Association for Financial Professionals®

2013 AFP Electronic Payments Survey

Introduction and Key Findings

Underwritten by
J.P.Morgan

2013 AFP Electronic Payments Survey

Introduction and Key Findings

Thank you for your interest in the *2013 AFP Electronic Payments Survey*. The following pages are just a sample of the full report.

In addition to the wealth of information contained in this abridged version, the full edition includes data on:

- B2B payment methods
- Future B2B use of electronic payments
- Cross-currency payments
- Electronic Payments: Benefits, Barriers and Trends

To read the full report go to www.afponline.org/epayments

Please note the full report is available to both members and non-members of AFP, and only requires you to log into the website to gain access to the full report

Association for Financial Professionals®

Association for Financial Professionals
4520 East-West Highway, Suite 750
Bethesda, MD 20814
Phone 301.907.2862
Fax 301.907.2864
www.AFPonline.org

Underwritten by
J.P.Morgan

J.P.Morgan

It is my pleasure to introduce the *2013 AFP Electronic Payments Survey*, which J.P. Morgan is proud to sponsor. We will continue working as your advocate in our mission to help drive the industry toward greater payments efficiency.

While this year's survey outlines new and encouraging payment trends, it helps us affirm crucial constraints practitioners face when attempting to adopt these trends.

- **More than 70% of organizations** are struggling to convert to electronic payments, *citing customer/supplier hesitance to adopt and IT barriers as major obstacles.*
- **Only 11% of organizations** today use mobile technology to initiate payments, *with only 32% planning to do so over the next three years.*
- **50% of organizations** that facilitate cross-currency payments via foreign currency accounts also rely on banking providers, *which leads to unnecessary banking relationships and cost.*

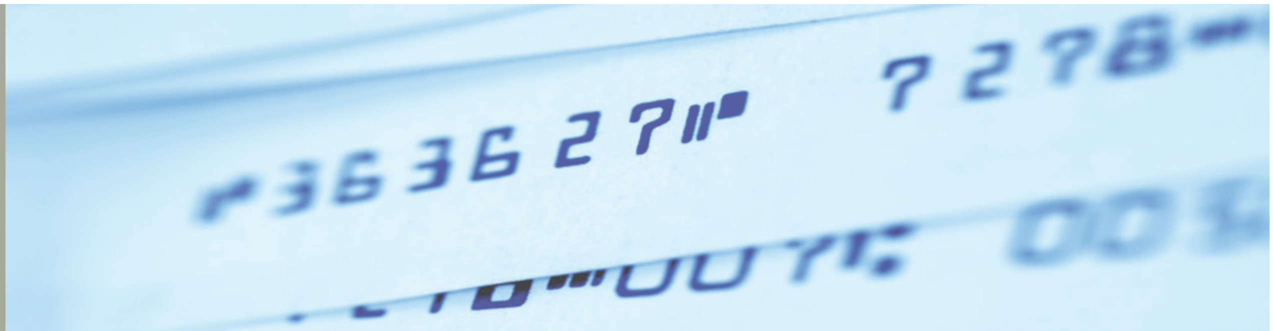
Practitioners can overcome these challenges and break through the status quo of limited electronic payment adoption by "greasing the organizational rails" with a multi-year business case that includes fee reductions, internal efficiencies, working capital optimization, enhanced forecasting, fraud exposure reductions, improved disaster recovery, and the strengthening of data privacy. The strongest cases will align the vision and approach of internal technology and banking partners to capitalize on emerging electronic payment trends:

- **Mobile and email technology is transforming paper-based A/P and A/R processes** *as more organizations are leveraging electronic payments and mobile check deposit.*
- **Electronic reconciliation of remittance information is being readily incorporated into accounting systems**, *enabling an increase in straight-through processing*.
- **Vendors and customers can be motivated to adopt electronic payment methods** *through fee reductions and other rewards.*

As you read through this report, I encourage you to evaluate where your organization excels and where there is opportunity, and then talk to us about how to best proceed. Supported by J.P. Morgan's continual commitment to delivering world-class solutions, organizations that embrace these learnings and adopt change are well positioned to achieve renewed growth, improved fraud control and efficiency gains.

