UK FINANCE

BUSINESS PAYMENTS SURVEY

March 2019

UK Finance

UK Finance is the collective voice for the banking and finance industry.

Representing more than 250 firms across the industry, we act to enhance competitiveness, support customers and facilitate innovation.

We work for and on behalf of our members to promote a safe, transparent and innovative banking and finance industry. We offer research, policy expertise, thought leadership and advocacy in support of our work. We provide a single voice for a diverse and competitive industry. Our operational activity enhances members' own services in situations where collective industry action adds value.

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1. INTRODUCTION

As the authoritative source for data on payments in the United Kingdom, UK Finance periodically commissions research into the ways in which UK businesses manage their incoming and outgoing payments. UK Finance's predecessors (Payments UK, the Payments Council and APACS) undertook similar research, most recently in 2012. This new research commissioned by UK Finance aims to provide insights into how business behaviour has changed since 2012, ensuring that our understanding of business behaviour stays up to date, in the context of a changing technological, economic and political background.

Key topics covered by the research include:

- The types of banking services used by businesses
- Business use of online banking, mobile banking and other technology
- General approach to billing and remittance, including how promptly invoices are paid
- The methods that businesses use to make their outgoing payments
- The ways in which businesses receive payments from their customers
- Awareness of some types of potential fraud, and steps taken to guard against them

The experiences and choices of different types of businesses can vary greatly. As a result, this report considers separately the experiences of sole traders, micro businesses, small businesses, medium businesses and large businesses.

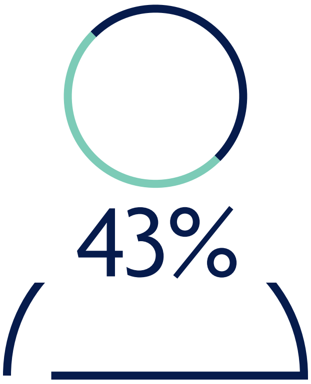
Sole traders and other micro-businesses with fewer than ten employees account for the vast majority of organisations in the UK. However, their share of payments is far lower than this, since each of the relatively small number of large organisations makes and receives huge numbers of payments. Throughout this report, we present results for "all businesses" alongside breakdowns by size of business. However, it is worth bearing in mind the distribution of businesses by size when reading these results.

According to data published by the Department for Business, Energy and Industrial Strategy (BEIS), the structure of the economy is as follows:

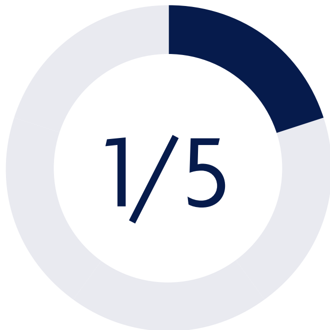
Size of business	Number of employees	% of all organisations
Sole trader	0 (owner-manager only)	76%
Other micro-business	1-9	20%
Small	10-49	4%
Medium	50-249	0.6%
Large	250+	0.1%

KEY FINDINGS

Considering the cost of banking as a proportion of the total cost of doing business:



of sole traders are using a personal account for business purposes.



of businesses are currently in a period of fee-free banking

90% Almost nine out of ten

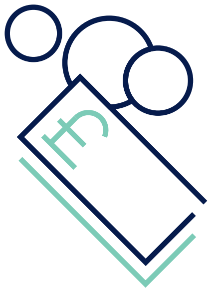
businesses have access to a PC, laptop or tablet with internet access.

2/3 Just under two-thirds

of businesses are registered for online banking, similar to in 2012.

1/4 Almost a quarter

of businesses are registered to use mobile banking via an app, which was still a young service in 2012 used by relatively few.

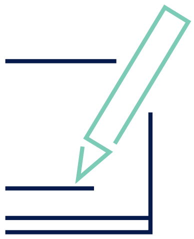


87% of businesses say that they pay most invoices on time,

but 38% of businesses say that they receive most invoice payments outside of the payment terms that they specify.

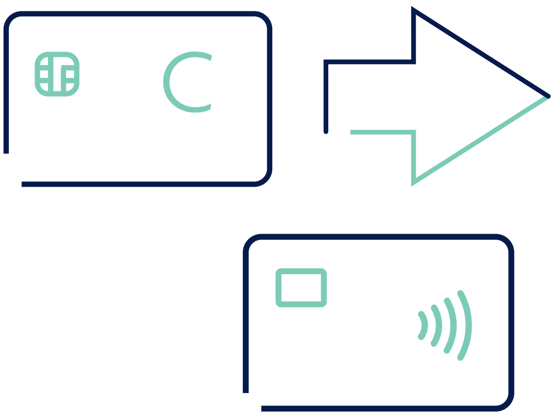
20% of payments in 2018 were Faster Payments.

Faster Payments has grown hugely as a method of making outgoing payments, rising from 3% of payments in 2012 to 20% in 2018.



6% of payments were cheques in 2018.

Cheques have declined as a method of making outgoing payments, falling from 21% of payments in 2012 to 6% in 2018.



Sole traders

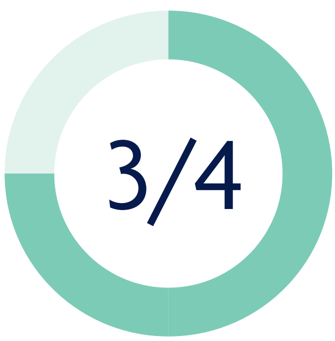
are now making far more extensive use of cards to make payments compared with 2012.

Credit cards

tend to be used more extensively by larger businesses and debit cards tend to be used more extensively by smaller businesses. This pattern has remained consistent over the past few years.

The proportion of payments

that businesses receive in cash has declined over the past five years.



Over three-quarters

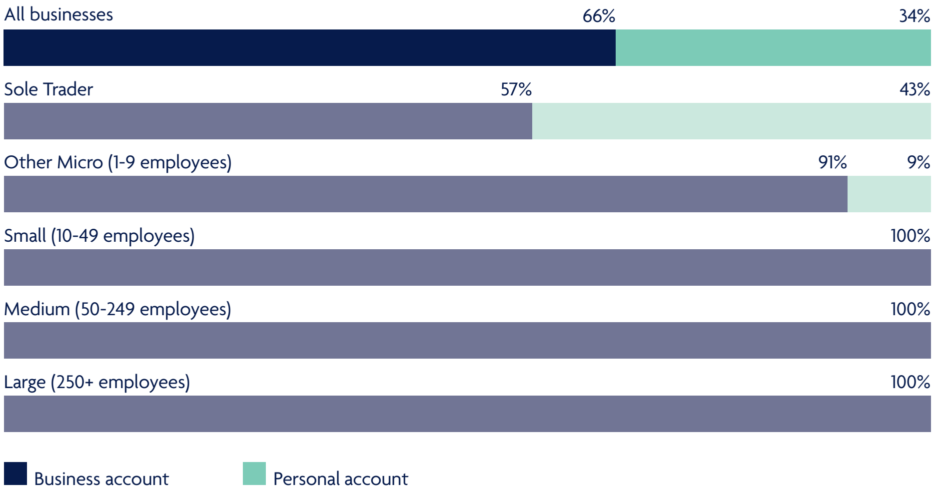
of medium and large businesses are aware of the dangers of invoice fraud and CEO spoofing, but awareness remains lower among smaller businesses.

2. BUSINESS BANKING

2.1 TYPE OF ACCOUNT USED

As part of the research, we asked respondents what type of current account they used for their business. Overall, a third of respondents said they were using a personal current account for business purposes, with the remaining two-thirds using a business account. This result is primarily driven by sole traders, which make up over three-quarters of all businesses in the UK. Over 40% of sole traders use a personal current account to conduct their business activities. As businesses grow, however, they rapidly transition to using dedicated business current accounts.

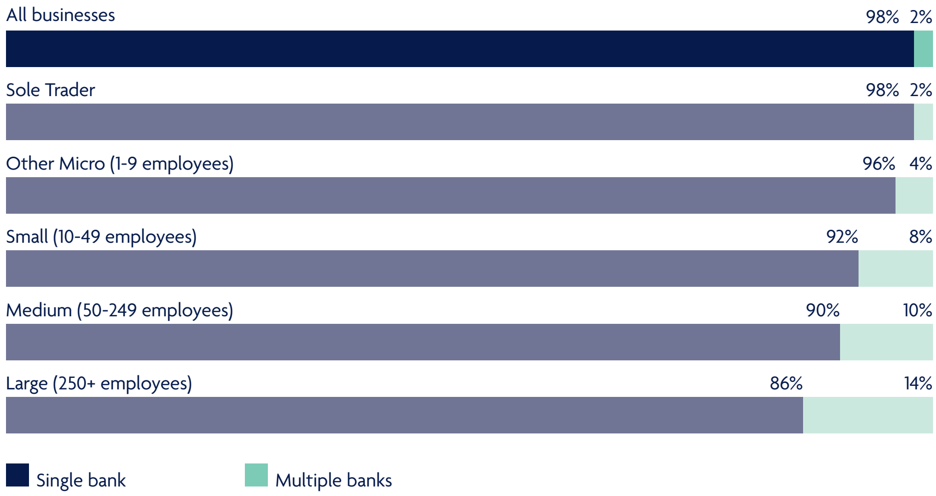
Chart 2.1 Type of account used to run the business



2.2 NUMBER OF ACCOUNT PROVIDERS USED

The majority of businesses (98%) rely on one single account provider for all of their banking and finance needs. However, as the size of the business increases, so does the likelihood that the business will have multiple bank accounts with different providers. For large businesses (with over 250 employees), 14% have current accounts with more than one account provider.

Chart 2.2 Number of account providers used by each business



2.3 BANKING SERVICES USED

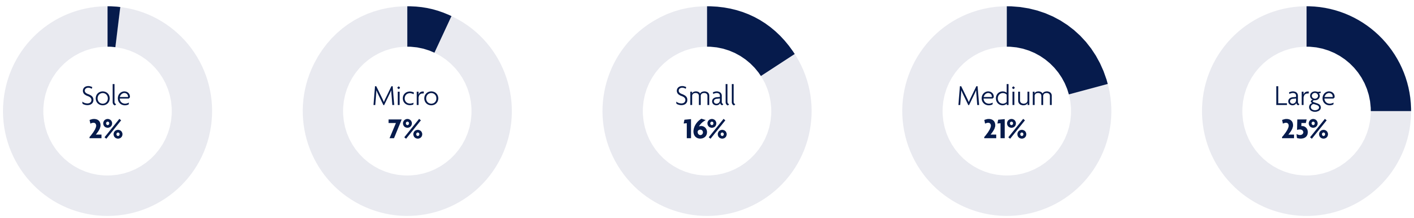
The following table shows the services that businesses obtain from their main bank (noting, of course, that banks may also obtain additional services from other providers).

Cash handling is the most frequently-used service, whether paying in cash or obtaining cash for the business. A similar result was seen in 2012, except that the proportion of businesses that say they use cash handling services has declined over time (from 66% / 53% for cash deposits / withdrawals respectively).

Table 2.1 Banking services used by businesses	
Paying in cash	43%
Obtaining cash	34%
Deposit account	29%
Credit card used for business purposes	18%
Overdraft facility	18%
For making payments outside the UK	7%
For paying in or receiving payments from overseas	7%
Business loan	4%
Other borrowing or finance	2%

Just under one in five businesses stated that they used an overdraft facility along with their main account. At the same time, just 4% stated that their account provider also provided them with a business loan (noting, of course, that other sources of finance may also be used). However, the likelihood of having a business loan from the main account provider grows as the size of the business increases.

Chart 2.3 Proportion of businesses with a business loan provided by their main account provider

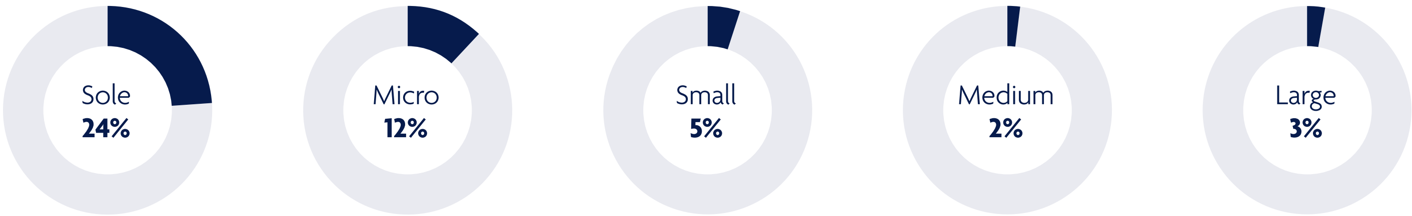


2.4 COST OF BANKING SERVICES

We asked businesses how the cost of banking had changed over the last five years, as a share of the overall costs of running the business.

One in five businesses said that they do not currently pay fees for their banking services, stating that they are currently in a period of free banking (reflecting the fact that periods of banking with not monthly fees are sometimes offered as incentives to new business customers). It may also reflect the fact that many sole traders (and some micro businesses) are using personal current accounts for their business needs, and so may not be paying monthly fees for their banking services. Indeed, almost a quarter of sole traders said that they do not pay fees for their banking, compared with just 3% of large businesses.

