



2020 ANNUAL REPORT

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A MESSAGE FROM THE TREASURER



Letter From Treasurer Michael W. Frerichs

It is with great pleasure to present our ePAY Annual Report, which presents the progress and investment activities during calendar year 2020. The electronic payments industry is always changing, and many merchants have stayed current with industry trends and compliance requirements. ePAY, as offered by the Office of the Illinois State Treasurer, relieves that burden from Illinois governments by offering a simple, secure, and cost-effective payments platform.

As the state's payments experts, ePAY manages master contracts for payment processing, settlement, and payment compliance services. We ensure our vendors offer cutting-edge solutions such as point-to-point encryption that reduces compliance burdens by 90%. We remove barriers to acceptance by allowing fees to be paid by the merchant or by the cardholder. Overall, ePAY acts as your very own merchant services department

In 2020, ePAY solidified its transition to a new payment processing platform. This new platform reduced the compliance and costs incurred by the Treasurer and its Participants.

I proudly present the following accomplishments for 2020:

- Engaged over 8,000 non-participating government agencies through a recruitment effort.
- Hosted "Navigating Payments and Investments through COVID-19" online event to highlight challenges of the pandemic and solutions offered by the Treasurer.
- ePAY enabled state and local governments to process over 12.5 million credit card, debit card, and electronic check transactions valued at over \$2.9 billion. Credit and debit card transactions totaled over \$1 billion for the first time in product history.
- Enrolled 15 new Participants off 164 qualified leads, a 56% increase over 2019.
- In coordination with the Secretary of State and NCR, we offered free e-check payments to help with costs during the COVID-19 pandemic. As of 12/31/2020, over 400,000 transactions were completed, saving Illinois residents \$213,289.
- ePAY saved the state an estimated \$4.4 million in 2020 in per transaction debit/credit card payment processing costs.

In general, payments continue to move away from physical mediums to electronic channels. I will work to ensure that Illinois governments can meet constituent expectations for modern payment experiences while staying within the restricted budgets many institutions face. Together, we can ensure the state can receive funds in a safe and convenient environment.

Sincerely,

A handwritten signature in blue ink that reads "Michael Frerichs". The signature is fluid and cursive, written in a professional style.

Michael W. Frerichs

EPAY OVERVIEW

What is ePAY?

Since 2002, the Office of the Illinois State Treasurer (“Treasurer”) has offered ePAY to local governments and state agencies in Illinois to safely accept credit card, bankcard and electronic check (ACH) payments at an affordable cost. ePAY does this by managing a master contract with a payment services provider and providing a relationship management team that assists with implementing payment services, managing PCI compliance, and providing customer service. By consolidating the state’s payment processing volume under a single contract, ePAY uses economies of scale to offer greater levels of service at lower costs than any single unit of Illinois government could acquire on their own.

