Meeting The Challenge Of Payments Modernization, a PYMNTS and FIS collaboration, examines how financial institutions are working to transform B2B payments processes to improve user experiences for their clients. The survey was conducted between Oct. 28, 2021, and Nov. 30, 2021, and collected responses from 311 executives leading financial institutions managing assets in excess of $500 million. Executives were asked about their current success in limiting the payments frictions that their clients experience and their plans for future innovation.

Meeting The Challenge Of

PAYMENTS MODERNIZATION

How Organizational Size Influences Innovation

May 2022

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MAY 2022

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ACKNOWLEDGMENT

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Introduction

Modernizing payments is a critical initiative for financial institutions (FIs) and corporations of all sizes. The benefits are wide-ranging: Successful modernization makes business-to-business (B2B) payments, cash management and invoice reconciliation less complex and easier to manage. It can also grant these entities access to supplier portals and real-time reporting on revenue flows.

PYMNTS' research finds that automated account validation and digital lockboxes are the most common digital solutions FIs offer their corporate clients to reduce B2B payments frictions. Yet only 30% of FIs state that they have been very successful in limiting B2B payments and cash management frictions for their clients, despite their best efforts to do so.

When looking to innovate and improve B2B payment processes, organizations encounter opportunities and challenges, and PYMNTS finds that these can vary dramatically depending on organizational size. Just 37% of FIs overall say they have the experience and resources to effectively address B2B payments frictions on their own with no need to outsource the development or required solutions, for example, but this share increases to 93% among large FIs — those with more than $100 billion in assets.

Meeting The Challenge Of Payments Modernization: How Organizational Size Influences Innovation, a PYMNTS and FIS collaboration, examines how FIs and corporations of different sizes are working to modernize B2B payments, analyzes the varied challenges they face in addressing B2B payment frictions and explores how they continue to innovate to streamline B2B payments and cash management processes while developing embedded finance experiences. The report is based on a survey conducted between Oct. 28, 2021, and Nov. 30, 2021, with responses collected from 311 executives working as head of treasury services or wholesale banking at large international banks, large national banks, regional banks, community banks and credit unions, all with more than $500 million in assets.

THIS IS WHAT WE LEARNED.

SMALLER FIs ARE MORE LIKELY TO REPORT THAT THEIR CORPORATE CUSTOMERS EXPERIENCE CHALLENGES WITH MONEY MANAGEMENT WHEN MAKING B2B PAYMENTS.

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Three-quarters of FIs say their corporate customers experience money management frictions when making B2B payments, with smaller FIs being more likely to say this. These are related to working capital management, spend management, real-time cash flow management and real-time reporting.

Close to 45% of regional banks, credit unions and community banks also find it difficult to provide their corporate customers with supplier portals. At the same time, more than two-thirds of them are currently working on or planning to work on providing these portals.

One out of five FIs plan to develop in-house solutions to reduce B2B payments frictions. This share increases to 90% for FIs with more than $100 billion in assets.

Just 37% of FIs believe that they have the experience and resources necessary to effectively address B2B payments frictions without outsourcing the development of required solutions. Among FIs with more than $100 billion in assets, this share increases to 93%.

While perceiving new B2B payments solutions as useful is a key motivator for the adoption of new digital solutions, a lack of human resources and institutional risk avoidance are the top hindrances to innovation.

Thirty-two percent of credit union executives said that a lack of necessary human resources most hinders innovation. This share decreases to 12% for large international banks, which are most likely to identify the tendency to avoid risk as the most hindering factor.

Nine out of 10 FIs are currently innovating or plan to innovate embedded finance experiences.

Payment processing is the top embedded finance experience FIs plan to innovate, with 52% of FIs likely to do so. Community banks and regional banks are the most likely FI types to make these plans. Large banks, on the other hand, are more likely to cite loans and cash flow management as areas they are innovating or plan to innovate with embedded finance.

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Overcoming B2B payment challenges

According to the FI executives we surveyed, FIs are pressed to address a number of key B2B payment frictions, and many are currently working on or planning to work on digital solutions to these challenges. Money management, invoices and payments, data management and providing supplier portals are top concerns among organizations of all sizes.

Smaller FIs are more likely to report that their corporate customers experience challenges with money management when making B2B payments, with 79% of community banks and 77% of credit unions reporting so. Only 59% of large international banks and 66% of large national banks report that their corporate customers experience these same challenges, which relate to working capital management, spend management, real-time cash flow management and real-time reporting.

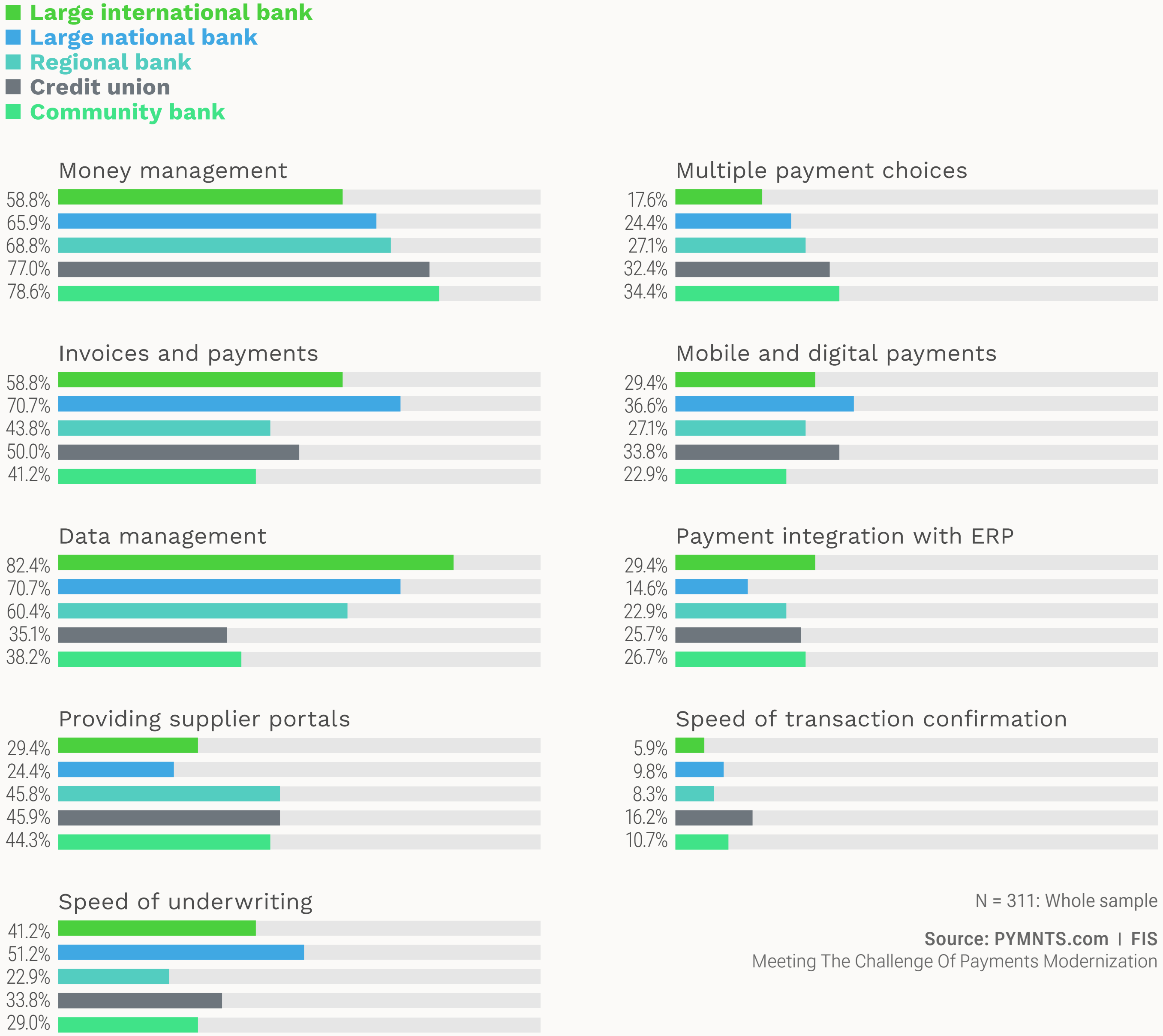
Money management frictions are a target smaller FIs are currently tackling or planning to tackle via digital solutions, as 82% of community banks and 80% of credit unions report working on or planning to work on solutions to this end.

