



Digital solutions enablement for small businesses



EXECUTIVE SUMMARY

The global SMB accessible market is \$50 trillion¹ in SMB payment flows opportunity, \$850 billion² in annual banking revenue and \$30 billion³ in small businesses value-added services.

This market is changing rapidly, and we are seeing a new age of digitally savvy SMB demands across multiple markets. This paper explains key drivers accelerating SMBs' move to digital solutions and outlines initiatives Mastercard and its partners are taking to ensure inclusion for all SMBs.

This paper also recommends key areas of innovation in the areas of KYC/KYB, Digital Identity, SMB electronic payments underwriting and rapid merchant settlement processes to introduce efficiencies to help small businesses perform better. Digitization of invoice generation along with collecting and making payments will enable small businesses to spend more time serving their customers.

1. World Bank, 2018

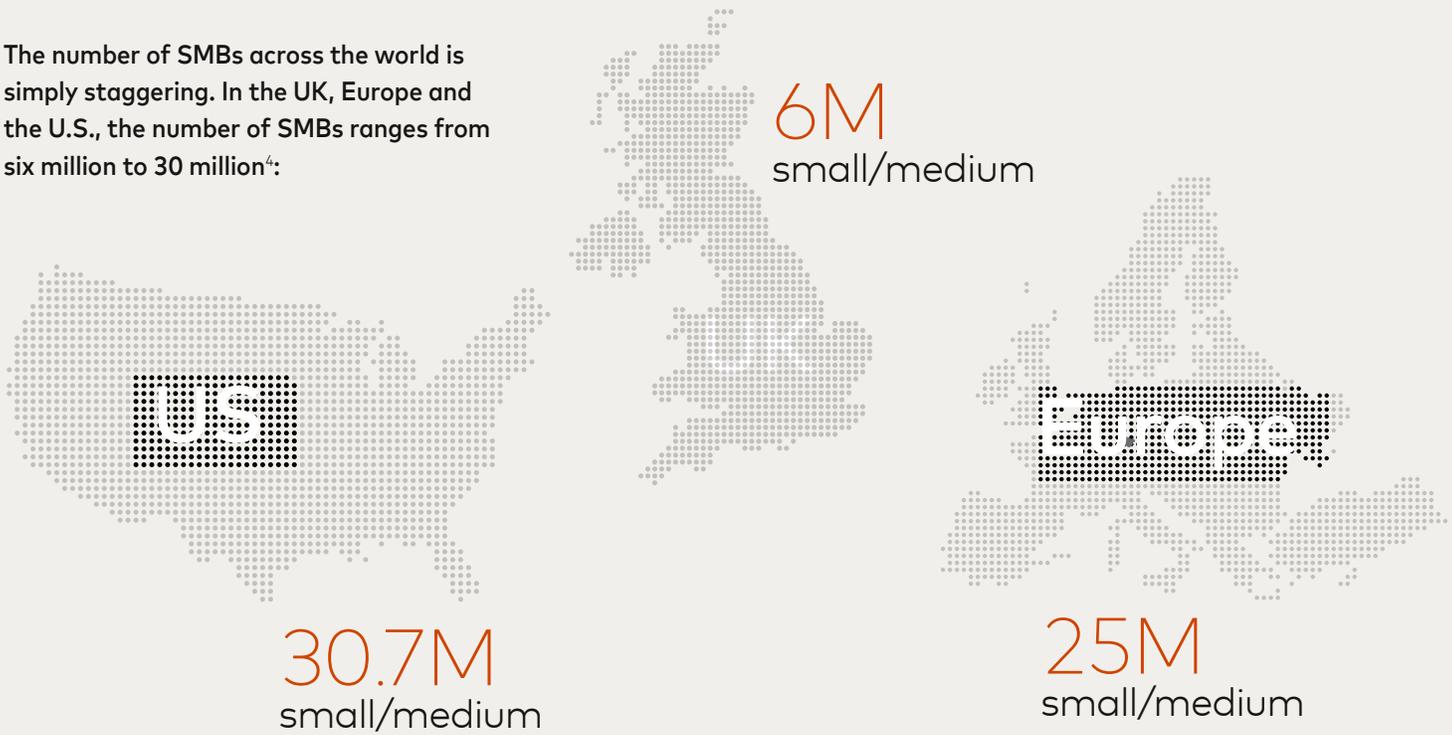
2. Kaiser Associates, 2020

3. Business Insider, 2020



The underserved SMB sector is a vitally important sector for governments, payment schemes, banks, acquirers and the payments industry in general. Mastercard has underlined their commitment to support this sector's financial security with a pledge to spend \$250 million over five years.

The number of SMBs across the world is simply staggering. In the UK, Europe and the U.S., the number of SMBs ranges from six million to 30 million⁴:



SMBs often state the products and services offered by large banks and financial services companies don't meet their expectations or needs.⁵ Many organizations try to offer consumer products or large business solutions to small businesses which fail to meet the unique needs of SMBs. As a result, small businesses need to look for solutions elsewhere.

4. Based on UK and Europe markets are 99% of total segment size
5. fintechos.com, 2020



SMBs tend to be offered products and services adapted from those developed specifically for the consumer or larger company sectors.



Financial institutions and payment companies have the opportunity to modernize their solutions and services to meet the growing critical demand of this important sector. Mitigating some existing structures can yield higher adoption of these digital solutions. Here are some suggestions that can help to drive growth and SMB retention:

- Provide simple onboarding processes
- Streamline governance frameworks that promote a safety-first and low-risk appetite for business
- Help with targeted messaging
- Create digital solutions for higher adoption and brand stickiness



SMB GLOBAL LANDSCAPE

When it comes to onboarding, verification is one of the biggest pain points for SMBs: 84% say they've had a bad experience of KYB/C.⁶ This is connected to the sheer number of questions they must answer during the process and the time it consumes, as an SMB doesn't have dedicated administration staff who can deal with these issues. For the SMB, time taken answering endless questions equates to less time being able to work and earn income.

The front and back office processes meant to serve them are often simply taken from retail or corporate banking with very few modifications, so they haven't been designed with the SMB market in mind. These onboarding processes usually operate on legacy systems, meaning there are still large amounts of manual intervention and paperwork.

Many payment acquirers quote "seven to 10 days" to successfully onboard a merchant. This timeframe might suffice for a larger company or a corporate, however for the SMB, this is unacceptable.

Allowing merchants to be onboarded in real time (i.e., a merchant account created within minutes) is the level of service which they should expect and be given, coupled with realistic payment settlement times. While competitive pricing is important, easy account opening and access to cash flow are the two most crucial factors for the small business lifecycle.



6. <https://fintechos.com/blogpost/underserved-smes-4-steps-for-banks-to-tap-the-market/>

