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Payment Systems Regulator

SME research 2019/2020

britainthinks.com

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01 Introduction

The PSR want to improve understanding of how small businesses are thinking about and using payment systems

The research focused on:



How small businesses use payment systems, including the challenges they face



Views on how payment systems will evolve in the future for small businesses



Understanding of and feedback on the PSR's work as it relates to small businesses

This presentation draws on two phases of research



Qualitative deep dive

- To identify use of and attitudes towards different payment systems
- To understand attitudes towards specific payment sector trends and issues
- To understand awareness of and attitudes towards the PSR



Quantitative survey

- To quantify use of different payment systems
- To identify opportunities and challenges faced by SMEs with regard to payments
- To understand attitudes towards the PSR and how it can best support SMEs



Phase 1 | Qualitative deep dive

- In November 2019, we heard from a total of 36 small and micro* sized businesses through a combination of face to face 'triad' discussions and telephone interviews:

12 x 90 minute triads	12 x 40 minute telephone interviews			
<p>Groups split by size of business (6 micro/ 6 small) and type of payment method accepted:</p> <ul style="list-style-type: none"> 4 x groups with SMEs who accept cash but not card 4 x groups with SMEs who accept card 4 x groups with SMEs who primarily use bank transfer <p>Fieldwork was conducted in London, Belfast Glasgow, Sheffield, Sutton Coldfield and Denbigh</p>	<p>We heard from 9 x SMEs who had specific experiences/ viewpoints we wanted to explore in depth</p> <table border="1" data-bbox="1167 887 1975 1035"> <tr> <td data-bbox="1167 887 1435 1035">Had experienced a payment failure</td> <td data-bbox="1442 887 1711 1035">Cash only</td> <td data-bbox="1718 887 1975 1035">Regularly make international payments</td> </tr> </table> <p>We also heard from 3 accountants/ bookkeepers to understand the role they play in relation to decisions about payment methods</p>	Had experienced a payment failure	Cash only	Regularly make international payments
Had experienced a payment failure	Cash only	Regularly make international payments		



Phase 2 | Quantitative survey

- We conducted an online survey of 1,010 small businesses with 0-249 employees across the UK between 2nd - 20th January 2020
- Quotas were placed on size of business to ensure a good spread within the sample
 - The data has been weighted by business size and region to be nationally representative of the small business population based on BEIS' Business Population Estimates 2019
- However, the data is not weighted by other factors (e.g. sector, age of business, or usage of payments), meaning that it should only be taken as indicative rather than totally definitive of the UK small business population.
- Some questions in the survey were only asked to certain groups of businesses where it was relevant to do so, for example, only asking about the experience of card payments to those businesses who accept card. In these cases, the base size will be smaller than the total of 1,010, however is still large enough to draw meaningful insights.

Key findings

- 1** **The SME 'universe' varies significantly in terms of the capabilities, skills and resources SMEs have to manage their payment systems, but a significant proportion are relatively 'amateur' in their approach**
 - Almost 4 in 10 say that they do not have a business banking account
 - More than 1 in 5 say that they do not use online banking

- 2** **SMEs are viewing payment systems through the lens of their priorities as a business, i.e. maintaining a steady income and cash flow**
 - As a result, SMEs' top priorities for payment methods are strongly focused on the factors which they see as important to ensuring a steady cash flow: reliability, security and speed
 - Of all different payment methods, bank transfers are best felt to fulfil these criteria

- 3** **SMEs are typically giving little thought to the payments industry beyond this, and rarely take a strategic approach to the payment systems they are using**
 - SMEs tend to have low levels of understanding of the payments industry
 - They seem to be making decisions in relation to payments reactively rather than proactively, for example in response to external trends (e.g. consumer demand), or as a result of tactics and heuristics (e.g. sticking to the status quo for fear of disrupting their cash flow)

Key findings

4

Grouping SMEs by their use and experiences of payment systems reveals three ‘typologies’ of SMEs

- *Card accepters*: are least satisfied. They feel under pressure to accept card as a result of customer demand, but often feel the costs to their business are excessive and that there is little transparency
- *Cash but not card accepters*: tend to be the most risk averse, and the least likely to be willing to try new payment methods
- *Bank transfer accepters only*: are typically satisfied, but would like to see more support and innovation around cash flow (e.g. around matching payments to invoices, and instigating payments)

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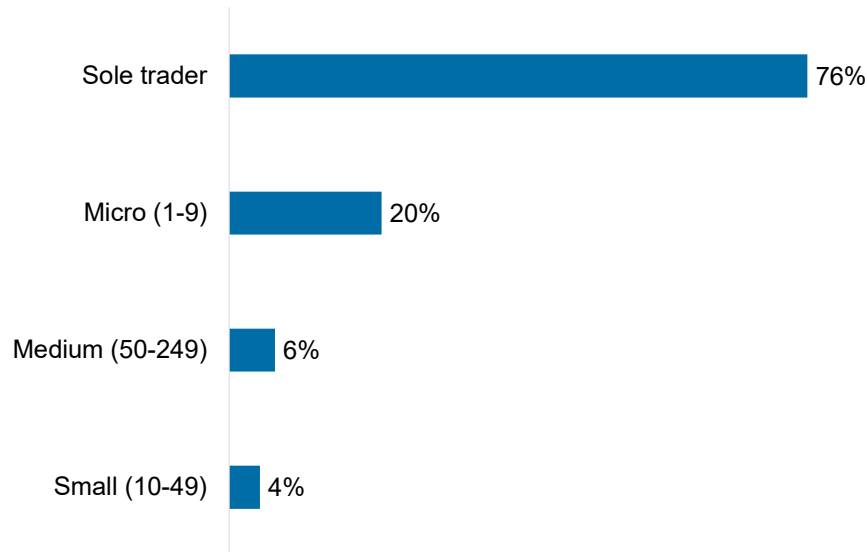
There is no single clear challenge facing SMEs overall in relation to their payments

- A significant minority of SMEs say that they have not experienced any challenges in relation to payments
- But there are concerns about bank branch and ATM closures, and the potential for fraud

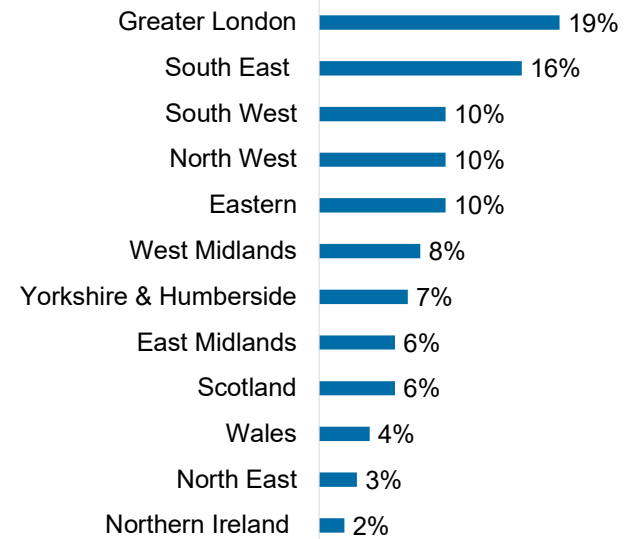
02 Overview of the SME population

Reminder of SME population by size and region:

Showing percentage of SMEs by number of employees



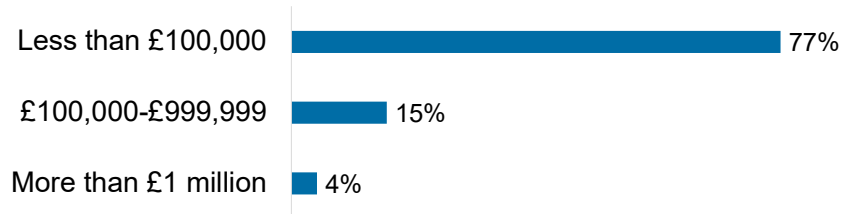
Showing percentage of SMEs by region



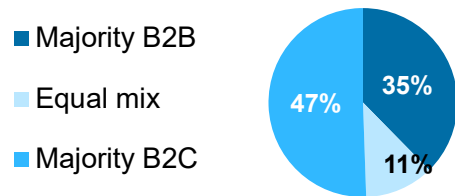
Most SMEs are sole traders

Other characteristics:

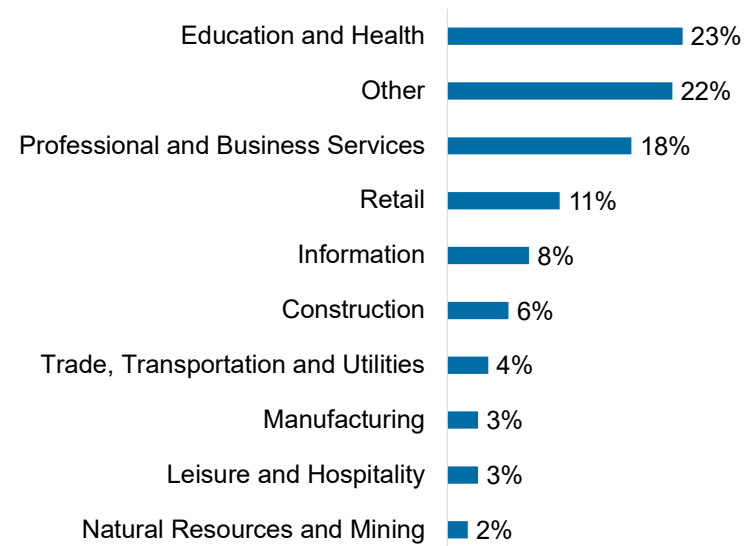
Showing percentage of SMEs by turnover last financial year