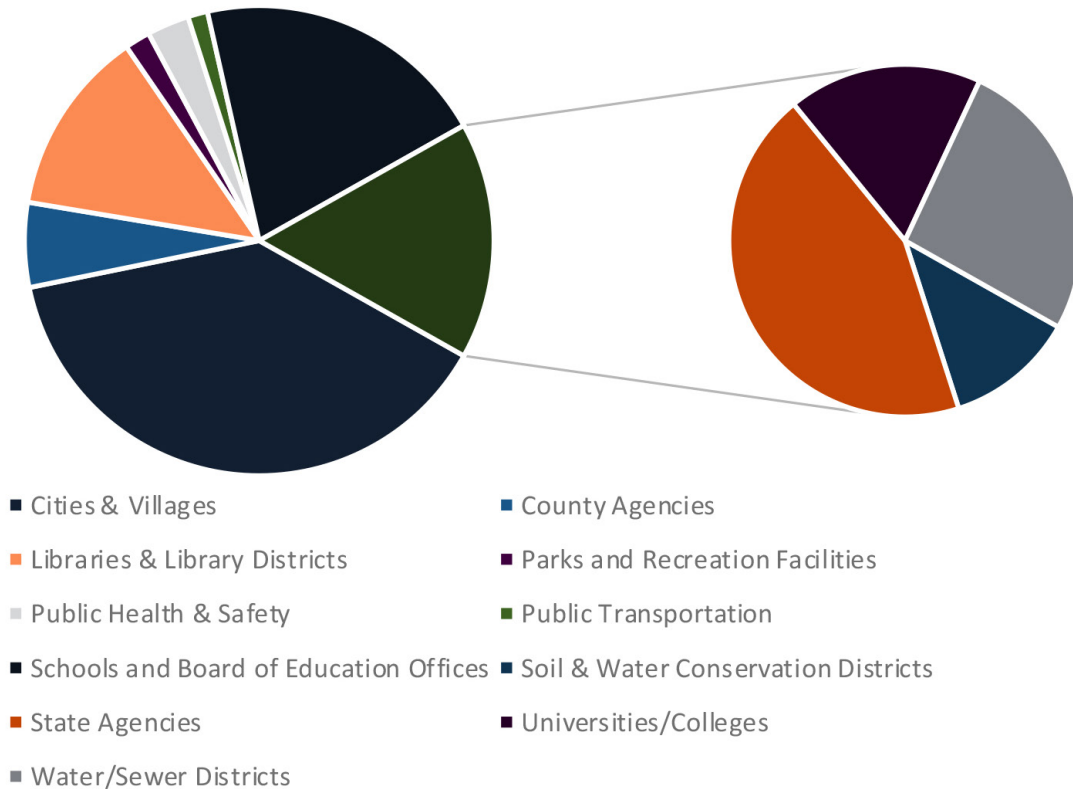
In addition, payments in the United States are trending toward electronic channels with debit cards surpassing cash as the most widely used payment instrument since 2019. By offering multiple electronic payment options, ePAY ensures that Illinois governments can keep up with industry changes and constituent expectations.



Who participates?

ePAY is available to any public agency in Illinois that handles public funds. This includes local governments such as municipalities, libraries, school districts, or park districts. This also includes state level entities such as state universities or state agencies. As of December 31, 2020, ePAY had over 500 participating government agencies:

ePAY Participants by Government Type



Cities & Villages	199
County Agencies	30
Libraries & Library Districts	66
Parks and Recreation Facilities	9
Public Health & Safety	15
Public Transportation	7
Schools and Board of Education Offices	105
Soil & Water Conservation Districts	10
State Agencies	37
Universities/Colleges	15
Water/Sewer Districts	22
Grand Total	515

ePAY Partners



NCR Payment Solutions, LLC ("NCR Payment Solutions" or "NCR") is a leading provider of credit card, debit card and e-check payment processing services throughout the U.S. and has provided services to municipal utilities, counties, cities, townships, special districts as well as statewide electronic payment processing contracts to for more than two decades. NCR is ePAY's primary services provider, deploying all payment solutions across internet, IVR, and point-of-sale.



The Chicago Lighthouse is an institution dedicated to the employment of the visually impaired. Chicago Lighthouse staff serve as the first contact for ePAY's telephone customer support. Using specially designed hardware and software, they can resolve requests during the call or open a help ticket if technical support is necessary.



Illinois National Bank (INB) is the settlement bank selected by the Treasurer as an option for receiving ePAY transaction funding. INB has a direct sweep to the Illinois Funds so that ePAY funds can be invested as soon as possible.



