



Small Business Payments Toolkit Webinar

**Created by the
Remittance Coalition**

Matt Davies
Payments Outreach Officer
Federal Reserve Bank of Dallas

Sandy Jensen
VP, Commercial Banking
Central Bank of the Ozarks

Small Business Payments Toolkit Webinar with FIs

July 16, 2015

Disclaimer

The opinions expressed are those of the individual presenters and not those of the Central Bank of the Ozarks, any Federal Reserve Bank or the Federal Reserve System.

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

What is the Small Business Payments Toolkit?

- FREE set of resources intended for use by small businesses and the bankers and advisors who serve them
- To encourage adoption of electronic B2B payments and remittance information exchanges by small businesses
 - <https://fedpaymentsimprovement.org/wp-content/uploads/small-business-toolkit.pdf>
 - Produced by the Remittance Coalition in early 2015
 - Supports Strategy 4 of the Federal Reserve's *Strategy for Improving the U.S. Payment System* Paper ('SIPS')

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
 - 400+ 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

Strategy 4: End-to-End Payment Efficiency

- Strategy 4 of the Fed's SIPS paper seeks to achieve greater end-to-end efficiency for domestic and cross-border payments
- The toolkit supports a specific initiative under Strategy 4 to accelerate the adoption of secure electronic business-to-business (B2B) payments by working with stakeholders to address barriers to electronic payment adoption by businesses and leverage work by the Remittance Coalition



Learn More at FedPaymentsImprovement.org

Engage for Change!
Subscribe to the Payments Exchange blog and follow us on Twitter to make sure you get the latest updates to participate in the payments improvement discussion!

In Pursuit of a Better Payment System



Join the FedPayments Improvement Community!
Receive communications and invitations to live/virtual forums, surveys, industry-/Fed-sponsored groups and events, and online feedback mechanisms.

Connect with us...

Payments Exchange Blog: FedPaymentsImprovement.org



@FedPayImprove



FedPayments Improvement



FedPayments Improvement

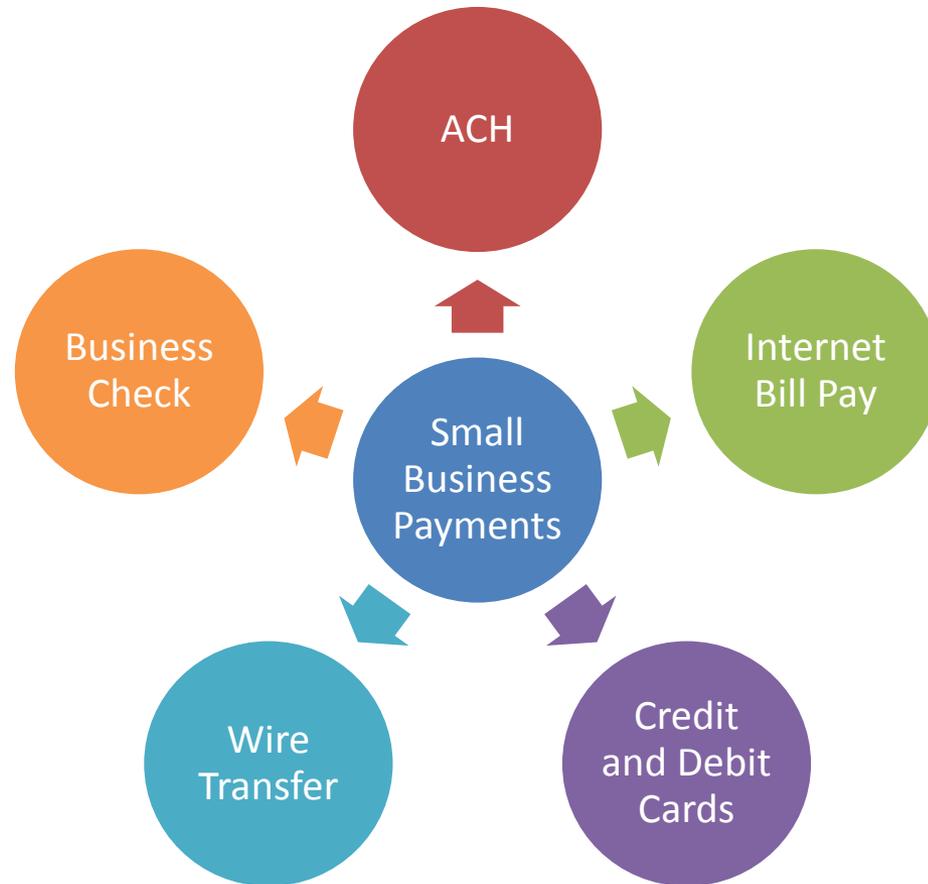
Contents of Small Business Payments Toolkit