Large banks are instead more likely than other FIs to consider data management to be a challenge. We find that 82% of large international banks and 71% of large national banks report that their corporate customers experience challenges with data management, yet less than one-third of all FIs surveyed report that they are currently working on or plan to work on digital solutions.

FIGURE 1A:

FIs' plans to develop in-house solutions to reduce B2B payments frictions

Share of challenges corporate customers experience when making payments to their suppliers, by type of FI



N = 311: Whole sample

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90% Share of FIs with more than $100 billion in assets that plan to develop in-house solutions to reduce B2B payments frictions

Instead, some FIs are expanding efforts to address aspects of supplier payments that are not currently a challenge for their corporate customers. PYMNTS' data finds that 71% of large national banks and 59% of large international banks — leading all types of banks — believe invoices and payments are a challenge for their corporate clients yet almost all FIs surveyed report that they are currently working on or planning to work on a digital solution.

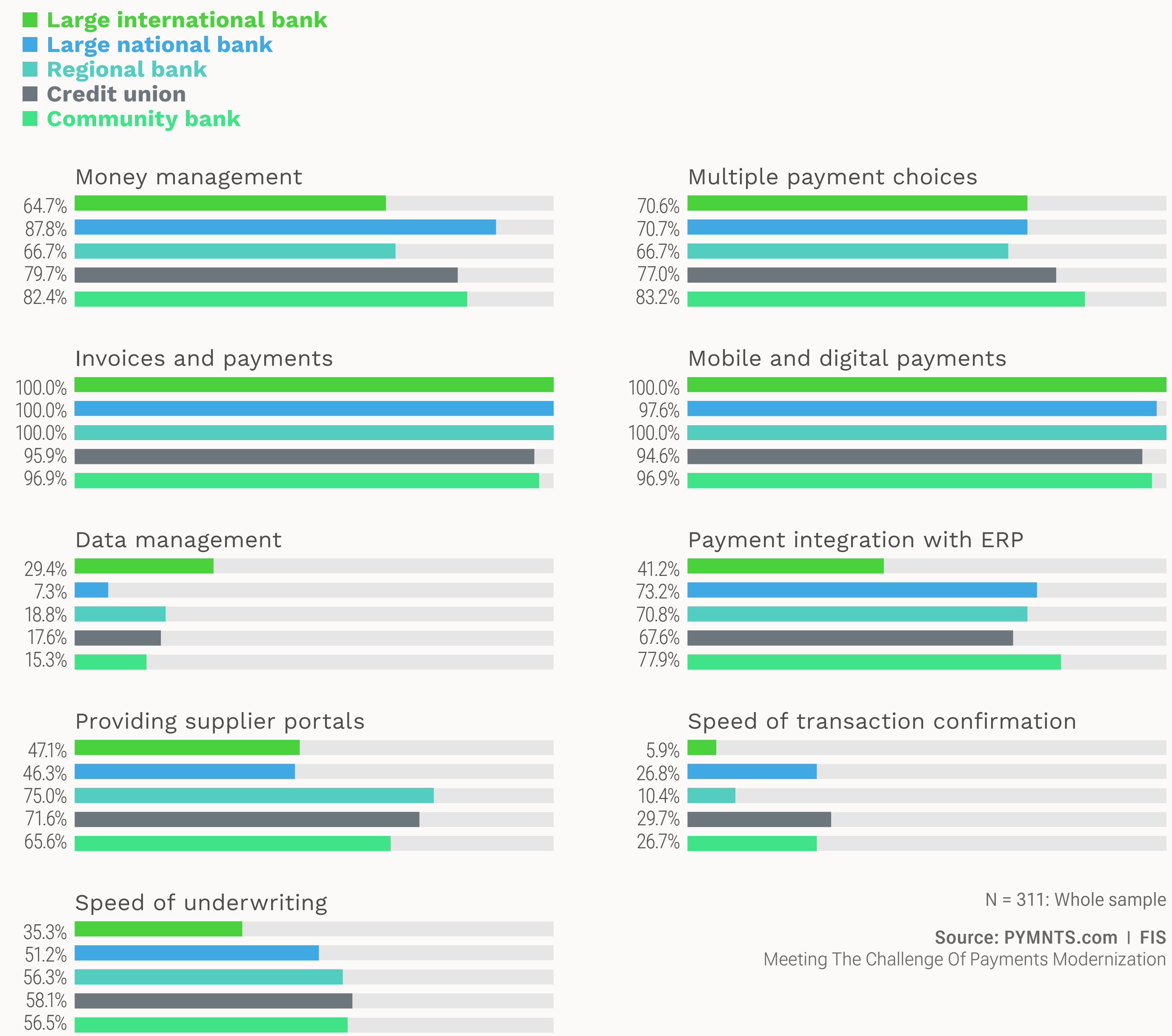
This proactive approach is not limited to invoices and payments. Around 45% of regional banks, credit unions and community banks report that their corporate customers experience challenges with providing supplier portals, yet more than two-thirds of these smaller organizations are currently working on or planning to work on providing them.