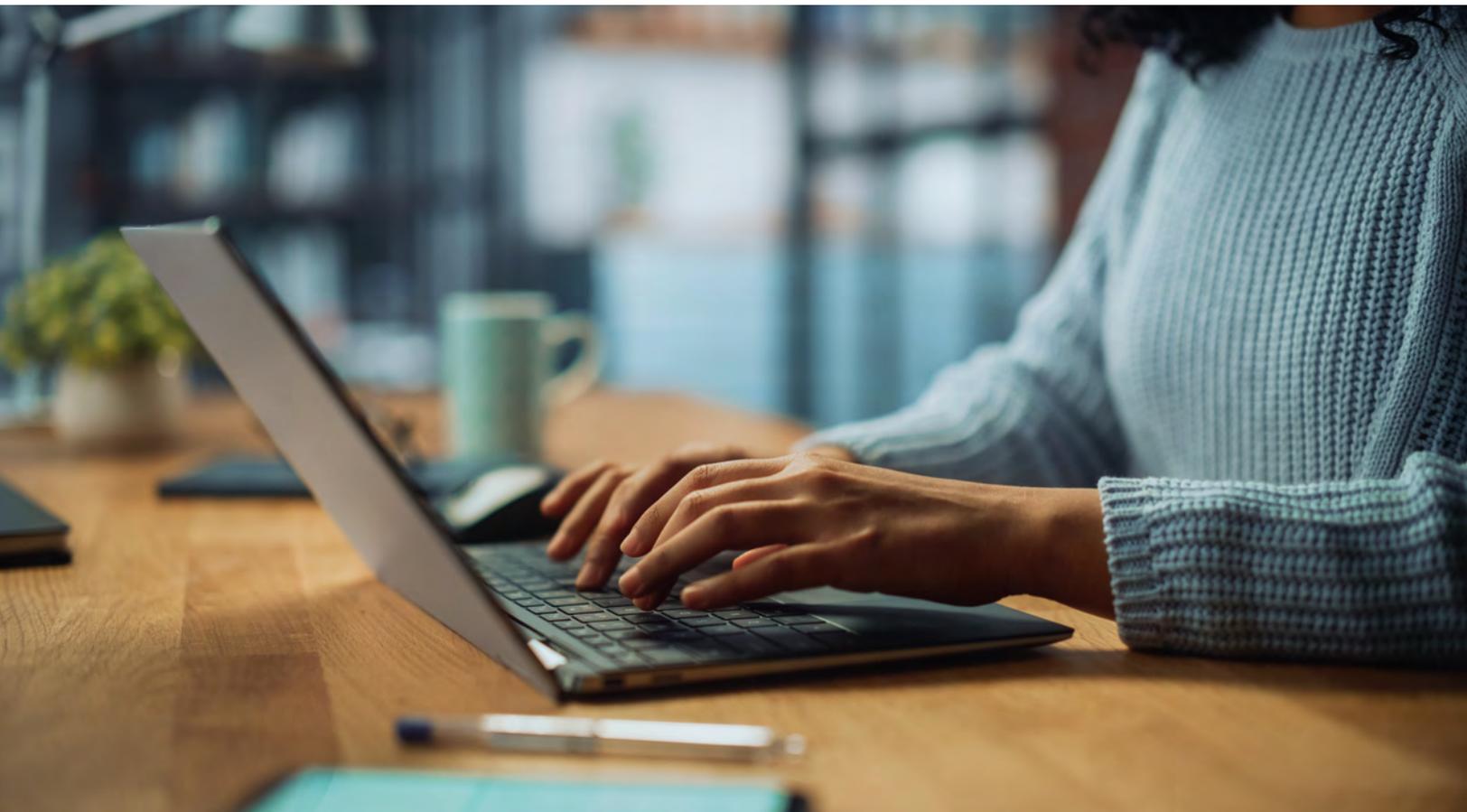


Trends

The SMB segment has transformed dramatically in the past year. COVID-19 massively accelerated SMBs' move to digital solutions. SMBs' demand for digital-first solutions is no longer the niche desire of tech startups. SMBs have high willingness to pay for digital solutions that meet their needs and solve their challenges, with the main drivers for SMB adoption being product functionality, service availability and ease of use.

Top trends of the SMB segment:

- SMBs are more digital than ever before. They are seeking better ways to optimize their cash flow; to grow their sales online; automate and scale their operations; and to stay safe and secure in digital environments.
- SMBs unique needs are no longer being overlooked. Fintech and digital platforms (i.e., marketplaces) are offering innovative lending and banking services — driving a step-change in SMB's expectations on user experience.
- Fintechs' have momentum and the funding to scale. New entrants are proliferating and fintech "incumbents" who have become concentration points in the SMB value chain are expanding their financial services offerings.



Opportunities

Though every SMB may have a wide array of needs, companies providing products and services for the SMB segment must address the following four specific needs:

1 **SMBs need better ways to pay** — 82% of SMBs in developed markets are using personal card products for their small business.⁷ 99% of SMBs in developing markets are using personal card products for their business.⁷

2 **SMBs need better ways to get paid** — 82% of all SMBs that fail do so because of cash management issues.⁷ 64% of SMBs have unpaid invoices longer than 60 days.⁸

3 **SMBs need better access to working capital** — 53% of SMBs that applied for financing received either less than or none of what they originally requested.⁹ 70% of women-owned SMBs with credit needs are unserved or underserved.¹⁰

4 **SMBs need better access to digital tools and capabilities** — Between April and May 2020, more than \$53 billion of incremental e-commerce spending occurred in the U.S. compared to 2019.¹¹ Only 46% of small merchants were Card-not-Present ready compared to 70% of large merchants in April 2020.¹¹

SMBs are unable to get a holistic view of their financial health and are hence unable to demonstrate potential for capital needs in order to manage day-to-day operations.

Future opportunities lie in real-time payments, automated invoicing, and integration with other cash management tools where Mastercard assets and network effect multiplies capabilities for the SMB sector.

Enablement of digital technology by Mastercard and partners will empower SMBs':

- **Access to digital invoicing tools**, replacing the existing friction-filled cumbersome experience with quick and simple options for request for payments.
- **Instant payment** to overcome cash flow inefficiencies.
- **Reduce days of sales** outstanding.



7. World Bank, 2018

8. Kaiser Associates, 2020

9. Business Insider, 2020

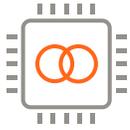
10. Based on UK and Europe markets are 99% of total segment size

11. 2020 North America Small Business Owner Comms Survey, Mastercard



Mastercard's Multi-Rail Strategy Framework

Mastercard can play effectively in the SMB segment with its strong global network and an array of multi-rail products and services, such as:



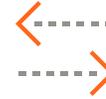
Infrastructure

The underlying technology, payment rails and rules that enable the movement of money



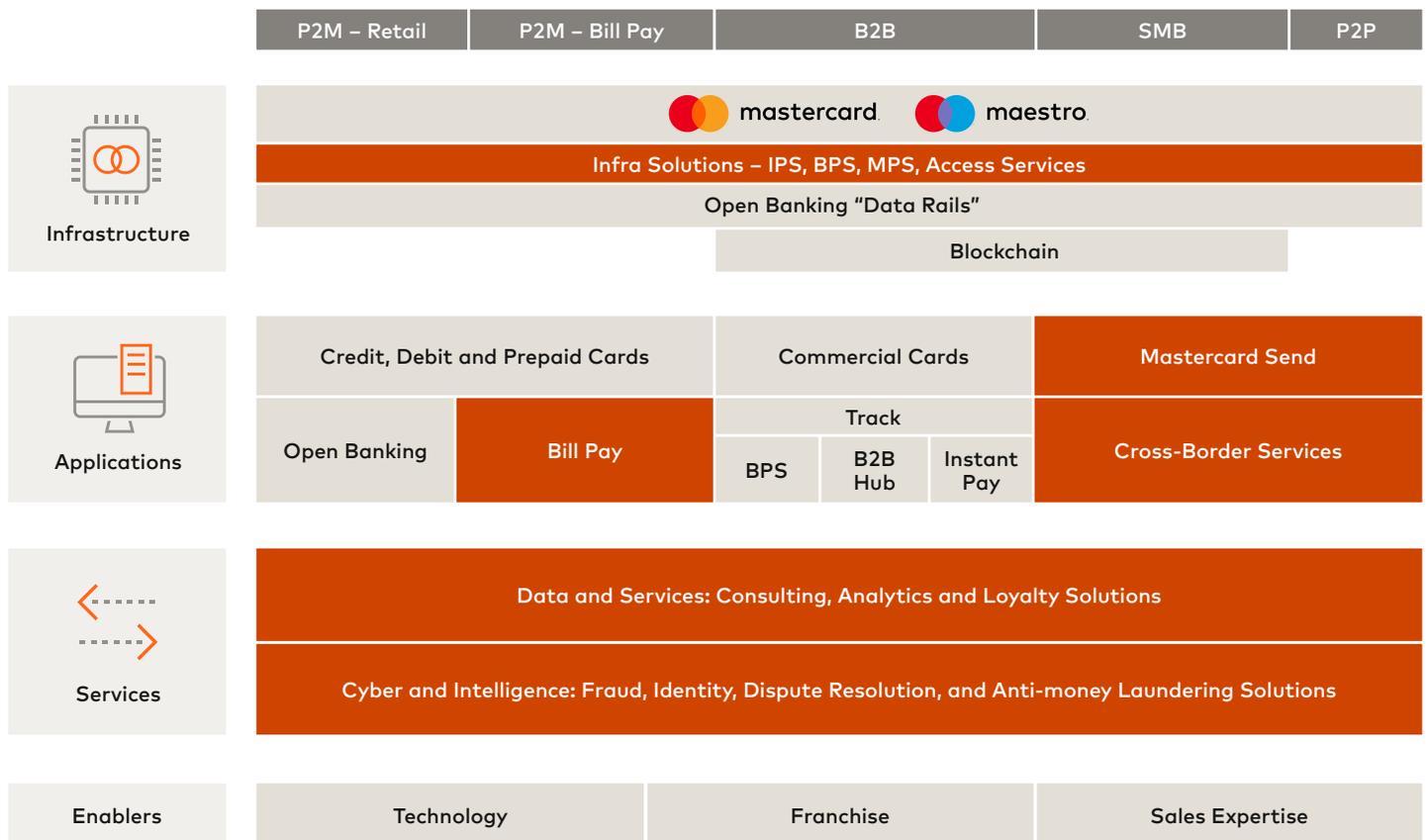
Applications

Solutions that are built on top of the infrastructure – these are what people and businesses interact with



Services

Making payments smarter and solving ecosystem challenges, like fraud and intelligence



Mastercard's vision is to deliver global, comprehensive payment and data network capabilities that are seamless, secure and flexible.

