

Credit Unions: Growing with Small Businesses Through Payments



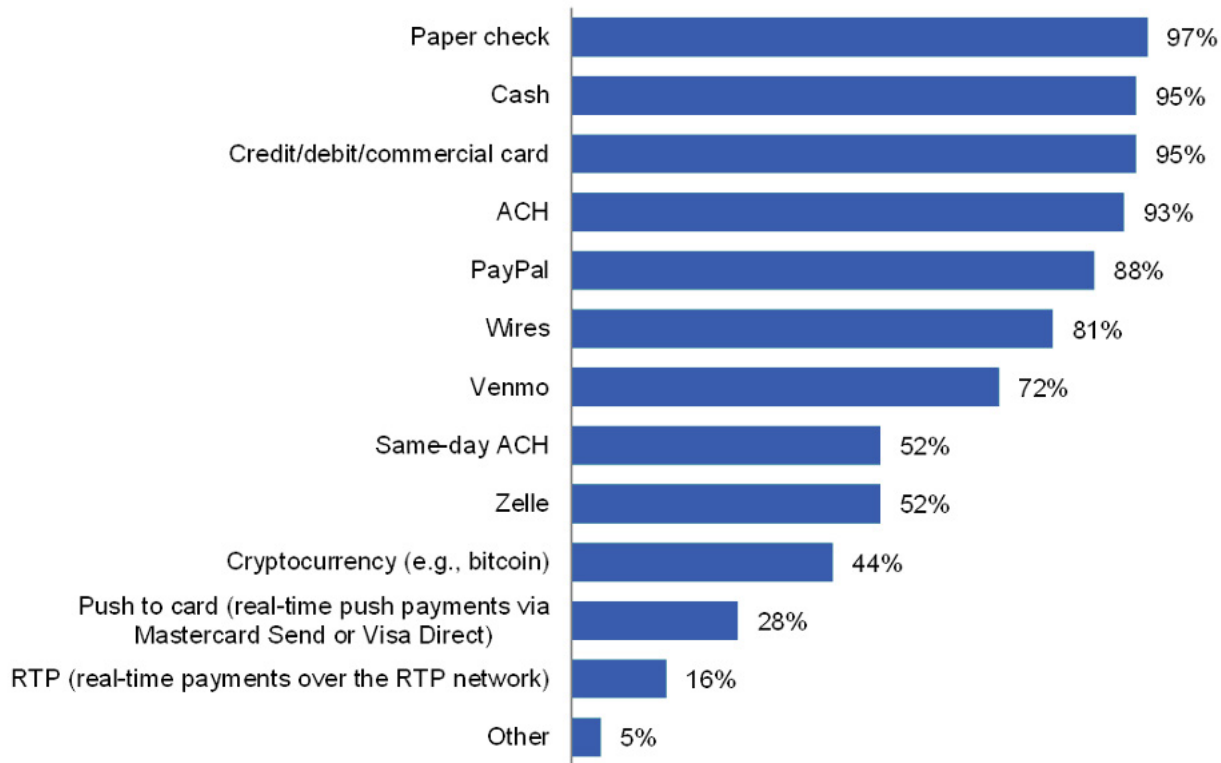
Businesses are becoming more cognizant of how a great payment experience can make them stand out in the marketplace. On the other hand, they are subsequently recognizing when their financial institution is not able to help them keep up with the industry, particularly direct competitors. As part of this, payments are shifting not only from checks to electronic payments but from electronic payments to MORE electronic payments. In a Credit Union Times hosted [webinar](#), Erika Baumann, Sr. Analyst for Aite-Novarica and Al Griffin, Product Manager at Alacriti, discussed how credit unions can win by educating small business clients on how to use payments technology to their advantage.

Small Business Adoption of Electronic and Faster Payments

Aite-Novarica survey research indicates that small businesses are more aware of different payment types than financial institutions give them credit for. “When I’m talking to financial institutions, they really stick to those core legacy payments: ACH, check, wire, card, and then maybe same-day. However, with small businesses, there is interest in the meaning of push to card. How is RTP going to fit into my business

processes? What do digital wallets like PayPal, Venmo, and CashApp mean for me? They want to know more about these things and what they could mean to their business,” shared Baumann. The chart below shows that knowledge of vendor-offered emerging payments such as Venmo is higher than FI offerings such as Zelle and RTP.