Our data also shows that almost all organizations are currently working on or planning to work on digital solutions for mobile and digital payments and that close to three-quarters are currently working on or planning to work on digital solutions to provide their corporate clients with multiple payment choices and payment integration with enterprise resource planning (ERP) systems.

FIGURE 1B:

FIs' plans to develop in-house solutions to reduce B2B payments frictions

Share of FIs that are currently working on or planning to work on digital solutions for select areas, by type of FI



N = 311: Whole sample

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Committing to payments innovation

Innovating to address payment frictions can require developing a solution in-house, turning to a third-party solution or utilizing a combination of both. PYMNTS' research finds a correlation between organizational size and the type of solution an FI plans to work on to modernize its payments ecosystem. Only 19% of FIs plan to develop in-house solutions to address B2B payment frictions, for instance. Among large FIs — those with more than $100 billion in assets — however, this share increases to 90%.

Almost half of all FIs plan to address B2B payment frictions by developing in-house solutions in conjunction with adopting third-party solutions, while 35% plan to adopt only a third-party solution. Smaller FIs — those with assets from $500 million to $1 billion — are the most likely to adopt only a third-party solution, with 63% saying they will take this approach.

FIs with assets between $25 billion and $100 billion are the most likely to address B2B payment frictions by developing in-house solutions in combination with adopting third-party solutions at 67%. Meanwhile, 47% of FIs with assets between $1 billion and $25 billion plan to utilize a combination of in-house solutions with third party solutions, and 42% plan to utilize only a third-party solution.

FIGURE 2A:

FIs' plans to develop in-house solutions for B2B payments frictions

Share of FIs that plan to work on new digital solutions, by solution type

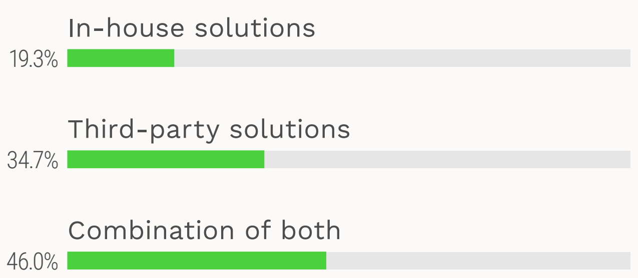
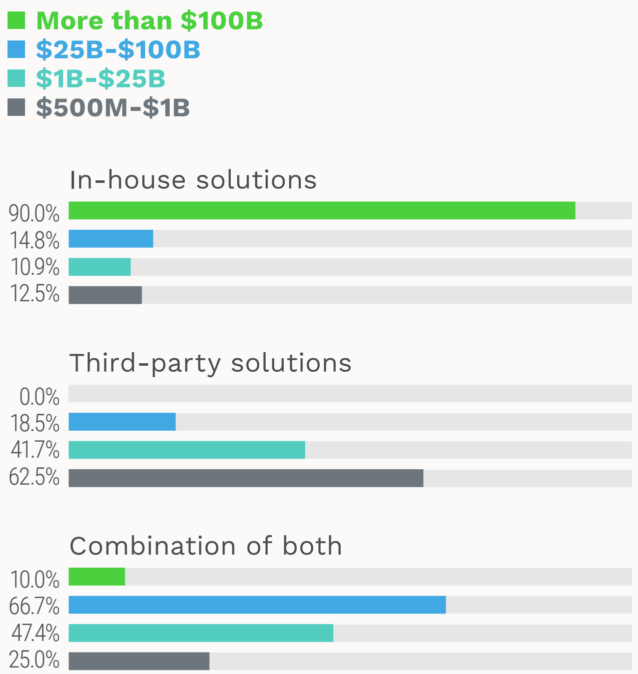


FIGURE 2B:

FIs' plans to develop in-house solutions for B2B payments frictions

Share of FIs that plan to work on new digital solutions, by solution type and asset size



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There is also a correlation between an organization's size and its confidence in its ability to address B2B payments frictions without outsourcing development. Our data finds that only 37% of all FIs agree that they have the experience and resources necessary to effectively address B2B payments frictions on their own, with no need to outsource development, but this rises to 57% for those with assets between $25 billion and $100 billion and increases to 93% for FIs with more than $100 billion in assets.

Meanwhile, 35% of FIs do not agree that their organizations have the experience and resources to effectively address B2B payments frictions on their own. Smaller FIs were the most likely to disagree with the statement that they have the experience and resources to effectively address B2B payments frictions on their own with no need to outsource development, with 56% of those with assets of $500 million to $1 billion and 46% of those with assets between $1 billion and $25 billion saying so.

Twenty-seven percent of FIs overall report being neutral, meaning they do not feel strongly either way about whether they have the experience and resources to effectively address B2B payments frictions on their own. Approximately one-third of midsize FIs, those with assets between $1 billion and $100 billion, say they are neutral on this matter.

FIGURE 3A:

FIs' perceived ability to develop in-house solutions for B2B payments frictions

Share of FIs that say they have the experience and resources to effectively address B2B payments frictions on their own

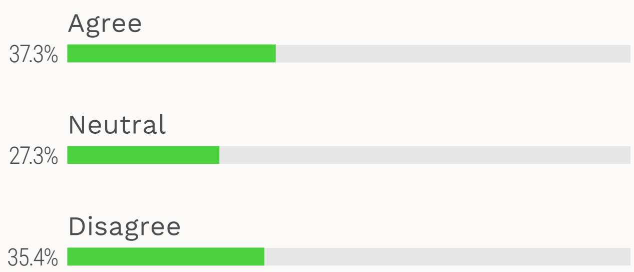
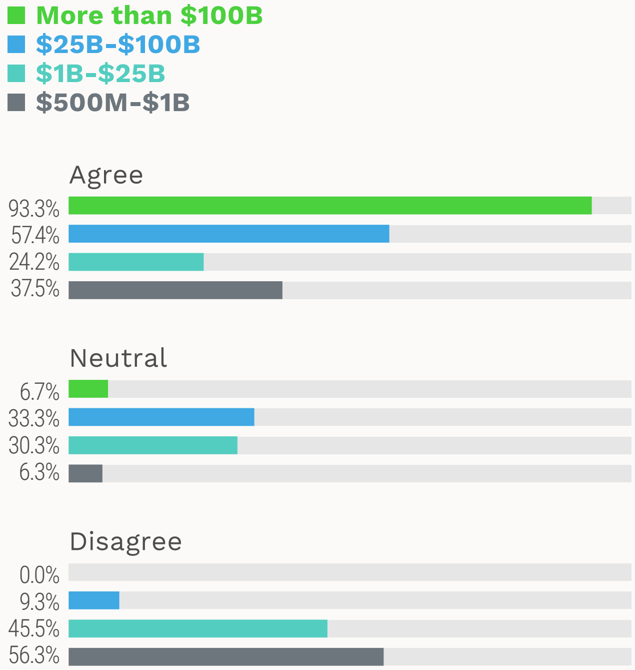


FIGURE 3B:

FIs' perceived ability to develop in-house solutions for B2B payments frictions

Share of FIs that say they have the experience and resources to effectively address B2B payments frictions on their own, by FI asset size



N = 311: Whole sample

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Innovation’s drivers and hindrances

PYMNTS’ research makes clear that FIs of all sizes are commited to adopting new digital solutions to address B2B payments frictions, yet the organizational path to payments innovation can be lengthened or shortened by myriad variables. While perceiving new B2B payments solutions as useful is key to accelerating adoption, for instance, a lack of human resources and a tendency to avoid risk can hinder innovation.