Guiding Principles

Widest reach

go where the customers are

Unparalleled performance

hyper scale, always available, real time

Maximum flexibility

simplified access and use

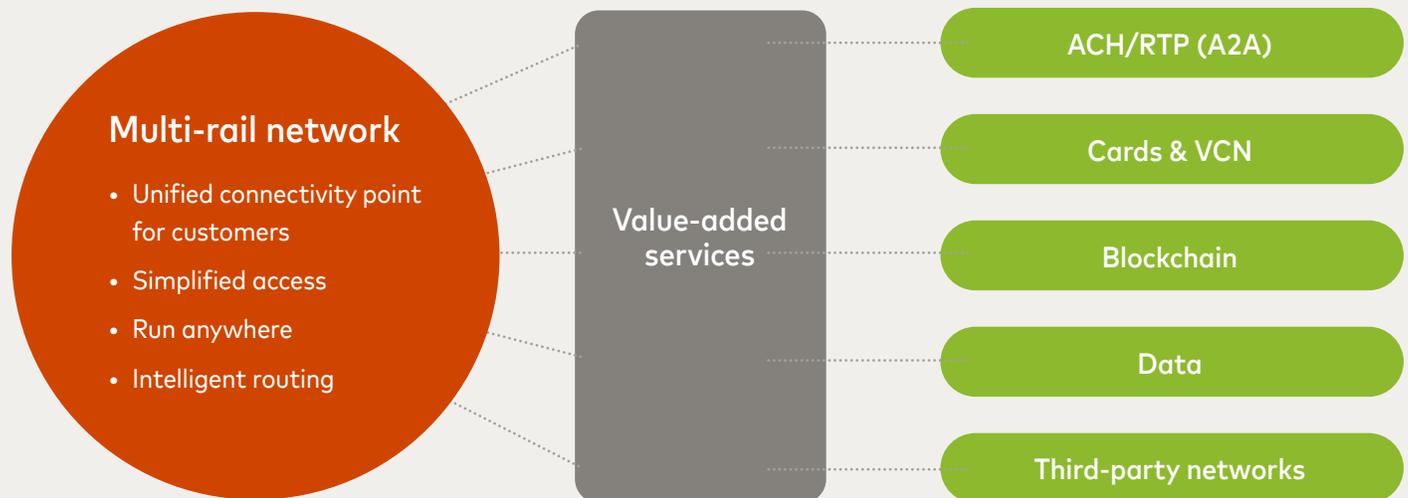
Comprehensive value proposition

payments, data, services

Hyper secure

privacy by design

Mastercard portfolio of assets and services

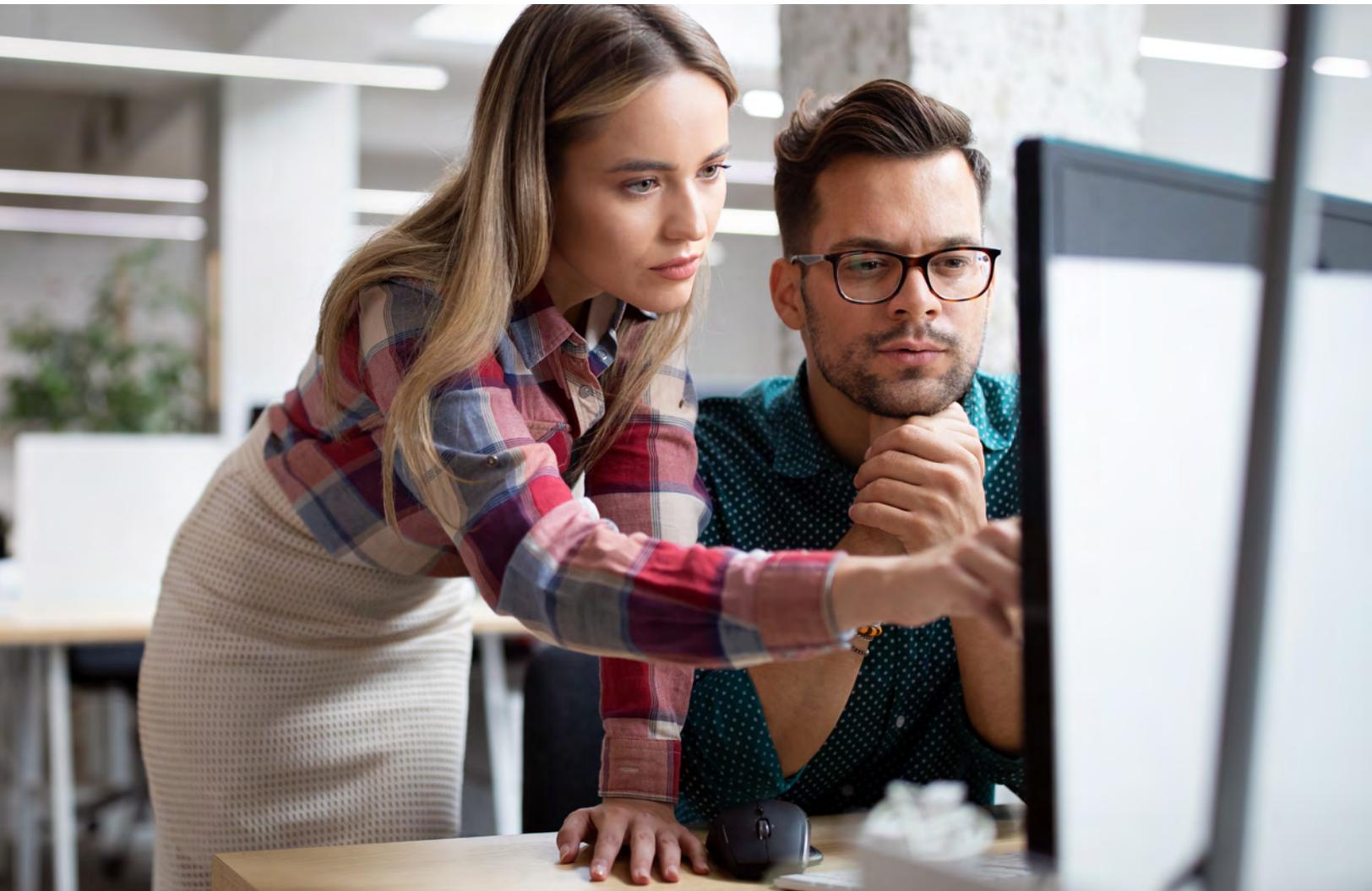


MASTERCARD'S ROLE IN SMALL BUSINESS SECTOR

Each SMB has unique needs and preferences when it comes to picking their invoicing solution provider, core banking services, and other digital tool providers.

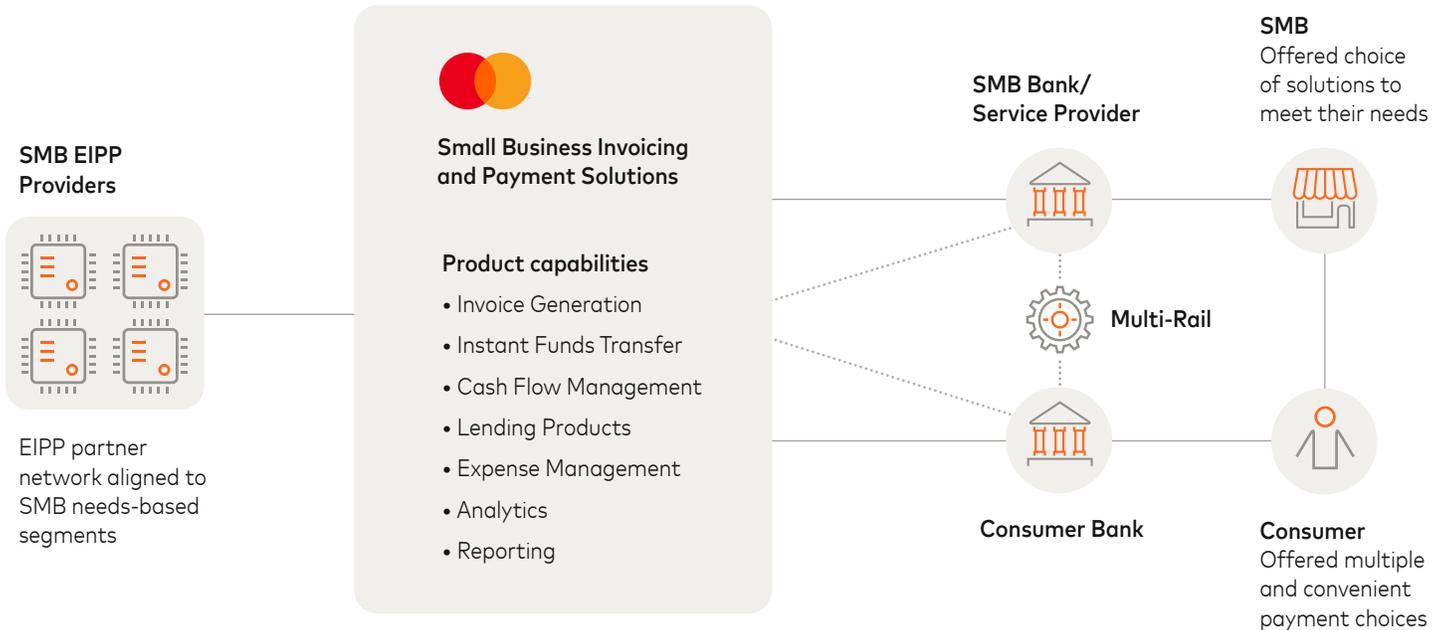
We believe by creating a connected network of these SMB-preferred companies and solutions, Mastercard can offer SMBs the choice of different services. And by Mastercard being the orchestrator of this network, we can help SMBs get capital faster. We can enhance an electronic invoice presentment and payment (EIPP) provider's capability by enabling multi-rail payment APIs using different platform assets that are part of Mastercard's multi-rail payments network. Additionally, we can provide rapid merchant settlement capability for instant funds transfer directly into an SMB's bank account.

