Payments 101: Electronic Payments

A MineralTree Topic Paper

A look at the benefits that electronic payments can bring to your business.

mineraltree®
AP and Payment Automation

The Accounts Payable (AP) function is a basic, essential, and critical function: every business receives invoices, routes them for approval, and pays them upon approval. For some companies, the volume of invoices is small enough that it is a part-time function for a single person, whereas for others it is often a department staffed with several people. Regardless of size, the main objective of AP is to receive, process, and pay bills and invoices in a timely manner while using proper controls to prevent fraudulent and inappropriate payments.

Despite technical advancements and the availability of a multitude of electronic payment methods, US businesses still make most, if not all of their payments by paper check. The reasons for the persistence of check based payments are well understood: vendors ubiquitously accept checks, checks are easy to produce, and checks include essential information accompanying every business payment – the remittance detail.

However, an increasing number of businesses are seeking ways to pay vendors electronically, and benefit from their advantages: They are less expensive, can be precisely timed to manage outgoing cash flow, and have a relatively low risk of fraud. While there is a lot of buzz around the different forms of electronic payments, it is often unclear how businesses can take advantage of those options.

This topic paper examines the electronic payment methods available, the advantages each payment type can bring to your business, and questions to ask when considering which are best.

How Are Businesses Making Payments Today?

In 2013, the Federal Reserve sponsored a payments study to evaluate the number of noncash payment systems businesses use, including checks, ACH, and card-based payments. Check use in the business-to-business (B2B) sector has had the slowest decline confirming that B2B checks are difficult to replace.[1] In 2013, US businesses issued over 8 billion checks, an increase from 3.5 billion checks issued per year at the start of the millennium. Other studies from the Association of Financial Professionals (AFP) shows that check use by larger, billion-dollar corporations has shown impressive decline - from 70% of all payments to about 50% today.[2] However, paper-check based payments stubbornly persist at every other business, with a typical business making over 80% of its payments by paper check.

What Are the B2B Payment Options Available to Businesses Today?

Businesses have a wide range of payments options available to them. On the next page, there is an Electronic Payment Reference Guide to help explain the common and not-so-common payment types businesses have access to, their ideal use cases, and the advantages and disadvantages of each.

[1] 2013 Federal Reserve Payments Study

[2] 2015 AFP Payments Fraud and Control Survey

Payment Option	Most Commonly Used for	How does it work?	Cost	Risk (*Little, Moderate, Significant*)	Speed	Summary
Check	Default method of payment	Paper payment that deducts money from one account and credits the recipient's account.	$4 - $20, depending on of the check and shipping, plus time employees spend writing, mailing, collecting, and reconciling.	Moderate Risk: Checks are the most-often targeted payment method by those committing fraud attacks.	Payment is typically received within 5 to 7 days	A widely accepted and well known payment type that is manual and very costly.
ACH Debit pull	Payroll, Online Bill payment	Electronic batch payment system where the payment is initiated by the payee or vendor.	Fees are usually included in the payroll solution, or part of the bill pay transaction.	Significant Risk: Payroll and bill payment applications themselves present low risk, but unless specifically protected with blocks against unauthorized debits, this electronic payment method is risky.	Payment is typically received within 48 hours	Generally no cost to the payer.
ACH Credit push	Vendor payments	Electronic batch payment system, where the payment is initiated by the payer.	Transaction fees are usually about $0.15 per transaction in addition to monthly fees of $100, and a fee to send the file (containing the ACH transactions) to the payer's bank.	Little Risk: if the ACH transactions are initiated through file transmission. Significant Risk: if the ACH batch is created using an online banking interface.	Payment is typically received within 48 hours	Can be one of the safest, most controlled form of electronic payments, but is generally available only to larger corporations with higher volumes.
Credit Card	Retail purchases	Merchant-initiated transactions paid from the cardholder's credit line.	Vendor incurs processing fees, on average 2% - 6%.	Moderate Risk: Using a personal credit card to make corporate purchases is difficult to track.	Instan-taneous payment	A personal payment method is not usually accepted by vendors due to processing fees.
Debit Card	Retail purchases	Merchant-initiated transaction where the purchaser pays directly from a bank account.	Vendor incurs a processing fee generally between 0.2% and 0.5% of the transaction amount if the debit card is issued by a "regulated" bank (bank with $10B or more in assets). Otherwise, fees is the same as credit card.	Significant Risk: Does not have same protection in place as credit cards making it hard to recover funds after fraudulent transactions.	Instan-taneous payment	Though cheaper than credit cards, merchants still have to pay to accept debit cards, and debit cards offer little protection for purchasers.