Showing percentage of SMEs by customer type



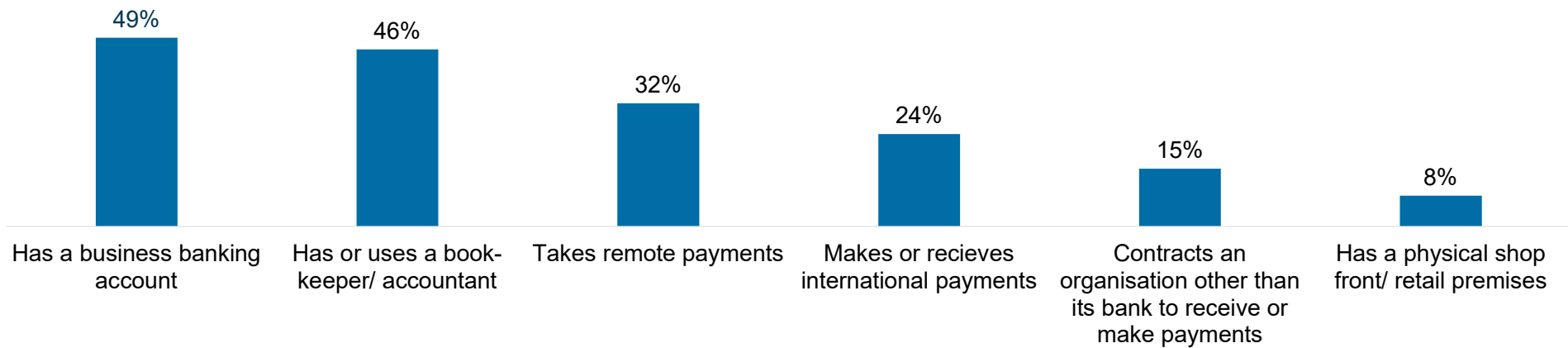
Showing percentage of SMEs by main activity



In the qualitative phase, we found that even within the same sectors, SMEs are often highly individual and variable in the nature of their business and the ways they use payments

SMEs have varying levels of capabilities, skills and resources when it comes to managing financial aspects of their businesses

% of SMEs who have the following features as part of their business



The qualitative phase and the quantitative analysis found that the smaller the business, the closer their behaviour tends to be to that of general consumers

SMEs can be ‘amateur’ when it comes to finances; they are often thinking more as consumers than business decision-makers

- Over half of SMEs (52%) say that they do not have a business bank account, which rises to 58% of sole traders
 - A similar proportion do not use a book-keeper or accountant
 - More than one in five SMEs surveyed say that they do not use online banking in their business
- Qualitatively, SME decision-makers often appear to approach finances and payment systems from a consumer rather than business perspective
 - Mirroring the financial providers, products and systems they experience and use in their personal lives in their businesses

“I used to have a business bank account and a personal one, but I found the business account unnecessary. I closed it to avoid fees and just streamline everything.”

(Glasgow, Micro, Cash business)

“I like to try things for myself before using them in the business.”

(London, Micro, Card acceptor)

03 How SMEs are approaching payments systems

SME decision-makers approach payment systems through the lens of their priorities as a business

SMEs tend to be preoccupied with keeping profitable, or even staying afloat



Decision-makers are often time poor and focused on the 'mission critical' parts of their business

"It doesn't come into play - payments have always worked well and we haven't encountered any problems - I just go in, do my job, and get paid - I don't ever really think about payment systems."

(Glasgow, Micro, Cash business)

Steady cash flow is felt to be a critical part of keeping profitable



SMEs (on the smaller end in particular) rely on receiving income when they are expecting to

"I struggle getting big companies to pay me - they sometimes take 90, 120 days which just ruins my cash flow. They know that I need them more than they need me."

(Sheffield, Micro, cash business)

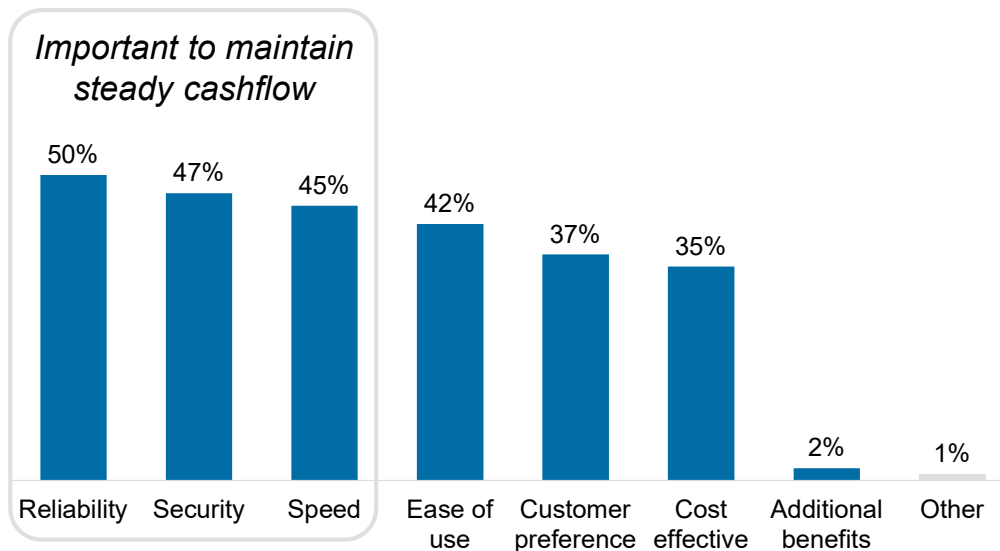
Effective payment systems are felt to facilitate steady cash flow



Payment systems are viewed as part of the financial 'infrastructure' through which income is received

Reflecting this, SME decision-makers are primarily looking for payment systems that ensure steady cash flow

Most important factors for small businesses when receiving payments



- SMEs tend to value payments systems which offer them reliable, immediate and secure payments, preferably at a low cost and convenience
- These factors are seen as essential for maintaining a steady cash flow. Even small disruptions or delays regarding payments are felt to result in significant consequences, e.g. an inability to pay suppliers

In the following section, we explore which payment methods are best felt to fulfil these criteria

SMEs readily admit to giving payment systems very little thought beyond this

- SME decision-makers tend to find it difficult to disentangle payment systems from other parts of the financial services system (in particular, their 'bank')
- Many are starting from a place of limited experience
 - Only 16% have experience of accepting the 3 main payment systems (card, bank transfer cash)
- And they are more likely to navigate the sector through brand names rather than a genuine understanding of different payment methods and systems
 - For example, SMEs readily talk about 'Paypal' but would be unable to categorise it as a 'payment facilitator'
- SMEs rarely describe any sense of having a 'strategy' in relation to the payment methods they use and accept

"I want to spend the least amount of time dealing with payments and processing them, and more time working on my business"

(Denbigh, micro business, bank transfer)

"I am considering getting a card reader, although I'd probably get it from my bank...I haven't done any research into the different options"

(Sheffield, micro business, cash business)

Rather, SMEs seem to be making decisions in relation to payment systems reactively

In response to external factors

- Changing consumer demand, e.g. consumers using fewer cheques, expecting to be able to pay by card
- Changes in technology, e.g. increasing use of online banking and ease of making online payments
- Changes to payment methods, e.g. increases in fees

“You have to accept pretty much anything these days - I've lost customers because I don't have a card machine...I have to consider getting a card machine soon”
(Sheffield, micro business, cash business)

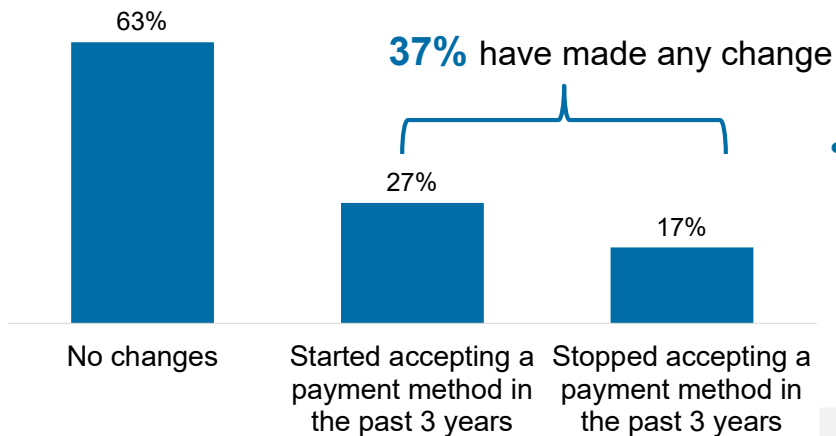
Using tactics and heuristics

- Hearing about or experiencing new brands and methods through word of mouth or as a consumer
- Sticking with the status quo i.e. with what's worked in the past, for fear of disruption to cash flow