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



Brief Primer on Small Business Payment Types

Small Business Payment Types



Payment Type Descriptions

ACH	<ul style="list-style-type: none">• Electronic payment network that can be used to push (credit) or pull (debit) funds. Transactions are processed in batches (instead of as single items as in the case of a wire transfer or a check) with a one- or two-day settlement timeframe. Used for Direct Deposit of payroll, direct debit of recurring bills, and various other use cases.• An ACH credit is an ACH entry originated to make a payment to another account; for example, for a buyer to pay a supplier for a purchase. The buyer's account is debited by the buyer's bank and the buyer's bank sends the payment to the ACH network. The supplier's bank picks up the payment from the ACH network and posts the credit to the supplier's bank account.• An ACH debit is an ACH entry that pulls a payment from another account; for example, used by a supplier to pull (debit) funds from the buyer's account for a purchase.
Business Check	<ul style="list-style-type: none">• A negotiable instrument (document) that instructs and authorizes the financial institution upon which it is drawn to pay a specific amount from the “drawer” (the signer or payor – the party making the payment) to the payee (the party receiving the check).
Wire Transfer	<ul style="list-style-type: none">• The electronic transmittal of funds intra-day from one financial institution to another involving an unconditional order to pay a certain amount to a beneficiary upon receipt, or on a day stated in the order. Funds are irrevocable. Each wire transfer is a single message sent individually.

Payment Type Descriptions

Credit and Debit Cards

- Credit cards allow cardholders to make purchases or obtain cash advances using a line of credit granted by the issuer of the card. Credit cards allow cardholders to have a continuing balance of debt, subject to interest being charged.
- Debit cards allow cardholders to make purchases or withdraw available cash from their own checking accounts.

Internet Bill Pay

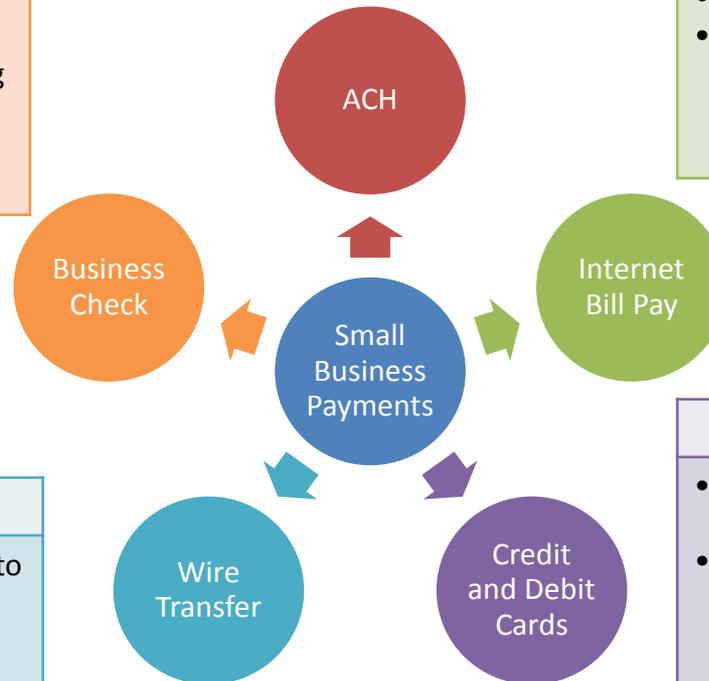
- Electronic payment service that facilitates both one-time and recurring bill payments. Provided by either a financial institution or a non-bank provider. Provider sends an ACH payment or check on behalf of bill payor.
- Electronic bill payment is commonly offered through a bank's online banking service, allowing a depositor to send money from his checking account to a creditor or vendor (such as a public utility) to be credited against a specific account.
- Non-bank providers offer bill pay services for businesses. Electronic invoicing (e-invoicing) can be a very useful tool for the accounts payable department. It centralizes all transactional documents in one location on a web server so they can be easily found and processed. E-invoicing allows vendors to submit invoices over the internet and have those invoices automatically routed for processing.

