

The Future of Payments

The Future....is HERE!!!!



George Jetson : July 31st 2022



Association for Financial Professionals Digital Payments Survey Statistics

2022 AFP Digital Payments- Comprehensive Report

- 69% of respondents globally stated that business to business (B2B) transactions will benefit most from **real-time payments**.
- A majority (54%) cites **speed of payment** as a primary driver in their choice of payment method, especially with current supply chain woes and frequent adjustments due to heightened inflation.
- 33% of all respondents are unfamiliar with the **ISO 20022 payments standard**. Of those familiar with it, 70% outside of North America and 44% from the U.S. and Canada consider it valuable.
- 61% of organizations state that **email is the most extensively used platform** for sending remittance information.
- 33% of organizations' **B2B payments in the U.S. and Canada continue to be made by check** – a 9% decline from the 42% reported in 2019.
 - **Overall check usage is on a rapid decline**



Association for Financial Professionals Digital Payments Survey Statistics

2022 AFP Digital Payments- Comprehensive Report: **Key Findings**



Thirty-three percent of organizations' B2B payments in U.S. and Canada continue to be made by check. This is a nine percentage-point decline from the 42 percent reported in the 2019 AFP® *Electronic Payments Survey*.



Within North America, when paying major suppliers, the gap between paper and digital payments has widened to 13 percentage points, with 39 percent of organizations using ACH credits while 26 percent continue to use checks. This gap has increased by 11 percentage points since 2019, when the gap between ACH and checks was only two percentage points. With check usage on a rapid decline, it is not surprising that the use of digital payments has overtaken the traditional check, this is an unseen observation in the payments realm.



Organizations employ a variety of methods when sending or receiving ACH payments. Email is used most extensively to send remittance information by 61 percent of organizations (lower than the 68 percent in 2019). The second-most widely used method is EDI/CTX or EDI/CCD+, used by 26 percent of organizations, while 17 percent use regular mail.

A majority (54 percent) of survey respondents cite speed of payment as a primary driver in their choice of payment method. Speed of payment is even more vital in the current business environment where supplier relationships are critical as supply-chain woes are a concern as well as suppliers adjusting pricing frequently due to heightened inflation.



Faster/real-time payments are more beneficial to some payments categories than others. Fifty-nine percent of respondents in North America report that B2B transactions will benefit the most from faster/real-time payments, while internationally, 69 percent indicate the same.



A third of all respondents (33 percent) are unfamiliar with the ISO 20022 payments standard. While 36 percent of respondents from North America indicate they were unfamiliar with the standard, only 29 percent of respondents from other regions state the same. Of those familiar with the standard 70 percent of respondents regions outside of North America consider it valuable while 44 percent of practitioners from U.S. and Canada report they believe the payment standard valuable.



The Landscape:

Business to Business (B2B)



Business to Business Disbursements

• Disbursements Made by Checks

- 33% of organizations B2B payments continue to be made by check.
 - 9 percentage point decline from the same survey in 2019
 - Check usage has been declining since 2004
 - Newest trends indicate that companies in the U.S. are actively shifting from check to digital

• External factors shaping the payments realm:

- COVID -19
- Russia /Ukraine conflict
 - Continues to disrupt product and supply flow
- U.S. economy registering levels of inflation which have not been experienced in decades.



Percentage of Organizations' B2B Payments Made by Checks: U.S. and Canada
(Percentage of B2B Payments Made by Checks)



Business to Business Collections

• Collections by Check

- The use of checks by organizations' suppliers is decreasing rapidly
 - 2022 - 30 % of organizations in the U.S. received payments via check
 - 2004- 75%
 - 2013- 50%
- Follows same trend as payables
 - Fewer checks being issued = fewer checks being collected



• Expenses

- As companies look inward to expense management, the cost of check processing is higher than most other payment methods
 - According to Nacha and AFP, checks cost between \$2.01 and \$4.00 vs ACH which typically cost \$0.40

Percentage of Organizations' B2B Payments Received by Checks: U.S. and Canada
(Percentage of B2B Payments Received by Checks)



The Landscape:

Digital Payments



Digital Payments

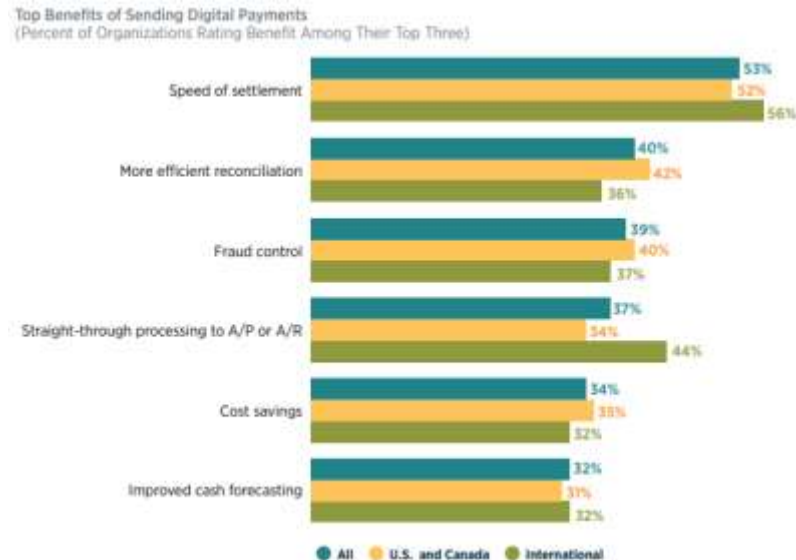
Benefits, Barriers and Trends

- **Digital Payments: Benefits**

- Speed to settlement is the TOP benefit (as per 53% of respondents)
- More efficient reconciliation (as per 40% of respondents)
- Fraud Control (39% of respondents)
 - Check is still the payment method most subject to payments fraud