“I got iZettle when I first set up the business because I know someone who does something similar and they recommended it.”
(Belfast, micro business, card acceptor)

Most SMEs haven't made any changes to their payment systems in the past 3 years, though a significant minority have done so

Showing percentage of SMEs who have made changes to accepted payment methods in the past 3 years

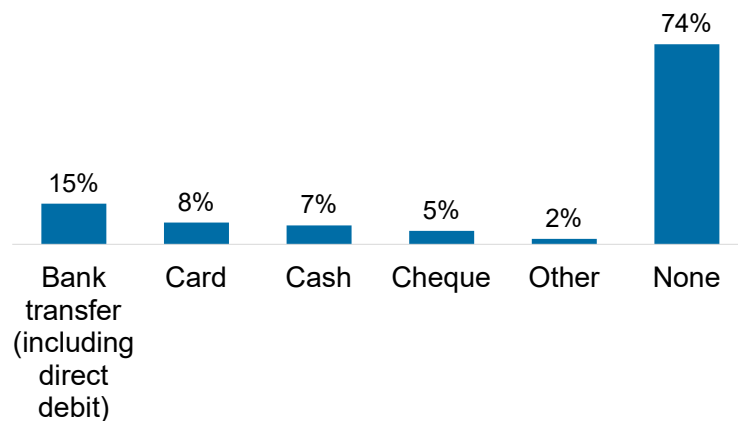


- Likelihood of having made changes increases with size
 - 67% of medium sized businesses (50-249 employees) said that they had made a change to which payment methods they accept in the past 3 years, compared to 42% micro businesses, and 34% of sole traders
- Changes to payment systems appear *not* to have a substitution effect
 - A decision to introduce a new payment method appears to be reactive rather than proactive and to be independent from a decision to phase out a different payment method

“Yes, I started using TransferWise for international transactions... and a card reader two years ago as I had to keep up with the times and with consumer demand”
(Brighton, micro business, cash, card and bank transfer)

SMEs adopting new payment systems are most likely to say they have started accepting digital payment methods

% of SMEs who have started accepting the following payment methods in the past three years



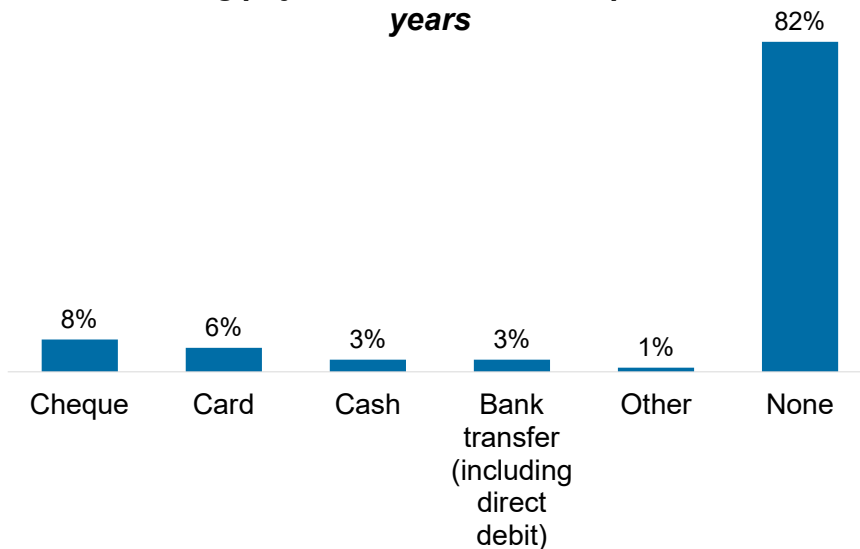
In the following section, we break down views of these overarching payment methods in more detail (e.g. views of different types of bank transfer)

- Combined, the clearest shift is towards forms of bank transfer and card payment
 - Over half of those who have newly introduced card payments are SMEs who have started accepting contactless card payments
- However, some SMEs say that they have started accepting cash and cheque in the past three years
 - Suggesting continued consumer demand for these methods

“Technology has driven this change - smartphones have transformed everything. I can now do bank transfers on my phone anywhere”
(Glasgow, micro business, cash business)

Contrary to the trend of increasing digital payments, more SMEs say they have stopped taking card payments than cash

% of SMEs who have stopped accepting the following payment methods in the past three years



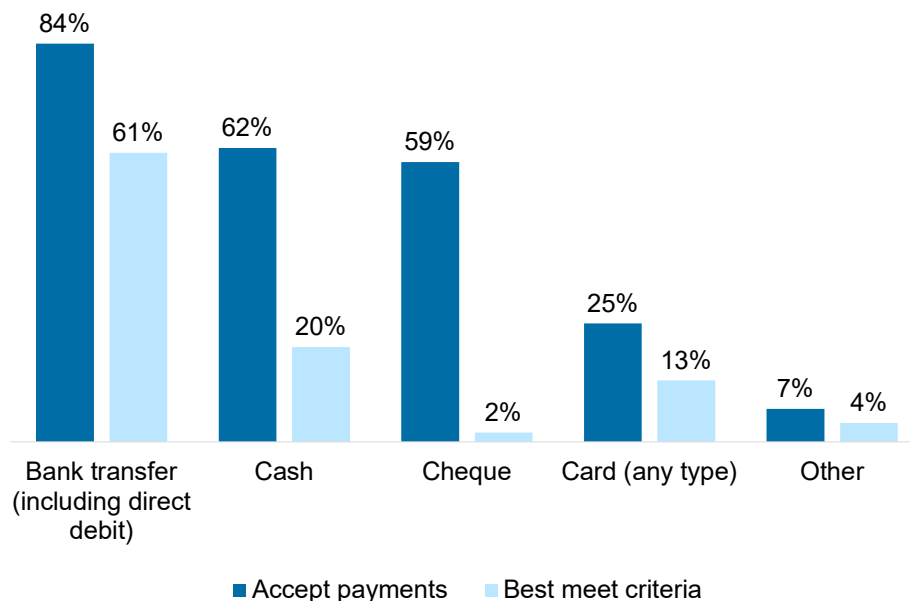
- SMEs are twice as likely to say they have phased out card payments than cash
 - The qualitative phase suggests that perceived higher costs associated with card could be driving this trend

“I have a card machine, but I don't use it often - why pay 1.5% to the bank when I can do it for free via bank transfer or cash. I have the machine just sitting there”
(Denbigh, micro business, bank transfer)

04 Deep dive into views of payment systems

When thinking about accepting payments, SMEs tend to favour bank transfer, cash and cheque

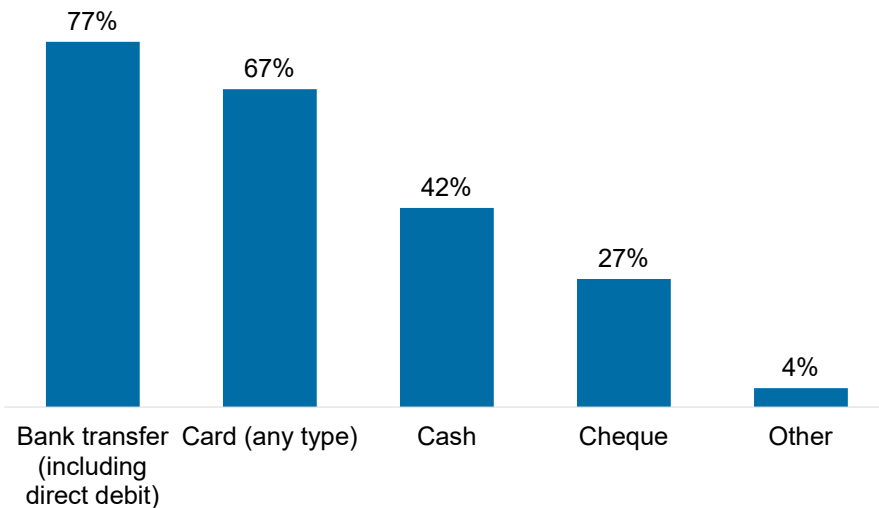
% of SMEs who accept the following payment methods



- Bank transfer is seen to deliver best against the most important criteria for a good payment system (i.e. one that is reliable, secure and quick to ensure a steady cash flow)
 - For SMEs who are at least partially B2B (the majority, at 62%), bank transfer also tends to be seen as the most appropriate payment method for business customers
- The wide acceptance of cash and cheque reflects flexibility on the part of SMEs; qualitatively, these were rarely their preferred methods, but were often accepted to avoid turning business away
 - The exception to this is card where the costs involved mean that SMEs say they find it more difficult to flex to consumer demand

