The Bahamas Business Digital Payments Survey (2020)

June 2021

1 Introduction

This report summarizes the results of the Central Bank of The Bahamas' Business Digital Payments Survey. The Survey was administered online in November 2021, to collect feedback on how domestic entities make and receive payments; and to determine the need in the business community for a more widespread digital payments infrastructure.

Based on the results, entities are exposed to a range of electronic and physical payments instruments. While use of cash and cheques still represent among the largest individual components of payments, they do not markedly outdistance digital transactions, which are predominantly electronic bank transfers and credit and debit cards. In this regard, businesses increased their net usage of electronic payments, both for revenue intake and expense outlays. In instances where, albeit a minority, of firms were less receptive to use or accept electronic payments, reasons varied. Among these are merchants considering the fee structure for such services to be too high. However, cost concerns collectively mattered less than other factors, such as access to such services within existing financial services relationships, fraud and cyber security or the speed of payments settlements. On a weighted average basis, cash featured more heavily in business receipting systems than in usage for outlays, although representing no more than an estimated one-fourth to one-third of any itemized category of transaction. Meanwhile, private sector entities relied on bank transfers more than any other category of either receipts or payments, underscoring inroads in shifts towards greater use of online banking services.

These results predominantly reflect conditions within micro and small businesses (firms with estimated annual revenues of $5.0 million or less and employee headcounts on average of less than 50). Such respondents represented 75%-90% of the survey participants, depending on whether sales or employee headcount was the cutoff. Where medium and larger size business were represented, indications are that such operations already reflected higher rates of exposure to both use and acceptance of electronic payments.

The results of this survey will continue to inform the Central Bank's outreach regarding payments system reform and modernization. It is also an important input into strategies to reduce the use of cash and checks in the economy. In particular, the Central Bank, the Ministry of Finance and the clearing banks have agreed to collaborate on strategies to achieve a 50% reduction in the use of cash by 2025; and to achieve an 80% reduction in the use of checks by the same time. Both shifts would be in favour of increased use of electronic payment alternatives such as, credit and debit cards, electronic funds transfer and mobile money (including the central bank digital currency).

2 Methodology

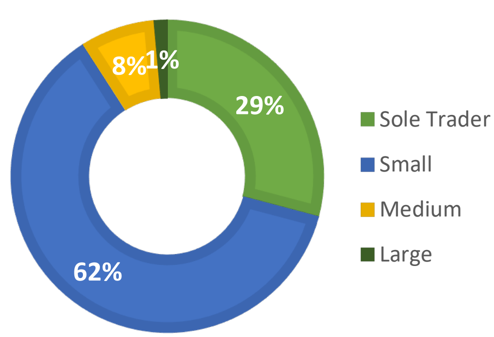
In October 2020, the Central Bank released a survey on Payments Practices of Businesses and Organisations on its website and via its social media pages. The survey was also disseminated among the membership of Bahamas Chamber of Commerce and Employers Confederation (BCCEC). Businesses and organisations were polled on the range and relative use of digital and physical instruments (including cash and cheques) used to make and receive payments both within The Bahamas and internationally. Feedback was also invited on factors that have influenced the speed or ease at which businesses have adopted digital financial transactions. A total of 364 completed responses were received.

3 Profile of Respondents

The largest share of identified sectors included businesses in wholesale and retail (distribution) (19.2%), tourism, accommodations & related activities (15.0%), professional and administrative services (13.0%), finance & real estate (8.2%), transport, communications & utilities (8.8%) and construction (7.1%). A significant number of responses were from "other" unidentified sectors (16.0%). By island, most entities were located in New Providence (60.9%); followed by Grand Bahama (14.2%), Eleuthera (5.2%), Abaco (4.5%) and Exuma (3.2%).

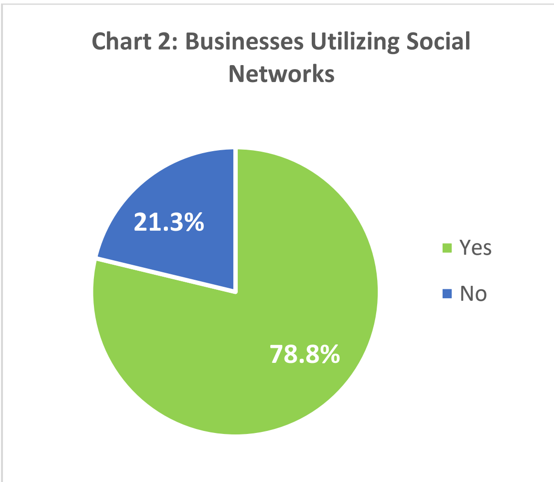
As to the size of enterprises surveyed, an estimated 90.9% were small or micro businesses by international standards for staff headcount[1], including a –subset (29%) of self-employed sole traders. Some 5.8% disclosed employment of between 50-100 employees, and a remaining 3.0% had more than 100 employees. In the meantime 86.7% of firms disclosed annual revenue of less than $5.0 million.

