

White Paper

10 Best Ways To Move Your Company To Electronic Payments

Electronic payments offer businesses significant cost savings, as well as numerous other benefits. We look at the options that exist for businesses looking to go digital.

The future is now, and now is digital. Our world has transformed from a hands-on, physical reality to a futuristic, virtual new norm. And while the transition to adjusting to "trusting what you cannot touch" can take time, the benefits of digital living—particularly for businesses—are undeniably real.

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When we look at business finance, particularly payment optimization, we find one of the most innovative areas for technological advances. New technologies that facilitate payments more efficiently and securely have emerged at a rapid-fire pace, and mobility is driving most of that innovation.

Electronic payments, in the simplest terms, allow you to move money directly from one account to another electronically. In the United States, the most notable system behind basic electronic payments is the Federal Reserve Bank's Automated Clearing House, or ACH—which is why we sometimes call these "ACH payments." We also call them EFTs, short for electronic funds transfers. Electronic payments, by any name, all produce the same result: they move funds between bank accounts without the use of paper checks.

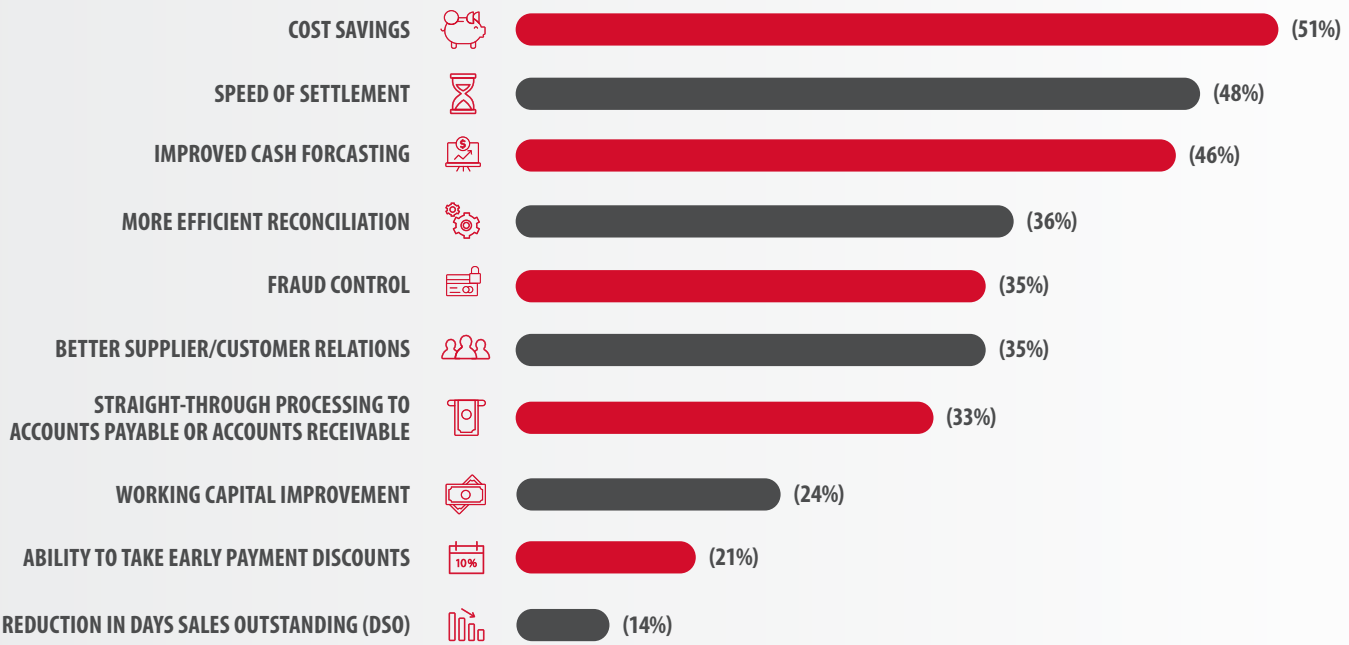
Most businesses today recognize that electronic payment solutions are more efficient and less costly compared to good, old-fashioned check writing. In fact, up to 70 percent of respondents in the 2016 Association for Financial Professionals® (AFP) Electronic Payments Survey believe it is very or somewhat likely that their organizations will convert the majority of their payments to electronic within the next three years.