When thinking about making payments, SMEs tend to favour bank transfer and card

% of SMEs who use the following payment methods



- When making payments, SMEs often adopt the same preferences as consumers
 - Typically using bank transfers for larger sums and card payments for small to medium sums
 - Some had company cards, while others were using personal cards and 'expensing' these payments
- Cash and cheque are less likely to be used to make payments
 - These are most likely to be used by cash only businesses, who are often using cash to pay their staff and suppliers

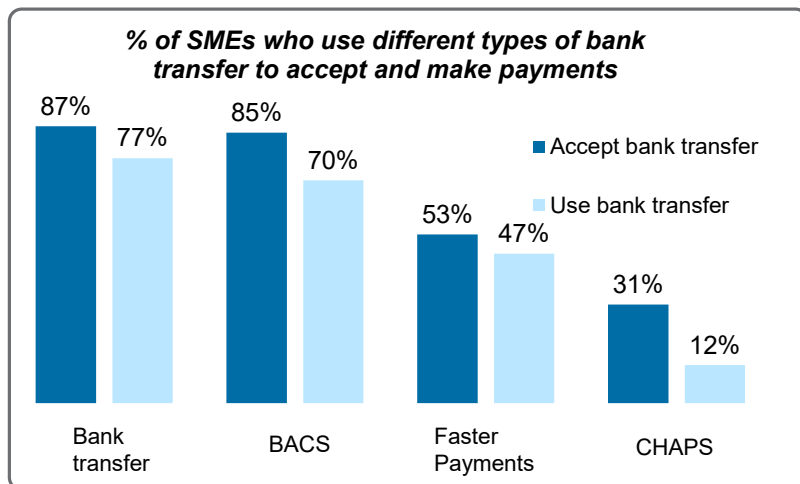


Most popular: Bank transfer

Bank transfer is the preferred payment method for most SMEs as it is felt to be instant, trackable, and the least costly



61% of SMEs think bank transfer best meets the criteria of what is important from a payment method



Perceived advantages

- Funds instantly available in bank account (for Faster Payments)
- Low or no fees
- Fairly easy to track and trace (especially for those using online banking)
- Secure against theft and loss

Perceived challenges

- Risk of fraud
- Relies on customer responding to invoice and instigating payment, causing potential delays for cash flow
- At times, difficult to match payments up to invoices

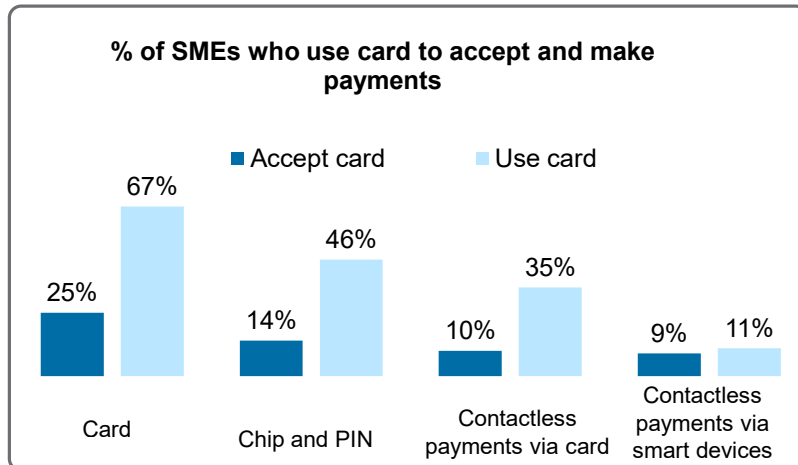


Mixed views: Card

Card is seen to offer many advantages, but the costs can be off-putting even for those SMEs who think they would benefit



13% of SMEs think card best meets the criteria of what is important from a payment method



Perceived advantages

- Secure against loss or theft
- Easy to track against sales
- Convenient for (and often felt to be preferred by) customers
- Payment is instigated there and then, and funds are received relatively quickly
- User-friendly platforms can provide other useful functions

Perceived challenges

- Expensive fees including both cost per transaction and card terminal hire costs
- Lack of transparency from suppliers resulting in surprise costs
- Risk of chargeback e.g. if payment made on a fraudulent credit card
- Connectivity issues

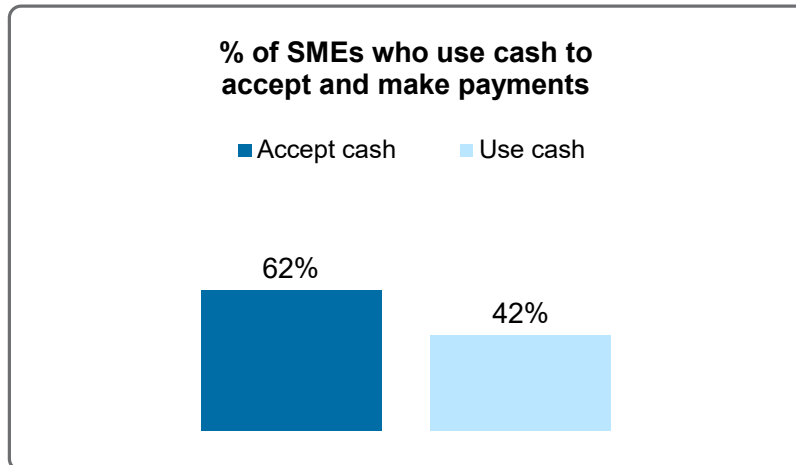


Less popular: Cash

Cash is divisive; whilst many SMEs see it as being more hassle than it's worth, there is a minority for whom cash is king



20% of SMEs think cash best meets the criteria of what is important from a payment method



Perceived advantages

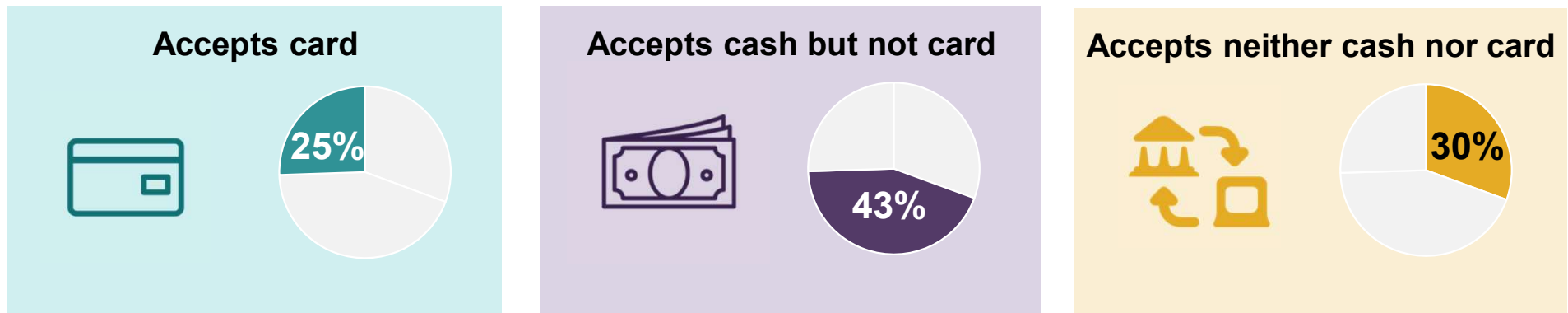
- Instant
- Secure from online fraud
- No fees
- Offers flexibility in tax reporting
- Tangible

Perceived challenges

- Time and money spent depositing cash, esp. given bank branch closures
- Goes against consumer preferences therefore risk of losing customers/ missing out on sales if other options are not offered
- Physical security risks including theft and loss
- Lack of audit trail

05 Typologies of SMEs based on use of and attitudes to payment methods

Grouping SMEs by what payment systems they use, and why they use them, reveals three different 'typologies' amongst SMEs

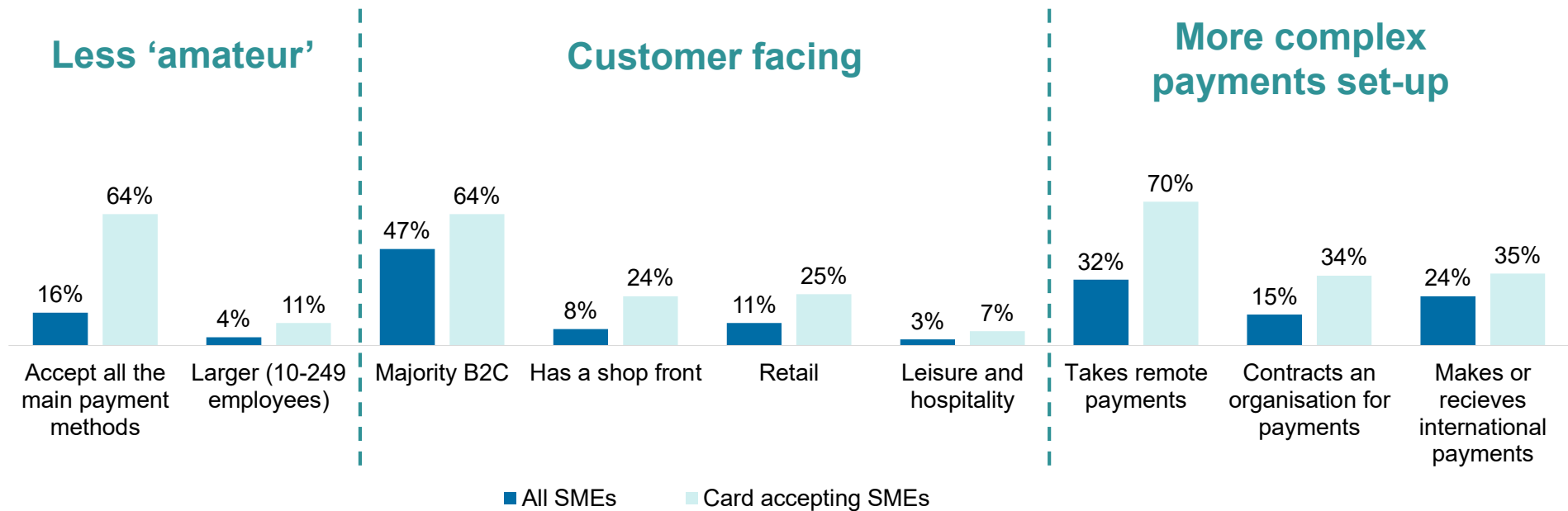




Accepts card

Card accepting SMEs tend to be larger, customer facing and have a more complex set-up for their payment systems

