



How to Leverage the *Small Business Payments Toolkit*

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Logistics

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Webinar

You can choose to listen to the audio through your PC speakers or dial in through the phone option. **Please note:** If you experience problems with the PC audio at any time, you can dial in using the number and code above.

Materials button

How we'll take questions

We will be holding questions until the end of the session, please submit them at any time throughout the presentation via the **Ask Question** button in the webinar.

AGENDA

- 1) About the Small Business Payments Toolkit
- 2) U.S. Payment Trends
- 3) Brief Primer on Small Business Payment Types
- 4) Talking with Small Businesses about Payments
- 5) Educating Small Businesses about Payments Fraud

Views expressed today are those of the presenters and not the Federal Reserve Banks. The Small Business Payments Toolkit has been created by the Remittance Coalition & is intended to be used as a resource. Views expressed are not necessarily those of, & should not be attributed to, any particular Remittance Coalition participant or organization; nor are they intended to provide business or legal advice nor to promote or advocate a specific action, payment strategy, or product. Readers should consult with their own legal and business advisors.

What is the Small Business Payments Toolkit?

- FREE resource to be leveraged by small business (& their bankers & advisors)
 - Not copyrighted
 - OK to modify using Adobe Professional
- Encourages adoption of electronic B2B payments plus payment/remittance information exchanges
 - <https://fedpaymentsimprovement.org/wp-content/uploads/small-business-toolkit.pdf>



**Link to
Toolkit**

**Created by the
Remittance Coalition**

Remittance Coalition

- **Participation**: National group of associations, small and large businesses, financial institutions, technology and software vendors, standards development organizations and others
 - Formed in 2011
 - 440+ members and growing
 - No dues or criteria for joining, other than a willingness to work together
- **Mission**: Work together to solve problems related to processing remittance information associated with B2B payments in order to promote use of electronic payments and straight through processing (STP)



Remittance Coalition Information

- Information about the Remittance Coalition:

<https://fedpaymentsimprovement.org/get-involved/remittance-coalition/>



Visit the website to:

- Learn about activities
- Join the Remittance Coalition
- Volunteer on a project
- Listen to recorded webinars

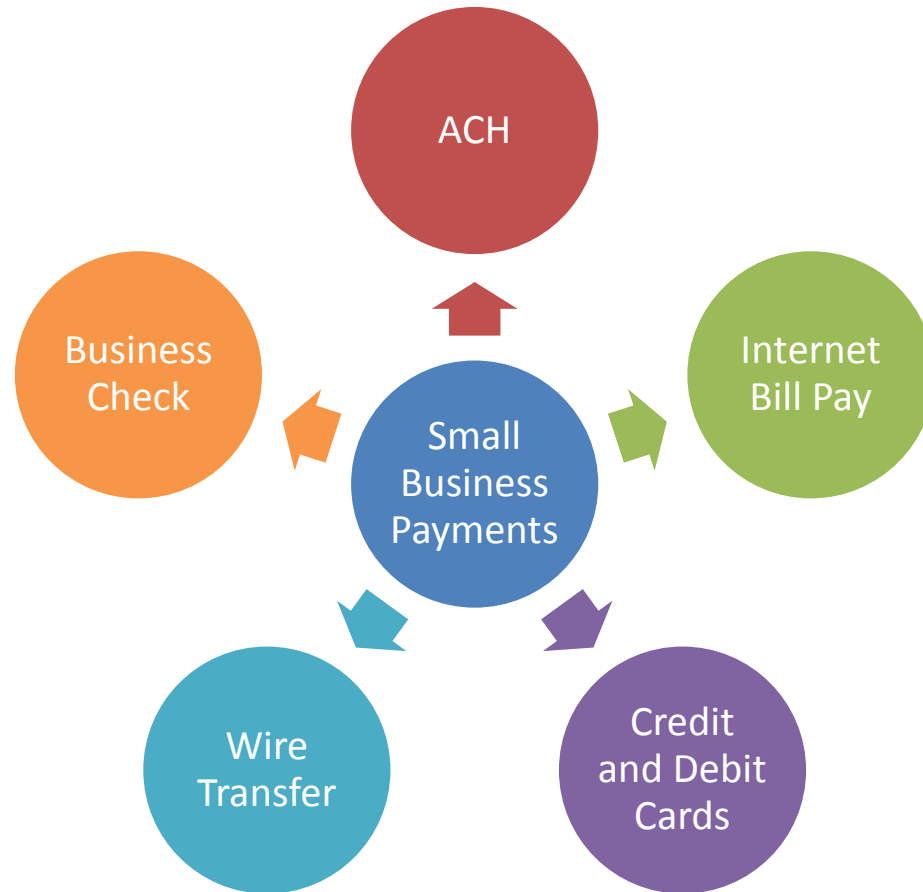
Contents of Small Business Payments Toolkit

- **Payment Types Explained**
- **Understanding ACH**
- **Working with Your Banker**
- **Fraud Prevention & Mitigation Tips**
- **Resources**
 - Glossaries of Payment Terms
 - Credit & Debit Card Resources
 - ACH Resources
 - General Small Business Resources
 - Fraud & Data Security Resources



