



Survey on SMEs Payment Behavior

Payment Systems and Financial Technology Policy Department

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In 2022, the Bank of Thailand (BOT) conducted a survey on electronic payment (e-payment)¹ behavior among small and medium-sized enterprises (SMEs) across seven industry sectors, taking into account dimensions such as company size, location, and payment activities. The results revealed that SMEs adopted e-payments with values as high as 68 percent of the total payment value, and 96 percent had prior experience with e-payments. Meanwhile, cash and cheque usage by businesses continued to decline. Further, key factors influencing SMEs' decisions to adopt e-payment are systems capability to support a large volume of transactions, ease of use and functionalities that satisfy user needs, user understanding and confidence in the security of the services, and promotion by the government or related agencies.

The BOT has applied key insights from the survey to strengthen payment system supervision in terms of system efficiency and security, as well as to set directions and policies for payment system development and to increase businesses' knowledge, understanding, and confidence in service security. The goal is to influence behavioral changes and motivate greater adoption of e-payment in the business sector through developing integrated efforts and cooperation among stakeholders in the business sector, payment service providers, and government sector to achieve tangible results.



¹ The survey classified payment medium as follows: 1) e-payment, which consists of payment transactions via credit cards, debit cards, and fund transfers/payments through e-money accounts and the BAHTNET system, and 2) non e-payment, which consists of cash and cheque transactions.

In the digital age, the economy and society are adapting rapidly. Technology and payment systems have become the driving forces behind such changes. Payment policy implementation, therefore, needs to be tailored to the context of the digital economy and involve both the public and private sectors. Over the past five years, the BOT has consistently encouraged the expansion of digital payments in the public sector. In 2022, the BOT launched a survey project on payment behavior of the business sector to understand businesses' behaviors, viewpoints, and expectations towards payment services. The project began with an investigation into the payment behavior of small and medium-sized enterprises (SMEs), as the group still employs a combination of digital, cash, and cheque payments. The findings aim to provide key insights to assist policymakers in promoting digital payments in the business sector and reducing and addressing difficulties, barriers, and limitations of current payment services. The goals are to make digital payment systems more efficient and responsive to business needs and provide greater access to e-payment services.

Scope, Coverage, and Method

Scope

The scope of the survey was designed to capture payment behaviors across key dimensions such as business size and type, location, and payment activities both within the business sector and between the business sector and the public and government sectors, including payment for corporate expenses such as employee salaries and utility bills.

Coverage and Classification

Businesses were categorized based on their sizes and types. In terms of size, businesses were classified into small and medium enterprises by the criteria established by the Office of Small and Medium Enterprises Promotion (OSMEP). **Small enterprises** in the manufacturing sector must have revenues of 1.8 to 100 million baht, while those in the service, wholesale, and retail sectors must have revenues ranging from 1.8 to 50 million baht. **Medium enterprises** in the manufacturing sector and the service, wholesale, and retail sectors must have revenues exceeding 100 to 500 million baht and 50 to 300 million baht, respectively.

In terms of type, businesses were categorized into seven industry sectors: Wholesale trade, Retail trade, Construction and real estate, Accommodation and food services, Manufacturing, Transportation and warehousing, and Healthcare and social assistance. The table below summarizes the sample subgroups.

Business Subgroups by 7 Industry Sectors

<u>Industry sectors</u>	<u>Business Subgroups</u>
Wholesale trade (Wholesaler)	Motor vehicle parts and supplies merchant wholesalers, Farm product raw material merchant wholesalers, Apparel merchant wholesalers, Household appliances and electronic goods merchant wholesalers, Medical equipment and supplies merchant wholesaler
Retail trade (Retailer)	Grocery and convenience retailers, Clothing retailers, food retailers, online retailers
Construction and real estate (Real estate)	Construction contractors, Interior design services, Real estate trading, Real estate agents and brokers, Land allocation
Accommodation and food services (Hotel and restaurant)	Guest houses, Resorts, Catering services, Restaurants
Manufacturing	Meat, Food, and Fruit processing, Rice mills, Books printing, Paper manufacturing, Metal manufacturing, Furniture manufacturing.
Transportation and warehousing (Logistic)	Ground passenger transportation, Land, Sea and Air freight transportation, Warehousing and storage
Healthcare and social assistance (Health)	Hospitals, Medical clinics, Dental clinics, Nursing and residential care, Rehabilitation and addiction treatment facilities

The survey covered six regions throughout the country, i.e., Bangkok and surrounding areas, the central region, the northern region, the southern region, the northeastern region, and the eastern region. The survey took place over seven months, from April to October 2022.