Card accepting businesses over index on the following characteristics:





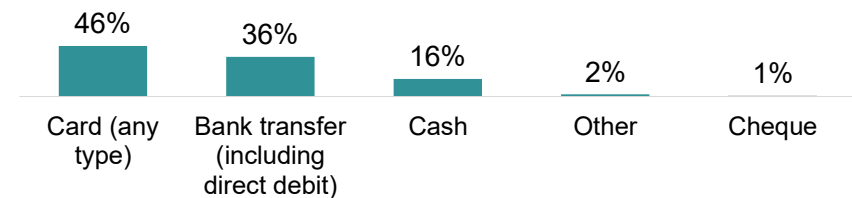
Accepts card

Card accepting SMEs can be split into two groups; those who have embraced card and those who feel they are obliged to offer it

- Some feel the costs associated with card put too high a financial strain on their business but feel they have to offer card regardless due to consumer expectations
- Others see the benefits of card as outweighing the costs for their businesses
 - The biggest benefit is felt to be the greater control card payment systems provide over cash flow
- More positive SMEs tended to be using payment providers who offer more than just a core card service
 - For example iZettle works as a full accounting system, showing all money coming in and out of the business including payroll

“iZettle is so easy to use. I look on the iPad and I can see all the payments going in and out so I always know how much money is in there.” (Glasgow, small, card acceptor)

Payment methods which best meets the criteria of the most important factors when receiving payments: accepts card



Gift shop in Glasgow

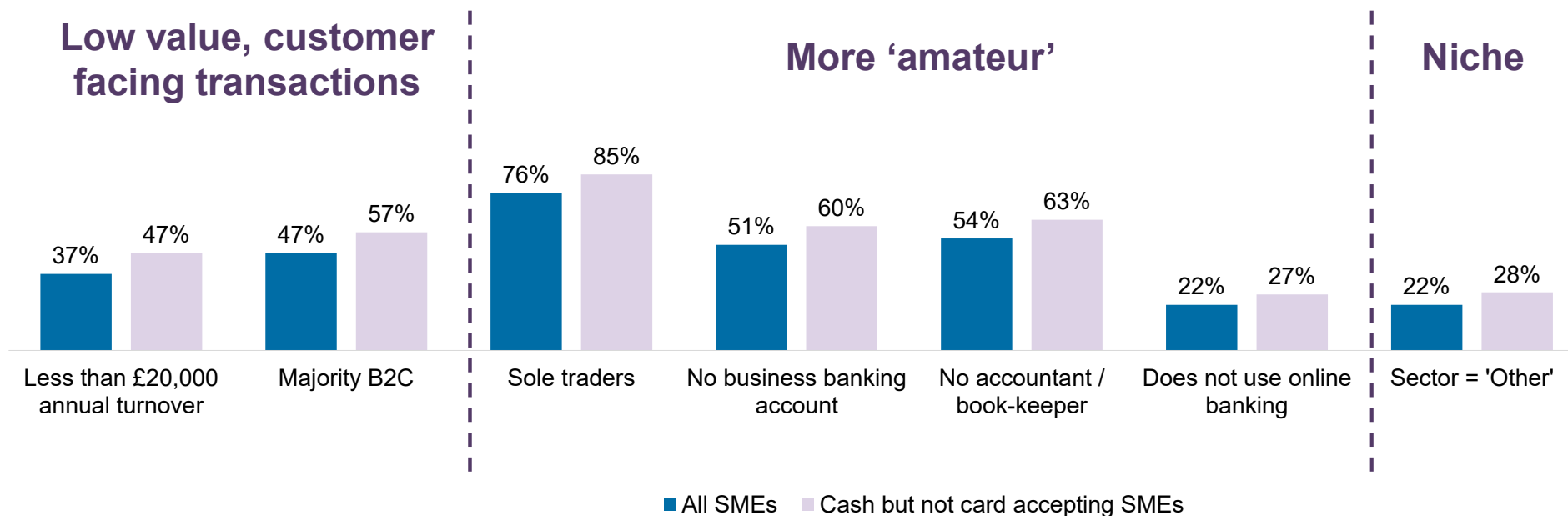
The owner of this ten year old business recently decided to take off its minimum spend on card of £5 because he felt he was losing too many sales due to customers not having cash on them. The owner has been with the same card provider since the business started, and has never shopped around because he believes that by signing long contracts he's getting a better deal.



Accepts cash but not card

Non-card accepting SMEs are more likely to be sole traders with a less formal or 'amateur' approach to payments

Cash accepting businesses over index on the following characteristics:





Accepts cash but not card

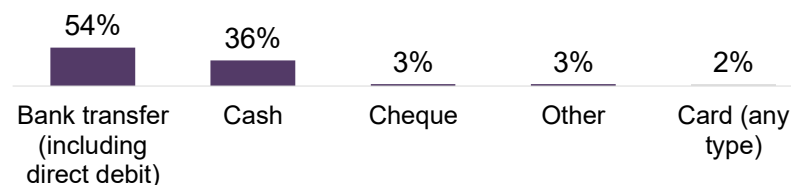
SMEs which predominantly accept cash tend to be more risk averse than other businesses and more likely to stick with the status quo

- Qualitatively, these decision-makers are the most likely to have high levels of concerns over fraud associated with card providers and payment facilitators
- In this context, they see cash as a 'safe' option. Whilst they acknowledge the physical security risk it poses, they tend to feel that this is at least something they know and understand (unlike online risks)

"I've always accepted cash...it's the most common payment method in my trade...I will start accepting bank transfers once I get the hang of online banking but I'm used to dealing in cash so it's unlikely I'll change unless my customers demand it"

(Belfast, micro, cash business)

Payment methods which best meets the criteria of the most important factors when receiving payments: accepts cash but not card



Hairdresser in Sheffield

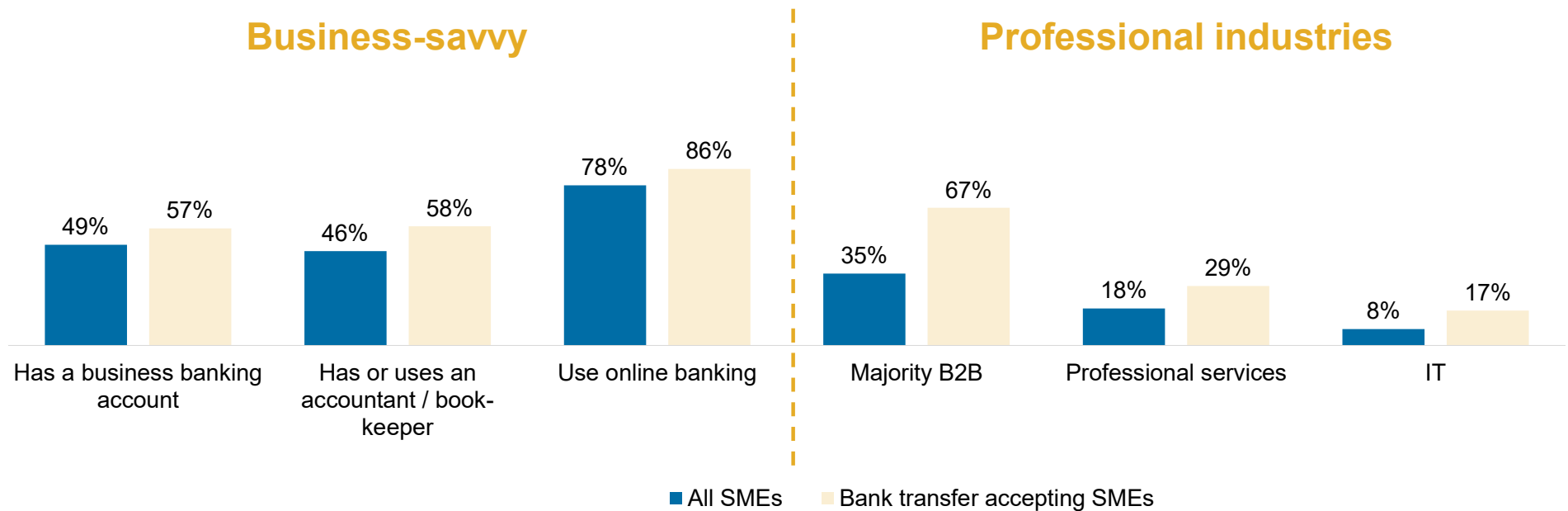
The owner opened her hairdressing business 7 years ago and has an established customer base. Recent bank branch closures means that she now has to drive 20 minutes to deposit cash, rather than being able to pop down the high street to her local branch. Despite recognising that some consumers are asking to pay by card, she could not imagine changing her payment systems because this is the way she's always done it.