Sincerely,

Diane Quinn
Managing Director, Treasury Services
Global Large Corporate Sales Executive
J.P. Morgan

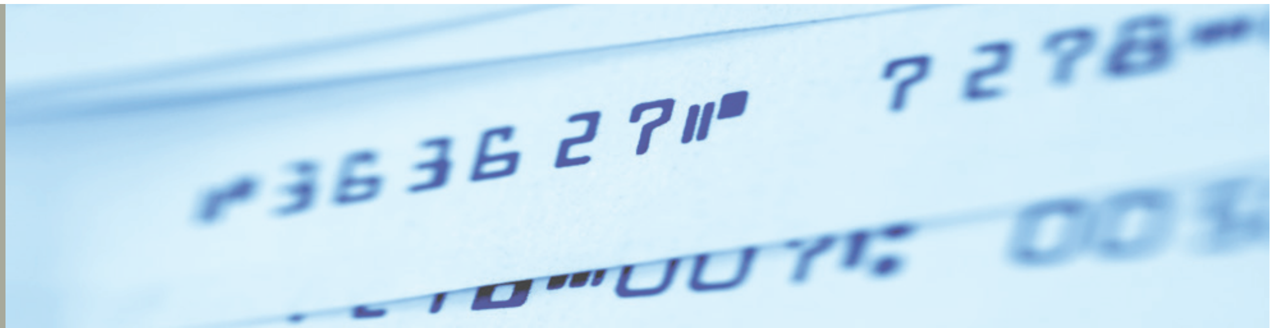


Introduction

Payment methods are going through an unprecedented period of change. Despite the continued decline in their use, paper checks remain the dominant payment method. At the same time, ACH and wire payments are gaining ground but at a somewhat slower rate than in the recent past. One reason for this could be that the check itself is evolving: paper checks are being "electronified," either through check imaging or via conversion to ACH debits. In addition, the use of mobile payments is becoming increasingly popular. The result of these trends is that U.S. businesses have an expanding range of payment choices as they migrate from paper to electronic methods.

To gauge the extent to which and the ways in which treasury and finance professionals are taking advantage of payments innovations to accommodate the pace of change in the complex business-to-business environment, the Association for Financial Professionals® (AFP) conducted a survey of its members in September 2013. The *2013 AFP Electronic Payments Survey* was designed to identify changes in U.S. business payments practices since AFP's previous electronic payments survey in 2010, including the drivers of change, the benefits gained, and the barriers to realizing a more "electronic payments" future. Given the dynamic payments landscape, AFP expanded the scope of this year's survey and included more questions about wire transfers, certain regulations impacting electronic payments, electronic check-processing, cross-border transactions, and relatively new and emerging payment innovations such as mobile payments. The survey results highlight trends, identify best practices and reveal solutions for advancing automation of business-to-business payments.

In September 2013, the Research Department of the Association for Financial Professionals sent a 35-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 thanks J. P. Morgan for underwriting the *2013 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.