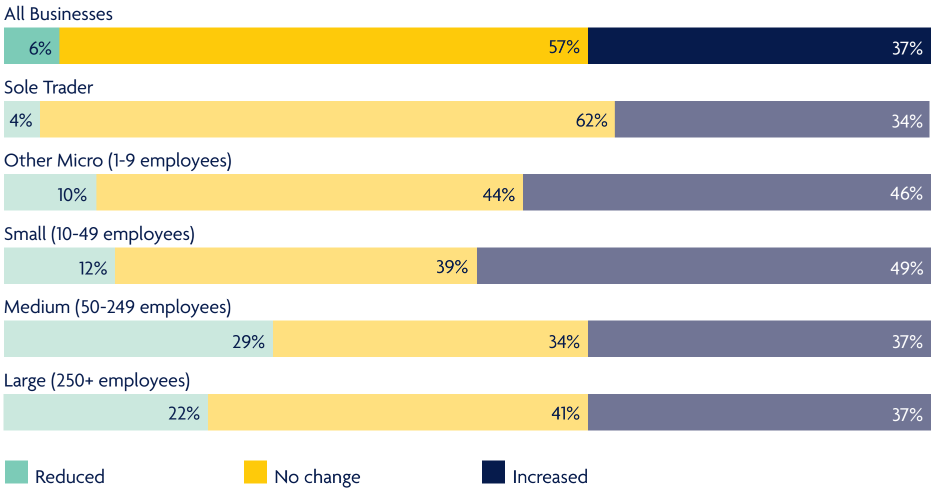
Chart 2.4 Proportion of businesses not currently paying explicit fees for their banking services



Of those businesses that do pay fees for their banking services, their experience of how the cost of banking has changed over time is mixed:

- medium and large businesses are most likely to believe that the cost of banking has fallen as a share of the overall costs of running the business
- sole traders are most likely to believe that the cost has not changed
- over a third of businesses overall believe that the cost of business banking has increased as a share of the overall costs of running the business.

Chart 2.5 Compared with five years ago, how has the cost of banking changed as a share of the overall costs of running the business?



3. TECHNOLOGY, ONLINE BANKING AND MOBILE BANKING

3.1 TECHNOLOGY USED BY BUSINESSES

Since the last survey in 2012, there have been a number of changes in access to different types of technology amongst businesses.

3.1.1 Computers and internet access

In 2012, the majority of businesses had a computer connected to the internet for business use, and this remains unchanged in the current survey.

Proportion of businesses with access to a PC, laptop or tablet:

87%
2012

88%
2018

Proportion of businesses with internet access:

86%
2012

84%
2018

3.1.2 Smartphones

Whilst the use of computers and access to the internet have shown little change in the past five years, the use of smartphones for business purposes has become more extensive. In 2012, 43% of businesses had access to a smartphone, and 55% of businesses had access to other mobile phones (that is, mobile phones without smartphone functionality). By 2018, 71% of businesses had access to a smartphone, with just 22% using mobile phones without smartphone functionality.

Proportion of businesses with smartphones:

43%
2012

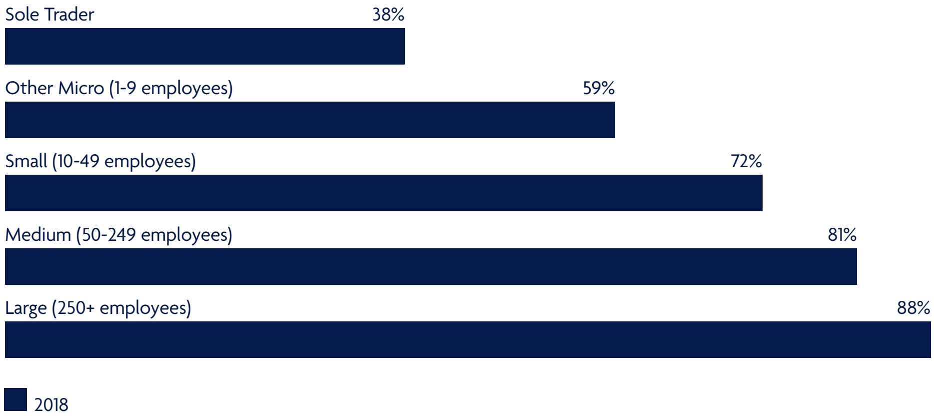
71%
2018

3.1.3 Business website

We asked respondents whether their business has its own website. The results show that whilst 44% of respondents have their own business website, larger businesses are significantly more likely to have their own websites than smaller businesses. This may reflect the fact that sole traders are likely to have more limited resources, in terms of money, time and expertise, to devote towards setting up and maintaining a website. As businesses grow in size they are more able to exploit the potential of maintaining an online presence, and larger businesses are likely to have staff members (or even whole teams) dedicated to managing their websites.

The proportion of businesses with their own website does not appear to have grown since the last survey in 2012, reflecting the fact that a high proportion of businesses already had their own websites at that time. It also shows that whilst there has been a proliferation of third-party services aimed at helping small businesses set up their own websites, many sole traders or micro businesses still do not appear to have the resources of time and/or money to do so, or alternatively do not see a potential benefit to their business.

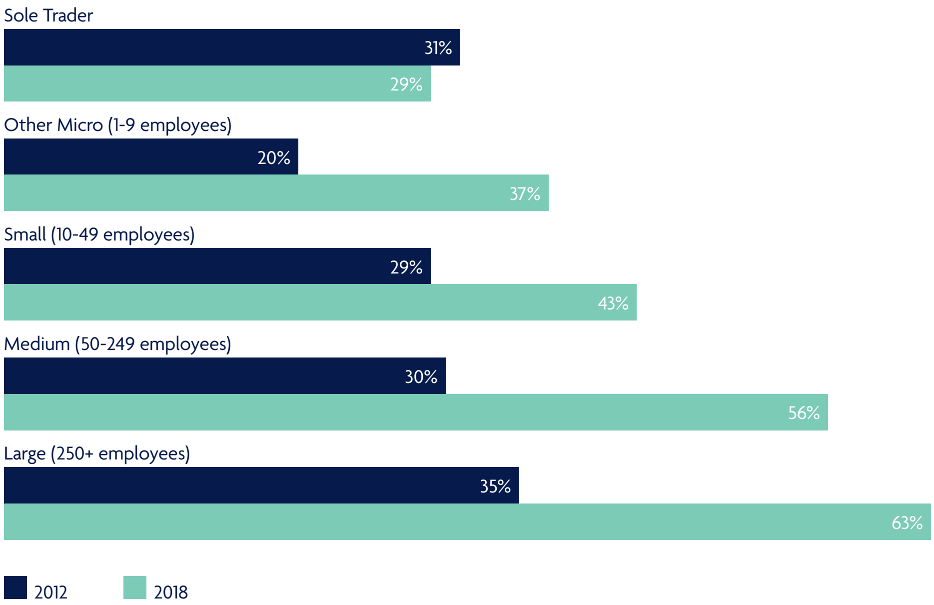
Chart 3.1 Proportion of businesses with their own website, 2018



3.1.4 Social Networking

Over the past few years social networking has become an increasingly important tool for business communication. In 2012, we found that 28% of businesses made use of social networking sites such as Twitter for business purposes. By 2018, this had grown to 31% of businesses. Whilst this may not seem like a significant change overall, there has been considerable growth in use of social networking by larger businesses. In 2012, 35% of large businesses used social networking but by 2018 this had grown to 63% of large businesses. Similarly, the proportion of medium businesses using social networking grew from 30% in 2012 to 56% in 2018. It appears that larger businesses are increasingly seeing value in using social networking as part of their external communications strategy, and indeed many medium and large businesses will now employ staff dedicated to managing their social networking presence. For micro businesses and sole traders, this remains something that is constrained to some extent by lack of time and money, although nearly a third of sole traders use some form of social networking for business purposes.

Chart 3.2 Proportion of businesses using social networking, 2012 vs 2018



3.2 ONLINE BANKING AND MOBILE BANKING

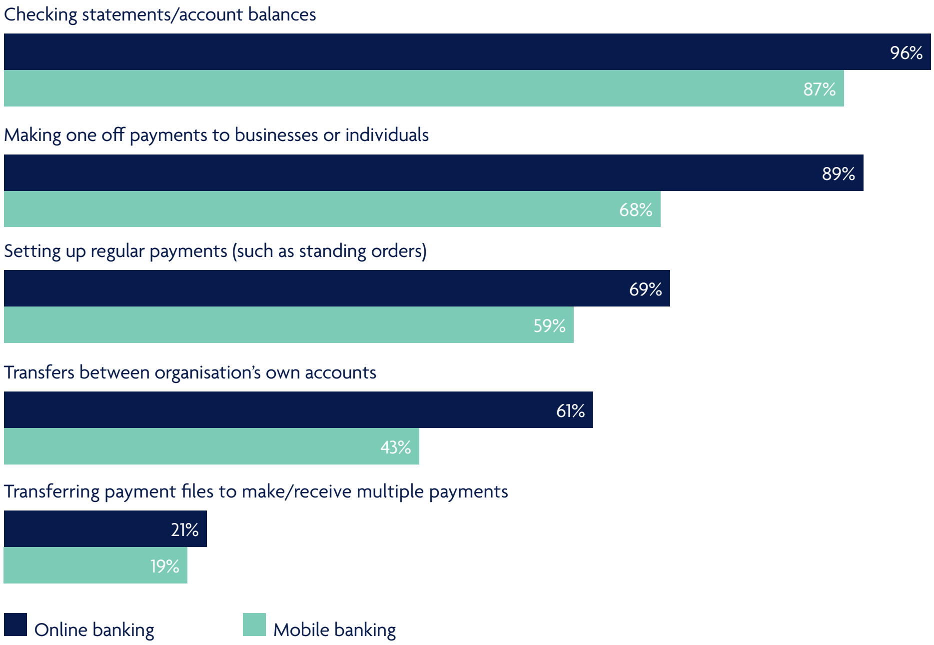
Just under two-thirds of businesses (64%) said that they are registered to use online banking. This was a similar result to 2012 (63%) which reflects the fact that online banking was already well-established at the time of the previous study.

A significant change since 2012, however, has been the growth of mobile banking services using apps for mobile devices (including mobile phones and tablets). The first mobile banking apps were launched in the UK during 2010, but over the past few years they have grown more sophisticated, and the range of activities that can be conducted via mobile banking has increased. As smartphones have become ever more embedded in UK society in general, so the use of mobile banking has increased. The business banking sector is no exception to this change, and in 2018 almost a quarter of businesses (23%) reported that they were registered to use mobile banking for the business.

Larger businesses are more likely to use online banking than smaller businesses, with 60% of sole traders using online banking compared with 86% of large businesses. In contrast, the relationship between business size and use of mobile banking is less clear, with 22% of sole traders using mobile banking compared to 28% of large businesses. This may reflect the fact that mobile banking provides a simple solution for small businesses and may appeal in particular to those businesses without a fixed business premises or who need to do their banking 'on the go'. In contrast, large businesses are more likely to have a dedicated finance team to manage their banking activities and are more likely to use online banking services from an office desktop (rather than relying on a mobile device).

The range of activities conducted by businesses that use online or mobile banking are shown below.

Chart 3.3 Proportion of online and mobile banking users conducting various activities via the service



The size of the business does not have a significant impact on the types of activities conducted, with the exception that larger businesses are much more likely to transfer batch payment files to initiate multiple payments at once. Similarly, larger businesses are more likely to hold multiple bank accounts, and are thus more likely to use online banking to transfer funds between those accounts. Other activities are relatively similar in popularity amongst businesses of different sizes.

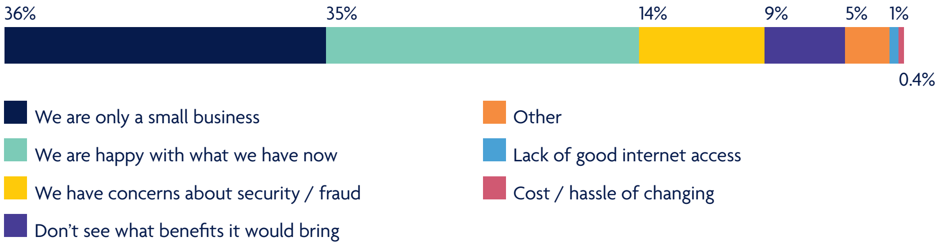
3.2.1 Future plans – will businesses start using online or mobile banking?

We asked those businesses that don't currently use online banking services (36%) or mobile banking services (77%) whether they have plans to start using these services during the next twelve months.

- Of those not currently using online banking, 9% said they were planning to start using it during the next twelve months.
- Of those not currently using mobile banking, 5% said they were planning to start using it during the next twelve months.

We asked those not planning to use online or mobile banking in the next twelve months the main reason why they were not planning to use these services. The most popular reasons were as follows:

Chart 3.4 Main reason for not wanting to use online or mobile banking (all businesses)



The most popular reason given was that the business is only small, which was the reason given by 38% of sole traders and 32% of micro businesses.

For larger businesses, the most popular response was that they are happy with the banking arrangements that they currently have. Whilst just over a third of all businesses said that this was their main reason for not using online or mobile banking, this figure rose to over half of small, medium and large businesses (57%, 62% and 56% respectively).

Concerns about security or fraud were spread fairly evenly across businesses of all sizes, with 14% of businesses stating that this was their main reason for not using online or mobile banking services. Just under one in ten businesses stated that the reason they do not want to use online or mobile banking is that they do not see what benefits it would bring to their business.

4. INVOICE PAYMENT TERMS

Each time that we conduct research into business payments, we attempt to understand an aspect of how businesses approach billing and remittance activities. In the 2012 research, the study focused attention on the methods used to send out invoices and remittance advice (e.g. paper, email or e-invoicing) and the methods used to reconcile payments and invoices.

For the 2018 survey, the research explored the question of how invoice terms differ for different sizes of business, specifically in terms of the number of days within which invoices must be paid. The research also examined the extent to which businesses pay invoices within the agreed contractual terms (or within the requested deadline where formal contract arrangements do not exist between the parties). The aim was to understand whether businesses of different sizes were able to negotiate more favourable payment terms, or whether specific groups of businesses were more or less "well-behaved" when it comes to paying invoices on time.