The Illinois Funds is a Local Government Investment Pool (LGIP) administered by the Treasurer. Over 1,500 local and state government agencies have voluntarily participated in the pool since it was created in 1975 to provide public agencies with a safe, liquid, competitive investment alternative pursuant to 15 ILSC 505. The Illinois Funds is available to the same units of government eligible for ePAY.



ePAY has always strived to provide secure electronic payments processing at low cost to all government entities in Illinois. In support of this goal, we are pleased with our partnership with **SecureTrust**, a Trustwave division, an industry leading qualified security assessor who provides Payment Card Industry Data Security Standard (PCI DSS) compliance services. As part of this partnership, all ePAY Participants who have converted to the new ePAY platform under NCR Payment Solutions will receive the following benefits at no additional cost:

- PCI Portal to assist with completing and tracking annual SAQ validation
- PCI Network Vulnerability Scanning (up to 3 IPs)
- Security Policy Templates
- Network Security Health Check and Beacon
- \$50,000 Breach Protection
- 24/7 e-mail and phone customer support

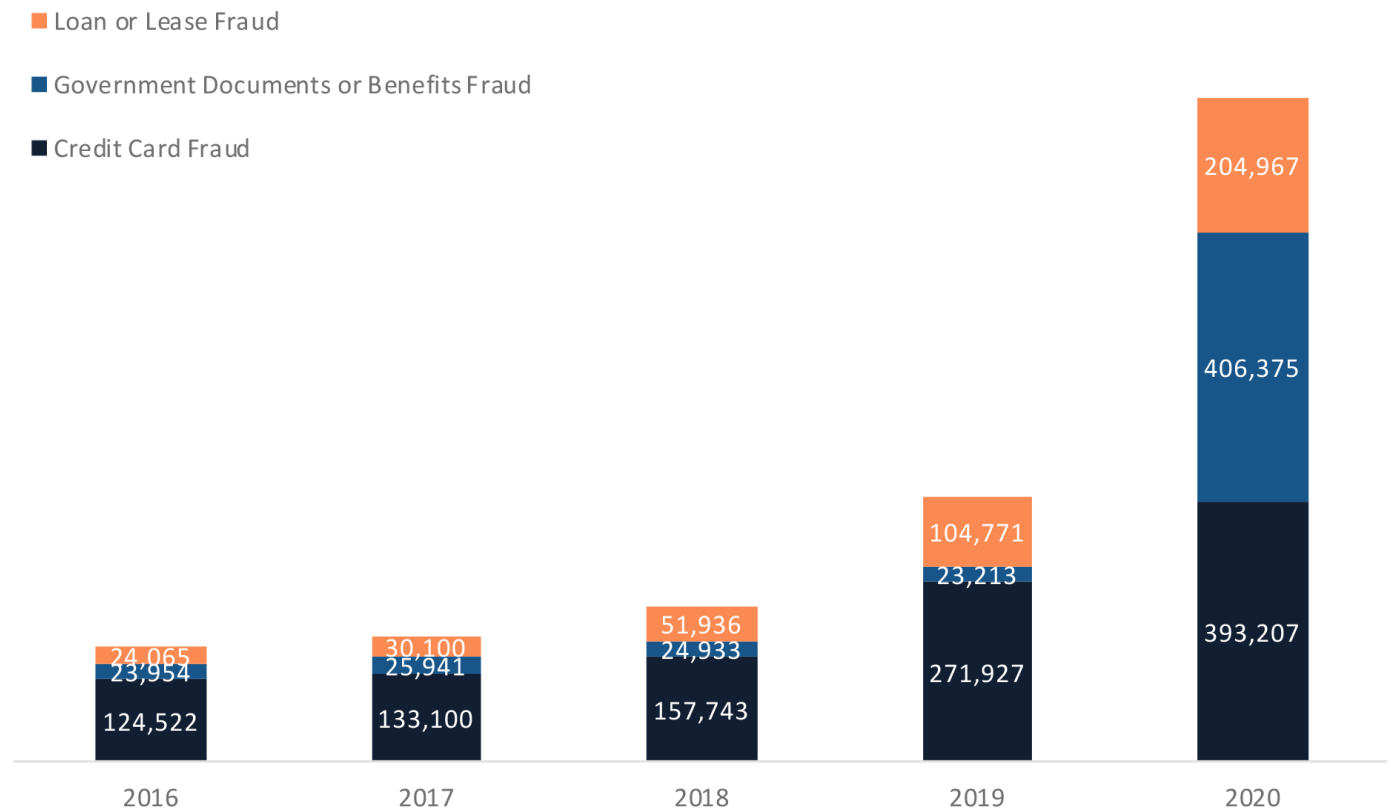
In addition to these free services, SecureTrust also offers enhanced Qualified Security Assessor and Approved Scanning Vendor services. These services include hourly consulting, on-site assessments, penetration testing, annual security training, and more.

