

B2B ePayments advance ... sure and steady win the race!

The rapid growth of ePayments reflects goals to reduce cost, improve availability and achieve quicker access to payment information. Although businesses are embracing ePayments at a slower pace than consumers, wide-spread adoption is likely in the next three years. The race is on...to amazing ePayments destinations.

AFP survey results

The 2007 AFP Electronic Payments Survey provides insight into progress to reduce the use of checks by businesses. Based on the current state of Business to Business (B2B) payments, the study outlines the benefits and challenges encountered by businesses as they shift to electronic payments.

Check payments

While check usage is declining overall, businesses are embracing electronic payments at a slower pace. Most B2B payments continue to be made by check (74 percent in 2007, down from 81 percent in 2004). The typical business makes 65 percent of its B2B payments to major suppliers by check, 18 percent by ACH credit and 11 percent by wire transfer. Large businesses (revenues over \$1 billion) are nearly twice as likely to use ACH credits. A similar pattern is true of collections, with businesses receiving 64 percent of B2B payments by check, down from 75 percent in 2004.

Growth prospects to move B2B checks to electronic payments are supported by remote deposit, enabled by the Check 21 Act. Remote deposit quickly found a place in business check collection practices, used by 41 percent of AFP's survey respondents. The top benefits they cited for using remote deposit were:

- Improved funds availability
- Fewer deposit trips to the bank branch
- Later deposit cut-off times
- Cost savings
- Improved cash concentration

A total of 28 percent of businesses using remote deposit combine it with check conversion to ACH (ARC, POP, BOC). Moreover, one-third of businesses believe that remote deposit has increased their preference for receiving electronic payments.

ACH payments

Results show that 73 percent of businesses use ACH credit for B2B supplier payments. Similarly, 83 percent receive ACH credits from major customers, and 24 percent receive ACH debits from customers. Respondents reported that the more B2B payments they make, the more likely they are to use ACH credit payments.

When respondents compared ACH and card payments, they indicated ACH as their preferred B2B payment method by a wide margin. The top factors in this margin for ACH were:

- Less costly
- Better data security
- Wider supplier acceptance
- Better for paying multiple invoices with a single payment
- More complete remittance information
- Better integration of remittance information with accounting systems

There has also been an increase in businesses automating the delivery of ACH remittance information. In 2006, 37 percent of businesses provided ACH remittance information to suppliers via EDI/CTX, up from 27 percent in 2004. On the collection side, 54 percent receive EDI/CTX transmissions from business customers today, up from 36 percent in 2004.

Wire transfer payments

Wire transfers remain a strong contender for B2B payments, comprising 11 percent of payments to major suppliers. Over the last two years, the use of wires increased 43 percent to meet businesses' needs of providing final, same-day payments and sending international payments (two-thirds of respondent businesses make international payments). On the other hand, half of businesses reduced their use of wires over the last two years due to high costs and lack of business need.

Challenges and benefits

Businesses are challenged to demonstrate to senior management the quantifiable, bottom-line benefits to justify the expense of migrating from checks to electronic payments. The good news is that the benefits are real, with actual cost savings, according to AFP survey respondents.

Among the top benefits used to convince management to move to electronic payments are:

- Improved cash forecasting
- Ability to process straight through to accounting systems
- Tighter fraud control
- More efficient reconciliation
- Improvements in working capital

Most businesses find it difficult to convince customers to pay electronically and suppliers to accept electronic payments. Further, respondents reported that many trading partners can neither send nor receive automated remittance information with electronic payments, which means electronic payments become a manual process.

Technology remains the largest challenge — there is no universally adopted format for remittance information and businesses face a shortage of information technology resources to make changes. Over 40 percent of businesses report that they have not yet integrated their ACH and accounting systems.

Opportunities and progress

Despite the barriers, businesses are increasing their adoption of all electronic payment methods, especially ACH, cards and wire transfers. A full 43 percent of survey respondents indicate they are very likely to convert the majority of their B2B payments to electronic in the next three years.

Options and information

You can help remove road blocks to electronic payments for your business customers. To assist in your efforts, the Federal Reserve Banks provide payment processing options and information to manage those payments. Your monthly FedLine access includes Check 21, FedACH and Fedwire electronic payment destinations. If your payments cross U.S. borders, our FedACH International® Service destinations include payments to seven countries, with

plans underway for expanded service offerings after the new IAT format is available in March 2009 (see page 1).

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The Federal Reserve Banks welcome interesting and applicable articles or information from industry partner perspectives.

“In the complex B2B payments environment, a multi-faceted approach is essential.”

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