Accepts neither cash nor card

SMEs accepting bank transfer tend to sell high-value services and have more of a 'business' outlook

Bank transfer accepting businesses over index on the following characteristics:





Accepts neither cash nor card

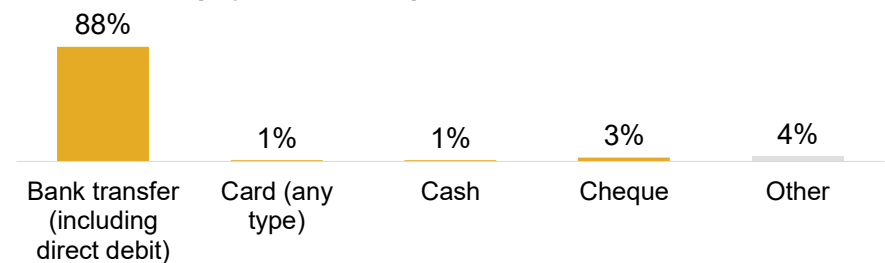
This group tends to be laser focused on cash flow and looking for ways in which payment systems can help them manage this

- For these SMEs, monitoring cash flow is a key pain point for their business
 - It is most acute for those who issue invoices, who describe spending a considerable amount of time tracking and chasing payments
- These businesses tend to be satisfied with bank transfer methods
 - In particular, they value the speed of transactions and the real time information they are given to track incoming and outgoing payments

“BACS is absolutely perfect, it’s getting quicker and quicker.”

(London, small, bank transfer)

Payment methods which best meets the criteria of the most important factors when receiving payments: accepts neither cash nor card



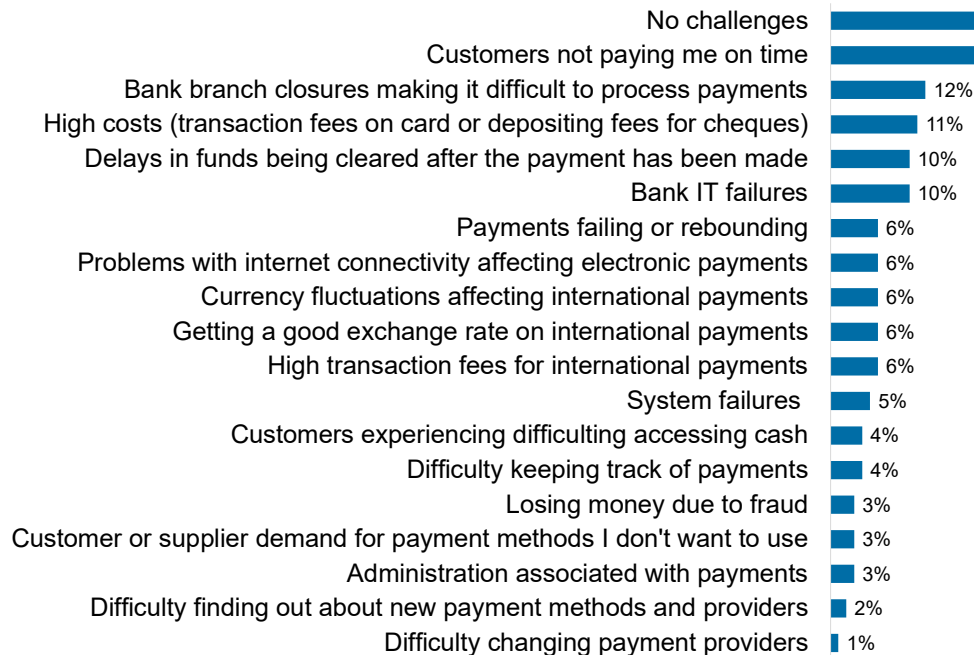
Electrical engineer in Denbigh

This business processes high value transactions. Invoices are issued to customers on completing a job, and payments are then received by bank transfer. This means that they have to spend a significant amount of time on the phone chasing invoices. The owner is tempted to move to card so that customers can be charged there and then for their services, but is concerned about the fees associated with card.

06 The challenges SMEs face with current payment systems

More than two fifths of SMEs say they have not experienced any challenges with their payments systems in the past year

% of SMEs who experienced these challenges in the last year



And the top mentioned challenge (late payments) is less related to payment systems themselves, and more to delays in customers instigating payments

"I haven't had any issues with payment systems since bank transfers came in - I'm really happy with how the systems work. When I used to accept cheques regularly, there used to be quite a few issues."

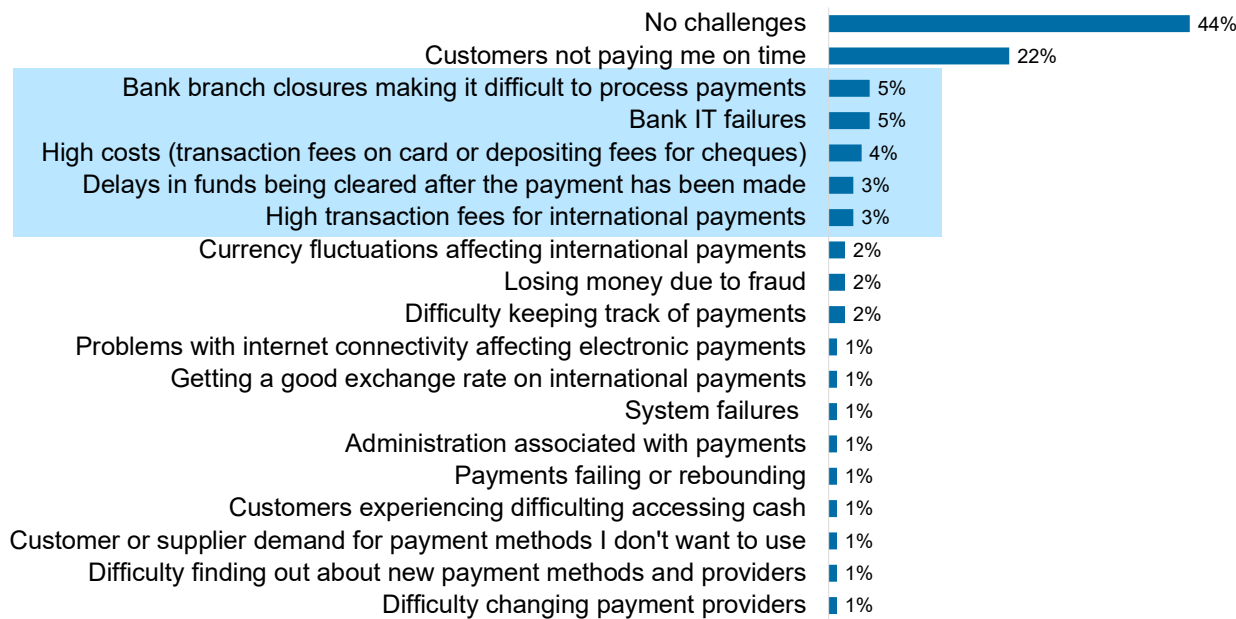
(Glasgow, micro business, cash business)

"Sometimes they take months to pay you and you have to keep chasing them – otherwise I can't pay my staff."