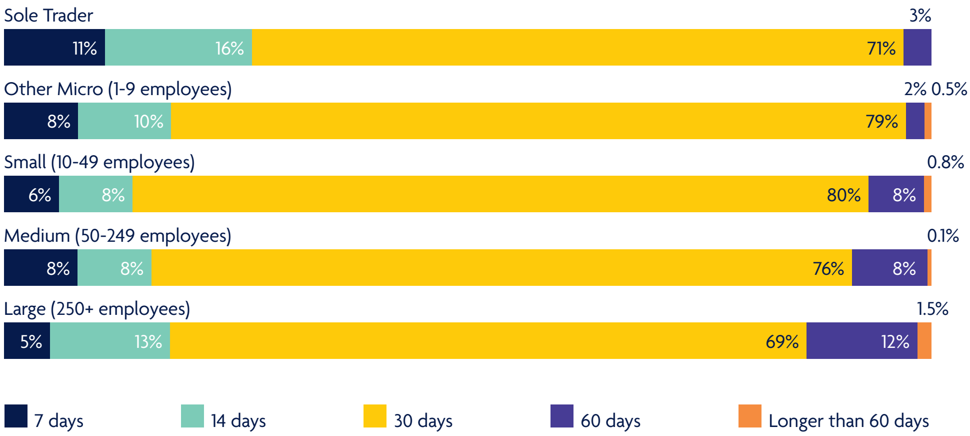
4.1 OUTGOING PAYMENTS: INVOICES RECEIVED BY BUSINESSES

4.1.1 Payment terms requested for invoices received

For businesses of all sizes, the most common experience is that they are requested to pay invoices within 30 days, reflecting standard payment terms.

Having said this, smaller businesses are more likely to have agreed to meet shorter payment periods for their suppliers (either within 7 days or within 14 days). On the other hand, larger businesses are more likely to be able to negotiate longer payment periods from their suppliers, with 13% of large businesses able to negotiate payment periods of 60 days or longer. This likely reflects greater commercial negotiating power.

Chart 4.1 Payment terms in invoices received by the business

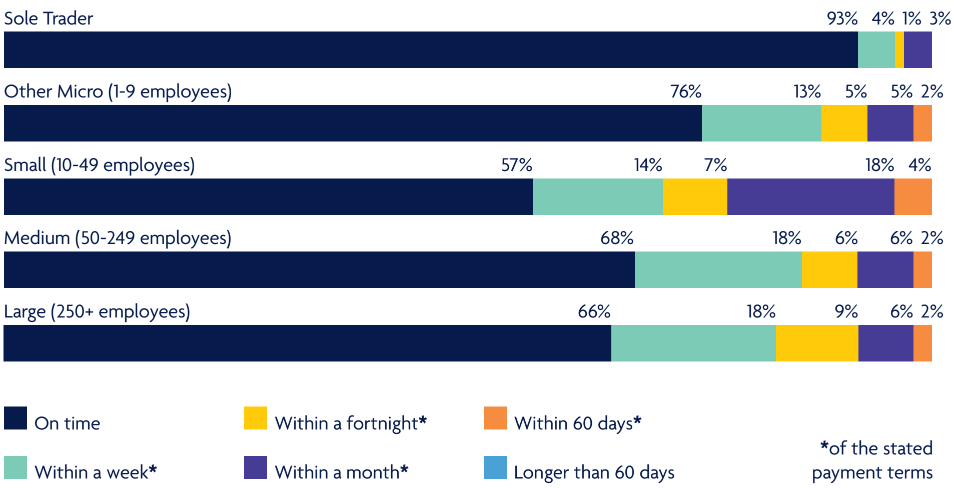


4.1.2 Approach to paying invoices

Whilst the payment terms requested from businesses of different sizes tend to differ only a little, the behaviour that those businesses exhibit in terms of their approach to paying invoices on time or outside of terms appears to differ more markedly.

Whilst 93% of sole traders say that they make most payments on time, this behaviour is not replicated by larger businesses. The worst payments performance is exhibited by small businesses, just 57% of which said that they make most payments on time, while over a fifth said they make most payments more than a fortnight outside of terms. Even amongst the largest businesses, which are likely to have the most extensive and well-resourced dedicated finance functions, only two-thirds report that they pay most invoices on time.

Chart 4.2 Business approach to paying invoices on time or outside of terms



Inevitably, the late payment of invoices, imposition of extended payment terms on suppliers or other poor payment practices, can cause cashflow problems for trading partners, so it is perhaps concerning to see that late payment of invoices appears to be normal behaviour among a substantial proportion of businesses.

87%
of businesses say that they pay most invoices **on time**

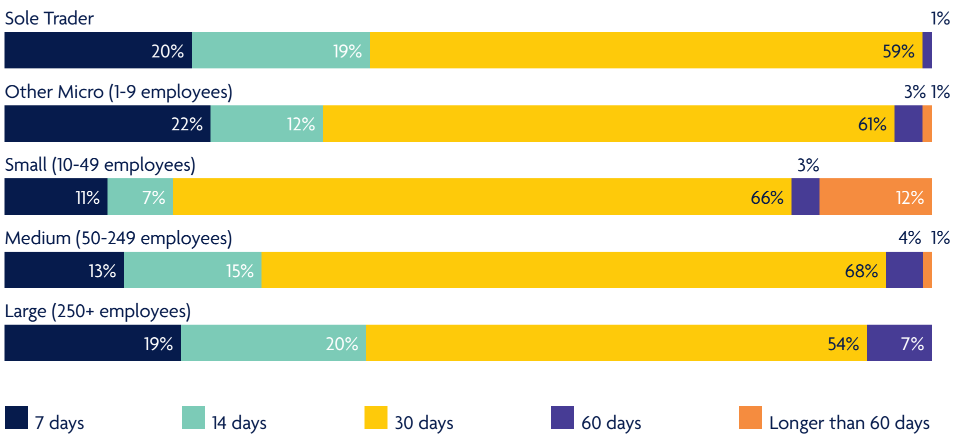
4.2 INCOMING PAYMENTS: INVOICES ISSUED BY BUSINESSES

As well as asking about businesses' approach to paying invoices, we also asked what payment terms businesses usually request when issuing invoices, and what behaviour they experience from the businesses to which they issue these invoices.

4.2.1 Payment terms requested for invoices issued

As we might expect, given our previous analysis, the payment period most frequently requested by businesses of all sizes is 30 days. However, there are some differences between businesses of different sizes in relation to requests for shorter payment periods or offers of longer payment periods.

Chart 4.3 Payment terms most frequently sought when invoices are issued to business customers

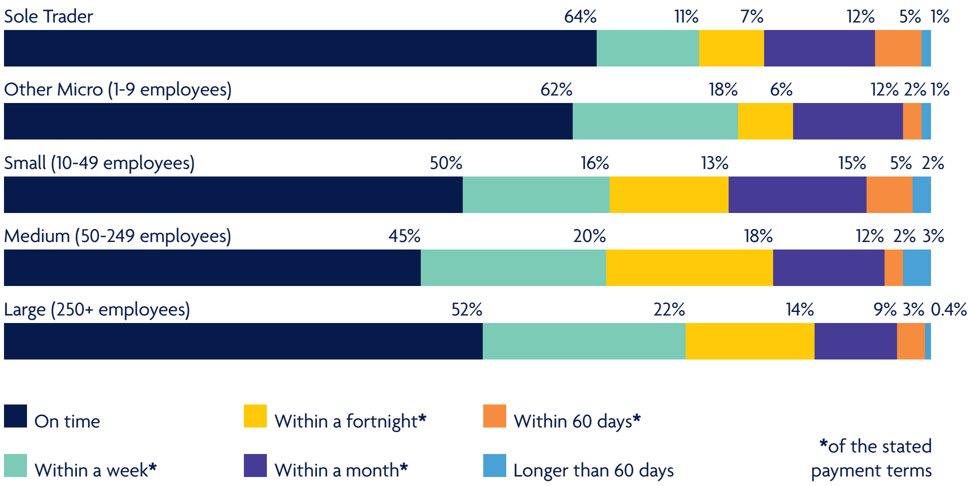


Interestingly, it appears that of the businesses in our sample, small businesses are the most likely to agree to offer more lengthy payment periods when issuing invoices to business customers. Sole traders and large businesses are more likely to seek shorter payment periods. Whilst we do not know the reasons for this, we could speculate that sole traders and micro businesses may be more likely to face cashflow urgency, providing them with an incentive to seek shorter payment terms. In contrast, large businesses may be more likely to have relative negotiating power when agreeing contracts with third parties. They are also more likely to employ a dedicated team of finance professionals to manage contract negotiations, providing them with the opportunity to demand more rapid payment of invoices. Whatever the reasons, there appears to be a difference in invoicing behaviour between the businesses in the survey sample. It is also perhaps worth noting that small businesses, in offering longer payment terms, may therefore face additional cashflow difficulties, which may contribute to the observation that they pay fewer of their invoices on time (as discussed in the previous section of this report).

4.2.2 Experience of receiving payment for invoices issued

Whilst the payment terms sought by businesses may differ slightly, it is also interesting to note the way businesses of different sizes are treated by the trading partners to which they issue invoices, in terms of whether or not those trading partners pay invoices on time.

Chart 4.4 Businesses' experience of whether debtors pay invoices on time or outside terms



Perhaps surprisingly, and counter to the findings within other studies, within this sample it appears that smaller businesses are most likely to receive payment of invoices on time. For example, 64% of sole traders say they get most payments on time, despite also being the group most likely to seek shorter payment terms (as discussed above). It is not clear why this would be the case, however it may be related to the fact that sole traders are more likely to have direct relationships with their clients As business size grows, the proportion of businesses that say they receive most payments on time tends to fall. The worst treatment appears to be experienced by medium-sized businesses, only 45% of which said that they receive most payments on time.

38%

of businesses say that they receive most invoice payments **outside of terms**

Comparing the results of our analysis provides for interesting reading. Whilst 87% of businesses say that they pay the invoices they receive on time, 38% of businesses say that they receive most invoice payments outside of terms. There is an interesting discrepancy here, which could possibly be attributed to businesses wishing to appear more virtuous than they really are when discussing how regularly they pay invoices on time.

5. OUTGOING PAYMENTS

A key aim of the market research was to take a snapshot view of how businesses make payments, to enable us to understand how business behaviour is changing in response to new technology.

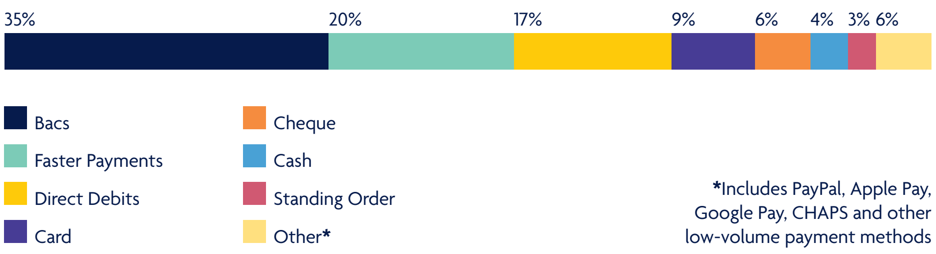
5.1 METHODS THAT UK BUSINESSES USE TO MAKE PAYMENTS

In order to assess the methods businesses use to make outgoing payments, respondents to the survey were asked about their approach to making a variety of different types of payments:

- Payments for regular business commitments, such as rent, rates, utility bills etc
- Payments to other businesses such as trade suppliers
- Wage and salary payments
- Other payments to individuals, such as reimbursing staff for expenses, giving refunds to customers or paying dividends
- Treasury payments for transferring funds between different business accounts or different parts of a group of companies
- Other outgoing payments

The share of outgoing business payments in the UK made using different payment methods are shown below.

Chart 5.1 Share of outgoing business payments made using different payment methods, by volume of payments made, 2018

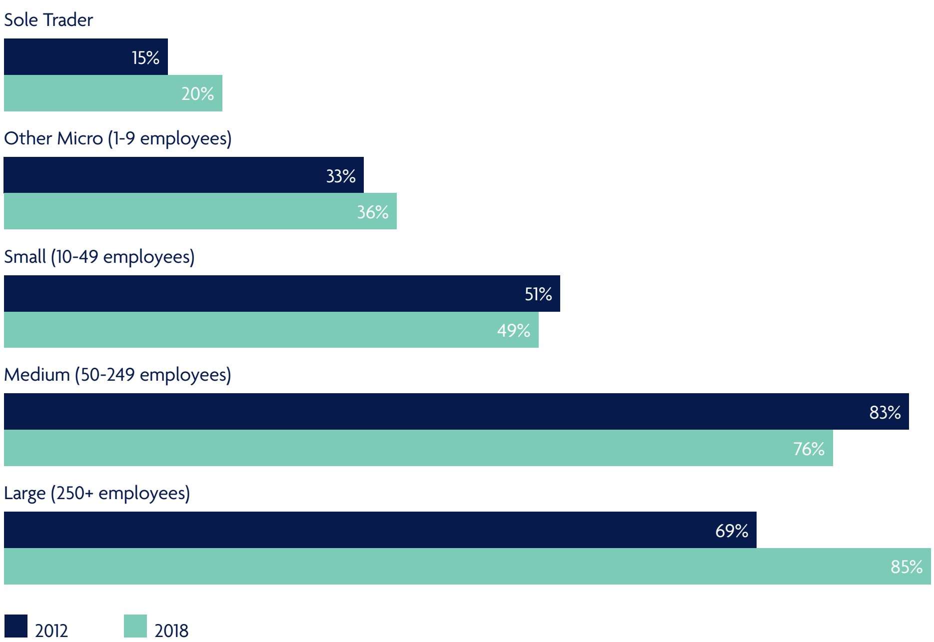


*Includes PayPal, Apple Pay, Google Pay, CHAPS and other low-volume payment methods

Bacs Direct Credit

Looking at all types of business payments together, Bacs Direct Credit remains the most frequently-used payment method by businesses in the UK, being used for over a third of all business payments. Having said this, it is important to recognise that the use of Bacs Direct Credit varies considerably according to the size of the business.