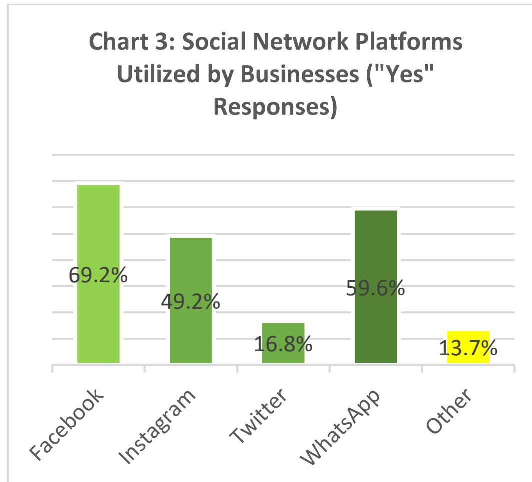
Chart 1: Type of Business



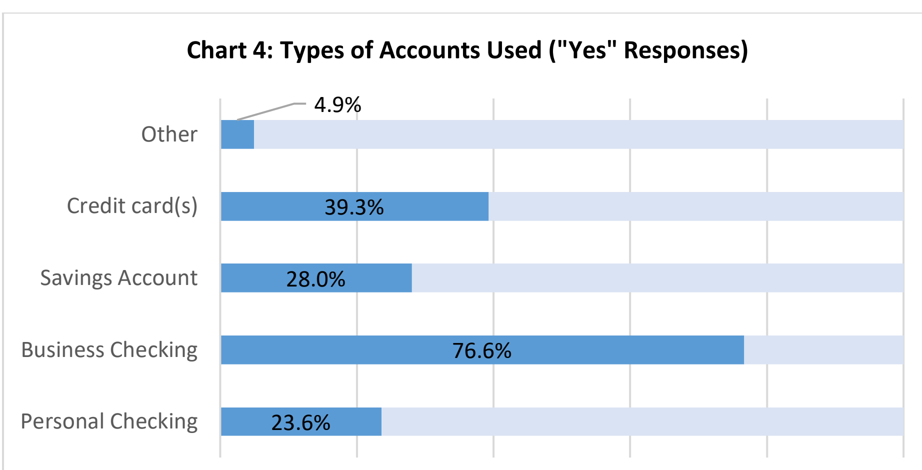
[1] According to the OECD, a small or medium sized (SME) enterprise is one that employs fewer than 250 people; a medium-sized business, 50-249 employees; a small enterprise, 10-49 employees and a micro enterprise, fewer than 10 employees. A large business employs 250 or more persons.

As to internet or online presence, an estimated 78.8% of businesses indicated that they utilize social networks for some form of marketing, either in isolation or on an overlapping basis. Facebook was the most widely used platform (69.9%) followed by WhatsApp (59.5%) and Instagram (49.0%). Moreover, about 60.0% of firms were present on at least two platforms.





In terms of the types of banking facilities used in payments, all responding firms availed themselves to at least one type of deposit account. In this regard, the largest concentration operated at least a business current/checking account (76.4%) and a large fraction used personal checking accounts (23.6%)—having some overlap in instances with business checking facilities. Use was also made of savings accounts (16.2%). Another commonly availed facility was credit cards (22.8%); with "other" limited overlapping instances of crypto currencies and other digital instruments.



4 Payment Outlay Patterns

In an effort to determine the magnitude of cash versus digital payments usage, respondents were asked to estimate the share of transactions that they complete using cash, cheques, credit cards and online banking.

