



**Britainthinks**

Insight & Strategy

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## PSR | SMEs Payment Research

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December 2021

# Contents

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**01**

Objectives & methodology

**02**

The context of the SME population

**03**

SMEs' overarching payment behaviours and priorities

**04**

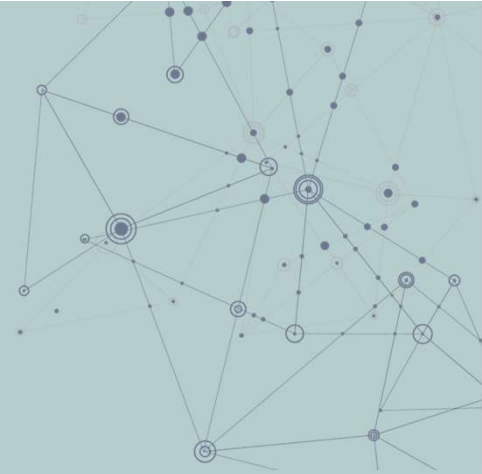
Deep dive into SMEs' experiences of specific payment systems

**05**

Understanding and views of future payment trends

# 1 Introduction

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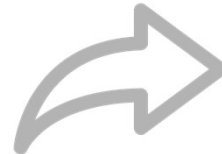
# Background and objectives

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- The PSR is seeking to update its understanding of SMEs' attitudes, behaviours and priorities in relation to payment systems, in order to inform its communications, engagement and policy.
- Building on benchmarking research conducted with SMEs in 2019, this research specifically sought to explore and unpack:



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



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



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

# This presentation draws on two phases of research

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## Qualitative deep dive



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

## Quantitative survey



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

# Phase 1 – Qualitative deep dive

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- The qualitative phase sought to explore starting views, behaviours and priorities, generate rich case study content to bring to life SMEs and their needs, and inform the quantitative questionnaire design.
- Qualitative fieldwork was conducted remotely with SMEs and trade bodies throughout October 2021 and comprised a mix of focus groups and depth interviews:

## 14 x 90-minute focus groups

- Covering 44 SMEs in total:
  - 18 micro (0-9 employees)
  - 9 small (10-49 employees)
  - 9 medium (50-249 employees)
  - 4 accepting/making international payments
  - 4 in rural areas with limited internet connectivity
- Split by payment type:
  - 12 accepting card
  - 12 accepting cash and not card
  - 12 accepting neither cash nor card
- Covering 7 geographic locations: Belfast, Colne, Newport, Birmingham, London, Brighton and Edinburgh

## 4 x 45-minute depth interviews

- Each conducted with a representative from a different trade body
  - Sampled to cover a spread of sectors (e.g. retail, construction, finance)
  - Including some stakeholders of the PSR
  - Long list of names signed off by the PSR

## Phase 2 – Quantitative validation

- The quantitative phase sought to quantify the qualitative findings, and allow for more robust analysis of SMEs' attitudes, behaviours and future needs.
- Quantitative fieldwork took the form of an online survey of 1,038 micro, small and medium businesses with 0-249 employees across the UK conducted between 18<sup>th</sup> and 30<sup>th</sup> November 2021.

Quotas were placed on size of business to ensure a good spread within the sample, and the data has been weighted by business size and region to be nationally representative of the small business population based on BEIS' Business Population Estimates 2021.



- However, the data is not weighted by other factors (e.g. sector, age of business, or usage of payments), meaning that it should only be taken as indicative rather than totally definitive of the UK small business population.
- Some questions in the survey were only asked to certain groups of businesses where it was relevant to do so, for example, only asking about the experience of card payments to those businesses who accept card. In these cases the base size will be smaller than the total of 1,038, however is still large enough to draw meaningful insights.



Key changes against the 2019 data are signposted throughout the report.

# Key findings

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1

**SMEs remain a very heterogenous population**, but the majority are very small, a significant minority are dealing only with other businesses rather than individual consumers, and fewer than half are sufficiently professionalised to have a business banking account (rather than a personal account for business use) or book-keeper/accountant.

2

**The trend towards digital payments for SMEs has continued and been accelerated due to the pandemic.** This is exemplified by the significant increase in those accepting card payments since 2019 and a growing sense that some SMEs now feel more empowered to assert their own preference for accepting digital payments.

3

**Digital interbank payments – grouped together in SMEs’ own words as ‘bank transfers’ – are by far the most used and favoured method by SMEs.** They are seen as reliable, quick and low or no cost, though there is appetite for more innovation around RtP to reduce reliance on customers instigating payments in a timely way.

4

**SMEs now tend to be more engaged with, and confident talking about potential future trends in payments.** In particular, they tend to be more confident talking about innovations in digital payments, such as digital wallets, and a wider group of SMEs can recount a much broader range of payment brands.

5

**SMEs welcome work to reduce card fees and to tackle fraud**, both of which are more likely to be prioritised over access to cash.



## 2 The context of the SME population

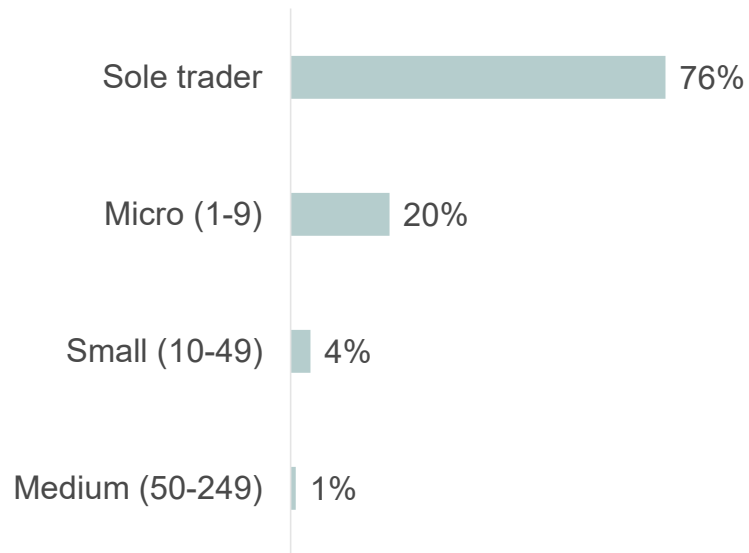
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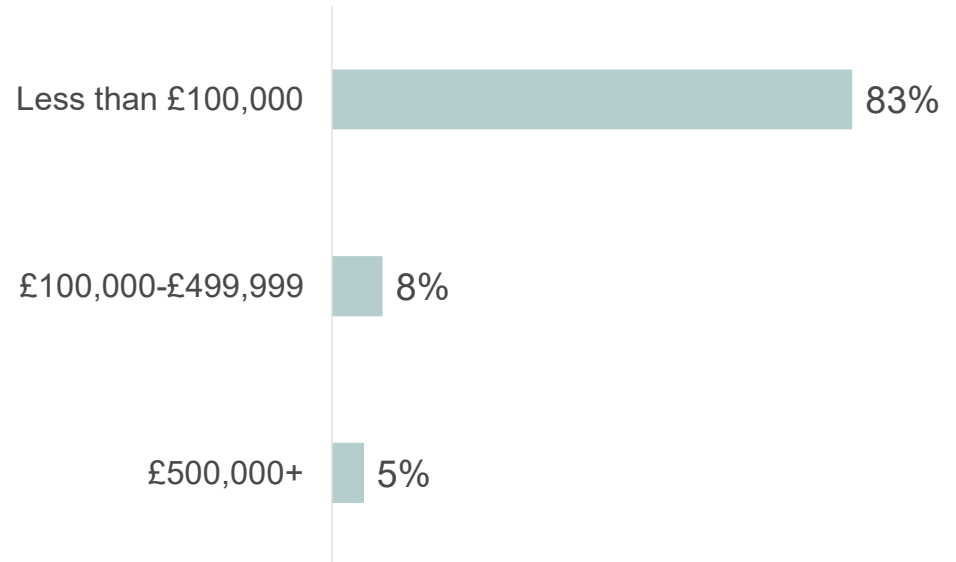
## Reminder of SME population

# The vast majority of SMEs are very small organisations, with a small turnover

*Breakdown of SMEs by number of employees*



*Breakdown of SMEs by turnover last financial year*



D3. How many employees, if any, does your business have? Base: All respondents (n=1,038)

D4. Approximately what was the turnover of your business in the last financial year? Base: All respondents (n=1,038)

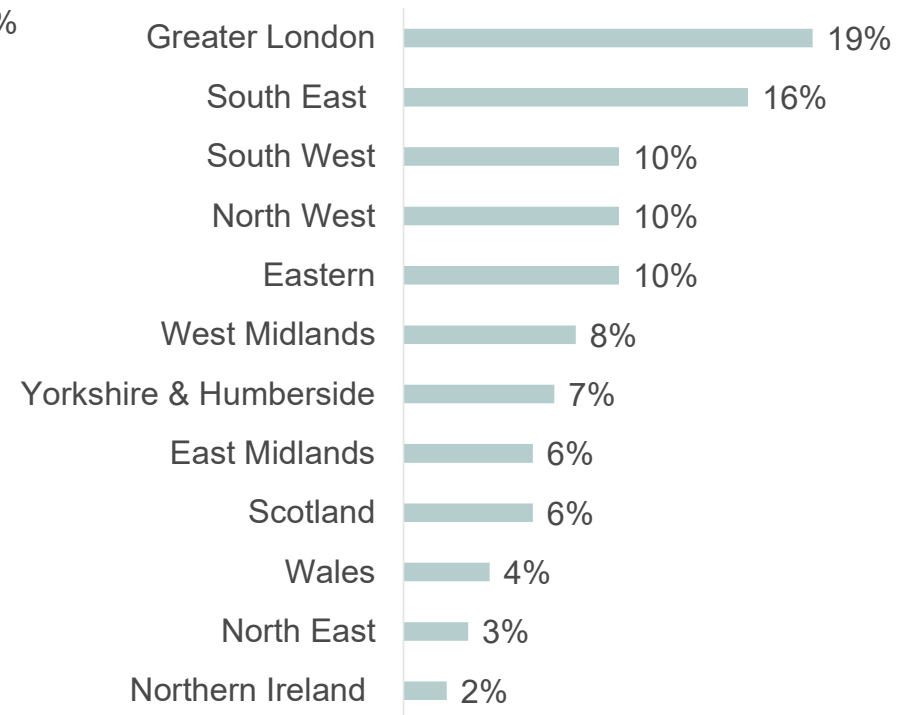
## Reminder of SME population

# SMEs are very heterogeneous in terms of business activity and location, though more than a third are in London/the South East

