PAYMENT REVOLUTION

PAYMENT TRENDS

American Express
PAYMENT REVOLUTION

INTRODUCTION

A host of new technologies are helping drive business efficiency and responsiveness. Today, businesses are able to take advantage of near-instantaneous payment via smart devices, virtual credit cards, smart watches or a variety of other digital methods.

Our report, *Payment Revolution*, finds Australian CFOs are prepared to look to the future of payments. For instance, some 77% of businesses said overhauling payments is a high or very high priority for their business, whilst others had already begun the journey.

Payment Revolution explores the journey that many Australian CFOs are embarking on in terms of payment.

More than 350 CFOs from small and mid-sized businesses offered their views of the changing payment technology landscape and includes commentary from a panel of American Express payment experts and customers.

Payment Revolution not only highlights some of the challenges many CFOs face when implementing such forward looking technologies, it also helps provide some answers. Areas such as increasing automation, integrated payment systems and other technologies make for a reasonable entry point to the future payment journey.

This report highlights, that while there are challenges along the way, CFOs in Australia are preparing to reap the benefits of new payment methods.

KEY FINDINGS OF AUSTRALIAN CFOs

56% Of businesses believe the current approach to payments is broken. Only half of CFOs said their current approach is effective.

59% Of those businesses struggling with payment, more than half said they are at significant risk of failing in the next three years.

77% Fixing payments is high on the business agenda, more than two-thirds of CFOs said a payment overhaul is very high or high priority for the business.

30% Of businesses are still using time-intensive approaches to payment, including those that use entirely manual processes.

78% Emerging technologies will play an increasing role in business payments. Eight-out-of-ten CFOs expect to deploy Virtual Card Numbers in the next five years.

61% CFOs are determined to drive the innovation agenda, with more than half describing their appetite for innovation as high or very high.

THE PAYMENT CHALLENGE

Many senior financial executives are worried about their current approach to payment, with only 56% believing their current approach is effective.

Some 44% of businesses believed they are ineffective at processing supplier payments, and 48% said they faced difficulty in receiving payments from customers. Nearly one third (30%) of senior financial executives admitted they are unable to reconcile supplier invoices at least every other month.

This is supported by other studies which have claimed that Australian businesses are amongst the worst in the world when it comes to paying their bills on time, with around 73% of invoices being paid late[1].

Recently the Ombudsman for Small Business and Family Enterprise said payment times for small businesses had now blown-out to as much as 120 days[2].

There have been numerous calls in the past few years for regulatory, social and financial change to address the culture of late payments. To date, none of these changes have been completely successful in addressing the issue.

1. http://smallbusinessfirst.com.au/oz-businesses-slowest-payers-in-the-world/
2. http://www.weeklytimesnow.com.au/news/national/small-business-ombudsman-big-push-to-pay-small-on-time/news-story

PAYMENT PROCESSES CAN'T KEEP UP

Current processes used by many finance departments simply can't keep up with the sudden growth in payments during the past few years.

The growth in payments is at an all-time high according to Cap Gemini. The firm estimated the volume of payments around the world would increase by more than 10% this year, the biggest hike in recent business history.