On the consumer side, we believe in enabling consumer choice and flexibility in terms of when and how they would like to pay invoices issued to them by SMBs.



Network Solution Vision

We see our role as supporting and connecting a network of EIPP partners to provide tailored, value-added solutions through banks. We believe EIPP providers are a key channel to deliver customer-first experiences, and we are building a robust capability suite of multi-rail payment and value-added services to further enrich the offering for small businesses.



Network Solution Overview

EIPP solutions powered with multi-rail payments and value-added services

EIPP solutions enabled with payment optionality across card and RTP/account-based choices, as well as value-added services such as data & analytics, supply chain financing, cybersecurity solutions — accessible through the API experience.

Unified onboarding for Mastercard network of EIPP solutions

Bank/distribution partner onboards a set of SMB EIPP solutions via a single integration with Mastercard.



MASTERCARD'S FOCUS AREAS IN THE SMB SECTOR

Mastercard's role in the SMB segment is anchored around four pillars addressing SMBs' greatest needs:

1. Payments

We see Mastercard playing a key role in modernizing SMB payment flows by i) Driving new digital use cases with best-fit solutions (e.g., prepaid, co-branded cards), ii) Driving enablement including digital experiences and scale through new market opportunities, and iii) Driving usage/optimization through campaigns and programs (e.g., loyalty, Easy Savings).

2. Make and receive payments anywhere and at anytime

Historically, our card acceptance products have enabled the SMB merchants to receive payments digitally, and we continue to drive these solutions. However, SMBs are also tradespeople, professionals and B2B suppliers with different needs around how and when they get paid. As such, we are enhancing our current Mastercard assets to make them fit for purpose for these SMB use cases. We are developing new multi-rail solutions to improve receipt of invoice-based payments, and we are maximizing distribution through digital-first channels.

3. Access to capital and credit

Improving the way SMBs receive payments is one way to help them manage cash flow; the other is to unlock access to credit needed to run and grow their business. We see opportunity to leverage open banking and digital identity capabilities to provide customers with an integrated offering that mitigates barriers to SMB lending.

4. Digital enablement

During the pandemic, we stood up our Digital Acceleration Program to help SMBs transition to digital commerce and operations. Our future focus is to address SMBs' needs around growing their businesses and staying secure in digital environments.



Mastercard North America Small Business

The North America region is actively progressing their customer-centric, needs-based approach to help partners and clients support this critical segment.

There are ~30 million small businesses in the U.S., employing over 60 million individuals (~48% of the private workforce), collectively comprising 44% of U.S. GDP.¹² Although concentration varies across the country, small businesses account for more than 98% of enterprises and play a key role in the U.S. economy by employing almost half of the total workforce.¹²

The U.S. small business market remains a key economic driver and a significant opportunity for our partners. As e-commerce growth has exploded due to consumer behavioral shifts, it's become more important than ever for small businesses to move towards digitization of their businesses, specifically in the areas of customer acquisition, marketing, payments and invoicing.

Holistic approach to the SMB owner

Mastercard's strong, customer-centric focus has driven extensive research into the needs and pain points of this critical segment.

Understanding the needs of small business owners and sharing insights with our partners have always been Mastercard's focus. Through our multiple quantitative and qualitative research studies, we have analyzed small business needs to help our partners support this key segment in 2021 and beyond. The COVID-19 pandemic has stressed small businesses throughout North America, limiting capacity and, by extension, revenue and profitability. In response, business owners are taking control of their finances and adding digital services as core business functions. They are reimagining their payments ecosystem, focusing on digital collections and payments alike, in search of speed to aid financial solvency.

Enthusiasm for newfound methods, combined with customer satisfaction scores and ongoing efforts to bolster business readiness for a second event, suggest a new reality for payments, even as the pandemic subsides.

The needs of small businesses have not changed, but they have grown more acute as a result of the pandemic.



Operational efficiency — 74% of small businesses cite cash flow, providing timely payments, making payments on financial products, unpaid bills, making payroll, and rent as current challenges.¹³



Digital enablement — 67% of small businesses want their primary financial institution to work more with financial technology providers to offer more innovative and helpful products and services faster.¹⁴



Safety and Security — 81% of small businesses wish someone would proactively alert them to shifts in the cybersecurity landscape and inform them of best practices.^{15, 16}

12. U.S. Small Business Administration Office of Advocacy. 2018 Small Business Profile

13. 2020 North America Small Business Owner Comms Survey, Mastercard

14. Aite Group. Seven Reasons Your Bank May Not Be Seeing Small Business Success Report 2019

15. The Harris Poll on behalf of Mastercard October 8-16, 2019

16. Other sources

- Better Business Bureau, 2017 State of Cybersecurity Among Small Businesses in North America
- Needs assessment June 2018
- 2017 Small Business Credit Survey, Federal Reserve Banks



MASTERCARD'S NORTH AMERICA SMB SECTOR ROLE

Mastercard put our network, insights, technology, cybersecurity solutions, and partnerships to work immediately, helping small business owners address their most pressing needs.

We knew small business owners needed liquidity and credit quickly. They also needed help in pivoting their businesses to meet the new reality so they could sustain their business over the long term. Early in the pandemic, Mastercard announced a commitment of \$250 million over five years to support small business in the United States and other markets where we operate.