Brief Primer on Small Business Payment Types

Small Business Payment Types



Payment Type Pros & Cons

Business Check

Pros	Cons
<ul style="list-style-type: none"> • Legacy System • Widely accepted • No need for Bank acct numbers 	<ul style="list-style-type: none"> • Higher costs • Manual handling • Greater fraud frequency

ACH

Pros	Cons
<ul style="list-style-type: none"> • Much lower fees • Higher automation lower handling • Much lower fraud 	<ul style="list-style-type: none"> • ACH credit not final until settlement • Need routing & account #

Internet Bill Pay

Pros	Cons
<ul style="list-style-type: none"> • Save time • Cost savings • Reduce paper 	<ul style="list-style-type: none"> • Some payments still via check • Identify payee to system

Pros	Cons
<ul style="list-style-type: none"> • Highly secure • Near real time • Certain delivery 	<ul style="list-style-type: none"> • Fees charged to both parties • Need routing & account #

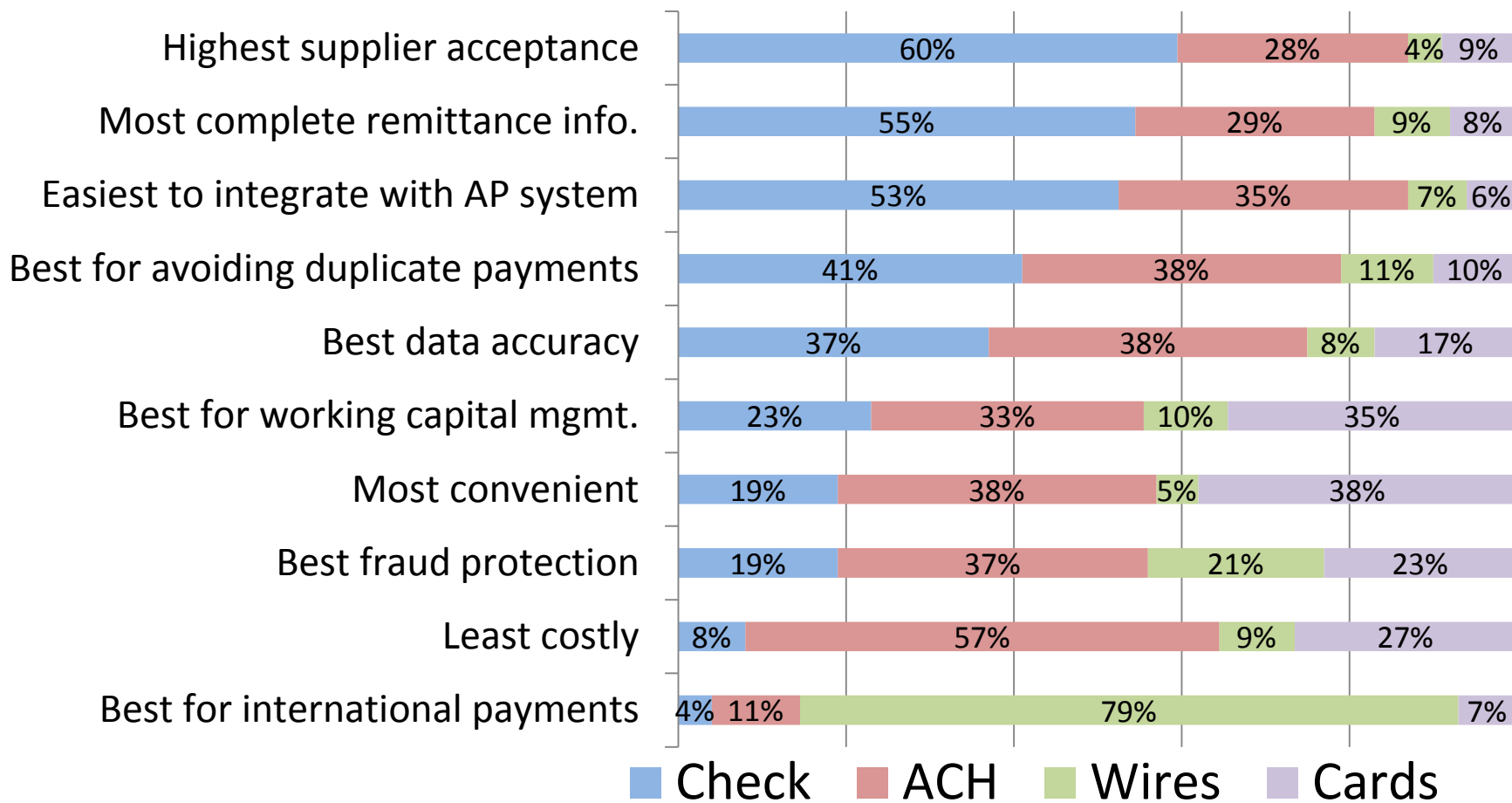
Wire Transfer

Credit & Debit Cards

Pros	Cons
<ul style="list-style-type: none"> • Easy to use, widely accepted • No need for routing & account # 	<ul style="list-style-type: none"> • Costs higher –equipment & processing • Fees incurred for reversal