The top reason these respondents plan to shift to electronic payments is the long-term cost savings their organizations will gain. Paper checks take a big bite out of a company's bottom line. A March 2014 article in The Wall Street Journal estimates that a single business check can cost up to $20 once you write the check, mail it, collect on it, and reconcile it. In contrast, making an electronic payment can bring costs-per-payment down by 55 to 80 percent.

Moving to electronic payments eliminates most, if not all, of these operating efforts, and the result is significant cost savings. When you consider that even a five percent reduction in operating costs can be the equivalent of a 30 percent increase in sales, taking the steps to move payments to digital makes dollars and sense.

What's more, converting to electronic payments comes with other significant direct and indirect strategic benefits that improve your bottom line, according to the AFP survey. Respondents listed the following benefits (with the numbers in parentheses representing the percentage of respondents cited):

Benefits Of Converting To Electronic Payments



AFP, 2016 Electronic Payments Survey

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So, if electronic payments are the way of the future, and the future is now, how do you know which payment solution is right for your business? New electronic payment options emerge each year, and finding the perfect payment platform can be challenging. Knowing what is right for the type and size of your business is key.

Financial institutions and third-party technology providers offer a wide range of electronic payment solutions to help you manage your financial supply chain, whether you're a B2C or B2B entity. The simplest solutions can be obtained directly through your financial institution. More robust solutions through technology companies provide comprehensive and fully automated payment networks that integrate electronic payments with your accounting system to optimize oversight, efficiency, functionality, cost, and cash flow.

Ideally, in payment optimization, you want to come to the intersection where your electronic payments integrate with your accounting system. According to the AFP survey, 69 percent of companies that still pay their vendors and suppliers with checks cite a lack of integration between their electronic payments and accounting systems as the primary reason for not weaning their businesses from paper payments. Luckily, multiple solutions exist that help you integrate all aspects of your payment processing, freeing up resources that can be put to use in more productive and innovative ways.

What follows is a concise overview of the ten best ways—from the simplest to the most efficient—that you can begin to move your company to electronic payments today.

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1. Online Bill Pay

One of the easiest ways to make direct B2B payments is through your financial institution's online bill pay platform. You can make direct electronic payments to vendors, service providers, and any other person or business in the United States with either an email account or a mobile phone number. All you need to get started is a checking account and the recipient's email or mobile phone number. There are usually no charges to transfer money and no fees for the recipient when they have an account with the same financial institution. This can be a great, simple method for small entities that do business within the United States and don't generate a lot of A/P invoicing.

2. Wire Transfers

A wire transfer, also called a bank or credit transfer, is a type of electronic funds transfer (EFT) from one person or organization to another, from one financial institution to another. You give your financial institution the order to transfer a certain amount of funds within the United States or internationally, and a secure message gets sent to the receiving financial institution along with settlement instructions to complete the transfer

Wire transfers tend to cost more per transaction than other kinds of electronic payments. This is why their use has been on the decline since 2013, according to the Association for Financial Professionals. Concerns about email compromise scams that often target wire payments result in fewer companies taking advantage of this electronic payment tool.

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Wire transfers are fast, convenient, secure, and provide same-day, near-immediate transfer of funds. According to USBank.com, wire transfers work for businesses that seek to:

›	Quickly send funds that are immediately available for a purchase or other business need
›	Initiate large payment amounts and/or high volumes of wires—typically more than 100 per day
›	Interface directly with transactions generated within the bank's wire system
›	Make or receive international payments

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3. ACH Credits And Debits

Automated Clearing House (ACH) payments move money and information from one bank account to another through Direct Deposit via ACH and through Direct Payment via ACH. Payments are made using ACH credit and debit transactions, recurring and one-time payments, government, consumer and business-to-business transactions, international payments, and payments plus payment-related information. According to NACHA – The Electronic Payments Association®, ACH moves more than $43 trillion and 25 billion electronic financial transactions each year, making ACH one of the largest electronic payment systems in the world. For businesses, ACH services allow you to make and receive payments of all kinds safely and reliably without paper checks. Payment types include:[1]

- **Direct deposit of payroll**
- **Preauthorized debits**
- **Payments to vendors**
- **Business-to-business payments**
- **Tax payments**

Same-Day ACH Payment Feature



Prior to this year, wire transfers were the fastest way to make electronic payments, but thanks to enhancements made to the NACHA Operating Rules, Same-Day ACH settlements are now available. This means that an ACH credit payment sent prior to defined deadlines can be received the very same day.

