



AFP
Association for
Financial Professionals®

2010 AFP Electronic Payments

Report of Survey Results

Underwritten by
J.P.Morgan

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November 2010

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**Association for
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As one of the world's largest providers of treasury management services and a leader in electronic payments technology and solutions, J.P. Morgan is extremely pleased to sponsor the 2010 AFP Electronic Payments Survey.

The results of this year's survey reflect the continuing evolution of payments convergence, as paper check usage declines and the adoption of image exchange accelerates. Consumers have long led the push to change. Paper checks are giving way to credit and debit cards, Internet payments continue to grow and mobile payments are on the rise. Now, business-to-business transactions take center stage, as the drive to optimize working capital and the growing globalization of business add new urgency to already fast-paced money movement, as well as new challenges in the form of cross-border transactions.

Technological and governance advances, most important among them enhanced wire and ACH capabilities and the introduction of an expanded remittance format for wire transfers, are propelling businesses' embrace of electronic payments. Finally, corporate treasurers will be able to control exact settlement dates, mitigate the inherent risk in high-value paper payments, increase payments security and safety and significantly reduce their costs.

The confluence of declining check volume, marketplace forces, technology developments and globalization we are witnessing today is unprecedented. As the playing field is leveled, organizations are taking a proactive role to realize the benefits of this new electronic age. Even given the pressing economic environment, businesses are investing in treasury technologies necessary to streamline workflow processes, reduce costs and gain faster, more accurate visibility into their cash positions.

The importance of objective information and trend monitoring in guiding these major decisions cannot be underestimated. This survey will be an important benchmarking tool as organizations and their banks deal with the impact of convergence on payments processing operations.

The challenge is clear and J.P. Morgan is proud to be a continuing force in the drive toward migrating to a more efficient payments processing environment. Leveraging our extensive treasury management expertise together with our global reach, we are committed to delivering world-class financial automation solutions that enable our clients to achieve their growth and profitability goals.

With best regards,



Diane R. Quinn
Managing Director

Electronic Payments Survey

Introduction

Payments are undergoing an unprecedented period of change. The use of paper “checks” has declined in favor of electronic payments, primarily ACH and wire payments. Even the check itself is evolving: paper checks are being “electronified,” either through check imaging or conversion to ACH debits.

The effect of these changes is that U.S. businesses have an expanding range of payments choices as they migrate from paper to electronic. The Association for Financial Professionals (AFP) surveyed its members in September 2010 to gauge the extent and the ways in which treasury and finance professionals are taking advantage of payments innovations to speed the pace of change in the complex business-to-business environment.

The *2010 AFP Electronic Payments Survey* was designed to identify changes in U.S. business payments practices since AFP’s last electronic payments survey in 2007, including the drivers of change, the benefits gained, and the barriers to achieving a more “electronic payments” future. Reflecting the dynamic payments landscape, the scope of this year’s survey was expanded and included more questions about wire transfers, electronic check-processing, cross-border transactions, and payment innovations. The survey results highlight trends, identify best practices and reveal solutions for advancing business-to-business payments automation.

In September 2010, the Research Department of the Association for Financial Professionals sent a 27-question survey to its corporate practitioner members with the following job titles: cash manager, director, analyst and assistant treasurer. The survey generated a total of 484 responses, which are the basis of this report. AFP would like to thank J.P. Morgan for underwriting the *2010 AFP Electronic Payments Survey*. The Research Department of the Association for Financial Professionals, which designed the survey questionnaire, analyzed the survey results and wrote/edited the report, is solely responsible for the content of this report.

Highlights of Survey Results

The key findings of the 2010 AFP Electronic Payments Survey include:

- The use of paper checks to make and receive business-to-business (B2B) payments continues to decline.
 - The typical organization makes 57 percent of its B2B payments by check, down from 74 percent in 2007.
 - For payments to major suppliers, organizations make an average of 49 percent of their payments by check, 26 percent by ACH credit and 17 percent by wire transfer.
 - Checks are the primary payment method for 64 percent of organizations' payments to other suppliers (i.e., those not considered to be major trading partners).
 - Half of the survey respondents expect that their organizations are very likely to convert the majority of their B2B payments to major suppliers from checks to electronic payments in the next three years.
- The typical organization receives 54 percent of its B2B payments by check.
 - Forty-seven percent of payments from major customers are in the form of checks.
 - For 71 percent of organizations, checks are the primary method of payments received from "other" B2B customers.
- Among organizations that make cross-border payments, the most widely used payment method is wire transfers (79 percent).
 - Contractual requirements and the size/type of transaction are key considerations in an organization's decision on which payment method to use when making cross-border payments.
- Financial professionals cite a number of benefits from their organizations' increased use of electronic payments:
 - Cost savings (52 percent)
 - Improved cash forecasting (40 percent)
 - Fraud control (37 percent)
- The top barriers to the adoption of electronic payments are:
 - Difficulty convincing suppliers to accept electronic payments (83 percent)
 - Inability of trading partners to send or receive automated remittance information with electronic payments (77 percent)
 - No standard format for remittance information (72 percent)
 - Shortage of IT resources for implementation (70 percent)
- Only 17 percent of survey respondents indicate that the increased use of remote deposit capture (RDC) and check image clearing has led their organizations to speed up their migration to electronic payments; at the same time, 16 percent of organizations are converting more payments as a result, but are doing so on only on a selective basis.