*Breakdown of SMEs by sector*



*Breakdown of SMEs by region\**



D2. Please select the main activity of your business. Base: All respondents (n=1,038)

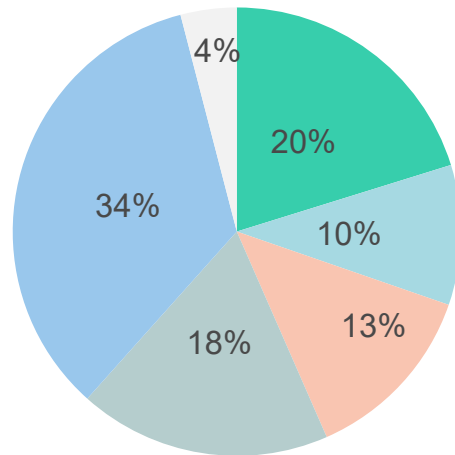
D5. Which of the following describes where your business is located? Base: All respondents (n=1,038)

\* the data has been weighted by region to be nationally representative of the small business population based on BEIS' Business Population Estimates 2021.

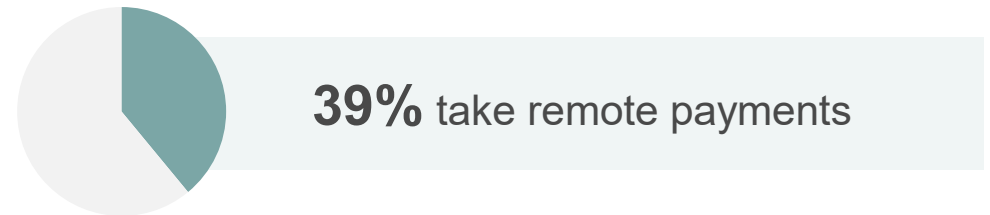
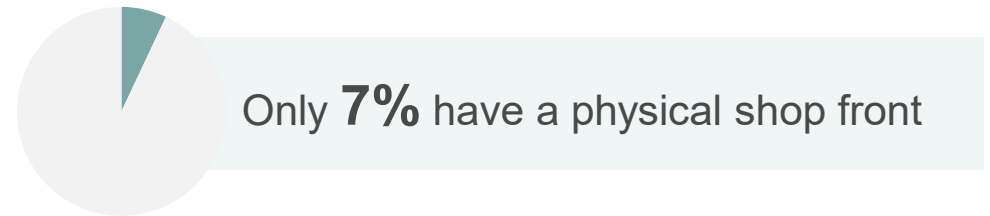
## Reminder of SME population

# At more than two in five, a significant minority of SMEs are dealing largely with business customers rather than consumers

*Breakdown of SMEs by customer type*



■ Exclusively B2B   ■ Majority B2B   ■ Equal mix  
■ Majority B2C   ■ Exclusively B2C   ■ Don't know

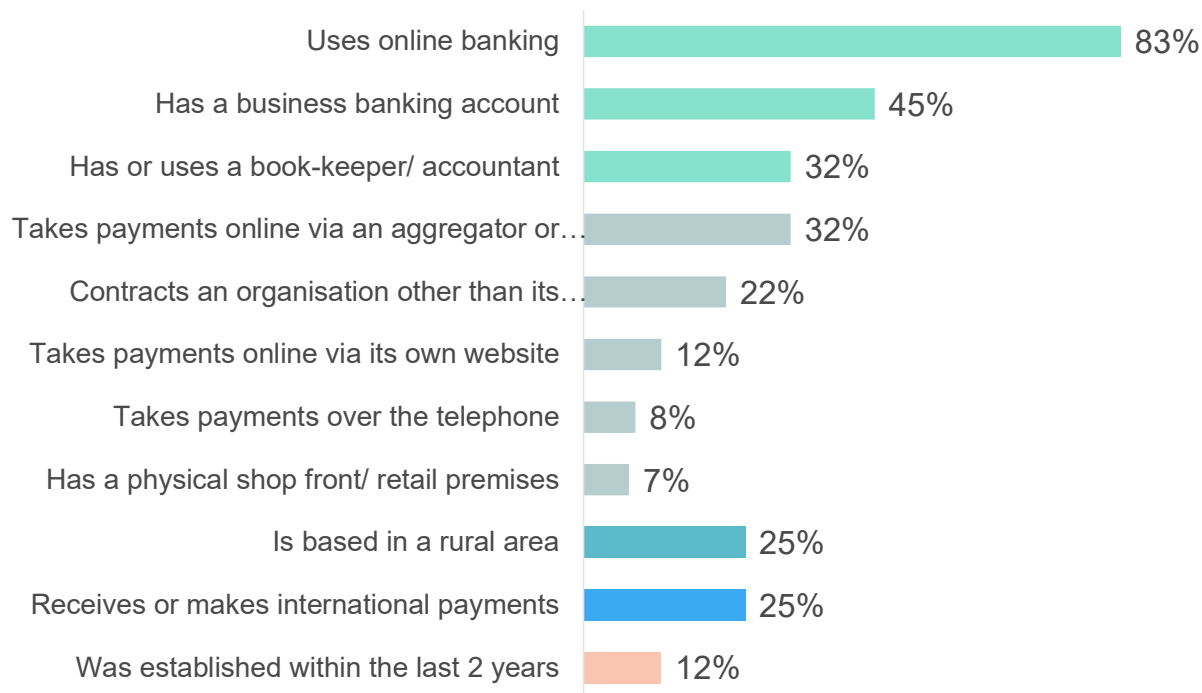


D6. Which of the following best describes your business? Base: All respondents (n=1,038)

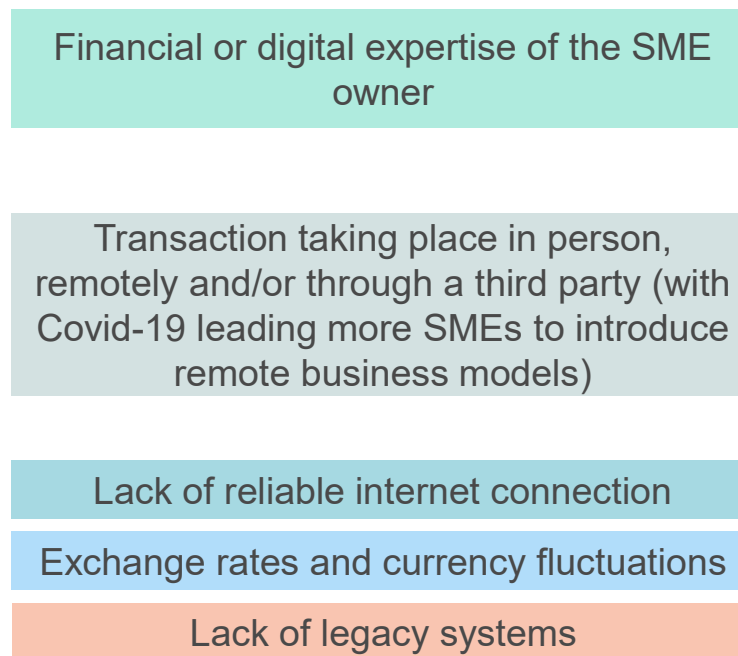
D7. Which of the following applies to your business? My business... Base: All respondents (n=1,038)

# There is significant variation in the professionalisation of SMEs in relation to their finances, as well as a number of other key factors that affect how they engage with payments

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



*Payments affected by...*



D7. Which of the following applies to your business? My business... Base: All respondents (n-1,038)

# While much holds true about the SME population since 2019, qualitatively, there seems to have been a shift in how SMEs are approaching payments, with greater confidence and engagement

The trend towards digital payment has long been recognised by SMEs, but there is a sense that the pace has picked up in the past 2 years.

- SMEs reference the effect of the pandemic – putting pressure on customers and businesses to use card, rather than cash.
- Qualitatively there is more widespread recognition of fintech and other emerging providers and trends, e.g. SMEs in Northern Ireland talking about challenger banks like Starling in this year's research, where previously these would have been mainly mentioned by those in the South East.

*“Since lockdown people are just looking to tap... everyone is paying with their phones really with Apple Pay, as there is no limit.”*

International payments, depth



Consequently, some SMEs seem to feel more engaged with, and empowered in relation to, payment systems and methods now than they did 2 years ago.

- For example, SMEs now more readily express their own preference for payment methods, whereas in the 2019 research they were often taking a very passive approach, driven by customer preference.

*“Cheques will go before cash. That's the one I'd like to phase out.”*

Birmingham, small

A network diagram in the top right corner of the slide, consisting of numerous small circular nodes connected by thin lines, forming a complex web of connections. The nodes vary in size and some have internal patterns, suggesting a hierarchical or interconnected structure.

