Innovation has provided businesses new options to electronify payments that reap benefits in speed and efficiency. To help executives find the payment options that best fit their well-thought-out payments strategies, SunTrust has created a series of reports, Developing Strategies for the Electronification of Payments, that looks at development of electronic payments and their impact on businesses’ financial operations. We have originated payments research with Middle Market and Small Business executives across the U.S. and have included perspectives by SunTrust and payments industry specialists on payables, collections, fraud, and cash management reporting.

Our payments series starts with this overview and offers four in-depth reports on key payments topics (shown at right.) Our comprehensive reports support you in designing the best payments approach for your business that is capable of having a positive impact on your cost of capital. We want to help link your business plans, your capital requirements, and your payments strategy to support you in your success.

Benefits of Electronifying Payments

- Improved cash flow and capital optimization
- Cost efficiencies throughout the financial process
- Reduced fraud risk
- Enhanced cash visibility and better control

Directing Payments
Shifting To Electronic Payments
Businesses want 40% more payments sent electronically for faster processing, streamlined workflow and lower costs

Managing Collections
Preparing for More Electronic Receipts
Middle Market businesses want to receive 80% of their receivables electronically for faster, more reliable collections

Protecting from Fraud
Moving from Paper to Electronic
73% of businesses experience fraud, with paper-driven processes and checks as the number one source

Reporting and Controlling Cash
The Essential Tool for Liquidity Management
51% of corporate cash stashed in bank accounts can be better deployed with robust cash management capabilities
The vast funds that move through payments systems attract attention from payments companies, financial technology (FinTech) entrepreneurs and regulators, all trying to predict the contours of the future payments landscape. However, it’s the businesses who must use the payments system day to day and make choices as to which ones work best for them that are the catalysts for the electronification of payments strategy. Understanding informed business executives’ perspectives on payments provides a clarifying view on the most relevant solutions.

Payments and the movement towards electronic transactions

The state of payments has changed dramatically over the past few years as technological advances have gained acceptance. SunTrust Research shows businesses have embraced many electronic-type payment channels like ACH (Automated Clearing House), card and wire transfer and use them to move 43% of their payments. They would like to pay even more that way, preferring to pay almost 60% of these payments through electronic means.

Businesses note many reasons to electronify payments processes, primary of which are the speed, convenience and reliability of electronic payments. Yet those who have not made the leap from paper-based payments cite impracticality, difficulty of integrating into an existing accounting system and fees as barriers to acceptance.

Putting together a payments strategy is a dynamic process. With new enhancements and products released regularly, business executives are regularly challenged to sort through solution fit, maturity and the expectations of future payments enhancements in their payments decisions.

Payments at the core of the cash cycle

Payments are at the core of cash management and one of the places in the cash cycle where companies can have the most control. “At the heart of what your company does,” Michael Maza, head of SunTrust Treasury & Payment Solutions, states, “it is all about managing liquid capital and having a tool that allows you to manage what you do with cash.” Robert Blair, head of Product & Digital for SunTrust Treasury & Payment Solutions, summarizes, “Payments are your business’s transit system for cash liquidity.”

Mr. Blair continues, “I think there’s an opportunity for all companies to ensure that they’re managing and using payments to handle the flow of their cash in a way to benefit their P&L statement.” By viewing payments as a lever to control cash flow, your company can use the information and control you have to dictate your cash management approach, managing cash and relationships to match your business objectives.

Checks dominate payments made by businesses today. SunTrust Research shows that additional electronification preferred by businesses will bring more electronic ACH, wire and card transactions.
The underlying digital move

The conversion of paper to digital transactions has begun to transform payments and cash management. As technology advances, it provides more opportunities for efficiency, speed and information retention through electronification of payments.

The internal costs of invoice processing and payment generation drive payment mix changes. “Everyone understands the manual labor cost to process invoices and receive payments, but few understand the true costs – such as the missed opportunities for savings through early payment discounts, and conversely, the risk of late penalties and fines. Add to this manual reconciliation and these costs can be staggering,” explains Carolyn Pyle-Kennedy, CTP, manager of Technical Product Consulting for SunTrust Treasury & Payment Solutions. Since unit costs are dynamic, changing on a per unit basis as the payment mix shifts, non-electronic processing is the costliest method and getting costlier as expenses are shared over a smaller number of transactions.