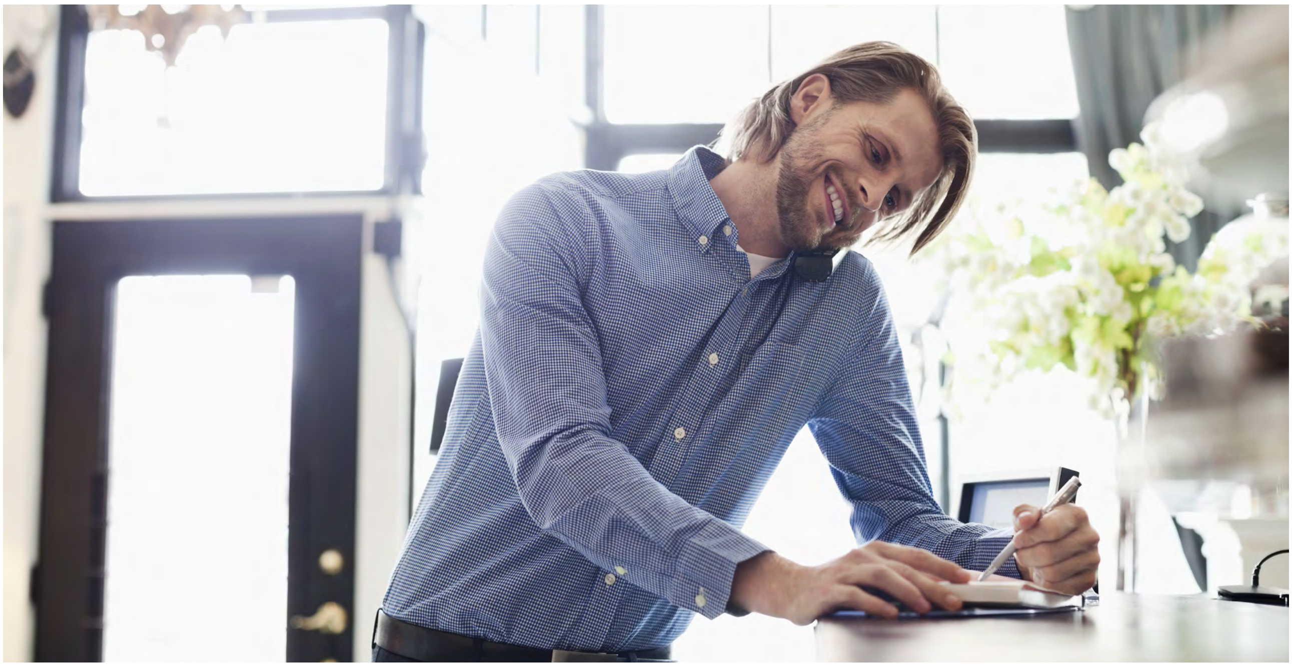
Based on data from the Reserve Bank of Australia, this would mean an additional 54 million credit and debit transactions processed by businesses and financial institutions every month this year[3].

This growth is being spurred by forces such as payment digitisation, commerce globalisation, expanding number of suppliers and changing customer expectations, having all played a role in increasing payment volume.

These changes undoubtedly have benefits for businesses, their suppliers and customers but place immense stress on finance departments. The problem is further exacerbated because the payment processes used by many businesses haven't adapted at the same rate. *Payment Revolution* found only 24% of businesses strongly agreed that the pace of innovation within the finance department was adequate.

Many businesses have continued to rely on the same, time-consuming payment processes that have been in place for years. Some 14% of organisations still use entirely paper-based processes, whilst only 22% had moved to a fully automated solution.

3. http://www.heraldsun.com.au/business/why-our-looming-cashless-society-will-come-at-a-devastating-cost/news-story/132727caa08bb90dfba57cca68c2b578



THE IMPACT ON BUSINESSES

The impact of inefficient payment practices are often severe.

In 2015, the United States Department of Treasury estimated that time-consuming manual processes were costing the department as much as US$100m a year, whilst other government agencies believed outdated approaches were doubling the cost associated with payments.

Locally *Payment Revolution* has found the financial pain caused by payment problems extends across an entire business.

The research found 59% of businesses currently experiencing payment issues were at significant risk of failing in the next three years, whilst another 19% were at moderate risk. They also struggled with cash flow, customer retention and other critical business processes.

CFOs are also feeling the strain, with a quarter of their working week now tied-up in reconciling supplier invoices, chasing customers and other tasks related to payment.

"We have an old-fashioned process to pay something. It's recorded, then entered into our online banking, which then has to be approved by someone and then another person sends it out in a batch format. That system is very complex, convoluted, takes a lot of time, things gets missed, and things get paid twice. It's absolutely horrendous."

Industrial Service and Supply Company

THE NEED TO INVEST IN INNOVATION

Senior financial executives believe that now is the time to invest in new ways of approaching payment processes.

Some 77% of businesses said overhauling payments is now a high or very high priority for their business, whilst others had already begun the journey.