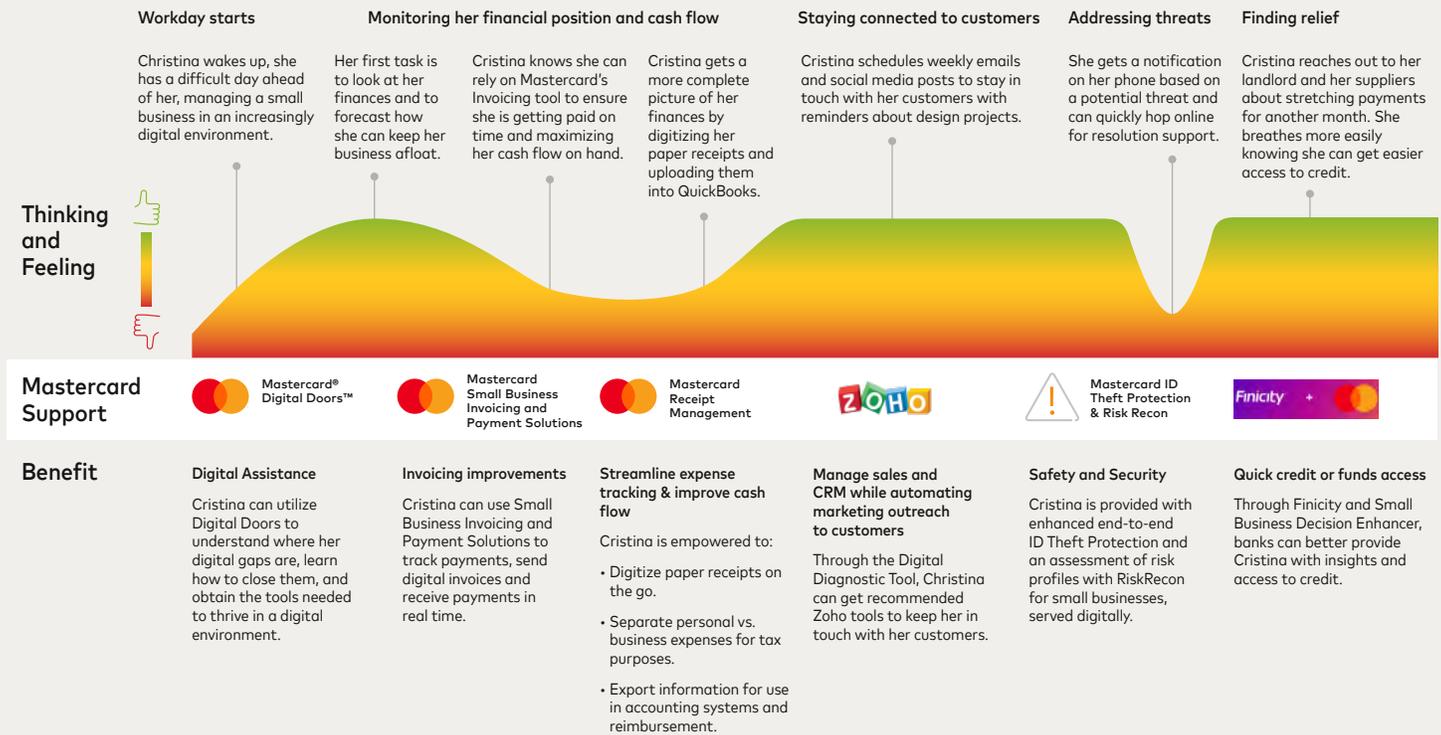


Digitization of the customer journey

Mastercard's vision is to help business owners derive the digital value they need across all aspects of running their business.



Cristina,
Interior Designer



Small businesses today are strapped for time and seek the necessary digital tools to help them throughout their day-to-day operations. Mastercard has a plethora of digital assets beyond the card that can help small business owners like Cristina navigate throughout their day. Whether it's seeking guidance and education from Digital Doors or utilizing our invoicing and Mastercard Receipt Management tools to manage her finances, Cristina can count on these solutions to keep her on track.

Mastercard is focused on enabling our partners and their small business customers to digitally transform. Of the 30 million small businesses in the U.S., close to 30% do not have an online presence. The Mastercard Digital Doors program that launched July 8, 2020, leverages our infrastructure, partnerships and network capabilities to provide a turnkey approach that can enable our clients and partners to help small businesses obtain a multi-channel presence with both a physical and digital storefront. Through our Main Street Resource Center, small business owners can access these tools and solutions directly to facilitate their transition to the digital world. We are particularly focused on delivering this program to minority-owned businesses who have greater gaps in digital enablement. Digital Doors aims to bridge this digital divide and include small businesses in the digital ecosystem.



SMB SECTOR ACUTE NEEDS

The needs of small businesses have not changed, but they have grown more acute because of the COVID-19 crisis. By acknowledging key pain points, we can better address their needs and seize the opportunity.



Operational efficiency

74%

of small businesses cite cash flow, providing timely payments, making payments on financial products, unpaid bills, making payroll and rent as current challenges.¹⁷



Digital enablement

67%

of small businesses want their primary financial institution to work more with financial technology providers to offer more innovative and helpful products and services faster.¹⁸



Safety and security

81%

of small businesses wish someone would proactively alert them to shifts in the cybersecurity landscape and best practices.¹⁹

17. 2020 North America Small Business Owner Comms Survey, Mastercard
 18. Aite Group. Seven Reasons Your Bank May Not Be Seeing Small Business Success Report 2019
 19. The Harris Poll on behalf of Mastercard October 8-16, 2019



The shift to digital commerce has accelerated this year, and these changes in spending will continue to persist.

COVID-19 has shifted cardholder expectations to demand digital solutions.

 \$3.3T

projected U.S. digital commerce spend by 2024²⁰

47%

growth in digital commerce projected through 2024²⁰



Changes to cardholder behavior are expected to continue post-pandemic

71%

of consumers say they are now using contactless payments²¹

77%

of consumers said they will continue using contactless post-pandemic²¹

40%

of consumers use guest checkout due to security concerns²²



Choosing security over convenience is still not a trade off cardholders are willing to make

54%

of online shoppers abandoned a cart due to long, complicated checkout or because they did not want to create an account²²

Our solutions enable you to support your small business cardholders as they shift to digital commerce



Tokenization (MDES & M4M)

ensures a more secure checkout and a better experience for small business cardholders, even if their cards are lost, stolen or expired.



Contactless provides faster and more secure payment options to small businesses, who are consumers themselves.



Click to Pay provides a streamlined, consistent and trusted payment checkout, so your small business cardholders can purchase digitally with ease.

20. Juniper Research, Digital Commerce: Digital Commerce Coronavirus Analysis Impact Assessments & Market

21. Consumer Polling Data: online interviews of 17,000 consumers in 19 countries worldwide conducted April 10-12, 2020; NAM stats only National Retail Federation, 3 ways the coronavirus is impacting consumers' shopping behavior, April 2020

22. Mercator: 2019 Customer Merchant Experience, August 2019



SimplyPayMe ecosystem

SimplyPayMe and Mastercard are exploring opportunities to become part of a larger payments platform and be the driving force behind a new ecosystem for the SMB and financial institutions.

The SimplyPayMe platform enables the SMB to:

- Take face-to-face instant payments
- Take payments over the phone via web application
- Receive payments via pay links in emails so customers can remotely enter their payment card information
- Simply record a cash payment for a job

The SimplyPayMe platform consolidates individual, overly complicated software solutions, which are targeted toward the SMB, and delivers them all in one innovative solution that the SMB can simply understand and operate.

The platform is available as a modular white-label solution for financial institutions across the globe, enabling them to best serve their SMB customer base while SimplyPayMe manages the entire end-to-end process on their behalf.

The solution allows banks, acquirers and payment companies to gain access to vast amounts of transactional and merchant data, allowing them to gain valuable knowledge and insight into their customers. It allows them to offer integrated invoicing and payment services via their own acquiring relationships, giving their customers fast and easy payments without the heavy transaction costs.

SimplyPayMe brings together multiple verticals in a flexible and scalable manner, allowing the business to maintain full end-to-end control and create the perfect combination of payment processors and tailored services to best serve the SMB community.

This approach allows SimplyPayMe to always remain relevant in any region in the world, because they implement the most appropriate local payment processors and widely accepted alternative payment methods in any given region (e.g., Alipay in a Chinese expansion or Venmo in the U.S.).

The SimplyPayMe platform, via its integrated automated channels and enablement tools, can facilitate the rapid acquisition of large numbers of SMB customers within a short period of time, providing a solution for both financial institutions and the SMB to address their different needs.

SimplyPayMe has developed and signed domestic and international distribution channels by, not only solving tangible problems for the SMB, but also solving the problem of how banks and financial institution can serve their SMB customers. This in turn gives SimplyPayMe access to multiple channels with hundreds of thousands of existing SMB merchants on an international scale.

The SimplyPayMe and Mastercard relationship

Together, both organizations are exploring opportunities which facilitate the:

- Simplification of funds collection for the SMB
- Implementation of multiple payment methods to augment Mastercard's cash displacement strategy
- Drive towards real-time payments
- Desire to ensure the SMB gains near real-time access to collected funds



Bringing Banking Business and Payments under the same roof is key to simplifying SMBs' lives. A full API integration, such as the one designed by OneUp, automates all essential business processes, like Accounts Receivable and Accounts Payable.

With this lasting COVID-19 crisis, SMBs need an online banking experience that gives them a direct overview of the health of their company and automates their day-to-day routine actions. OneUp and Mastercard are exploring opportunities to provide an end-to-end journey for SMBs to create and send digital invoices to their customers with payment requests and access to crucial managerial data in one click. The goal of this partnership is to deliver quickly on the Business Banking market, a new solution that will help all Mastercard business owners stay resilient by saving critical time and making better management decisions.

AI-based OneUp Business Assistant unifies Banking and Business under the same roof to simplify the lives of SMBs, and by fully integrating this API, Mastercard can radically transform the online banking experience for the better.

This Business Assistant allows the buyers to select the payment method, including real-time payment through Mastercard's payment gateway, so SMBs ultimately get paid faster. It also notifies users in real time when an invoice has been paid and automatically reconciles it with the associated payment.

When users receive a bill, they can either take a picture to record it or let OneUp Business Assistant extract the data (OCR – in case of a digital bill). Payables are instantly updated and users can directly pay their bills when they are due from OneUp Business Assistant with Mastercard Send. They receive a notification so they can pay on time and get rid of late fees.

Cash flow forecasting and all other dashboards are updated, giving business owners an accurate and real-time overview of their company's financial performance, so they can make quick and critical decisions on time.



Role of banks



Banks need to adapt and offer new Business Banking solutions if they want to retain their current customers, strengthen their digital usage and attract new clients. Banks need to invest and develop solutions that fit their SMB customers' actual needs by simplifying their A-to-Z experience. In these difficult times, SMBs need the help of banks to survive and remain resilient with easy-to-use solutions.