High Cost of Invoice Processing

62% Labor portion of total AP costs

Labor cost per invoice ($) $4.98 $7.75 $12.44

More Automation Manual Intervention

APQC’s survey on accounts payable (AP) process productivity, June, 2015

Creating a winning payments strategy

A payments strategy does not have to be complex, but it must match a company’s individual needs based on cash requirements, supplier type and relationship, cost of funds, and cost of transactions. “Your company’s liquidity and payments strategies are inextricably linked,” reminds Mr. Blair. This fact becomes increasingly important as interest rates begin to rise. He continues, “Companies are going to need to be more sophisticated about using payments to manage cash in order to maximize the return of that cash, whether it’s working capital to go do something else, or parking it somewhere for the longer term to gain more income.”

Benefits of Electronic Payments

Electronifying payments offers the promise of faster funds movement, with better tracking, higher security and more data transferred, all consuming less of your financial staff’s time. Benefits include:

Efficiencies from electronic payments can improve the cash cycle through scheduled payments and invoicing

- 52% of Middle Market businesses cite speed as the top reason to use electronic payments
- Best in class performers took 4.1 days to process an invoice at a cost of only $3.34 and realized 90% capture rate of early payment discounts

Visibility into payment data provides better information for decision-making

- 62% of companies using electronic payments rank accessibility to online reporting as extremely important to their business
- Greater insight into payment status and improved data accuracy, including embedded data with specifics about the underlying customer or product and service delivered, enhances efficiencies while strengthening customer service

Simplified payment-related processes can lower administrative and staffing costs, eliminate fraud opportunities and prevent compliance issues

- Labor costs from manual interventions, typically 62% of total AP costs, can be reduced by electronic payments
- Electronic payments systems offer built-in redundancies, basic controls, and audit trails that deter fraud

Source: APQC’s survey on accounts payable (AP) process productivity, June, 2015; AP Invoice Management in a Networked Economy, Aberdeen Group, 2012; SunTrust Research.
Exploring electronic payments

Electronifying payments offers the promise of faster funds movement, with better tracking, higher security and more data transferred, all consuming less of your financial staff’s time.

1. **Look at card programs for some of the most easily implemented electronic methods.** Card programs offer better expense management, control over payment timing and reduced administration costs.

2. **Consider corporate ACH and Electronic Data Interchange (EDI)** which offer companies improved cash flow and reduced administration and transactional costs.

3. **Evaluate direct deposit of payroll** that provides for enterprise-wide payroll processing with simplified logistics and increased security.

4. **Implement Consolidated Payments File** to enable a single source execution of check, card, ACH and wire transfers, noticeably reducing internal costs and payment fraud.

5. **Look at same-day payments via wire transfer or Same Day ACH** for more immediate funding needs with varying verification requirements.

The variety of electronic payments programs and the implementation tactics necessary are detailed in our **Directing Payments** in-depth report. Here you will find thorough discussions and implementation steps to put you on the path toward the cost efficiencies and optimized cash flow your business can realize from electronic payments systems.

Managing Collections

Electronic payments dominate the means that businesses use to collect payments from customers. Eighty-three percent of businesses accept electronic payments via ACH (Automated Clearing House), wire transfer or card. These companies would like to use electronic methods to collect even more extensively, preferring to accept ACH, wire transfers or card 3 to 5 times more than check or cash. A host of reasons, including speed of moving collected funds into working capital, collections efficiency, fraud prevention and customer preference, keep checks and cash as secondary options.

The push for more electronic collections makes good strategic sense. SunTrust Research shows that a primary goal of 8 out of 10 businesses already accepting electronic payments is the desire to maximize working capital. Efficiency and automation of the collections process is another driver cited by two-thirds of Middle Market companies surveyed.

Collections Today vs. Tomorrow

The majority of collections today come through paperless electronic transactions like ACH, wire transfer and cards. Businesses want to move that electronic percentage much higher — to almost 80% for Middle Market businesses — as check and cash usage dwindles.
Collections — the low-hanging fruit

Businesses sometimes think of the collections function and the accounts receivable department (AR) as just a cost center — a necessary expense to get funds in the door. Some of that results from economic conditions: in a low rate environment, the value of getting payments in quickly is diminished. As cash becomes more valuable with higher interest rates, collections timing become more important, and business executives seek to maximize the ROI (return on investment) from improvements in the accounts receivable function.

