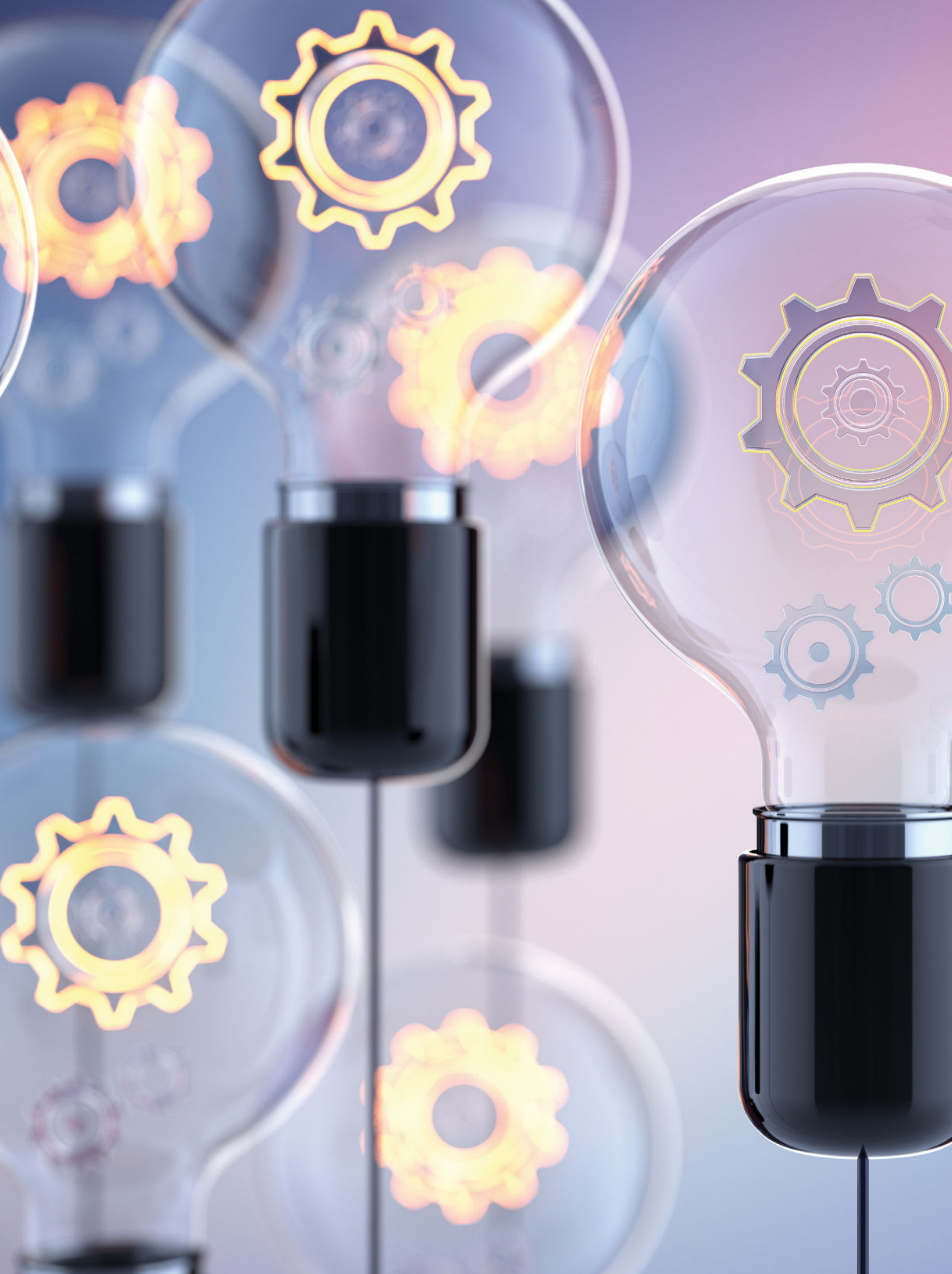

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The Future of Business Payments—5 Post-Pandemic Best Practices

BY KEN JOHNSON

In recent years, we have seen an increase in innovative cloud-based technologies. Some people believe we've jumped 5-10 years ahead with digital access. Businesses learned during the height of the COVID-19 pandemic that they no longer had to have an employee on site printing a weekly check run to fulfill their accounts payable (AP). Innovative digital offerings became accessible via smartphones and other portable devices.

These solutions allow people to work and receive and pay bills from any remote location. The global pandemic not only changed the way we work, but it has also had a dramatic impact on consumer financial behavior.

Online Fraud at All-Time High

According to the Institute of Finance & Management (IOFM), more than 50% of vendor payments are now electronic. But these transactions carry security concerns due to an increased risk of fraud. According to a press release from the Federal Trade Commission (FTC), there were more than 2.1 million reported instances of fraud from consumers in 2020. During this time, consumers reported losing more than $3.3 billion. In September 2021, the San Francisco Federal Reserve Bank noted in its quarterly report, an increase in fraud among digital commerce and payments. The pandemic has created financial incentive, opportunity, and rationalization to commit identity, mortgage, cyber, and other financial fraud.

The corresponding increase in fraud also demonstrated that business partner solutions vary in the security of their solutions. Losses to fraud reached $56 billion in 2020, a 33% increase in monthly averages during the COVID-19 lockdown. According to Javelin Research, “The largest increase was in car and other asset finance applications, which saw a rise of 181%, followed by current accounts (35%) and then saving accounts (28%). Fraudulent credit card applications (17%) and unsecured loans (10%) also went up.”

