The Potential for Immediate Funds Transfer (IFT)

September 7, 2011

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Northbrook, IL
Challenges of new payment mediums in the personal lines insurance sector

The personal lines insurance market can be classified as very competitive and mature with significant provider sophistication.

Different payment channels and mediums used to be a provider differentiator.

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Receipts</td>
<td>Small % of total; large transactions, customer directed, predominantly electronic</td>
<td>Large % of total; multiple channels, multiple mediums, customer choice, highly automated</td>
</tr>
<tr>
<td>Disbursements</td>
<td>Claims provider payments, corporate obligations, taxes</td>
<td>Dual payee checks, small % ACH, experimenting with cards, potential for IFT</td>
</tr>
<tr>
<td>Liquidity and Float</td>
<td>Large transactions necessitates predictable timing – but overall less than 30% of receipts</td>
<td>Large numbers smooth spikes, multiple channels adds complexity, cost, and choice – availability has never been better</td>
</tr>
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Receipts - Customer preference drives payment channel expansion

Payment channel offerings are based upon customer demand

- Over the last 15 years, no channels have gone away; only new channels added
- Volume shifts – demographics, company incentives, type of insurance
- Billers have different needs – payment acceptance vs. actual funds received
  - credit providers vs. service providers
- Regulatory changes driving demand? (i.e. – Check 21, Dodd-Frank)
- Would IFT be customer demanded? Company demanded? Both?

<table>
<thead>
<tr>
<th>B2B (Originated by C2B)</th>
<th>C2B (Direct)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage companies – EDI/EFT</td>
<td>Direct Debit, Recurring ACH</td>
</tr>
<tr>
<td>Merchant acquirer - Wire</td>
<td>Lockbox (ARC, ICL)</td>
</tr>
<tr>
<td>Alternative payment providers – Wire</td>
<td>IVR, Company Website</td>
</tr>
<tr>
<td>On-line bill consolidators – ACH</td>
<td>On-line Bill Payments</td>
</tr>
</tbody>
</table>

Importance

Cost
Receipts – The Importance of Positioning

Payment channel success and adoption often rests on the attractiveness

Customer/Company Perspective

<table>
<thead>
<tr>
<th>Cost</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>Recurring ACH On-line payments</td>
</tr>
<tr>
<td>Credit Card</td>
<td></td>
</tr>
<tr>
<td>Debit Card</td>
<td></td>
</tr>
<tr>
<td>Lockbox</td>
<td></td>
</tr>
<tr>
<td>IVR</td>
<td></td>
</tr>
<tr>
<td>Retail location</td>
<td></td>
</tr>
<tr>
<td>ACH</td>
<td></td>
</tr>
</tbody>
</table>

**Customer Requirements:**
- Does it make paying bills easier?
- More automated?
- Greater control without hassles?
- Provide discounts or offers?
- Embrace technology?
- Private and secure?

**Company Requirements:**
- Less/least costly to administer?
- Mechanized and secure?
- Boost customer retention?
- Increase customer satisfaction?
- Improve cross selling?
- Open additional means of communication or marketing?
- Provide additional demographic understanding?
Disbursements – The contract, customer choice and differentiation drive payment medium selection

Payment mediums are based upon:

- Insurance contract with lien holders wanting protection and proof of payment – Dual Payee Check (B2C and B2B)
- Customers can defer payment to a provider upon completion of repairs (B2B)
- Catastrophe response is driving creative payment exploration
- Corporate obligations are largely ACH, wire or check, with check & wire declining
- Would IFT be customer demanded? Company demanded? Both?

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<thead>
<tr>
<th></th>
<th>Property/Casualty Insurance</th>
<th>Life Insurance/Annuities</th>
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</thead>
<tbody>
<tr>
<td>Traditional</td>
<td>Checks</td>
<td>Checks</td>
</tr>
<tr>
<td>Disbursement Mediums</td>
<td>ACH</td>
<td>ACH</td>
</tr>
<tr>
<td></td>
<td>Retained Asset Accounts (checks)</td>
<td>Retained Asset Accounts (cards)</td>
</tr>
<tr>
<td>Emerging</td>
<td>Cards</td>
<td>IFT</td>
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Proprietary and Confidential
IFT – Will likely carve out a nice niche

IFT will have benefits for individuals and businesses, but it must be:

- Cost effective
- Easy and Secure
- Immediately available
- Consumer valued
- Allow for remittance detail
- Improve cross boarder payments
- Funds immediately available
- Work with banks and non-banks

How could IFT show up in the insurance space?

- **Subrogation clearing (B2B)**
  Settling of subrogation obligations between insurance companies with minimal remittance information - currently settled by check today

- **Catastrophe (Emergency Living Expenses)**
  Cash availability need is immediate

- **Life Insurance/Annuity withdrawals**
  Larger transactions, sometimes needed quickly for medical expenses, closings, deadlines

Where IFT is not likely to show up?

- **Payroll**
  ACH direct deposit is dominate

- **Accounts Payable**
  payment terms and contracts rule

- **Retail locations**
  cash and check still the medium most received, cards next

- **EDI Applications**
  large amounts of remittance data
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