Making the case for change in collections

“Everyone knows they want to pay electronically, but collections? No one has really cared about improving those processes because for the last 7 or 8 years, the market has been so volatile, you just wanted people to pay,” explains Ms. Pyle-Kennedy. A few factors are affecting the move to electronic collections:

- Changing interest rate environment, no matter how slow and arduous the climb, places even more emphasis on improving Days Sales Outstanding (DSO)
- Millennials entering the workforce expecting to be able to pay in a more mobile and fast-paced environment

“There is still a barrier of acceptance for electronic collections, though,” says Mr. Blair. “It is really a matter of education. For example, a supplier may not want to accept credit cards because there are merchant fees associated with each payment. But, on the flipside, the supplier gets their money sooner and shortens their DSO and likely reduced collections costs, making any fees for the transactions more palatable, particularly in a rising rate environment.”

Benefits of electronic collections

The two top reasons to move away from paper processing to electronic methods of collection are efficiency and cost reduction, according to the 2015 Association for Financial Professionals (AFP) Payments Cost Benchmarking Survey. Those cost savings can be huge. The same AFP survey found that the median cost to receive a check is $1.50 per item. For a company receiving 20,000 checks per month that means you’ll be looking at a cost of $30,000 per month, or $360,000 annually, just to process paper. (“Cost”, AFP, 2015)

Online payments help make your financial organization more efficient and contribute towards reducing fraud. “Offering your customers payment methods such as Universal Promotional Identification Codes (UPIC), ACH transactions or Online Bill Presentment and Payment ensures you have your money and the data to go along with that transaction for reconciliation purposes,” says Ms. Pyle-Kennedy. The data associated with electronic payments and the rapid reconciliation of payments received help minimize most fraud risk. And, of course, the faster the money comes in, the quicker you can add it to your working capital or use it to reduce debt. For case studies and additional details on how your company can benefit from electronic collections, see the Managing Collections in-depth report.
Choosing electronic receivables that work for your company

You may be thinking, “Why can’t I just use PayPal — or similar services — to accept payments from my customers?” Mr. Blair answers, “Well, you can use any of these services, but just remember that some of the newest consumer trends are simply payment intermediaries — interfaces — that still go through the bank or the credit card. They are simply an electronification of the customer’s credit card or bank account.”

Electronic payment acceptance solutions also vary between consumer and business-to-business (B2B) payments. For example, in an invoice-related environment, driving customers to your website where they pay directly works very well for B2B payments. Your business collects all the information it needs; the customer, in turn, knows exactly what to pay and when. However, consumers find setting up bill pay through their own bank much more convenient. They can go online, set up payment information once, then either schedule recurring payments, or review and pay monthly for variable amounts. Your company’s best electronic collections strategy will depend upon your business model and customer base.

The push to eliminate checks and move to electronic payments continues. However, as cash becomes more valuable, the cost of money matters more and more. Collections are the low hanging fruit. As your company looks to maximize its cash and working capital, electronic collections and the increased efficiency with which you can receive your money will become vitally important to your processes and your bottom line.

Developing a payment acceptance strategy

The best collections strategy can have a significant impact on your cash flow. The following are strategies that can be used to improve the collection process.

#1 Automate high volume-low dollar, repetitive collections
- Use ACH debits to improve collection efficiency and lower costs

#2 Leverage ACH with EDI to electronify large dollar payments
- Improves posting and reconciliation accuracy
- Offers UPIC for bank account information security

#3 Begin accepting credit and debit cards through Merchant Services
- Increases sales and speeds collections
- Offers Purchasing Card payment option to large corporate customers

#4 Create a website for Online Bill Presentment and Payment
- Provides online access to client statements and invoices
- Simplifies acceptance of ACH, debit and credit card payments

#5 Receive batched payments from multiple sites through Online Bill Consolidator
- Provides for receipt of ACH credits

#6 Update AR management software
- Avoids slower processing from outdated systems
- Captures information to manage receivables day to day with better reporting