Comparing Payment Attributes

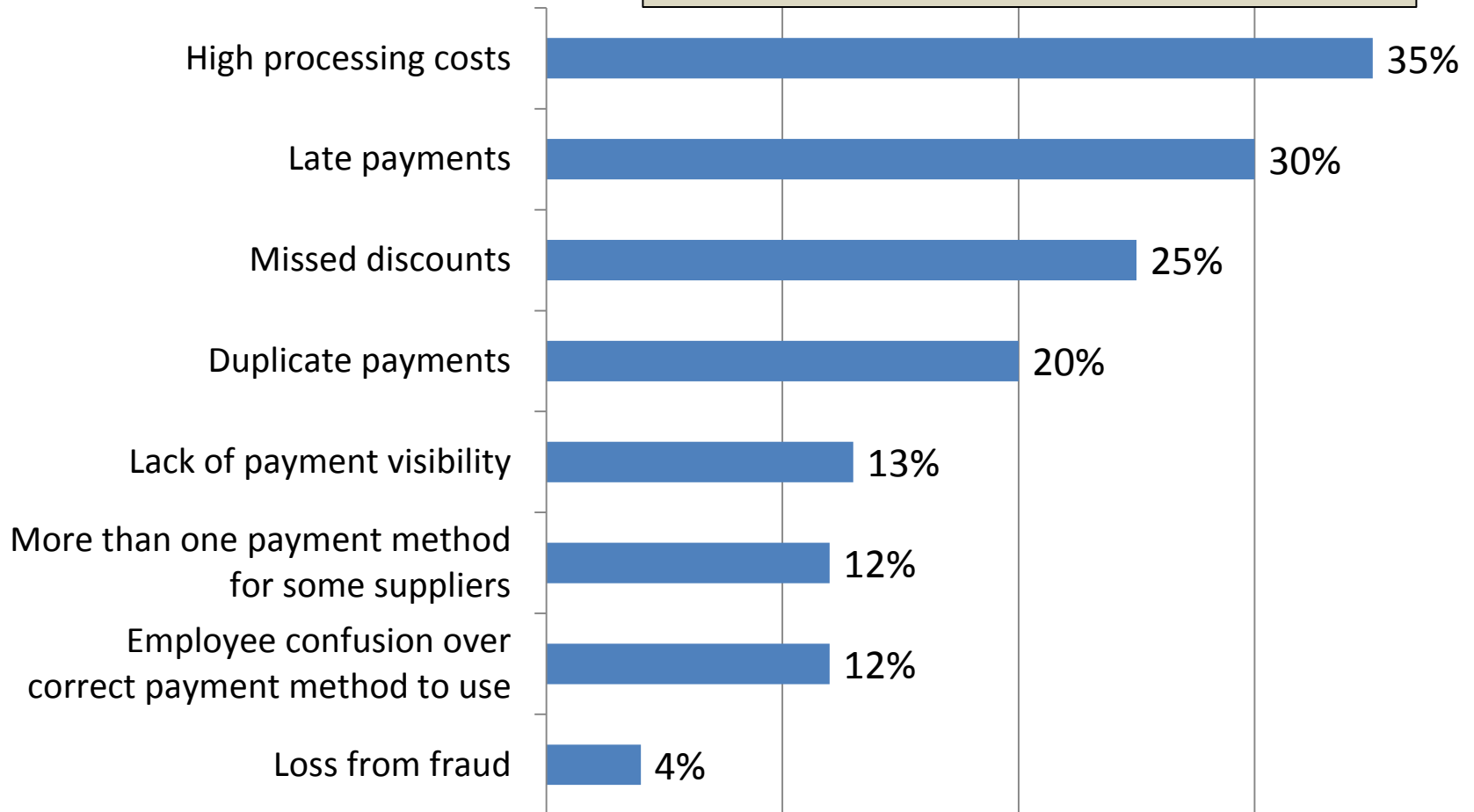
Which payment method best represents each attribute?



Source: PayStream Advisors, *Electronic Payments and Card Solutions in 2015: Perceptions, Realities, and Strategies*, Q3 2015.

Top Challenges in Payments Processing

Challenges mostly result from manual payment management and they do not differ between larger and small organizations.