# 3 SMEs' overarching payment behaviours and priorities

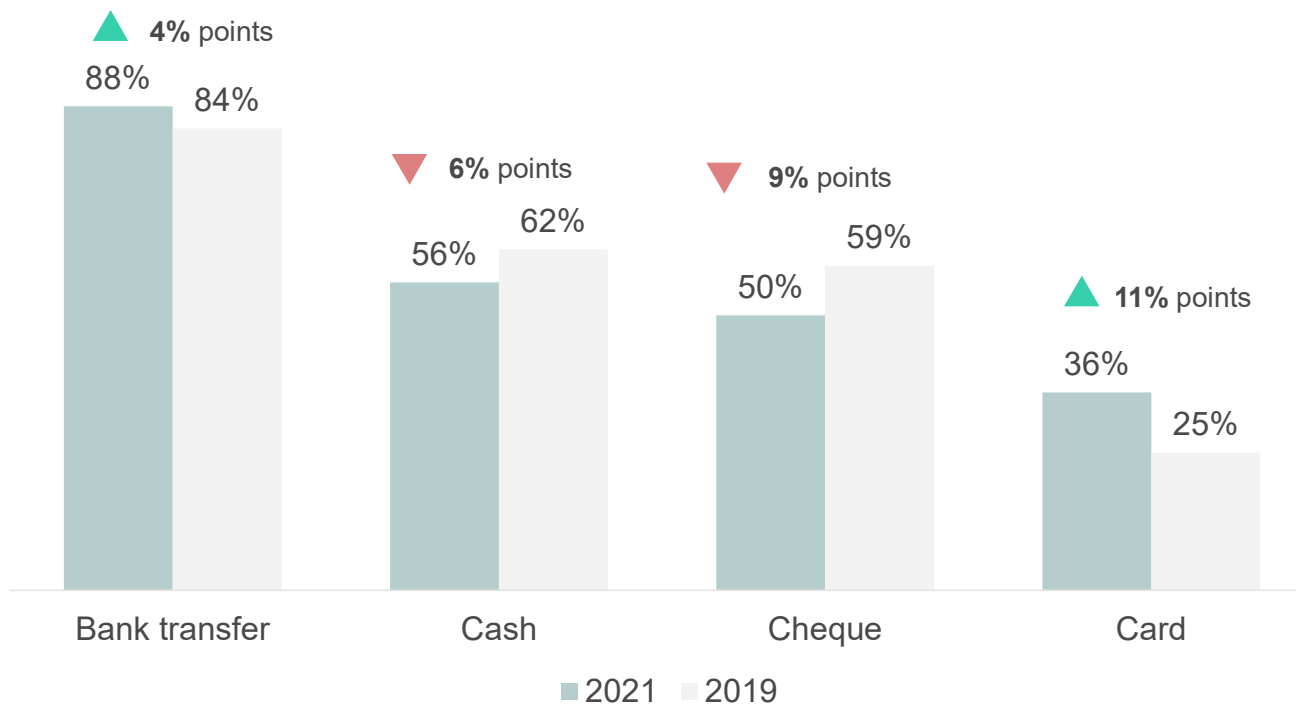
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## A note on terminology

This report uses the catch-all term “bank transfer” to refer primarily to BACS and Faster Payments (but including other forms of interbank payment e.g. CHAPS). This reflects the language SMEs use themselves to describe these forms of payment, and views of specific forms of interbank payments are explored in further detail in the next section.

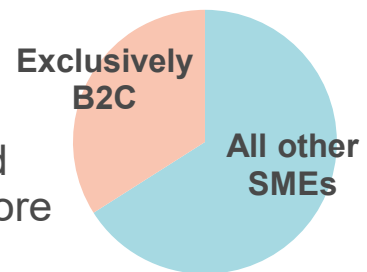
# The proportion of SMEs accepting 'bank transfer' but particularly card has increased since 2019, while cash and cheque acceptance has decreased

% of SMEs who accept the following payment methods



'Bank transfer' remains by far the most commonly accepted payment method for SMEs.

- This can be explained by the large majority of SMEs having at least some business customers (66%) – for whom invoicing and digital interbank payments are the norm.
- Whereas more instantaneous methods and particularly card are felt to be more appropriate for B2C transactions.

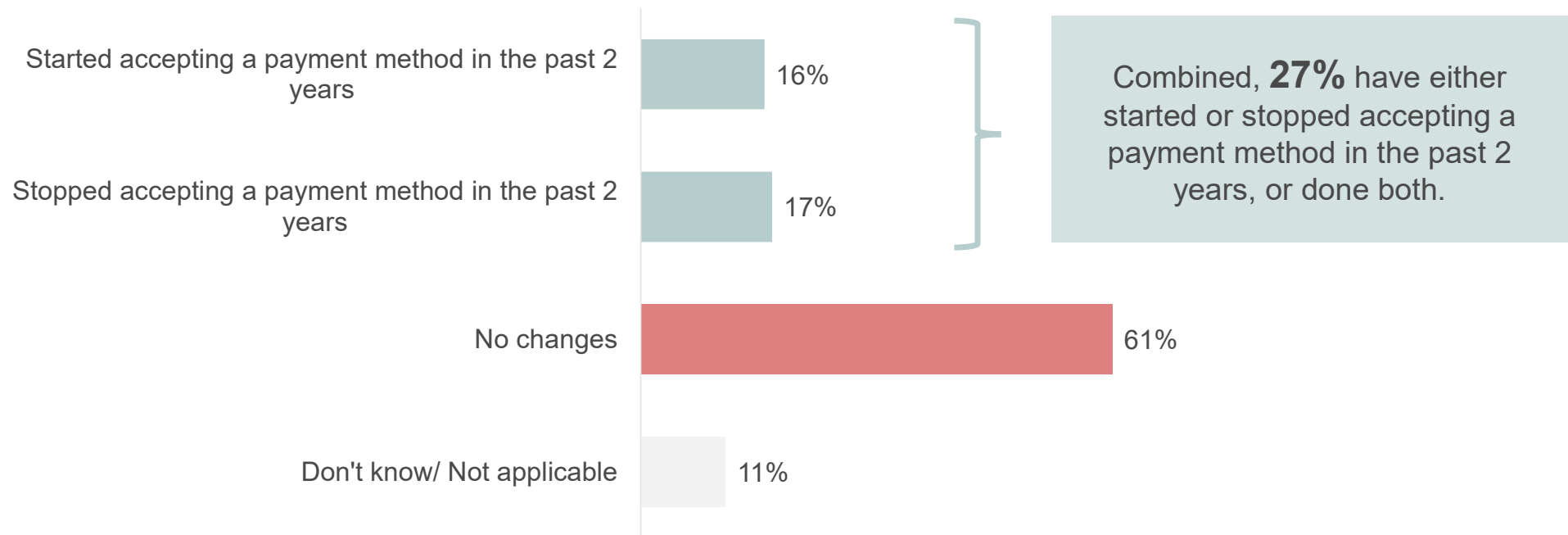


Q1a. Which of the following payment methods do you accept in your business? Base: All respondents (n=1,038)



# At more than a quarter (27%), a significant minority of SMEs have made changes to the payment methods they accept in the last 2 years

*% of SMEs who have made changes to payment methods they accept in the past 2 years*

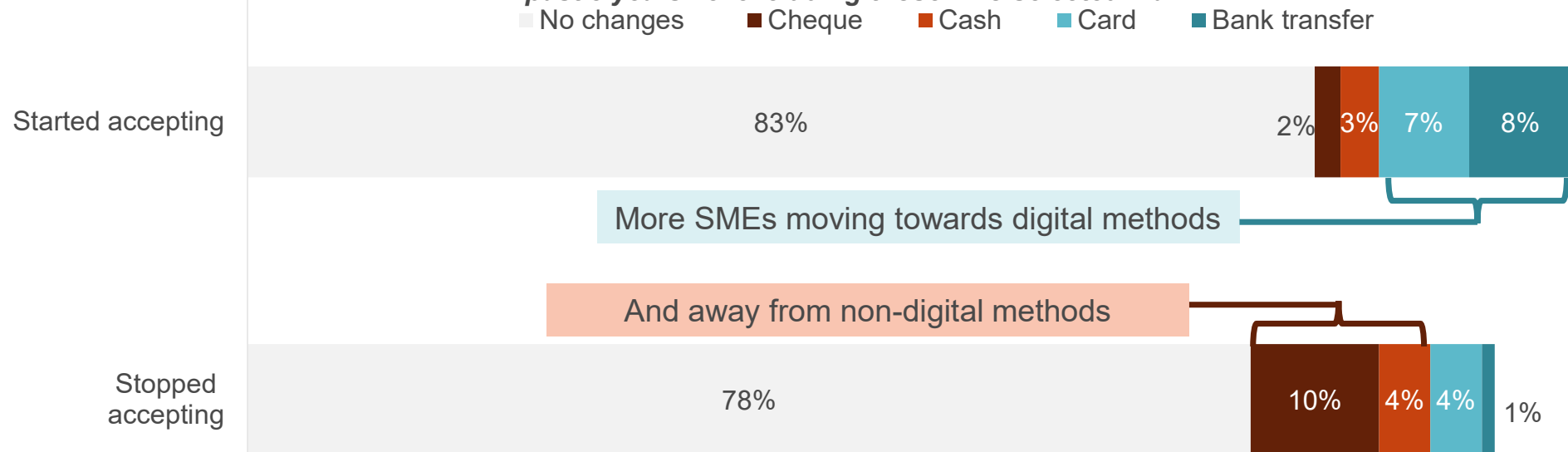


Q2. In the past 3 years, which payment methods, if any, has your business stopped accepting? Base: All respondents (n=1,038)