The research found 89% of businesses had allocated funding this financial year for payment modernisation processes, with 39% having already invested between $50,000 and $100,000 to improve payments over the past three years.

Initially much of this investment will go towards solutions that can be implemented quickly and can show a strong return on investment.

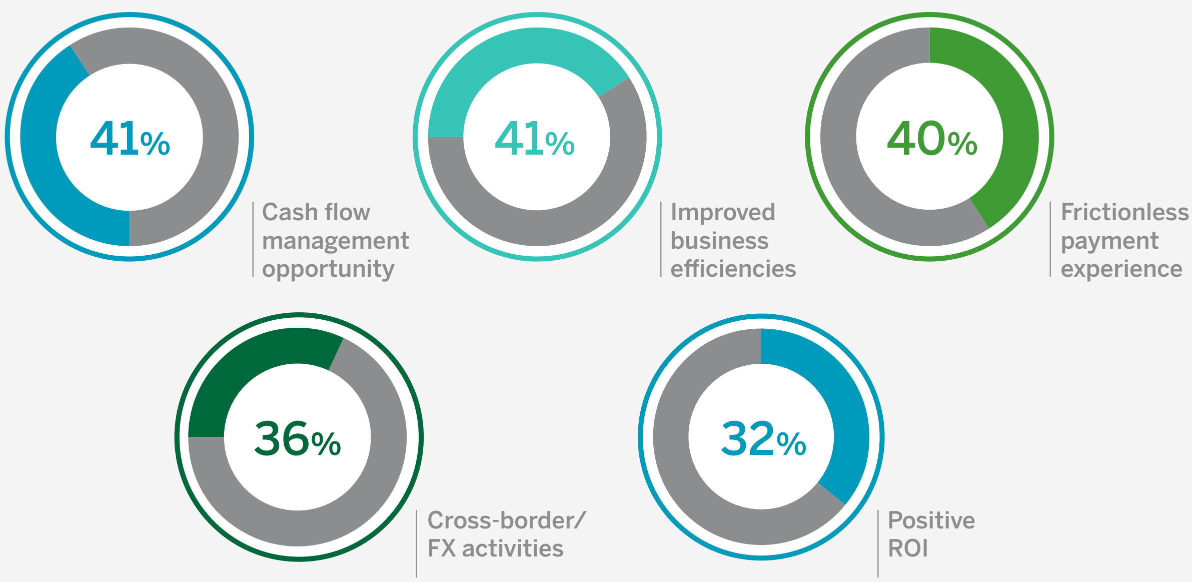
Almost a third (32%) of CFOs said the ability to demonstrate positive ROI was critical to the acceptance of new payment technologies by the broader business.

"We are very conscious of costs; there must be a cost benefit analysis before we deploy any new payment software, or even updating old software for that matter. We try to do things simpler but you don't buy a Rolls Royce to do a Holden's job."

Retail and Manufacturing Company

For many, the low-hanging fruit includes better collaboration with other finance tools, better spend reconciliation and improved invoice automation. More than 40% of CFOs hoped the initiatives will drive better business efficiencies and frictionless payment experiences, whilst 33% hoped that payment modernisation will mean they could redeploy finance department staff into more strategic roles.

What CFOs want from payment modernisation



PAYROLL AUTOMATION

"To save on the data entry we're moving from manual entry to phone apps, with interfaces where you get timesheets in by the candidate. Previously there's been probably 10 people in the organisation and all they're doing is validating and entering pay details."

Labour Hire company

AUTOMATED INVOICE ENTRY

"I'm looking at a system that has suppliers send their invoices to an email inbox that would automatically scan and enter all the information about the services they've provided, or goods, without the need for having a data entry person. So the accounts payable function would be halved, which means I could transition someone out of accounts and into one of the revenue-generating areas of the business."

Industrial Service and Supply company

LOOKING AT
EMERGING TECHNOLOGIES

Payment Revolution **found 80% of CFOs are also looking beyond their immediate needs and beginning to consider – and in some cases deploy – emerging payment technologies.**

Many executives are looking to turn to emerging technologies to help transform their business' approach to payments during the next 12 months.