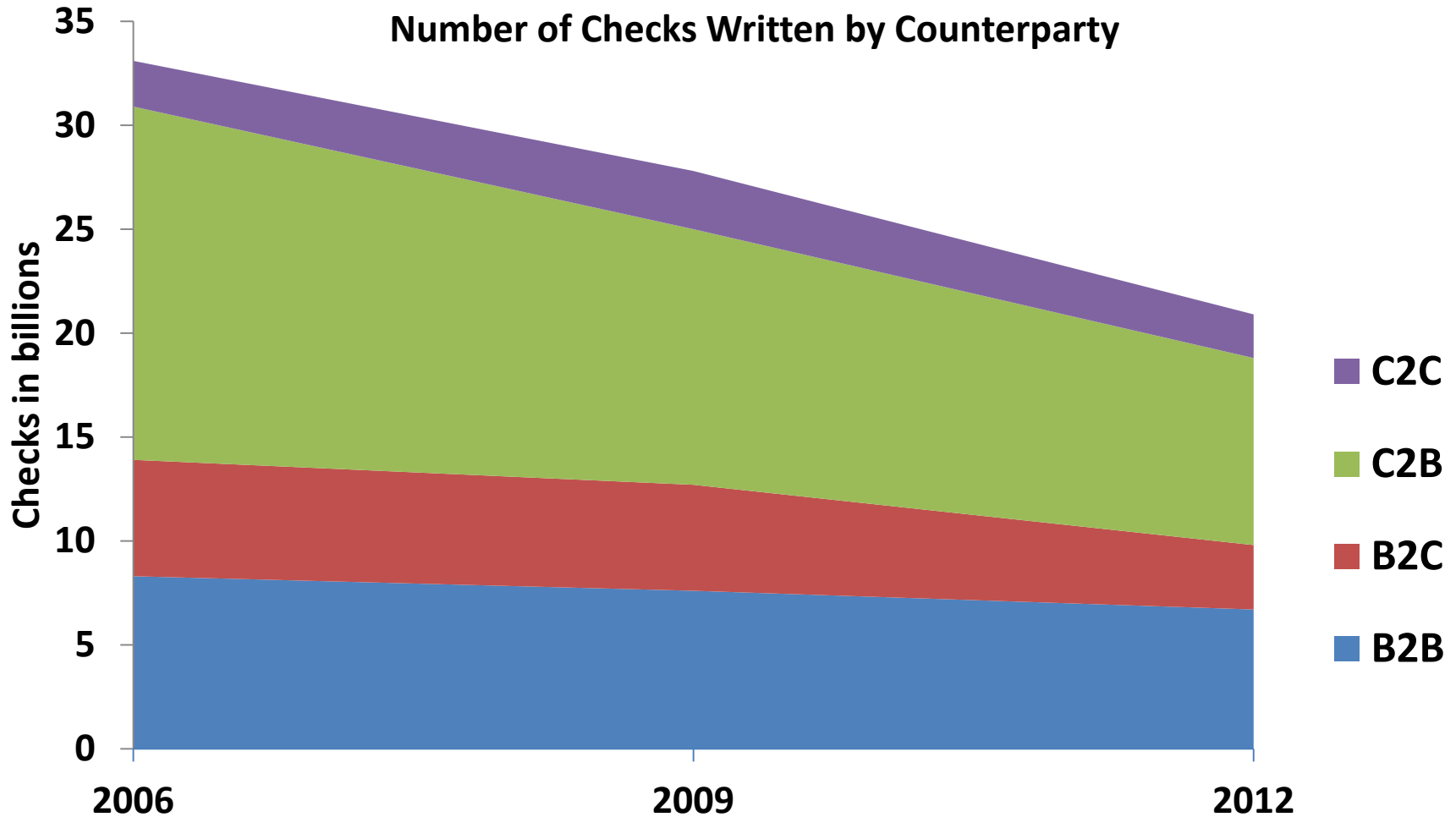
Source: PayStream Advisors, *Electronic Payments and Card Solutions in 2015: Perceptions, Realities, and Strategies*, Q3 2015.

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U.S. Payment Trends



B2B Check Usage is Stagnant

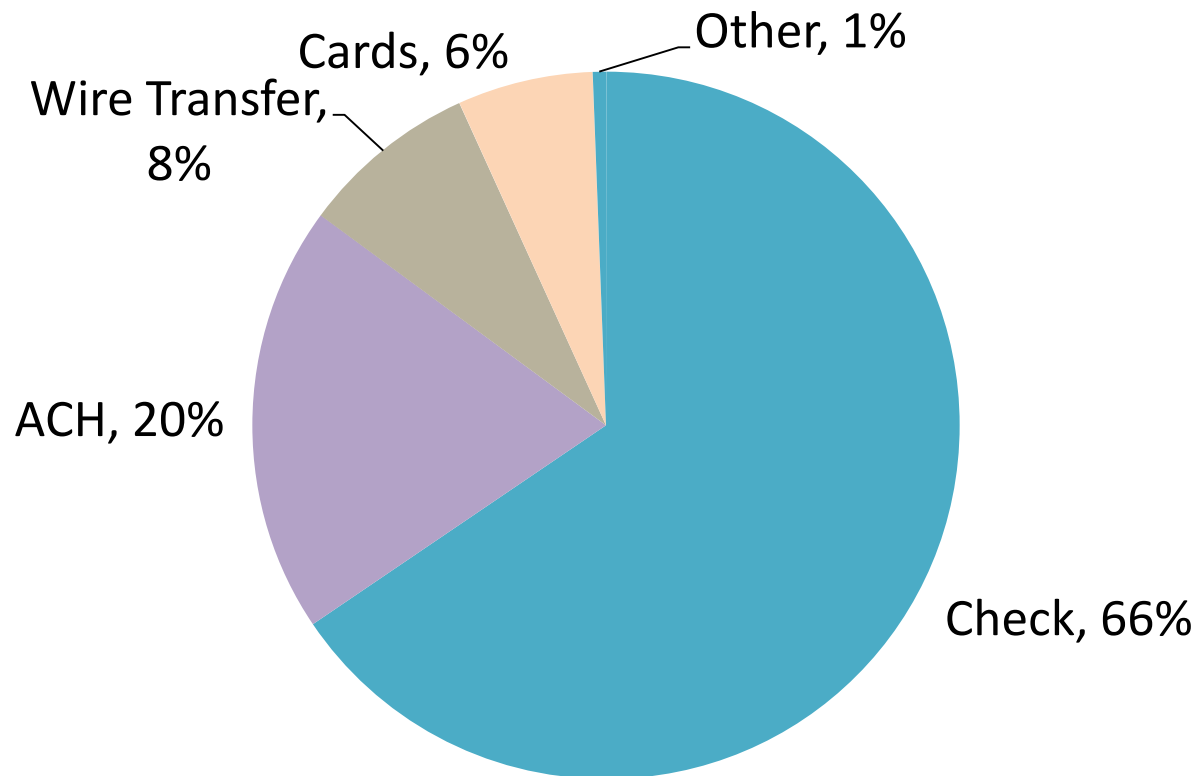


Source: Federal Reserve Payments Studies published in 2007, 2010, and 2013.