Survey Method

1) A quantitative survey collected data through in-person and telephone interviews with 775 samples statistically distributed by industry sectors, sizes, and regions.

2) A qualitative survey collected data through focus group interviews with 133 samples distributed by the proportion of e-payment usage and industry sectors.

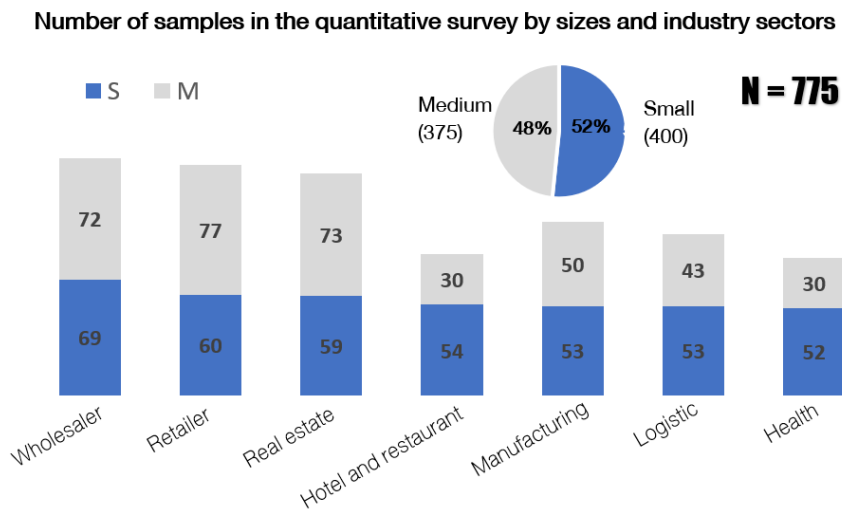


Figure 1: Distribution of samples in the quantitative survey

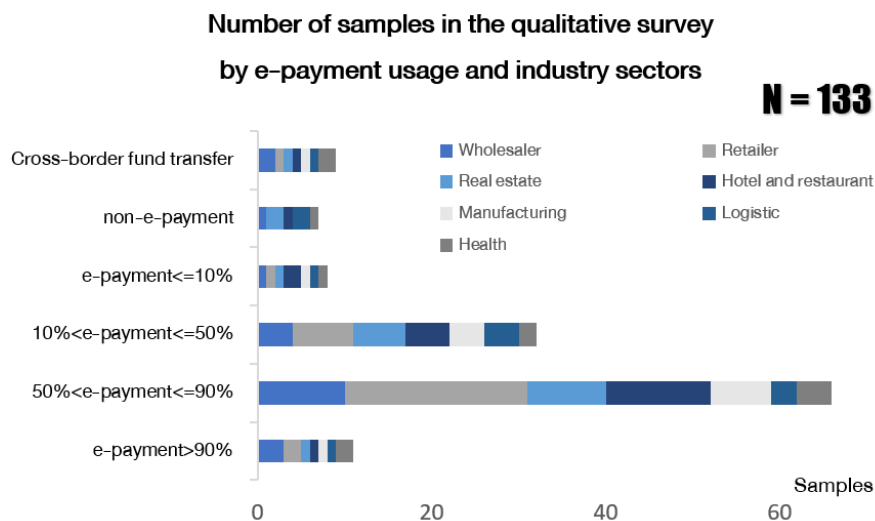


Figure 2 : Distribution of samples in the qualitative survey

1. Almost all SMEs have adopted e-payment.

Almost all SMEs (96%) have utilized e-payments. The e-payment transaction values accounted for more than two-thirds, or 68 percent, of the total payment values, with cash and cheque transactions accounting for the remaining 32 percent. The proportion of SMEs using e-payments was more than twice that of those using cash and cheques, as e-payment is considered convenient and allows them to complete transactions quickly, anywhere, and at any time without queuing at a bank branch. There is also proof to verify transactions easily. The 4 percent who had never used e-payments regarded the system as unreliable and questioned its security. Further, there were concerns over service assistance if a problem arose. As for the group that has adopted e-payment but still employs cash and cheques, the main reason is that their business partners do not use e-payment; for instance, they still request cheque payments.