Our data finds that 19% of executives surveyed believe that perceiving new B2B payments solutions as useful is most helpful for driving innovation, while 33% say it is helpful but not the most helpful. Community banks agree in the largest share that perceiving new B2B payments solutions as useful is the most helpful characteristic driving modernization at 23%, followed by large international banks at 20%.

The organizational traits cited as the next most helpful in adopting new digital solutions to address B2B payments frictions were openness to change, cited by 16%, and willingness to partner with FinTechs on payments digitization, cited by 14%. Credit unions were the most likely to find these the most helpful characteristics at 23%. Meanwhile, 41% of large international banks cite their current technological infrastructure as the most helpful characteristic aiding solutions adoption.

A lack of necessary human resources to implement innovations is the characteristic most hindering the adoption of new digital solutions to address B2B payments frictions, according to 22% of the FI executives surveyed. This share rises to 32% among credit unions but decreases to 12% among large international banks.

Twenty-two percent of FI executives surveyed cite the tendency to avoid risk as the characteristic most hindering the adoption of new digital solutions. At 65%, large international banks were the most likely to say the tendency to avoid risk is their most hindering characteristic. Regional banks and large national banks come in second and third at the far smaller shares of 33% and 29%, respectively.

FIGURE 4A:

Characteristics aiding FIs' adoption of digital solutions to address B2B payments frictions

Share of respondents who identify characteristics helping FIs' adoption of new digital solutions to address B2B payments frictions

