Executive summary

The growing acceptance of electronic person-to-person (P2P) consumer payments is paving the way for corporates and governments to adopt new electronic payment methods. By leveraging proven P2P technology, it should be possible to lower costs and improve efficiency for corporates and governments while improving convenience for consumers.
The way people use technology is evolving rapidly. Smartphones and tablets have become ubiquitous in just a few years. In the U.S., smartphones represent 71.8% of the mobile market: 173 million people now own these devices. Mobile Internet is changing how people make purchases: total U.S. retail mobile ecommerce sales are estimated at $58.07 billion for 2014, an increase of 37.3% over 2013. The time is right to leverage the mobile technologies in ways beyond existing uses — particularly as the U.S. continues to emerge from the recession of the last five years and business growth increases.

**Consumer preferences and technology leading the way**

As consumers make purchases increasingly online and via electronic channels, their payment expectations are changing. They want payment options that provide convenience, choice, control and enhanced security features. With mobile devices so prevalent there is a strong consumer preference to make, receive and monitor payments through a smartphone or tablet. An example of a recent development in the U.S. consumer payments space that delivers on these new consumer expectations is clearXchange, which provides electronic payments between consumers — P2P payments.

Payments made via clearXchange, a joint venture launched in 2011 by three of the country’s largest retail banks, Bank of America, N.A., Chase and Wells Fargo, are more convenient and help to address consumers’ concerns about privacy and security in the use of electronic payments. These payments provide consumers with more control than checks and are alternatives to cash payments. The model of P2P payments is based on moving money from one consumer to another without needing the receiver’s bank account information. Instead, clearXchange serves as a registry of mobile phone numbers and email addresses which in turn act as “aliases” for the receiver and are linked to bank accounts.

**How alias-based payments work**

An alias-based payment uses a person’s mobile number or email address as a unique identifier to facilitate sending funds to the correct bank account. Both unique identifiers are generally considered to be non-sensitive information by consumers and regulators. This method of moving money does not require the sender to have the bank account number of the recipient and it does not provide the sender with any direct access to the recipients’ bank account. This is an important advantage in that a recent study performed by the Federal Reserve found that 85% of consumers and 81% of businesses prefer not to provide bank account information to the payee when making a payment.

The alias is held by a third party (for Bank of America, it is clearXchange) so it can identify the owning banks for the registered alias to enable the payment to be made into the correct bank account. Therefore we use the alias as a form of “air traffic control.” The recipient receives their payment through their bank and has no contact with the sender’s bank. If a recipient is not registered, the paying entity (consumer, corporate, or bank) sends an email or text message requesting that they register to receive payment.
(see “How alias-based payments work” for further details on the concept of payment registry using consumer aliases). The result is a payment method that is useful, simple and convenient without requiring the receiver to share sensitive financial information with the sender.

Electronic P2P payments have helped to contribute to declining use of checks by consumers. However, corporates and governments still use a relatively high percentage of checks, especially when paying consumers. While routine payments to consumers, such as payroll, have largely migrated to electronic methods, non-routine, one-off payments — such as product returns, refunds, reimbursements, or claim payments — remain predominantly check-based.

Bank of America Merrill Lynch wants to leverage its experience with consumers and business clients to help corporates and governments address their long-standing challenges when making payments to consumers. The bank also wants to make life easier for consumers and help them realize their new payment expectations in a digital age. The technology available through the bank and clearXchange can make this possible.

By offering consumers and other recipients a faster and more streamlined method to receive payments, corporates and governments have an opportunity to lower costs and improve efficiency. As importantly, they can improve how they interact with customers — potentially driving brand loyalty and improving sales and profitability.

Overcoming barriers

Typically, the end-to-end costs of distributing a check, including check stock security, magnetic ink, endorsement, mailing, reconciliation and fraud-related costs, while varying by entity, often total several dollars per item or greater. There is therefore a strong incentive for companies and governments to reduce check use if possible.

However, replacing checks is a formidable challenge. Firstly, checks are ubiquitous and well understood by consumers. Secondly, existing alternatives, such as ACH, require personal bank account information, which many consumers are reluctant to provide, particularly for one-off payments. Moreover, businesses have historically been wary of the security risks and the costs of maintaining sensitive financial information of their customers. Consequently, ACH is not usually considered ideal for non-recurring payments.

We believe that there is a path to solve the check replacement challenges using the electronic P2P payment tools in the marketplace today. Bank of America Merrill Lynch is using the technology and the knowledge it has gained from successfully implementing a platform for P2P alias-based payments to benefit corporate and government to consumer payments.

The attraction of this payment mode is that payments can reach virtually all consumers with bank accounts in the U.S. Registration is easy, either through the consumer’s own bank or via clearXchange. For the sender, payment is easier than writing and mailing a check or using cash. The recipient gains access to funds faster than with a check without sharing personal bank account information with the sender.

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Leveraging what we already know

Technology use in treasury services has always been influenced by technology used by consumers. Recently, the speed with which innovations from the consumer world move into the corporate treasury arena is accelerating. Bank of America Merrill Lynch, in cross-enterprise coordination with both the corporate and consumer business lines, has created a payment method that will bring consumer payment experiences to our corporate clients while helping to address their specific business requirements.

For example, corporates need the ability to send large payment volumes as compared to consumers when making electronic payments. While consumers may make only a handful of payments a week, corporates may issue thousands a day. Any registry-based system for corporates needs to accept large payment volumes. Corporates also require information to facilitate efficient reconciliation, so that an insurance disbursement, for example, is linked to a specific claim. Finally, corporates may need the ability to generate specific reports, such as detailing outstanding items or return items.

Bank of America Merrill Lynch’s new way to pay, Digital Disbursements, offers all of these benefits in a business-to-consumer payment environment. Focus group research shows that consumers are open to accepting these electronic payments in lieu of a check. Indeed, they suggested they would welcome them and reward the business with positive brand impressions. The opportunity to benefit from faster payment times, the ability to receive status updates on payment through email or texts, and the convenience of not having to deposit (or potentially misplace) a check appear to be highly valued by consumers.

Bank of America Merrill Lynch is driving Digital Disbursements to the benefit of both corporate and delivering on its promise of bringing the value of the entire franchise to all customers. By leveraging its success in the consumer payments space using clearXchange, Bank of America Merrill Lynch intends to overcome long-standing challenges that have prevented corporates from migrating payments to electronic methods and offer both sides of this transaction a better way to pay and get paid.