Electronic payments in Canada:
What's the hold up?

BY THE CANADIAN FINANCIAL EXECUTIVES RESEARCH FOUNDATION (CFERF)

Quick-service restaurant chain McDonald's announced in May 2011 that it plans to stop accepting cash in 6,000 European restaurants, highlighting the fast-changing nature of electronic payments.

Then there's the high-profile lawsuit over Google Wallet, in which PayPal claimed that Google stole its mobile payment technology. These two news items illustrate the importance of the electronic payment industry and how it is changing the business landscape.

However, listen to a room full of Canadian executives responsible for their companies' cash flows and you quickly see that all is not rosy in the world of electronic payments. What emerges is a story about the need and desire of corporate Canada to adopt a wide range of available electronic payments — from wire transfers to credit card payments, direct deposits, Interac, e-mail payments and even "tap-and-go" mobile payments on smartphones.

But efforts to adopt these processes are often hard to sell to customers and suppliers, who are mired in bureaucracy or stymied by barriers such as high cost, complexity, and an inability to reconcile the payments with their accounting systems.

"I pay vendors where I can electronically," says Nancy Lala, CFO at About Communications, a Canadian telecommunications company." So I use electronic fund transfers quite extensively in the business." She is not alone in her efforts to adopt electronic payments. More and more companies are adopting electronic payments as the standard for collecting their receivables or paying their suppliers.

Managing cash flow is essential for any business. In a world that is rapidly undergoing a digital evolution, where cheques are no longer king and are being squeezed out of the system, the ability to pay invoices and receive payments electronically from customers will be critical to a company's future success, no matter its size.

Financial executives continue to see the benefit of adopting electronic payment methods and some are actively doing so, both for accounts payable and receivable. They are also looking for ways to improve the current electronic payment system through standardization and integration with existing accounting/ERP systems. But it won't be easy.

The challenges of adopting electronic payments were explored in a recent study prepared by the Canadian Financial Executives Research Foundation (CFERF), in partnership with Central 1, to highlight the perspectives of senior financial executives responsible for making decisions regarding electronic payments in their organizations.

The findings point to growth opportunities for this sector in the future, but also highlight serious barriers that can make full-scale adoption of electronic payments in Canada challenging.

The study reveals where companies currently stand in terms of adopting electronic payments, lists the benefits of doing so, and points out some of the barriers. It looks to the future and indicates what financial executives plan to do to pave the way for driving more electronic payments. It also highlights the shortcomings of the current system and discloses the need for more encompassing standards, as technologies quickly evolve.

About 27 percent of respondents surveyed report that more than half their transactions are electronic. Yet 86 percent of respondents say they would prefer using electronic transactions in the payment process.

When respondents were asked to cite the three payment methods they use most often on a yearly basis, wire transfers were cited by the highest number of respondents followed by electronic bill payment remittances (e.g. online banking, phone banking, over-the-counter in-branch, ATMs) with credit cards and pre-authorized debit following closely behind.

Why the continued interest in electronic transactions? Financial executives say it's because electronic payments provide many benefits, including:

- Convenience for the business;
- Improved cash flow;
- Reduced transactional costs.

However, they also revealed serious headwinds that are impeding increased full-scale adoption. The obstacles include:

- Modifying customer behaviour to adopt electronic payments;
- Difficulty motivating suppliers to accept electronic payments;
- Organizational constraints and priorities;
- Lack of integration between electronic payment systems and accounting systems.

The study concludes with recommendations on best practices to address privacy and security issues, and suggests that modifying customer and vendor behaviour is key to achieving a greater adoption of electronic payments in Canada.

When it comes to building best practices, there is still much to be done within the industry. The challenge lies in the different types of electronic payments, ranging from email to credit card, wire and debit, each of which involve a plethora of different technologies. As well, reconciling payments with the multitude of internal accounting systems in use by corporations remains challenging.

According to the research forum respondents, there are four primary areas on which to focus:

- Increasing the uptake of electronic payments among suppliers or clients;
- Improving the methods used to reconcile and track payments that are electronically sent or received;
- Protecting your organization against security threats;
- Use account validation services to help manage EFT enrolment.

Increasing uptake

Firms can use incentives or disincentives to encourage clients and suppliers to adopt electronic payments. These include:

- Offering faster payment processing for those who move to the electronic channel and are willing to provide banking information;
- Offering discounts to those who pay electronically;
- Agreeing to a consistent payment schedule in exchange for customers agreeing to bill you electronically;
- Charging an administrative fee to those who pay by cheque;
- Setting up US bank accounts in order to facilitate payments to customers or suppliers who reside in that country. Money from a Canadian account can simply be sent to the US account and payments processed from there;
- Starting by adopting electronic payments internally for items such as payroll and expense reports.

Reconciliation

Recommendations include:

- Advising suppliers by e-mail when a payment is made and including a copy of the invoice that you paid so they can ensure it is properly credited;
- Establishing validation systems internally to ensure that payments received come from the appropriate source and are attributed to the correct source.

Security

Businesses are urged to:

- Adopt a truly paperless system so as to eliminate the possibility of cheque fraud;
- Segregate duties so that the same person is not processing invoices and paying them;
- Do not leave cheques in the mail pickup. Deliver them directly to the postal station once they are processed;
- Use credit card validation services to help manage credit card payments;
- When keying in customer banking information into the computing system, verify the accuracy of the information you are inputting by having two people check it. One person to enter the data, another to verify the bank account number matches the payee;
- If you are hosting a customer or supplier's banking information from a counterparty, ensure you maintain privacy. Consider using an outsource provider who can offer secure servers for storing sensitive information;
- Reconcile payment information every day to help spot fraud early and avoid financial loss;
- Encourage executives to make their expense payments using their corporate card to avoid having to do additional payments to suppliers and managing expense claims;
- If using point-of-sale devices in your operation, ensure there is alarm system in place to prevent a fraudster from switching out a device or tampering with it and adding a skimmer that can be used to steal information.

Canadian financial executives say they will continue to advance the adoption of electronic payments in the coming year. Leading the charge will be automating the reconciliation process, which 30 percent of executives surveyed say they plan to do. Another 27 percent say they will implement electronic invoicing, while 21 percent will accept bill payments or remittances received from banks.

Hervé Seguin, former CFO of WellPoint Systems, says the most effective thing a company can do is set a payment policy and live by it so that it's like clockwork. That way, consistency is provided in payments and vendors will know that they will get paid within a specific time frame. "Create a set of rules and live by that set of rules," Seguin stresses.

The Canadian Financial Executives Research Foundation (CFERF) is the research arm of Financial Executives International (FEI Canada).