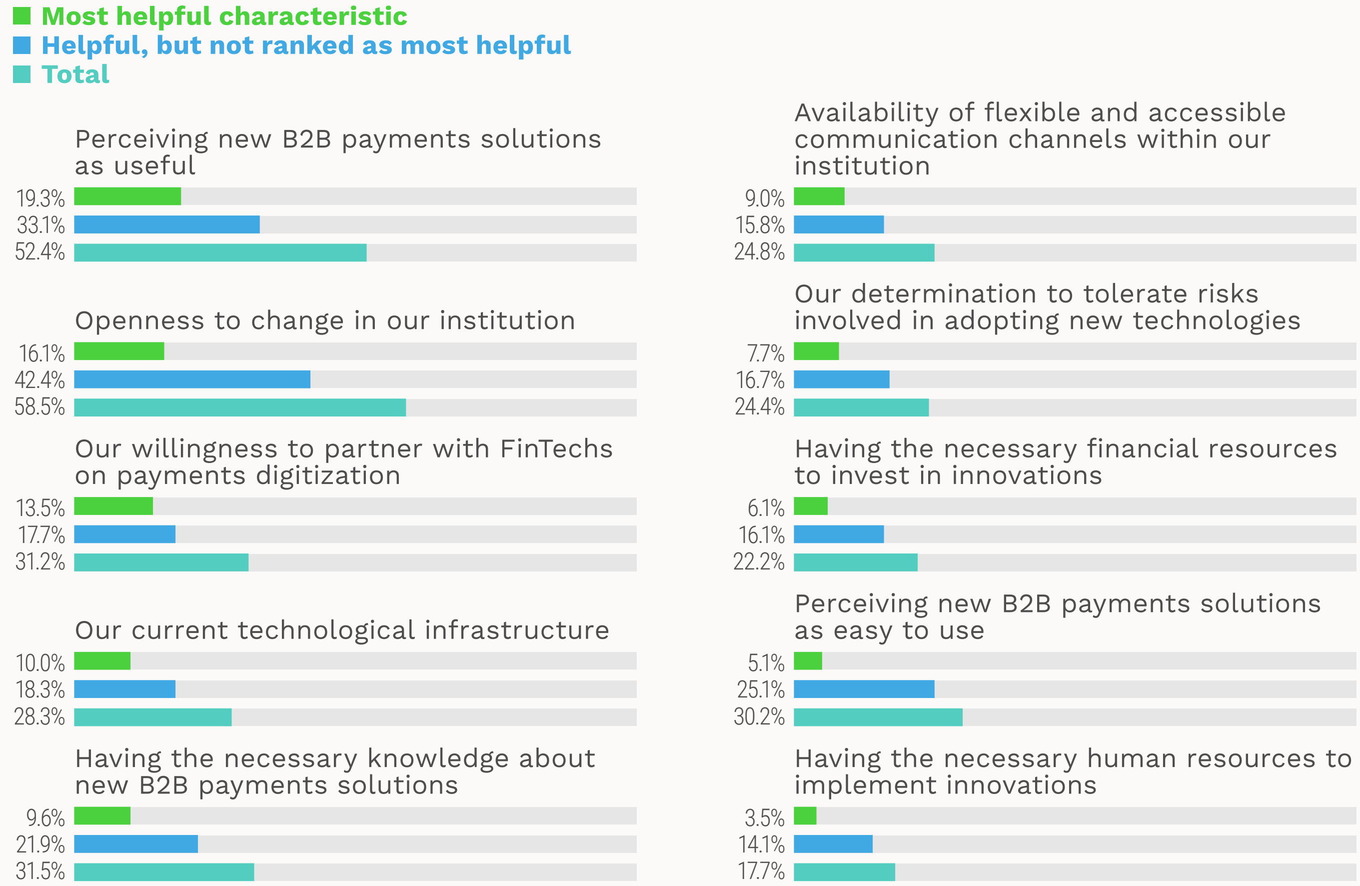

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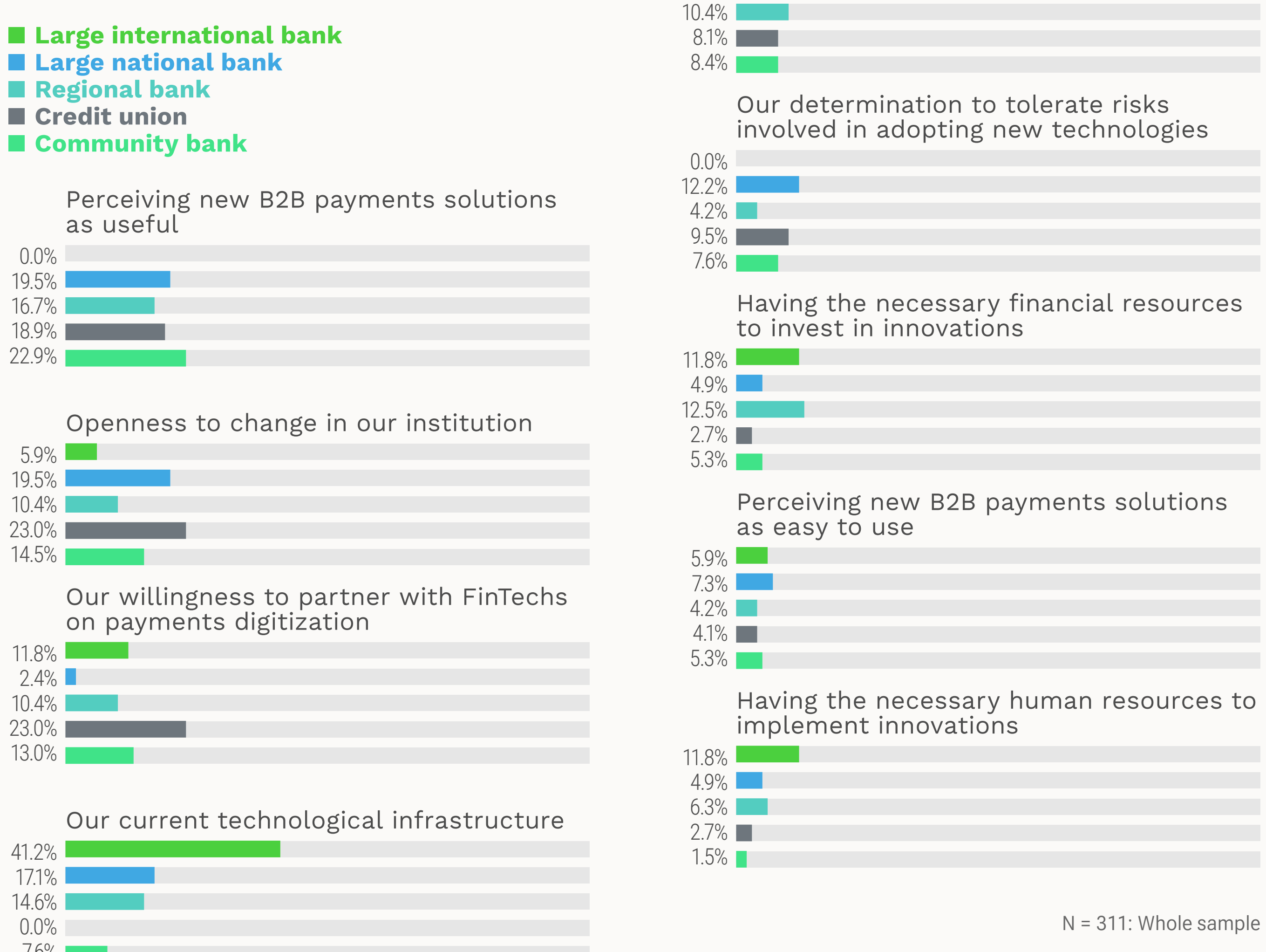
FIGURE 4B:

Characteristics aiding FIs' adoption of digital solutions to address B2B payments frictions

Share of respondents who identify characteristics helping FIs' adoption of new digital solutions to address B2B payments frictions, by type of FI



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Source: PYMNTS.com | FIS
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FIGURE 5A:

Characteristics holding back FIs' adoption of digital solutions to address B2B payments frictions

Share of respondents who identify characteristics hindering FIs' adoption of new digital solutions to address B2B payments frictions

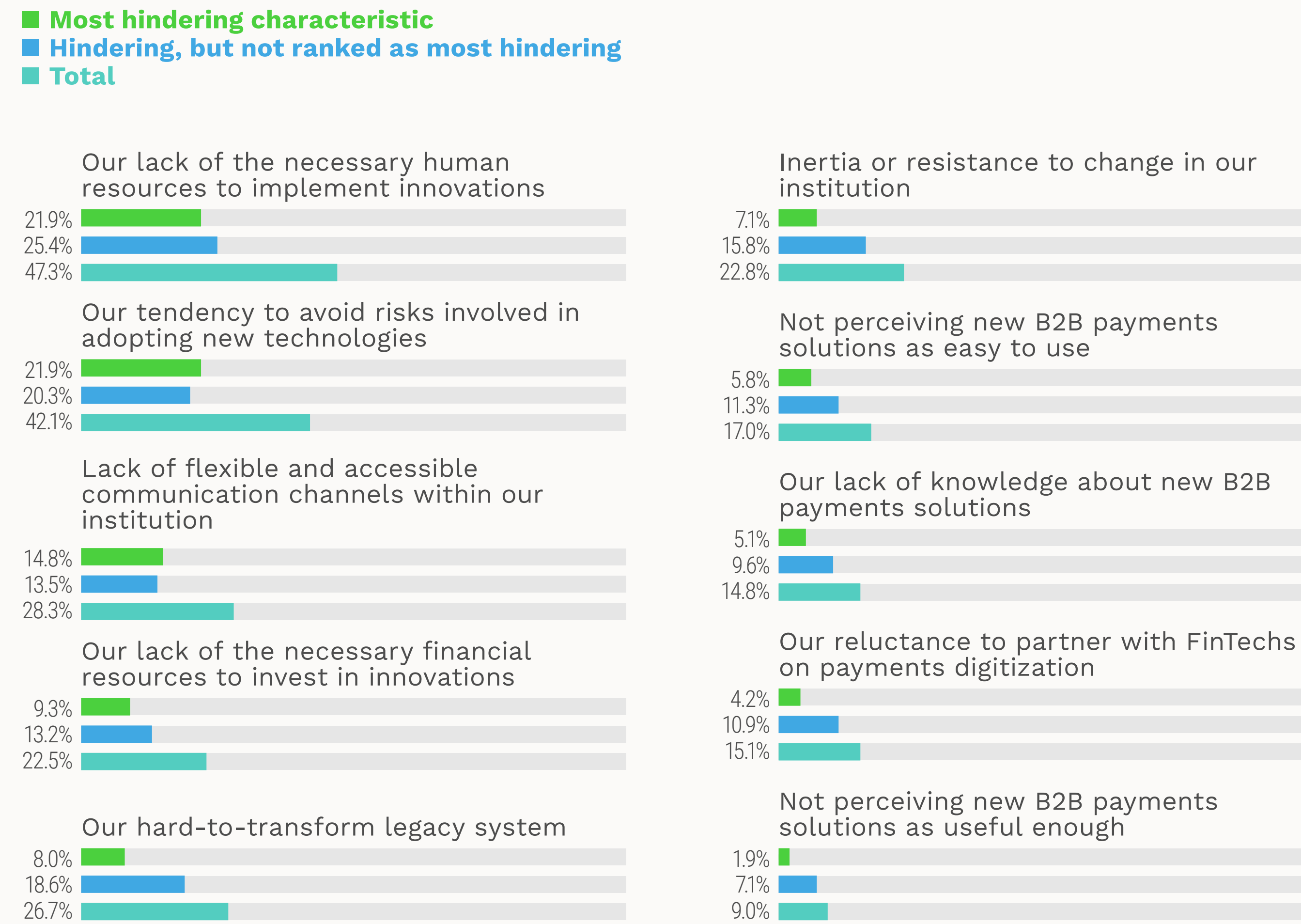

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FIGURE 5B:

