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Money Mobility Tracker® Series Money Mobility Tracker® Series

Government payments to citizens — such as tax refunds, economic stimulus payments and government benefits — are plagued by delays caused by inefficient processes, poor digital identity and outdated payment systems. Digital payments offer a remedy by ensuring that government payouts are delivered quickly and securely.

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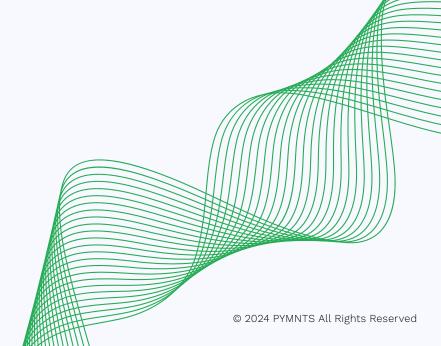
Information on PYMNTS Intelligence and Ingo Payments





Acknowledgment

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Introduction

Government payments, especially at the federal level, are a vital source of income for many citizens. In the United States, these include payment streams from such programs as Social Security, disability benefits and welfare as well as tax refunds issued by the Internal Revenue Service (IRS). Despite their importance, these payments often face delays and other inconveniences. Outdated systems, inefficient processes and weak digital identity measures not only slow disbursements but also expose them to fraud and errors, resulting in billions of dollars in losses each year.

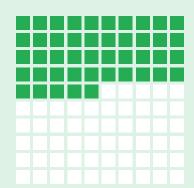
Adopting digital payment protocols could significantly address these challenges. Faster payment distribution ensures that citizens receive funds when they need them most. Furthermore, real-time rails reduce the risk of fraud and interception by bad actors. Encouragingly, many government entities are already taking steps to modernize their payment systems, aiming to deliver funds more quickly and securely.



Government Payment Inefficiencies

Poor Experiences Plague Government Payments

Delays and inefficient processes in government disbursements create frustration for both senders and recipients.



45%

of government officials rated the <u>payment experience</u> for constituents as merely fair or worse.



Government Payment Inefficiencies

Most government officials describe their payment systems as only moderately capable.

A recent survey of state and local government leaders found that 55% rated their <u>payment technology</u> as just "moderately capable with room for improvement." Another 10% described their systems as rudimentary or manual and having significant limitations. These shortcomings impact the payment experiences of citizens and internal users alike. On a scale ranging from excellent to very poor, 45% of government officials rated their constituents' payment experience as fair or worse. A similar share — 41% — gave the same rating to the back-office or employee experience with their payment technology.

In addition, officials reported that payment systems lacked proper integration with other government software, leading to problems with collection, reconciliation and cash management. In fact, survey respondents identified integration with other systems as the top area in which their payment technologies needed improvement, at 50%. Other areas included ease of use for both staff (35%) and constituents (29%), offering more payment methods (29%), and using faster or real-time payment processing (20%).

Payment system challenges take a severe toll on both governments and their constituents.