- More than six out of seven financial professionals believe that there are no significant legislative or regulatory barriers that have kept their organizations from increasing their usage of electronic payment methods.
- About one out of six survey respondents believes that the introduction of extended remittance information with wire transfers will increase their organizations' use of wire transfers for domestic or cross-border transactions.
- Fifty-eight percent of survey respondents indicate that their organizations are likely to use the same-day settlement of ACH services to make tax payments. Other widely cited services that organizations are interested in taking advantage of include:
 - Cash concentration (push and pull) and other corporate account-to-account transfers (43 percent)
 - Payroll (41 percent)
 - Consumer/e-check services (39 percent).
- Survey respondents are split on the impact on their organizations if all business checks were allowed to be converted, although a plurality of financial professionals expects a negative impact. Thirty-seven percent of financial professionals believe their organizations will be detrimentally impacted by the proposed NACHA rule change.
- Organizations are more likely to have integrated their accounting systems with their ACH payment systems than with their card systems.
 - Seventy percent of organizations have integrated their ACH systems, while 46 percent have done so for card payments.
 - For ACH payments, nearly two-thirds of organizations have integrated their A/P systems, while 42 percent have integrated their A/R systems.
 - For card payments, 42 percent of organizations have integrated their A/P systems and 26 percent have integrated A/R.
- Few organizations currently use mobile payments, but approximately a quarter of organizations are evaluating increasing their use of mobile tools for payments within the next three years.

Survey Findings

Check Usage in Business-to-Business (B2B) Disbursements and Collections

Disbursements

Most business-to-business (B2B) payments continue to be made by check, but the share of organizations' B2B payments by check continues to decline. Currently, the typical organization makes 57 percent of its B2B payments by check. In 2004, AFP survey results indicated that checks represented 81 percent of the typical organization's payments. In the 2007 report, the percentage had fallen to 74 percent.

Furthermore, the percentage of organizations relying on checks for over 60 percent of their payments declined from 75 percent in 2004 to 47 percent in 2010. On the other hand, the percentage of organizations reporting lower check volumes—where checks represent less than 40 percent of B2B payments—rose from 13 percent to 36 percent during the same time frame.

Large organizations use checks for a smaller share of B2B payments than do organizations with annual revenues under \$1 billion. The typical organization with annual revenues greater than \$1 billion makes 52 percent of its B2B payments by check compared to 67 percent for smaller organizations. Thirty-eight percent of organizations with annual revenues greater than \$1 billion use checks for 40 percent or less of their B2B payments compared to 33 percent of organizations with annual revenues under \$1 billion. On the other hand, more than half of smaller organizations (55 percent) use checks for at least 61 percent of their transactions compared to just over half of larger organizations.

Percentage of Organization's B2B Payments Made by Check
(Mean Distribution of Payments)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Less than 20%	20%	19%	19%	18%	19%
21-40%	16	14	19	15	15
41-60%	17	12	21	16	18
61-80%	19	18	21	19	19
81-100%	28	37	20	32	29
Median	57%	67%	52%	62%	59%

Collections

Organizations also are receiving fewer checks from business customers than they were three years ago. The percentage of organizations collecting over 60 percent of their payments by check declined from 69 percent reported in AFP's 2004 survey to 42 percent in 2010. However, the percentage of organizations at which checks represent 40 percent or less of B2B customer payments rose from 20 percent in 2004 to 39 percent in 2010. Overall, the typical organization currently receives 54 percent of its B2B payments by check compared to 75 percent in the 2004 AFP survey.

Organizations are more likely to make B2B check payments than to receive checks from their business customers. This disparity is consistent with the findings of AFP's 2004 survey. While 47 percent of organizations make over 60 percent of their B2B payments by check, only 42 percent receive that share of check payments.

Percentage of Organization's B2B Payments Received by Check
(Mean Distribution of Payments)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Less than 20%	23	18	25	28	20
21-40%	16	19	16	13	17
41-60%	19	13	23	16	16
61-80%	25	31	23	27	31
81-100%	17	19	13	16	16
Median	54%	60%	49%	52%	57%

B2B Payment Methods

Organizations are most likely to have increased their usage of electronic payment methods with their major vendors and customers. Electronic payments play a larger role than do checks in transactions with major trading partners, while checks are more likely to be the primary payment method used in transactions with "other" suppliers and business customers.

B2B Disbursements: Major suppliers

While check use is almost universal (98 percent) among organizations as a method to pay major suppliers, organizations also rely on a full range of electronic payment methods to pay their vendors. Eighty-four percent of organizations use wire transfers to pay major suppliers, 79 percent use ACH credits, 48 percent use purchasing cards and 41 percent use ACH debits.

While checks continue to be the widely used method of payment to major suppliers, their usage has dropped significantly in recent years. The average company makes an estimated 49 percent of its payments to major suppliers by check. In the 2007 survey, the percentage was 65 percent. Twenty-six percent of payments made to major suppliers are made using ACH credits while 17 percent are made using wire transfer. Purchasing cards and ACH debits account for a very small percentage of total payments.

Larger organizations are more likely than smaller ones to use electronic payment methods—specifically ACH credits—to pay major suppliers. Consequently, their percentage of check payments is smaller. The share of ACH credits in a large organization's payments mix is a third greater than that in smaller organizations (29 percent versus 23 percent).

Payment Method Used to Pay Major Suppliers
(Mean Distribution of Payments)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Checks	49%	53%	44%	47%	48%
ACH credits	26	24	32	28	32
Wire transfers	17	16	17	19	13
Purchasing cards	5	4	4	3	4
ACH debits	3	3	3	3	3

B2B Disbursements: Other suppliers

The use of checks for payments to other suppliers has also declined. Sixty-four percent of organizations indicate that checks are the primary method used to pay their “other” suppliers, i.e., those not considered to be major trading partners. In 2007, the share was 80 percent. Larger organizations are 76 percent more likely than are smaller organizations to use ACH credits as the primary method for paying other suppliers (30 percent versus 17 percent). The remaining electronic payment methods are less likely to be used as the primary payment method.