Chart 5.2 Proportion of outgoing payments made using Bacs Direct Credit, by size of business, 2012 vs 2018



As we can see, the pattern of use of Bacs Direct Credit has remained broadly consistent over the last few years. Large businesses make far greater use of Bacs Direct Credit than their smaller counterparts. Indeed, 85% of all outgoing payments made by large businesses are made by Bacs Direct Credit, as compared with just one in five payments made by sole traders.

Faster Payments

One of the most significant changes in business payments behaviour over the past few years has been the growth in use of Faster Payments. Our research in 2012 found that Faster Payments was used for just 3% of outgoing business payments, but by 2018 this had grown to 20% of outgoing business payments.

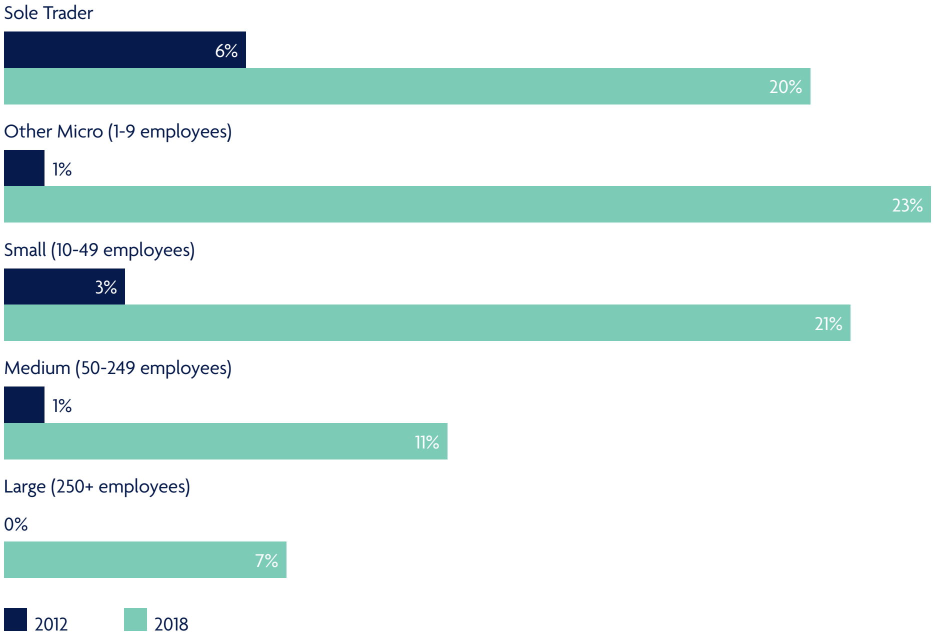
Proportion of outgoing payments made by businesses that were made using Faster Payments:

3%
2012

20%
2018

There has been significant growth in the use of Faster Payments by businesses of all sizes. However, this payment method has achieved particular prominence amongst smaller businesses.

Chart 5.3 Proportion of outgoing payments made using Faster Payments, by size of business, 2012 vs 2018



The sole traders, micro-businesses and small businesses in our survey made over a fifth of their outgoing payments using Faster Payments in 2018, a considerable growth compared with our survey results for 2012. This represents a significant change in business behaviour in a relatively brief period of time and is perhaps a reflection of the increasing popularity of online banking, along with the introduction and rapid growth of mobile banking. Businesses are now able to access convenient and cost-effective methods of initiating account-to-account payments, and small businesses in particular appear to have taken to Faster Payments as a way of making such payments without needing to become a Bacs originator.

Cheques

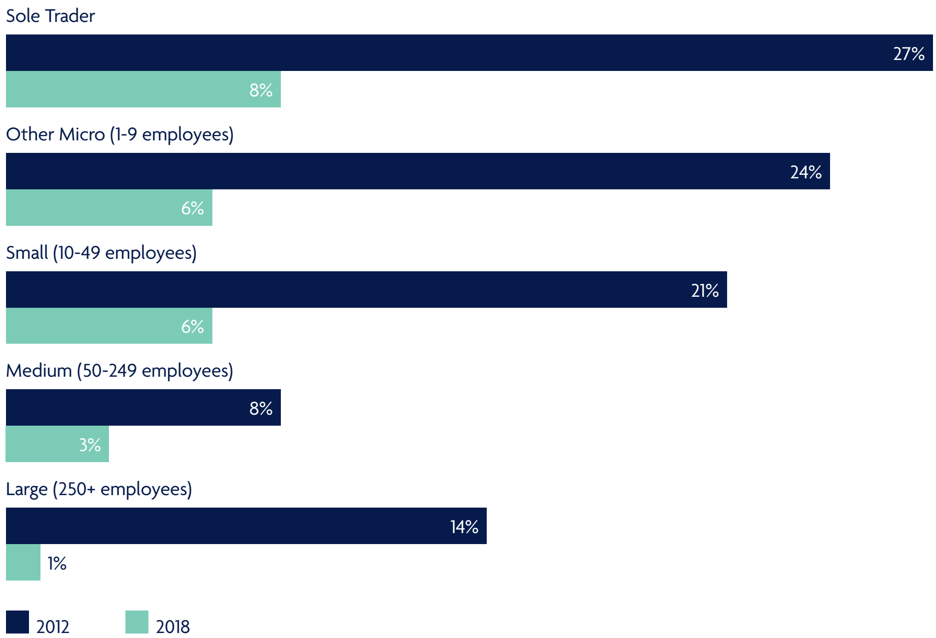
Proportion of outgoing payments made by businesses that were made using cheques:

21%
2012

6%
2018

Much of the growth of Faster Payments has come as a result of substitution away from using cheques. In our 2012 research, 21% of all outgoing payments made by businesses were made using cheques. By 2018, this had fallen to just 6%.

Chart 5.4 Proportion of outgoing payments made using cheques, by size of business, 2012 vs 2018



Use of cheques has fallen significantly amongst businesses of all sizes, but the reductions have been greatest amongst smaller businesses (sole traders, micro businesses and small businesses), which were previously the businesses that made the most extensive use of cheques. It appears that businesses have embraced the convenience and immediacy of Faster Payments, much the same as they have embraced the use of online and mobile banking.

It is perhaps relevant to reflect that this change in business behaviour mirrors changes in consumer payments behaviour observed in recent years. This is perhaps not surprising; one of the key determinants of payments behaviour for sole traders and micro businesses is the preferences of the owner/manager of the business. Those running a very small business will tend to adopt the payment habits that they use in their personal life when deciding how to operate their business.

Consequently, as online banking and mobile banking have grown in popularity throughout the UK, and as UK consumers have become accustomed to making payments to others using online banking and mobile banking (via Faster Payments), this changing behaviour has influenced and changed the way that people choose to run their businesses.

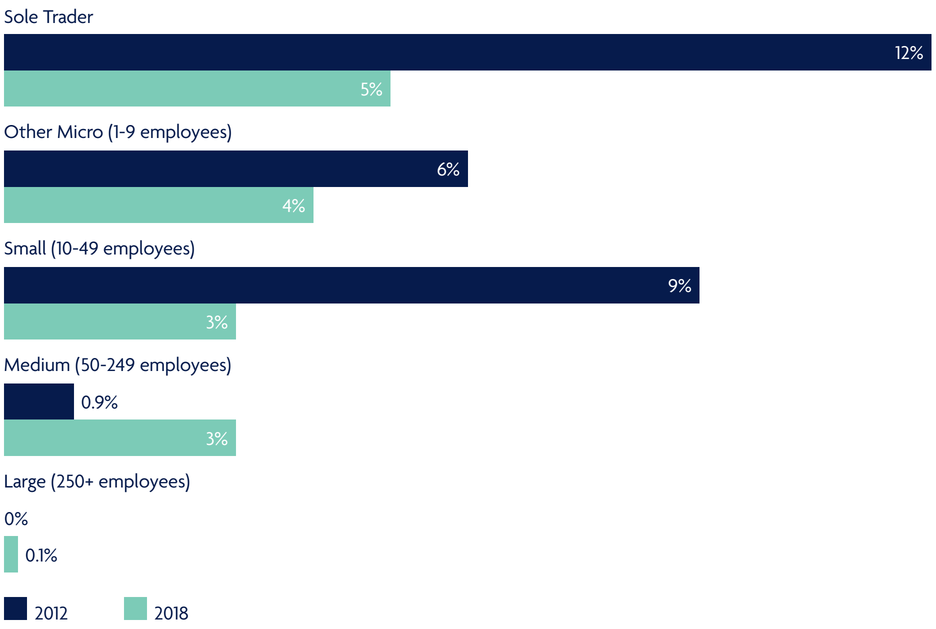
Cash

As a whole, we might think that businesses do not make extensive use of cash for making payments. In 2012, the businesses in our survey used cash for 6% of their outgoing payments, and by 2018 this had fallen to 4%.

However, these headline figures hide the considerable variation in use of cash by businesses of different sizes. In 2012, whilst medium and large businesses made little or no use of cash to make payments, their smaller counterparts were far more likely to use cash for outgoing payments. For example, 12% of outgoing payments made by sole traders in 2012 were made using cash. Much of this use of cash was for the purpose of paying wages or for making payments to other businesses.

By 2018, however, it appears that the use of cash by even these smaller businesses had declined.

Chart 5.5 Proportion of outgoing payments made using cash, by size of business, 2012 vs 2018

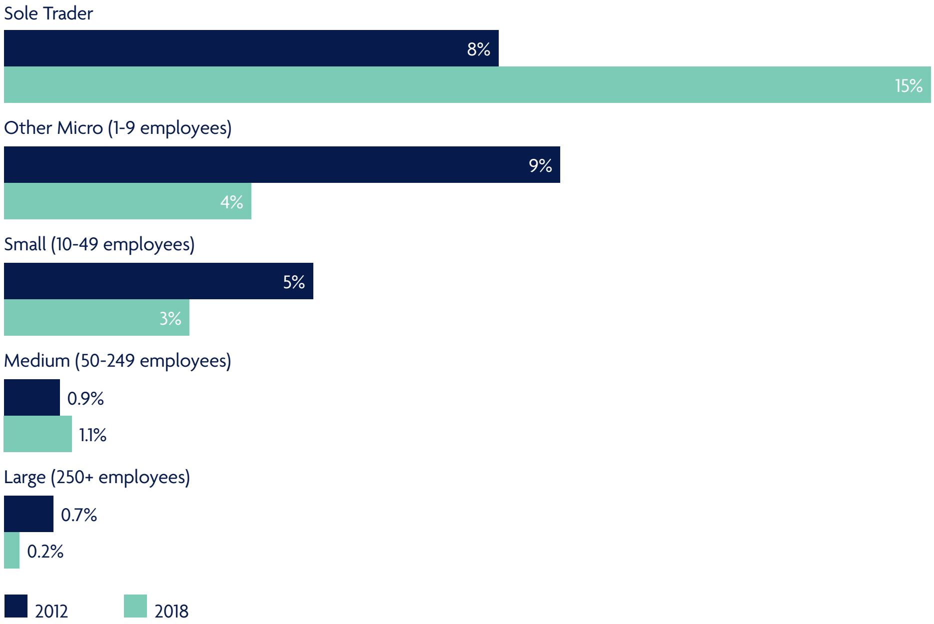


Whilst sole traders still exhibit the greatest use of cash to make payments, this use has fallen to less than half of that observed in 2012. Sole traders, other micro businesses and small businesses made 3-5% of their outgoing payments using cash in 2018, compared with 6-12% in 2012. It appears that some of the payments that would previously have been made using cash are now being made via Faster Payments; this is particularly relevant for the payment of wages and salaries. When it comes to payments made to other businesses, sole traders in particular appear to have increased their use of cards to make payments.

Cards

Our analysis suggests that sole traders are now making far more extensive use of cards to make payments, as compared with 2012. Whilst it also suggests that card use by micro and small businesses has fallen somewhat in recent years, the overall trend is for cards to be used more extensively by small businesses than by large businesses, a trend that has persisted over time.

Chart 5.6 Proportion of outgoing payments made using cards, by size of business, 2012 vs 2018



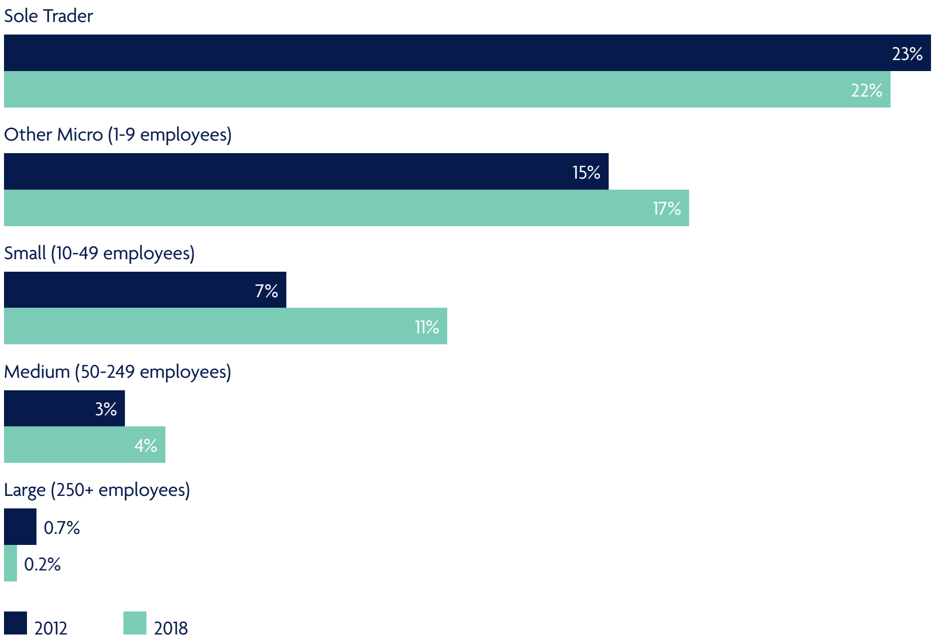
Further analysis of how businesses of different sizes use cards is included later in this report.