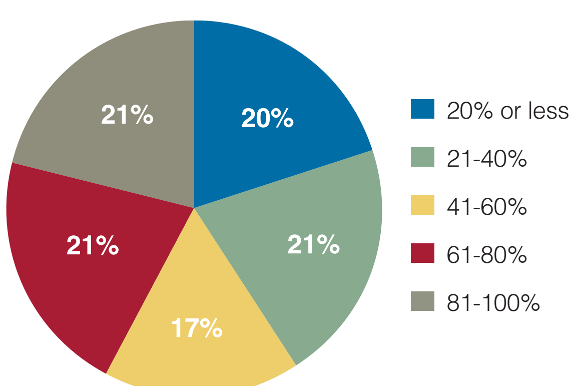


Highlights of Survey Results

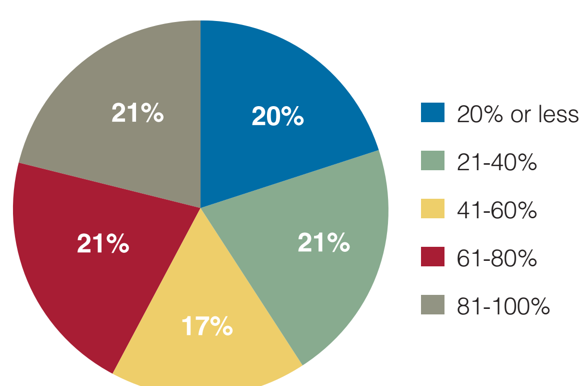
The key findings of the *2013 AFP Electronic Payments Survey* include:

- The use of paper checks to make and receive business-to-business (B2B) payments continues to decline.
  - The typical organization **makes** 50 percent of its B2B payments by check, down from 74 percent in 2007 and 57 percent in 2010.
    - For payments to major suppliers, organizations make an average of 43 percent of their payments by check, 31 percent by ACH credit and 16 percent by wire transfer.
    - One in five organizations makes a majority of their payments through electronic means. Just under half of survey respondents indicate 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** 50 percent of its B2B payments by check.
    - Forty-two percent of payments from major customers are by check.

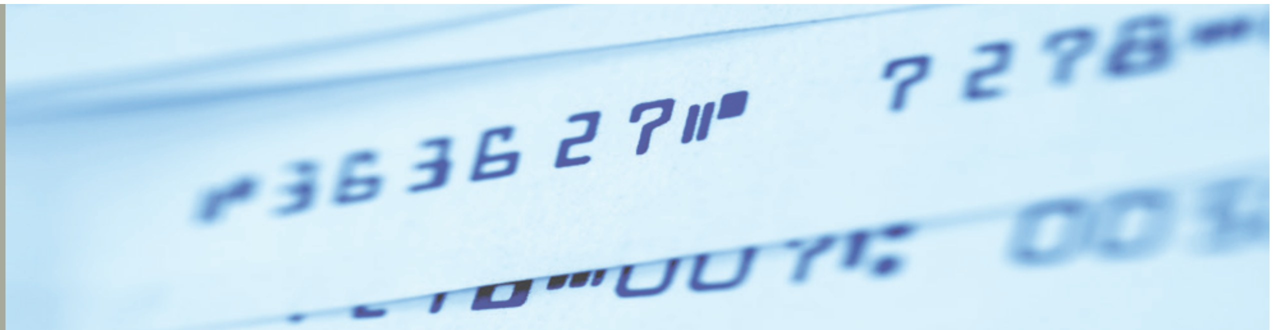
B2B Payments Made with Checks



B2B Payments Received with Checks



- Among organizations that make payments across country borders using multiple currencies, the most widely used payment method is wire transfers (65 percent of transactions)
  - Contractual requirements and the size/type of transaction are key considerations in an organization's decision about which payment method to use when making cross-currency payments.
- Financial professionals cite a number of benefits from their organizations' increased use of electronic payments:
  - Cost savings (cited by 57 percent of survey respondents)
  - Improved cash forecasting (46 percent)
  - Fraud control (39 percent)
  - More efficient reconciliation (37 percent)
- The top barriers to the adoption of electronic payments are:
  - Difficulty convincing customers to pay electronically (cited by 82 percent of survey respondents)
  - Difficulty convincing suppliers to accept electronic payments (74 percent)
  - Shortage of IT resources for implementation (71 percent)
  - Lack of standard format for remittance information (70 percent)
  - Lack of integration between electronic payment and account systems (66 percent)
- Email is the delivery method most likely used to deliver and receive remittance information tied to organizations' ACH payments. Other communication methods include:
  - EDI/CTX transmission (37 percent to send, 44 percent to receive)
  - Mail (18 percent to send, 21 percent to receive)
  - Fax (15 percent to send, 22 percent to receive)
- Organizations are more likely to have integrated their accounting systems with their ACH payment systems than with their card systems.
  - Seventy-eight percent of organizations have integrated their ACH systems while 56 percent have done so for card payments.
    - For ACH payments, 73 percent of organizations have integrated their A/P systems while 50 percent have integrated their A/R systems.
- For card payments, 50 percent of organizations have integrated their A/P systems and 34 percent have integrated A/R.
  - While a relatively small share of organizations currently uses mobile payments, a number of companies are evaluating increasing their use of mobile tools for payments within the next three years in the following areas:
    - Review payments sent or received (cited by 37 percent of respondents)
    - Review balance and other payment information (37 percent)
    - Approve payments (36 percent)