Payment Type Pros/Cons

Pros	Cons
<ul style="list-style-type: none"> • Lower fees than other payment types • Less handling – lower fraud potential 	<ul style="list-style-type: none"> • ACH credit not final until settlement • Need to know routing and account number

Pros	Cons
<ul style="list-style-type: none"> • Widely accepted • Do not need to know routing and account numbers 	<ul style="list-style-type: none"> • Costs high – manual • Lots of handling – fraud potential greater

Pros	Cons
<ul style="list-style-type: none"> • Save time • Cost savings • Reduce paper 	<ul style="list-style-type: none"> • If payment made via check see check cons • Identify payee to bill pay 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 to know routing and account number

Pros	Cons
<ul style="list-style-type: none"> • Easy to use, widely accepted • Do not need to know routing and account numbers 	<ul style="list-style-type: none"> • Costs high – equipment and interchange • Fees incurred for reversal

Talking with Small Businesses

Why Promote Electronic Payments?

- “Stickiness”
 - Increase chance that customer will continue to use/ purchase your services
- Promote other services
 - Use the opportunity to grow your business by selling other value-added products
 - Ex.: Helping a small business get set up to accept and send ACH payments allows them to accept contracts from large trading partners and the government
 - Grow revenues
- Reduced liability for small businesses and your institution



Methods for Targeting Small Businesses

- Ask small businesses
 - Complete a needs assessment
- Review new business account list
- Designate small business experts in your institution
 - Educate bank staff to direct customers to these experts when appropriate
- Use data mining to target customers



Although ACH is highlighted in the toolkit, any electronic payment method is better than paper payments

Talking 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
 - Provide consulting services for ACH origination or help them to find someone that can
 - Requires underwriting
 - Other options (e.g. pre-fund)
 - Workflow and control issues
 - Manage and secure payment identity of each payee
 - Routing/transit number

Examples

Example of a small business activity with one location retail storefront:

DATE	AMOUNT	DESCRIPTION
6/1/15	\$794.32	Deposit NO 5
6/1/15	\$1,343.86	Merchant Settlement
6/1/15	\$8,170.73	Intuit Payroll QuickBooks



- This is a customer that is accepting Credit Cards
- This is a customer that also deposits checks (5)
- This is a customer that is doing Direct Deposit of payroll

Example of customer that does not use payroll:

DATE	AMOUNT	CHECK #
6/1/15	977.03	12887
6/1/15	929.68	12888
6/1/15	801.15	12891
6/1/15	203.17	12885
6/1/15	389.96	12883

- Could your FI offer merchant services at a better rate or more timely deposits?
- Does this customer need remote or mobile deposit?
 - A small business may have problems getting to a facility before closing and need cash flow opportunities and convenience of remote
- Could your FI offer Direct Deposit of payroll at a lower fee?
- Look for patterns such as payroll checks being presented or cashed on an account and offer Direct Deposit.