There is a slight bump in cost from regular ACH transactions for the added convenience—and some restrictions, including:

- Same-Day ACH requires an additional 5.2 cents per transaction
- The final cost, including potential mark-ups from FI's, can be higher
- Same-Day ACH has a restriction of $25,000 for a single payment

[1]USBank.com

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Setting up ACH Credits with suppliers involves some initial complexity, but these extra steps—namely, getting prerequisite information from the supplier and entering that information into the system electronically—are offset by the efficiency and cost savings ACH payments provide, particularly when doing regular business with major suppliers.

NACHA Operating Rules mandate how ACH payments are made:[2]

1. Originator—whether that's an individual, a corporation, or another entity—initiates either a Direct Deposit or Direct Payment transaction using the ACH Network.
2. Instead of using paper checks, ACH entries are entered and transmitted electronically, making transactions quicker, safer, and easier.
3. The Originating Depository Financial Institution (ODFI) enters the ACH entry at the request of the Originator.
4. The ODFI aggregates payments from customers and transmits them in batches at regular, predetermined intervals to an ACH Operator.
5. ACH Operators (two central clearing facilities: The Federal Reserve or The Clearing House) receive batches of ACH entries from the ODFI.
6. The ACH transactions are sorted and made available by the ACH Operator to the Receiving Depository Financial Institution (RDFI).
7. The Receiver's account is debited or credited by the RDFI, according to the type of ACH entry. Individuals, businesses, and other entities can all be Receivers.
8. Each ACH credit transaction settles in one to two business days, and each debit transaction settles in just one business day, as per the rules.

4. Straight-Through Processing

Straight-through processing (STP) is appealing for businesses managing multiple accounts payable (AP) and accounts receivable (AR) payments each month. STP technology transfers information that has already been entered electronically from one party to another during the payment settlement process, so that the same information need only be collected once but can be used repeatedly. Payment transactions using STP can be fully automated and require no manual intervention, streamlining the entire payment process and reducing costs.

Different payment networks provide STP for AP and AR processing. As a buyer, you provide a payment instruction file to your financial institution, which sends it on to the STP provider for processing. Your supplier receives payment automatically, and you receive complete purchase details for reconciliation from the STP provider. As a supplier, the process is reversed: your customer initiates an invoice payment through their financial institution, and the STP provider processes the payment and sends it to your merchant processing partner. You then receive payment and invoice details electronically, and your customer receives a secure payment confirmation electronically.[3]

For STP to work optimally, the payment files need to be in a standardized format that all parties use, with data fields the same on the initiating and receiving sides of the process. Payments which have been pre-validated are much more likely to reach their destination.

Forty-seven percent of the 2016 Association for Financial Professionals survey respondents indicate that their organizations use STP to manage at least some of their payments, while 44 percent of organizations use STP to manage some of their receivables.

57% **of organizations from the 2016 AFP survey stated they intend to use the Same-Day ACH feature for last minute bill payments.**

[2]NACHA.org

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5. Shared Service Center Models

If you own or work within a larger organization with a thousand or more B2B payment accounts each month, and/or you have payments and other operations coming from various locations, chances are you already use, or have considered using, a shared service center (SSC) model to streamline payments. That's because centralizing payment operations to a single location that can process a high number of transactions at once can be much more efficient, flexible, convenient, and provide significant cost savings and control.

SSC models are designed to meet the needs of organizations and businesses that want to integrate and centralize a variety of payment operations across business units and geographies.

Benefits of these types of SSPs include:

Flexibility

A multitude of connectivity options (including Internet-based, SWIFT™, or VAN) and supports a wide range of standard or custom formats (including ISO 20022 XML, SAP IDoc, EDIFACT, and ANSI X12) to more easily integrate with your Treasury Workstations and ERP systems.

Convenience

High level of automation to your transaction processing, lessening the amount of human intervention and enhancing straight-through processing.

Control

Ability to systematically track your transaction through various process stages, repair/reject transaction, and receive detailed information on your balance.

