. Over the years, PNC has built significant experience and expertise in commercial card acceptance in the B2B payments space.

The following is a summary of some of the key strategies to drive increased commercial card acceptance on the part of suppliers:

- 1 Leverage Inbound Contacts**  
Leverage supplier calls into your Accounts Payable (AP) department as an opportunity to introduce commercial card as a payment option that creates benefits for both parties.
- 2 Capitalize on Routine Communications**  
Incorporate commercial card payment information into standard communications (e.g., emails, check payments) with suppliers.
- 3 Be Proactive**  
Contact suppliers regularly to engage them directly on commercial card acceptance.
- 4 Define Payment Options**  
Create set payment options for suppliers with more favorable terms for card payments.
- 5 Get It in Writing**  
Take advantage of negotiation periods with new suppliers who are eager to win your business to get their commitment—in writing—to accept commercial card for future payments.
- 6 Pay Invoices Online**  
Identify suppliers that accept online payments for invoices, and designate a member of your AP staff to handle online payments.
- 7 Explore Alternative Options**  
Develop solutions for large suppliers that are resistant to accepting card payments. These solutions reduce the acceptance barriers and provide encouragement to switch from check and ACH to commercial card payments.

# U.S. COMMERCIAL CARD VOLUME

According to *The Nilson Report*, total U.S. commercial card volume passed the \$1 trillion milestone in 2015. Between 2009 and 2015, commercial card volume almost doubled, as more companies switched from checks to electronic payments. However, the rate of growth in commercial card volume has been slowing in recent years, and fell to just 8% in 2015. Among the top 10 Visa®/Mastercard® commercial card issuers, PNC had one of the strongest growth rates, increasing 10% to \$22.7 billion.



This slowdown can be attributed to a number of factors, including organizational inertia, reluctance to overhaul legacy payment systems, or the belief that suppliers will not accept electronic payments. PNC enables clients to overcome these barriers through our relationship model and program optimization support, which clearly illustrate the bottom-line benefits of fully embracing electronic payments.

# COMMERCIAL PAYMENTS NEWS UPDATE

Commercial Payment Topic	Recent News/Trends	Topic Covered in Previous Issues of PNC Payment Solutions News
<b>EMV®</b>	<p>Visa® reported the following statistics<sup>6</sup> on the continued growth on EMV in the U.S. for November 2016:</p> <ul style="list-style-type: none"> <li>• 1.75 million merchants accept chip cards (+154% y/y)</li> <li>• \$43.8 billion in Visa chip volume (+262% y/y), and chip-ready merchants now represent 46% of Visa's in-store payment volume</li> <li>• 806 million Visa chip transactions (+359% y/y)</li> <li>• 400 million Visa chip cards (+105%)</li> </ul>	<p><a href="#">Winter 2014 issue:</a> summarized enhancements to PNC's corporate card portfolio, including the incorporation of EMV functionality, well in advance of the October 2015 deadline.</p>
<b>ACH</b>	<p>There were 3.8 million same-day ACH transactions (with \$5.0 billion in volume) in October 2016, the first full month in operation following phase I implementation towards the end of September. B2B payments accounted for 36% of same-day ACH transactions (and 56% of volume).<sup>7</sup></p>	<p><a href="#">Fall 2016 issue:</a> discussed the launch of same-day ACH in September 2016.</p>
<b>Fraud</b>	<p><i>The Nilson Report</i> reported that global card fraud is expected to peak at \$32.8 billion in 2019 (up from \$21.8 billion in 2015). Based on cents per \$100 of volume, losses are expect to peak at 7.3 cents per \$100 in 2018 (from 7.0 cents in 2015).</p> <p>U.S. fraud losses accounted for 11.76 cents per \$100 in volume in 2015, more than double the loss rate outside the U.S. (5.55 cents per \$100).<sup>8</sup></p> <p>Visa reported that counterfeit fraud fell 52% y/y for merchants who accept chip cards.<sup>9</sup></p>	<p><a href="#">Fall 2015 issue:</a> discussed commercial payments fraud, including products and strategies to reduce exposure to payments fraud.</p>
<b>Accounts Payable and Payable Automation</b>	<p>A survey by TechValidate Market Research found that many standard accounts payable (AP) processes remain manual, including invoice collection (60%) and supplier communications (61%).<sup>10</sup></p>	<p><a href="#">Fall 2014 issue:</a> highlighted the benefits of invoice automation, as well as provided practical steps to work towards payables automation.</p>
<b>Electronic Payments</b>	<p>The Capterra 2016 World Payments Report found that global digital payments transactions rose 10% to 426 billion transactions in 2015.<sup>11</sup></p> <p>eMarketer projects that U.S. proximity mobile payments volume will rise from \$27.7 billion in 2015 to \$314.1 billion in 2020.<sup>12</sup></p>	<p><a href="#">Spring 2015 issue:</a> discussed the electronification of payments, new payment technologies, and the typical adoption path for these new payment methods.</p>
<b>Blockchain-based Payments</b>	<p>Visa invested in Chain, Inc. in order to launch Visa B2B Connect, a blockchain-based network for cross-border business-to-business payments.<sup>13</sup></p>	<p><a href="#">Fall 2016 Issue:</a> analyzed the emergence of distributed ledgers and blockchain-based payments, and summarized PNC's activities around this technology.</p>

- 1 Source: U.S. Bureau of Economic Analysis
- 2 *The Nilson Report*, issue 863, August 2006, and issue 1093, August 2016
- 3 NACHA, The Electronic Payments Association
- 4 *The Nilson Report*, issue 1093, August 2016
- 5 2016 AFP Electronic Payments Survey
- 6 "The year of chip: U.S. shows strong growth in 2016," Visa news release, January 31, 2017
- 7 "Same Day ACH Generated More Than 13 Million Transactions, Totaling Nearly \$17 Billion," NACHA News Release, January 24, 2017
- 8 *The Nilson Report*, issue 1096, October 2016
- 9 Visa Chip Card Update: December 2016
- 10 "Finance and Accounting Professional Survey Identifies Waste and Risk with the Manual State of Today's Accounts Payable Operation," PR Newswire, October 17, 2016
- 11 CapGemini 2016 World Payments Report
- 12 "Newer Smartphone Models Help Drive Mobile Payments Usage," eMarketer, November 22, 2016
- 13 "Visa Taps Blockchain for Cross-Border Payment Plan," The Wall Street Journal, October 21, 2016

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