WHITE PAPER

Modernizing B2B Payments

Why it may finally be time to retire the check

By Debbie Smart, Q2

At long last, technology has caught up with businesses' longtime need for better, more efficient accounting processes.

Together, the Fed's new FedNow® service and The Clearing House's established RTP® instant payments network—the first new payments rails in over four decades—are poised to forever change how businesses pay each other. At the same time, the ability to seamlessly integrate ERP/accounting systems with digital banking platforms will have a fundamental impact on how accounting departments function.

The need for heightened efficiency in payments management and back-office operations has become paramount for all businesses, so the most compelling advantage of instant payments from a business-to-business (B2B) perspective is their ability to include and transmit remittance information throughout the payment life cycle. The capacity to embed critical data within funds transfers can dramatically streamline payment processing, leading to substantial time and cost savings for accounting departments and businesses' overall bottom lines.

Another focus in the drive for efficiency is greater automation and seamless integration between banking and ERP/accounting systems. A 2023 study by Datos Insights[1] affirms that 90% of large and mid-size businesses in North America consider it important or very important to run banking operations from their ERP.

[1] ERP Banking: API Monetization and Use Cases, Datos Insights, September 2023

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Bringing business payments into the modern age

Check usage has steadily dwindled for business-to-people (B2P) and people-to-business (P2B) payments due to the convenience of direct deposit and direct payments through ACH. The ease and immediacy of real-time, mobile payment apps like Venmo, Zelle, and PayPal have similarly pushed checks to the wayside in the peer-to-peer (P2P) payment sector. Between 2000 and 2015, consumer check usage dropped from 19.3 billion to 7.1 billion checks written annually—a decline of 63 percent—according to the Federal Reserve.[2]

Yet, check usage doggedly persists in the B2B sector. Despite the fact that checks are the payment type most vulnerable to fraud and cost as much as 100 times what electronic payment options do, 33% of all B2B payments are still transacted via traditional paper checks.[3]

When you consider the bottlenecks involved in check payments—mailing or emailing an invoice and time lags in payment transfers between payer and supplier financial institutions—the datedness and expense of the entire check-driven payment process becomes even more clear.

Twilight time for checks

Checks have hung on in the business sector for a variety of reasons: a reliance on paper-driven processes and reluctance to change, a fear of the "unknown" when it comes to technological solutions, an unfounded belief that checks are safer than digital methods, and the list goes on. Even for those willing to embrace digital payments for B2B, the difficulty in coupling remittance information that happens with ACH is an obstacle. In fact, 78% of businesses use email or postal mail to send remittance information.[4]

Once more businesses understand the true value of instant payments, the pros will far outweigh the cons.

Businesses have long accepted check transaction lag times—including impacts to supplier days sales outstanding (DSO) and payer days payable outstanding (DPO)—as an inevitable cost of doing business if they wish to retain invaluable communication flow with their payers. Though manually intensive, payers and payees alike need to be able to attach notes to invoices to provide explanations for partial payments or contested fees, detailed account allocation instructions, and more. Then those notes are sent via the mail or email. Even when businesses adopt more streamlined electronic payment options, such as ACH, organizations often send remittance information separately. The process is time-consuming and cumbersome, as it requires remittance data and payment transfers to follow separate paths—only to be manually recoupled by staff later so the payment can be appropriately posted in the receivables system.

Finally, businesses of all sizes have better options, whether it's streamlining the remittance process through instant payments or seamlessly integrating their accounting/ERP system with their digital banking platform—or both. Technology has caught up with businesses' need for fast, comprehensive payment systems.

[2] U.S. Consumers' Use of Personal Checks: Evidence from a Diary Survey, Federal Reserve Bank of Atlanta, 2020

[3] 2022 AFP Digital Payments Survey Comprehensive Report, October 2022

[4] 2022 AFP Digital Payments Survey Comprehensive Report, October 2022

Advantages of instant payments

Since FedNow came online in 2023 to join the preexisting RTP network, the consensus has been clear: We're witnessing the beginning of an exciting, new era of streamlined, modernized B2B payment availability. The self-contained instant payment rails are fast, safe, reliable, and data-rich.

Forward-thinking financial institutions see these new instant payment rails as a way to provide businesses with an affordable, reliable payment pathway that delivers:

- Retention of remittance data
- Capacity to precisely manage payment timing through payment scheduling (a payment due on, say, the 15th could be scheduled to happen at 11:59 p.m. on the 15th regardless of day of week)
- Streamlined accounts payable and accounts receivable processes
- Greater control over cash flow
- A cost-effective, end-to-end process
- Instant payment transfer

Both RTP and FedNow deliver around-the-clock instant settlement while supporting the ISO 20022 messaging standard. Because they allow for embedded remittance messaging within payment transfers, they're the first electronic payment systems to allow an instant, "conversational" payment process between payer and payee.

For example, using these new instant payment rails, businesses can send bills so that their payers see what they owe and can immediately respond. The payer can choose to instantly pay their outstanding balance, pay part of it, or schedule a payment for later—all while conveying that information within the digital remittance. No separate, third-party invoice delivery system is needed to initiate or receive funds or to convey pertinent payment data.

Plus, instant payments enable businesses to send requests for payment coupled directly with their invoices. While other payment types place the responsibility for including payment remittance information on the payer, instant payments enable payees to couple pertinent remittance information within their initial request for payment.

Dispelling instant payment myths

One hurdle to widespread instant payment adoption has been businesses' fear that instant payment options might negate their ability to retain funds and accrue interest within their accounts as long as possible. These same companies may advocate for check usage, thinking it provides longer "float" between issuance and funds withdrawal.

The truth is, any checks now clear within one day of issuance, thanks to widespread adoption of the check image exchange. So that rationale falls flat.

More to the point, far from stripping businesses of their payment timing control, these new instant payments rails actually elevate it. While previous electronic payment methods like wire and ACH allowed payments to be timed to same or next business day, the FedNow and RTP rails allow payments to be timed to the minute.

Through a connection between instant payments networks and their digital banking platform, payers can either pay their outstanding balance in full immediately or schedule a full or partial payment at a specific time of their choosing. As a result, these new payment rails provide businesses with more precise control over their payment timing than they've ever had before.

Removing inefficiencies through integration

Companies often complain about wasted staff time and unnecessary corporate expenses when accounts payable and accounts receivable staffers are forced to routinely re-enter the same banking and payment information in both their accounting system and their online banking platforms. As more financial institutions adopt the new instant payment rails, we're sure to see an explosion in the availability of innovative, third-party products to further augment and enhance their functionality. Integrated payables and API integration between digital banking systems and accounting/ERP systems, for example, have the potential to solve long-standing challenges across the entire B2B payment life cycle.

Moreover, because the new payment rails can retain data associated with the payment from both the payer and the supplier, accounts payable and accounts receivable staff face less risk of misallocating payments, misplacing payment details, or spending hours in time-consuming follow-up with payers to discuss issues regarding partial or scheduled payments.

As instant payments adoption expands, we will likely also see rapid advances in file upload capabilities and batch processing. As ISO 20022 initiatives continue to scale, we'll see a push for instant payment capabilities across all business sectors, driving overall B2B market growth.

A new day for B2B payments

It's an exciting time for the financial services industry. We're on the verge of a new normal—one in which instant payments become the standard for B2B transactions. It's a move that will, in the long run, be good for all businesses, including both small and large corporations and their banking partners.

To make the most of this transformation, financial institutions should act now. Banks and credit unions that have prepared for instant payments on their own or through partnerships will be well-positioned to capitalize on these new solutions—both to build new client relationships and expand on their existing ones.