Direct Debit

Direct Debit payments are used most extensively by businesses to meet regular commitments, such as rent or utility bills, which are essential to the running of the business. Such payments tend to be used most extensively by smaller businesses. Larger businesses with dedicated finance teams tend to prefer to use Bacs Direct Credit to pay regular bills, retaining direct control over the timing and amount of all outgoing business payments.

This pattern of payments behaviour continued in 2018. However, there were indications that micro, small, medium and large businesses all made greater use of Direct Debit payment in 2018 as compared with 2012.

Chart 5.7 Proportion of outgoing payments made by Direct Debit, by size of business, 2012 vs 2018



5.2 METHODS USED BY BUSINESSES TO MAKE PAYMENTS FOR DIFFERENT PURPOSES

Whilst it is true that the key change over the past few years for outgoing business payments overall has been the declining use of cheques and the increasing use of Faster Payments, it is worth noting some of the key underlying changes that have taken place concerning the payment methods used to make payments for specific purposes.

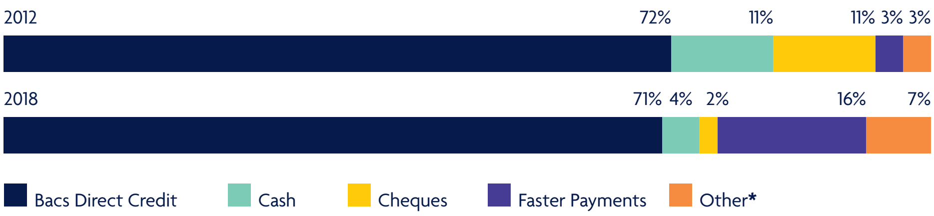
Paying wages and salaries

The most popular method for paying wages and salaries is Bacs Direct Credit, and this has not changed over time. Bacs Direct Credit was used to make 72% of wage and salary payments in our 2012 research, and 71% of wage and salary payments in our 2018 research. However, there has been a significant change in the way that the remaining wage and salary payments are made.

In 2012, 11% of wages and salaries were paid by cheque, and 11% were paid using cash. Just 3% were paid using Faster Payments.

By 2018, this situation had reversed. Faster Payments was used to make 16% of wage and salary payments, cash was used for 4% of payments and cheques for just 2% of payments.

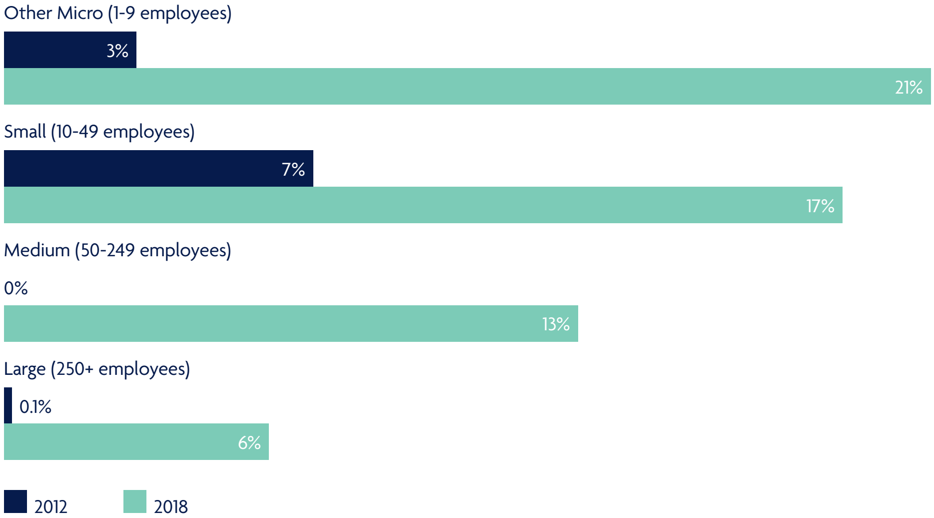
Chart 5.8 Proportion of wage and salary payments made using different methods, 2012 vs 2018



*Includes standing orders and CHAPS

It appears that this change in payment of wages and salaries has been particularly important for smaller businesses. Whilst businesses of all sizes now make use of Faster Payments to pay wages and salaries, micro and small businesses make around one in five wage payments this way. This is a considerable increase compared to what was observed in our 2012 research. The growing popularity of Faster Payments among these groups in particular has contributed to the migration of wage and salary payments away from cash and cheques. This has been facilitated by the extensive use of online banking and mobile banking, which have provided small businesses with simple and cost-effective methods of initiating account-to-account payments without requiring the use of Bacs Direct Credit.

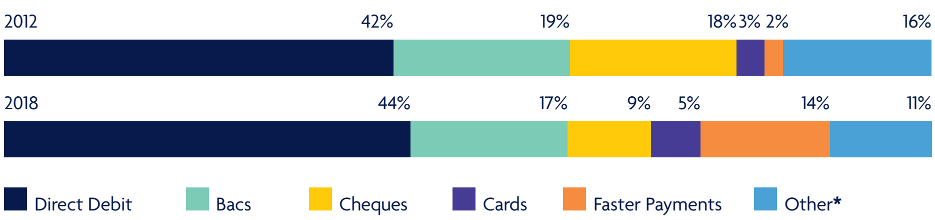
Chart 5.9 Proportion of wage and salary payments made using Faster Payments, by size of business, 2012 vs 2018



Regular payments, such as rent and utility bills

There are certain regular payments that businesses need to make in order to stay in operation. These would include payments such as rent or utility bills. Failure to pay such regular bills on time could result in drastic consequences for the business (for example, having their electricity cut off, their internet access terminated, or their mobile phones disconnected). In order to ensure that such regular bills are paid on time, many smaller businesses agree to make Direct Debit payments. Larger businesses, on the other hand, tend to be more likely to use Bacs Direct Credit to pay regular bills, retaining direct control over the timing and amount of all outgoing business payments.

Chart 5.10 Proportion of regular payments (such as rent and utility bills) made using different methods, 2012 vs 2018



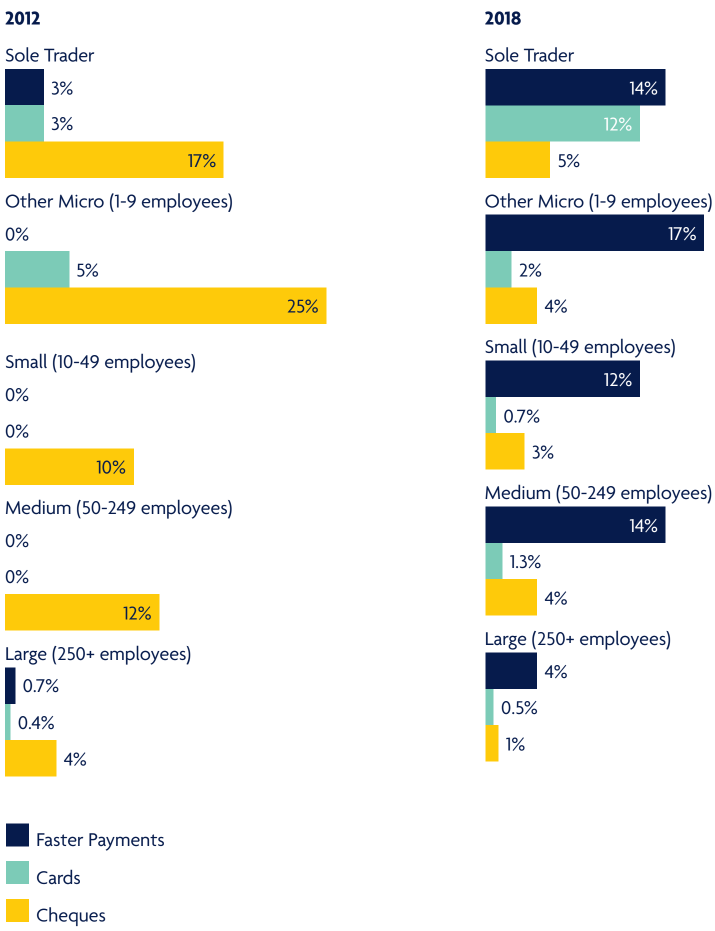
*Includes standing orders and cash payments

The extensive use of Direct Debit payments and Bacs Direct Credit to make regular business payments continued in 2018, with remarkably little change over the past few years. Together, these payment methods were used to make three out of five regular bill payments in both 2012 and 2018.

Having said this, there has been considerable change in the way that the remaining 40% of regular business payments are made.

There has been a move away from using cheques across businesses of all sizes. In 2012, cheques were used to make almost one in five regular business payments. By 2018, this had fallen to just one in twenty regular payments.

Chart 5.11 Proportion of regular business payments made using cheques, Faster Payments or cards, by size of business, 2012 vs 2018.



For micro, small, medium and large businesses, the key change has been a move away from cheques and towards using Faster Payments to pay regular bills.

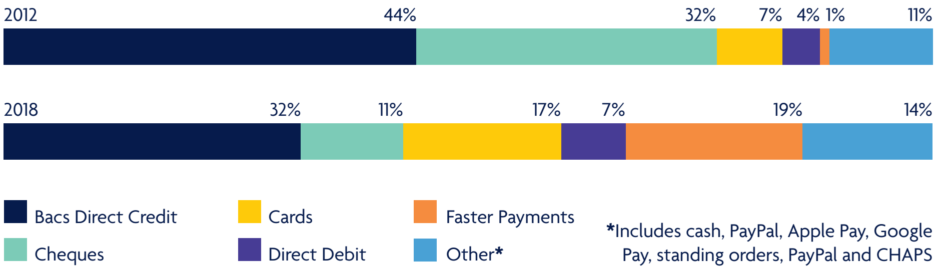
Sole traders, in contrast, have embraced not only the use of Faster Payments to pay regular bills, but have also significantly increased their use of cards to make these payments.

Supplier payments and other payments to businesses

Apart from making regular payments for utility bills, rent and other similar business expenses, most businesses also make other payments to businesses such as suppliers. These payments are necessary for the operation of the business, but do not necessarily follow a regular pattern in the same way that utility bills would be expected to.

The way that businesses in the UK make these other payments has changed somewhat over the past few years, with the key change being a decline in the use of cheques and an increase in the use of Faster Payments.

Chart 5.12 Proportion of supplier payments (and other payments to businesses) made using different methods, 2012 vs 2018



*Includes cash, PayPal, Apple Pay, Google Pay, standing orders, PayPal and CHAPS

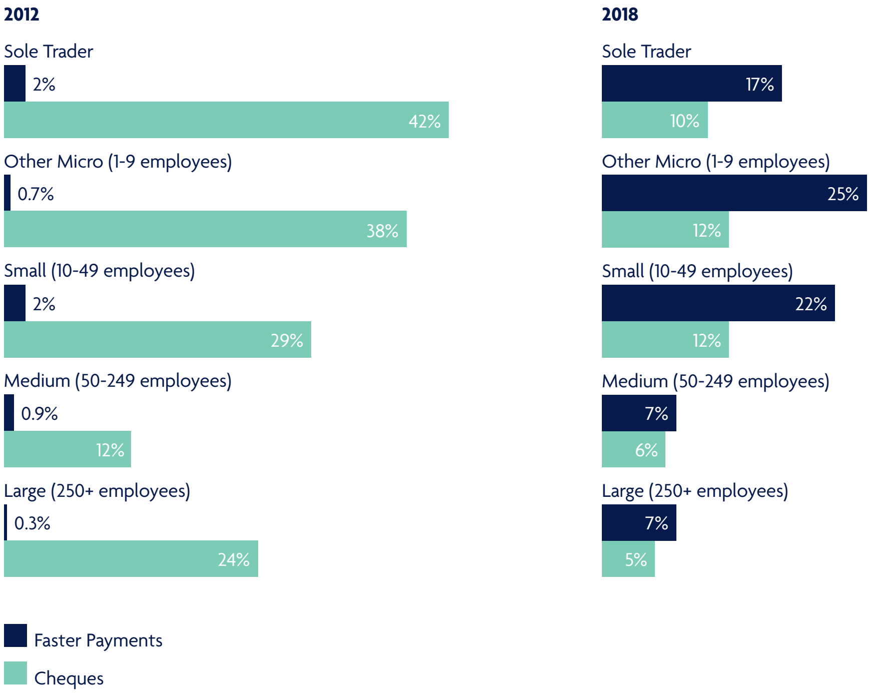
Our research in 2012 found that around a third of payments to other businesses were made using cheques. However, by 2018, this figure had fallen to just over one in ten payments.

At the same time, there was an expansion in the use of Faster Payments, from 1% of payments to other businesses in 2012, to almost one in five payments in 2018.

This change was seen across businesses of all sizes.

A further change in behaviour was identified among sole traders, whose use of cards to make payments to other businesses increased from 14% of sole traders' payments to other businesses in 2012 to 25% in 2018.