Primary B2B Payment Method Used to Pay Other Suppliers
(Percentage Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Checks	64%	68%	60%	71%	65%
ACH credits	23	17	30	19	27
Wire transfers	10	9	8	7	6
Purchasing cards	3	6	1	2	2
ACH debits	*	*	1	1	*

B2B Collections: Major business customers

Almost all organizations (96 percent) receive checks from their major B2B customers. They also receive the full range of electronic payments. Eighty-one percent of organizations receive ACH credits from major customers, 76 percent receive wire transfers, 28 percent receive ACH debits and 27 percent receive purchasing card payments.

Nearly half of all payments made by major business customers still involve a check. But the use of checks for such payments has decreased. Forty-seven percent of payments that organizations receive from major customers are currently in the form of checks, a decline from 57 percent in 2007.

The typical organization also collects 26 percent of its payments from major customers by ACH credit, 19 percent by wire transfer, five percent by ACH debit and three percent by purchasing card.

Larger organizations are less likely than smaller ones to receive payments via checks. Organizations with annual revenues over \$1 billion receive only 40 percent of their payments from major customers by check compared to 54 percent for smaller organizations. On the other hand, large organizations are more likely than smaller organizations to be paid by ACH credits from major B2B customers.

Primary Payment Method Received from Major Business Customers
(Mean Distribution of Payments)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Checks	47%	54%	40%	48%	48%
ACH credits	26	22	31	25	28
Wire transfers	19	17	21	20	16
ACH debits	5	4	5	4	5
Purchasing cards	3	3	3	3	3

B2B Collections: Other business customers

Seventy-one percent of organizations indicate that checks are the primary method through which they receive payments from their “other” B2B customers, i.e., those not considered to be major trading partners. When checks are not the payment form, organizations are likely to receive payments from their other business customers through either ACH credits (14 percent) or wire transfers (12 percent).

Primary Payment Method Received from Other Business Customers
(Percentage Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Checks	71%	78%	71%	77%	73%
ACH credits	14	11	16	10	15
Wire transfers	12	8	11	12	10
ACH debits	2	1	2	1	2
Purchasing cards	1	2	*	*	*

Future B2B Use of Electronic Payments

Organizations expect to continue increasing their use of electronic payments over the coming years. Thirteen percent of organizations indicate they currently make a majority of payments to major suppliers using something other than a check. Just under half of survey respondents believe their organization will do the same within the next three years. Another 31 percent indicate that it is “somewhat likely” that they, too, would move to electronic payments for at least half of their payments to major suppliers over the next three years.

Respondents from large organizations and those that make a large number of B2B payments are more likely to indicate that their organizations will make the move to an electronic instrument for B2B payments to their major suppliers in the coming years. Fifty-three percent of respondents from organizations with annual revenues of at least \$1 billion indicate that it is “very likely” that they would convert a majority of payments to major suppliers to electronic methods over the next three years, compared to 43 percent of respondents from smaller organizations. Similarly, 56 percent of organizations that make at least 5,000 B2B payments per month expect to convert a majority of their payments to an electronic form over the next three years versus 44 percent of organization that make fewer than 1,000 payments per month.

Likelihood of Converting Majority of B2B Payments to Major Suppliers From Checks to Electronic Payments in Three Years (Percentage Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Very likely	48%	43%	53%	44%	56%
Somewhat likely	31	36	29	32	28
Not at all likely	8	10	4	11	4
Majority already electronic	13	11	14	13	12

Respondents are a bit less enthusiastic about the prospects of moving to electronic forms of payments for transactions made with their other suppliers. Just over a third of survey respondents indicate that their organizations are “very likely” to move a majority of their B2B payments to electronic methods over the next three years. Only eight percent of organizations have already moved a majority of payments to their other suppliers to electronic payment methods.

**Likelihood of Converting Majority of B2B Payments to Other Suppliers
From Checks to Electronic Payments in Three Years**
(Percentage Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Very likely	35%	34%	39%	30%	40%
Somewhat likely	42	40	42	47	38
Not at all likely	15	21	10	17	12
Majority already electronic	8	5	9	6	10

Cross-Border Payments

Many organizations are global and/or conduct business with partners, vendors or other service providers in different countries. Consequently, many payments are made “cross-border.” Sixteen percent of organizations participating in the *2010 AFP Electronic Payments Survey* send at least 20 percent (in terms of transaction volume) of their payments cross-border.

Percentage of Total Transaction Volume Sent Cross-Border (Non-US)
(Percent Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
None	22%	24%	20%	16%	28%
Less than 5%	40	45	41	40	44
5-10%	15	13	15	16	10
11-20%	7	4	9	4	8
21-30%	4	3	4	6	2
31-40%	3	2	4	4	1
41-50%	4	4	3	4	3
More than 50%	5	5	4	8	4

Most cross-border payments are made using wire transfers. Sixty-nine percent of cross-border transaction payment volume is sent using wire transfers. Fourteen percent of such payments are made using checks while 12 percent of cross-border payments are made using treasury operations that their organization has in the local country.

Method Used to Transact Cross-Border Payments
(Mean Distribution of Cross-Border Payment Methods)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Wire transfers	69%	71%	69%	69%	63%
Checks	14	13	14	13	16
Have treasury operations in local countries	12	13	12	13	16
Cross-border ACH/IAT	4	2	4	3	4
Purchasing Cards	1	1	1	2	1

Organizations consider a number of factors when choosing the method to use for a cross-border payment. Forty-three percent of survey respondents indicate that a contractual requirement drives the choice of payment method used in an international payment. Other survey respondents indicate that the primary factors are:

- The size and purpose of transaction (30 percent)
- Transaction costs (11 percent)
- Currency risk (five percent).