#7 Reevaluate billing policies
- Send invoices on a regularly scheduled basis with payment options
- Invoice repeatedly starting early in the month

#8 Educate buyers on your terms
- Direct sales teams to discuss payment options before work or delivery
- Synchronize payment cycles to coincide with the delivery of goods/services

#9 Make it easy for the customer to pay you
- Offer multiple payment methods that are easy for the customer to locate
- Streamline payment remittance process (ideally electronically)

#10 Consider lockbox
- Evaluate internal processing costs vs. lockbox outsourcing costs
- Review banks’/lockbox providers’ potential for speeding mail retrieval

Look to our Managing Collections in-depth report for more detailed discussion and implementation steps about the cost efficiencies and cash flow benefits from receiving electronic payments.
Fraud and its prevention has a hand in shaping the future of payments. According to the AFP, fraud based on paper-driven processes and checks continues to be the number one form of payment fraud perpetrated on businesses (“Fraud”, AFP, 2016). Criminals have adapted and have found new ways to exploit system weaknesses with advanced phishing schemes, business email compromise, and other emerging fraud plots. Understanding the types of fraud afoot, the risks involved and the best prevention measures has never been more important.

Fraud by the numbers

Businesses of all sizes are at risk for fraudulent activity, particularly when their cash flow relies on paper payments. The 2016 AFP Payments Fraud and Control Survey found that 73% of organizations have experienced actual or attempted fraud. Paper checks are the top target of fraud attempts, followed by credit card and wire fraud (“Fraud”, AFP, 2016). As the face of fraud continues to change and seek new weaknesses in the payments system, SunTrust and AFP executives share their views on the best ways to protect your company from current threats.

Trends in fraud

“Fraud has risen in the past year with 73% of businesses subjected to attempted or actual fraud, up from 62% in 2014” says Magnus Carlsson, Manager of Treasury & Payments at the AFP. While the larger fraud breaches still make the headlines, the gap between fraud attempts at larger versus smaller organizations is shrinking. In 2013, incidence of fraud at larger organization was 16 percentage points higher than at smaller ones. (“Fraud”, AFP, 2016) “Now in 2015, the companies with under $1 billion in revenue are just 2 percentage points lower on fraud attempts than larger ones,” Mr. Carlsson notes.

Using technology to your advantage

Advancing technologies improve the success of fraud attempts; however, your company can also use that same technology to your advantage to thwart these attacks. Solutions range from simple process changes to improving electronic processing and reconciliation capabilities.

Understanding Payment Fraud and its Prevention

Sources of Fraud by Payment Method (% of organizations that experienced attempted or actual payments fraud)

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>% of Organizations</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHECK FRAUD</td>
<td>71%</td>
</tr>
<tr>
<td>WIRE FRAUD</td>
<td>48%</td>
</tr>
<tr>
<td>CORPORATE CARD FRAUD</td>
<td>39%</td>
</tr>
<tr>
<td>ACH DEBITS FRAUD</td>
<td>25%</td>
</tr>
<tr>
<td>ACH CREDIT FRAUD</td>
<td>11%</td>
</tr>
</tbody>
</table>

“Now in 2015, the companies with under $1 billion in revenue are just 2 percentage points lower on fraud attempts than larger ones.”

Magnus Carlsson, Manager of Treasury & Payments, Association for Financial Professionals (AFP)

* Percentage distribution of organizations that experienced payments fraud

Source: AFP Payments Fraud and Control Survey, 2016
“From a process perspective, simple solutions such as segregation of duties, dual payment approvals and quickly reconciling accounts all help fight fraudulent activities,” says Ms. Pyle-Kennedy. “Another area for fraud protection improvement is vendor on-boarding and compliance.” Some of the larger credit card breaches — Target and Home Depot most recently — can be traced back to lack of security on the part of a new vendor.