Chart 5.13 Proportion of other business payments made using cheques or Faster Payments, by size of business, 2012 vs 2018



Treasury payments

Treasury payments involve the transfer of funds between bank accounts belonging to a single business, or between different parts of a group of companies. As a result, it is perhaps unsurprising that the majority of these payments are made using direct account-to-account payments solutions such as Bacs Direct Credit, Faster Payments, CHAPS or standing orders. In 2012, 82% of treasury payments were made using one of these services, and in 2018 the comparable figure was 89%. It appears that the difference is largely attributable to a fall in the use of cheques, which were used to make 6% of treasury payments in 2012, but only 1% in 2018.

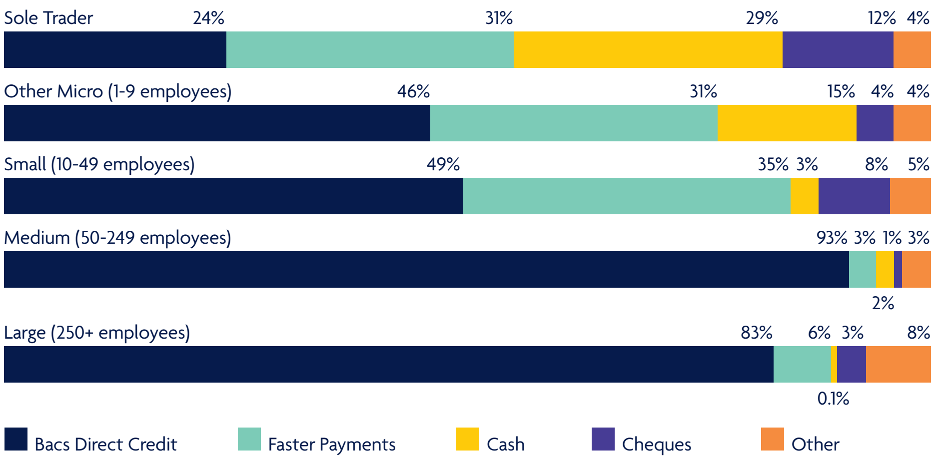
Other payments to individuals, including expenses, refunds and dividends

Businesses make large volumes of payments to individuals in the form of wage and salary payments. However, beyond this, businesses also make a range of other payments to individuals, including reimbursement of expenses for employees, refunds to customers and dividends to shareholders.

The methods that businesses use to make these other payments to individuals have changed in recent years, similar to the methods used to make other types of payments. There has been a reduction in the use of cheques, and an increase in the use of Faster Payments.

Different payments methods are popular with businesses of different sizes.

Chart 5.14 Proportion of payments to individuals (other than wages / salaries) made using different methods, by size of business, 2018



Larger businesses use Bacs Direct Credit to make the majority of their payments to individuals. Sole traders, micro businesses and small businesses, whilst making use of Bacs Direct Credit, also now use Faster Payments to make a significant proportion of their payments to individuals. Sole traders and other micro businesses are more likely than larger businesses to use cash to pay individuals. Cheque use has fallen below 10% of payments for all except sole traders, compared with cheques being used for 14% of payments to individuals in 2012.

5.3 BUSINESS CARDS

5.3.1 The types of cards used by businesses to make payments

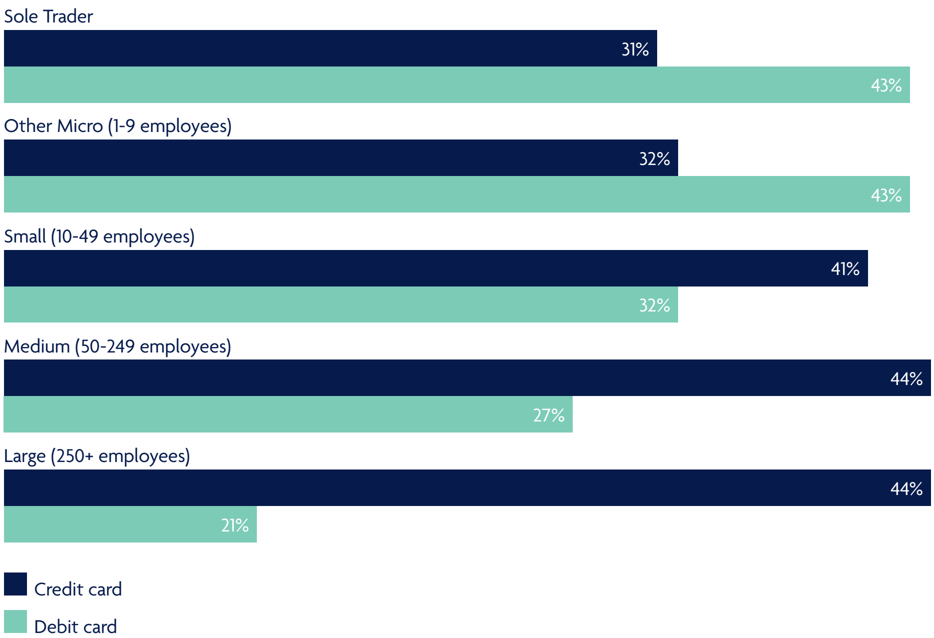
Card payments can provide businesses with a quick and convenient way of paying other businesses. Cards can also be used to provide a useful line of credit for a business, or as a way of enabling a variety of employees to make payments on behalf of the business. This is particularly important for businesses whose employees travel or often operate away from the business premises.

52%
of businesses use cards
to make payments

Just over half (52%) of all businesses make use of at least one type of card to make payments. This finding is consistent across businesses of all sizes, from sole traders to large corporations. However, businesses of different sizes tend to make use of different types of cards.

The two types of cards most frequently used by businesses are credit cards and debit cards.

Chart 5.15 Proportion of businesses using credit or debit cards to make outgoing payments, 2018



Credit cards have long been used by businesses to make payments. However, they tend to be used more extensively by larger businesses, perhaps as these types of organisations are more likely to have larger numbers of staff who need to be able to make payments in the course of their day-to-day business.

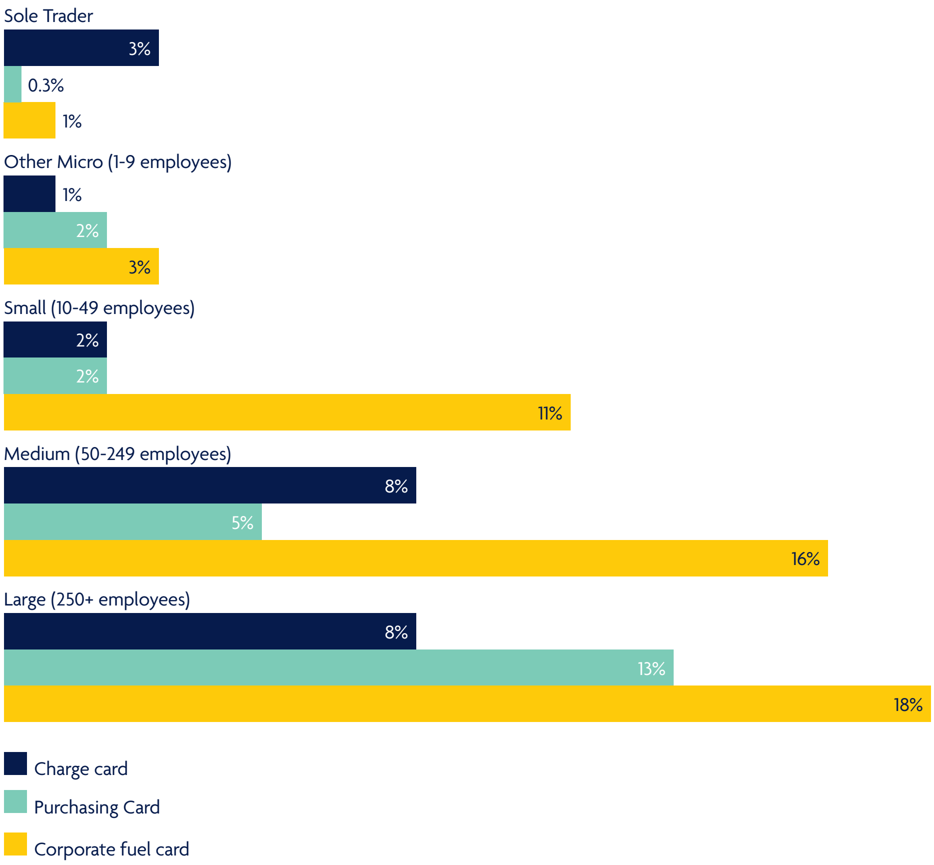
Debit cards, whilst they have not been available to businesses for as many years as credit cards, have become increasingly popular over the past decade. They tend to be used more extensively by smaller businesses than larger businesses, perhaps partly because the number of debit cards available on any one business bank account is limited, but also perhaps because businesses may want to limit the number of staff who are enabled to make payments directly from the business bank account (rather than spending on a credit card account). Even where large businesses make use of debit cards, this tends to be limited to only two or three employees. Any more widespread payment card needs among large businesses tend to be met using credit cards or alternatives.

This pattern of use of debit and credit cards by businesses has remained consistent over the past few years, with a similar pattern observed in the 2012 research.

Other types of cards that are available to businesses include charge cards, purchasing cards and corporate fuel cards. Each of these types of cards tends to have specific attributes and benefits for the business. For example:

- Charge card balances must be paid off in full at the end of each month, and so prevent businesses from building up large amounts of unsecured credit on card accounts.
- Purchasing cards allow goods and services to be purchased without using a traditional procurement process. These cards can have spending limits set for each cardholder or can have blocks applied, to limit their use to making purchases of certain products or in certain locations.
- Corporate fuel cards, sometimes known as fleet cards, tend to be used by haulage companies and other organisations whose employees drive a lot in the course of business. As the name suggests, these cards can usually only be used to purchase fuel or to pay for vehicle repairs and maintenance.

Chart 5.16 Proportion of businesses using charge cards, purchasing cards or corporate fuel cards to make outgoing payments, 2018

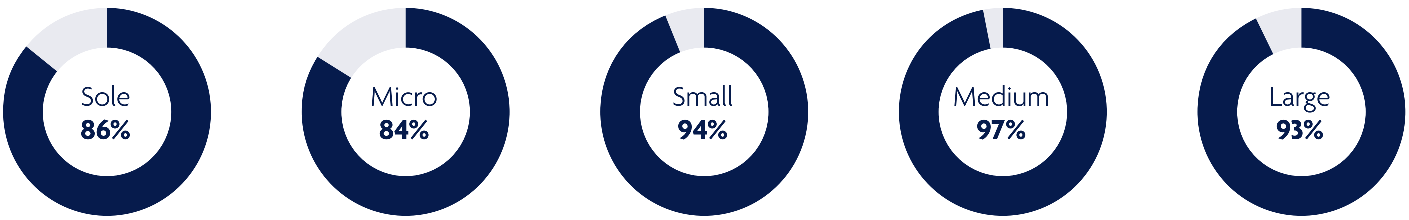


All these other types of cards tend to be used most extensively by larger businesses, with relatively few sole traders or micro businesses making use of charge cards, purchasing cards or corporate fuel cards.

5.3.2 Approach to credit balances

As well as providing a method of making payments, credit cards can also be used by businesses as a method of obtaining unsecured credit. Having said this, the majority of businesses use credit cards only as a method of payment; they repay the outstanding balance on all cards at the end of each month and do not retain any credit balance from one month to the next. Whilst this is true of businesses of all sizes, sole traders and micro businesses are more likely than others to use credit cards as a method of obtaining unsecured credit for the business, with 14-16% of businesses using credit cards this way.

Chart 5.17 Proportion of businesses paying off credit card balances in full each month, 2018



5.4 PREFERENCES RELATING TO METHODS OF MAKING PAYMENTS

There are many factors which may influence business decisions about how to make outgoing payments. We asked businesses to tell us the most significant factors that influence them.

For businesses of all sizes, convenience was the most frequently quoted influencing factor, with two-thirds of businesses citing convenience as an important determinant of their choice of payment method.

For sole traders, micro-businesses and small businesses, simplicity was the second most important factor, named by around a third of businesses. However, whilst simplicity remains quite important for medium and large businesses, cost and (for large businesses) speed are considered to be more important factors.

What influences the choice of method for making outgoing payments?*

* All businesses, in order of importance

1. CONVENIENCE
2. SIMPLICITY
3. COST
4. SPEED
5. HISTORY
6. SECURITY
7. PAYEE REQUEST

Interestingly, most businesses of all sizes are satisfied with the way in which they make payments. On a scale of one to ten, where one is very dissatisfied and ten is very satisfied, businesses gave an average satisfaction score of 8.4, with little variation by size of business. This suggests that, although the factors affecting choice of payment are different for businesses of different sizes, most believe that they are making payments using the best available method for their circumstances.

8/10

Business satisfaction with outgoing payment methods

To understand a little more about how payment decisions are taken and how satisfied businesses are with the methods they currently use, we asked businesses what might prompt them to review the methods that they use to make payments. For businesses of all sizes, cost was the most frequently-named factor. Speed was another important factor, as was any experience of problems using an existing payment method. For medium and large businesses, regular reviews of payment methods were already a reality for more than one in five respondents. This is something that is far less likely to be scheduled by the smallest businesses in the UK, with just 6% of sole traders saying that they have a regular review of their chosen payment methods.

Interestingly, a quarter of businesses said that they do not review their chosen payment methods and there were no factors that would prompt them to do so (whether it be cost, speed, convenience, problems with current methods or a request from a supplier). It appears that a significant proportion of businesses of all sizes either believe that there is no scope to change their chosen payment methods, or else do not believe that this is a sufficiently important issue to become a priority for the business.

6. INCOMING PAYMENTS

UK Finance's market research provides a snapshot view of how businesses receive payments, helping us to understand how business behaviour is changing in response to new technology and changing customer habits.