Characteristics holding back FIs' adoption of digital solutions to address B2B payments frictions

Share of respondents who identify characteristics hindering FIs' adoption of new digital solutions to address B2B payments frictions, by type of FI

	Large international bank	Large national bank	Regional bank	Credit union	Community bank
Our lack of the necessary human resources to implement innovations	11.8%	14.6%	12.5%	32.4%	22.9%
Our tendency to avoid risks involved in adopting new technologies	64.7%	29.3%	33.3%	9.5%	16.8%
Lack of flexible and accessible communication channels within our institution	0.0%	19.5%	10.4%	20.3%	13.7%
Our lack of the necessary financial resources to invest in innovations	0.0%	2.4%	2.1%	14.9%	12.2%
Our hard-to-transform legacy system	5.9%	7.3%	4.2%	9.5%	9.2%
Inertia or resistance to change in our institution	5.9%	4.9%	12.5%	8.1%	5.3%
Not perceiving new B2B payments solutions as easy to use	5.9%	7.3%	12.5%	0.0%	6.1%
Our lack of knowledge about new B2B payments solutions	0.0%	4.9%	2.1%	1.4%	9.2%
Our reluctance to partner with FinTechs on payments digitization	0.0%	7.3%	8.3%	4.1%	2.3%
Not perceiving new B2B payments solutions as useful enough	5.9%	2.4%	2.1%	0.0%	2.3%

N = 311: Whole sample

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19% Share of executives surveyed who believe that perceiving new B2B payments solutions as useful is most helpful for driving innovation

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Moving forward with innovation

Despite any obstacles or hindrances they might face, 92% of FIs say they are currently innovating or plan to innovate embedded finance experiences, according to PYMNTS' research. Large FIs are leading the charge: 77% of large international banks are currently doing so, followed by 49% of large national banks.

Large national banks are the most likely to be planning to innovate with embedded finance experiences in the next 12 months at 46%, followed by regional banks at 40%. Credit unions and community banks are the most likely to say that they plan to innovate but not within the year at 49% and 40%, respectively.

We find that 52% of FIs plan to innovate in payments processing. Regional banks and community banks are the most likely to do so at 63% and 60%, respectively. Large international and national banks are instead more likely to cite loans and cash flow management as areas in which they are currently innovating with or planning to innovate with embedded finance experiences.

FIGURE 6:

FIs currently innovating or planning to innovate embedded finance experiences

Share of FIs that are currently innovating or plan to innovate embedded finance experiences for corporate payments, by type of FI

- **Yes, we are currently innovating in this area**
- **Yes, we plan to innovate in the next 12 months**
- **Yes, we plan to innovate but not until at least a year from now**
- **No, we have no plans to innovate in this area**

