

6 MUST-HAVE

DIGITAL PAYMENT FORMATS

FOR MID-SIZED BUSINESSES

Plummeting Growth During COVID-19

The rapidly evolving global economic state has forever altered the payment landscape amid accelerating challenges.

How mid-sized companies fare in the future would largely depend on how they **seek and manage cash flow during COVID times**, and thus it is imperative to realize the impact digital payments would have on the betterment of such scenarios.

29.5%

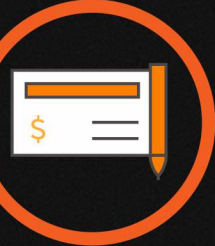
Of Mid-Sized Businesses In The U.S.

Have Been Forced To Shut Down Entirely Due To A Lack Of **Sufficient Working Capital**

Source: Faster Payments Tracker 2020, PYMNTS

The Legacy Of B2B Payments

1 Checks



Centrally cleared through the Federal Reserve or a depository institution, with most checks today converted to electronic images

Mail Float

Long wait time and low-value manual intervention leads to slow payment processing — **increases DSO** and negatively impacts cash flow

Cost Factor

Range of **\$4 to \$20** processing cost per B2B check

Potential For Fraud

3/4 of mid-sized businesses are susceptible to potential check fraud — costs them **0.5-1.5%** of total revenue

Bank Lockbox



Lockbox is a service provided by banks wherein customers' payments and remittance documents are mailed directly to a location accessible by the bank

Key-in Fees


Banks charge **1-3c** per character — adds up to **\$50,000+** per annum on high volume lockbox accounts

Maintenance Fees

Costs range from **\$400-\$700** per month per lockbox

Manual Intervention

Lockbox files have to be **manually downloaded** and applied into the system irrespective of BAI2 automation

 Companies are recognizing the advantages of digitizing payments; viewed as a **better alternative to checks** due to the potential for fraud, the uncertainty, and the inconvenience

10%

Reduction In Check Payments Could Save Mid-Sized Businesses **\$1.2B** A Year

Source: Business Payments 2022, Mastercard

2 Wire



Amongst the first real-time secured payment option available between financial institutions with no particular payment limit for a transaction

Wait Time

Almost instantaneous with transactions completed in **24 hours or less**

Cost Factor

Premium charges ranging from **\$10-\$50** per transaction depending on domestic or cross-border transfers

 Wire transfers have evolved, using electronic networks to send money immediately through services like **SWIFT and Fedwire**

3 Regular ACH



An electronic payments network that enables the processing of credit and debit payments, between depository institutions

Wait Time

Payments are received within **3** business days

Potential For Fraud

Risk of identity theft as recipients need to provide their personal bank account information

Cost Factor

Ranging between **15-95c** per transaction

 The U.S. has now deployed an **upgraded ACH system** called **Same Day ACH** (credit and debit) as well as **Real-Time Payments** from The Clearing House

6 Digital Payment Formats For Mid-Sized Businesses

1 Same-Day ACH



An upgraded ACH system deployed to keep up with the development of real-time payment trends



Same-Day ACH is **not immediate** rather "**fast**" but will allow payments posting on the same day (on business days only) if initiated before 2:45 p.m ET

20%

Of All Payment Transactions Made By Mid-Sized Players In The U.S. Were Same-Day ACH In 2019

Source: Real-Time Payments Innovation Playbook 2018, Mastercard

Cost Factor

All transactions are **\$1.25** each, regardless of debit or credit originated

Value Limit

The value limit for a single Same-Day ACH item is **\$100,000**

Potential For Fraud

Stringent regulatory oversight of US-only payments has **reduced risks** for fraud



In the mid-market space, Same-Day ACH has already seen **improvements among recurring payments** and the number only seems to increase

45%

Of U.S. Based SMEs Are Interested In Using Same-Day ACH Services

Source: B2B API Tracker 2020, PYMNTS

2 Credit Cards



With a credit card payment, the account number is tied to a line of credit offered to the customer's card-issuing bank by the bank

Operational Fees

High PCI compliance costs — typically range from **\$35-\$99** per year, while PCI non-compliance fees cost **\$20** per month