6.1 PAYMENT METHODS ACCEPTED BY UK BUSINESSES

The types of payments that businesses are willing to accept may be affected by a number of factors. Our research suggests that the most important are:

- Whether the payer is another business or an individual consumer
- The size of the business accepting the payment
- Whether the business makes sales online
- Whether the business accepts payments away from the business premises (eg mobile businesses, market traders, those providing services in the customer's premises etc)

6.1.1 Payment acceptance and the type of payer

The payment methods used for business-to-business transactions tend to be different from the payment methods used when the business is supplying consumers. As a result, we see differences in the pattern of payment acceptance between those businesses that serve other businesses (B2B) and those that serve consumers (B2C).

Take, for example, payments directly into the business bank account.

Proportion of businesses accepting payments directly into the business bank account:

76%
B2B

25%
B2C

Three quarters of businesses that supply other businesses accept payments directly into the business bank account, but only a quarter of businesses that supply consumers accept payment in this way.

In contrast, cash is far more likely to be accepted by businesses that supply consumers than those that supply other businesses.

Proportion of businesses accepting cash:

6%
B2B

39%
B2C

Interestingly, if we consider businesses that serve both other businesses and consumers, we can see that they are more likely to accept a wide range of payment methods, perhaps reflecting the fact that they must cater to a wide range of trading partners, situations and payment preferences.

The table below shows the payment methods accepted by different types of businesses.

Table 6.1 Proportion of businesses accepting various methods of payment

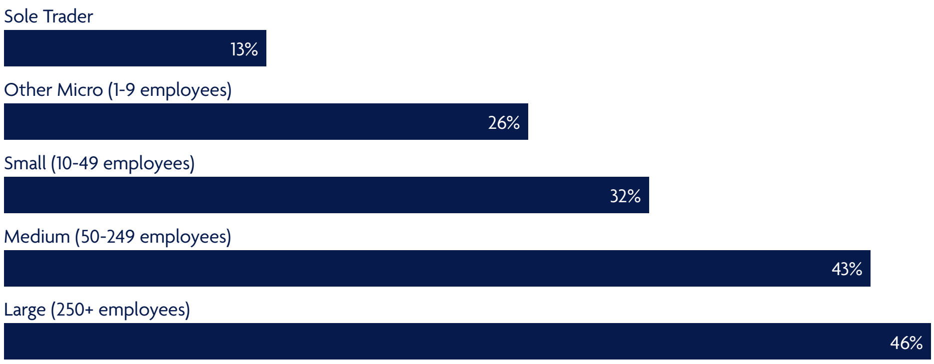
	Provides services to businesses only	Provides services to consumers only	Provides services to both businesses and consumers
Card	8%	14%	28%
Cash	6%	39%	40%
Cheque	32%	29%	58%
Direct Debit	8%	5%	12%
Direct into bank account	76%	25%	74%
PayPal	1%	14%	19%

6.1.2 Payment acceptance and size of business

The type of customer alone does not necessarily determine the types of payment method that a business is willing to accept. The size of the business can also have a considerable impact on payment acceptance.

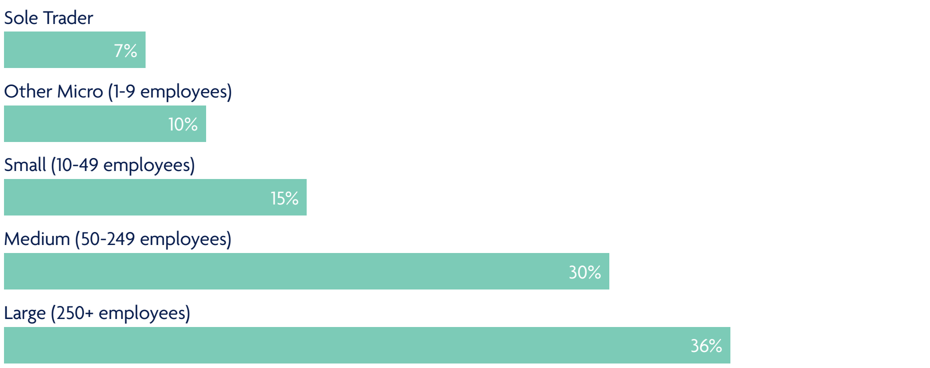
For example, larger businesses are far more likely to accept card payments than smaller businesses.

Chart 6.1 Proportion of businesses that accept card payments, by size of business



A similar pattern of behaviour can be seen in connection with acceptance of Direct Debits. It appears that size of business has a much closer relationship to whether or not a business accepts Direct Debits than whether the business is serving other businesses or individual consumers.

Chart 6.2 Proportion of businesses that accept Direct Debits, by size of business



Large businesses are far more likely to accept Direct Debits than small businesses. This perhaps reflects the fact that Direct Debits are used mainly for payment of regular bills, such as utility bills or insurance premiums, and such services tend to be provided by larger businesses. It may also reflect the requirements associated with becoming a Direct Debit originator, including signing up to the Direct Debit Guarantee, which may deter some smaller businesses from pursuing this as an option.

Acceptance of payments directly into the business bank account also appears to be related to the size of the business. Only around half (52%) of sole traders accept payments directly into their bank accounts, but this increases with the size of the business, with more than four out of five large businesses accepting payments this way.

In contrast, acceptance of cash as a method of payment does not appear to have a very strong relationship to the size of the business, suggesting that the type of customer is the more important determining factor.

Chart 6.3 Proportion of businesses that accept cash payments, by size of business

The table below shows the payment methods accepted by businesses of different sizes.

Table 6.2 Proportion of businesses accepting various methods of payment, by size of business

	Sole trader	Micro business	Small business	Medium business	Large business
Card	13%	26%	32%	43%	46%
Cash	29%	28%	28%	28%	27%
Cheque	39%	39%	60%	45%	42%
Direct Debit	7%	10%	15%	30%	36%
Direct into bank account	52%	70%	84%	75%	81%
PayPal	14%	5%	5%	12%	10%

6.1.3 Payment acceptance and online sales

Whilst size of business and type of payer can have a significant effect on the type of payment method accepted, other factors may also come into play.

Businesses that make sales online may accept different types of payments from those that do not accept payments online. For example, they are far more likely to accept payment by PayPal.

Proportion of businesses accepting PayPal

39%
of businesses that **accept** payment online

2%
of businesses that **do not accept** payment online

Businesses that accept payment online are also slightly more likely to accept card payments or payments directly into their bank accounts than those that do not accept payment online. However, they are less likely to accept payment by cheque.

6.1.4 Payment acceptance and mobile businesses

Some businesses need to be able to accept payment away from the business premises. For example, market traders may need to accept payments in a different location each day of the week, and businesses providing services to consumers in their homes (such as window cleaners) may need to be able to accept payments wherever the customer is located.

This business need for mobility appears to have a significant impact on the types of payment methods that businesses are willing to accept. Cash and cheques in particular are accepted far more frequently by those that need to accept payments "on-the-move".

Proportion of businesses accepting cash

67%
of **mobile** businesses

20%
of **other** businesses

Proportion of businesses accepting cheques

58%
of **mobile** businesses

38%
of **other** businesses

Cash and cheques are the payment methods accepted by the highest proportion of mobile businesses. However, it is interesting to note that card payments also follow a similar pattern, being accepted by a quarter of all mobile businesses.

Proportion of businesses accepting card payments

24% of **mobile** businesses

14% of **other** businesses

6.2 CARD ACCEPTANCE

As we have already seen larger businesses are more likely than smaller businesses to accept card payments. However, there have been significant changes in card acceptance over the past five years, since this research exercise was last conducted.

This year's research shows that 13% of sole traders and a quarter of micro businesses now accept card payments. However, this is a significant change compared with our 2012 survey.

Around half (48%) of sole traders that now accept card payments have started to accept card payments within the past five years. When asked about the reasons why they have made this change, three quarters said it was because new technology had made card acceptance easier, and almost two-thirds said it was because customers were asking to pay by card.

Similarly, around a third (32%) of micro businesses that now accept card payments and over a quarter (28%) of small businesses that now take card payments stated that they have started accepting card payments within the past five years, and again customer demand and advances in technology were the most frequently-cited reasons for this change.

Most important reasons for small businesses starting to accept card payments:

New technology has made card acceptance easier

Customers asking to pay by card

It is also worth noting that four out of five businesses said that they do not place any restrictions (for example, minimum spend amounts) on card use by their customers. Of those businesses that do apply such restrictions, the research suggested that larger businesses were more likely to apply restrictions or conditions than smaller businesses.

6.3 CASH ACCEPTANCE

Almost three out of ten businesses currently accept cash as a method of payment. It should be noted that most of the businesses that accept cash are those that serve consumers; just 6% of businesses that only supply other businesses accept cash.

There has been much talk in recent years about the changing role of cash in the UK economy, and so the research investigated how those businesses that currently accept cash feel about it, and whether they have any plans to stop accepting cash in future.

When asked if accepting cash was an inconvenience for their business, just 8% of businesses that currently accept cash agreed that it was.

We also asked businesses whether they had thought about whether the business should stop accepting cash, and whether they thought it was possible that they would stop accepting cash.

Of the businesses in the UK that currently accept cash, just 6% said that they had considered whether the business should stop accepting cash. Furthermore, just 5% of businesses that currently accept cash said that it is possible that they will stop accepting cash as a form of payment.

only 5%

of UK businesses that currently accept cash said that it is possible that **they will stop accepting cash** as a form of payment

Despite the ongoing rise in popularity of card payments in general, and contactless payments in particular, it does not appear that there is any evidence of businesses turning away from accepting cash as a payment method. Most businesses that accept cash do not find it inconvenient and are not considering ceasing to accept cash.

6.4 CHEQUE ACCEPTANCE

The research shows that four out of ten businesses currently accept cheques as a method of payment. However, the research also investigated these businesses' attitudes towards accepting cheques.

All businesses that currently accept cheques were asked to what extent they agree or disagree with the statement "receiving cheque payments is an inconvenience for us". This is similar to the question that was posed concerning cash (discussed in the previous section of this report).

The results of this question stand in contrast to the results relating to cash. Only 8% of businesses that currently accept cash agreed that this was an inconvenience to the business. In contrast, 38% of all businesses that currently accept cheques agreed that this was an inconvenience to the business.

4 out of 10

businesses that currently accept cheques believe that this is **inconvenient** to the business

It is worth noting that the new Image Clearing System facilitates new ways of depositing cheques without having to take them to a bank branch, which may reduce the perception of inconvenience currently attached to cheques by those businesses that accept them as a method of payment.

6.5 DIRECT DEBIT ACCEPTANCE

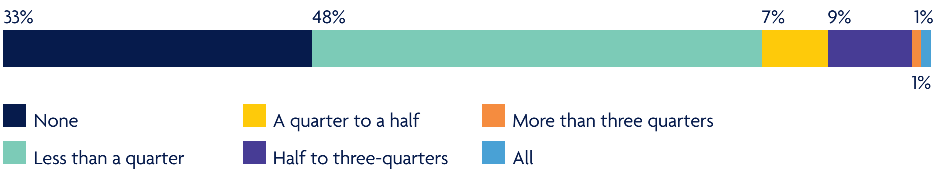
The market research investigated the decisions that businesses take around becoming a Direct Debit originator, and what limits (if any) exist to the expansion of use of Direct Debits by businesses to receive payments from their customers.

6.5.1 Businesses that accept Direct Debits

As we have already seen, around 8% of businesses in the UK currently accept Direct Debit payments and larger businesses are more likely to accept Direct Debits than smaller businesses. Our research questioned businesses about whether they thought their use of Direct Debit could expand, and what may be the barriers preventing such expansion.

A third of businesses that currently accept Direct Debits told us that they could not expand their use further; none of the payments that they currently receive through other methods could be collected by Direct Debit. A further half of businesses said that less than a quarter of these other payments could possibly be collected by Direct Debit. It therefore appears that most businesses believe that there is limited scope to expand their use of Direct Debit beyond the levels that they have already achieved.

Chart 6.4 Proportion of other payments that Direct Debit originators believe could also be accepted by Direct Debit



When asked about the barriers that prevent them from collecting all their payments by Direct Debit, over half of businesses (55%) said that some of their customers do not want to pay this way. A third said that some of the payments they collect are not suitable for collection by Direct Debit, and one in five said that it would be too much hassle. Finally, 12% said that they did not want to cause problems in customer relationships by trying to encourage customers to move to Direct Debits.

Top 3 reasons why all payments can't be collected by Direct Debit:
Customers don't want to pay this **way**
Some payments **not suitable** for collection by Direct Debit
Too much **hassle**

6.5.2 Businesses that do not accept Direct Debits

The research also explored why many businesses do not currently accept Direct Debits from their customers.

Of those businesses that do not currently accept Direct Debits, only one in five believed that this could be a suitable method by which some or all of their customers could pay them. This figure was lowest among sole traders (18%), but increased with the size of the business, with 43% of large businesses stating that Direct Debit could be a suitable payment method for them.

Of those businesses that thought Direct Debit could be a suitable payment method for them, 42% had considered starting to accept Direct Debits, although they had not done so. It seems that for many businesses, it's just not "the way things are done". The way that the business has evolved over time has not led to a decision point where Direct Debit became a chosen payment method. Almost a third of businesses, however, believe that their customers would not want to pay them by Direct Debit.

Among businesses for which Direct Debit could be a suitable payment method, why do they not accept Direct Debit payments from their customers?

44%
We never have/the business has **evolved** this way

30%
Our **customers** don't want to pay by Direct Debit

21%
It's too much **hassle** to set up and manage

6.6 SATISFACTION WITH INCOMING PAYMENT METHODS

The research shows that most businesses are satisfied with the way that they receive incoming payments. On a scale of one to ten, where ten represents 'very satisfied' and one represents 'very dissatisfied', the average satisfaction score was 8.4. There was relatively little variation; satisfaction fell slightly among large businesses, but even those scored an average satisfaction of 7.9 out of 10.