6. Automated Procure-To-Pay

Procure-to-Pay (P2P) refers to the process, from start to finish, that employees use to buy and pay for products and services they need for their work. An item is requested, a purchase order is sent, the item arrives along with an invoice, and the invoice is paid in full. Automating part or all of the P2P process replaces the slow, laborious manual procurement process and frees employees to focus their efforts on winning, serving, and retaining customers.

The ideal e-procurement platform will help your employees quickly find the best products to meet their needs, protect your company from supplier-related legal and reputational risks, and provide immediate visibility of what is being purchased by whom.[4]

According to The Forrester Wave, the automated P2P market is growing at 11 percent per year. The top e-P2P platforms drive more than $3 trillion in business-to-business (B2B) and business-to-enterprise (B2E) e-commerce each year, which is more than three times what businesses spend through direct sell-side e-commerce sites like Amazon.

To overcome employee reluctance to adopt e-procurement tools over preferred marketplace apps, an ideal e-P2P program should have a consumer-grade user interface and be modern, smart, easy-to-use, and of course, functional.

41% **of the 2016 AFP survey respondents currently have a shared service center model in place.**

As businesses seek to improve cash flow, supplier terms management serves as a valuable strategy for improving and optimizing the cash conversion cycle, which ultimately helps improve both your income statement and balance sheet.

[3] usa.visa.com

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7. Purchasing Cards

Purchasing Cards (P-Cards) are issued to employees to allow them to make purchases or payments on behalf of their employer. Suppliers accept P-Card payments and use the existing credit card infrastructure for payment processing. Transaction data is captured by a supplier's POS system and transmitted through the card network. Employers can issue controls on P-Card usage, such as dollar limits on purchases, monthly caps, and merchant or supplier restrictions.[5]

Liability for P-Cards falls on the employer. The card issuer typically provides a single electronic invoice to the employer with a total for all cardholder P-Card transaction amounts. The total is due in full with each invoice. The employer processes the invoice, creating accounting entries and facilitating payment to the card issuer.

Even though much of the accounting is still done manually, the cost savings associated with using P-Cards is significant. In a recent National Association of Purchasing Card Professionals (NAPCP) study, the typical savings resulting from using P-Cards for electronic payments are $63 per transaction.

WEX offers a Corporate Purchasing Card, which is a specialized product to help mid-size to large companies streamline the procure-to-pay process and reduce the costs associated with authorizing, tracking, purchasing, and reconciling business purchases. Not only does it help companies streamline processes, but it also gives them a new level of control that can truly help their bottom line—while taking advantage of supplier discounts. Companies can achieve consolidated spend and improve efficiency and overall cash management with a Corporate P-Card.

8. Virtual Payments

You've probably heard of the single-use or one-time use credit card. These terms are synonymous with virtual cards, which are a go-to method for making and controlling electronic B2B payments. Virtual cards give corporate payment administrators more control over purchases and enhanced visibility into spending. Because they seamlessly flow through a paperless, automated, and more streamlined transaction process, virtual payments are inherently more secure and, unlike P-Cards, require minimal, if any, manual touch-points.

A virtual payment is essentially a digital 16-digit card number with an expiration date and CVV number that is used without a plastic credit card. With a single-use virtual payment, a unique number is generated for one charge only, after which that single transaction ties back to a commercial card account. Virtual payments are sent through the major credit card networks, so there are no new processes to adopt.

Virtual payments are simple to track, making budgeting and expense reporting easier. Payment administrators can set spending caps and limit merchant/supplier usage and spending timelines, which helps in planning, budgeting, and back-end reporting. Single-use virtual payments cost less to use than checks and even ACH payments, and they have reduced risk of fraud since the virtual card number is obsolete after it is used once. Additionally, faster payments mean faster receipt of payments, and that can mean special payment incentives from suppliers.

An added perk is that virtual payments deliver unparalleled data that can help employers understand spending patterns, optimize processes, and manage supplier relationships. Aside from enabling smoother transaction matching, reconciliation, and reporting on the AP's side of the equation, data generated from virtual payments can provide suppliers with access to transaction product codes, quantities, description, and tax information.

Virtual payments are expected to reach $160 billion in 2018 and exceed half a trillion by 2024.[6]

WEX offers a Virtual AP solution that utilizes Virtual Card payments via the Mastercard® payment network for broad acceptance with highly secured controls. This, coupled with a strategic Supplier Enablement approach, facilitates accelerated supplier participation for maximum program results.