PAYMENT LANDSCAPE

Payment Card Industry Updates

2020 had been planned as a year for widespread changes to interchange rates for VISA and MasterCard, including the first true price increases in over fifteen years. The COVID-19 pandemic pushed all those changes back to 2021. This doesn't mean the card brands stayed still. VISA, MasterCard, and Discover acquired software providers from bank software firms, payment gateways, hardware solution providers, and even cryptocurrency networks. To give a sense of the size of some of these acquisitions, VISA's proposed purchase of bank-data aggregator Plaid was halted due to anti-trust regulatory concerns.

The industry was also hit with multiple, large-scale cybersecurity incidents. While this isn't anything new, the size of some targets and scope of some attacks raised alarms across the industry. TSYS, one of the largest payment processors in the world, was hit with a data breach. First Data was hit with a \$40 million settlement due to fraudulent activity by an independent sales organization using First Data's authorization platform. A payment hacking group that is reportedly sanctioned by the North Korean government skimmed card data from major online retailers like TicketMaster, British Airways, and NewEgg. These types of attacks will only escalate in coming years, making proper cybersecurity a crucial concern for all merchants accepting electronic payments. While 2020 was dominated primarily by fraudulent government benefit claims, credit card fraud rose by 45% to nearly 400,000 reported cases.



NACHA Rule Changes

In March 2021, NACHA implemented a new rule requiring businesses that debit funds via ACH for online orders to implement enhanced fraud detection. Specifically, the organization will require such businesses to include, at a minimum, “account validation” as part of a commercially reasonable fraudulent transaction detection system. Although processors have up to a year to implement these new fraud detection and risk mitigation tools, ePAY’s partner NCR has already taken steps toward ensuring that we remain compliance with the upcoming NACHA mandates.

Payment Facilitators

Traditionally, merchants accepted credit/debit payments through a point-of-sale or website solution offered by a payment processor. Those payments would then have to be imported or transcribed into the merchant’s inventory or customer database. Payments have always been a stand-alone process that required specialized tools and systems.

Payment facilitators and tightly integrated software payments are challenging that traditional model. Now, software vendors are acting as the payment processors by underwriting merchants, establishing payment gateways, and tying payment reporting directly to systems merchants care about. This means that merchants can go buy a piece of software and the payments just work – there is no need for stand-alone products or relationships. In 2019, payment facilitators processed \$929 billion (6% of transactions worldwide). That is expected to double by 2025. To keep up with this trend, ePAY is actively pursuing tighter relationships with third-party software vendors and modifying its contracts and rules to allow those third parties to maintain their standard business model when implementing ePAY payments.