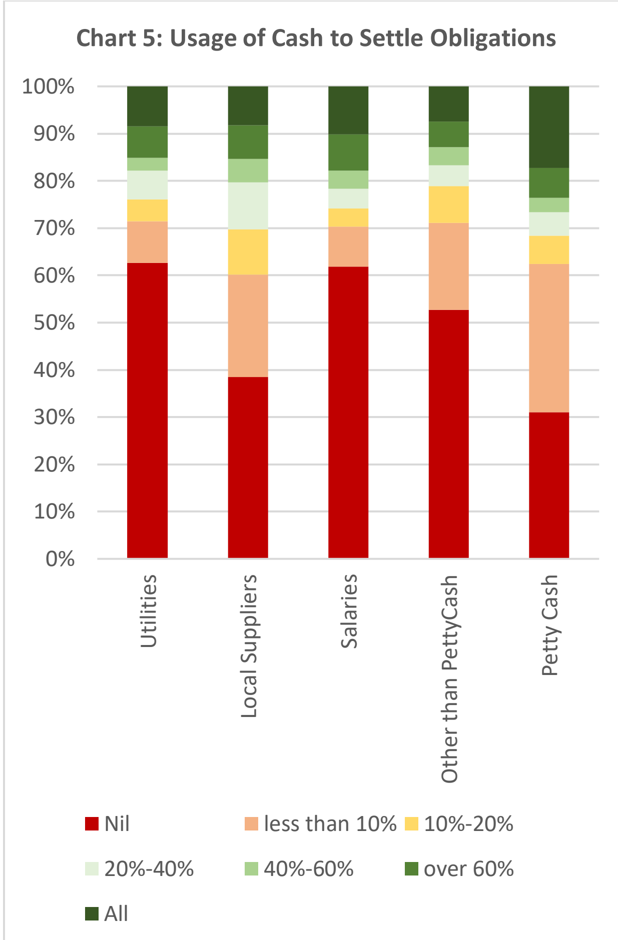
Taking the range of reported estimates into account and weighing by the share of firms, indications are that cash use was averaged overall in the low 20%–30% range for certain outlays, being more notable for local wages and supplier payments, than for payment of utility bills. The weighted average utilization fell below 30% for various other identified transactions, although being higher on average for payments to local suppliers.

Above these ranges, credit card usage for local payments (utilities and other suppliers) was slightly above the rate at which payments were made for similar transactions with cheques, but still less than one fourth of the respective transactions. Credit cards offered notably higher convenience for international payments and travel (more than 1/3 of transactions).

Most predominantly however, was the reliance on electronic banking to complete more than half of salary payments, and in the range of half of utility payments. Indications are that about 40%-50% of both payments for local and international suppliers of goods and services were completed via electronic banking channels.

