Leveraging the Financial Advantages of Virtual Cards and Push-to-Debit Solutions

How Small and Medium-Sized Businesses Can Shred the Cost of Receiving Paper Checks

ONE INC

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The Insurance Industry's Shift to Digital

The insurance sector is undergoing a seismic shift toward digital payments as carriers finally phase out their age-old friend, the check.

For businesses that receive funds from insurance companies for providing goods and services, staying informed about the industry's payment evolution is no longer a luxury — it's a necessity. Per Datos Insights (formerly AiteNovarica), the total number of payments is quickly increasing, and within that increase, the adoption of electronic payments and faster payments is surging much higher than legacy payment options.[1]

> Designed exclusively for small and medium-sized businesses, this guide will help uncover the hidden costs and risks of receiving paper checks.

It also features in-depth insights into two modern ways to get paid by insurers — virtual cards and push-to-debit transactions.

The Dying Decree of Checks

In the enduring duel between paper checks and digital disbursements, the former is slowly losing its stronghold. While checks represent about 33% of business-to-business (B2B) payments in the U.S. and Canada, according to the Association for Financial Professionals,[2] the total number of checks issued each year has decreased significantly.

> Per the Federal Reserve's most recent payments study, checks have fallen at a rate of more than 7% per year since 2018, dropping to 11.2 billion in 2021[3] — down from 14.5 billion just three years earlier.[4]

To further illustrate the check's fading dominance, there were 41.9 billion check payments in 2000,[5] representing a 73% overall reduction.

Despite these shrinking figures, checks are still the payment method most susceptible to fraud. In a 2023 Association of Financial Professionals survey, 63% of respondents said their organizations had faced fraudulent activity via checks.[6] For businesses of all sizes, continuing to rely on this legacy payment method carries a latent risk, from both a financial and operational standpoint.

73% **reduction in check payments since 2000**

63% **of organizations have faced check fraud**

Issues with Checks

Cost Inefficiencies

Checks are often more expensive than going digital. Respondents in RPMG's 2022 Virtual Card Benchmark Survey reported that a check's end-to-end average cost is $38.[7] Survey participants were asked to estimate transaction costs inclusive of all invoice and payment processing activities, beginning at initiation and concluding at post-payment record-keeping and bank reconciliation.

Problematic Processes

The sluggish nature of paper-based transactions often leads to delayed payments, increasing Day Sales Outstanding (DSO) and comprising cash flow. A default reliance on mailed checks amid recent United States Postal Service (USPS) delays[8] and a rise in mail theft-related check fraud[9] further compounds the issue.

The Financial Crimes Enforcement Network (FinCEN) wrote in a 2023 alert that criminals will generally steal all types of checks from the USPS as part of a mail theft scheme, but business checks may be more valuable because business accounts are often well-funded. FinCEN states it may also take longer for the victim to notice the fraud.[10]

Reconciliation Woes

Reconciling checks is a manual, laborious task. Check payments have paper-based remittance information, and matching the data to open invoices can be time-consuming, tedious, and error-prone no matter how skilled the finance team.

Today, companies of all sizes are moving toward automated reconciliation to reduce the human intervention needed to apply payments.

> About three-quarters of businesses either have an integrated receivables solution, are planning to implement one, or are considering the market options.[11]

Creating automation workarounds for paper checks is possible through lockbox banking. However, even if your financial institution consolidates all the incoming check payments' data into a single file, the reconciliation process is often still arduous. record.[6]

Virtual Cards: The Future in Your Inbox

Although a vast majority of organizations, 92%, continue to process checks for incoming payments,[12] the use of digital methods is projected to grow significantly. In fact, virtual card adoption is expected to increase by 44% between 2022 and 2025.[13] This continued growth and transition to virtual cards represents the next chapter in digital disbursements.

> Virtual cards act as direct, card-based payments sent straight to the payee's inbox, alleviating the issues endemic to check transactions.

These digital representations of payment cards can only be used for approved expenses or purchases related to the corresponding insurance claim.

Once received, the payee enters the card information into their point-of-sale (POS) device by keying in the 16-digit number with the CVV for the exact amount indicated in the virtual card's detailed, electronic remittance data. Digitally restricting the transaction type to specific Merchant Category Codes (MCCs) and limiting the amount used in each transaction are key fraud prevention elements of virtual cards that checks simply can't offer. These aspects make virtual cards an ideal solution for insurers wanting to pay claims securely. They're also an ideal solution for businesses wanting to get paid easily and quickly.