Q4. In the past 3 years, which payment methods, if any, has your business started accepting? Base: All respondents (n=1,038)

# The most common changes made over the past 3 years reflect, unsurprisingly, a shift towards more digital methods

% of all SMEs who are aware if they have started and stopped accepting each payment methods in the past 3 years i.e. excluding those who selected n/a



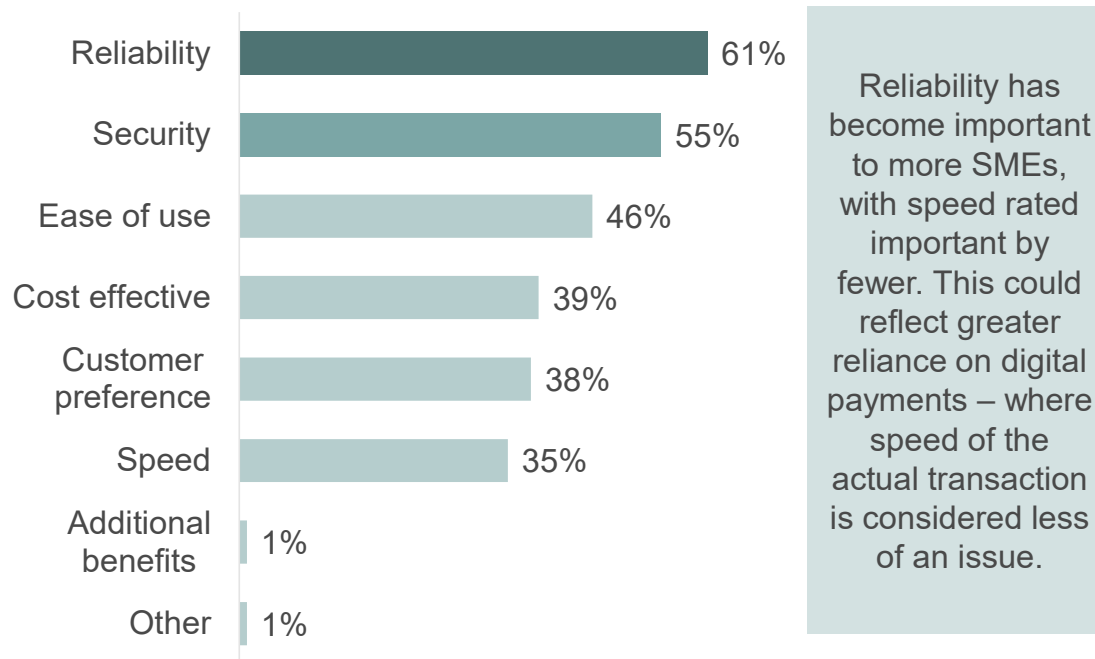
However, the shift to digital methods is not completely clear cut, with small numbers, for example *starting* to accept cash or cheque – reflecting the need to cater to customer demand and variability within the SME audience.

Q2. In the past 3 years, which payment methods, if any, has your business stopped accepting? Base: All businesses who are aware if they stopped accepting payment methods (n=937)

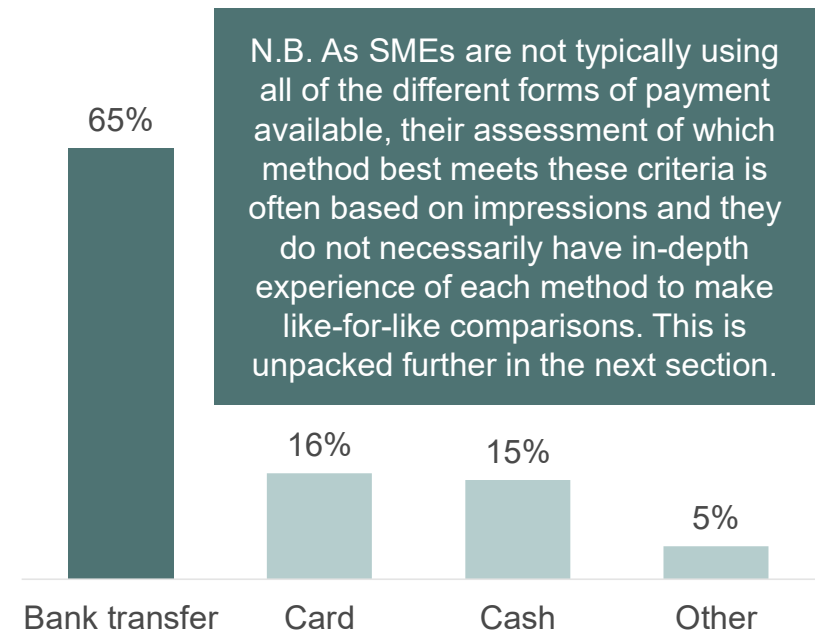
Q4. In the past 3 years, which payment methods, if any, has your business started accepting? Base: All businesses who are aware if they started accepting payment methods (n=967)

# Reliability and security are most important for incoming payments; 'bank transfer' is seen to best fulfil these criteria

*Most important factors for small businesses when receiving payments*



*Showing which payment methods best meet these criteria*

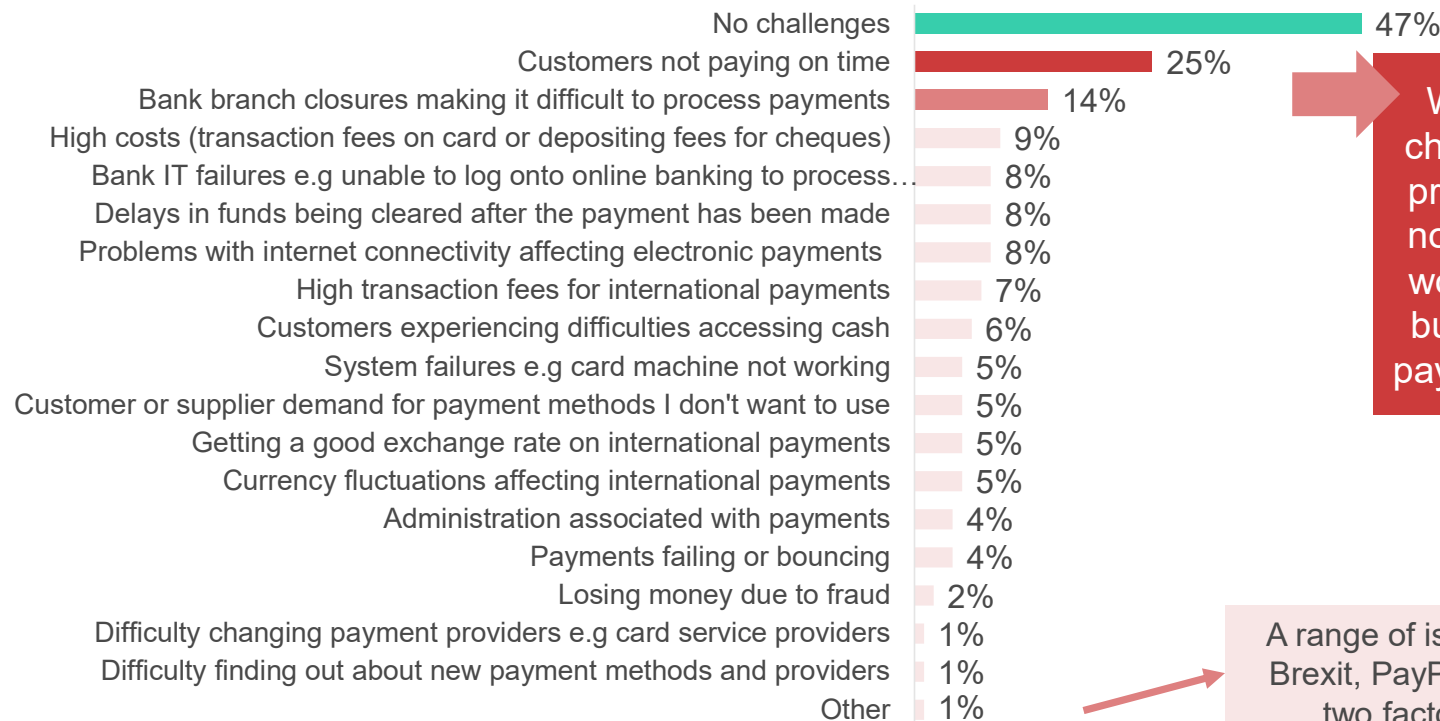


Q7. Which of the following factors is most important for your business when receiving payments? Base: All respondents (n=1,038)

Q8. Which payment method best meets this/these criteria? Base: All respondents (n=1,038)

# At an overall level payment systems are working relatively well, with nearly half of SMEs reporting no challenges in the past year

## Challenges faced when making or receiving payments



When SMEs *do* experience challenges, the most common problems are those which are not necessarily intrinsic to the working of payment methods, but to wider factors, e.g. slow payments and branch closures.

A range of issues cited, including Brexit, PayPal customer service, two factor authentication.

Q9. What challenges, if any, has your business faced when making or receiving payments in the last year?

Base: All respondents (n=1038)

A network diagram in the top right corner consisting of various nodes (circles) connected by thin lines, representing a complex system or data network.