See https://www.frbservices.org/communications/payment_system_research.html for reports.

Checks Are the Leading Payment Type among Businesses

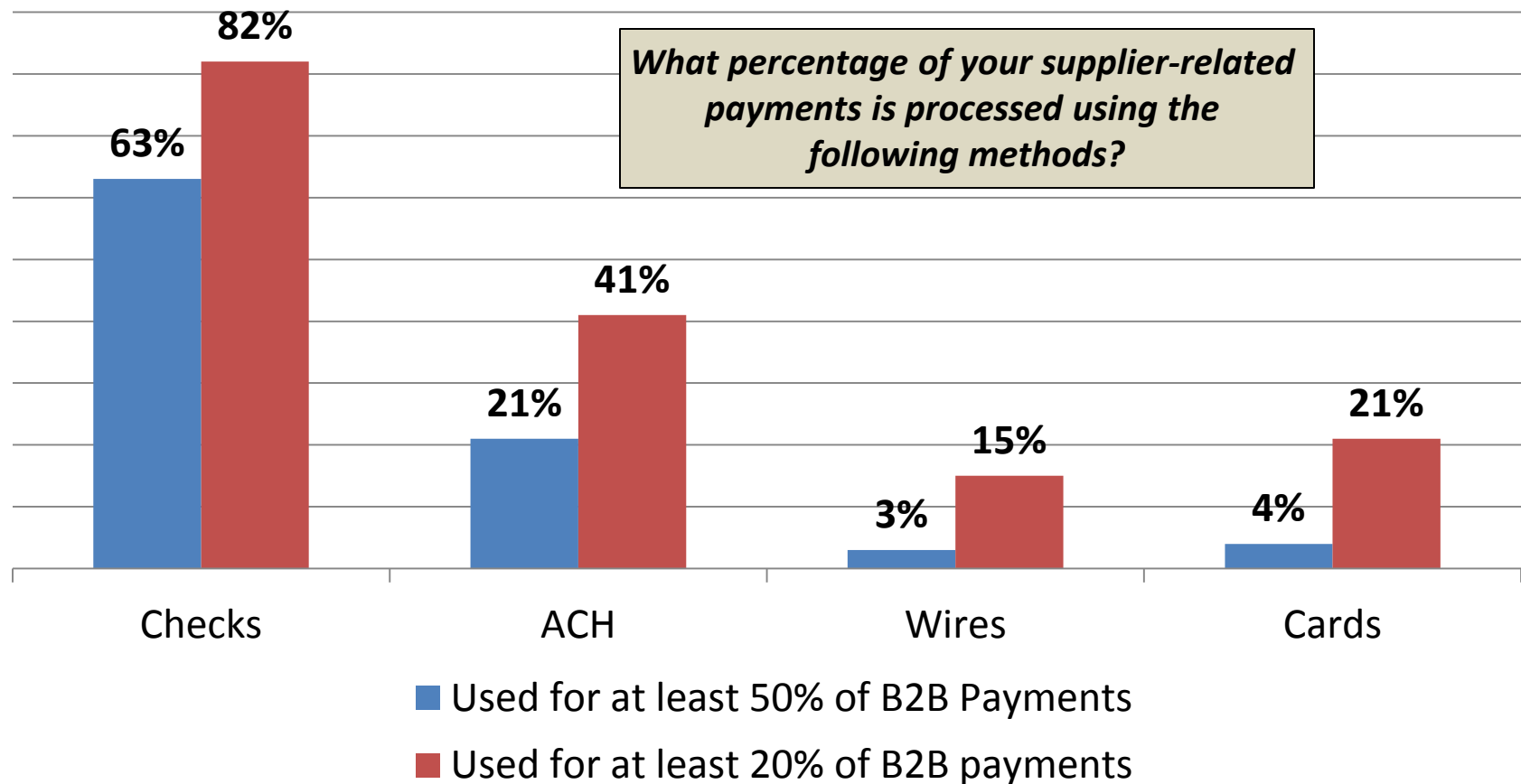
**% of Payment Transactions Made by Corporations,
by Payment Type**



Source: 2014 Phoenix-Hecht Treasury Management Monitor, survey of corporations with annual sales of above \$20 million.