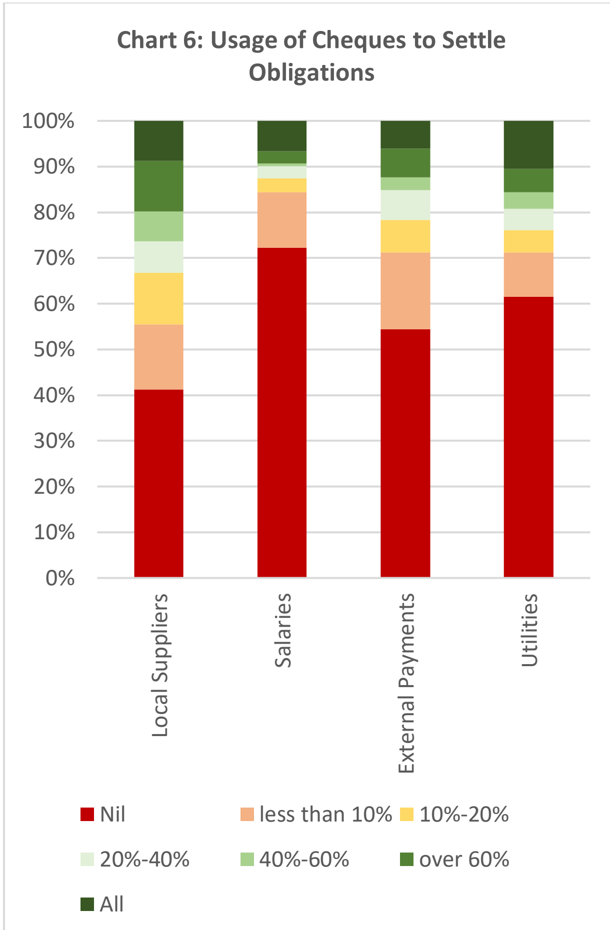
4.1 Cash Payments

As to the distribution of responses, when asked to estimate the fraction of utility bills paid in cash, the majority of entities (62.6%) shared that they did not utilize cash for such transactions. However, 8.8% of firms used cash for up to 10% of such payments, a lesser 6.6% paid over 60% of these expenses with cash, and 8.5% indicated that all of their utility payments were completed with cash. In terms of payments to other local suppliers of goods and services, the largest share of respondents—but less than half (38.5%)—did not utilize cash. Yet, 21.7% covered up to 10% of such payments with cash; 7.1% of firms paid more than 60% of supplier expenses in cash, while 8.5% of businesses settled all of their payments to local suppliers with cash. When questioned about paying salaries, 8.5% of enterprises indicated that less than 10% of obligations were paid using cash; while 7.7% covered more than 60% of salaries by cash and an estimated 10.2% paid all salaries in cash. That said, an estimated 61.8% did not use cash for any salary payment transactions.



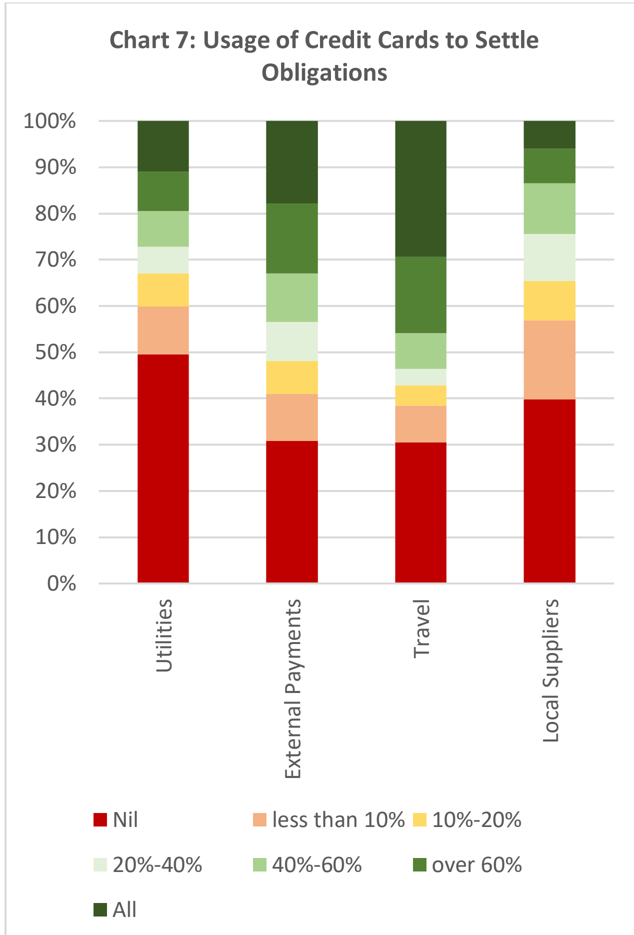
4.2 Cheque Payments

While cheques were more common for payments than cash, most businesses (61.5%) avoided the instrument for payment of utility bills. On the other extreme, an estimated 10.4% of respondents use cheques exclusively to pay utility bills. Meanwhile, for payments to other local suppliers of goods and services, checks were avoided entirely by 41.2% of respondents; and used exclusively by some 8.8%. Other practices fell in the middle of this spectrum. Salary payments were also not significantly settled by cheques. Nearly three-quarters of respondents avoided any use of this option, compared to just 6.6% of firms that paid all salaries by cheques. Otherwise, 12.1% of firms revealed that less than 10% of salaries were paid using cheques; while 2.7% of entities paid at least 60% of their obligations in this manner.