- **Positive byproducts of moving to digital payments:**

- Improved forecasting
- Better Working Capital
- Supplier Relations



Digital Payments

Benefits, Barriers and Trends

- **Digital Payments: Barriers**

- Barriers are varied and respondents don't site just one barrier
- 70% of survey respondents cite the following:
 - Difficulty convincing customers to pay digitally
 - Shortage of IT resources
 - Difficulty in convincing suppliers to accept digital payments
 - Lack of integration between digital payments and accounting systems
 - Cost of making a change
 - No standard format of remittance information



Digital Payments

Benefits, Barriers and Trends

- **Digital Payments: Trends**
- ***Trends in Sending and Receiving Remittance information with ACH Payments***
 - Organizations employ a variety of methods when sending/receiving ACH payments.
 - Email is used extensively to send remittance information
 - Using email as a vehicle for sending information makes sense, as it is very fast
 - Need of manual reconciliation
 - It is free vs banks charging to pass along enhanced details
 - Second most used method is EDI/CTX or EDI/CCD+
- ***Trends in Integrating Digital Payments with Accounting Systems***
 - Continued push to integrate their payments with accounting system
 - AP is more likely than AR systems to have been integrated
 - AP is more integrated due to the control
 - AR is supplier driven



The Landscape:

Faster Payments



Faster Payments

Overview

- **Recent U.S. Payments Initiatives**

- **Faster Payments Task Force**

- Envisions a system where solutions both compete and interoperate to provide payment services that are faster, ubiquitous, broadly inclusive, safe, highly secure and efficient.

- **Secure Payments Task Force**

- The mission of the Secure Payments Task Force was to provide a forum for stakeholders to advise the Federal Reserve in its leader/catalyst and operator roles on payment security matters, and identify and promote actions that can be taken by payment system participants collectively or by the Federal Reserve System that advance the following desired outcome:

- **Faster Payments Council (FPC)**

- **Continue the work of building use cases and to provide overall support for new and faster payments systems in the U.S**

- The Federal Reserve has joined the FPC to continue the work on Faster Payments Initiatives.
- Federal Reserve has stated that:
 - intends to implement “round-the-clock real-time payment and settlement service” called FedNow next year

- **A few faster payments and real-time payments systems have become operational in the United States, most notably:**

- Nacha’s Same –Day ACH
- Clearing House- Real Time Payments
- In the cross-border area, SWIFT is operating the SWIFT Genuine Process Indicator (gpi) which makes funds available the same day, has end-to-end tracking capabilities and greater transparency and predictability of fees.
 - These transfers will also be able to carry rich remittance information together with payments



Faster Payments Benefits

- **Faster/real-time payments are more beneficial to some payments categories than to others.**
 - 62% percent of respondents report that B2B transactions will benefit the most from faster/real-time payments
 - 16% believe the same for business-to-consumer (B2C) transactions
 - 13 % believe that the most benefits will devolve to consumer-to-business transactions
- A larger share of financial professionals from organizations outside of North America (69 %) believes B2B transactions will benefit from faster/real-time payments than those within North America (59 %).
- Faster and more transparent payments will influence treasury departments. With faster payments, timing will be easier to predict and should create benefits in areas such as cash management.
 - There is also potential to save money—for example, being able to pay on the last day of discount availability. Other use cases include emergency payroll and quicker settlement of merchant acquiring proceeds.

Anticipated Impact of Faster Payments on Organizations
(Percentage Distribution of Organizations)

● Very positively ● Positively ● No impact ● Adversely



Faster Payments Concerns

- Financial professionals do have concerns regarding faster/real-time payments that could potentially operate on a 24/7/365
 - 38% of survey respondents agree that the greatest concern is that there could be more instances of payment fraud as a result of faster payments.
 - Instances of fraud are a concern for a greater percentage of North America respondents (42 %) than for those from regions outside of North America (27 %).
- Other concerns regarding faster/real-time payments include:
 - Challenging to implement (cited by 37% of respondents)
 - Need to monitor payments outside of business hours (36 %)
 - Having to change processes on dealing with incoming funds off business hours (34 %)

Primary Concerns Regarding Faster/Real-Time Payments that Could Potentially Operate on a 24/7/365 Basis
(Percentage Distribution of Organizations)

	ALL	U.S. AND CANADA	INTERNATIONAL
Faster payments could mean faster fraud	38%	42%	27%
Challenging to implement	37%	40%	31%
Potentially have to have someone monitor our payments outside of business hours	36%	37%	35%
Having to change processes on how to deal with incoming funds off business hours	34%	39%	18%
High cost to implement	32%	28%	43%
Increase in transaction costs	30%	31%	24%
Faster/real-time payments would only be applicable to a smaller portion of our payments	29%	33%	14%



Conclusion

- *Three categories of expectations we are dealing with:*

- **Speed**

- Faster
- Cheaper



- **Intelligence**

- Making payments smarter in how they deploy details of payment
- Consumers want a good or service, NOT making payments

- **Digital Integration**

- Platform Economics
 - Tendency to move commerce to a more digital business model
- Network Economics
 - The Value of a service increases as others buy/implement service



Stay in touch!

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