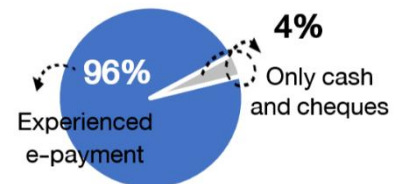


Figure 3 : Proportion of businesses having experienced with e-payment

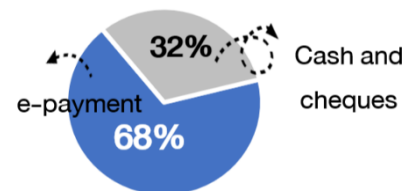


Figure 4 : Proportion of average payment

2. SMEs predominantly using e-payment prefer payments via bank accounts.

The participating SMEs were divided into two groups. The first group, representing over three-quarters of all SMEs, predominantly used e-payment or adopted e-payment for more than 50 percent of their business transactions. The second group primarily used non e-payment or relied on cash and cheques for over half of their transactions and accounted for around a quarter of all SMEs. The survey found that the e-payment group preferred payments via bank accounts, suggesting that e-payment via bank accounts is the most convenient and extensively utilized payment media since it is simple to verify and directly linked to bank accounts. Retail trade SMEs were the largest e-payment payers, with a share of 87 percent of SMEs in the industry sector. Meanwhile, SMEs in the healthcare and social assistance sector were the most frequent e-payment payees, accounting for 82 percent of SMEs in the industry sector.

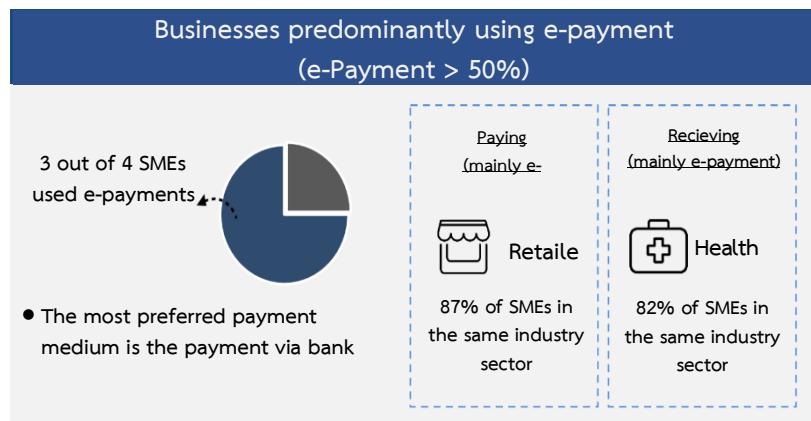


Figure 5 : Businesses predominantly using e-payment

3. SMEs mainly using non e-payment medium continued to rely heavily on cheque.

The survey revealed that the majority of medium-sized SMEs employing non e-payment medium still use cheques, accounting for 73 percent of the sample group. Nearly 60 percent of the group intended to use cheques even if the fee increased. The main reasons are that many government agencies still require cheques in their operations, and scheduling payments by cheque facilitates the SMEs' liquidity management and acts as an internal control over company spending. Meanwhile, the remaining 40 percent perceived the fee as a decisive factor. Most would stop using cheques if the cost exceeded 5-25 baht per cheque.