“Despite the continuing drop in the number of checks, check fraud is still number one in terms of fraud,” says Mr. Carlsson. Increasing your company’s penetration of electronic payments and collections can be a huge asset in combating fraud. Separating duties, reconciling accounts daily and using Positive Pay services for all remaining paper checks will also prove helpful in mitigating fraud risk. “Many CFOs have experienced

<table>
<thead>
<tr>
<th>Keeping your Eye on Fraud</th>
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<tbody>
<tr>
<td>David Sawyer, CPA, CFE points out three key areas to watch in fraud:</td>
</tr>
<tr>
<td><strong>Rise in fraud during challenging economic times.</strong> When the economy is bad, people generally find a way to steal in order to supplement their income.</td>
</tr>
<tr>
<td><strong>Growth in cyber-fraud.</strong> “Cyber threat is one of the biggest emerging threats we see, particularly business email compromise.” See the Protecting from Fraud in-depth report for more detail.</td>
</tr>
<tr>
<td><strong>Failure to monitor online transactions.</strong> People rely more on systems and online information and tend to (mistakenly) trust both. Ignored statements and neglected reconciliations allow those who commit fraud to go undetected.</td>
</tr>
</tbody>
</table>

that they can mitigate paper payment risks as well as electronic fraud with a series of basic controls, such as automatic reconciliation of accounts, blocks, and filters on ACH payments or instituting UPIC,” emphasizes Ms. Pyle-Kennedy.

As the paper check becomes less used (check volume is going down 6% per annum), the majority of fraud attempts will turn to electronic methods (The 2013 Federal Reserve Payments Study, 2014). Fortunately, businesses have the tools today to turn technology against potential fraudsters and stay safe from fraud.

**Fighting fraud**

Fraud comes from many sources, some internal and some external to the business. While internal fraud has and will continue to require vigilance, external fraud is a growing problem.

The ongoing fight against fraud requires constant attention and can’t be eclipsed by some other “crisis of the moment.” The first step in fighting fraud is understanding the liability it represents.

“Some businesses assume fraud is mostly a bank’s problem”, says David Sawyer, a Certified Fraud Examiner (CFE) and partner at Frazier and Deeter. Businesses have duties and responsibilities in detecting and dealing with many types of fraud. In some cases, the bank has no legal liability for fraud, particularly when it involves debit cards or the breakdown of a customer’s internal controls.

The recipe for success is understanding that ultimately, the fight against fraud is a team effort involving both the bank and its customers. “Everyone must take ownership and responsibility,” says Mr. Sawyer.

The threat of fraud in today’s world is real, and few organizations are strangers to its effect. Criminal organizations are regularly analyzing weaknesses and designing the next fraud. Every potential victim (every business) should take advantage of the tools at its disposal to stop fraud. The Protecting from Fraud in-depth report provides you with additional details on the latest fraud schemes and how you can develop and implement solutions to counter fraud threats directed.

**Check Fraud Prevention Measures**

(\% of organizations that experienced at least one attempted check fraud)

<table>
<thead>
<tr>
<th>Protection</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive Pay</td>
<td>88%</td>
</tr>
<tr>
<td>Daily reconcilement/other internal processes</td>
<td>77%</td>
</tr>
<tr>
<td>Segregation of accounts</td>
<td>69%</td>
</tr>
<tr>
<td>Positive Pay with payee name verification</td>
<td>56%</td>
</tr>
<tr>
<td>“Post no checks” restriction on depository accounts</td>
<td>49%</td>
</tr>
<tr>
<td>Reverse Positive Pay</td>
<td>16%</td>
</tr>
<tr>
<td>Non-bank fraud control services</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: AFP Payments Fraud and Control Survey, 2016
Payments serve as the main transactional mechanism to move funds to and receive money from a business’s partners and customers. The information trail that is left from those transactions provides the key data kernels to report on the journey of funds through the business. Consolidating and reporting on that data helps you find ways to forecast cash more accurately and to integrate with key operational and financial support systems. Upgrading and electronifying your company’s payments data and reporting can give you a much better total picture of your finances, allowing you to spot opportunities to optimize your cash, while reducing staff time on manual data gathering and reporting.

Tools for digital account access and cash position reporting

“It’s all about better information delivered faster. Today it means easier access, more real time payments, and more integrated reporting for anyone managing a company’s cash and the impact of disbursements and collections on working capital,” says Mr. Maza. Cash and liquidity management link payments and the daily flow of cash with the financial strategy that secures the right capital to drive capital efficiency and returns to equity holders.

Importance of online cash reporting

Access to online banking and cash management tools is critical to business executives as they track funds in from collections and out for payments, monitor activity for fraud and develop a consolidated view of their cash positions.

