

Technology Changing Payments

The world of payments has come a long way in the past several decades. While the U.S. or any other nation is not quite at what we see in the movies, payments have evolved from trading precious metals to pulling out a cell phone and tapping it at the checkout terminal. The world is not post-apocalyptic nor is it completely futuristic with flying cars and payment options imbedded under the skin, yet there are companies and banks that are building toward more advanced payment systems. Credit professionals must be aware of the different changes, some of which may be beneficial to the industry and the field.

Because checks are still so widely used in the business-to-business (B2B) credit arena, the saying, “Your check is in the mail,” is always a possibility. According to the most recent triennial *Federal Reserve Payments Study* from 2016, checks are now the second-most popular form of payment for businesses, dropping from its top spot in the previous study. Among the reasons for its prominence are historical business practices and legacy systems. However, technology is turning the tables for businesses and their payments.

American Express announced in October 2018, a new business financing option called Early Pay. According to the company’s release, it is a “supply chain finance and dynamic discounting solution ... to increase cash flow, generate working capital, and make their [(U.S. companies that buy goods from U.S.-based suppliers)] supplier payment process more efficient. In turn, suppliers can access the easy-to-use digital platform to have their eligible invoices paid earlier than their original payment due date at a competitively priced early payment discount.”

The solution is designed to help small- and medium-sized suppliers, whose access to working capital is the lifeline to business sustainability and growth. “Access to money and improving efficiency are crucial for the growth of both corporations and the companies they work with,” said Gina Taylor Cotter, senior vice president and general manager, Global Commercial Financing at American Express, in the release. “Now companies can leverage their accounts payable to reduce costs of goods and services while offering automatic, flexible payment terms to their eligible suppliers.”

Meanwhile, Spanish bank Santander has joined SWIFT’s global payments innovation (gpi) to facilitate cross-border payments in select countries. The financial messaging services firm launched gpi in 2017, resulting in faster payments, full transparency and payment tracking for corporates. Almost half of gpi payments are completed within half an hour, and nearly 100% are credited within one day. According to a release, 80% of Santander cross-border payments will be via SWIFT’s gpi by the end of the year, with additional countries added in 2019.

“In simple words, transparency brings trust, and trust brings longstanding fruitful relationships with our clients; this is why we love gpi,” said Bart Timmermans, head of GTB UK, Santander UK, in the SWIFT release. More than 270 financial institutions are on the gpi network, and more than \$100 billion in payments are sent daily using gpi.

The speed of payments is at the forefront for small businesses, suppliers, banks, consumers and large corporations. “Today, our payment system is again at a crossroads,” said Federal Reserve Governor Lael Brainard at the Fed Payments Improvement Community Forum in Chicago, Illinois, in October. “There is a growing gap between the transaction capabilities we need and expect in the digital economy—fast, convenient and accessible to all—and the underlying settlement capabilities.”

She referenced the speed of making payments, such as sending money to friends for dinner and making online purchases; however, that does not mean the funds are received instantly. Her next point was that the “24/7 app economy” is more difficult and complex than it seems. Behind-the-scenes systems are hard at work, which can result in delays and inefficiencies, Brainard noted.

Small businesses will benefit from faster payments with a real time, 24/7/365 payment system, giving them immediate access to funds rather than needing short-term financing to cover costs while payments are processed. A Fed task force and the U.S. Treasury both reported the Fed needed to develop a 24/7 settlement system. Brainard announced during the speech that the Fed is seeking public comment for an upgraded payment system.

-Michael Miller, managing editor