# 4 Deep dive into experiences of specific payment systems

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**The vast majority of SMEs accept ‘bank transfer’ payments; these digital interbank payments are commonly seen as the method that is easiest and most beneficial for SMEs.**

**However, there are some areas where bank transfer is felt to have drawbacks, primarily down to the user interface which puts the onus on the customer having to initiate the transaction – resulting in delays in getting paid and difficulties in B2C settings.**

“

*“The positive is that it hits the bank straight away, it’s instant. It creates very little in the way of accounting tasks, a sales order invoice is raised and the bank transfer comes in to cover that, there’s no fee taken out by a provider”*

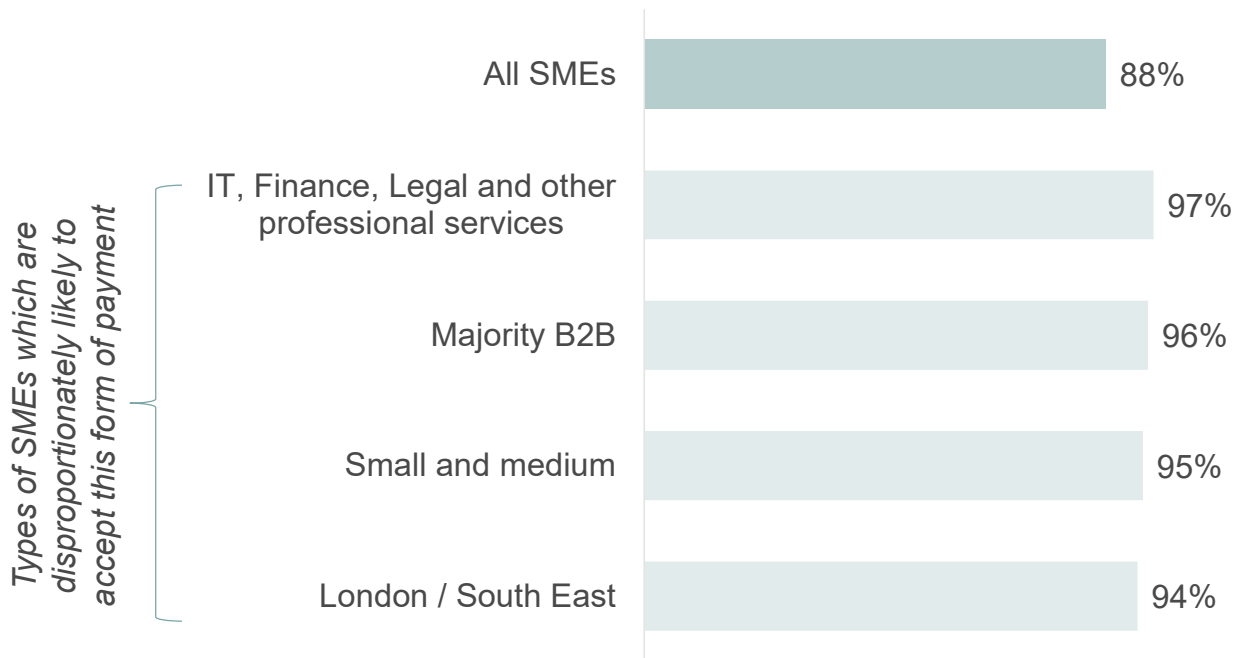
Birmingham, small, international payments

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## 'Bank transfer'

# Accepting 'bank transfer' as a form of incoming payment is widespread, especially for SMEs which are B2B/service-focused

Overall acceptance among SMEs, and types of SMEs that over-index on 'bank transfer' acceptance



Q1a. Which of the following payment methods do you accept in your business? Base: All respondents (n=1,038)

Q8. Which payment method best meets this/these criteria? Base: All respondents (n=1,038)

\*Reliability, Security, Ease of use, Cost effective, Customer preference, Speed, Additional benefits, Other

## Case study

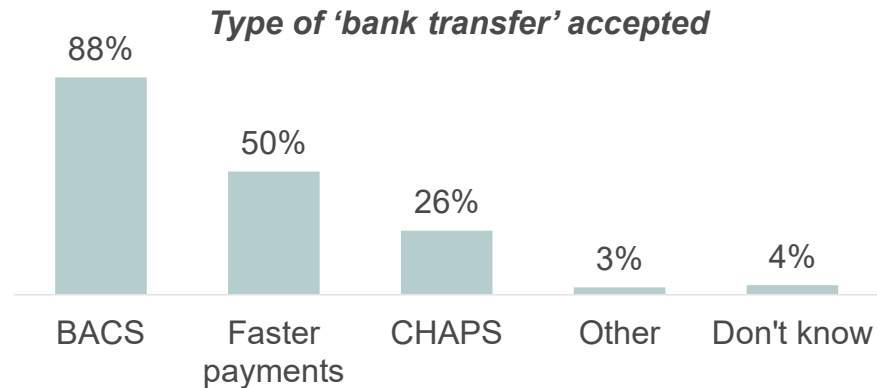
### Micro size, Entertainment business

Tom runs a recording studio for recording music and voiceovers. He has a mix of B2B and B2C customers, which can fluctuate over time, but finds the balance is tipping towards B2B at the moment. While he traditionally accepted cheques and cash from his customers, over the past five years has seen a migration to receiving almost all payments via 'bank transfer' because it's instant, and expected by B2B customers. He is now very reluctant to accept cash, mainly due to security concerns.

*"Bank transfer just minimises stress for me. I can watch someone put in my details on the premises, make sure it's been entered correctly, then I have the money in seconds"*

## 'Bank transfer'

# Across all 'bank transfer' types, speed, along with cost and convenience, is seen as the main benefit



SMEs tend not to make a spontaneous distinction between BACS and Faster Payments, although many do recognise these terms, and that there is a difference between these methods, on prompting.

- The term BACS is also (mis)used to refer to digital interbank transfers more generally, regardless of type, i.e. SMEs often refer to BACS when they may actually mean Faster Payments.

Q1b. Which of the following bank transfer methods does your business accept? Base: All respondents who accept bank transfers (n=899)

“

*“It used to be that you had to do BACS by 3 o clock to get it in the next day. You can do a Faster Payment at 10pm and it's there. It's come on so much, So I find [bank] transfer to be excellent.”*

Medium, Edinburgh”

## Benefits

- Quick (once initiated)
- Clear record for accounting purposes
- Free or low cost

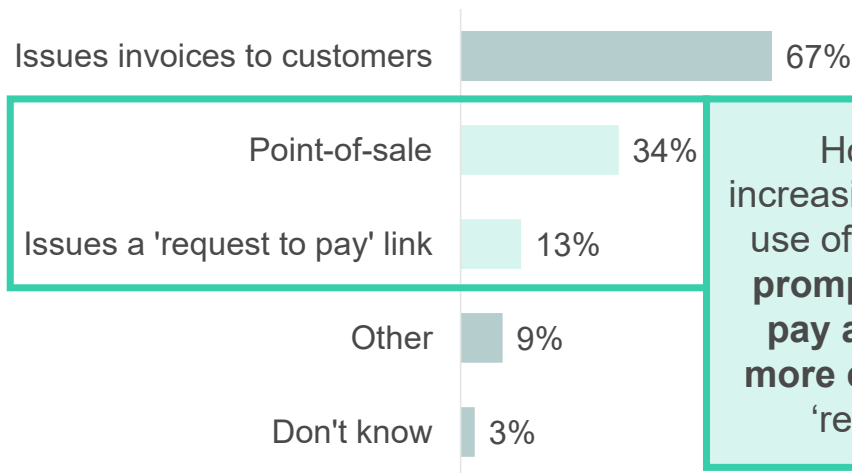


## 'Bank transfer'

# Innovation, especially from challenger banks, is helping SMEs to overcome the challenge that this method is customer-led

The most commonly cited issue for SMEs when accepting payment by bank transfer is the **time-lag between asking for payment and the customer making the payment**, which disrupts cashflow.

### Methods to request bank transfer payments from customers



However, SMEs are increasingly aware and making use of innovative services to **prompt their customers to pay at the POS or offer a more convenient option via 'request to pay' links.**

### Case study

#### Sole trader, Plumbing business

Mark hates waiting to be paid after issuing an invoice – especially when he has to buy materials up front. He recently switched to Starling bank, recommended by a friend, which allows him to see payments coming through instantly via the app. This means that he can ask for, and verify, payment at the POS whilst he is still in the property doing the job – where previously he would have asked for cash up front. He still accepts cash from customers who don't feel comfortable using banking apps.

Q1c. Which of the following applies to how your business requests bank transfer payments from your customers

Base: All respondents who accept bank transfers (n=899)

## Though less frequently cited, some SMEs raise other challenges in relation to this method

### Fees

#### Case study: Micro size, Dog walking business

For the first 2 years since she set up her business, Liz enjoyed free incoming and outgoing transfers as part of an introductory offer for her business bank account. When a small fee of 25p for each transaction was introduced, she thought nothing of it, until she noticed how much she was paying each month – a significant chunk of her profit. To reduce costs, she has started to issue invoices less frequently (monthly rather than per session) – but this makes book-keeping more difficult and causes irregularities in cash flow.

### Access to record of payment

#### Case study: Medium size, Travel agency

At Siya's company, individual agents take deposits at POS, usually by card. However, customers are increasingly asking to pay by bank transfer. Though it's cheaper for the company, bank transfers are a challenge for their agents, who cannot access the company's online banking account and have to wait up to 2 days to get proof of funds from one of the finance assistants before they can process the booking. By contrast, a card payment is accepted or declined immediately, so they know when and whether the customer has paid.

Other issues include:

- **Customer error** when inputting details (e.g. account details (prior to CoP), amount, invoice/PO number);
- Requiring a **reliable internet connection** if payment is taken at the POS;
- Customers **not feeling comfortable** with this method (or online or mobile banking in general);
- Customers being dishonest about having made the payment, and/or genuine confusion caused by the time-lag between payment being made and it being cleared in the SME account (for BACS rather than Faster Payments).