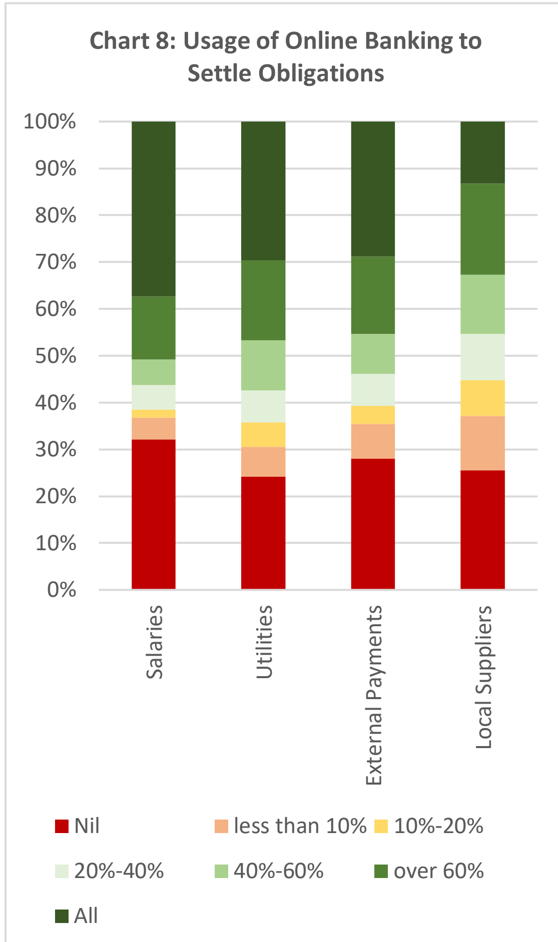
4.3 Credit Cards

For credit cards, the largest share of entities (49.5%) did not pay utility bills with this tool; although about 10.4% of respondents used it for up to 10% of bills; another 8.5% settled over 60% of their obligations using this method. Nevertheless only 11.0% of respondents covered all of their utility bill payments in this manner. Incidences of card usage for payments to other local suppliers were higher: only 39.8% of firms did not use the option at all, whereas 6.0% of entities settled all supplier expenses with a credit card. When payments to foreign suppliers were considered, card usage further increased, with only 30.8% of business not using the option at all and 17.9% of respondents using this method exclusively.



4.4 Online Banking

Online banking services accommodated the highest single concentration of payment preferences. Strict non-usage was indicated for 37.3% of firms for utility payments, versus 29.1% for directing international payments, 27.7% for local suppliers and 38.0% for salary payments. Conversely, online banking was the exclusive payment means for 45.8% of firms making utility bill payments; 30.0% of firms making international payments; 14.3% of those making local supplier transfers and, and exclusively for 38.0% of firms executing salary payments.

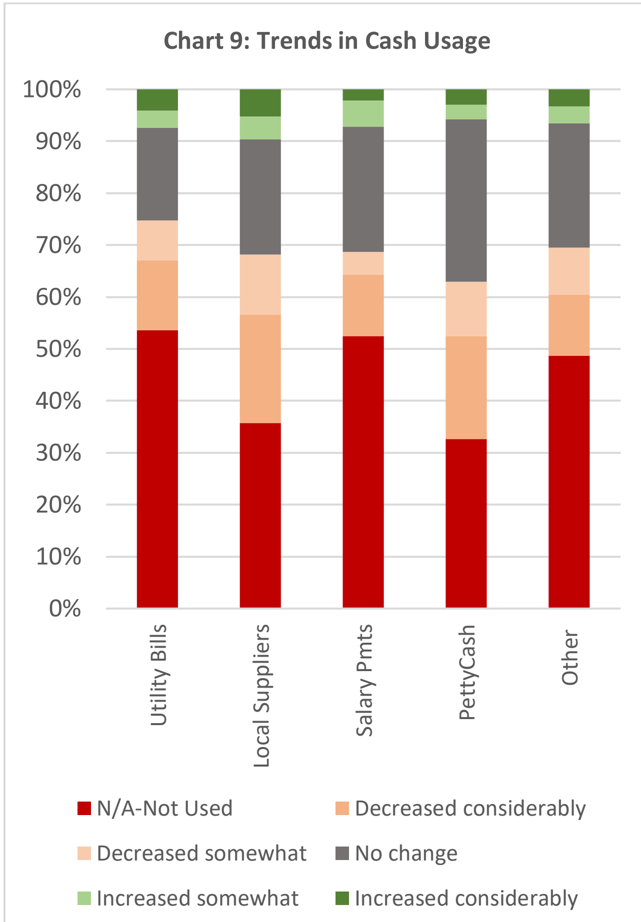


5 Trends in Payments Volumes by Instrument

In an effort to determine whether businesses and organisations current spending trends had changed from the previous year, respondents were asked to estimate how the volume of payments made through alternative channels had changed compared to 2019. In the case of increased usage, non-cash payment methods registered gains among a larger proportion of firms, than those which scaled back on such instruments.