Unifying Business and Banking under the same roof — in an automated one-stop-shop digital platform — enables the SMBs to access both financial and accounting tasks in one click.



Banks need to come up with AI-based solutions that combine core banking data and SMB business data to provide small businesses with the useful insights they need to improve their efficiency. Only with a unique online banking experience that provides direct insight into the state of their business will entrepreneurs save time and make better managerial decisions.

New banks' opportunity



Banks can offer a unique end-to-end experience to their business customers by integrating third-party accounting solutions or leveraging external fintech APIs. They could also choose to develop their own products in house, but the risk is to deliver solutions in years and not in weeks as required by the market.



SMBs need affordable and flexible online banking solutions, but most importantly, they require real-time and trustable business financial data. It is the only way they can succeed, grow, and even exceed their goals. Banks can reduce synchronization risks to make a real difference with the quality of the data the business owners can benefit from by choosing to fully integrate an external API.

A risk-averse strategy



A fully integrated external API approach, such as the one proposed by OneUp, reduces these risks and ensures truly reliable data.

In most cases, financial institutions don't offer such integrated solutions for their SMB customers, who therefore need to partner with third parties to meet their business management needs. In a way, banks are inviting these accounting providers to the banking industry. They are "letting the fox guard the hen house."



Banks and credit unions are generally trusted by their customers because of the strong relationship they share. Nevertheless, they risk losing this advantage if they don't focus on improving their SMB customers' services and relationships.

Business banking needs to change now. One-stop-shop platforms, such as OneUp, are already taking the lead in the future of online business banking.



Mastercard is collaborating with ZOHU to offer small businesses a comprehensive suite of business software, enabling proactive management of every aspect in the business invoicing lifecycle.

Small and medium-sized businesses contribute majorly to the growth of an economy. Yet with resources and tight budgets, many small businesses continue to struggle with their invoicing operations. Whether it be invoicing through spreadsheets and paper-based methods or struggling to optimize an invoicing software solution, small businesses have been forced to adapt to digital modernization. Rapid digitization has only intensified within the last few years, creating a wider range of invoicing challenges for small businesses.

According to a BizSugar survey, 36% of SMBs manage their business finances manually or on paper.²³

To accelerate digital invoicing, which addresses a crucial merchant need, drives stickiness for financial institutions, unlocks new revenue streams and delivers tangible benefit, here are some features that Zoho is exploring with Mastercard in the payment space:

1. Digitize Invoicing

It's no secret that digitization has rapidly increased in the last year and a half and invoicing is no different. When shifting from manual and paper-based methods to cloud-based invoicing software, SMBs will reap the benefits of slashing time spent on invoice creation, eliminating copying and pasting, and generating fewer errors. Online invoicing software allows business transactions to be uploaded and available at any time, which enables businesses to have complete audit trails of their accounts receivable. It also allows companies to create tasks such as issuing refunds by optimizing the time it takes to send estimates. Having items readily updated, recorded and accessible will allow for efficiency and more accurate information, a critical requirement when dealing with finances.

2. Invoice Automation

If a small business has already digitized their invoicing, automating (when possible) will eliminate busy work. Businesses can automate recurring features, such as payment reminders, and recurring invoices. To take it a step further, recurring payments from customers and recording recurring expenses can also be automated for efficiency. Automation drastically reduces time spent on invoicing in other ways like turning an estimate into an invoice, converting time entries into bills, re-billing an expense in one click, all without having to re-enter information.

3. Bringing Mastercard's Instant Funds Transfer

In a traditional office setting, more information is exchanged through face-to-face interactions. With the pandemic spurring work from anywhere, many businesses have struggled to keep collaborative efforts as strong as they were in person. Manual methods only increase collaboration difficulties with copy and pasting, attachments, and more. Businesses should seek invoicing solutions that allow for easy collaboration, such as comment sections and payments. By using a platform that includes built-in collaborative features, employees can work alongside one another and enhance productivity. Small businesses that have easy access to capital have peace of mind that allows them to focus on their business performance.

Another critical challenge of sharing information like sending checks is long waiting time and privacy.

To grow and scale, SMBs must modernize all aspects of their business, and invoicing is no different. Unfortunately, that can be difficult with limited budgets and resources, which are even more heightened from economic setbacks caused by the pandemic. But with digitizing invoicing, small businesses can focus on automating and creating better customer experiences, all without adding budget or staff. Seeking out a solution that aligns with the needs of a small business, will allow for innovation and growth on a larger scale.

23. BizSugar, How Does Your Business Handle Invoicing? July 23, 2021



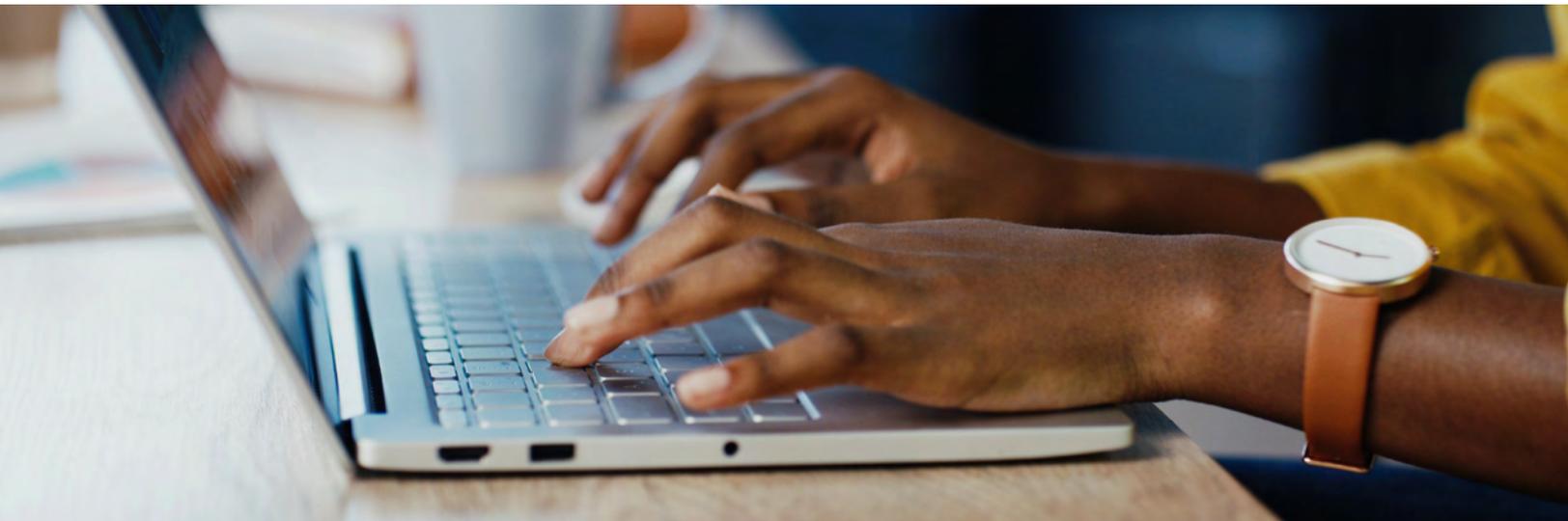
Making and receiving payments has never been easy for SMBs. And things are getting harder these days.

22% of accounts payable leaders surveyed recently by the Institute of Finance and Management (IOFM) say that it's harder to pay suppliers on time when their staff works remotely.²⁴

Things aren't any easier for suppliers. Half of accounts receivable leaders are less than satisfied with how their payments and receivables processes have worked during the pandemic.²⁵

Friction in the SMB payments lifecycle cannot be blamed solely on paper checks. Today, SMBs have access to more electronic payment options than ever, including virtual cards, Automated Clearing House (ACH), real-time payments (RTP), Mastercard Send, and cross-border payments. And 65% of businesses have accelerated their migration to electronic payments since last year.²⁶

The reality is that friction in SMB payments is rooted in matters of Business Financial Solutions and software integration.



The importance of the Business Financial Solution to SMB payments

One of the fundamental problems with SMB payments is the way that they have historically worked. The tendency for SMBs has been to originate and receive payments using closed-loop systems at different points across the supply chain, such as in accounts payable and accounts receivable.

Each of these systems requires its own logins and passwords, account requirements, file formats, and proprietary integrations. The result is inefficient and error-prone communications such as paper checks and remittances, email and faxes, phone calls, portals, and electronic data interchange (EDI).

More significant than the disjointed processes, however, are the fragmented data accessibility and visibility that accompany the silo approach that most businesses take to payments. Considerable volumes of payments data are held in stand-alone systems. The problem with poor integration across the SMB payments lifecycle is reflected in the huge amount of manual keying, paper shuffling and chasing down of information that occurs across the procure-to-pay and order-to-cash lifecycles.