Fraud Prevention

Examples of Payment Fraud

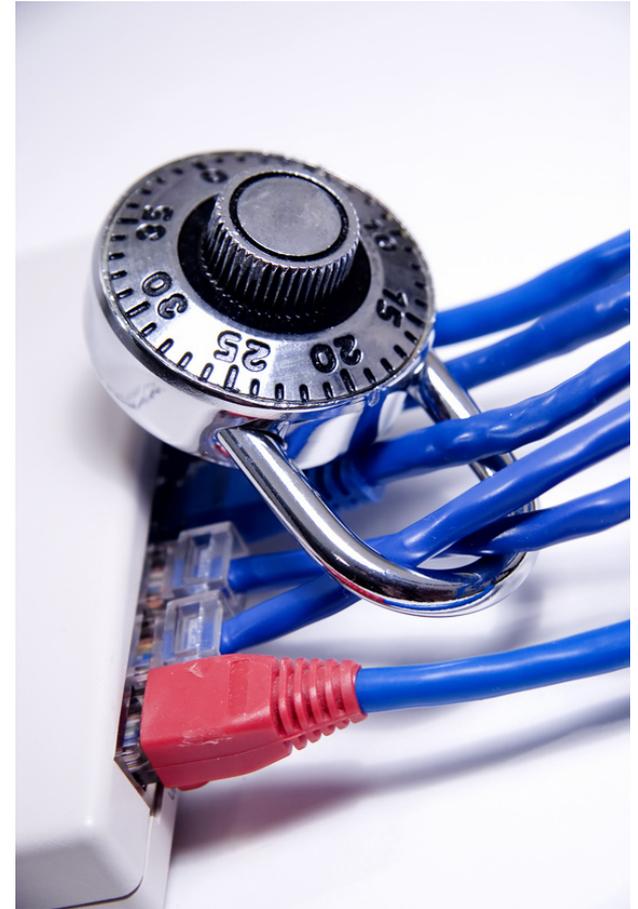
- Check
 - Mail theft
 - Counterfeit checks
 - Duplicate deposits (RDC/mRDC)
- ACH
 - Unauthorized debits
 - Insider fraudulent transactions
 - Hacker attacks (phishing, etc.)
- Mobile banking
 - Privacy/integrity of data
 - Malware/viruses

The Toolkit contains best practices and tips to help small businesses combat payment-related fraud.

All payment methods carry the risk of fraud!

What Should Small Businesses and Others 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 and Others Be Doing?

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

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

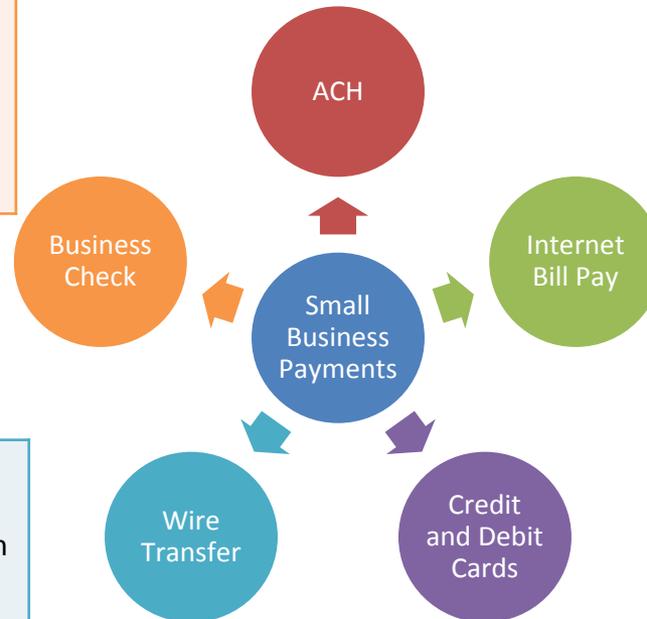
- Use dual control
- Require due diligence

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



Example

- *Cincinnati Insurance Co. v. Wachovia Bank* (2010; check fraud/positive pay)
- *Choice Escrow & Land Title v. BancorpSouth Bank* (2014; corporate account takeover/wire transfer fraud/dual control)

Small Business Data Breaches

- A data breach is a security incident in which sensitive, protected or confidential data is copied, transmitted, viewed, stolen, or used by an individual unauthorized to do so
- Small businesses should:
 - Consider conducting an internal review to determine what customer data they are collecting and storing, and why
 - Consider whether they need to be collecting and storing this data
 - Realize that most states have data breach liability laws
 - They may be exposing their small business to unnecessary risk by collecting and storing certain customer data
- Several potential mitigants are listed in the Toolkit

When it comes to data breaches, cyber criminals continually change their methods of attack

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
 - More on ACH returns
 - Case studies
 - Suggestions on content are welcomed!



Questions