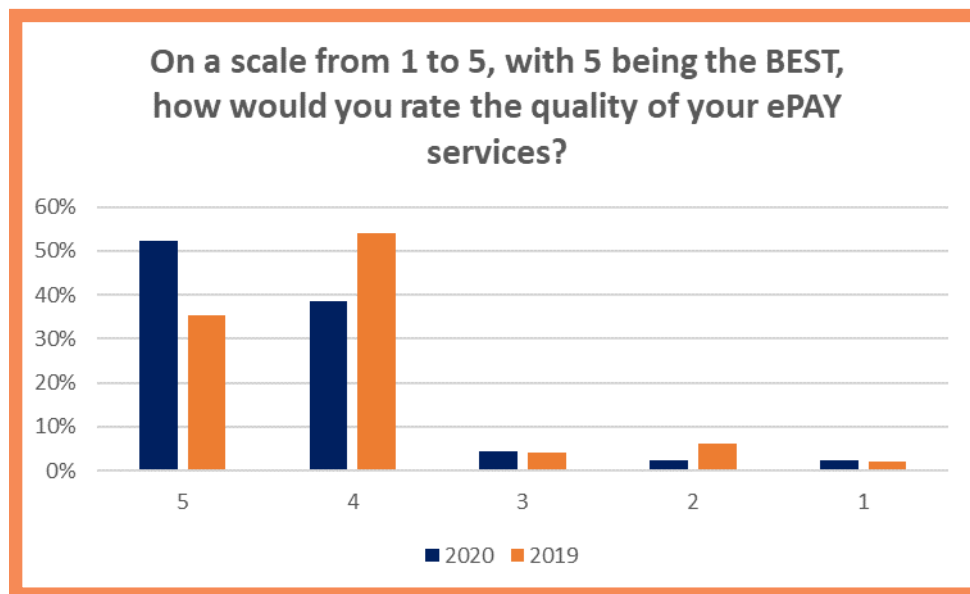


EPAY IN 2020

Impact of COVID-19

COVID-19 and the associated lockdowns brought payments to a halt for several months. ePAY and its government Participants were not immune to this phenomenon. ePAY's transaction volumes dropped by 28% and 53% in March and April 2020 compared to 2019. This was primarily driven by the lack of foot traffic and location closures across the Participant base.

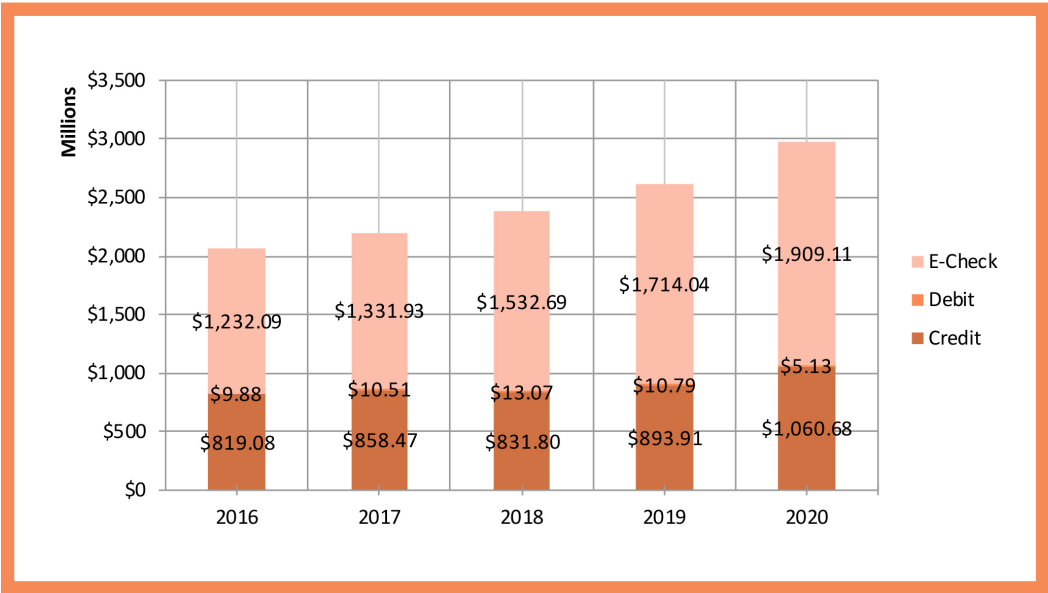
Our team rose to the challenge by ensuring all ePAY participants were utilizing the e-commerce options offered. Volumes quickly picked up again as constituents used more e-commerce tools and ePAY helped governments implement new online payment options. In addition, we worked with the Secretary of State to offer free e-check payments on certain license types while their facilities were closed. When we surveyed ePAY Participants at the end of the year, nearly 90% of participants rated our services during the COVID-19 pandemic as above average or better.