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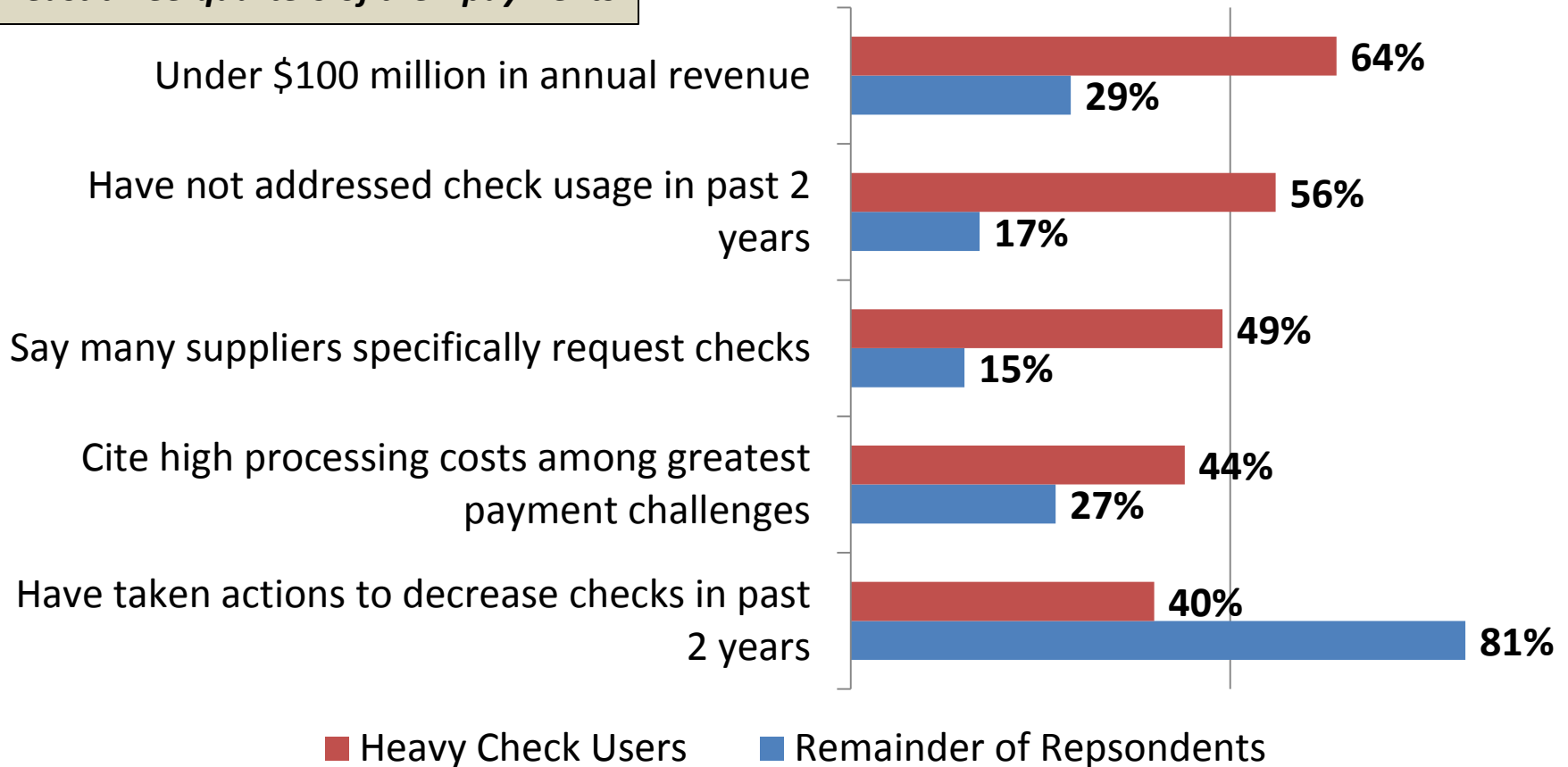
Most Organizations Use Checks for at Least Half of B2B Payments