Benefits of Virtual Cards

Cash-flow Improvements

Virtual cards help vendors and suppliers get paid faster. When a check is finally received in the mail and then deposited, funds aren't typically available for another one to two days.[14] And some checks may take even longer to clear, including checks greater than $5,000.[15]

In addition to achieving faster funding with virtual cards, they also require less manual work once received, saving time and money for more critical business-related functions. When processing virtual cards, the merchant accepting the payment will have fees associated with their POS system just as with all card-based transactions. However, the hidden cost of checks can add up and needs to be properly weighed when comparing payment options.

Per RPMG's 2022 Virtual Card Benchmark Survey, among respondents who implemented virtual cards, the vast majority saw financial benefits.

83% **of businesses stated virtual cards enhanced their financial position, such as working capital.**[16]

Streamlined Processes

Moving from checks to virtual cards can significantly reduce DSO.[17] Virtual cards minimize trips to the bank and negate the effects of postal service delays since the payment is sent through email.

When considering the advantage in working capital, the contrast is substantial between paying 2.5% for a payment received on day 3 versus paying the same percentage on funds received weeks later.[18]

Virtual cards are also highly secure, with just 3% of businesses reporting fraudulent activity via this payment method — a notable difference from the 63% that experienced check fraud.[19] One way that virtual cards accomplish this is through built-in security measures, such as ensuring they are only used for insurance claim payments to authorized merchants.

Simplified Reconciliation

Virtual cards offer detailed reporting through electronic remittance data. And with real-time information on payments, it's easier to quickly identify and address anomalies or compliance issues.[20] Respondents in RPMG's 2022 Virtual Card Benchmark Survey noted the back-office improvements, such as streamlined reconciliation, because of the digital payment method.

85% **of businesses using virtual cards said they improved operational efficiencies.[21]**

The right partners can now integrate virtual cards seamlessly with a carrier's current systems, automating the reconciliation process to a remarkable degree. Some solutions can save up to an hour of manual effort per transaction.[22]

Push-to-Debit Transactions: Disbursing Instantly

When given an option, nearly two-thirds of consumers choose instant debit transfers over checks and ACH transactions.[23] The development of push-to-debit technology for insurance disbursements signifies the industry's commitment to expeditious payments.

> Also known as direct-to-card and push-to-account payments, this digital method involves claims disbursements being sent directly to an enabled debit card — providing the business with security and efficiency in equal measure.

There is no need to search for bank account or routing numbers as payees can use the 16-digit debit card number and expiration date from their digital or physical wallet. The cardholder can then access the capital instantly using their business debit card from wherever they may be. There is also no need to wait for checks to clear or for funds to be transferred electronically to a bank account, which can take two to five business days to receive the settlement funds once a payment has been sent.[24] This process reduces the risk of lost or stolen checks and provides a more efficient way to manage payments.

Financial Pros of Push to Debit

A Cost-Effective Dispatch

For the payee, there are typically zero costs associated with receiving push-to-debit funds, reinforcing the financial prudence of this option over a paper check.[25]

$0 Cost to receive a push-to-debit payment

Other financial benefits to businesses include the ability to immediately monetize payments. Although networks can sometimes take up to an hour, funds are usually available within a few seconds, subject to the policies of the receiving financial institution.

Enhanced Processes

Unlike checks, the embedded security features available with digital payments — such as multi-factor authentication (MFA) that is enabled by merchants or integrators and Account Verification Service (AVS) from issuing banks and payment processors — make push-to-debit a less-risky affair for both the disburser and the recipient.

MFA is a multi-step account login process that requires users to verify their identity by providing more information than just a password.[26] MFA ensures only a member of the payee's organization is allowed to manage accounts receivable.

AVS performs real-time card account checks with card issuers, including confirming an account is open and valid in addition to verifying the supplied postal code, billing address, and/or Card Verification Code (CVC or CVV).[27]

The immediate nature of push-to-debit payments also alleviates the all-too-common problem of vendors and suppliers getting paid late, reducing DSO.

Reconciliation Reinvented

Electronic communications with attached invoices ensure businesses aren't just getting paid faster but also with crystal-clear context.