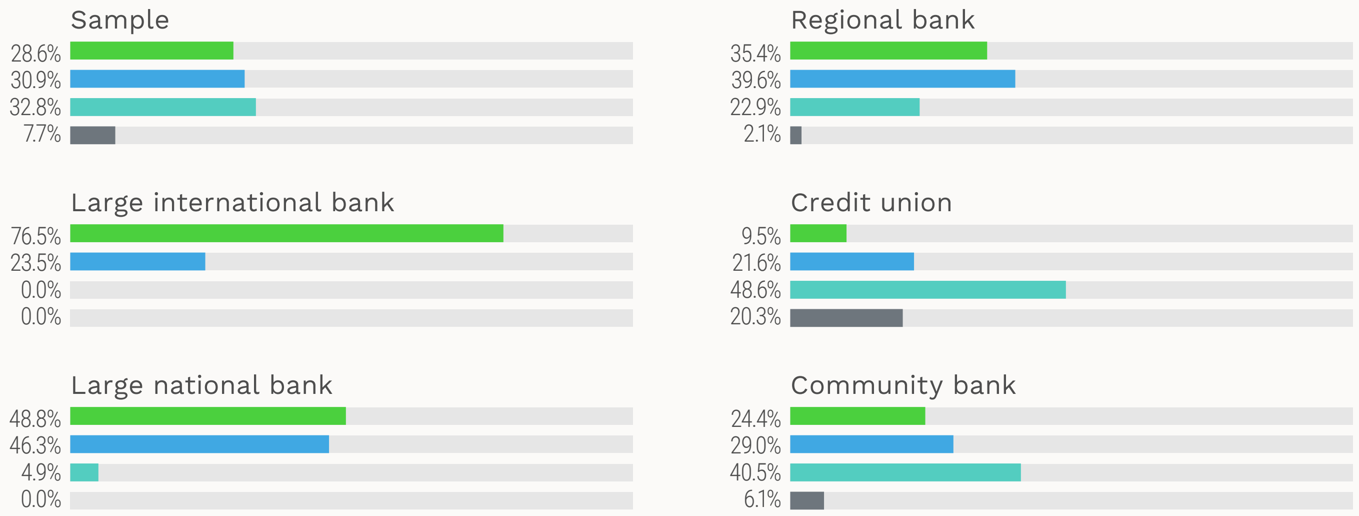

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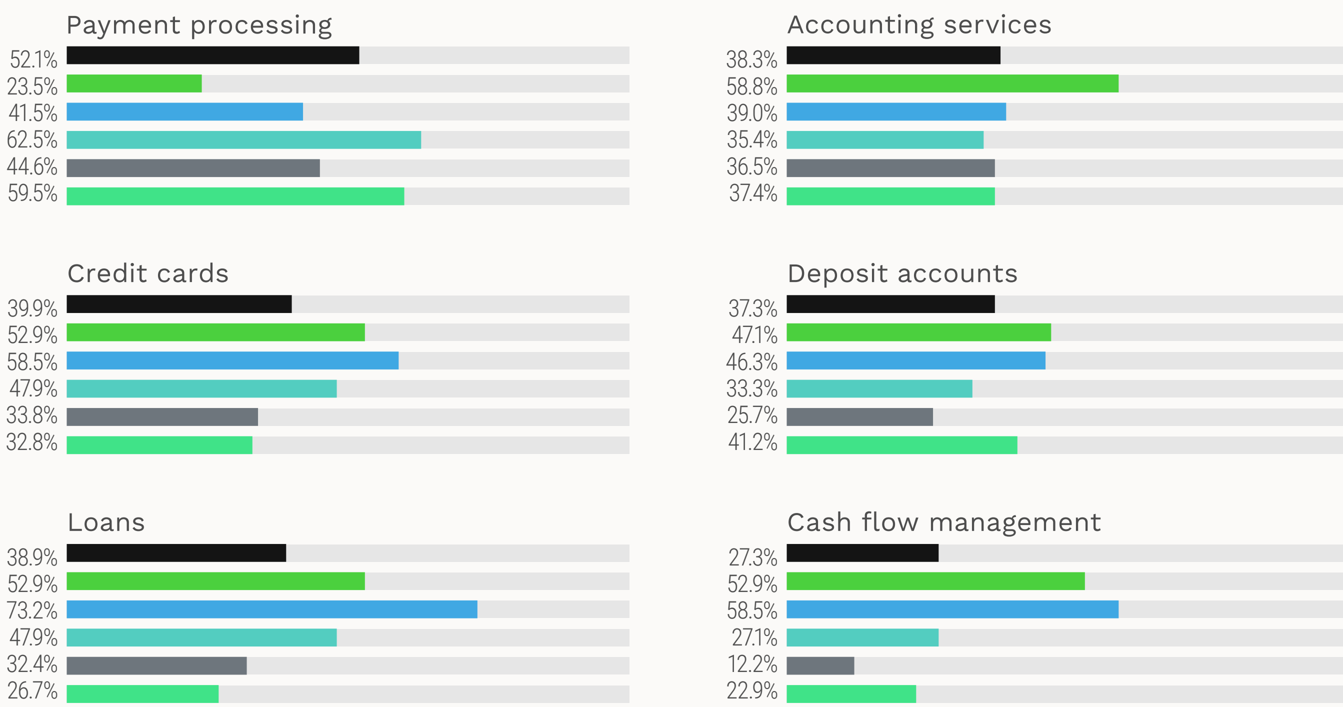
FIGURE 7:

Embedded finance experiences FIs plan to innovate

Share of FIs planning to innovate select embedded finance experiences, by type of FI

- Sample
- Large international bank
- Large national bank
- Regional bank
- Credit union
- Community bank



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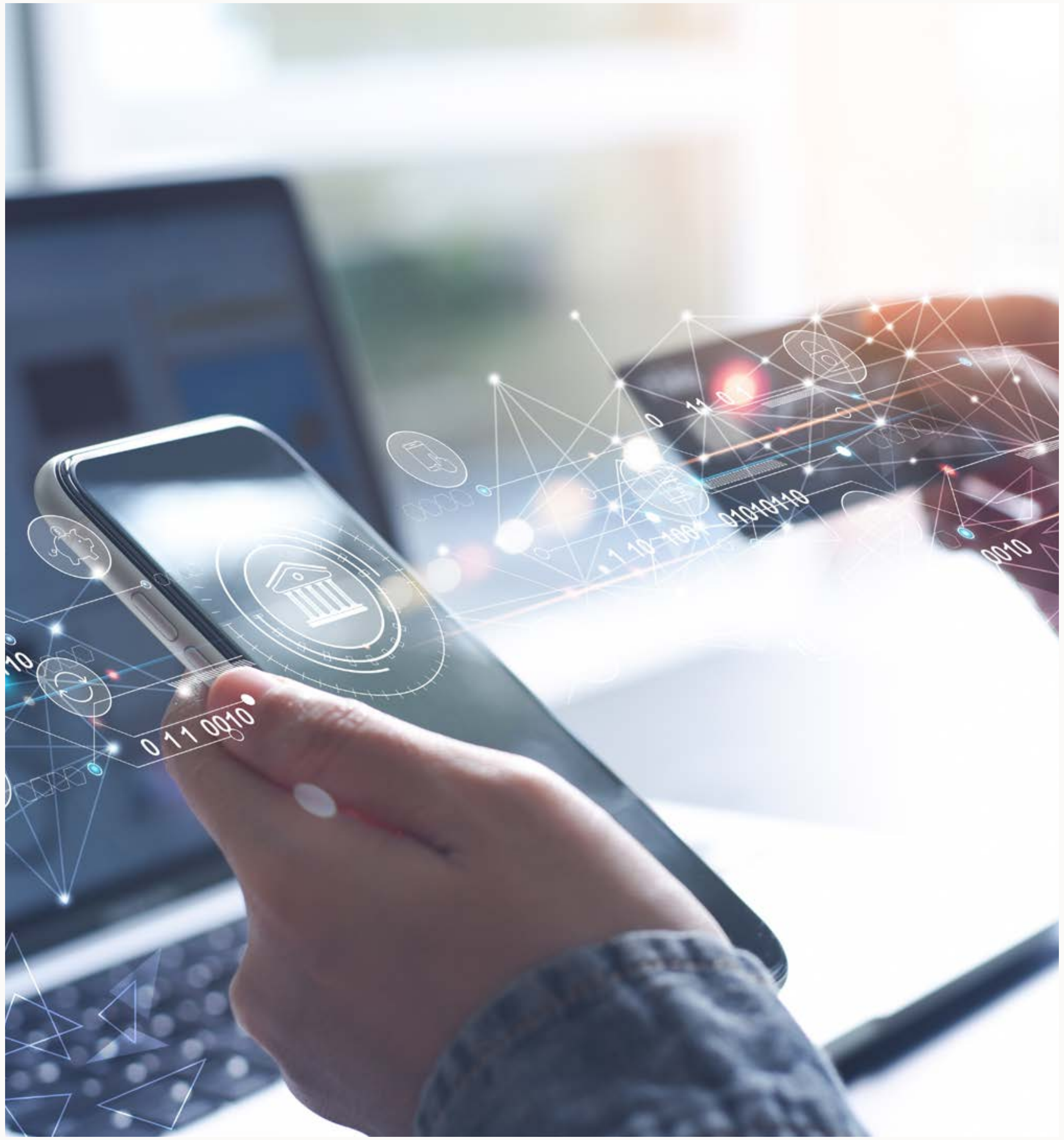

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Executive Insight

As FIs and their corporate clients look to streamline B2B payments, what particular challenges do organizations of different sizes face in innovating and adopting digital solutions that help remove B2B payments frictions?