The shift toward e-commerce and touchless payments may be permanent as well. According to a Mastercard survey, 56% of their users now use a mobile wallet instead of a physical card for in-store transactions and almost all those users plan to continue using them once the pandemic is over. The same survey showed that 59% of shoppers try to buy online before going in-store. In response, ePAY is looking to expand its e-commerce tools and contactless point-of-sale options with mobile apps and customer-driven kiosks.

Overall Payment Processing

ePAY processing volume increased every year for the past five years. By continually increasing our processing volume, the Treasurer can offer better services and greater savings in an ongoing basis. In 2020 ePAY processed 11.5 million transactions worth \$2.97 billion including over \$1 billion in debit and credit card transactions.



ECONOMIC IMPACT TO THE STATE OF ILLINOIS

Credit and debit cards carry per transaction costs charged to the merchant accepting the card as payment. ePAY leverages economies of scale to reduce these costs as low as possible, saving money for both the governments and people of Illinois. Using cost estimates from similar payment platforms in the industry, ePAY saved the state an estimated \$4.4 million in 2020 in per transaction debit/credit card payment processing costs.

In addition, ePAY entered a contract with a new payment services provider in 2017. As a direct reflection of the additional savings derived from increased ePAY volume, this new contract resulted in better pricing. This saved the state an additional \$820,000 in per transaction debit/credit card payment processing costs compared to the prior contract. On top of that, the new contract includes improved service including free point-of-sale devices, enhanced security, and dedicated customer service.

Credit/Debit Per Transaction Cost Saving Estimates

Year	Volume Processed	Total Savings	Additional Savings from New Contract
2017	\$ 862,100,602.35	\$ 3,291,081.99	\$ 256.84
2018	\$ 844,002,755.17	\$ 3,395,861.25	\$ 41,583.66
2019	\$ 902,715,592.64	\$ 3,654,707.89	\$ 234,344.17
2020	\$ 1,065,163,299.13	\$ 4,429,387.34	\$ 544,455.72
Total	\$ 3,673,982,249.29	\$ 14,771,038.47	\$ 820,640.39