> In a PYMNTS interview, Mastercard said that SMBs, in particular, can benefit because "instant push-to-debit acts as its own ledger, tracking payments sent and received and streamlining that component."[28]

As with virtual cards, automated reconciliation for push-to-debit payouts can save accounts receivable teams hours of time that would otherwise be spent manually matching the data with open invoices.

FedNow and the Impact of Real-Time Payments

Consumers and businesses in the U.S. now have access to instant payment services available 24/7, facilitated by the Federal Reserve's FedNow, launched in July 2023, and the Clearing House's RTP (Real-Time Payments) network, initiated in November 2017. This expansion has enabled instant payments to be leveraged for a variety of use cases and applications. For disbursements, instant payments provide an opportunity to diversify payment options and simplify processing.

Providers must assess recipient needs while balancing costs and risks. A comprehensive digital payment strategy should offer multiple options to meet customer demands while reducing check processing and fraud expenses. Ultimately, it comes down to arming people and businesses with choices in how they use and move their money.

One Inc: Pioneers in the Payments Frontier

As the payments landscape continues its transition from traditional checks to digital methods, understanding the advantages of modern insurance disbursements is paramount.

> One Inc focuses only on insurance and was ranked as 'Best-in-Class' for non-bank disbursements platforms by Datos Insights for its digital platform capabilities and vendor stability.

The company's platform reduces risk, increases data security, and safely stores tokenized data.

One Inc is propelling the industry forward through a unified and frictionless payment experience. By leveraging One Inc's modern payment platform, insurers large and small are eliminating paper-based workflows and paper checks. This next-generation technology drives a superior experience for not only carriers' customers but also their vendors, suppliers, and other third parties via accelerated payments.

The Value of a Vendor-Provider Network

A robust vendor-provider network can make all the difference for businesses keen on fully embracing modern B2B payment methods. One Inc's Vendor-Provider Network is an innovative system that stores contact information and payment preferences, expediting payouts upon settlement from our large network of more than 240 insurance carriers. Payment preferences can easily be changed anytime by logging into the One Inc Vendor Portal, where electronic remittance information is also conveniently located.

For a dynamic, secure, and swift way to receive disbursements, One Inc sets the benchmark with its Vendor-Provider Mastercard Express ClaimsCard.

The Benefits of One Inc's Mastercard Express ClaimsCard

With features such as rapid payments, improved cash flow, and easy reconciliation, One Inc's Mastercard Express ClaimsCard is the industry standard in insurance disbursements.

Swift and Seamless

Receive payments up to 30% faster, eliminate postal delays, and enjoy unparalleled access to payment histories.

Fraud-Fighting Technology

Exceptional security measures preempt and outmaneuver potential threats, safeguarding your financial interests.

Comprehensive Support

With One Inc's comprehensive support and a network that includes an array of insurance carriers, the transition to digital payments is not just seamless but sustained.

On the Horizon: Straight Through Processing

Straight Through Processing (STP) is beginning to take digitalization and automation of insurance payments to the next level. Today, this technology is increasingly empowering small and medium-sized businesses by further streamlining routine tasks to boost efficiency.

Instead of physically keying virtual card numbers into on-site POS terminals, STP automatically sends and reconciles payments into a business' bank account.

> STP allows businesses to receive the funds from multiple carriers in aggregate as a part of the merchant services settlement process, keeping bank statements cleaner.

As with other forms of cutting-edge payments technology, this advancement is expected to become the new norm in the near future.

Business Considerations and Next Steps

For small and medium-sized business owners in the vast expanse of insurance payouts, the conversion from checks to digital disbursements is not a fleeting trend but the future — replete with cost efficiencies, operational streamlining, and security enhancement.

By aligning with forward-thinking payment providers like One Inc, businesses can quickly and easily capitalize on the benefits of these modern methods. It's not merely about surviving the change but thriving within it, leveraging technology to catalyze efficiency, protect revenue, and blaze a trail toward sustained success.