24. Institute of Finance and Management, Virtual Town Hall Meeting, 2020

25. Institute of Finance and Management, Online Survey, 2021

26. Institute of Finance and Management, Virtual Town Hall Meeting, 2021



Making and receiving payments using poorly integrated point solutions is a big headache for SMBs.

Burdensome processes. Making payments is hard for most businesses. Once an invoice or expense report is approved, staff must print paper checks, attach the corresponding invoice, get the signature of the appropriate person, generate a remittance document, stuff and mail the check and remittance details, and manually reconcile payments as they clear. Paying suppliers electronically through point solutions isn't much easier; Staff must log into multiple systems or bank portals to execute electronic payments, check the payment terms for each supplier, generate and email remittance details, and roll up the various bank statements and spreadsheets for reconciliation. Cross-border payments bring even more complexity.

Limited payment options. Point solutions weren't built for payments processing. They were built for procuring goods and services, or processing invoices or applying cash. That's why most of them offer limited options for making and receiving payments. The problem is that customers want to pay and get paid in their preferred format, and they are willing to hold up payments or take their business elsewhere if they don't get the experience they expect. Things get trickier for SMBs when it comes to making and receiving cross-border payments.

Slow cash conversion cycle. Getting money in the bank is only part of the equation for receivables departments. They also must match payments with remittances, key remittance details, apply cash against open invoices, and resolve the inevitable exceptions. All these manual processes contribute to more customer disputes and write-offs, unapplied cash, delays in clearing credit holds, and unnecessary collections actions on unprocessed receivables.

Late payments. Most suppliers experience late payments from customers, creating cash flow issues. While some late payments can be attributed to customers' inability or unwillingness to make timely payments, other late payments are the result of confusion about the supplier's payment terms. The root of the problem is that payment terms are typically managed in an organization's Business Financial Solution, not in the point solution that it is using to make payments to suppliers.

Reconciliation is a burden. The more stand-alone systems that an SMB uses to make and receive payments, the bigger the reconciliation burden. Getting to the bottom of things might require finance staff to log into multiple systems and portals and compare payment data to a bevy of bank account statements or spreadsheets. Discrepancies between the bank statement and the point solution may require days of back-and-forth emails and phone calls to sort out.

Lots of complexity. Every SMB wants to do more with less. But the more systems an SMB uses for making and receiving payments, the bigger the operational and security burden.

Poor integration between payment systems and the Business Financial Solution and other systems of record is a bit of a surprise when you consider the importance of the Business Financial Solution in the scheme of things. The Business Financial Solution is the financial nerve center of the enterprise; it collects, processes, manages and stores data for SMBs. Many SMBs invest heavily in a Business Financial Solution to manage their core operations. SMBs have tried to bridge the integration gap between their payments systems and Business Financial Solution and other systems of record through manual inputs, file uploads, complex integrations and other means. But getting things working together using these types of workarounds is complex and costly. Embedded payment solutions offer SMBs a solution.



What is an embedded payment solution?

Mastercard and Transcard are exploring opportunities for embedded payment solutions that will create an end-to-end platform for making and receiving payments of any type, digitally exchanging invoices, e-signatures and rich remittance details, and onboarding trading partners.

Embedded payment solutions will use Business Financial Solutions and bank connectors to facilitate the seamless electronic flow of payments and related information from within any Business Financial Solutions platform or line-of-business software.

The technology's multi-rail capabilities will make it easy for buyers and suppliers to disburse or receive payments in any format. Payments can also be initiated or received via a business network of buyers and suppliers. Payments can be sent or received instantly or scheduled in advance to one or more suppliers within a buyer's Business Financial Solutions platform. Embedded solutions ensure that payments are made in the supplier's preferred format and that they comply with the supplier's payment terms maintained in the Business Financial Solution. And rich remittance details flow electronically with payments, allowing for real-time reconciliation and the elimination of the manual tasks that burden accounts receivable and accounts payable staff.



Transcard offers SMBs a suite of embedded payment solutions



SMART Hub enables users to instantly initiate or schedule single or mass payments of any type to suppliers and individuals from within the familiar screens of their Business Financial Solution in just a few clicks. SMART Hub supports payments of any type (e.g., ACH, RTP, card and Mastercard Send), using any payment rail (including real-time rails) from any originating bank account. Real-time graphical dashboards display pending, in-process, and completed payments. And historical payment information can be queried using intuitive search criteria.



SMART Disburse integrates directly with any legacy software, Business Financial Solution or bank API layer to provide a seamless environment for disbursing single or mass payments. SMART Disburse supports more payment types and payment rails than any system of its kind and can integrate with the payment rails and APIs of any bank. Users can schedule or instantly make payments via ACH, RTP, card, Mastercard Send, and many other payment methods. Embedded payments capabilities enable users to effortlessly disburse funds directly from the familiar screens of their legacy software or Business Financial Solution platform using drop-down menus and a few clicks. Direct integration allows for the automatic real-time reconciliation of payments data, eliminating the need to re-key payments data or to log in and out of multiple systems. SMART Disburse is perfect for businesses in any vertical and ideal for a range of payment applications, including supplier payments, payroll, patient refunds, emergency payouts, dividend payments, reimbursements, rebates, legal settlements, claims payouts and more. A future version will release payments to suppliers automatically as contract milestones are hit.



SMART Collect provides a platform for presenting bills to customers, collecting digital signatures, and facilitating payment via RTP Request for Payment, rapid merchant settlement, and other payment methods. Payments received through SMART Collect are automatically reconciled in real time. Beyond a Business Financial Solution, SMART Collect can be embedded in an electronic invoice presentment and payment (EIPP) solution, making it possible for an SMB to use a single platform to present invoices and receive payments of any type. Embedding SMART Collect in an EIPP solution extends the value of electronic invoicing.



SMART Exchange is an account-to-account (A2A) payments automation solution that digitally connects buyers and suppliers of all sizes through their Business Financial Solutions and banks. SMBs can use SMART Exchange to request or make payments in real time or to schedule them to be made later using ACH, RTP, card, Mastercard Send, cross-border, or other payment methods. Mastercard's online business directory manages each trading partner's payment preferences and payment terms. Because SMART Exchange is directly integrated with the Business Financial Solution used by each trading partner, rich remittance data flows touch-free, and settled transactions are automatically reconciled in real time without the need to reassociate payments and remittances or match payments to open invoices. Transcard's pre-integrated SMART Hub solution makes it easy to onboard and register trading partners for SMART Exchange. Intuitive screens guide suppliers and customers through the process of submitting the information required to onboard, vet, register and setup SMART Exchange users. The onboarding process can be configured based on industry requirements and business need. A future release of SMART Exchange will support supply chain financing for qualified buyers.

Transcard's SMART Disburse, SMART Collect, and SMART Exchange can be accessed from the SMART Hub graphical dashboard when enabled. This means that an SMB can be onboarded once and leverage multiple electronic payment automation capabilities from a single end-to-end platform.