PARTICIPANT OUTREACH

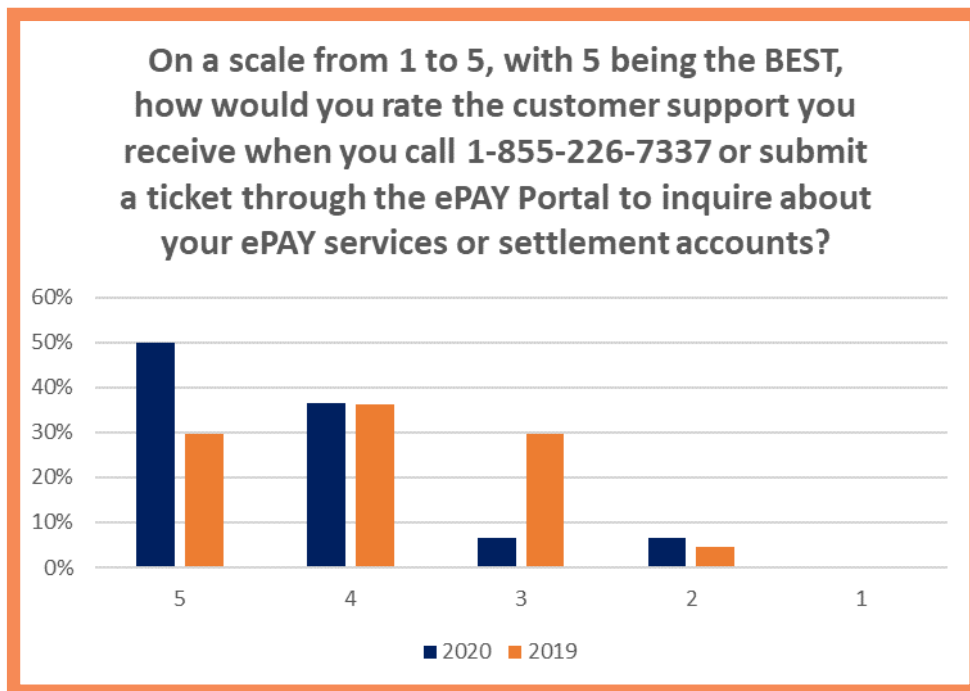
StatusCast

StatusCast is the main communication platform in which Participants will receive updates from ePAY. Communications are sent based on the role you designate to users. These communications will include and are not limited to:

- i. System Maintenance
- ii. Product Enhancements
- iii. Industry News
- iv. Outages and Funding Delays

Customer Support

ePAY has 24/7 telephone support, most of which is offered by the Chicago Lighthouse, an organization dedicated to employing the visually impaired. In addition, ePAY has an online, self-service ticketing system where Participants can open help tickets at any time. These systems and the processes behind them were solidified in 2020 such that we now close 95% of problem tickets with 24 hours and 98% of tickets in 48 hours.



Retention Efforts

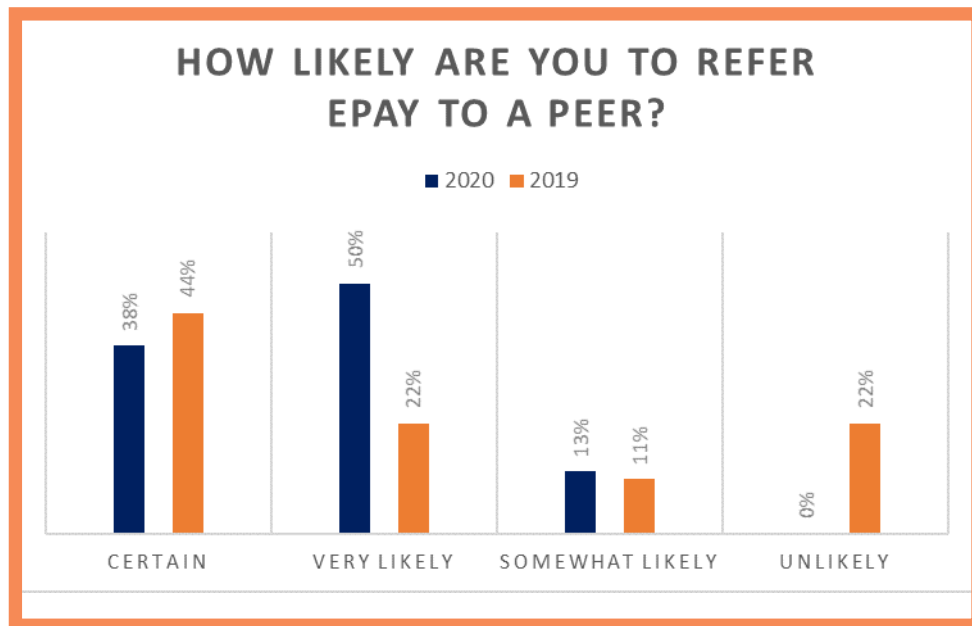
In late 2019 and early 2020, ePAY started a retention campaign that focused on getting feedback on our services, deploying point-to-point encrypted terminals, and informing Participants of our PCI tools. In total, ePAY spoke directly with 400 of our approximately 500 Participants. These conversations resulted in added services, changes to contact information, and valuable insight on Participant software changes. In addition, registration on ePAY's PCI compliance tool increase from 12% to 50% as a direct result of this campaign.