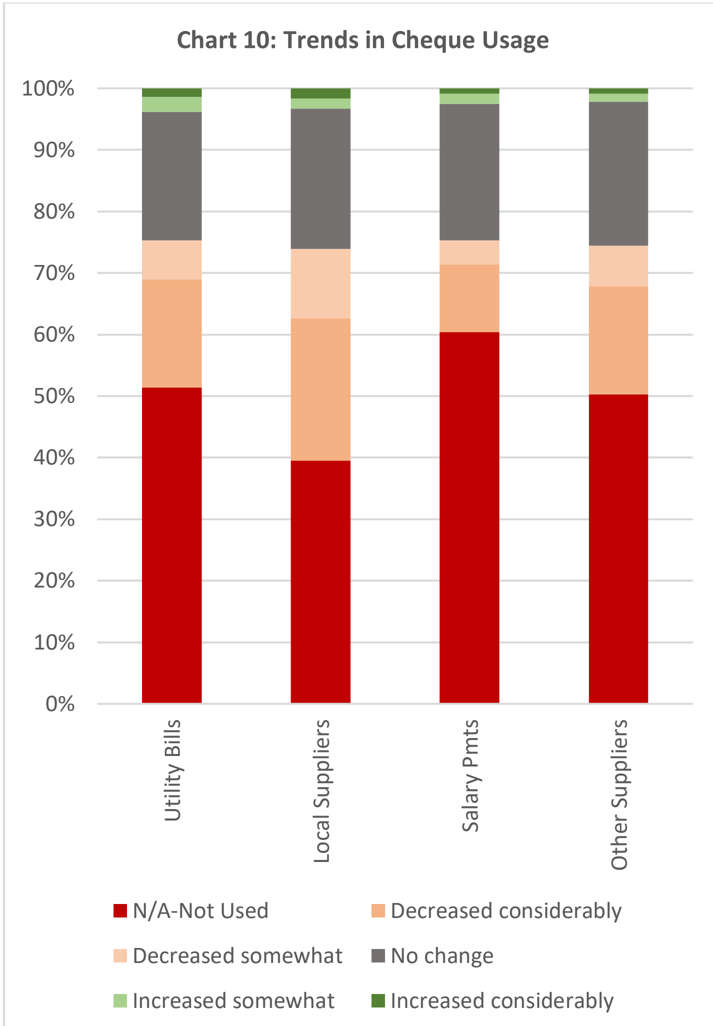
5.1 CASH

In particular, 21.2% of firms disclosed considerable or somewhat decreased use of cash for utility bill payments in 2020 versus only 7.4% that disclosed some level of increase usage. About 17.9% of businesses maintained cash payments of utility bill at the same level as the previous year. An estimated 32.4% of firms disclosed some measure of reduced cash payments to other local suppliers of goods and services, whereas about 9.6% increased their usage. Some 22.3% of businesses disclosed that cash payment practices held stable. In terms of salary payments, 24.2% of businesses that utilize cash to pay staff did not change this form of payment, but 16.2% noted that the use of cash decreased either considerably or somewhat; and only 7.1% indicated that the practice had increased.