Most organizations do not have the on-staff expertise to program their ERP for full integration into payments providers. Additionally, given their limited resources, organizations need to focus those resources on whatever it is that they do to drive revenue. This generally dictates [that they utilize] a partnership to facilitate their payment modernization, which also gives them security advantages, as they do not have to validate or store bank information if they use a payment partner. The key is finding a partner that has expertise in getting fully integrated into their ERP. If you think about the potential[ly] limited number of digital projects an organization may take on in a given year, [it has] to get [each] project right, as there will not be resources for a do-over. The right partner can take an organization through the process[es] of automation, replacing manual, repetitive, low-value processes; optimization, whereby those automated tasks are now able to be streamlined; and lastly, modernization, where data drives incidence avoidance, also known as "friction." The key is to start from a full integration into the ERP to facilitate automation — and to choose the right partner, of course.

When choosing a technology solution to address B2B payments frictions, how does organizational size impact decision-making?

This question used to lead me toward a discussion of the power dynamic in supplier-buyer relationships. One can imagine that a multinational, multibillion-dollar retailer, for example, has a ton of power in dictating terms with a startup supplier that is seeking shelf space. Over the past couple of years, however, I think there has been more cooperation in these relationships, regardless of the size of the organizations. Buyers see the value of their supply chain, and the supplier side [increasingly] expresses a preference for electronic payments, given the challenges of checks in a virtual work world. The key is building out the value that suppliers seek as far as remittance advice that accompanies payments and straight-through processing to avoid key entry of payments. Building value for suppliers allows more of them to say yes to electronic payments, reducing friction on both sides of the transaction. Value-added technology for suppliers can be accessed by businesses of all sizes through the right payment provider partnership.

JEFF JOHNSTON
VICE PRESIDENT, HEAD OF PAYABLES SOLUTIONS
FIS

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Conclusion

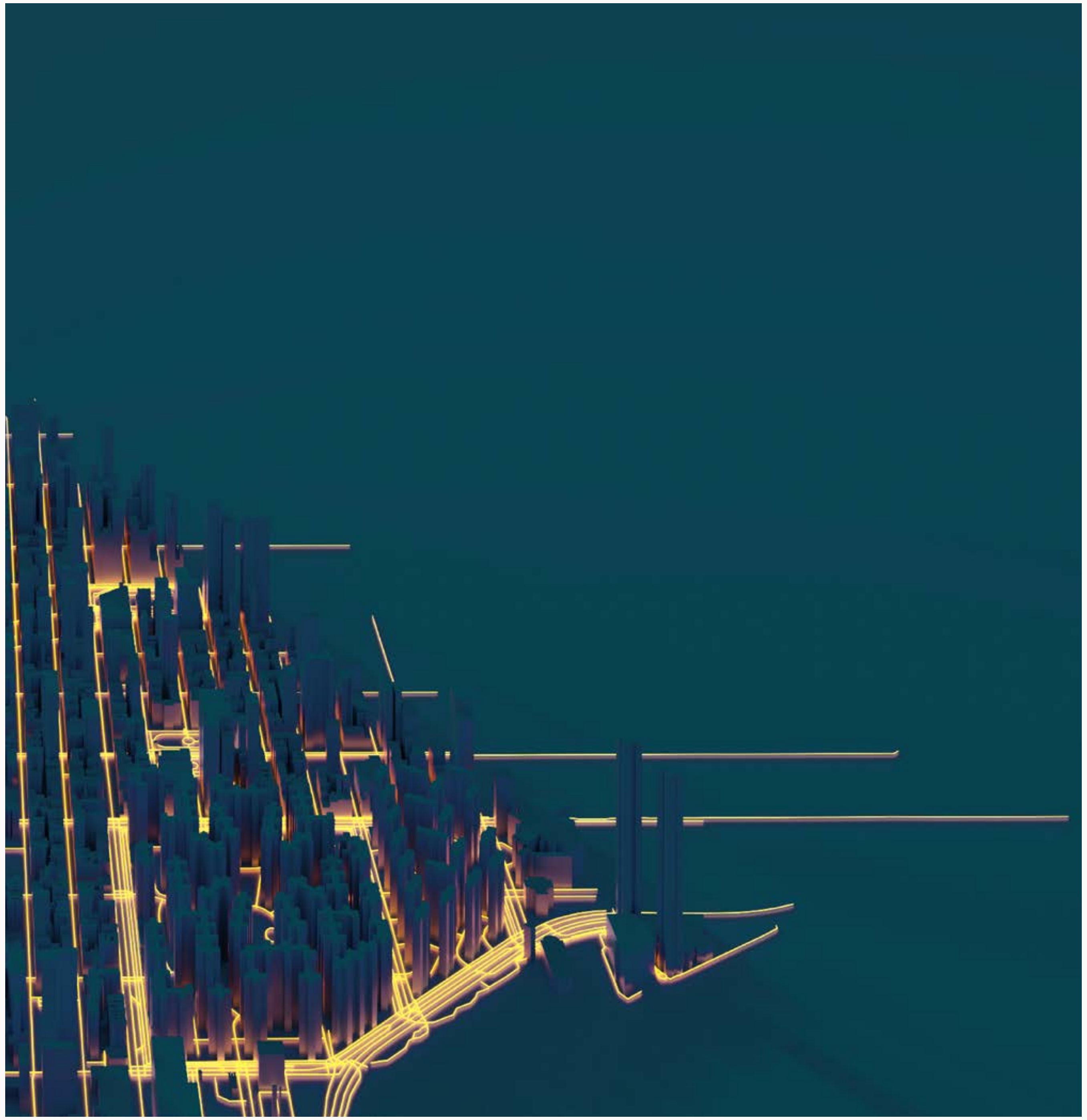
& Methodology

Conclusion

FIs exhibit different approaches to addressing B2B payments frictions depending on their size, as each type faces select challenges when looking to meet their corporate clients' digital payments needs. Still, our research found several areas where FIs of all sizes may struggle to offer the digital tools their clients need, and these areas frequently coincide with the top digital payment B2B frictions their clients are experiencing. Identifying and implementing the right digital payments tools can help FIs address these concerns and provide their enterprise clients with more seamless B2B payment experiences. When creating a technology stack becomes resource prohibitive — or when solutions are inadequate — an enterprise-grade technology solution could put FIs and their corporate clients on the fast track to innovation.

Methodology

Meeting The Challenge Of Payments Modernization: How Organizational Size Influences Innovation is based on insights from a survey conducted between Oct. 28, 2021, and Nov. 30, 2021, with responses collected from 311 executives working as head of treasury services or wholesale banking at large international banks, large national banks, regional banks, community banks and credit unions, all with more than $500 million in assets. All FIs served one of the following B2B clients: small businesses, those with less than $20 million in annual revenues; middle-market companies, those with $20 million to $1 billion in annual revenues; large enterprises, those with more than $1 billion in annual revenues; or corporate customers that make B2B cross-border payments.



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Meeting The Challenge Of PAYMENTS MODERNIZATION

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