

A close-up photograph of a person's hand holding a dark credit card over a laptop keyboard. The keyboard is out of focus, and the background is a blurred wooden surface. The lighting is soft and natural, highlighting the texture of the hand and the sleek surface of the card.

# Paperless payments

The benefits of automation

by Rob McClean

**E**LECTRONIC PAYMENTS HAVE become increasingly important to businesses and consumers on a global scale, with key markets like the Netherlands mandating the virtual elimination of cheques and the United Kingdom planning to do so by

2018. Canada, however, lags behind its European counterparts when it comes to electronic payments between businesses, many of which still rely on the paper cheque system.

This issue is drawn into sharp contrast in the public sector, where demand for

fiscal accountability is ever increasing. Modernization of operations, streamlining processes and cost reduction are a growing focus for public sector organizations, which are looking for solutions that eliminate or reduce the inefficiencies relative to traditional procurement processes.

This article examines some of the common pitfalls associated with the paper cheque system, as well as the barriers and benefits to adopting automated payables processes for public sector organizations.

### The pitfalls of paper

It's expensive. There are high operating costs associated with writing cheques, manual processing and time spent reconciling accounts. And when you take into account penalties for late payment, missed discounts and additional discounts vendors give to receive payments electronically, the opportunity costs associated with cheques can be substantial.

It's not 'green.' Today, most businesses need to consider the environmental impact of their operations from a corporate social responsibility standpoint. Paper-based processes drastically increase an organization's carbon footprint. In fact, a study released in 2008 by UK-based Carbon Footprint Ltd. revealed that the carbon emissions generated by regular cheque payments are around 65 times greater than that of ongoing direct debit.

It makes for an unpredictable cash flow. With no way to know when cheques will be received and cashed, your balance sheet is in a constant state of flux.

It leaves you open to fraud. A 2011 Payments Fraud and Control Survey by the Association for Financial professionals found that 71 percent of North American organizations experienced attempted or actual payments fraud in 2010. Furthermore, cheques were the payment format most frequently targeted for fraud (93 percent), with 29 percent of affected companies reporting an average loss of \$18,400.

### Barriers and benefits to electronic payment adoption

People, paper and multiple systems characterize the payables process for many organizations, particularly in the public sector. Even with well-documented drawbacks to the traditional process, many businesses are hesitant to move to electronic funds transfer (EFT) or other electronic payments solutions, citing one or more of the following real or perceived barriers:

- perceived loss of float;
- accounting systems that are not

integrated with electronic payment systems;

- limited ability to exchange remittance information;
- challenges associated with collecting supplier banking information; and
- the resources required to enable suppliers.

The reality is that while some companies have invested in process level improvements, those that automate achieve the greatest benefits. Electronic payment solutions like the Buyer Initiated Payment (BIP) platform from Amex Bank of Canada not only address the barriers listed above, but also provide several benefits to both buyers and suppliers.

BIP is a Web-based payment platform that takes cheques out of the payment process, increases a client's working capital, and works with existing accounts payable processes to increase efficiency and savings. Through the platform, the buyer sends a payment instruction to American Express, who then deposits funds directly into the supplier's bank account. The buyer would then pay American Express at the end of a billing cycle.

Electronic payment solutions like this offer buyers and suppliers improved security and control, increased efficiency and enhanced customer relations. Specific benefits for both parties include:

#### Buyer benefits:

- improve working capital and reduce liquidity risk;
- extend Days Payable Outstanding (releasing cash flow);
- quickly move to electronic payments to reduce costs associated with cheque processing; and
- accelerate payment to suppliers while maintaining or extending current working capital positions.

#### Supplier benefits:

- accelerated payments, improving Days Sales Outstanding;
- improved cash forecasting;
- ability to offer differentiated payment opportunities to customers; and
- Web-based payment status.

One unique benefit that Amex Bank of Canada can offer is that it is the only

player in Canada to manage both buyer and supplier relationships through a "closed-loop network." With banks and other card networks, there are many layers and associations that complicate the process of on-boarding suppliers, who often deal with several teams for implementation. Since one of the major barriers to EFT is supplier enablement and management, Amex's ability to take responsibility for both – along with the significant resource needs for remittance and collecting supplier banking information – is a huge benefit over traditional EFT.

In a tight economy where cash flow is king, you need to focus on maximizing your working capital and controlling spending. Whether you find that EFT, BIP or another electronic payments solution is the right fit for your business, the benefits of automation are both clear and compelling. 

In his role as Vice President and General Manager at Amex Bank of Canada, **Rob McClean** is responsible for developing and driving the business strategy for the Commercial Card business in Canada. Rob is a member of the Canadian Executive team, a Director on the Board of Amex Bank of Canada and is responsible for strategically aligning Commercial Card with other American Express Canada business units to deliver high-quality products and services.