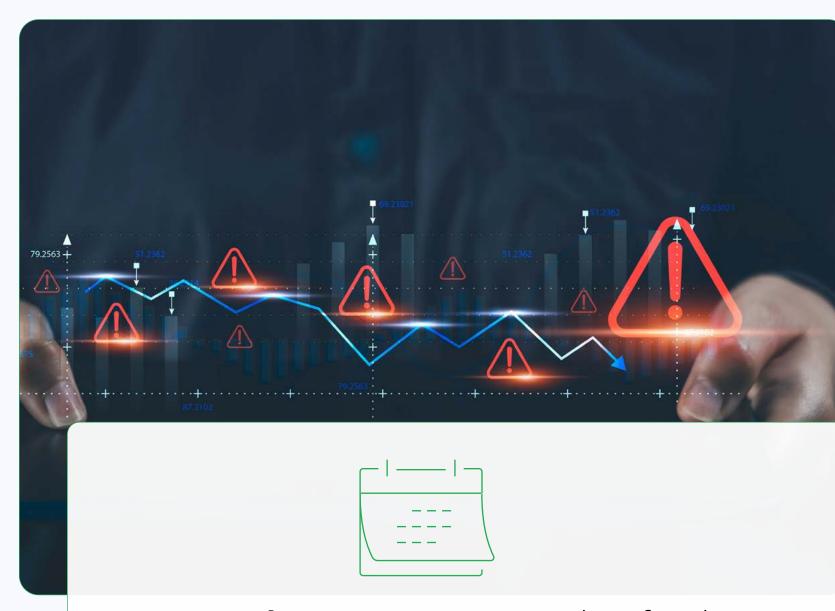
Payment errors are the chief consequences of such system inadequacies, with the federal government issuing more than \$236 billion in improper payments in 2023. These erroneous payments occurred across 14 agencies and 71 programs, according to the U.S. Government Accountability Office (GAO). Of this total, \$175 billion involved payments to deceased individuals, ineligible recipients or other overpayments. Underpayments accounted for \$11.5 billion, while \$4.6 billion failed to comply with statutes or regulations. Additionally, \$44.6 billion in payments were classified as unknown, meaning it was unclear whether they were made in error or not. Most of these faulty payments originated from Medicare, Medicaid and pandemic-related programs such as Pandemic Unemployment Assistance.

Payment errors have been a persistent issue in federal operations. The last 20 years saw an estimated \$2.7 trillion in improper payments. Addressing this problem will require a dedicated, government-wide payments improvement program, with real-time payment systems playing a potentially critical role.

Government Payment Security Risks

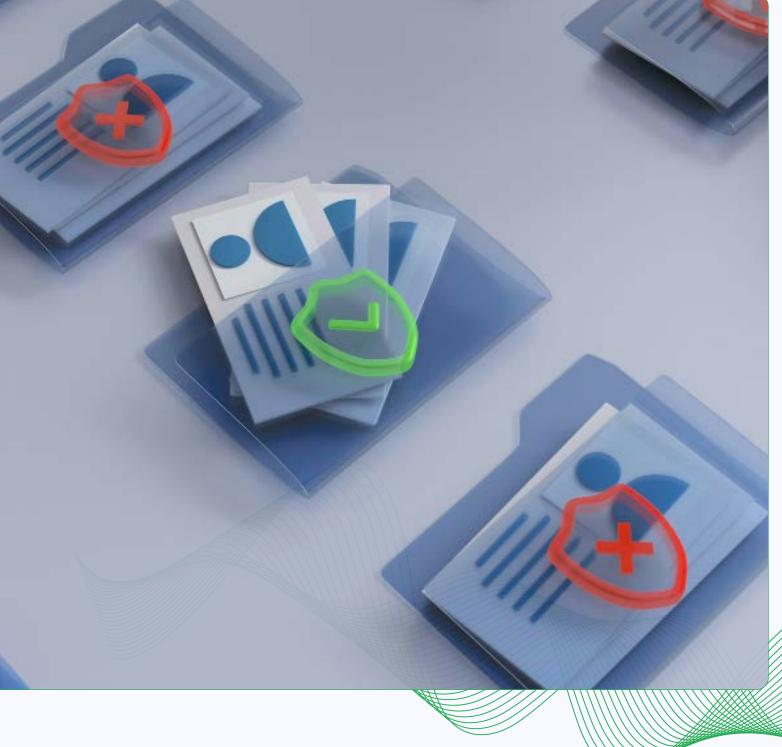
Government **Disbursements Lack Essential Security Features**

Outdated government payment technologies have contributed to scams, fraud and other security breaches. Moreover, inadequate digital identity measures have caused delays by allowing disbursements to be sent to incorrect addresses.



22+ months: Average time it takes for the IRS to resolve identity theft cases involving government payments as of April 2024

Government Payment Security Risks



The IRS is struggling to resolve identity theft cases.