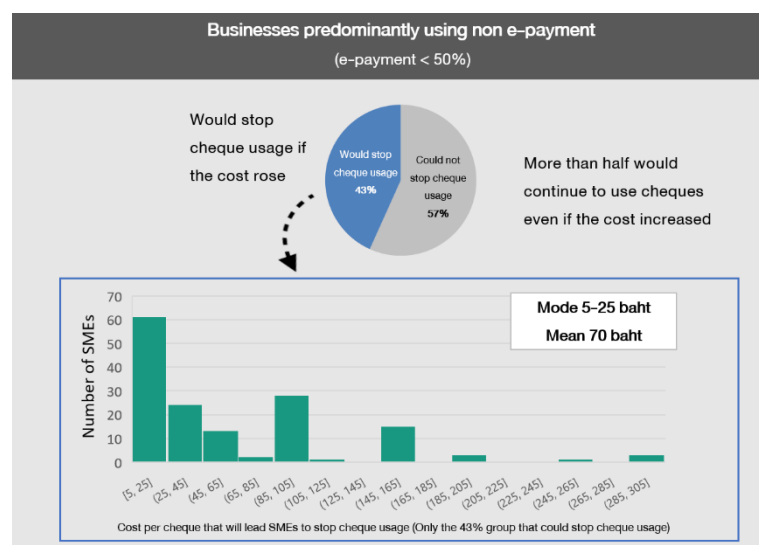


Figure 6 : Cheque usage by SMEs primarily using non e-payment

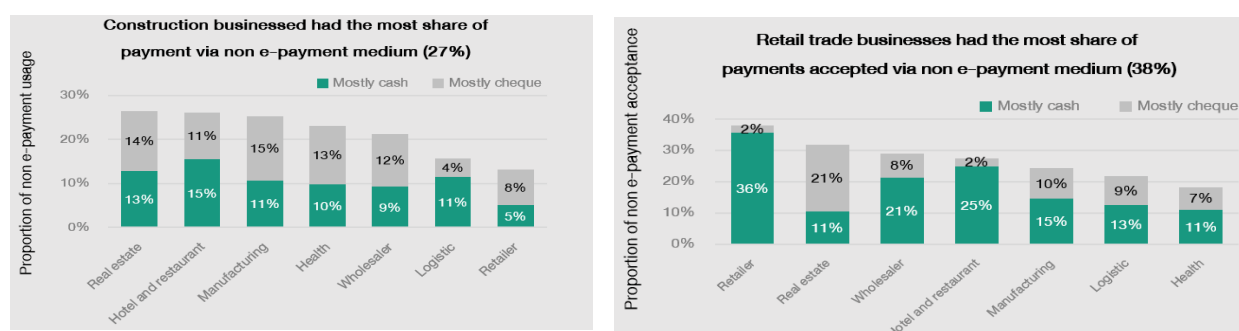


Figure 7-8 : Proportion of cash and cheque usage of non e-payment SMEs

Businesses paying the most via non e-payment medium were the SMEs in the construction sector, accounting for 27 percent of the industry sector. More than half were cheque transactions used for liquidity management. Meanwhile, retail trade SMEs were the most non e-payment payees, representing 38 percent of the industry sector. Most of their transactions were cash payments from customers.

4. SMEs choose payment medium based on business requirements.

Businesses deem each payment medium to have distinct advantages and disadvantages. Their choices therefore depend on their compatibility with the nature of business, as discussed below.

Most SMEs prefer fund transfers via bank accounts despite concerns over the system efficiency, business extension steps, transfer limits, and user knowledge and understanding. SMEs opted for interbank fund transfers because they are convenient and easy to verify. Various information can be retrieved and linked to the accounting system. The services were accessed via internet banking services on computers, mobile banking services directly through the PromptPay system, and QR payment. Still, most SMEs were more familiar with internet banking than mobile banking services.

Significant problems and barriers to e-payment adoption continue to be the complicated refund process in the event of incorrect transfers or fraud, system outages at the beginning of the month, and the lack of a receipt or tax invoice after payment for further business operations or linkage to the tax calculation system. In addition, the transfer limit may be too low for some business payments, and businesses still lack knowledge and understanding. Over 50 percent of participating SMEs expressed concerns over erroneous fund transfers, fraud, increased tax payments, and the inability of bank branch staff to provide needed information. Further, SMEs indicated that banking applications do not meet their needs; for instance, they are not user-friendly and lack common standards and necessary functions such as slip verification or notification when receiving payment.

SMEs use cash for low-value transactions that do not require proof, as cash payment is convenient and flexible for the payer or payee and reduces the need for evidence collection. The fund is also immediately available to the payee. As a result, cash payments remain prevalent. Businesses thus need to maintain cash reserves to support their operations, such as for purchasing low-value goods and services, business expenses, store cash registers, and emergencies. However, business cash holdings continue to decline due to the growing adoption of various e-payment mediums, the cost of maintaining cash reserves and their vulnerability to fraud risk, and the anticipation of a decline in cash usage.