**Q. Which of the following payment methods are you familiar with?
(n=100 small businesses)**

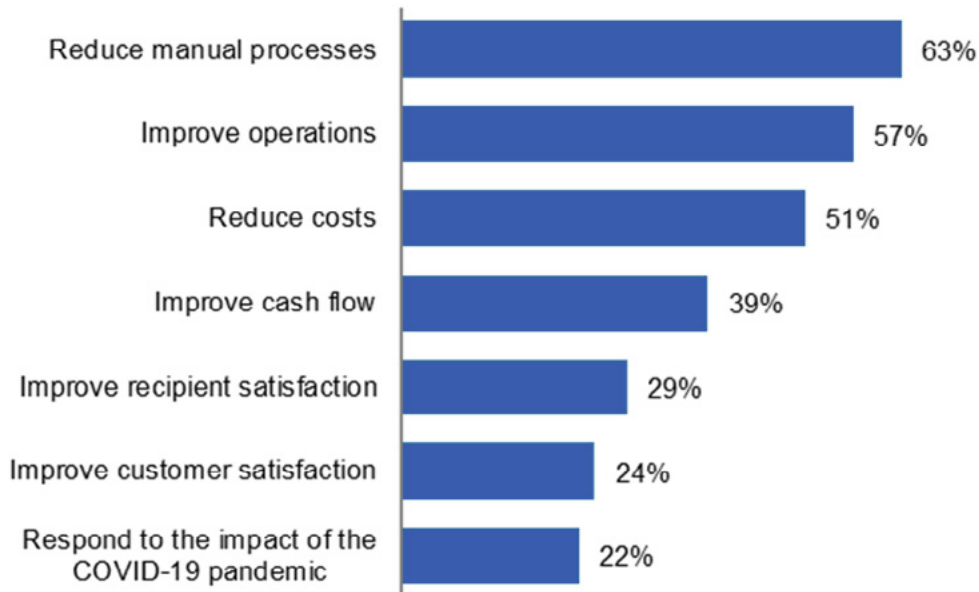


Source: Aite-Novarica

The number of checks is declining as interest and awareness of more efficient payment types continue to increase. Eighty-three percent of businesses say that the decline is primarily due to an overall effort to reduce the number of checks. Although there are some businesses that actually say their number of checks have increased, that is due to rapid expansion or growth. So although the checks increase in number, they're still reporting a decrease in percentage of total payments. Sixty-eight percent of small businesses would prefer to receive electronic payments over paper checks (a preference that is also seen in other business sizes). “Sometimes there’s a misconception that small businesses are going to stick with what they have. And that’s not really the case. If they’re educated and understand the options, there’s absolutely an appetite to move towards electronic payments, which ties in the data showing that one-half of small businesses have implemented initiatives to reduce check usage,” said Baumann.

COVID-19 has accelerated the need to automate payments processes and reduce the amount of paper being processed. Primary drivers include reducing manual process, improving operations, and reducing costs. Recipient satisfaction is becoming a more critical driver of improving the disbursement process:

Q. What were the primary drivers for the initiative to reduce the number of checks your company disburses/sends? (Select all that apply; n=49 small businesses that had an initiative to reduce the number of checks disbursed)



Source: Aite-Novarica

How Credit Unions can Gain Market Share by Educating Small Business Clients

Financial institutions have the opportunity to address the pain points of small businesses by giving them alternatives to paper checks and helping to educate them on electronic payments. Seventy-four percent of all businesses have use cases that are better suited for electronic payments. However, they may not be aware of how to incorporate a different process into their existing operational processes, an internal resistance to change, or other factors.

When it comes to real-time payments, smaller businesses have been slower to adopt, which is partly due to availability. This is an audience that could use more outreach and understanding as they're starting to see the opportunity cost of not having a financial institution that provides them with the ability to [send and receive real-time transactions](#). On the receive side, this is highly imperative considering the number of small businesses that go under, not because they didn't provide a valuable good or service, but because of liquidity and not having enough capital to open the doors

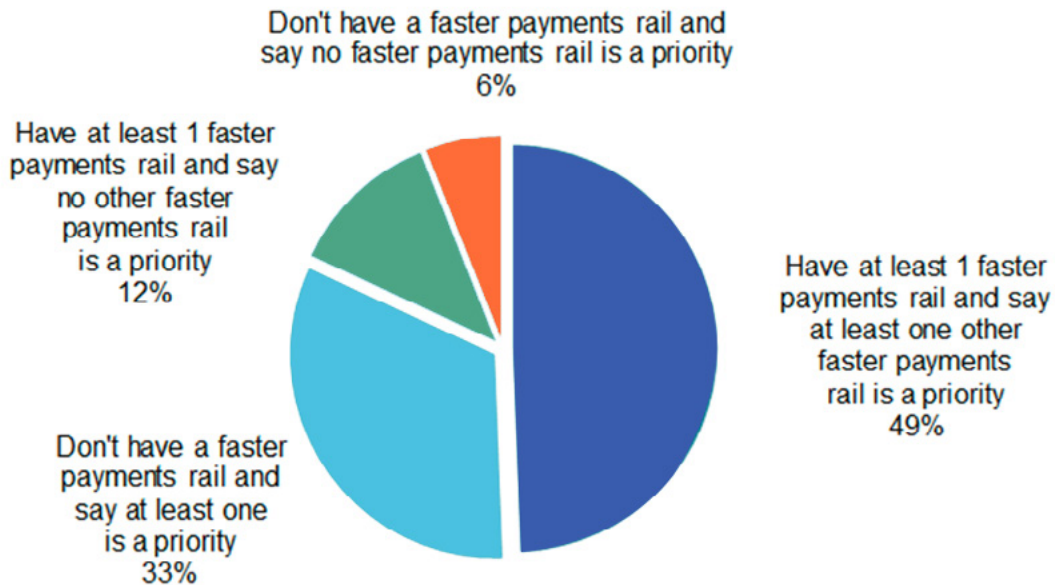
the next day. Businesses where cashflow is so important might be doing themselves a disservice to not be with a financial institution where they can at least receive real-time payments.