**Card is still only accepted by a minority of SMEs, but the proportion doing so has increased significantly since 2019, and for certain transactions there is felt to be little alternative to accepting card in the face of consumer expectation.**

**SMEs tend to appreciate the user experience but resent the fees that are charged. Newer SMEs actively shop around, but there is a sense that others don't know where to start to get a better deal.**

“

*“We prefer to take bank transfer rather than through the card terminal as there's a fee. The list of what the fees are seem to go up every year.”*

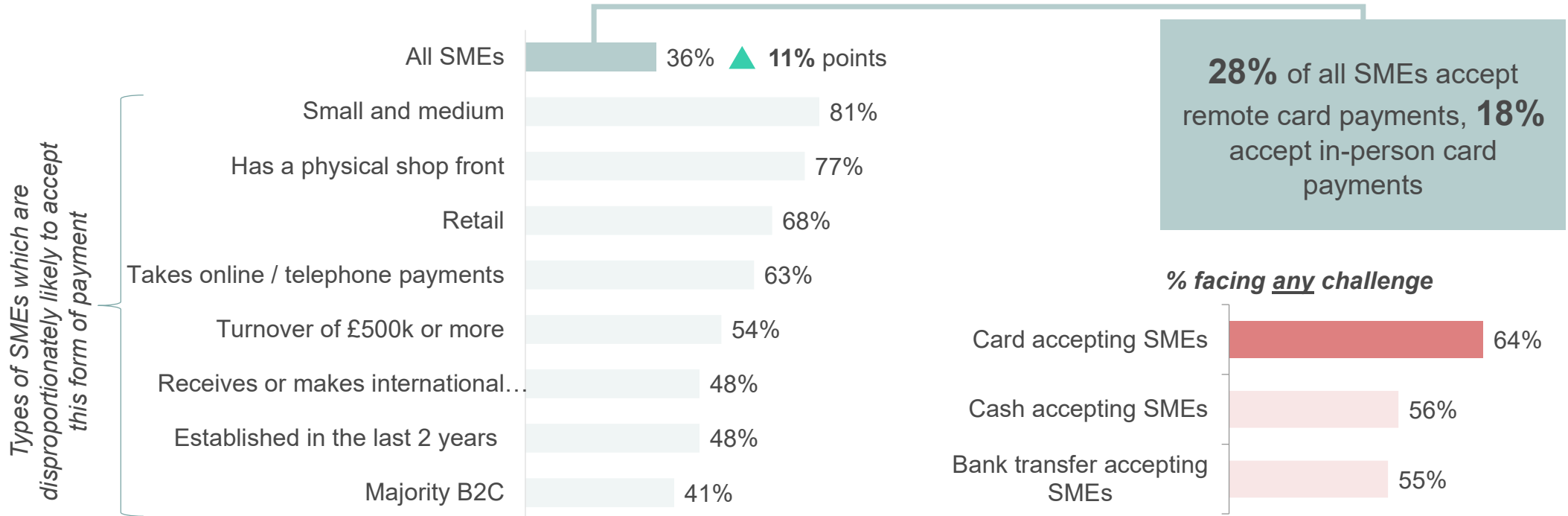
Birmingham, small, international payments

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## Card

# Card acceptance has seen the biggest increase but still only a minority accept it; it is also most likely to pose challenges

Overall acceptance among SMEs, and types of SMEs that over-index on card acceptance



Q1a. Which of the following payment methods do you accept in your business? Base: All respondents (n=1,038)

Q9. What challenges, if any, has your business faced when making or receiving payments in the last year? Base: All respondents (n=1038)

## SMEs consider card payments to be convenient and customer-friendly, both online and in person

### Key reason for acceptance

- Increasingly, the expected method for most end consumers (with some refusing or unable to pay by cash)

### Other benefits

- Instant authorisation of funds at point of sale
- Quick transfer of funds to the SME's account
- Clear audit trail and convenient for accounting purposes for some SMEs

### Case study: Micro size, Retail business

Kate is a sole trader who has turned a hobby making and selling arts and crafts items which used to make her some money 'on the side' into a fully-fledged business which she now runs full-time. Whilst selling through craft fairs and markets before the pandemic, Kate only took cash. However the pandemic prompted customers to increasingly ask to pay with card. Kate sought the advice of other stall holders, who recommended iZettle as a provider. Kate also saw the pandemic as an opportunity to sell online, using sites such as Etsy, but also Shopify, to increase her sales. She has found the transition to card and online platforms easy and reduced some difficulties she previously experienced with cash – such as having sufficient change and depositing cash.

# Fees are a major challenge when taking card payments, but many feel they have no choice due to customer expectation

- **Many SMEs highlight the cost of taking card payments, with some paying both high monthly fees and fees per transaction.**
  - Some SMEs also feel there is a **lack of transparency**, finding the different rates and types of fees confusing.
  - This has led some to start to shop around for card-acquiring services, and interest in newer, more flexible, providers, including Square, SumUp and iZettle, though others feel they don't know where to start to shop around.
- There is a sense that SMEs in some industries, especially retail, feel unfairly trapped.
  - Customers are starting to rely wholly on card payments, and without a viable alternative, **SMEs feel they are a captive audience to price hikes.**
  - Some are also locked into relatively long contracts with card acquiring services.

Other issues include:

- For those taking payments in person, needing to carry a **physical card machine can feel cumbersome.**
- Several SMEs, especially in rural areas, highlight challenges with **connectivity and signal** for some card readers.
- In sectors like hospitality, SMEs find customers **tip less** via card than with cash.
- A few SMEs find **accounting difficult** due to the difficulty in matching payments to customers without a reference and the delay in the money arriving in their account.

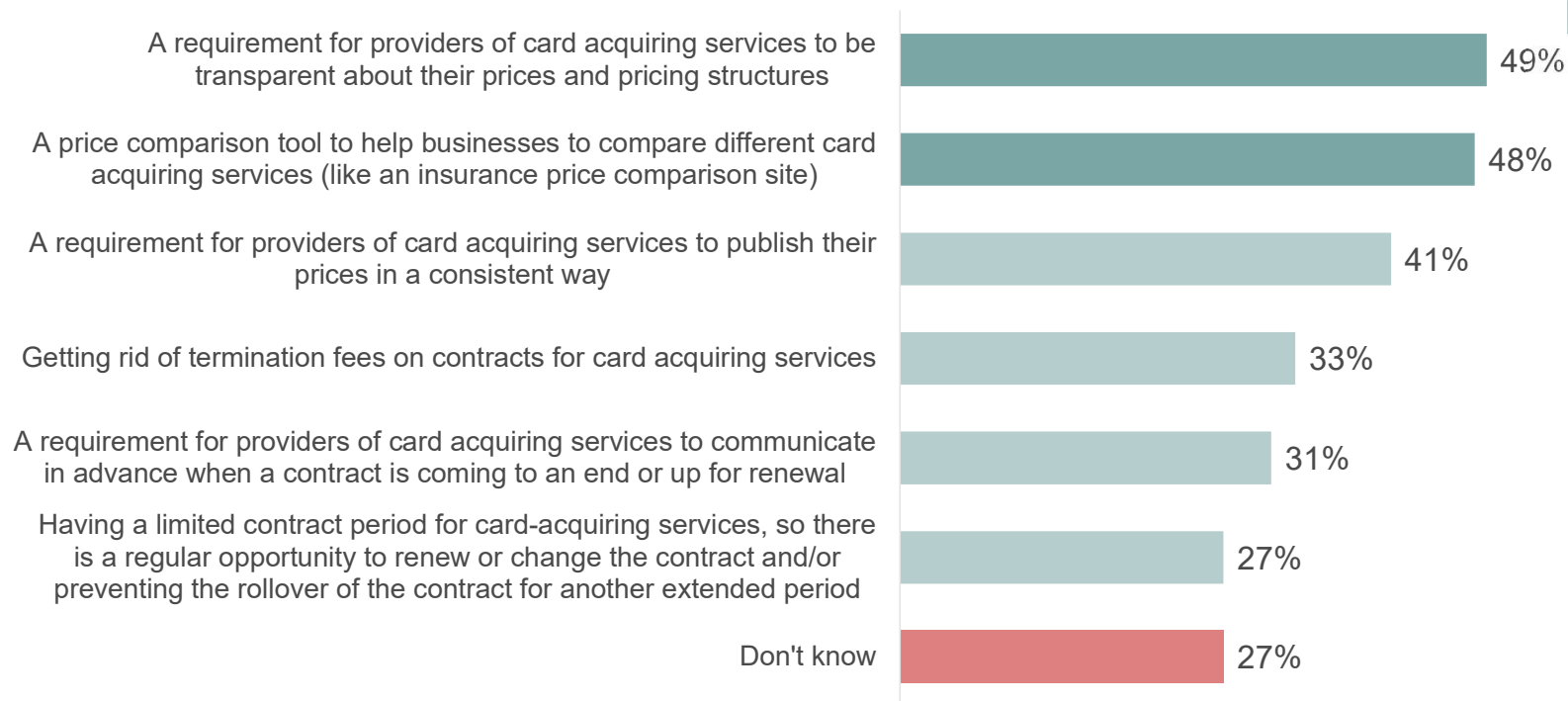
*“Chip and pin devices are very unreliable in rural areas due to poor mobile phone coverage, and it is too much faff to connect to customer WiFi.”*

Survey respondent.