Primary Factor Driving Cross-Border/International Payments
(Percentage of Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Contract requirement	43%	49%	38%	44%	43%
Depends on size and purpose of transaction	30	25	33	27	34
Transaction costs	11	10	12	10	7
Other	11	9	13	15	10
Currency risk	5	7	4	4	6

Electronic Payments: Trends, Benefits, Barriers

Organizations migrating from checks to ACH, card and wire transfer payments realize a variety of benefits from such transition. Cost savings is the benefit cited by a majority of organizations adopting electronic payments. Fifty-two percent of organizations indicate that they use electronic payments to reduce costs. The next two most widely cited benefits of electronic payments are improved cash forecasting (40 percent) and fraud control (37 percent). Approximately three out of ten respondents cite reconciliation and working capital improvements, while a quarter identify straight-through process to A/P and A/R and better supplier/customer relations as benefits resulting from electronic payments.

There were few significant differences in the benefits gained by large and small organizations. However, large organizations are more likely to benefit from cost savings, improved cash forecasting and the ability to take advantage of payment discounts.

Top Three Benefits of Sending or Receiving Electronic Payments (Percent of Organizations Rated Benefit in Their Top 3)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Cost savings	52%	53%	55%	48%	56%
Improved cash forecasting	40	41	42	43	41
Fraud control	37	38	37	36	34
More efficient reconciliation	32	30	36	28	35
Working capital improvement	28	31	26	28	28
Straight-through processing to A/P or A/R	24	30	38	32	39
Better supplier/customer relations	24	24	20	27	20
Reduction in days sales outstanding	22	26	18	27	18
Ability to take early payment discounts	18	16	20	17	16
Other	3	2	3	3	6

Organizations do face some challenges when increasing their use of electronic payments. These barriers often center on technology and integration issues, trading partner relations and internal corporate priorities.

No single factor is considered a major barrier by more than a third of respondents. However, when looking at the weight of the barriers overall—both major and minor—five factors stand out (having been selected by at least seven of ten respondents):

- Difficulty in convincing customers to pay electronically (83 percent)
- Trading partners cannot send or receive automated remittance information with electronic payments (77 percent)
- Difficulty in convincing suppliers to accept electronic payments (74 percent)
- No standard format for remittance information (72 percent)
- Shortage of IT resources for implementation (70 percent)
- Lack of integration between electronic payment and accounting systems (67 percent).

Barriers to Increasing Use of Electronic Payments
(Percentage Distribution)

	Major Barrier	Minor Barrier	Not a Barrier
No standard format for remittance information	28%	44%	28%
Lack of integration between electronic payment and accounting systems	34	33	33
Check systems work well	20	37	43
Difficult to convince customers to pay electronically	32	51	17
Trading partners can't send or receive automated remittance information with electronic payments	28	49	23
Difficult to convince suppliers to accept electronic payments	23	51	26
Loss of check float	10	37	53
Shortage of IT resources for implementation	33	37	30
Privacy/security of bank account information	11	44	45
Organization cannot send or receive automated remittance information with electronic payments	13	24	63

Changes in Payments and the Move to Electronic Payment Methods

Currently, the vast majority of checks in the U.S. are cleared as images, either using Remote Deposit Capture (RDC) services or from widespread bank adoption of check-image clearing. These processes have significantly reduced float, removing an advantage of the use of paper checks.

However, this change has not spurred most companies to increase their use of electronic payments. Only 17 percent of organizations indicate that the increased use of RDC and check-image clearing has led them to speed up the migration to electronic payments, while 16 percent of organizations indicate that they are converting more payments but are doing so on a selective basis.

Other companies are taking a more “wait-and-see” posture. While nearly two out of five survey respondents acknowledge the impact of RDC and check-image clearing, they also indicate that their organizations face too many other obstacles to allow for a prompt conversion to electronic payments. Nearly one out of six organizations still rely heavily on checks because “they work well” and because organizations still are receiving sufficient float to keep them as a preferred payment method. Similarly, 21 percent of survey respondents indicate that the increased usage of RDC and check-image clearing has had no impact on their organizations’ mix of payment methods used.

Impact of Check Imaging Services on Migration to E-Payments (Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Has caused company to migrate more quickly to electronic payments	17%	12%	23%	17%	19%
Have converted more payments, but selectively	16	10	19	15	23
Recognize the impact, but other obstacles have caused our company to migrate more slowly to electronic payments	39	46	34	31	40
Checks work well and there is still enough float to hold off converting to electronic	17	20	13	22	12
Have had no impact on use of checks	21	21	21	24	19

Further, most financial professionals do not believe there are legislative or regulatory impediments to their organization's adoption of electronic payments. More than six out of seven financial professionals believe that there are no significant legislative or regulatory barriers that have kept their organizations from increasing their usage of electronic payment methods.

Among the barriers cited by survey respondents are:

- Payment Card Industry Data Security Standard (PCI-DSS requirements) for card acceptance (six percent)
- ACH rules emanating from NACHA (four percent)
- Rules from the card networks (three percent).

Legislative Barriers to Organizations Moving From Checks to Electronic Payments
(Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Regulation E	2%	2%	1%	1%	3%
OFAC Requirements	2	1	3	3	4
NACHA Rules	5	5	5	3	8
Card Network Rules	4	4	3	3	3
PCI Requirements	8	6	9	8	9
None are a significant barrier	84	87	83	87	81
Other	3	2	4	2	4

In 2011, the Federal Reserve will introduce an enhancement that will allow wire transfers to carry extended remittance information (ERI), matching the capabilities available with ACH and checks. About one quarter of survey respondents believe that this change will directly lead to an increase in their organizations' wire transfer volumes for domestic transactions, extending the current trend of wires replacing checks.

