Tech, Customers Driving Faster Payments

Faster is better, but it’s not always best. There were many takeaways from “Faster Payments: Fundamentals of B2B Payment Acceptance and Settlement,” a recent webinar from HighRadius, and this was one. While faster is better, there are still several challenges regarding a faster payment system and processes involved with receiving them and reconciliation.

They are three main drivers for business-to-business (B2B) adoption according to Robert Unger, senior director, corporate relations and product management with NACHA, who was one of three presenters. The three factors were improving business, staying up to date with technology and meeting customer expectations. Within these were three metric categories: operations, treasury and customers.

Under operations it’s important to find ways to reduce costs with faster payments, and ask, “How can faster payments lower operation costs to serve customers?” Other questions Unger suggested were what is the cost to process a payment, send invoices, etc.? The treasury aspect involves cash flow, visibility and ways to pay down debt among other items. Faster payments can reduce days sales outstanding, improve the cash conversion cycle and increase working capital all while lowering processing and acceptance costs.

Payments are “in a legacy world,” said Unger, who added technology is the driving opportunity for faster payments and that technology can help with integration challenges. These challenges include how to connect with banks and financing as well as improving data exchange with customers. Faster payments will give customers a real-time update of credit limits as well as a way for them to earn early payment discounts, if offered.

By obvious definition, faster payments are payments that are received and processed more quickly than what is currently being used. However, according to Faster Payments 101 by NACHA, the term is broadly used—similar to the term FinTech to mean financial technology or blockchain to refer to distributed ledger technology. According to the webinar, there are 10 parameters to consider when looking at faster payments. Among them are the speed of the transaction, the cost of accepting and processing the payment, the time it takes for the payment to be debited from the account and the time it takes to be credited to the account.

Serving the customer is one of the top three priorities for faster payments. Ideally, every customer works well with every supplier and everything a supplier does is what the customer wants, and vice versa, said Ernie Martin, managing director with ReceivableSavvy. But in reality, there are payment challenges between the two parties—extended terms, lack of customer resources, etc. One of the more important crossroads is streamlining invoicing yet not wanting to spend money to do so.

According to one Receivable Savvy report, nearly 90% of suppliers are still getting paid via paper check. Getting paid by check remains consistent year after year, explained Martin, which is in line with other reports and studies as well. ACH has continued to creep up as the preferred method of payment for suppliers (59%) while checks are at roughly a quarter. It is faster and more cost-effective; however, suppliers often need help to initiate faster payments with customers. A lot of suppliers are still in love with checks, and they also don’t want to upset the apple cart, said Martin.

Simplicity, familiarity and predictability are driving suppliers toward faster payments, and they are looking for automation, early payment and epayments to be incorporated into the new system, according to Diana Crowe, financial technology principal with HighRadius. Within the faster payment atmosphere, suppliers should be searching for improved security and transparency along with the ability of real-time payments. “Suppliers want faster payment and are willing to use technology, but they struggle with unpredictability. The solution is having AI-enabled Order to Cash technology,” states the webinar. The driving force of technology to continue serving customers will ultimately power faster payments into the future.

-Michael Miller, managing editor