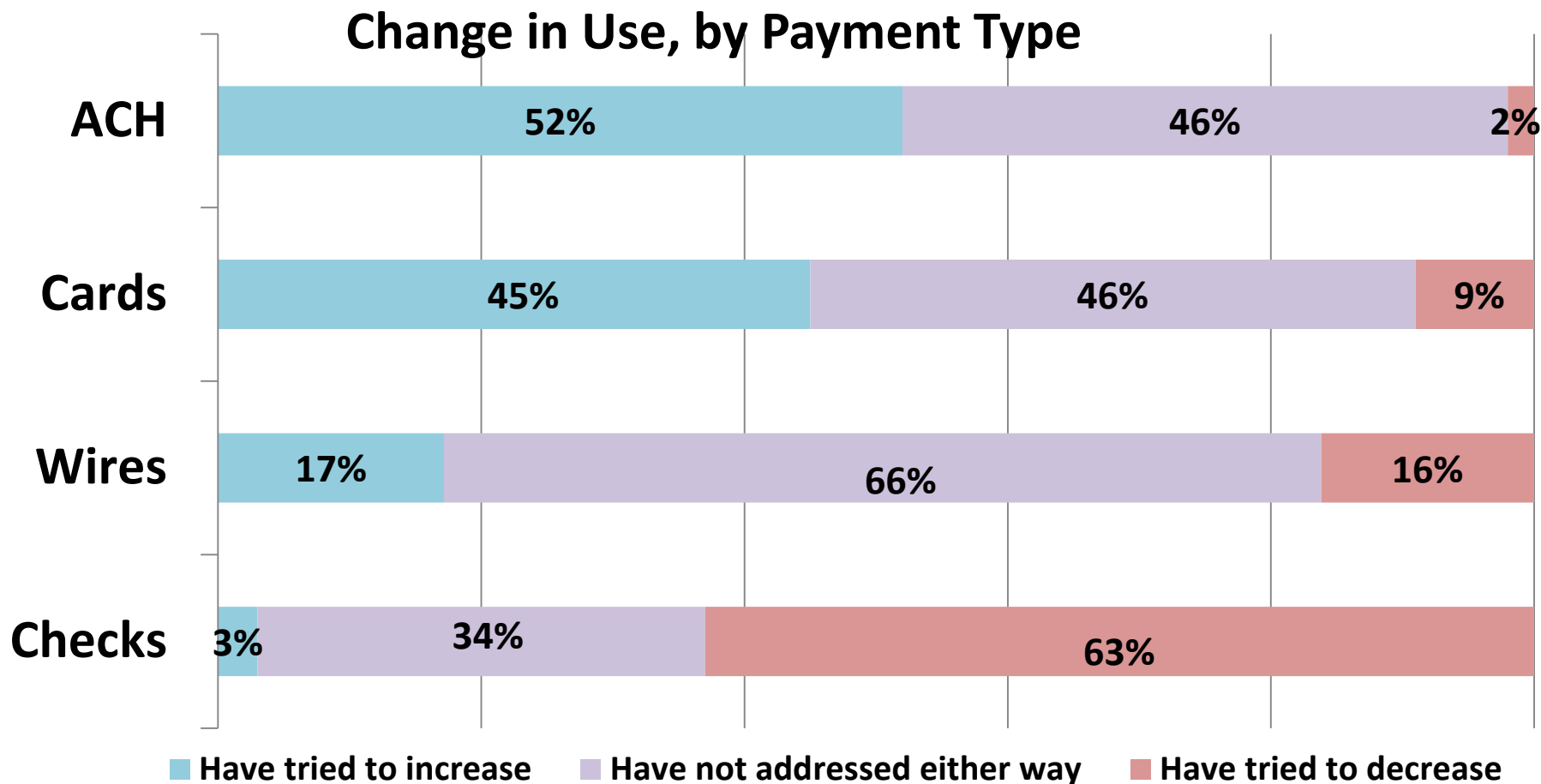
Source: PayStream Advisors, *Electronic Payments and Card Solutions in 2015: Perceptions, Realities, and Strategies*, Q3 2015.

Profile of Heavy Check Users

“Heavy users” rely on checks for at least three-quarters of their payments



Trend: Increased Use of E-Payments for B2B Payments



Source: PayStream Advisors, *Electronic Payments and Card Solutions in 2015: Perceptions, Realities, and Strategies*, Q3 2015.



Talking with Small Businesses

Using Electronic Payments is a Smart Choice for Small Businesses

- Efficiency
 - Lower costs of payments handling
 - Free up staff resources
- Security
 - Lower risk of fraud losses
- Reliability
- Strengthen customer retention by setting up recurring payments
- Direct deposit of payroll boosts employee productivity
- Business growth/ increase revenue opportunities
 - Some large trading partners and government contracts require acceptance of ACH payments



What Can Electronic Payments Do for Small Businesses?

- Using ACH, wires and / or cards can improve cash flow
 - Predictable and managed posting of transactions
 - Take advantage of discounts
- Offers way to impose requirements on slow-paying customers
 - Payment due before product/services delivered
 - ACH credits, wires, or cards
- Offer an incentive to pay early or to use an electronic payment method over paper

Talking about ACH with Small Businesses

- Many small businesses already understand ACH through payroll
 - Use as a starting place for discussion
 - Educate on fee structure and options
 - Talk about number of payments required to justify costs
- Discuss ACH implementation issues
 - Determine how to originate ACH – in-house or hire third party
 - Requires underwriting
 - Complex authorization forms required for risk underwriting and security
 - Other options (e.g. pre-fund)
 - Workflow and control issues
 - Must manage and secure payment identity of each payee
 - Routing/transit number

Advice on Working with Bankers



- Small businesses should be proactive: contact bankers about payment needs
- Shop around to find the best bank with services the small business needs, e.g., ACH origination services, remote deposit capture, merchant services, etc.
- Seek out experts at your bank
- Bring information (payrolls, examples of incoming and outgoing payments, card usage) to the meeting with your banker
 - Ask bank to suggest payment options best for your business
- Seek out (free) risk mitigation services and fraud prevention tools offered by your bank
- Have a discussion on prices: negotiate fees
- Ask about workflow and control issues you may need to address
- Ask about best practices for managing the payment identity of each payee

Guidance on Accepting Cards



- Accepting cards may make small businesses more competitive and may boost sales
- However, card acceptance comes with risk
 - The **Small Business Payments Toolkit** contains:
 - Tips to help small business lower the risk of accepting fraudulent cards
 - Best practices for employees who handle cards
 - Considerations to help avoid internal card fraud
 - Education on handling disputes and chargebacks

Educating Small Businesses about Payments Fraud



Payments Fraud



The Toolkit contains best practices & tips to help small businesses combat payment-related fraud and manage risks:

- Check fraud
- ACH fraud
- Mobile banking fraud
- Avoid purchasing card fraud
- Bank services that can combat fraud
- Educating and training your employees to avoid payments fraud
- Avoiding data breaches

....AND MUCH MORE!