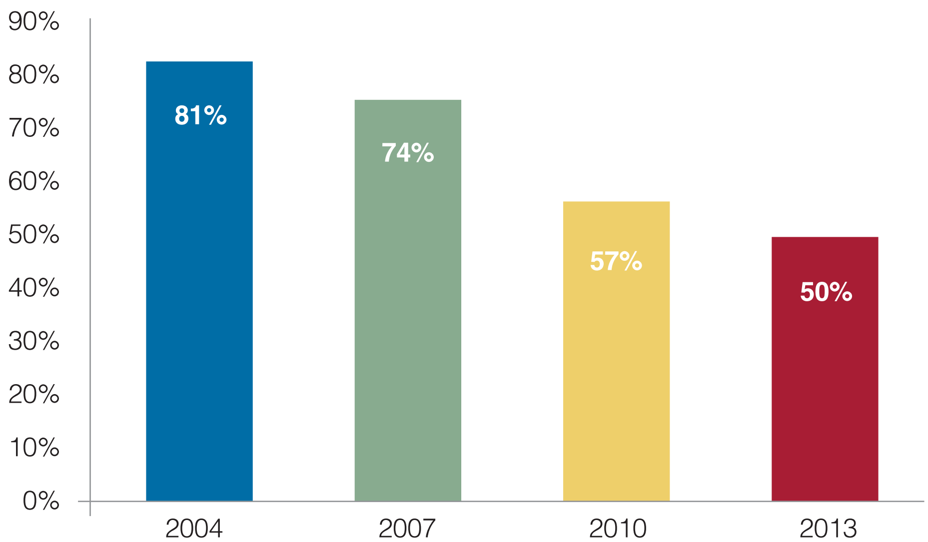
Survey Findings

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

Disbursements

Half of organizations' business-to-business (B2B) payments continue to be made by check, although the share of such check payments continues to decline. Currently, the typical organization makes 50 percent of its B2B payments by check. The use of B2B payments via checks has been declining steadily since 2004.

Use of Checks
(Mean Percentage of B2B Payments Made by Organizations)



Furthermore, the percentage of organizations that rely on checks for over 60 percent of their payments also declined—from 75 percent in 2004 to 41 percent in 2013. On the other hand, the percentage of organizations reporting lower check volumes—that is, checks represent less than 40 percent of B2B payments—rose from 13 percent to 41 percent during the same time frame.

Large organizations—those with annual revenues of at least $1 billion—use checks for a smaller share of their B2B payments than do organizations with annual revenues under $1 billion. In the typical large organization, 40 percent of its B2B payments are by check compared to 63 percent of such payments in the typical smaller organization. While half of organizations with annual revenues of at least $1 billion use checks for 40 percent or less of their B2B payments, only 34 percent of organizations with annual revenues under $1 billion do the same. About one out of three smaller organizations use checks for at least 81 percent of their transactions compared to just 14 percent of larger organizations that do so.