The average time to resolve government payment identity theft cases increased to more than 22 months this year, up from 19 months in 2023. As of April 2024, the IRS was handling a backlog of 500,000 unresolved cases related to identity theft victims' assistance. These cases typically occur when bad actors use stolen Social Security numbers to claim victims' tax refunds. According to a recent report published by the National Taxpayer Advocate, an independent watchdog within the IRS, these incidents disproportionately affect financially insecure individuals. "These delays are particularly challenging for low-income taxpayers who may rely on these refunds to pay their day-to-day living expenses or expenses accrued throughout the year, such as medical bills," the report noted. "In addition, these identity theft victims may struggle to secure certain kinds of loans, such as mortgages."

Implementing more effective identity verification methods will be critical to preventing fraud and ensuring that payments are delivered to their rightful recipients.

Government Payment Security Risks

The IRS is encouraging taxpayers to sign up for an IP PIN for additional security.

To counter security threats such as identity theft, the IRS is urging citizens to opt in to the identity protection personal identification number (IP PIN) system. This six-digit number provides an additional layer of user verification and is known only to the user and the IRS. It prevents unauthorized users, who might have access only to a Social Security number, from accessing taxpayer accounts and redirecting refunds. The IP PIN is valid for a single calendar year, after which the taxpayer must create a new one.

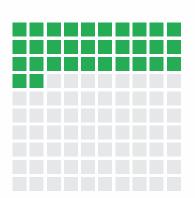
While the IP PIN offers more security than existing systems, it remains vulnerable to phishing and other social engineering attacks. For instance, a bad actor could potentially obtain the number by impersonating the IRS and asking the taxpayer for it. Overall, the IP PIN is a beneficial, low-impact first step toward more secure government payouts, but a more comprehensive overhaul will likely be necessary in the future.



Streamlining Government Payments

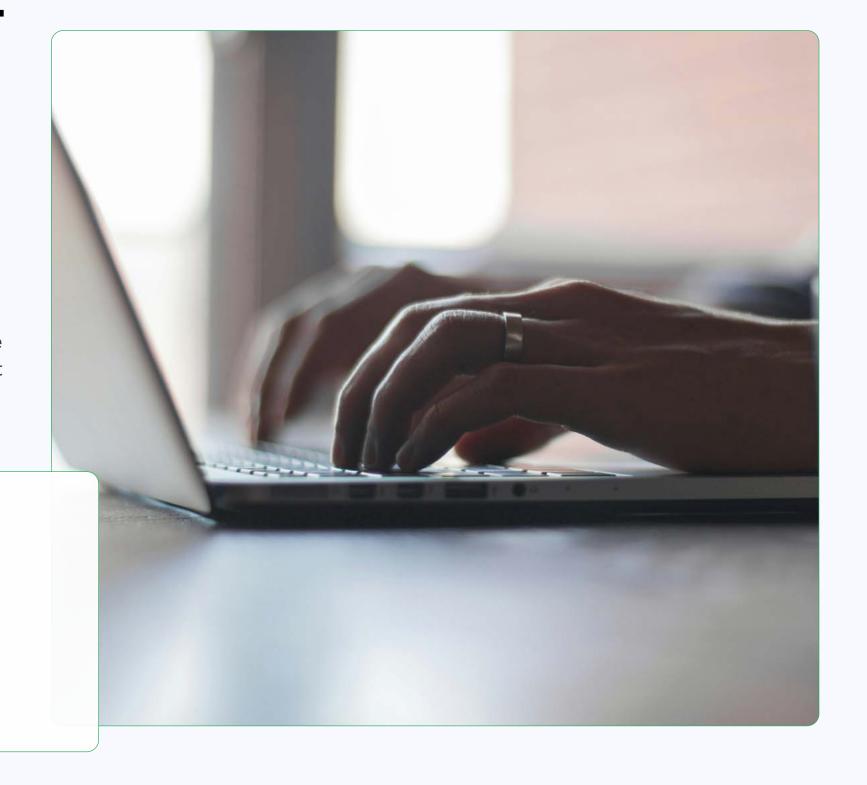
Governments Pursue Digital Payment Initiatives

Government agencies are taking big steps to streamline and digitalize their disbursement processes, including deploying unified payment solutions that consolidate payments across the board.