To help understand this further, we also asked businesses whether they try to influence the choice of payment method used by their customers to pay them, or whether they prefer to let customers have the choice.

The results were split almost half and half between the two types of behaviour.

47%
We try to **influence** the methods used by our customers to pay us

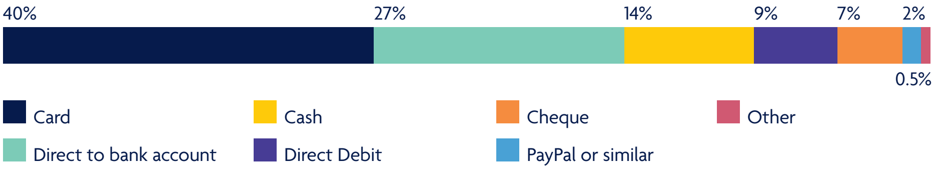
53%
We prefer to let customers have the **choice** of how to pay us

Larger businesses are more likely to try to influence the payment methods used by their customers, with almost two-thirds of large businesses (65%) saying that they do this, compared with less than half (47%) of micro businesses. However, it seems that there is a great variation of behaviour between businesses, and it perhaps depends as much on the culture of the business, its history, and the personality of its decision-makers as it does on more measurable factors.

6.7 INCOMING BUSINESS PAYMENTS IN THE UK

Since the last time this research was undertaken in 2012, there have been considerable changes in the way that payments are made and received in the UK. As a result, our research now suggests that the method by which most payments are now received by businesses is by card, a position that was previously held by cash.

Chart 6.5 Proportion of payments that UK businesses receive via different methods, by volume



In our 2018 research, 40% of payments received by businesses were received by card. The data shows a significant rise in the proportion of payments received directly into the business bank account over the past five years, reflecting the growing use of Faster Payments for businesses (and smaller businesses in particular) to pay one another. The proportion of payments received by Direct Debit has been fairly stable, reflecting the maturity of Direct Debit as a method of payment and its popular use by consumers for paying utility bills.

7. FRAUD PREVENTION

One potentially challenging aspect of doing business today is ensuring that the business is protected against fraud attempts and scams. As technology develops, fraudsters constantly invent new methods to attempt to extract money from businesses.

As part of our research, we investigated business readiness for dealing with two types of scams that have recently become popular amongst fraudsters:

- CEO spoofing
- Invoice fraud

7.1 CEO SPOOFING

CEO spoofing is where an employee receives an email apparently from the company's CEO (or some other senior member of staff) asking them to make an urgent payment outside of normal procedures. Typically, a fraudster will have manipulated the characteristics of the email, including the sender address, so that it looks genuine. If the employee transfers the money as requested, it goes straight to an account controlled by the fraudster.

We asked medium and large businesses (who are potentially most vulnerable to this type of scam) whether they were aware of CEO spoofing and whether their business had experienced an attempt at CEO spoofing.

CEO spoofing

29% of medium and large businesses have experienced CEO spoofing attempts

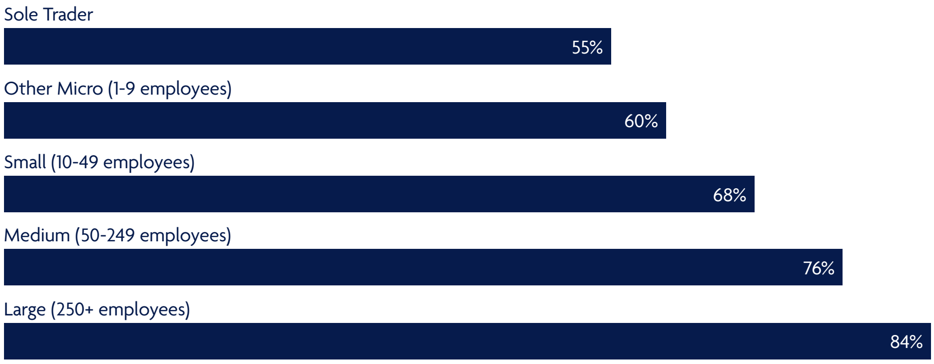
Just over three-quarters of respondents (77%) were aware of the existence of CEO spoofing. However, worryingly, almost a quarter (23%) were not aware that this was a danger that they needed to guard against. As a measure of the extent of this problem for businesses, over a quarter of medium and large businesses (29%) said that they had experienced an attempt at CEO spoofing in the past.

7.2 INVOICE FRAUD

Invoice fraud can take place where criminals are able to acquire details from business invoices (even down to knowing the correct payment dates when invoices are due to be paid). They then pose as regular genuine suppliers to the business and make a formal request for the supplier's bank account details to be changed (that is, the details of the bank account that should be used for paying business invoices). If the business makes the changes to invoice details stored on their system as requested, any payment of invoices received from the genuine supplier in future will result in the money going to an account controlled by the fraudster rather than to the supplier.

We asked businesses of all sizes whether they were aware of the existence of this type of invoice fraud, and whether or not they had experienced attempts at such fraud.

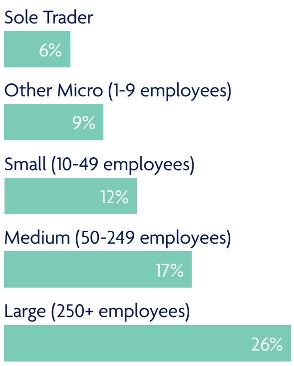
Chart 7.1 Proportion of businesses aware of invoice fraud



Overall, whilst over half of all businesses were aware of the existence of invoice fraud, this left 43% that were not aware of this type of fraud. Awareness tends to rise as the size of the business increases, with 55% of sole traders being aware of invoice fraud, rising to 84% of large businesses.

When asked if they had ever experienced this type of fraud, the results were similarly related to the size of the business. Just over a quarter of all large businesses (26%) said that they had experienced attempts at invoice fraud, whilst only 6% of sole traders reported similar experiences.

Chart 7.2 Proportion of businesses that have experienced invoice fraud

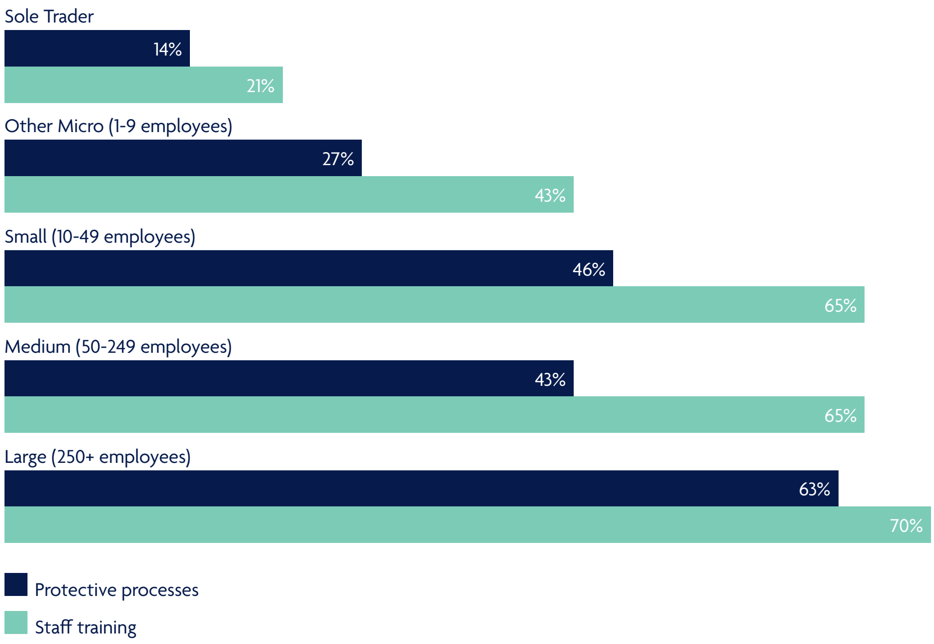


7.3 ANTI-FRAUD PROTECTION

Having understood a little more about the extent to which businesses were of aware of different types of fraud, or had directly experienced those types of fraud, we asked respondents to tell us whether they had introduced processes designed to protect them from these types of scams, or whether their finance staff had been trained to help them recognise and avoid such scams.

It seems that larger businesses are far more prepared to deal with fraud than smaller businesses, although there remain a significant proportion of businesses at even the largest level which have not taken any steps to protect themselves from fraud.

Chart 7.3 Proportion of businesses that have taken steps to protect themselves from fraud



APPENDIX: METHODOLOGY

The core market research was conducted on behalf of **UK Finance** by the independent agency BDRC Continental (www.bdrc-continental.co.uk) between November 2017 and January 2018. The research covered 1,500 businesses of all sizes throughout the whole of the UK.

Telephone interviews were held with the person at each organisation responsible for, or involved in, decisions about the methods the organisation uses for making and/or receiving payments. In some cases, different people answered questions about making and receiving payments, reflecting the separation of such functions within larger businesses.

The sample

The survey included organisations of all sizes from both the private and public sectors. All parts of the United Kingdom were covered by the survey, which therefore reflects the payments activity of businesses in England, Northern Ireland, Scotland and Wales.

The structure of the survey sample was based on the business population estimates published by the Department for Business, Energy and Industrial Strategy (BEIS). The survey included organisations from a variety of industrial sectors. Responses to the survey were weighted together to reflect the make-up of organisations within the UK economy. In this way, the final weighted survey results reflect the structure of the economy as described by BEIS.

Size of business	Number of employees	% of all organisations
Sole trader	0 (owner-manager only)	76%
Other micro-business	1-9	20%
Small	10-49	4%
Medium	50-249	0.6%
Large	250+	0.1%

Sole traders and other micro-businesses with fewer than 10 employees account for the vast majority of organisations in the UK. Nevertheless, their share of payments (by value and by volume) is lower than this, due to the disproportionate importance of transactions involving larger organisations.

Payment methods covered in the survey

The survey aimed to ask businesses about all the main payment methods that they use in order to make and receive payments. In some instances, payments were grouped together in categories. The payment methods covered in the survey are as follows:

Outgoing payment methods:

Bacs Direct Credit - a secure service which enables organisations of all sizes to make payments by electronic transfer directly into a bank or building society account. Businesses can also send large volumes of Bacs Direct Credits by sending a single payment file containing the relevant payment instructions, which can be useful for making payments such as payroll runs.

Faster Payments - a rapid payment system which allows customers to make electronic payments almost instantaneously, seven days a week, 24 hours a day. Faster Payments are typically initiated via online banking, mobile banking or by telephone.

Direct Debits - an instruction from a customer to their bank or building society authorising an organisation to collect varying amounts from their account.

Standing orders - an instruction from a customer to their bank or building society to authorise a payment for set amount, usually on a regular basis, to be made to another UK bank or building society account.

Card payments - the survey collects the volume and value of payments made using cards, covering:

- Debit cards - payments drawn directly from a bank account.
- Credit cards - payments made on a credit account which can be paid off over time.
- Charge cards - similar to credit cards, but the balance has to be paid off at the end of each month.
- Purchasing cards - a form of company charge card that allow goods and services to be procured without using a traditional purchasing process. Also sometimes known as procurement cards.
- Corporate petrol cards - a form of company charge card that only permits the purchase of fuel, often used by businesses with staff who travel on business (e.g. salesmen, haulage drivers).
- Prepaid cards (including gift cards) - stored-value cards which are pre-loaded with credit before buying goods and services.

CHAPS - a same-day automated payment system for processing payments made within the UK. Primarily used for very high value payments.

Cash - money in the form of banknotes and coins.

Cheques - a paper voucher linked to a current account allowing payment instructions to be written to transfer funds to another account-holder.

PayPal and similar services - online payment services which allow organisations and individuals to make and receive online payments between accounts without the need to exchange bank account or credit card details.

Apple Pay, Google Pay and similar services – mobile wallet services that allow contactless card payments to be initiated using the NFC capabilities of the cardholder’s mobile phone. May also be used to initiate payments for online shopping.

Incoming payment methods:

Payments direct into the business bank account - the survey asks businesses about the total of payments that are received directly into the business bank account (as the recipient may not know what method the payer used to send the payment). This may include:

- Bacs Direct Credits
- Faster Payments
- Direct Debits
- CHAPS

Card payments - the survey asks businesses about the total volume and value of all payments received by card. This may include all types of cards as described in the "Outgoing payment methods" section above.

Cheques

PayPal and similar services

Cash

Gift Vouchers - some businesses (usually retailers) sell gift vouchers which can subsequently be used by customers to pay for goods and services.

Paypoint and similar services - specialist payments collection networks with terminals located in local retail outlets, used primarily for the cash payment of bills and services, prepayments for mobile phones and energy meters, and the collection of cash payments from service providers such as government departments. This service is of most relevance to large organisations.

Estimation difficulties

Many businesses find it difficult to estimate the volume and value of payments they make and receive, and so we need to bear in mind that this report only presents the results of businesses' own estimates of outgoing and incoming payments. There are also several reasons why the estimates of payments presented in this report may not reflect all aspects of the total business payments market:

- Central government payments are unlikely to be reflected in their entirety. For example, around one billion benefit and state pension payments are made each year but will not be captured by this research.
- Data was collected from the central function responsible for payments within the relevant part of the organisations examined. Where localised payments are made, for example by using petty cash or a corporate card, their number may not have been reported.
- Although the survey was designed to capture a representative cross-section of high-volume payers, there is a chance that one or more very large business payers may not have been captured by the research, which would inevitable skew the findings.

Nevertheless, we are confident that this research gives important insights into how businesses are approaching their payment needs, and how this has changed in recent years.