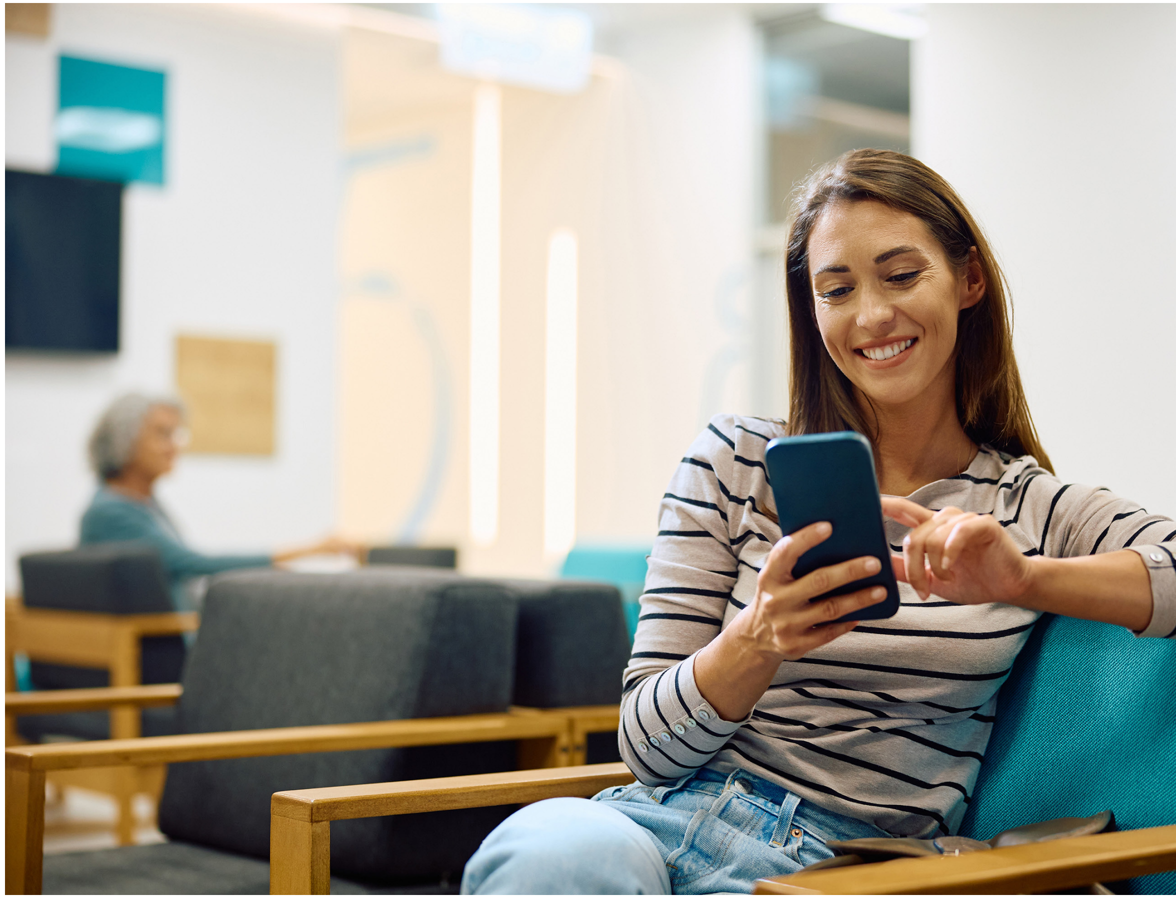
About Mastercard

Mastercard is a global technology company in the payments industry. Our mission is to connect and power an inclusive, digital economy that benefits everyone, everywhere by making transactions safe, simple, smart, and accessible. Using secure data and networks, partnerships and passion, our innovations and solutions help individuals, financial institutions, governments and businesses realize their greatest potential. With connections across more than 210 countries and territories, we are building a sustainable world that unlocks priceless possibilities for all.

About One Inc

Founded in 2012 and focusing solely on insurance, One Inc provides next-generation technology to process claims and settlement payments. The company is one of the fastest-growing digital payments platforms in the insurance industry, facilitating both inbound and outbound payments. One Inc's comprehensive end-to-end digital solution provides expanded payment options, multi-channel digital communications, and rapid digital claim payments — even for the most complex insurance use cases. One Inc handles over $81 billion in payments a year for carriers such as Amica Mutual Insurance.

To discuss your digital payment needs,
please call **(833) 209-1688** or email inquiries@OneInc.com



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Visit OneInc.com for more information and set up a personalized demo on how you can go digital today!

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