On the send side, the first assumption might be that the business wouldn't want to let go of their money any sooner. However, it depends on the business that they're in. Being able to issue funds quicker can serve as a market differentiator and positively affect overall satisfaction and loyalty. For example, a customer who purchases something online from a business that doesn't work out. Receiving the refund quickly back into their account may lead to them finding their next product at their marketplace instead of going to a different one.

Faster Payments

It's time to take action to get this critical small business market share as most community banks and credit unions plan to offer and implement faster payments. Many already have one rail and say they are going to be implementing a second rail.

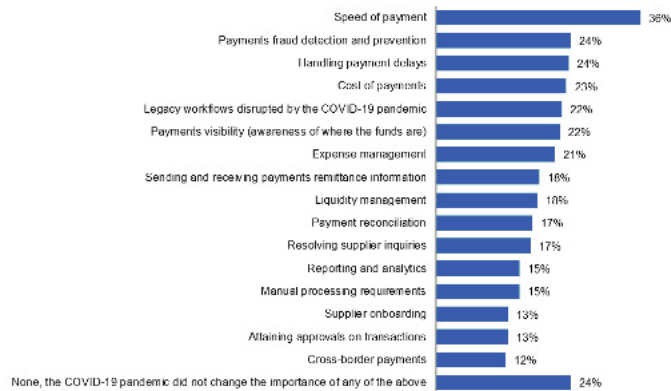
Faster Payments Adoption and Future Priorities (Base=83 community banks and credit unions)



Source: Aite-Novarica

It's also important for community banks and credit unions to think about what pain points are there for the end-user:

Q. Has the COVID-19 pandemic increased the importance of any of the following capabilities to your organization's payments strategy? (Select all that apply; N=251)



Source: Aite-Novarica

Despite slow adoption, more than half of small businesses plan to make real-time payments (RTP) in the future, and 76% believe RTP will provide them with a competitive customer satisfaction advantage. The top four banks in the U.S. capture about 60% of the business, and they are able to cater to small businesses by offering these capabilities to offer better customer satisfaction. RTP use case examples include:

- **End of the year payments (donations):** Charitable organizations often do an end of the year push for funds to be donated. With RTP, the charity can have cash on hand immediately and into the new year.
- **Real estate transactions:** Real estate has payments between many parties, as well as the need for tracking and validating payments being made. Whether it is monies held in escrow from a buyer under contract, or the final payout to the seller, real estate would benefit from the transparent and instantaneous transactions RTP provides.
- **Commission payments, incentives, expense reimbursement, and bonuses:** Employees value getting paid quickly and accurately. Automated payments such as commissions, expense reimbursement, and others provide instant payments and automates those processes for real-time cash management.
- **Structured payments:** Most individuals with structured payments or settlements would benefit from instant access to those funds.
- **Insurance payments to healthcare providers:** Payments to healthcare providers from insurance companies and other sources not only have the payment, but also the accompanying data (securely) with the payment that details the service, the insurance information, and more.
- **Franchise payouts:** Owner companies of franchise locations often have campaigns and loyalty contracts with franchisees and partner companies. The faster the owner company can reimburse franchisees and partners, the more flexible and accommodating they can be in responding to customer requests.

Some of the key benefits of real-time payments and [request for payments \(RfP\)](#) is the ability to incorporate and utilize the ISO 20022 format that provides the gateway for automated accounting system reconciliation, saving small business owners time and money by reducing paper invoices, processing checks, and paper bills. Another advantage is that RTP payments are final—there is no NSF, Account Closed, or ACH Return issues. RfP and RTP payments provide small business owners with clear insights on when payments will be posted from a send and receive perspective—leading to better liquidity management.