## Card

# SMEs are very positive about tools and support to help them understand or compare fees in relation to card acquiring services

**% of card-accepting SMEs choosing each of the following options as most helpful to get a good deal on card-acquiring services**



*“We have 4 card machines in the field and each one comes with a different tariff and cost. Some we don't even pay a terminal fee. Some we pay a fee per card transaction. There's no consistency. You're always on the end of the line to a sales rep who is getting commission. So, when you are negotiating you can get lower rates by just mumbling a bit.”*

Birmingham,  
Small

Q13. In order to accept card payments, businesses use card-acquiring services. Research suggests that businesses who do not shop around for these card-acquiring services might not always get a good deal on the fees they pay. Which of the following would be most helpful for your business to get a good deal on its card-acquiring services? Base: SMEs accepting card payments (n=461)

**More than half of SMEs accept cash payments, primarily to cater to a minority of customers who want to use it rather than out of choice.**

**Cash (along with comparable non-digital methods, such as cheque) tends to increasingly be seen as a hassle by SMEs.**

“

*“We are driven by the market. If everyone was moving to digital that would be better but some age groups want to pay cash so we have to offer it.”*

Belfast, medium, includes card

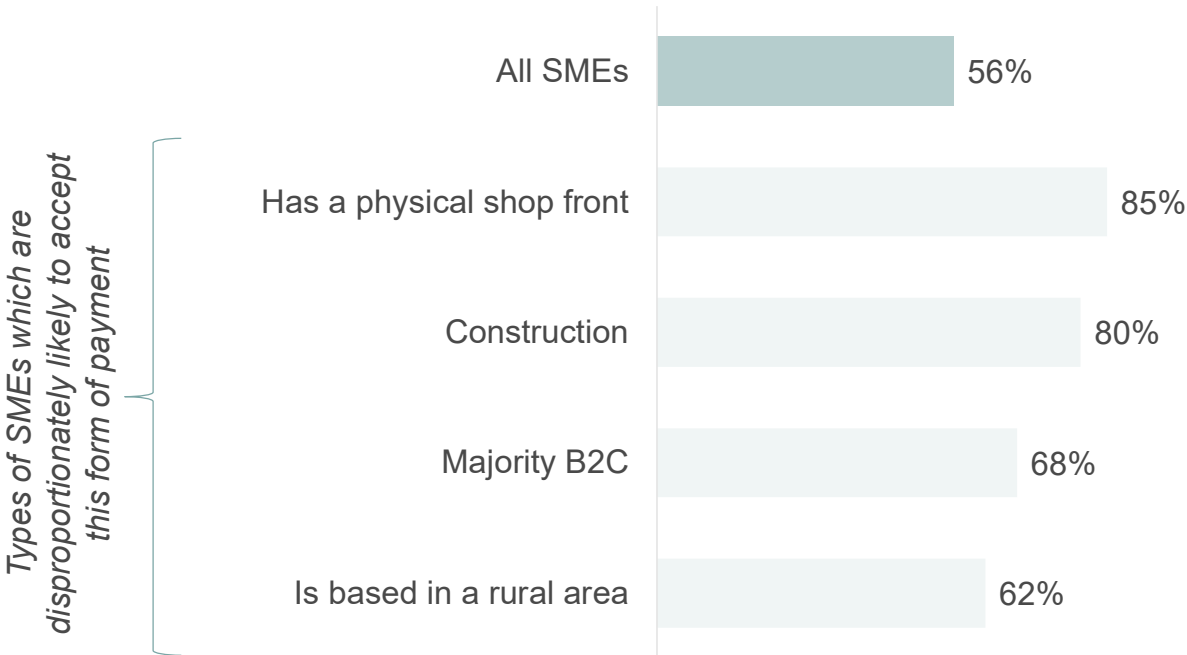
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## Cash

# Cash is often used in B2C transactions, and SMEs based rurally or in construction are also more likely to take cash

Overall acceptance among SMEs, and types of SMEs that over-index on cash acceptance



Q1a. Which of the following payment methods do you accept in your business? Base: All respondents (n=1,038)

## Case study: Micro, Construction

Blake's business carries out repairs on specialist construction equipment – so all of their customers are other businesses or traders in the construction sector, rather than end or individual consumers.

Currently they accept cash, cheque and bank transfer, though they are open to other methods. Blake does not expect that any new payment method will entirely replace cash and cheque because he believes that his company has a competitive advantage over bigger companies (who are starting to phase out cash and cheque) by catering to the “old school” traders.

## Whilst some SMEs see a place for cash transaction, most only accept it out of obligation to certain customers

### Key reason for acceptance

- Preferred method for some customers (although increasingly few), especially elderly and rural customers\*

### Other benefits

- Flexibility with accounting and tax
- Lower fees compared to some methods
- Physicality of cash compared to digital payments
- Convenience of recycling cash in the business e.g. for petty cash

\*Also true of cheque

“

*“The elderly either have cash [which we don’t accept] and aren’t good at bank transfers so the only option is cheque. So it’s for the ease for the customer [that we accept them]”*

Birmingham, small, excludes cash and card

”

“

*“It’s nice to have cash in your wallet, its tangible and you know its there. when its all digital you never actually see it.”*

Belfast, micro, rural payments

”

“

*“I have to pay 13% when it comes through eBay so if it’s a really expensive item and the buyer is nearby I would ask to do it in person with cash.”*

Edinburgh, micro

”

# However, other SMEs struggle with the extra time, effort and cost that it takes to process cash payments

### Key challenges:

- Time and effort needed to deposit cash, especially in rural locations with increasingly fewer bank branches\*
- Lack of audit trail compared to other methods, creating accounting challenges\*
- Security risk around large sums of cash getting lost or stolen
- Risk of fraudulent notes.
- Fees for depositing cash\*
- Administration required for money laundering regulations

\*Some of these challenges are also associated with cheque as a form of payment

### Case study: Micro, Gardening business

Mary works as a gardener for a number of older local residents, and she previously tended to get paid for each gardening session by cash as it is preferred by her clients, which she was happy to accept. Over the course of the pandemic, however, more clients began preferring to pay her 'in bulk' via 'bank transfer', though roughly half of her clients still prefer to pay by cash.

Mary has a strong preference for bank transfer as she feels it's safer and considerably more convenient but is wary of alienating customers if she begins to ask for 'bank transfers' instead of cash. Another issue in the coming years for Mary is with depositing cash, as her local bank branch has recently closed. This means depositing money is now more time-consuming and costly due to the extra travel required

## There is clearer evidence of SMEs actively choosing to stop accepting cash and cheque – though this is not true for all

In the 2019 research, it was very rare for businesses to report turning down any payment method (including cash and cheque), but this seems to be shifting over time:

Whilst the predominant attitude is still that SMEs should cater to all of their customers...

“

*"You can end up excluding yourself from work by not accepting cash and cheque."*

Belfast, medium, includes card

*"[I accept cash] because the customers requested it and the customer is always right."*

Survey respondent

”

...a small number of SMEs now report they would risk turning away business in order to avoid taking cash or cheque

“

*"I used to take cash, but the accountant was asking me to do extra sheets. I don't have time to do those and I also don't have time to go to the bank to lodge it."*

Belfast, micro, excludes card and cash

*"I turn work down if a customer wants to pay by cheque. It's too much effort."*

Colne, micro, excludes card and cash

”

# Intermediaries and marketplaces are felt to have clear benefits, but offer SMEs little choice or control

For businesses who trade online or remotely, intermediaries and online marketplaces are felt to be increasingly important to reach customers, and newer businesses have even built their whole business model around these types of platforms. However, there is also a sense for some that these intermediaries are not very transparent, relatively expensive, dominated by a small number of players, and give SMEs little control over incoming payments.

### Case study: Medium size, Health clinic

Tory has both B2B and B2C customers, and mainly receives BACS/Faster Payments from B2B transactions, and offers as many payment options as possible for B2C transactions. Tory recently made the decision to offer PayPal for B2C transactions, finding that some customers were asking to use PayPal as a method. However, Tory quickly encountered issues with PayPal's echeques, as they would accept the echeque for a service, but would require time to clear. The customer could receive the treatment – and then cancel the echeque. Tory contacted PayPal about this issue but was unable to resolve it.

*"I don't like accepting PayPal cheques. It takes 4 days to clear, but customers can cancel that if the service is given to them within the 4 days. I'd rather stop accepting PayPal cheque altogether, but we want to offer as many options as possible, as people need our services."*

### Case study: Medium size, IT consultancy

Ian deals almost exclusively with B2B customers. The main form of payments he accepts are BACS/Faster Payments and card, but he also works with clients in the US, from whom he often accepts payments via PayPal. His US customers tend to much prefer using this form of payment, and Ian feels the fees are fair, and this also avoids receiving payment by cheque, which is far more inconvenient for the business.

*"PayPal gets you away from getting an iban or a swift code. Asking our American customers, it's like asking them to put a man on the moon, they don't know the iban or swift code so it allows us to circumvent that. They would happily pay us by cheque but the logistics are a disaster, paying by dollars and Fed-Ex'ing it."*

# Summary slide comparing different payment systems

*No. of SME for whom needs are met*

## Card

- Increasingly accepted and heavily relied upon in retail and more B2C businesses
- Key benefits: meets customer demand, quick, clear audit trail
- Key downsides: fees (both size and lack of transparency), issues with operating handsets e.g. connectivity for some

## Cash / cheque

- Still accepted by most businesses, particularly those who are B2C and more rural
- Only real 'benefit' for most is meeting customer demand, especially older customers
- Key downsides: hassle depositing and lack of audit trail

## 'Bank transfer'

- Widely accepted and the predominant method for B2B-facing businesses
- Key benefits: reliable, quick, easily trackable, free or relatively cheap
- Key downsides: reliant on customer instigating the payment (though some starting to benefit from RtP innovations)

*No. of SMEs accepting*

# 5 Understanding and views of future payment trends

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# At a quarter, a significant minority of SMEs feel that the rise in electronic payments will be a big opportunity for their business



Within this, there are again clear differences between SMEs based on what payment methods they currently accept:

- SMEs that currently accept card are significantly more likely to see the rise in the use of electronic payments amongst customers as an opportunity (29%) than SMEs that do not accept cash or card (16%).
- Card accepting businesses are significantly more likely to see account-to-account payments as an opportunity (30%) compared to SMEs that accept cash but not card and businesses that do not accept cash or card (both 14% respectively).