Interchange Fees

Costs suppliers an average of **1.81%** per transaction

Acceleration In Cash Flow

Reduced risk in cross border payments and instantaneous transaction



Credit card processing methods fit into three levels: **Level 1, Level 2, and Level 3**

Each level is defined by the **amount of information that is required** or passed to complete a payment

Credit card transactions submitted with Level 2 and Level 3 card data can **obtain lower interchange rates and lower processing costs**

43%

Of Overall Credit Card Processing Fees Are Saved By Supplying Level 3 Data

Source: Interchange Optimization 2018, Preferredpayments

If a company currently accepts credit card payments, **they are already set up for debit cards**

3 Debit Cards



With a debit card payment, the full amount or the purchase is immediately deducted from the company's account balance

Usability

Have daily **purchase limits**, used for recurring/batch transactions

Reward Programs

0.5-1% rebate on all purchases depending on bank program

4 Virtual Cards



Also known as Single-Use Accounts (SUA), virtual cards are one-time use, auto-generated credit card numbers, that connect back to a credit/debit card that is unique to every transaction

Security

One of the **most secure** methods of electronic payment as it utilizes the token system

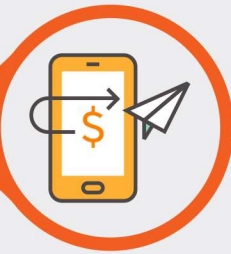
Reward Programs

Earn **0.5%-2%** rebates on qualifying payments



The upswing in card payments continues to grow, accelerated by enhanced straight-through-processing capabilities

5 Real-Time Payments



Real-Time Payments (RTP) is the most popular B2B payment innovation among U.S. companies, **a third of which intend to adopt it in the coming years**

79%

Of Businesses Rank Enhanced Security And Fraud Controls As A Key Benefit Of RTP

Source: Real-Time Payments Innovation Playbook 2018, Mastercard

Wait Time

The RTP network operates **24/7**, allowing financial institutions to send or receive payments at any time

Potential For Fraud

The RTP network has **fraud and data protection measures** built into the system to minimize the risk for fraud



The adoption of RTP is not a matter of “if,” but rather a matter of **“when”** in the mid-market segment

Any federally insured depository institution can be an RTP network participant



52%

Of U.S. Accounts Are Capable Of Receiving Real-Time Payments Through The RTP Network

Source: E-Payments in Emerging Markets, First Data

6 Digital Wallets



Digital wallets (eWallets) are financial accounts that allow users to store funds and make transactions by a software-based system rather than using a bank account

Utility

Allows for **quick and easy cross-border** transactions to banked/ underbanked recipients

Cost Factor

Most transactions are **free** of cost and avoid bank fees

Security

Digital wallets are **non-insured** storage accounts as they are not regulated as a bank

Blockchain

Cryptocurrencies rely solely on digital wallets to maintain balances and make transactions (crypto digital wallet)

Usability

Storing and moving money via wallets **requires a license**, and each region has different requirements



Applications like **Venmo have received wildfire popularity** in the B2B payment space, but have **yet to be adopted** by mid-sized businesses due to factors such as **high-risk and lack of bank account**

ePayments Fueling The Mid-Sized Business Competition

While traditional payment rails remain viable in the U.S., continuing to be at the center of O2C management, **the shift from paper-based to digitization is inevitable**

2/3rd

of the overall mid-sized business transactions are made through check payments in the U.S

The Benefits Of Shifting To Digitization

Reduced Costs

Owing to the reduced manual intervention, decrease in printing and mailing costs, and reconciliation efforts, digital payments are more cost-effective

Better Compliance

New age security compliant solutions (PCI-DSS) offer more secure payment services, such as fraud and data protection measures that are built into the system

Improved Revenue And ROI

Reduced costs, reclaimed time due to automation, faster payment processing, and more visibility into finances add up to deliver improved cash flow

Deepened Customer Relationships

The availability of multiple payment formats makes it easier for customers to pay for invoices on time and increases the chances of getting paid faster

The need for digital payments is more pronounced than ever as the COVID-19 pandemic continues to ravage the globe.