62% Businesses stated that online reporting was extremely important
30% Businesses said online reporting was somewhat important

Source: SunTrust Research

Changing role of liquidity management

Mr. Blair predicts, “The awakening of interest rates from their slumber is going to open the door to additional investment vehicles and that will bring back the need for core liquidity management skills.” With bank deposits having risen to 51% of corporate cash over the past 8 years of a low rate environment while money market investment has flagged, the eventual flow of funds to interest-bearing investments is easy to project (Financial Accounts, Federal Reserve, 2016).

Many companies have already started building the management processes to handle higher cost capital. The rising value of funds will drive adoption of relative newcomer services like smart safe for cash vault. Ms. Pyle-Kennedy points out, “While cash vault services that provide provisional credit for cash have been driven by security, availability of funds and operating cost advantages, a new dynamic with higher rates will drive adoption even further.”

Focus on the cash management tool set

In today’s rate environment, businesses have sat on cash and left it in bank depository accounts. Over the past 25 years, according to the Federal Reserve, the percentage of business financial assets held in bank deposit accounts has gone from 36% to 51% (Financial Accounts, Federal Reserve, 2016). With little reward for pursuing riskier investments, financial executives have kept their cash close at hand. Preservation of principal and liquidity has been the main focus. Why spend the time and take on the risk to do anything else with little return?

The rate-driven focus on liquidity management is pressuring changes in cash management skills and systems. Says Chris Fritz, head of Digital Solutions for SunTrust Treasury & Payment Solutions, “Eight years of low rates means there are staff who have never operated where the cost of funds mattered and others who have gotten rusty.” That situation leads to a renewed focus on cash management tools that are modern and intuitive, are adjustable for a company’s needs and workflow, and integrate more data into views and reports.
Changing your business with better data and reporting

Using accurate forecasting to clarify business needs for cash and borrowing increases efficiency and can shift financial resources from contingency to growth. Creating visibility into current and future cash needs and using available data and reporting can have a positive and measurable effect on your business. Here are six information-centric actions that can help you manage your capital and access untapped growth.

For more details on how improved visibility from integrated electronic payments systems can benefit your company, please see our Reporting and Controlling Cash in-depth report.
Building an Electronic Payments Strategy

Payments strategy has a broad business reach, from cash flow and fraud risk to capital requirements, capital structure and capital efficiency. The impact of payments decisions reaches through the balance sheet to the value of the business itself.

At SunTrust, we want to help you link your business plans, your capital requirements and your payments programs to generate the success that you seek. Mr. Maza, adds, “We leverage our payments expertise and our knowledge of market trends to advise clients on the right payments mix for their specific needs, ranging from traditional to electronic methods that best support their smart growth strategy.”

More detailed information on successful payments strategies and techniques can be found in our in-depth reports:

Reach out to your SunTrust Relationship Manager or Treasury Sales Officer to discuss your business plans for smart growth and your payments needs. With our SunTrust OneTeam Approach™, SunTrust brings the resources you need to support you and your business, whether seeking capital, working on financial systems, exploring strategic options or securing you and your family’s future.

To find out more, call your SunTrust Relationship Manager or visit the SunTrust Resource Center for more information.

About our Research

In today’s world with technical and regulatory complexity, business executives need to be able to call on the right expertise to get to the most salient points without information overload. For our Developing Strategies for the Electronification of Payments series of reports, SunTrust has combined the results of our periodic research with over 500 Middle Market and Small Businesses with insights from an assembled team of SunTrust executives and industry leaders.

Michael Maza — Head of SunTrust Treasury & Payment Solutions

Robert Blair — Product & Digital, SunTrust Treasury & Payment Solutions

Magnus Carlsson — Manager of Treasury & Payments, Association for Financial Professionals (AFP)

Chris Fritz — Digital Solutions, SunTrust Treasury & Payment Solutions

Kellie Goodwin — Wholesale Payments Strategy, SunTrust Corporate Strategy Group

Carolyn Pyle-Kennedy, CTP — Technical Product Consulting, SunTrust Treasury & Payment Solutions

David Sawyer, CPA, CFE — Partner, Frazier & Deeter, LLC
Works Cited