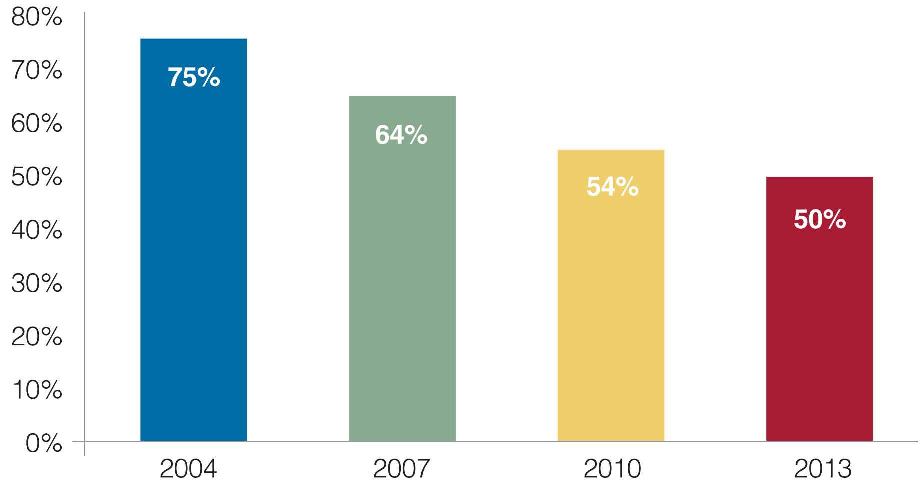
Percentage of Organization's B2B Payments Made by Check
(Percentage Distribution)

	All Respondents	Revenues Under $1 Billion	Revenues at Least $1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
20% or less	20%	17%	24%	20%	28%
21-40%	21	17	26	19	28
41-60%	17	16	17	21	17
61-80%	21	22	19	23	15
81-100%	21	28	14	17	12
Median	50%	63%	40%	50%	37%

Collections

The use of checks for payments to an organization from its business customers is also declining. Overall, the typical organization currently receives 50 percent of its B2B payments by check compared to 54 percent in 2010 and well below the 75 percent reported the 2004 AFP survey.

Use of Checks for Collections
(Mean Percentage of B2B Payments *Received* by Organizations)



The percentage of organizations collecting over 60 percent of their payments by check declined from 69 percent reported in the 2004 survey to 35 percent in 2013. At the same time, the percentage of organizations at which checks represent 40 percent or less of B2B customer payments *has increased* from 20 percent in 2004 to 44 percent in 2013.

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

	All Respondents	Revenues Under $1 Billion	Revenues at Least $1 Billion	Less than 1,000 B2B Payments made/month	Greater than 5,000 B2B Payments made/month
20% or less	24%	19%	29%	23%	24%
21-40%	20	18	22	18	37
41-60%	22	26	18	28	22
61-80%	21	23	20	23	16
81-100%	14	14	12	9	11
Median	50%	50%	40%	50%	40%

B2B Payment Methods

The use of electronic payment methods is more likely to have increased in transactions with organizations' major vendors and customers. Still, checks remain the most popular payment method in transactions with major trading partners.

B2B Disbursements: Major suppliers

The vast majority of organizations (92 percent) still utilize checks when paying at least some of their major vendors/suppliers. At the same time, they rely on a full range of electronic payment methods to reimburse vendors. Eighty-two percent of organizations use wire transfers to pay major suppliers, 81 percent use ACH credits, 50 percent use purchasing cards, 34 percent use ACH debits and 13 percent use single-use accounts.

While checks continue to be the most widely used method of payment to major suppliers, their usage has declined significantly in recent years. The average company makes an estimated 43 percent of its payments to major suppliers by check. In the 2010 and 2007 surveys, the shares were 49 percent and 65 percent, respectively. Thirty-one percent of payments made to major suppliers are made using ACH credits while 16 percent are made via wire transfer. Purchasing cards, ACH debits and single-use accounts are used for far fewer payments to major customers.

Larger organizations are more likely than smaller ones to use 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 (38 percent versus 27 percent).