RfP is the next advancement in the RTP scheme, and a driving force for increasing RTP usage. RfP is a message to a payor letting them know payment is needed. The payor then approves the transaction and instructs funds to be pushed to a payee's account, all without having to login into their bill account. It allows billers to gain more control over outstanding bills while also providing the payor with more flexibility (they can choose when to make the payment and choose full or partial payment) and transparency paying those bills. Funds received by RTP are irrefutable, and there are no card network interchange fees.

An example of an RfP use case is bill payment. Rather than debiting an account, a biller can send an RfP message to a customer and let them know that their bill is coming due. The message includes the fundamental information regarding the amount due and when payment is needed. The payor can review the RfP message and pay the amount due, make a partial payment, pick the date to make a payment, or choose to decline or ignore the message and pay their bill through some other means. If the payor agrees to pay some or all the requested amount, funds are instantly settled from the payor's account to the biller's account with all the associated, identifying transaction details needed to automate payment reconciliation.

The Aite-Novarica survey also revealed that about a third of the small business respondents currently using RTP are doing so via their accounts receivable accounts payable software provider. In addition, three quarters of the respondents plan to utilize third party providers (e.g., [Alacriti](#)) to be able to meet their real-time payments and request for payment needs.

As more RfP and RTP use cases involve fintechs, credit unions are going to be working on how to best manage that member experience for servicing those use cases. Also the potential use cases are expansive, and there are many new ones expected to come that haven't been thought of yet. One that is on the horizon is the point of sale request for payment. A person could come in and make a purchase and leveraging RfP, the merchant could have the money before the customer walks out the door, and without the network interchange fees that are a part of today's credit card transactions.

Disintermediation

One reason that third parties are gaining traction in the market is because they have the knowledge and expertise. Businesses increasingly want an integrated payments experience. According to Aite-Novarica research, up to 94% of businesses think it's important to have their payment options on a single platform. Therefore, credit unions need to learn how to speak with them about the payments landscape and the integrated payments experience. Many financial institutions struggle with getting there, especially when it comes to the basics of where the business should send in their payment file. In fact, a main reason that businesses (74% of medium and large businesses) report disintermediating their bank and working directly with a fintech company is that submitting a payment file is too difficult. So offering an integrated payment experience by taking advantage of the technology that's available is key to not retaining and gaining market share.

So what are fintechs doing differently? It's not just that it's easier to submit the payment file. They have some better reporting capabilities, but it's also outreach. The fintechs are able to target small businesses by being really good at speaking their language and making their own opportunity. Credit unions have to understand where fintechs are coming in and take advantage of the opportunities that other players are finding.

When speaking with small businesses, credit unions know that they need to educate them on how they can solve their business problems. But what are those business problems? Many are wondering how to make their recipients happier, how to use payments into a differentiator, and how to make sure they are prepared operationally for what they're putting into practice.

Next Steps

The advent of real-time and faster payments is increasing the urgency of infrastructure modernization. [Seventy-nine percent](#) of executives say that their payments technology efforts have been accelerated by the pandemic. This urgency is the result of rising consumer expectations for new services, which can translate into new revenue streams. Eighty-seven percent of executives believe that real-time payments can generate new revenue streams and it's been demonstrated that clients are willing to pay for these services. For instance, PayPal/Venmo will allow you to pay a fee to have the money directed to your account instantaneously versus waiting one to three days for it to process.

Cloud-based infrastructure is an overwhelming preference for achieving the advantages of a simple, superior end user experience with a quick speed to market and pay-as-you-go set up. Alacriti kept this in mind with [Orbipay Unified Money Movement Services](#)—a cloud-based platform that enables financial institutions to deliver modern and intuitive digital payments and money movement experiences across multiple channels and across all the payment rails (RTP network, FedNow, etc.). And, perhaps most importantly, with integration into existing back-office platforms.

Conclusion

Modern payment technology provides credit unions with the ability to compete with larger financial institutions and facilitate the needs that their small business members may have. RTP and RFP will be a key factor for that. Small businesses can improve their liquidity management and payment and enjoy the transparency of the payments. Members with small businesses are going to expect the same type of services for their businesses that they have for their personal payment capabilities, so it's important that modernization reaches both sides.

To learn more about the shift in payments behavior that is happening amongst small businesses and the opportunity it presents for credit unions, watch the full webinar, **Credit Unions: Growing with Small Businesses through Payments**, featuring Aite-Novarica Group and Alacriti.



Today's legacy and siloed banking technology infrastructure limit financial institutions' ability to rapidly innovate. It's time to look at money movement in a new way. Alacriti's Orbipay Unified Money Movement Services does just that. Whether it's real-time payments, digital disbursements, or bill pay, our cloud-based platform enables banks and credit unions to quickly and seamlessly deliver modern digital payments and money movement experiences. To speak to an Alacriti payments expert, please call us at (908) 791-2916 or email info@alacriti.com

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