Effect of Federal Reserve's Decision to Include Extended Remittance Information with Wire Transfers on Organizations' Use of Wire Transfers (Domestic Payments)
(Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Send more wires in place of checks	17%	19%	15%	16%	16%
Receive more wires in place of checks	16	16	17	14	16
Send more wires in place of ACH items	2	3	2	4	2
Receive more wire in place of ACH items	5	6	4	4	7
Send more wire in place of cards	1	3	*	*	2
Receive more wires in place of cards	2	3	1	4	*
No change	76	73	78	76	77

Survey respondents also foresee little impact on their organizations' use of wire transfers for cross-border changes as a result of the changes from the Federal Reserve. Eighty-three percent of survey respondents anticipate no change in their organizations' use of wire transfers for cross-border transactions as a result of the Federal Reserve's decision to include more remittance information with wire transfers. Perhaps this result is not surprising since organizations already use wire transfers to make nearly 70 percent of their cross-border payments.

**Effect of Federal Reserve's Decision to Include Extended Remittance Information
with Wire Transfers on Organizations' Use of Wire Transfers (Cross-border)**
(Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Send more wires in place of checks	12%	14%	10%	15%	10%
Receive more wires in place of checks	10	11	9	10	7
Send more wires in place of ACH items	3	3	2	3	3
Receive more wire in place of ACH items	2	3	2	2	3
Send more wire in place of cards	1	1	1	2	*
Receive more wires in place of cards	1	2	1	2	1
No change	83	79	87	82	85

Organizations use a variety of methods to send remittance information when sending or receiving ACH payments. Email is the most used method to send remittance information.

More than three out of five organizations send remittance information when making an ACH payment via an email. The next most widely used method to send ACH remittance method is EDI/CTX transmission, used by 39 percent of organizations. Eighteen percent of organizations use "snail" mail while 16 percent use faxes to send ACH remittance information to vendors.

Organizations' Methods of Sending ACH Remittance Information
(Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Email	63%	61%	63%	58%	62%
EDI/CTX transmission	39	34	44	33	48
Mail	18	17	17	15	20
Fax	16	10	20	13	19
Customer's web-site	6	8	5	8	6
Third-party website	6	7	5	6	7
Organization's website	6	4	7	1	11
Other	9	13	5	10	7

Organizations tend to receive ACH remittance information in much the same way as they send ACH remittance information. Sixty-two percent of organizations receive ACH remittance information by email followed by 42 percent receiving the information by EDI/CTX transmission. Other methods used to receive ACH remittance information include:

- "Snail" mail (22 percent)
- Fax (22 percent).

Organizations' Methods of Receiving ACH Remittance Information
(Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Email	62%	64%	60%	61%	61%
EDI/CTX transmission	42	39	48	34	48
Mail	22	22	20	18	22
Fax	22	17	26	20	22
Customer's web-site	14	14	13	13	15
Third-party website	10	12	10	7	10
Organization's website	7	8	5	3	9
Other	9	8	10	9	12

Recently, the Federal Reserve and several banks introduced a same-day ACH settlement service, focusing primarily on consumer/e-check debit services (ARC, BOC, POP, RCK, TEL, and WEB). While this service is just getting off the ground at the time of this survey, calls for expanding the range of services offered with same-day settlement have already been voiced. The survey asked participants about their interest in both the current and potential applications that may be introduced in the future. Fifty-eight percent of survey respondents indicate that their organizations are likely to use the same day settlement of ACH services to make tax payments. Other widely cited services that organizations are interested in taking advantage of include:

- Cash concentration (push and pull) and other corporate account-to-account transfers (43 percent)
- Payroll (41 percent)
- Consumer/e-check services available today (39 percent)
- Consumer ACH credit payments (38 percent)
- Corporate payments requiring cash on delivery (22 percent)
- Cross-border payments (19 percent).

Respondents from larger organizations—those with annual revenues greater than \$1 billion—are more likely to believe their organizations will take advantage of the new same-day ACH settlement service for cash concentration (49 percent versus 38 percent of respondents from smaller organizations). Conversely, smaller organizations are more likely to use same-day ACH payment settlements for tax payments (67 percent versus 53 percent for large organizations), payrolls (46 percent versus 33 percent) and point-of-sale purchases (18 percent versus 11 percent).

**Services Organizations Expect to Use as a Result of Enactment
of Same-Day ACH Settlement Services**
(Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Tax payments	58%	67%	53%	63%	49%
Cash Concentration (push and pull) and other corporate account-to-account transfers	43	38	49	38	53
Payroll (contingency, hourly/temporary, terminated employees)	41	46	33	45	35
Consumer/e-check services (ACH debits)	39	41	38	34	46
Consumer ACH credit payments	38	44	36	31	41
Corporate payments requiring cash on delivery	22	28	20	29	17
Cross-border payments	19	17	20	24	14
Online bill payments	17	17	15	19	9
Contingency, disaster recovery	15	10	16	12	17
Point-of-sale purchase (payment card using ACH network)	14	18	11	8	18

NACHA recently considered revising a rule to allow conversion of all business checks to ACH items. If adopted, some organizations would benefit by simplifying the process of bundling consumer and business checks for conversion. Some organizations, however, are concerned about impacts to accounting and fraud control processes, as many banks cannot bridge these services across check and ACH systems.

Survey respondents are split on the impact this rule change would have on their organizations, although a plurality of financial professionals expects a negative impact. Thirty-seven percent of financial professionals believe their organizations will be detrimentally impacted by the pro-

posed NACHA rule change. Respondents from large organizations are slightly more likely than those from smaller organizations to expect a negative impact (42 percent versus 36 percent). A quarter of survey respondents believes the proposed NACHA rule change will benefit their organizations, with those from large companies slightly more likely to anticipate a positive outcome as a result of the proposed rule change.