32%

of state and local officials report that all agencies in their respective jurisdictions use a unified payment system.



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Streamlining Government Payments

New York recently debuted a digital portal for a state tax relief program.

New York state's School Tax Relief (STAR) program is a tax rebate for homeowners, with a value that scales based on their income. Traditionally, these disbursements have been distributed either by paper check or as an exemption that reduces the annual school tax bill. Now, with the state's recent introduction of an online portal, New Yorkers can receive their rebates via direct deposit. This system is intended to streamline tax rebate operations and could potentially reduce mail fraud as well. More than two million New Yorkers have already received their STAR rebates this year, with nearly one million more expected to receive them by year's end. Shifting even a fraction of this volume to direct deposit may significantly reduce fraud across the state.

Unified payment solutions could play a crucial role in improving government disbursements.

These consolidated systems provide a consistent experience for constituents across various payment scenarios while streamlining financial reporting and reconciliation. By offering a unified payment portal, they ensure a uniform user interface across different departments. This approach not only benefits the public but also significantly boosts government agency efficiency through scale and simplification, eliminating the friction often caused by disparate systems.

A recent survey of state and local leaders revealed varying levels of unified payment system adoption. While 32% of respondents reported that all agencies and departments within their jurisdictions use a unified payment solution, 35% indicated partial adoption across their agencies or departments, and 4% are in the process of implementing such a system. However, 24% still maintain separate payment solutions for each agency or department. These findings highlight the ongoing transition toward more integrated payment systems in government operations, though fragmentation persists.



Call to Action

The Imperative for Digitalizing and Accelerating Government Disbursements

Digital and instant disbursements significantly enhance constituent satisfaction and security. Digital payments provide citizens with faster access to funds, eliminating the risks associated with physical checks, which can be lost or stolen. This immediacy improves financial flexibility for recipients and reduces anxiety related to waiting for payments. In addition, digital transactions are more secure, often employing encryption and tokenization to protect sensitive information, thereby building trust between citizens and government institutions.

Government payments should meet the same standards as the modern financial experiences citizens have come to expect.

Instant payments can help deliver funds safely, securely and on time.



DREW EDWARDS CEO



Adopting digital payment systems also increases government efficiency and leads to substantial cost savings. By streamlining the disbursement process, governments can reduce administrative overhead, minimize errors from manual processing, and lower transaction costs. Digital systems enable real-time tracking and reconciliation of payments, improving financial management and reducing fraud. Furthermore, the shift to digital payments aligns with broader trends in consumer preferences, as more individuals expect digital options for transactions. This modernization positions governments to adapt more readily to future technological advancements in the financial sector.

About

PYMTS INTELLIGENCE

PYMNTS Intelligence is a leading global data and analytics platform that uses proprietary data and methods to provide actionable insights on what's now and what's next in payments, commerce and the digital economy. Its team of data scientists include leading economists, econometricians, survey experts, financial analysts and marketing scientists with deep experience in the application of data to the issues that define the future of the digital transformation of the global economy. This multilingual team has conducted original data collection and analysis in more than three dozen global markets for some of the world's leading publicly traded and privately held firms.

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Ingo Payments enables banks, FinTechs, and enterprise brands to deliver innovative financial experiences through its full-service embedded finance platform. Designed to be bank-grade and compliance-first, the platform offers money mobility capabilities on a modern money stack, providing the foundation for account funding, transfers, mobile deposits, payouts, digital wallets, bank account creation, card issuing, PFM, and rewards solutions across diverse industries and use cases. By vertically integrating issuing, payment processing, and risk underwriting services, we help clients reduce third-party risk, operational complexity, and costs, while accelerating time to market.

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