Payment Option	Most Commonly Used for	How does it work?	Cost	Risk (*Little, Moderate, Significant*)	Speed	Summary
Commercial Card	T&E expenses, recurring payments, vendor purchases	Credit card that businesses provide their employees paying directly from a corporate credit line for business related purchases.	Vendor incurs processing fees that purchaser may be subject to pay, on average 2% - 3%.	Moderate Risk: Hard to track usage and may require a separate process from AP.	Instantaneous payment	A credit card issued to employees based on company credit line that allows for instantaneous payments that are often difficult to track and reconcile.
Virtual Card	Vendor payments	Single-use, 16-digit number that issuers provide companies to pay for specific transactions.	Vendor incurs processing fees that purchaser may be subject to pay. Purchaser can earn rebates, on average 1%.	Little Risk: The safest form of transaction as a new card number is generated for each transaction.	Instantaneous payment	A very secure payment method used for vendor purchases enabling businesses to receive rebates.
Purchasing Card (P-Card)	Corporate purchases	Form of company credit card that allows purchases to be made without using a traditional process of invoice creation.	Vendor incurs processing fees that purchaser may be subject to pay, on average 2% - 3%. Purchaser can earn rebates, on average 1%.	Moderate Risk: Difficult to control spend as businesses can only see transactions after the card has been swiped.	Instantaneous payment	A credit card issued to employees allowing them to buy goods and services without going through the process creating purchase orders.
Wire Transfer	Real-time payments, both domestically and internationally	Real-time payment method from one account to another.	$10 - $40 dollars, costing both the sender and receiver.	Significant Risk: Once a wire transfer is sent, the money is gone.	Instantaneous payment	A real-time, instantaneous transfer of funds that is the most risky B2B payment method.
PayPal	Consumer and retail based purchases	Online money transfer platform that allows businesses to accept payment via major credit card services.	Fees are 2.9% plus $0.30 per transaction within the US.	Moderate Risk: Paying via PayPal breaks from the normal AP process and requires some import/export or re-keying.	Payment is typically received within 24 hours	An online payment platform that enables business to accept credit card payments at a higher fee, but often times breaks the AP process.
Bitcoin	Merchant purchases, only when accepted	An online payment system and digital currency that is independent of banks, currency and national boundaries.	Fees range between 0% and 1% per transaction.	Little Risk: Personal account information is not given away helping to prevent fraud.	Payment is typically received within 48 hours	A new form, and not widely accepted, digital currency that allows businesses to cut costs.

How Do You Decide Which B2B Payment Option is Right?

Choosing the right payment option for your business is a complex decision. Here are some questions to think about when deciding which are right for you.

Do your electronic payment methods integrate into your AP process?

The electronic payment methods your business utilizes should seamlessly integrate into your existing AP process. The process should not be time consuming and vendors should be paid on time. An automated AP solution makes it easy to pay vendors by virtual cards, ACH, wire transfer, or checks.

What type of payment methods do your vendors accept?

Businesses have to offer payment options that are accepted by their vendors. But, there are ways to decrease cost, increase payment speed, and reduce risk. By automating your AP process, businesses have multiple payment options and a solution that executes all payments.

Are you able to make it simple for vendors to receive remittance details?

One of the major issues businesses face today is sharing remittance details with their vendors. With an automated AP solution, once a payment is executed, your vendors automatically receive all necessary remittance information.

Do you feel comfortable using intermediary accounts?

If you do not, you are not alone. With little control over payment timing, reconciliation issues, and security pains, your business should feel uncomfortable using intermediary accounts to process their payments. Thankfully, there are automated AP solutions that directly integrate with both your accounting software package and your bank account eliminating the need to ever use intermediary accounts.

Are you making payments that are protected?

Security is at the forefront of any business strategy. In 2015, 77% of payment fraud was due to checks.[2] Your business should not be storing sensitive information, like bank account or routing numbers, in places that lack proper security measures (think spreadsheets). One of the most secure forms of B2B payments is a virtual card, which gives the paying business rebates.

Is your payment option scalable?

If your business is planning to grow, you can expect to see an increase in vendor invoices. It is important to take advantage of payment options that are efficient and scalable. Although checks will likely be accepted, the manual and laborious process will ultimately cost your company.

Do you have recurring payments?

ACH is the fastest, most reliable electronic payment method for high-volume and recurring payments. A riskier option is to pay by corporate card as the vendor can store the credit card number on file for payment each month.

[2] 2015 AFP Payments Fraud and Control Survey

Will you need to make international payments?

If so, weigh your options. International companies accept credit card payments or you can pay by wire transfer; however, this real-time payment method is risky as once the funds are released they are impossible to recover. Again, checks can be used, but take time to travel overseas.

Electronic Payments and Automated AP

Think about this. How often do you send a business letter when you can send an email? How often do you pay your personal bills (rent, cable, electricity) by physical check? More likely than not, many of you will say rarely, if ever. Today's world is filled with technological advances and electronic payments are no exception. Despite all the options available to businesses, the method of choice is checks. Businesses know how the check process works and are comfortable with this archaic payment method.

Paying your vendors on time is the number one goal, and the process itself should not be extenuating. Whether or not you are willing to give up paying by check, there are ways to improve your process. By taking advantage of an AP automation solution, the entire AP process, from capturing an invoice to executing payments, becomes quick and efficient. Not only will the finance team increase AP efficiency, reduce processing costs, gain greater control of outgoing cash flow, minimize payment risk, and improve internal accounting controls, but they will also experience savings of 70% or more.

The bottom line - any payment method chosen must seamlessly integrate into the Accounts Payable process. Accounting Managers should not be printing paper checks and chasing signatures, storing bank account or credit card information in insecure places like spreadsheets, or be concerned about managing different types of electronic payment for vendors. Taking advantage of an AP automation solution paves the way for streamlined operations and increased efficiency.

Take The Next Step

For more information about how MineralTree Invoice-to-Pay can help your business streamline the payment process, contact us today at 617.299.3399 or email info@mineraltree.com.

P101WP - (012317)