How SMBs benefit from embedded payments

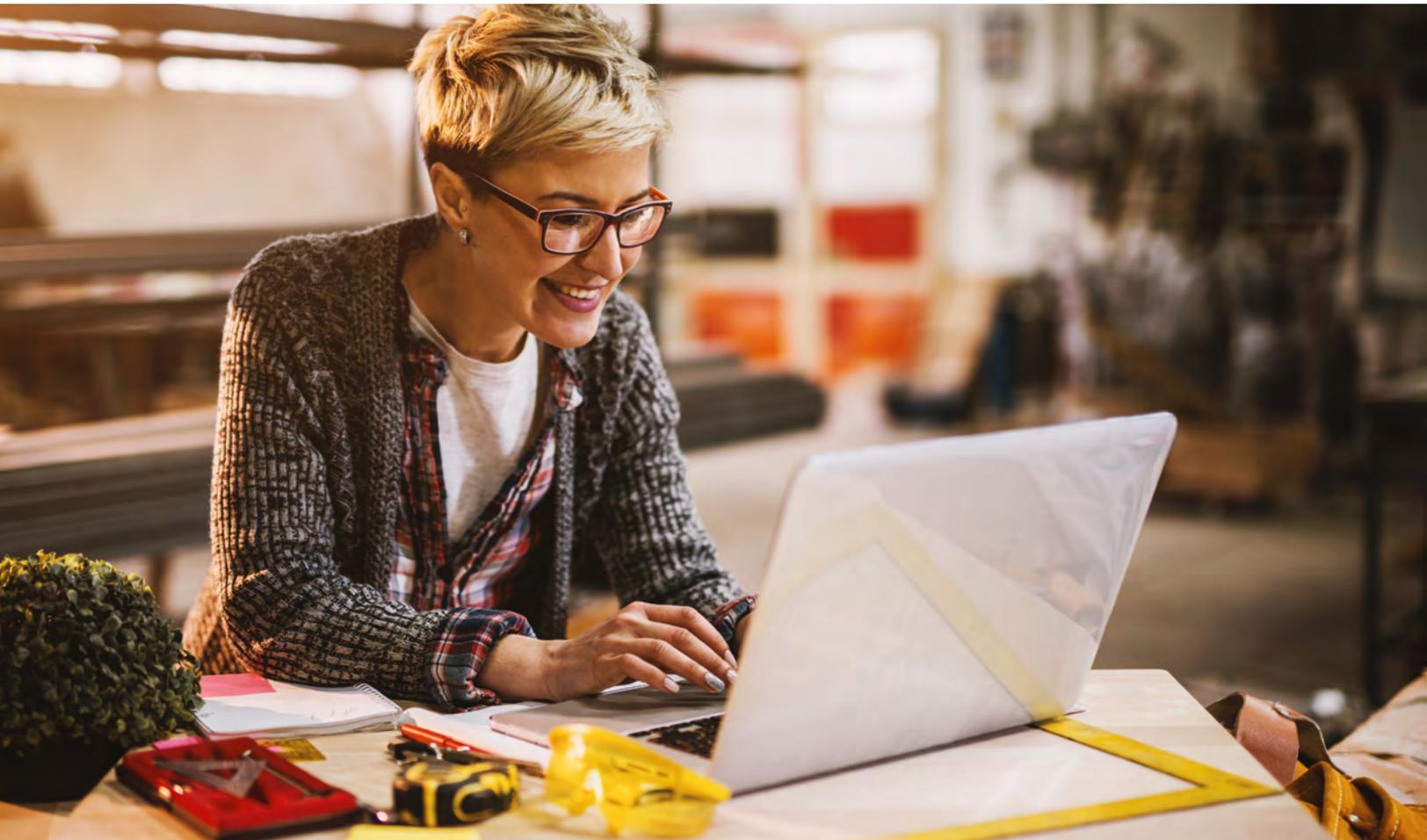
Embedded payment solutions offer SMBs a better approach to payments than point solutions.

Make and receive payments anywhere and at anytime. Embedding a payments solution with multi-rail capabilities into an SMB's Business Financial Solution makes it easy to receive payments virtually. Similarly, by leveraging the data that resides in a Business Financial Solution, embedded payments solutions make it possible to disburse funds instantly or at a scheduled time (such as a supplier's payment terms) to a single individual or lots of suppliers with just a few clicks and using the familiar interface of their organization's Business Financial Solution.

Access to capital and credit. Connecting buyers and sellers through a payment solution embedded in their Business Financial Solution eliminates friction in the flow of cash. For instance, transactions are reconciled in real time, making it possible for SMBs to apply cash faster while achieving better visibility.

Digital enablement. The onboarding tools built into embedded payment solutions lower the hurdles to migrating partners to electronic payments.

None of this is possible when SMBs use stand-alone point solutions to make and receive payments.



The SMB segment is ripe for innovation. Mastercard and its partners are jointly working to address SMB pain points, modernize SMB business processes with electronic payments, and ensure faster access to working capital. We are looking at innovation in the following areas:

Rapid SMB merchant acquiring account issuance

The current process takes about two to three weeks of due diligence by the Merchant account issuer to complete their due diligence and issue a unique merchant account where an SMB's card payment transactions would settle into. Mastercard and its partners are looking to smart data and machine learning techniques to help conduct more accurate and faster due diligence in just few minutes.

Rapid merchant settlement enabled via Mastercard Send

Mastercard is enabling rapid merchant settlement for eligible transactions so that, irrespective of the funding method of the transaction, settlement into an SMB's bank account can take place in minutes as opposed to days.

Multi-channel electronic invoice presentment support

Consumers want choice when it comes how they make payments. Mastercard has developed capabilities where based on the consumer's device, consumer preferences and other factors, consumers will have the choice to make payments directly from a browser, SMS application or mobile banking app.

SMB financing and access to credit

Mastercard has assets in the areas of open banking where an SMB's bank account details can be fetched by a lender (authorized by SMB) to make lending and credit decisions.

Reusable KYB data using blockchain and smart contract

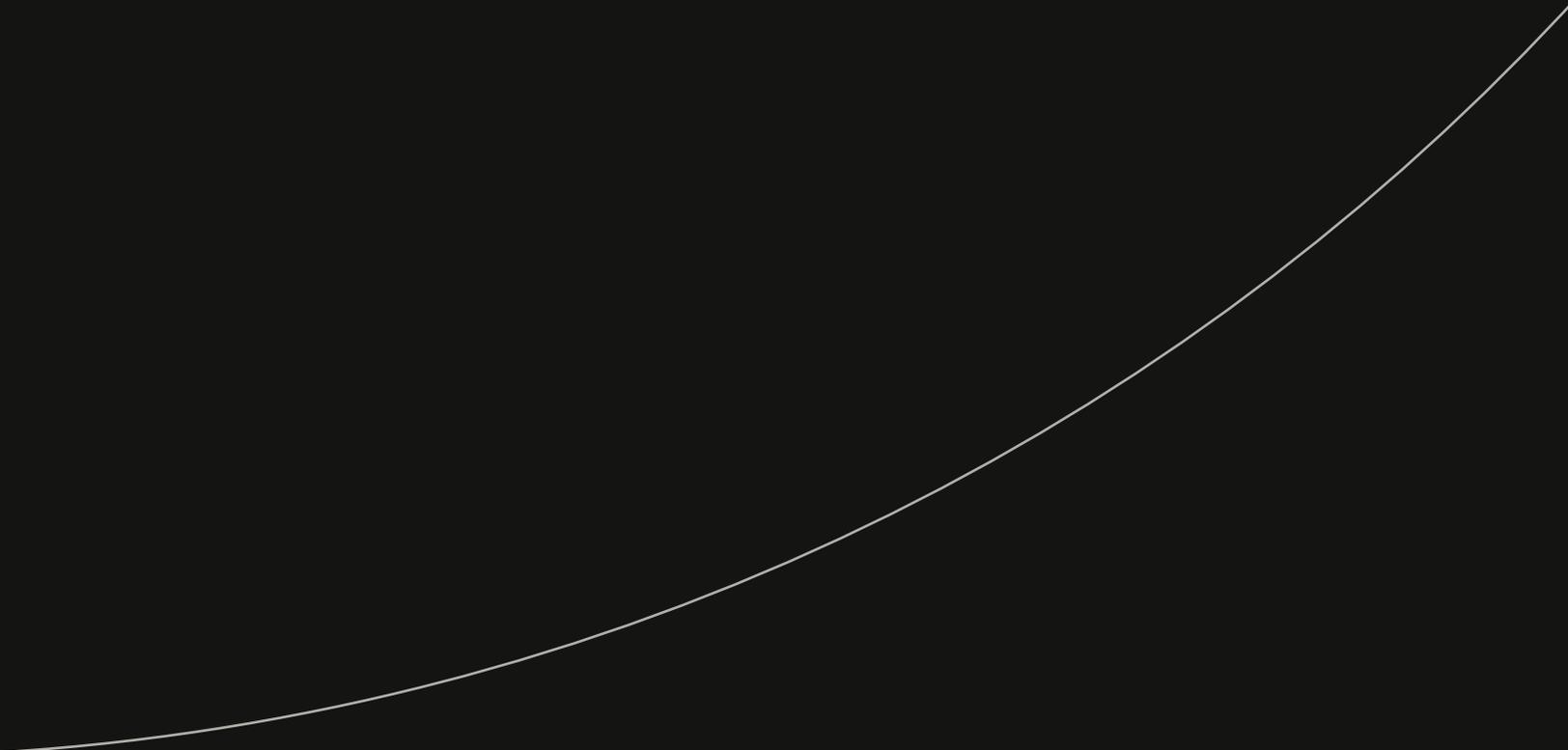
We continue to assess inherent properties of blockchain, such as data immutability and instant settlement capabilities of a stable coin cryptocurrency, to come up with innovative ways of reusing KYB checks and payments.



GLOSSARY

API	Application programming interface is a software intermediary that allows two applications to talk to each other.
Consumer Bank	Consumer using their personal banking account to make payments to the SMB.
KYB/C	Know your business/customer. Regulatory checks which need to be undertaken on a merchant to ensure their identities are known and validated.
SaaS	Software as a service — a method of software delivery that allows data to be accessed from any device with an internet connection and a web browser.
SDK	Software development kit — A set of software tools and programs used by developers to create applications for specific platforms.
SMB	A small or medium business with fewer than 250 employees.
SMB Bank	Small Business using their commercial banking account to manage their finances.





Mastercard, Mastercard Send, and the circles design are registered trademarks of Mastercard International Incorporated.
© 2022 Mastercard. All rights reserved.