Financial professionals from companies with a high number of transactions are most likely to expect a negative impact resulting from the proposed NACHA rule change. Forty-six percent of survey respondents with organizations that make at least 5,000 payments per month believe their organizations will be harmed should business check conversion to ACH items be permitted. The percentage of survey respondents from organizations that make fewer than 1,000 payments per month is 31 percent. However, high transaction organizations also are more likely to anticipate a positive outcome—37 percent versus 23 percent of lower payment volume organizations.

Impact of NACHA Conversion Ruling on Organizations (Percent Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Very positive	5%	8%	4%	3%	10%
Somewhat positive	21	17	22	20	27
No impact	37	39	32	46	17
Minor negative impact	21	26	19	20	21
Major negative impact	16	10	23	11	25

Integration of Electronic Payments with Accounting Systems

Organizations continue to report progress in integrating electronic payment and accounting systems, bringing with it cost savings and processing efficiencies. However, organizations are more likely to have integrated their accounting systems with their ACH payment systems than with their card systems. Seventy percent of organizations have integrated their ACH systems, while 46 percent have done the same for card payments. In fact, progress with integrating accounting systems with card systems has been very slow since the 2007 survey.

Large organizations with annual revenues over \$1 billion are more likely to have integrated accounting and payment systems than are organizations with annual revenues under \$1 billion. At larger organizations, 79 percent of ACH systems and 53 percent of card systems are integrated. In contrast, at smaller organizations, 64 percent of ACH systems and 40 percent of card systems are integrated. In 2004, only 45 percent of respondents reported that their organi-

zations had integrated accounting systems with electronic payment systems, including 56 percent of large organizations. In 2007, 59 percent of organizations had integrated their ACH payment system with its accounting system while 40 percent had done the same with their card system.

Accounts payable (A/P) systems are more likely than accounts receivable (A/R) systems to be integrated with electronic payments. For ACH payments, two-thirds of organizations have integrated their A/P systems, while only 42 percent have integrated their A/R systems. There is a similar pattern for card payments. Forty-two percent of organizations have integrated their A/P systems while only 26 percent have integrated A/R.

Integration of ACH Payment Systems with Accounting Systems (Percentage Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
A/P only	28%	29%	29%	22%	41%
A/R only	4	4	4	5	2
Both A/P and A/R	38	31	46	36	39
Neither are integrated	30	36	21	37	18

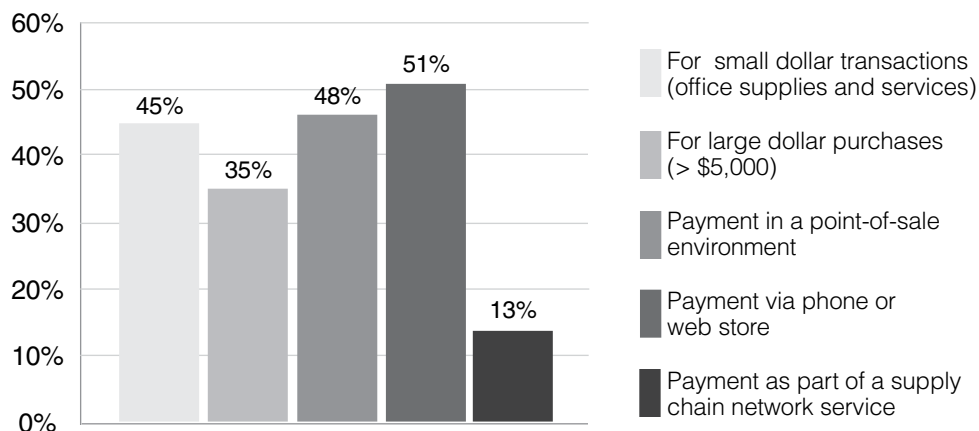
Integration of Card Payment Systems with Accounting Systems (Percentage Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
A/P only	20%	15%	25%	15%	31%
A/R only	4	3	5	4	3
Both A/P and A/R	22	22	23	21	21
Neither are integrated	54	60	47	60	45

Accepting B2B Card Payments

Fifty-four percent of organizations accept purchasing cards from customers making B2B purchases and accept the cards for a number of applications. Half of organizations that accept B2B card payments do so via the phone or through the web, while 48 percent do so in a point-of-sale environment.

Card Acceptance from Business Customers
(Percent of Organizations that Accept Card Payments from B2B Customers)



Seventy percent of organizations use cards for payment of employee pay and benefits. Roughly half of organizations use cards to disburse flexible spending account payments, while a quarter use cards to make payments from health savings accounts. One out of five organizations report use of cards for at least some of their payroll payments, while a bit over one in four use cards for gifts and/or incentive payments.

Cards Utilized to Disburse Employee Pay and Benefits
(Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Flexible spending account	49%	49%	53%	46%	50%
None of the above	30	30	28	34	27
Gift/incentive	27	23	30	28	28
Health savings account	24	18	29	21	27
Payroll	20	19	23	13	30
Emergency use	3	1	5	4	4
Other	2	0	3	0	3

Bank accounts today are largely managed with paper-based and manually intensive processes, with some imaging technology also used to store and manage the relevant forms and signature cards. New standards for Electronic Bank Account Management (eBAM) have been introduced by SWIFT, and several banks/vendors are providing new applications for eBAM that are integrated with other bank services including payments. eBAM has the potential to make the process of account setup and management more dynamic, efficient and less prone to errors and oversights.

The biggest challenge in having eBAM implemented appears to be educating financial professionals and their organizations about its existence. Three out of five survey respondents are unaware of the new services and standards. Another quarter of survey respondents indicate they do not anticipate that their organizations will implement eBAM over the next three years.