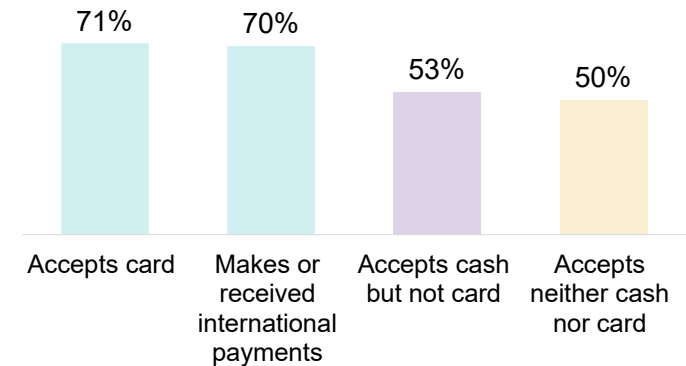
(Sutton Coldfield, micro business, bank transfer)

SMEs do not seem to be experiencing any clear single payments challenge that is intrinsic to payment systems

% of SMEs who see this as the single biggest challenge their business faced when making or receiving payments



% of SMEs who say they have faced at least one challenge with payment systems in the past year



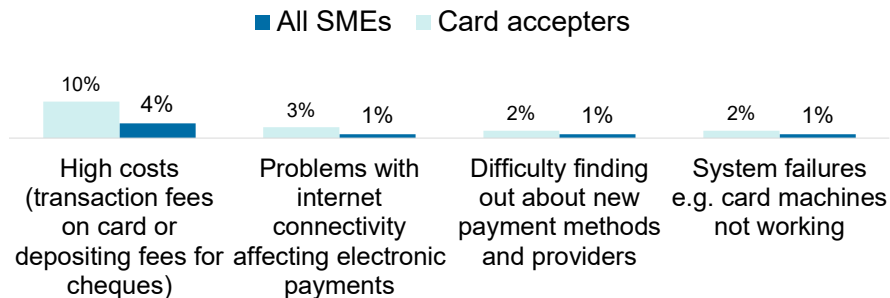
SMEs who accept card, and those which make/receive international payments, are most likely to say that they have experienced challenges



Accepts card

Card accepters are twice as likely as other SMEs to face challenges with high costs such as transaction fees

% saying this is the biggest challenge their business faced when making or receiving payments in the past year



- Qualitatively, card accepting SMEs also describe low levels of transparency and trust in card providers
 - Some described 'hard selling' tactics used by suppliers and a lack of transparency over charges
- Some say they feel under pressure to accept high costs to meet consumer demand because of a lack of choice of lower cost (or more transparent) providers

"I don't like the card charges but have to need to offer it to get sales. Sometimes when I'm operating remotely, I lose connectivity and can't take payments and then I have to rely on bank transfer"

(London, micro, card accepter)

"We get asked all the time to pay by card, but there's the 2% charge plus the card terminal costs, and that can be really quite expensive. We only get around £200,000 from consumers per year, so it's not worth it"

(London, small, bank transfer)

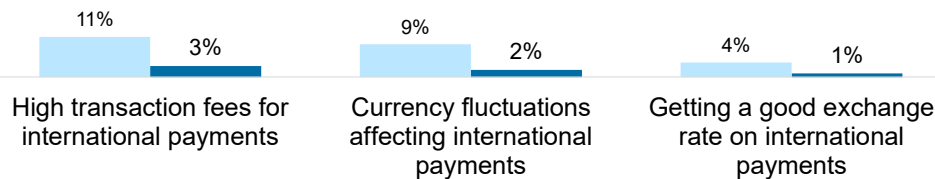


International payments

Those making or receiving international payments also mention challenges with high transaction fees

% saying this is the biggest challenge their business faced when making or receiving payments in the past year

■ All SMEs ■ Makes or receives international payments



"I used to have issues (with international payments) by using bank transfers which took too long, and I was not sure how much I was being charged...TransferWise makes it much easier and more transparent"

(Brighton, micro business, bank transfer)

"I really like the ethos behind TransferWise as they take the position that banks charge you unreasonable amounts and they're transparent and clear in how much it costs - I wish more banks aligned with this model"

(Glasgow, small business, card acceptor)

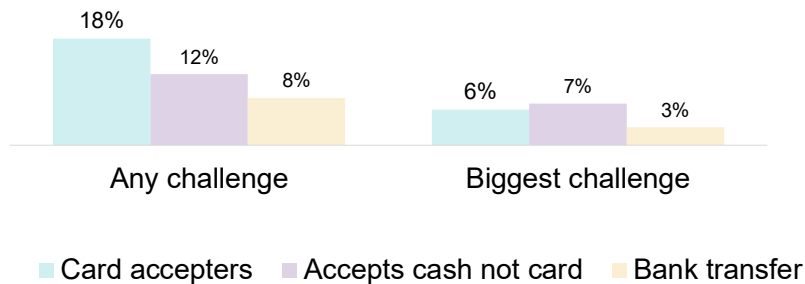
- This challenge is felt to be compounded by the uncertainty caused by fluctuating exchange rates
- This means that SMEs describe being more likely to 'shop around' when it comes to providers for international payment



Accepts cash but not card

Cash based businesses are more willing to adapt to bank branch closures – though there is concern about further changes

% saying bank branch closures are a challenge their business faced when making or receiving payments in the past year



“We used to have a bank branch in the local town, but that closed down, so I now have to come 11 miles into the centre to pay it in which is very annoying”

(Glasgow, micro, cash business)

- In the quantitative data, cash based SMEs do not appear to see bank branch closures as a challenge any more than other SMEs
- This is because cash based businesses are more willing to adapt – though they feel it could present serious challenges if bank branches continue to close
 - In the qualitative phase, some cash based businesses described switching banks in order to deposit cash (and for other services) because their local branch had closed down
 - But these businesses are also more likely to be anxious about further closures and changes
 - Whereas those who rely more on card and bank transfer see cash-related admin as an annoyance – even though it doesn't impact them as much



Accepts neither cash nor card

Businesses who favour bank transfer are more likely to face challenges with customers not paying them on time

% saying this is the biggest challenge their business faced when making or receiving payments in the past year

■ All SMEs ■ Accepts neither cash nor card



Customers not paying me on time

"I struggle getting big companies to pay me - they sometimes take 90, 120 days which just ruins my cash flow"

(Sheffield, micro business, cash business)

- These SMEs tend to describe generally high levels of satisfaction with bank transfer methods
 - Business banking fees are felt to be fair and proportionate
 - Real time information makes it easy to track payments
- However, they express a desire for more support in helping them manage cash flow, such as:
 - Making it easier to link payments to invoices
 - Making it easier to instigate the payment rather than waiting for the customer to start making a payment, e.g. Barclays Ping It

"We don't really have any issues – it's more of a challenge getting people to pay us rather than the system itself"

(London, micro business, card acceptor)

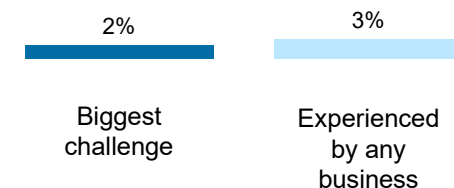
SMEs are worried about fraud, despite the fact that actual experiences of fraud are relatively uncommon

- Fraud is a top of mind issue for SMEs
 - Perceived to be becoming more frequent as a result of increased digitalisation and more sophisticated scams
- For some, especially cash based SMEs, this can be a blocker to them changing payment systems
 - Digital systems seen to present more 'unknown' risks than physical payment systems

"I had a bad experience with charge back where someone using a fraudulent or stolen card had put in an order... I shipped the order out but then the owner of the card claimed on chargeback... I lost out £7,000"

(Sutton Coldfield, small business, cash business)

% of SMEs who experience losing money due to fraud as a challenge



07 Views on what the future holds

Reflecting low engagement, SMEs find it difficult to predict how payment systems will develop, and how this will affect their business

- Low engagement with payment systems and the payment industry means SMEs are not typically engaging with how payment systems will change in future
- This is particularly true of those businesses that are primarily using bank transfer, who tend to feel they are the least likely to be affected by changes

"There aren't really any challenges with the systems at the moment – the big challenge is getting people to actually pay us."

(London, Micro, card acceptor)

"I'm happy with the processing on payments at the moment - you're fearful of change when something works well"

(Sheffield, Small, bank transfer)

When shown a list of potential opportunities and challenges related to future payment systems:

46%

Of SMEs do not pick any **opportunities** listed as having an impact on their business

Rising to 57% of bank transfer businesses that accept neither cash nor card

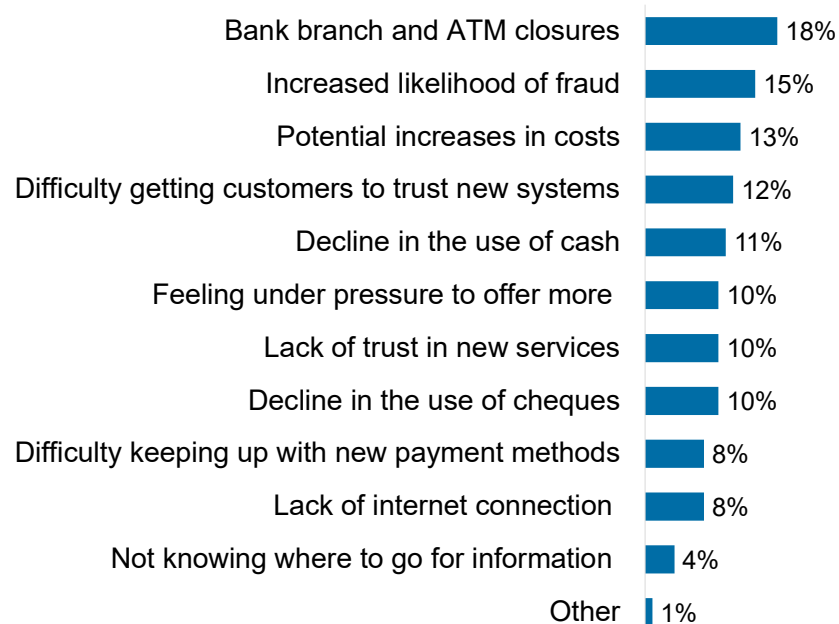
42%

Of SMEs do not pick any **challenges** as having an impact on their business

Rising to 61% of bank transfer businesses that accept neither cash nor card

SMEs who do express a view are most concerned about branch and ATM closures, and the risk of fraud