All payment methods carry the risk of fraud

Small Business Fraud Prevention by Payment Type

Check

- Implement strong internal controls and procedures around AR/AP functions
- Leverage tool and processes from your bank and service providers; enact best practices (e.g., positive pay)
- Consider not accepting checks
- Limit number of checks issued

Wire

- Use dual control
- Require form for initiation, rather than fax or e-mail
- Require call-back/voice confirmation

ACH Debit

- Limit debit activity to a few accounts
- Address exceptions timely
- Restrict access to PC
- Use out of band authentication process

ACH Credit

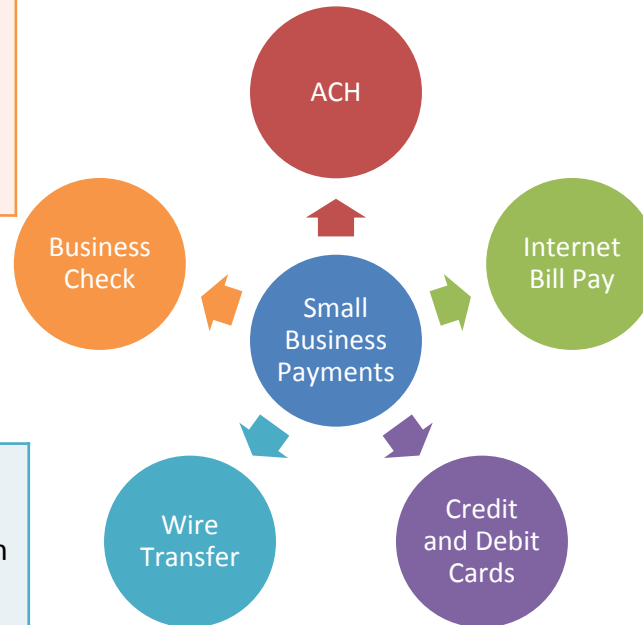
- Use dual control
- Require due diligence

Mobile Banking

- Encryption and strong passwords
- Disable wireless, Bluetooth, and NFC when not in use
- Apply patches timely
- Update software/hardware
- Limit access
- Develop and follow policies

Purchasing Card

- Use p-card program and tools
 - Monitor transaction activity
- ### Acceptance of Credit Cards
- Toolkit contains tips to avoid accepting fraudulent cards



Check Fraud

- **Examples**

- Mail theft
- Counterfeit checks
- Alterations
- Duplicate deposits

- **Precautions**

- Implement strong internal controls & procedures around AR/AP functions
- Leverage tools & processes from your bank and service providers; enact best practices (e.g., positive pay, reverse positive pay)
- Consider not accepting checks at all
- Limit number of checks issued

Online Banking - Transaction Information

Account: Checking *****7571
Amount: \$1,100.00
Status: Posted
Reference: 58769
Check Number: 2815
Date/Time Posted: 2015-09-14 10:00:02

My Small Biz 2815
10224 West Street
Anywhere, State 54321 Date 9/12/2015

Pay to the Order of ABC Company or D. Fraudster \$1,100.00

Eleven hundred and 00/100----- Dollars

Memo Invoice # 7553 *Joyce Andersen*

⑆ 8 5 8 7 1 7 1 3 ⑆ 1 1 8 6 3 5 8 8 7 5 7 1 ⑆ 1 1 6 3 8

ACH Fraud

- **Examples**

- Unauthorized debits
- Insider fraudulent transactions
- Hacker attacks (phishing, etc.)



- **Precautions**

- ACH Debit

- Limit debit activity to a few accounts
 - Address exceptions timely
 - Secure bank account info
 - Use ACH blocks, filters, positive pay, & debit alerts

- ACH Credit

- Use dual control
 - Require due diligence of 3rd party processors

What Should Small Businesses Be Doing?

- Check accounts daily
- Use fraud protection services (e.g., debit blocks/filters; positive pay)
- Ensure fraud prevention and detection is an organizational objective
 - Set policies, establish procedures, monitor compliance, and take action on exceptions



What Should Small Businesses Be Doing? continued

- Educate and train employees on fraud prevention
- Implement security best practices
 - Secure bank account information, lock up paper documents, limit access to sensitive online data
 - Use strong passwords and change them often
 - Monitor and measure fraud attempts and losses
- Update defenses; best practices today may not be best practices tomorrow

Take Action

- The toolkit was developed as a FREE resource for you – USE IT AND SHARE IT.
 - Reference the toolkit when speaking with small business customers
- Version 2 of the toolkit is currently being developed
 - Topics include:
 - EMV migration
 - Emerging/Alternative payments
 - Authorization forms
 - Handling ACH returns
 - Case studies
 - Suggestions on content are welcomed!



Check out the Resources Pages!

- The **Small Business Payments Toolkit** offers links to additional information on:
- Glossaries of payment-related terminology
- Credit and debit cards
- ACH
- General resources for small business practitioners
- Fraud and data security



Questions