**Plans to Implement Electronic Bank Account Management (eBam)
Within the Next Three Years**
(Percent Distribution)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
Have already implemented	1%	2%	1%	2%	2%
Have an active project to implement	1	2	2	2	2
No active project, but likely to implement	11	8	15	13	15
Have evaluated and not implementing	3	3	2	4	4
Know very little about it, but sounds interesting	59	61	56	52	57
No interest	25	24	24	27	20

Few organizations currently use mobile payments, with approximately a quarter of organizations considering using mobile tools for payments within the next three years. In terms of major payment processes:

- Initiate payments—six percent of organizations currently use mobile payment tools while another 18 percent expect to do so over the next three years
- Payment approval—seven percent of organizations currently use mobile payment tools while another 24 percent expect to do so over the next three years
- Review payments sent and/or received—seven percent of organizations currently use mobile payment tools while another 24 percent expect to do so over the next three years

- Review balance and other payment information—eight percent of organizations currently use mobile payment tools while another 24 percent expect to do so over the next three years
- Accept mobile payments from customers—two percent of organizations currently do so while another 21 percent expect to do so over the next three years.

Smaller organizations are more likely than large ones to plan to increase their use of mobile payment methods over the next three years.

Organizations Plan to Implement Mobile Payments Over the Next Three Years
(Percentage Distribution)

	Currently use	Will use with 3 years	No plan to use
Initiate payments	6%	18%	76%
Approve payments	7	24	69
Review payments sent or received	7	24	69
Review balance and other payment information	8	24	68
Accept mobile payments from consumers	2	21	77

Business-to-Consumer Payments

Three-quarters of survey respondents work for organizations that accept payments directly from consumers. Credit cards (51 percent), non-converted checks (43 percent), cash (38 percent), recurring ACH debits (33 percent) and debit cards (31 percent) are the payment methods most likely accepted from consumers. Organizations also accept payments in the following forms:

- Bill payment via organizations' web sites (23 percent)
- Check conversion to ACH at the lockbox—ARC (22 percent)
- Bill payment via a third-party (bank) web site (19 percent)
- Check conversion to ACH in the back office (14 percent).

Payment Methods Used to Receive Payments from Consumers
(Percent of Organizations)

	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
My company does not receive payments directly from consumers	24%	24%	24%	27%	19%
Credit cards	51	53	50	51	51
Checks that are not converted	43	43	44	26	51
Cash payments	38	32	43	36	43
Recurring ACH debits	32	31	33	26	41
Debit cards	31	28	35	26	34
Bill payment on my organization's Web site	23	21	24	23	24
Check conversion to ACH at the lockbox (ARC)	22	16	27	19	23
Bill payment on bank/ third party Web site	19	15	21	13	23
Check conversion to ACH in the back office (BOC)	14	11	15	11	21
Stored value cards	9	5	12	7	11
Conversion of dishonored checks to ACH debits (RCK)	8	8	10	6	14
Check conversion to ACH at point-of-sale (POP)	8	5	10	5	12
Third-party in-person payment centers	8	5	12	6	13
Unstaffed bill payment kiosks for cash and checks	3	2	4	4	5
Other	4	4	5	3	8

Conclusions

The trend is now very clear—organizations are actively and successfully shifting from paper checks to electronic payments. The transition is most dramatic among larger organizations, where ACH and wire transfer payments together outnumber checks for both outgoing and incoming payments made to or from major trading partners. Combined with the successful efforts made by banks to clear checks electronically via images or the ACH network, electronic transactions dominate commercial payments today.

Larger organizations appear to be more committed to shifting their payments from paper to electronic. Larger organizations:

- Have a higher ratio of overall payments made and received electronically
- Exchange more electronic transactions with larger trading partners
- Exhibit a stronger intention to convert all of their suppliers to electronic payments over the next three years

Smaller organizations typically have less bargaining power, but given the willingness of larger organizations to send and receive electronic payments, it appears that technology and other barriers or limitations are holding back electronic adoption for smaller organizations. Larger trading partners, along with their banks and other vendors, may want to consider programs and processes to make it easier for smaller companies to adopt electronic payments in order to achieve greater electronic penetration.

Nearly 80 percent of organizations send cross-border payments. The vast majority of these transactions are sent via wire transfer, with 12 percent of volume transacted from treasury operations in local countries. These results reflect how globalized U.S.-based businesses currently are. Since most cross-border payments are driven by contract requirements or the size/purpose of the transaction, the high use of wires reflects a higher perception of risk, a lack of other acceptable alternatives, or in some cases simply a need for the speed and finality features that are unique to wires.

Float is rapidly becoming a non-issue for commercial payments—72 percent of organizations recognize the reduction in clearing float resulting from check truncation. Additionally, only ten percent of companies list float as one of their top three issues preventing adoption of electronic payments and only 17 percent believe float is a reason to continue using checks.

Treasury practitioners are much more interested in adopting electronic payments to drive internal efficiencies, improve working capital and increase their control over payment operations to reduce fraud exposure, improve accounting/reconciliation and enhance cash forecasting.

The non-float benefits to payment automation are clearly identified and organizations are pushing hard to migrate their payments to electronic transactions. However, they still face the same challenges that slow their progress:

- Systems challenges—justifying allocation of IT resources, the difficulty of integrating internal systems, and dealing with data management issues
- Inertia—the challenge of mounting initiatives to successfully move customers and trading partners to adopt electronic payments
- Remittance information—including inconsistent formats and an inability of systems to support transmission or receipt of remittance information

These same obstacles have endured for several years. Placing additional focus on finding solutions to overcome these obstacles is clearly warranted for organizations, their banks and other key vendors.

