

Payment Trends and Their Future Outlook

Credit professionals are in the business of lending money and getting paid. Sometimes this is easier said than done. Once the money has been loaned, the next step is to make sure it comes back. There are many ways customers can remit the money to the credit department. They include paper and electronic checks, Automated Clearing House (ACH) and wire transfers. Each payment method has its pros and cons, and some outweigh the other.

Some credit professionals are just happy to settle the debt with a customer, and they do not prefer one payment method over the next, said Mary Hughes, senior payments consultant with the Federal Reserve Bank of Minnesota. Hughes spoke at the 121st Credit Congress & Expo in Dallas about the Fed's sixth triennial 2016 Federal Reserve Payments study, which included data from card networks and financial institutions businesses.

What was found is that check payments were still on the decline, while ACH, credit card and non-prepaid debit card usage were increasing. The 2016 study collected data from 2012-2015 and concluded checks decreased more than 4% and credit cards had the highest growth rate in number of payments at 8%. Business-to-business (B2B) check usage remained stagnant, according to the Fed's report.

It would seem to make sense that ACH is on the rise since it is the cheapest way to receive a payment. The cost of ACH ranges from 11 cents to 50 cents, according to a report from the Association for Financial Professionals. Some businesses and customers have made the switch to ACH due to incentives, which include the cost of making the payment. Check usage is not only on the decline due to security issues and fraud, but also due to the cost of receiving them. It costs \$30,000 to receive 20,000 checks per month.

One reason for the sharp increase in non-prepaid debit cards is due to the younger generation, said Hughes. The use of checks will continue to decline as businesses get more comfortable with electronic forms of payment. Checks are prone to fraud and easy exposure since the account number and information is right there in front of you, she said.

As the world continues to progress into the digital age, payments too will adapt. Bitcoin is less than 10-years old, but it is one of several new payment methods. The total value is minimal, however, compared to the "payments ecosphere," and it is not seen as much in B2B transactions. Another development coming this September is same-day ACH for credit *and* debit. ACH credit started in September 2016. Emerging payment developments continue to push the boundary of real-time services, which include same-day ACH and ISO 20022, which is a new message format from the Federal Reserve.

Despite the decline in check usage, on the B2B side, "50% of all payments between businesses are made by check," according to PYMNTS.com. "That number is probably skewed upwards a bit by the larger enterprise-size players. If you take the middle market, it's probably closer to 70% to 80%. They are very clearly an underserved market," said AvidXchange CEO Michael Praeger in the PYMNTS article. His company and MasterCard recently announced a partnership known as the B2B Payments Hub.

Another payment tool comes from DadeSystems. DadePay Mobile is designed to simplify the payment process by skipping steps involved in a traditional check and paper transaction. The use of the mobile app is typically seen in the food and delivery sectors or businesses with remote operations, said Tom Berdan, DadeSystems chief marketing officer. The system is virtually the same as taking a check and has

a similar time table to one as well. It automates the process of taking remittance, which also includes ACH payments. There are four key factors involved in the mobile payment. Improving efficiency, increasing cash flow, increasing margins by lowering costs and improving customer and accounts receivable (A/R) team satisfaction, according to Berdan, will all be seen when using the mobile system.

Both Berdan and Hughes believe payments will continue to evolve. The use of mobile payments will increase in the future, said Berdan. "Checks are still prevalent in B2B, and 43 to 69% of businesses still deal with checks," he said. It is now up to the credit department and customer to establish a policy and determine which form of payment works best for each side.

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