Challenges SMEs think will have the largest impact on their business

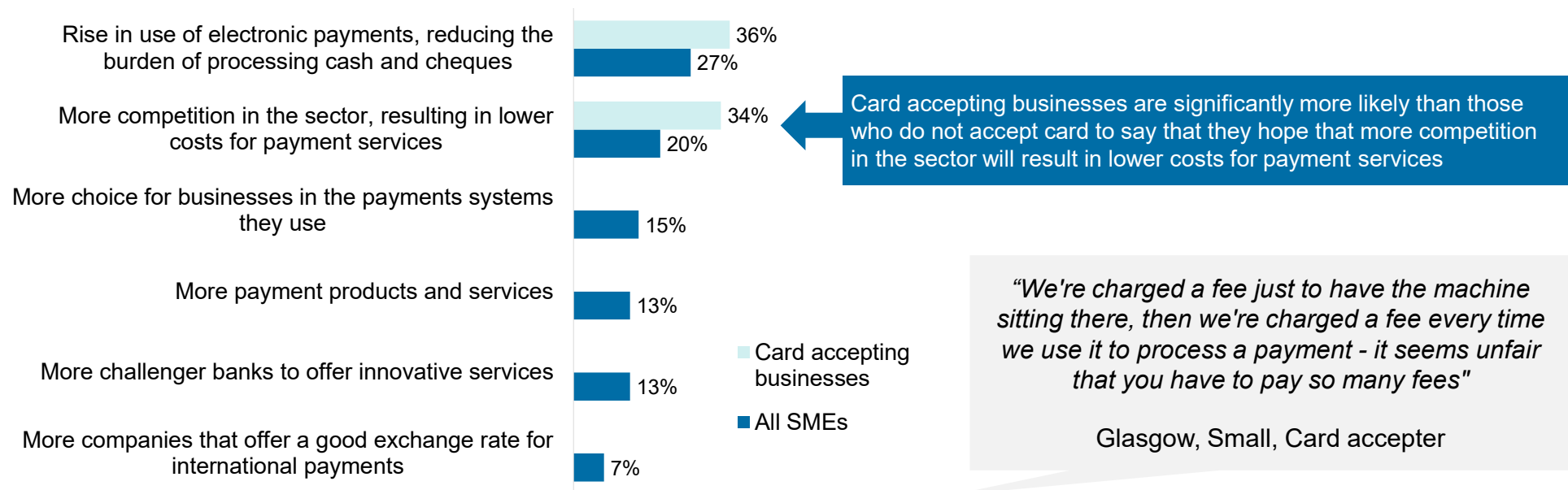


- Increasing digitisation of payments is felt to bring challenges in relation to fraud and increased burden in the short term
 - I.e. having to travel increasing distances to deposit decreasing amounts of cash as bank branches continue closing
- Compared to SMEs on average:
 - Cash based businesses are slightly more likely to be worried than most about bank branch and ATM closures (22%)
 - Card accepting businesses are significantly more likely to be worried about fraud (25%)

"I think cash is going to be a bit of a dinosaur - banks are trying to get away from it and turning towards an electronic bank."
(Glasgow, micro business, cash business)

SMEs who see opportunities from future developments are most likely to point to reduced burden and increased competition

Opportunities SMEs think will have the largest impact on their business



In the qualitative phase we tested the following payment trends:



Changes in consumer trends away from cash and towards digital payment methods



The proliferation of new payment systems for consumers such as digital wallets



The proliferation of new payment systems for merchants including digital platforms and payment facilitators

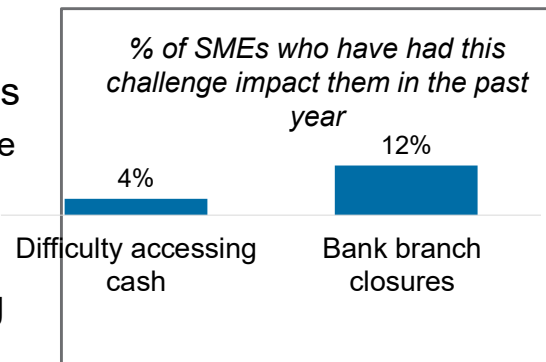


Increased speed of bank transfers

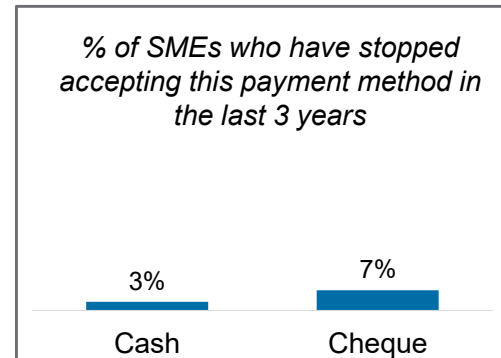


All SMEs are aware of the move away from cash in the wider environment, but see their role in this as passive

- SMEs describe finding it harder to process cash and cheques due to bank branch closures
 - This is particularly relevant in rural locations where distances to the next bank branch can be significant
- However, many are reluctant to stop accepting these payment methods if customers want to pay this way, for fear of losing out on sales
- All SMEs, even those who do not deal in cash themselves, describe concern about what this trend might mean for small traders and more vulnerable people in society



"If I get a £20 cheque, it costs me more in time and fuel to deposit the cheque than the actual value of the cheque"
(Denbigh, micro-business, bank transfer)

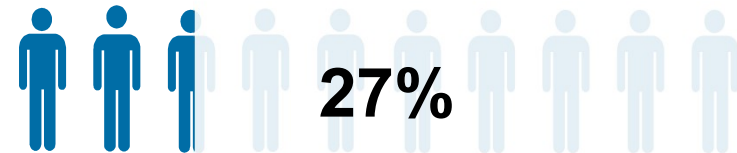


"My business would be killed off if it was impossible to access cash - drivers wouldn't accept card - they don't like having everything on the books"
(Glasgow, small business, cash business)



SMEs recognise the trend of digital wallets but are often thinking of this from a consumer mindset; they find it hard to know the implications for their business

- Reflecting poor levels of understanding of the payments industry, SMEs make little distinction between digital wallets and cards
 - From their point of view, the impact on the business is almost entirely the same
- But they are alive to the implications of this from a consumer point of view, recognising that these types of trends:
 - Make purchases easier
 - Further reduces the case for cash



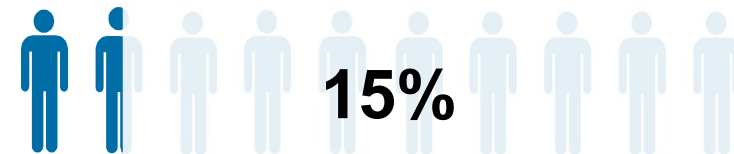
Consider a rise in the use of electronic payments, reducing the burden of processing cash and cheques, to be an opportunity for their business

"I have this initial aversion to tech, although I have just connected my card to Apple Pay and it's actually really convenient. As a business, it's less relevant"
(London, Micro, Card acceptor)



There are low levels of awareness and understanding, and some mistrust, around payment facilitators for merchants

- SMEs are aware that there are new providers on the market, but are often unsure of exactly what is on offer
 - Awareness of fintechs in general is higher in London than elsewhere, probably as a result of greater exposure to advertising
- They find the language in this area confusing
 - The term 'payment facilitators' is not recognisable even among those using them
 - Rather, SMEs refer to brand names (e.g. PayPal, Sum Up, Square, iZettle) and put emphasis on only using brands they feel they know and trust



Of SMEs say they contract an organisation other than their bank to make / receive payments (e.g. WorldPay, iZettle, PayPal)

"I'm always wary of something that is unproven...like PayPal who has built up a good reputation, I'm not sure if iZettle have had enough time to prove themselves to be good and trustworthy"

(Glasgow, Micro, Cash business)

"Once you're locked into one payment provider, you don't want to start messing around with others. They all have different T&Cs"

(Glasgow, Small, Card acceptor)



Awareness of Faster Payments is commonplace across businesses who use bank transfers, though not necessarily by name

- While SMEs do not tend to differentiate between types of bank transfer spontaneously, most were aware of which type they used when prompted
 - Only 6% of SMEs surveyed do not know what specific type of bank transfer they accept, or which type they use to make payments
- Regardless of whether they are aware that they might be using Faster Payments specifically, SMEs do recognise that bank transfers had become faster in recent years
 - This change is felt to be beneficial to businesses by speaking to one of their top desires for payments: speed

"It's had a massive impact on our business. You can be speaking to an accounts department, chasing them for the payment, and they can make the payment straight away while you are on the phone"

(London, Small business, Bank transfer)

"I think the fact that payments have been getting quicker and quicker, means I'm now accepting more bank transfers."

(Glasgow, Micro, Cash business)