Given all the discussion about new laws and regulations that may result from the recently enacted financial reform legislation, it is perhaps somewhat surprising that the vast majority of organizations think existing laws, rules and regulations are not major barriers to adopting electronic payments. Still, PCI and card rules received the highest level of concern in the survey, which perhaps is also a reflection of the relatively low levels of card usage for B2B payments.

Other rule-making activity is also focused on allowing new services to be offered in the wire and ACH networks. Organizations are transitioning a significant share of their payments from checks to wire transfers, and the survey results suggest making enhanced remittance information available with wires will help maintain this trend for both domestic and cross-border payments.

A new same-day ACH settlement service also appears to be a welcome development, with several new applications identified that are of significant interest to a broad swath of organizations. The challenge with same-day ACH will most likely be getting broad adoption among all banks since the service is currently on an opt-in, voluntary basis. Enacting new rules to make all of these new applications available may also be a challenge, but given the level of interest among organizations, perhaps enacting new rules (and gaining support from the Federal Reserve and The Clearing House) for these applications may be one solution to gaining widespread adoption.

Allowing business checks to be converted to ACH items has been a contentious issue for several years and the survey results bear this out. A small share of organizations (five percent) believe allowing business check conversion will have a very positive impact on their operations, but a larger percentage (16 percent) see a major negative impact if it is allowed. The adverse impact would be on organizations' fraud control and reconciliation

systems—most banks cannot bridge their ACH and check reconciliation programs to accommodate converted items for services such as payee positive pay. Since most banks already offer services to convert checks to digital images for electronic clearing (with no impact on positive pay), the case for investing in ACH business check conversion will continue to be difficult to prove and unlikely to gain enough support for adoption.

In addition to the payments innovations mentioned above, eBAM and mobile payments are emerging as new options for businesses. The potential for cost savings, efficiencies, time savings, risk reduction and other benefits to both banks and organizations makes the growth potential for eBAM enormous. A handful of early-adopter companies have implemented eBAM using SWIFT messaging standards and applications from the top banks and companies like IdenTrust for secure messaging and access management. This survey points to a lack of awareness of eBAM on the part of organizations, but greater awareness should come quickly.

Mobile banking and payments have received a lot of attention in the press lately, but its focus is primarily on consumer applications—and the survey results give them no reason to shift this focus. Upwards of three-quarters of the respondents answered that they have no plan to use mobile device for initiating, reviewing and approving transactions, or for accepting mobile payments from consumers.

Clearly, most businesses have little faith that the security issues associated with using mobile devices will be overcome over the next three years -- or indeed anytime soon. However, smaller organizations express a significantly greater willingness to use mobile payment applications. This readiness is probably driven by their need for convenience given constraints on staff size—particularly in organizations when there may be only one or two people handling treasury functions. Perhaps their size also simply makes them more amenable to adopting new technologies, which is reflected in their greater willingness to accept mobile payments from consumers.

Payment acceptance by businesses overall is a mixed bag. Organizations that accept payments from consumers allow a wide variety of payment options, including credit and debit cards. Businesses accept mostly checks, ACH credits and wires, with card payment volumes kept relatively low (five percent or less) due to limited card acceptance. In fact, only slightly more than half of organizations accept card payments from business customers for all of the applications surveyed. The card networks will need to work harder to give organizations more reasons, including cutting interchange rates, in order to move a more significant share of B2B payment volumes to cards.

About the Survey

In September 2010, the Research Department of the Association for Financial Professionals (AFP) sent a 27-question survey to its corporate practitioner members and prospects with the following job titles: cash manager, director, analyst and assistant treasurer. When the survey closed, AFP had received 484 responses. The modified response rate from AFP corporate practitioner members only (after adjusting for bad e-mail addresses, etc.) was approximately ten percent. The responses from this survey are the basis of this report.

Financial professionals who responded to the survey on behalf of their organizations are representative of AFP's membership as a whole. The typical respondent works for an organization with annual revenues of just over \$1 billion. The largest percentage of respondents is employed in manufacturing. The following tables provide a demographic summary of the survey respondents.

Industry Classification (Percentage Distribution)

Manufacturing	20%
Energy (including Utilities)	11
Retail (including Wholesale/Distribution)	10
Health Services	10
Insurance	7
Government	7
Banking/Financial Services	6
Software/Technology	5
Real Estate	4
Non-Profit (including Education)	4
Transportation	3
Hospitality/Travel	3
Business Services/Consulting	2
Construction	1
Other	7

Annual Revenues
(Percentage Distribution)

Under \$50 million	8%
\$50-99.9 million	5
\$100-249.9 million	8
\$250-499.9 million	11
\$500-999.9 million	15
\$1-4.9 billion	33
\$5-9.9 billion	9
\$10-20 billion	7
Over \$20 billion	4
Median	\$2.3 billion

Number of U.S. Business-to-Business Payments Made per Month
(Percentage Distribution)

# of U.S. B2B payments per month	All Respondents	Revenues Under \$1 Billion	Revenues Over \$1 Billion
Up to 500	25%	31	17%
501-1,000	16	17	15
1,000-5,000	29	32	28
5,001-10,000	14	10	19
Over 10,000	16	10	21

AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director, Research, Kevin A. Roth, PhD, who is joined by four research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. Study reports on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPonline.org/research.



**Association for
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About the Association for Financial Professionals

The Association for Financial Professionals (AFP) headquartered in Bethesda, Maryland, supports more than 16,000 individual members from a wide range of industries throughout all stages of their careers in various aspects of treasury and financial management. AFP is the preferred resource for financial professionals for continuing education, financial tools and publications, career development, certifications, research, representation to legislators and regulators, and the development of industry standards.

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