SMEs use cheques as collateral for payments between businesses because cheques are perceived as an obligation between the payer and the payee, thereby instilling trust among cheque holders. It also facilitates business liquidity management as specifying payment terms in advance (credit terms) allows the payer to manage working capital before the payment is due. In addition, cheque usage is convenient and secure for high-value payments as it establishes credibility and can be used as legal evidence and in pursuing criminal cases when the debtor intentionally commits fraud². More importantly, certain government agencies, such as the local government, still require payment via cheque. Nonetheless, cheque usage by new generations of entrepreneurs is anticipated

² The Cabinet meeting on June 21, 2022, approved the repeal of the offenses related to the Issuance of Cheques Act, B.E. 2534 (1991). Hence, if the debtor issuing a cheque with “no dishonest intent” defaulted on debt repayments, such as having insufficient funds in the debtor’s account, the creditor can pursue a civil proceeding to recover payments associated with the bounced cheque. However, a debtor having “dishonest intent” not to pay may face criminal charges under other laws, such as cheating and fraud under Section 341 of the Penal Code, which is punishable by imprisonment not exceeding three years or a fine not exceeding 60,000 baht or both.

to decline and when e-payment mediums reach the stage where they fulfill similar business requirements as cheques, they will be able to replace cheque payments.

SMEs use credit cards for certain payment transactions, such as customer entertainment expenses and product purchases that can be made in installments. A credit card is another instrument that helps businesses manage their liquidity. Still, more than half of the SMEs surveyed were unaware of the existence of corporate credit cards. Further, the complex application procedure encountered by several small SMEs has made corporate credit cards unpopular.

SMEs are unfavored of e-money except for e-commerce businesses. SMEs generally do not prefer e-money as a payment medium except for e-commerce businesses, in which most users belong to a young age group. From the business perspective, the main benefits of e-money are that it serves as a promotion channel for young customers and offers customers more payment options.



Conclusions and implications for payment policy

Conclusions

The survey on SMEs payment behavior provides key insights into the implementation of payment systems development policies to enhance system efficiency. According to the survey findings, almost all SMEs have experienced e-payments, with up to three-quarters of participating SMEs utilizing e-payments as their primary payment medium. At the same time, SMEs that primarily rely on non e-payment medium have encountered various issues and limitations in shifting their options. For example, there are limitations imposed by trading partners that still use cheques and the roles of cheques as a liquidity management tool and an internal control tool for business spending.

The survey also revealed several factors having significant implications for shifting SMEs payment behavior towards e-payments, namely **confidence in system security and efficiency, the convenience and functionality of payment services that satisfy business needs, user understanding, and motivation for utilization.**

Implications for Payment Policy

The BOT has urged SMEs to shift their payment behavior, moving away from cash and cheques towards e-payment as the main payment alternative, following the vision stated in the Payment Directional paper 2022-2024 that "Digital payments would be the preferred choice among all user groups and would also improve the quality of life, enhance competitiveness, and transition Thailand

to a 'less-cash' society." Policy implementation has applied the survey findings to align SMEs' payment behavior with the expectations and direction of Thai payment systems. The efforts encompass three areas, namely resilience, openness, and inclusivity, and include the following:

Resiliency enhances the efficiency, capability, and security of significant payment systems by ensuring that critical funds transfer systems serving as the country's central infrastructure can handle a large volume of transactions, particularly on days when transaction volumes are extremely high, such as the end of the month. In addition, in the event of a system failure, issue management should be conducted quickly, and a backup system should be available to alleviate the problem. These activities should also be enabled by good governance at the policy, service, and infrastructure management levels.

Openness drives service enhancement and innovation development to fulfill user requirements, increase service options, and provide incentives for usage. Development of e-payment innovations that satisfy business needs, such as expanding payment processes to include receipt issuance and tax payments or introducing an e-payment media to replace traditional paper cheques, are examples. Other measures include ensuring reasonable and fair fees and promoting e-payment adoption in the government sector to enable end-to-end usage of e-payments. Furthermore, generating digital footprints will help SMEs expand financial access and receive better credits.

Inclusivity fosters a more comprehensive and proactive understanding by providing information and raising awareness of proper and safe usage through integrated, proactive, and continuous efforts. Measures include collaborating with service providers in disseminating information to reach customers in all regions, such as through branch employees, and applying technology to enhance user support, such as introducing features that help protect, assist, verify, or remind them.

The survey revealed that SMEs have made extensive use of e-payments, while cash and cheque usage remains prevalent. Encouraging greater business adoption of e-payments and reducing reliance on cash and cheques will help improve business efficiency, thereby increasing competitiveness and lowering system costs. The BOT intends to apply these insights to the formulation and implementation of payment policies in various areas to encourage the widespread adoption of e-payment among SMEs. Concurrently, the BOT plans to foster collaboration among the public, business, and government sectors to achieve tangible outcomes and lead Thailand towards a less-cash society in a sustainable manner.