Digital Is Not Enough

There are many FinTechs offering digital payments and disbursement of funds. These automated solutions bring the promise of moving from paper to digital electronic payment solutions seamlessly, efficiently, and more cost-friendly compared to old-fashioned manual payment management processes. However, business has learned that automation tools are insufficient on their own. Software developers vary in completeness and security of their solutions, and even the latest in e-payment technology needs to encompass best practice payment processes securely and effectively.

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What follows are the top five post-pandemic payment best practices in processing requirements of an effective online payment program:

1. **Payment software must provide transparency, visibility, and control—**Your solution provider must provide high-level security checks and enable online approval of payments without a corresponding increase in fraud risk. The solution must provide transparency and control over each transaction to mitigate the risks of online fraud. Wherever possible, security-systems and processes should be SSAE 18 SOC 1 Type II compliant. It should support robust data analytics and easy-to-use intuitive reports to ensure transparent payment activities for effective cash management. The best systems have built-in controls that capture both detailed audit trails and real-time performance metrics as transactions are processed.
2. **Automation will not improve efficiency if it does not support the entire process and enterprise—**Payment solutions need to support standardization with flexibility to support all the requirements of your business enterprise. It must be flexible enough to support distributed selection and approval of payments distributed across a large organization, which may have different entities and significant variations in business rules. It needs to support management of payments centrally for geographically distributed locations providing real-time visibility across multiple entities and groups of entities, as well as distributed payment selection and approvals.

   An industry best practice includes e-payment applications to be fully integrated with your accounting system. It must be able to process all forms of electronic payments, including ACH, check, or virtual card from one file from the accounting system. Applications work best when they encompass the entire end-to-end process. The payment application must be fully integrated with your accounting system, otherwise all activity in the payment application will have to be reconciled and reentered, and it will create more work for your accounting staff. A comprehensive solution must provide functionality that will handle every exception to avoid having to address them all manually.
3. **The payment solution must accommodate all payment modalities—**Businesses should be able to choose the payment modality best suited for each supplier, including check, ACH, ACH+, and virtual credit cards. There are

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even more types of payments such as enhanced ACH+ payments, which also are immediate cash payments with detailed remittance advice that supports your supplier's ability to correctly apply payment receipts. There is still a high percentage of U.S. suppliers that require ACH or checks, so any solution must support all payment modalities securely in an efficient, automated fashion at a competitive price. Some payment partners support additional types of payments including direct (push) payments, online payments for suppliers that require website or phone payments through supplier voice response units, and dynamic discounting.

4. **Monetization of AP spend through significant virtual card rebates**—Virtual card payments are unique, one-time virtual credit card account numbers that are delivered to your participating suppliers via an associated email remittance advice. These are processed just like a standard credit card and benefit from convenience, broad acceptance, and automatic reconciliation. They support limits on amount and expiration date. In addition to opportunities for rebates, they can accelerate the timeline for supplier payments and discounts.
5. **Most solution providers overestimate rebate potential**—Payment partners often overestimate a high percentage of spend. Conversion of suppliers to virtual card payments requires successful conversion campaigns. Detailed and accurate analysis on historical supplier payment behavior as a basis for the supplier campaign yields better results. Existing big spend—one-time payment suppliers—can't be assumed to always accept virtual card payments. Suppliers already enrolled in ACH/EFT may need to be enticed with changes in terms. Most providers do an initial supplier enrollment, picking "low hanging fruit," such as suppliers in their database, and then stop. Ongoing partnership and continued enrollment yield optimized results.

Anyone Can Promise High Virtual Card Conversion Rates

The reality is there are many factors that impact the actual success in converting payment to virtual credit cards, including the following:

- The concentration of spend with top suppliers
- Terms of existing payment agreements with your suppliers
- The payment methods currently in place
- Your industry type and the types of suppliers you have
- Tolerance for specifying payment type preferences when renewing supplier contracts
- Ongoing commitment and participation in campaigns

Large enterprises want to leverage purchasing strength to optimize rebate benefits. Secure payment automation lets you reduce costs while taking advantage of cash-back revenue opportunities. However, overblown claims and promises of rebates from virtual card payments often end in disappointment. To optimize the cash-back opportunity, the business needs a planned strategy and support for supplier enablement and negotiations. The payment strategy includes tools on how to negotiate with suppliers to optimize payments over the long term. Resources are needed to talk to your suppliers about the trade-offs involved with different payment methods. Enterprise-wide supplier enrollment should be customized to address the unique needs of individual subsidiaries. Detailed supplier analytics of supplier demographics should be used for strategic enrollment.

Digital Payment Tools as a Back-Office Processing Best Practice

Technology allows clients to improve on the entire procure-to-pay (P2P) process with invoice automation, visibility, and detailed analytics on the payables process. But software alone will not provide long-term sustainable impact. Automation of back-office processing best practices will. For example, the partner should draw checks and ACH on your own bank account to not have additional reconciliation accounting work.

A comprehensive payment program includes best practices such as the following:

- Cost reduction through processing efficiencies
- Enhanced controls including greater control over cash management
- Additional revenues through the virtual credit card method of payment
- Integrated payables—the ability to process forms of electronic payments (ACH, check, virtual card) from one file from the accounting system and streamlined reconciliation

A program like this will provide companies with impactful results to set your company up for success post pandemic. ■

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