[4]The Forrester Wave™: eProcurement, Q2 2017, [5]napcp.org

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Virtual payments are simple to track, making budgeting and expense reporting easier.



[6]firstannapolis.com

9. Integrated Payables

Almost all companies, regardless of type and size, use some form of an enterprise resource planning (ERP) system to help manage their accounts payable. We all want a seamless way to process our payables liabilities, regardless of payment type—whether it's check, ACH, or card. As we've learned from the various ways companies can begin to move their enterprises to electronic payments, financial institutions offer platforms that process singular types of payments, but very few offer completely seamless and automated ways to support supplier payments, regardless of payment type.

To reap the benefits of integrated payables, look to third-party technology providers that offer simple, automated corporate payment solutions that integrate supplier payment processing, regardless of payment type. An ideal solution will leverage a bank-agnostic framework to streamline payment execution by providing complete transparency and accountability to all supplier payments, including Virtual Card, ACH, and check.

Fully integrated payables solutions offer 100 percent electronic payments from day one, reduce internal processing costs, increase security, offer flexible payment options (virtual payments, ACH, check), help accelerate supplier adoption of electronic payments, and allow you to achieve margin improvement from optimized payables solutions.

WEX offers an Integrated Payables solution that helps companies reduce cost, mitigate risk, streamline processes, and generate revenue by optimizing the payables process and moving to electronic payments. Regardless of the size or complexity of your business, the diverse mix of AP solutions WEX offers will help your organization reduce manual processing and enhance control and visibility over business expenses by enriching the buyer/supplier relationship through electronic payment optimization.

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10. Managed Payables

The ultimate in comprehensive payment and reconciliation strategy, a managed payables platform from a third-party technology provider leverages the value of terms management by analyzing a company's supplier payment portfolio and developing a comprehensive managed payables strategy to improve cash flow through complete supplier payment optimization. A managed payables system gives you greater visibility, automation, and control over your financial supply chain for maximum payment optimization.

As businesses seek to improve cash flow, supplier terms management serves as a valuable strategy for improving and optimizing the cash conversion cycle, which ultimately helps improve both your income statement and balance sheet.

Managed Payables platforms, like the one offered by WEX, leverage the value of terms management by delivering a seamlessly integrated, fully automated solution leveraging all payment modalities—including virtual cards, ACH/EFT with discount administration, or check—that connect buyers with their suppliers through a simple pay file integration. WEX Managed Payables reduces manual processing and facilitates comprehensive supplier/terms management to maximize margin improvement, efficiency, and control—for ultimate payment optimization.

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Conclusion

Since we're smack-dab in the future, and the future is digital, it's time to put paper checks to rest and join the 70 percent of businesses who are making strides to move to electronic payments. If you're already using some form of electronic payments, first, congratulate yourself for taking the leap, and second, ask yourself if the solution you use is enough to meet your processing and reconciliation needs. If you find you need a more robust solution, talk to your financial institution about the options they offer, or research the multitude of third-party financial technology providers who offer integrated payment solutions.

Since we're smack-dab in the future, and the future is digital, join the 70 percent of businesses who are making strides to move to electronic payments.

WEX AP Solutions leave the messy, costly paper trail behind. They help companies reduce costs, mitigate risk, streamline processes, and generate revenue by optimizing the payables process and moving to electronic payments. Regardless of the size or complexity of your business, the diverse mix of WEX AP Solutions will help your organization reduce manual processing and enhance control and visibility over business expenses by enriching the buyer/supplier relationship through electronic payment optimization.

From simple online bill pay to fully managed payables systems, the future in cost-effective, streamlined, safe, and effective electronic payments is here, and it's bright.

WE ARE WEX.

Your Partner For All Things Payments.

Every business is different. Industries are vast and varying. There are challenges and opportunities for every company—whether they're just emerging or well-established. But at the heart of it all are payments. And that's where we come in.

At WEX, we are reinventing the way payments serve you, no matter the industry or continent. Our unique team of experts is focused on building simple, easy-to-use solutions tailored to your business —allowing you to operate easier and faster while creating lasting growth and success.

Our history and experience is unparalleled, and our determination to propel your business forward is unmatched. It's who we are. It's what we do. It's what we've always done.



Get In Touch

For more information about how WEX can work for you, please get in touch.

Web: www.wexinc.com | **Tel:** +1.877.490.4118

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