Annual Business Reviews

An Annual Business Review (ABR) will be presented to review payment processing services for our Top 25 state agencies/universities and municipalities. The ABR will include a review of credit card and e-check transaction processing, charge backs, reporting, NCR updates/upcoming services, customer service, upcoming project and payment processing goals of the agency/university/municipality and any questions/topics the participant would like to discuss. Members from the ePAY, NCR and participant teams will be present for this annual discussion.

Annual Surveys

The annual ePAY survey was distributed to both State Agency and Local Government participants on October 19, 2020. The key objective of this survey is to garner feedback from existing participants in an attempt identify strengths, improve upon weaknesses, and gain insight on potential enhancements to ePAY services. The survey results did improve from 2019 with over 85% of respondents expressing their overall satisfaction with the ePAY services and likeliness to refer ePAY to a peer. We continue to explore different strategies for engaging with our participants and welcome additional feedback.



Navigating Payments and Investments through COVID-19 Webinar

"Navigating Payments and Investments through COVID-19" was a free webinar to local government officials presented in summer 2020. This webinar detailed the key benefits of the IL Funds, ePAY, and I-Cash programs. Over 240 participants joined one of the twelve pre-recorded sessions and participated in a live Q&A chat at the end of each session.

SERVICE ENHANCEMENTS

Point-to-Point Encryption

ePAY now offers point-to-point encrypted point-of-sale terminals at no additional cost. Point-to-point encryption is a point-of-sale solution that ensures your card data is secure, even if a breach were to occur. As soon as a transaction occurs, the sensitive information is encrypted. This encrypted data is then transferred to our secure data center, where it is decrypted. This process drastically reduces the PCI scope a merchant faces by minimizing the amount of questions they are required to answer in their PCI Self-Assessment Questionnaire (SAQ) as they will no longer be holding sensitive customer data and will not be held accountable for this information. This means it will take less time and be less expensive to remain PCI compliant.

Third Party Processing

One of the recent trends in payments is the development of integrated payments in traditional software applications. This change leaves traditional payment processors as integrated partners to software providers instead of the merchant's primary payment relationship manager. To stay current with industry trends, ePAY and its partners have focused their efforts on supporting third party software providers.

First, we amended our contracts and administrative rules to allow for third party software providers to collect their own fees through ePAY. This ensures that working with ePAY does not disrupt their ability to generate revenue. Second, we are building relationships with third party software providers and ensuring the payments platform has easy and simple integration options.

Record Retention Policy Changes

In the course of normal operations ePAY produces numerous Participant and management records such as agreements, reports, analysis, and procedural documents. ePAY's policy had not been updated in several years and required storage of paper documents for arbitrarily long periods of time. The policy now reflects modern standards that allow for electronic storage and ties retention periods to the relevant vendor contract.



FUTURE INITIATIVES

Faster Funding

As the payments ecosystem continues to evolve, it is imperative that ePAY remains competitive in the marketplace by pursuing strategies such as faster funding for participants. By offering quicker access to funds, ePAY helps to provide a greater sense of assurance to participants in their cash flows and ability to incur expenditures. This is a top priority for both ePAY and our partner, NCR.

Contactless Point-of-Sale Options

Contactless payments have become the most convenient way of conducting a low-value transaction. This is a key reason why the growth of contactless technology has been so high. ePAY and our partners have decades of experience integrating physical and digital channels to help your agency/university/municipality reimagine your experience—while growing revenue and shrinking costs.

Mobile Payment Application

Due to the increase need for more e-commerce payment options, ePAY and its payments partner, NCR, are evaluating options for a mobile payment application. The intent is for users to be able to save account information, receive notifications about payment status, and receive customer support from all within the application. This is the early stages of development, but it may be available to select Participants in late 2021.

In Closing

Despite such a unique year, the Office of the Illinois State Treasurer and ePay teams were proud to continue a high-level of quality service. If you are interested in ePAY or have questions about the program, please visit us at www.illinoisepay.com or call our dedicated help desk at 1-855-226-7337.



ILLINOIS

ePAY®