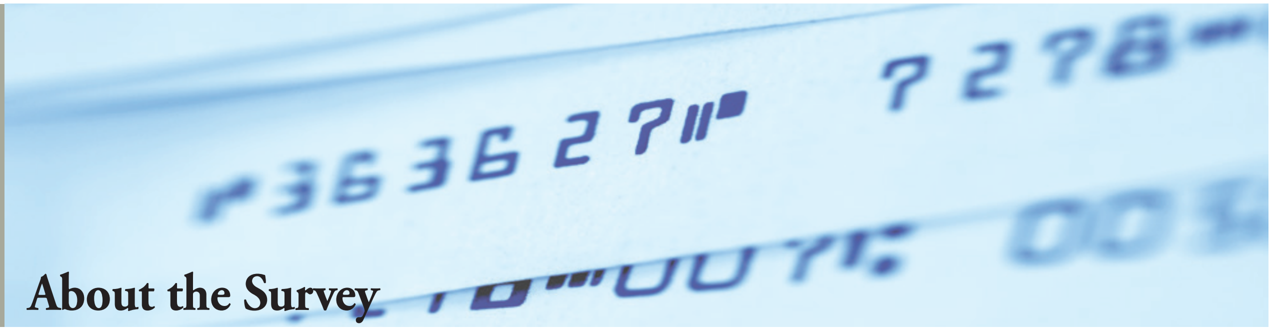
B2B Collections: Major business customers

An overwhelming majority of organizations (93 percent) *receive* checks from their major business partners. But their B2B customers also utilize the full range of electronic payments. Eighty-one percent of organizations receive payments from major customers via ACH credits, 75 percent collect via wire transfers, 22 percent are paid through ACH debits, 20 percent receive purchasing card payments and six percent are paid via a single-use account.

Forty-two percent of all payments made by major business customers still involve checks. But the use of checks for such payments has declined. Forty-seven percent of payments that organizations received from major customers in 2010 were in the form of checks—itself a decline from the 57 percent in 2007.

The typical organization also collects 26 percent of its payments from major customers through ACH credit, 20 percent via wire transfer, four percent by ACH debit, two percent by purchasing card and one percent by single-use accounts.

Larger organizations are less likely than smaller ones to receive payments via



About the Survey

In September 2013, the Research Department of the Association for Financial Professionals® sent a 34-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.

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, followed by energy and retail. The following tables provide a demographic summary of the survey respondents.

Industry Classification
(Percentage Distribution)

Manufacturing	21%
Energy (including Utilities)	15
Retail (including Wholesale/Distribution)	9
Health Services	5
Insurance	8
Government	4
Banking/Financial Services	5
Software/Technology	4
Real Estate	3
Non-Profit (including Education)	6
Transportation	3
Hospitality/Travel	3
Business Services/Consulting	3
Construction	3
Other	8

Annual Revenues
(Percentage Distribution)

Under $50 million	7%
$50-99.9 million	6
$100-249.9 million	6
$250-499.9 million	12
$500-999.9 million	15
$1-4.9 billion	36
$5-9.9 billion	8
$10-20 billion	4
Over $20 billion	6
Median	$1.5 billion

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 and Strategic Analysis, Kevin A. Roth, PhD, who is joined by a team of 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.
AFP Research also produces *AFP EconWatch*, a weekly economic newsletter. Study reports on a variety of topics, including AFP's annual compensation survey, and *AFP EconWatch*, are available online at www.AFPonline.org/research.

Association for
Financial Professionals®

About the Association for Financial Professionals

Headquartered outside Washington, D.C., the Association for Financial Professionals (AFP) is the professional society that represents finance executives globally. AFP established and administers the Certified Treasury Professional and Certified Corporate FP&A Professional credentials, which set standards of excellence in finance. The quarterly AFP Corporate Cash Indicators serve as a bellwether of economic growth. The AFP Annual Conference is the largest networking event for corporate finance professionals in the world.

General Inquiries AFP@AFPonline.org

Web Site www.AFPonline.org

Phone 301.907.2862