“At first, I found the move to card [payments] a bit daunting, but once you’re up a running you see how easy it is compared to cash.”  
Rural, micro, including card & cash

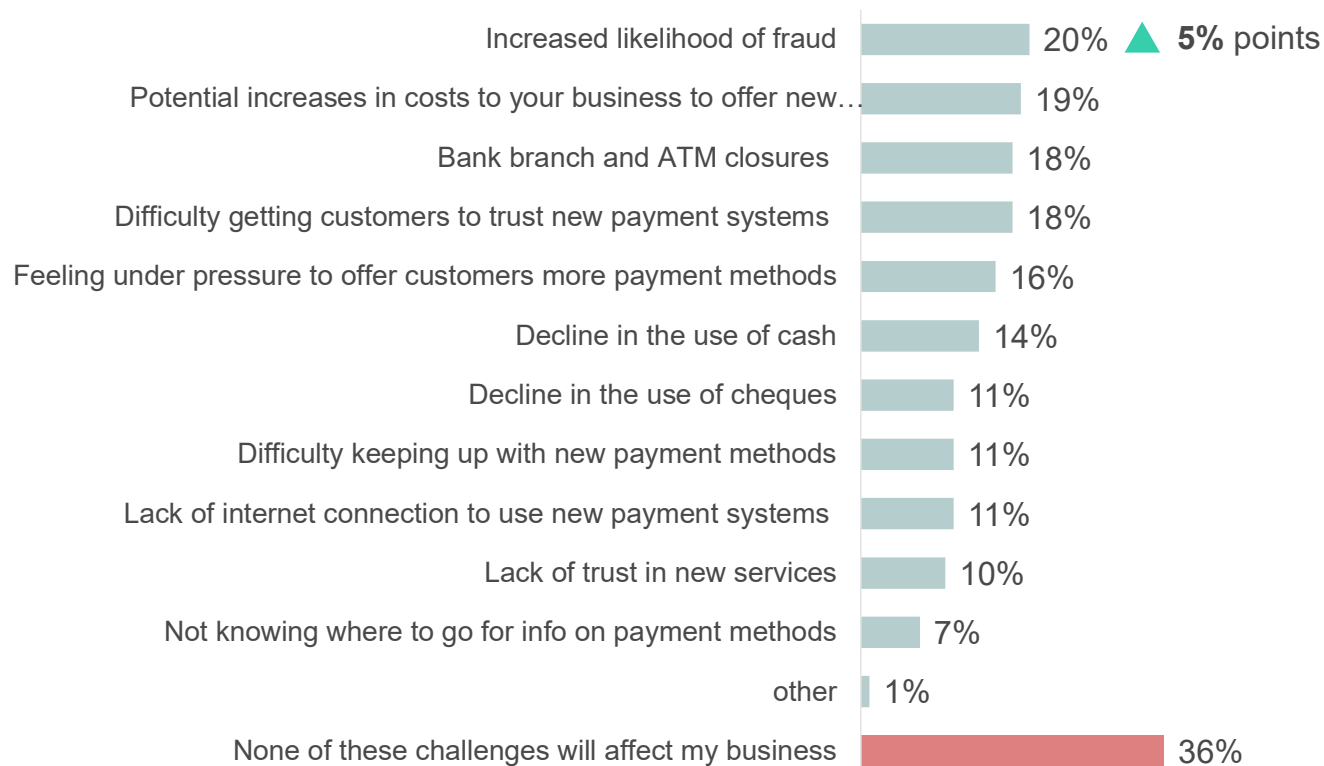
However, at around a half, a significant proportion of businesses can’t see how any of these trends will benefit their business, suggesting some SMEs still struggle to see the tangible, user-facing impacts of innovations within the payments industry.

Q11. Which of the following opportunities, if any, do you think will have the biggest impact on your business?

Base: All respondents (n=1038). Multicode



# Whilst the likelihood of fraud is seen as the biggest challenge, SMEs are also concerned about potential increases in cost, branch closures, and consumer trust in new payment systems



Q12. Which of the following challenges, if any, do you think will have the biggest impact on your business?  
Base: All respondents (n=1038). Multicode

Within this, there are again clear differences between SMEs based on what payment methods they currently accept:

- Card accepting businesses are significantly more likely see potential increases in costs to the business to offer new payment methods as a challenge (25%) compared to SMEs that accepts cash but not card and businesses that do not accept cash or card (both 15% respectively)
- Cash based businesses are more likely to be worried than most about bank branch and ATM closures (26%) than those that accept card (20%) and bank transfer (19%)
- Card accepting businesses are significantly more likely to be worried about fraud (24%) than cash accepting SMEs (20%)



*“Absolutely, the main worry is fraud and getting taken advantage of.”*

Colne, small, including card, excluding cash

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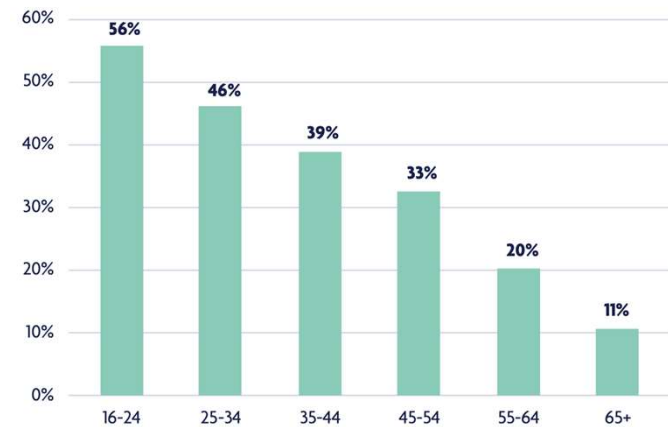
**Qualitatively, compared to the 2019 research, SMEs now tend to be more engaged with, and confident talking about potential future trends in payments. Examples include SMEs anticipating that digital wallets and payments via smartphones and wearables will become even more common, and some touching on cryptocurrency.**

# Digital wallets are increasingly front-of-mind for SMEs, and expected to become a more common payment method

SMEs are relatively familiar with digital wallets, feeling that they have become increasingly commonplace in the past few years, particularly with younger customers (as echoed by the chart on the right). Some are also familiar with them from their own perspective of making payments as consumers (e.g. via retailer specific apps).

- SMEs see this trend continuing, and tend to feel that digital wallet usage will continue to grow, particularly among younger generations.
- The benefits of digital wallets, particularly for the consumer, are widely recognised, and seen as a bonus to acquiring card readers, which allow consumers to use apps such as Google or Apple Pay.

Chart 1.2 Percentage of registered mobile payment users in each age group, 2020



“

*“Yeah the 16-24 year olds won't use it less, this will continue to grow and grow. I was on the edge of getting the card reader but seeing this chart, I'm thinking I should absolutely get one.”*

Edinburgh, micro, rural

”

“

*“The digital wallet has been great for a lot of those in our industry. Not only is it convenient, but it really speeds things up too.”*

Stakeholder

”

# SME owners are noticeably more familiar with some of the newer payment facilitators and online platforms than in 2019

SMEs are even more likely to talk about new and emerging payment methods now than they were in 2019, largely framed in terms of brand names rather than the systems themselves.

- Qualitatively, reported experiences of shopping around for alternative card acquiring services, such as Square or Dojo, are more common than in 2019.
- Buy-now-pay-later brands such as Klarna, and e-commerce brands such as Shopify, are also more likely to be mentioned now than in previous research.

SMEs tend to be driven towards exploring some of these new brands and facilitators by the shift away from cash and towards card and digital payments.

- This is particularly common for small/micro SMEs who have had to adapt to the growing customer demand for contactless payments, particularly during the pandemic.
- Some are also led by their peers and competitors, for example taking recommendations from other businesses, particularly in the case of smaller, more informal businesses.

“

*"I use an iZettle. They process payments quickly and cheaply, they are quite reliable. More and more people were coming along and saying do you take card. So, I thought I had to get it sorted and asked the other stalls what I should get, and I got positive feedback about the iZettle.*  
Brighton/London, micro, including card

”

“

*"I've looked at 'Stripe' but its really complicated. It's a good way of having people pay through the website, it's a lot cheaper than PayPal. But I couldn't get my head round it.*  
Colne, small, including cash, excluding card

”

## However, SMEs are still relatively unaware of Open Banking, and find its payment-related benefits difficult to grasp

Awareness of Open Banking overall is relatively low, but particularly in relation to making and accepting payments.

- This partly seems to reflect low understanding of the terminology of Open Banking: some SMEs appear to be using services enabled by Open Banking, particularly if they are customers of newer, challenger brands, e.g. Tide.

Views of Open Banking are very mixed, often as a result of these low levels of knowledge.

- Some SMEs believe it sounds valuable as a means of streamline their multiple financial systems and in particular allowing more synergy between their banking and accounting systems.
- But others are concerned about security risks, and that Open Banking might leave them vulnerable to fraud, particularly in the context that they find it hard to really see the tangible benefits of Open Banking.

“

*“I wouldn't like to share that with anyone... Imagine if we allowed our financial data to be shared and we had more of a risk of being scammed.”*

Newport, micro, includes card

”

“

*“I can't get my head around it really, why it would be of any benefit. It sounds like giving too much information away.”*

Brighton, micro, includes cash, excludes card

”