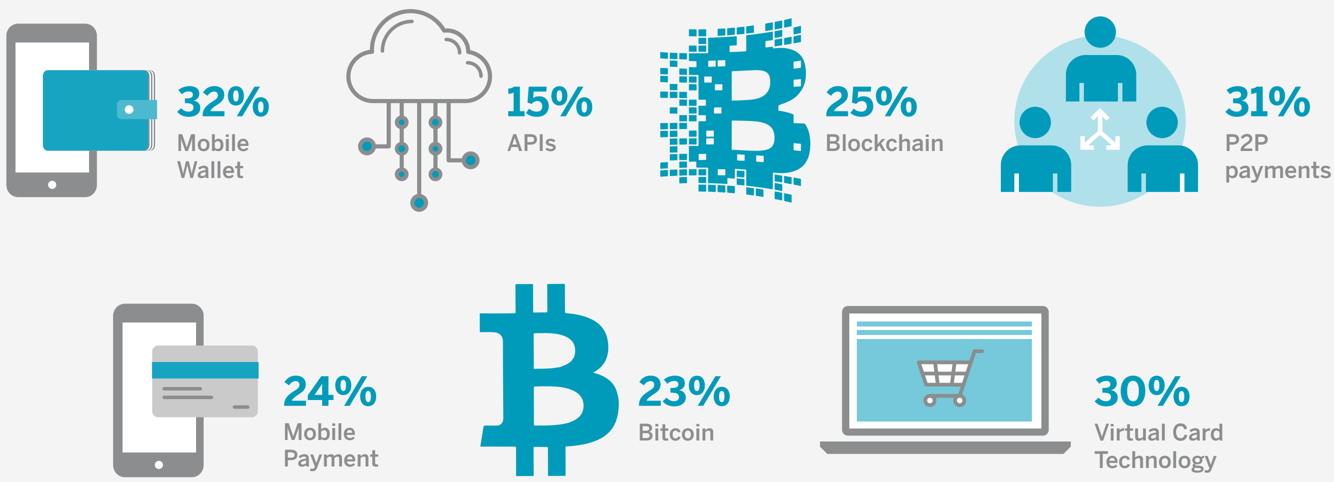
Some 20% of businesses will soon use APIs to streamline payments, 18% will deploy smartphone mobile wallets, 16% will increase mobile transactions, 12% will trial blockchain-style distributed ledger technology and 11% expect to incorporate Virtual Card Numbers to improve business transactions.

Of all these promising technologies, Virtual Card Numbers (sometimes called Virtual Account Numbers) had the most promise.

A VCN is effectively a virtual card, a 15-digit number that is linked to a specific business purpose and transaction. The advantage of VCNs is that by being assigned to specific business expenses, transactions become far quicker to identify, match and reconcile.

VCNs also provide greater security, protecting businesses from fraud with specific parameters for each transaction, from date ranges to spend limits and suppliers. Some 62% of CFOs said they have looked at VCNs as a way of generating considerable cost savings and streamlined supplier relationships, with 76% looking to use VCNs within the next five years.

Proportion of mid-market businesses that have already used these payment technologies



INNOVATION PAYS OFF

Businesses that have begun to include emerging technologies in their payment approaches have already seen some impressive returns.

Payment Revolution found early financial technology adopters are more likely to see broader business growth, as well as avoid payment and cash flow issues experienced by payment laggards.

These early adopters are twice as likely to pay suppliers on time, two-and-a-half times better at managing cash flow and four times better at processing payment than other businesses. The report also found early adopters are almost twice as successful at customer retention as those with poor payment practices and expected to see a business revenue increase of 20% or more during the next 12 months.

Perhaps because of these positive experiences, many of these CFOs said they are prepared to take more risks in exchange for a more innovative approach to payments. Some 61% of CFOs described their appetite for innovation as being high or very high. When compared to other senior business leaders, 50% of CFOs said their appetite for risk was greater than their executive colleagues.

The appetite for innovation is most pronounced amongst those businesses currently struggling with payment processes. More than half (59%) of payment laggards said their enthusiasm for greater innovation is very high, compared with 20% of all CFOs who felt similarly.

ADVANTAGES OF BEING AN EARLY ADOPTER

CFOs most willing to embrace new technologies are more likely to see benefits inside the finance department and across the business as a whole.

Improving processes

61% Of early adopters have completely automated their payment systems, compared to 22% of all businesses.

54% Of early adopters said payment was a very high priority compared to other business decisions.

62% Of early adopters have invested more than $100,000 on payment innovation during the past three years.

Better business results

4x Early adopters are four times better at processing payments than innovation laggards.

2.5x Of early adopters are better at managing cash flow than other businesses.

2x Early adopters were twice as successful at customer retention than other businesses.

THE PATH FORWARD

As well as sharing a vision for a more innovative approach, senior financial executives also had a common understanding of the challenges they were likely to face in implementing new payment processes.

These challenges serve as a roadmap for those businesses looking to modernise their approach.

1. OVERCOME SECURITY CONCERNS

Almost half (48%) of CFOs that participated in the *Payment Revolution* study said they would need to effectively tackle security concerns to drive payment change, despite Australia being one of the most financially secure countries in the world. According to the Australian Payments Council, in 2013 the rate of fraud locally was just 49 cents in every $1,000 transacted – almost half that of the United Kingdom.

"Security and trust continues to be at the heart of decision making when it comes to new financial technology adoption. Unlike other parts of the business that might be prepared to 'fail fast' in a bid to find a solution that works for them, the potential for fraud and financial loss means CFOs need to feel very, very secure about the technology platforms they adopt."

Desmond Leong, General Manager for Global Merchant Services at American Express Greater China

2. MONITOR REGULATORY CHANGE

Many CFOs (41%) cite compliance and regulatory uncertainty as an important hurdle to overcome. Many told *Payment Revolution* researchers that they would wait for greater regulatory clarity before adopting new technologies. Other Australian studies have also pointed to the potentially prohibitive price-tag that can accompany compliance. For example, the Australian Information Industry Association (AIIA) estimated 30-50% of payment modernisation projects are directly or indirectly attributable to regulatory compliance.

"Regulatory reforms are starting to come into the CFO's thinking around payment solutions. They need to have some kind of visibility into these changes so they can plan ahead."

Fady Daher, Vice President, Global Commercial Payments at American Express Australia

3. GAIN BUSINESS BUY-IN

Amongst the most surprising findings is that 42% of CFOs said their colleagues are likely to undermine efforts to change their business' approach to payment.

"You've always got people who don't like change. They've been doing things one way for 4-5 years but as long as you're supported by senior management in what you're doing you should be fine."

Senior finance executive, Labour Hire company

4. SEEK TRUSTED PARTNERS

With a new 'payment innovation' hitting the headlines seemingly every other day, CFOs can be excused for feeling a little off the pace.

"Businesses are wondering, 'Which way do I turn? How do I make these payments? I need to be able to make payments quickly, master my cash flow without too much cost'. Businesses are highly reliant on trusted partners to help them through this journey. CFOs looking to drive innovation should look to align themselves with reputable businesses."

Barry Fletcher, Vice President and General Manager, International Payments at American Express JAPA

CONCLUSION

During the past few years there have been increasing demands placed on finance departments, many of which are equipped only with time-consuming manual processes and limited investments in innovation.

This has placed some of these businesses in a position of real risk as the world evolves in payment. Many of those businesses currently struggling with payments are concerned about their own survival, whilst others are bogged down by a range of inefficiencies.

However *Payment Revolution* suggests this will soon change in Australia. CFOs are both acutely aware of their payment problem and now have the resources and commitment to modernise payment.

They are seeking to address the problems facing their businesses today, and also actively looking at solutions that will best place them for the future. Already today, a number of these early adopters are using technologies such as blockchain, mobile wallets, P2P payments and Virtual Card Numbers to improve not only the finance department, but their businesses as a whole.

Payment Revolution shows that these risk-taking, innovation-led senior financial executives will help transform payments from an operational necessity to a critical strategic business tool.