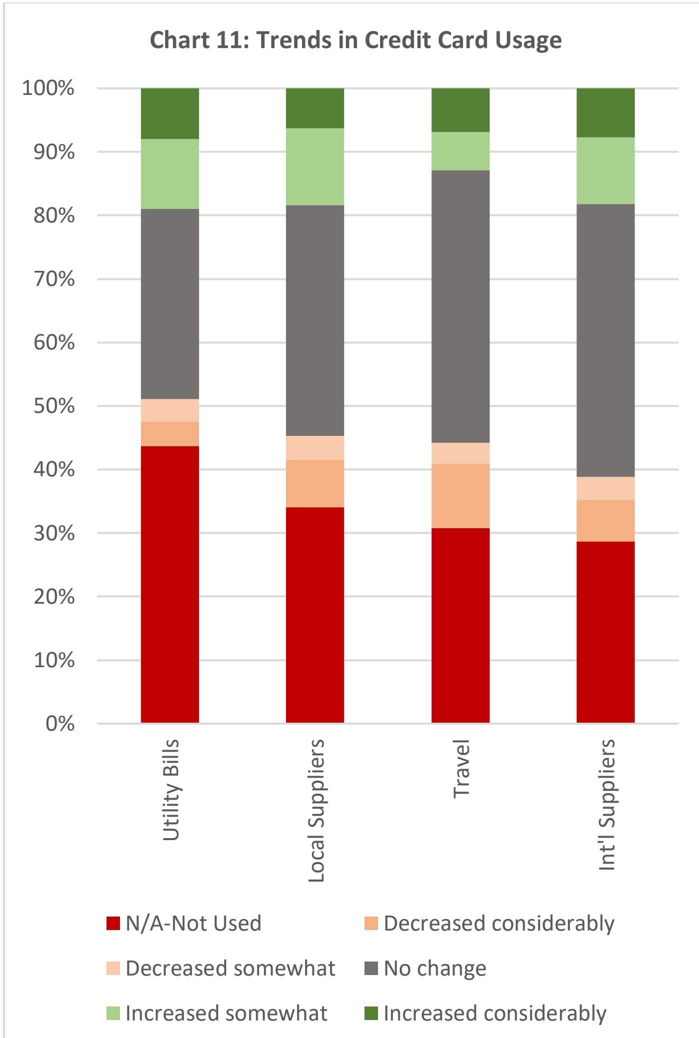
5.2 CHEQUES

About 20.9% of businesses maintained their level of cheque writing to pay utility bills; while 23.9% noted the use had decreased and only 3.9% had increased such payments. More markedly, an estimated 34.4% of businesses disclosed that their use of cheques to pay local suppliers decreased somewhat or considerably, in contrast to 22.8% noting no change, while only 3.2% reported using more cheques to pay local suppliers. In the salary payments category, 22.3% of businesses that utilize cheques to pay staff did not change this method of payment, although 14.8% noted that the use of cheques decreased either considerably or somewhat; and while just 2.4% had increased such usage for salary payment.



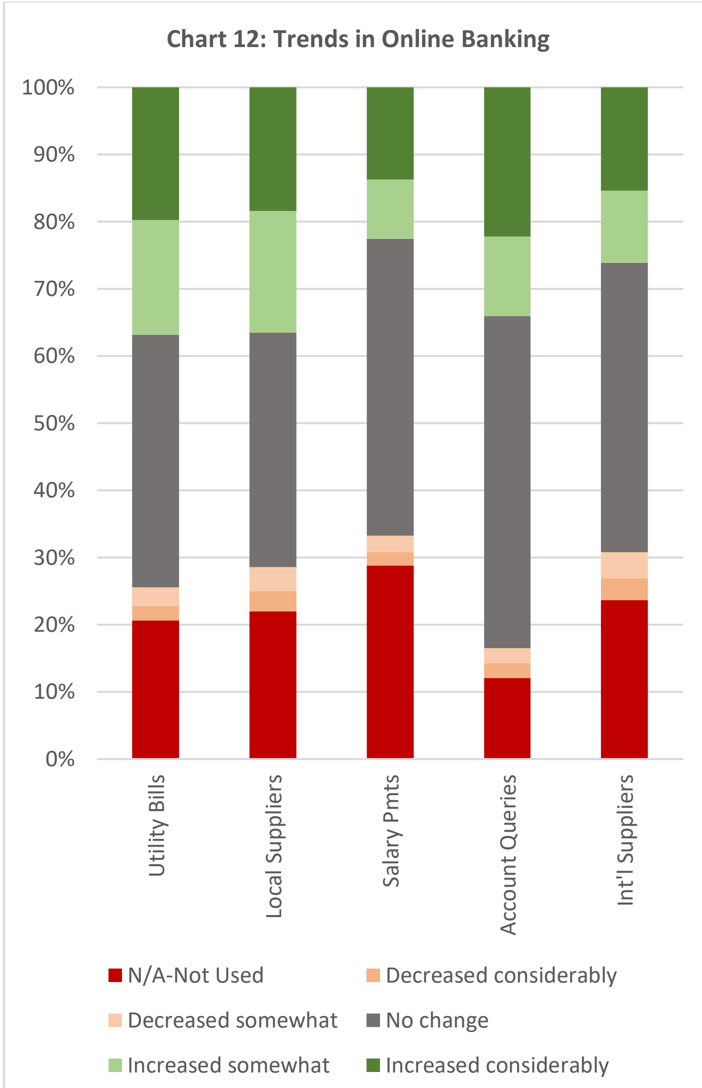
5.3 Credit Cards

In terms of credit cards being utilized as a payment method, the largest concentration of entities those that used this payment type did not alter the practice for utility bills (29.9%) or payment of both local (36.3%) and foreign (43.0%) suppliers for goods and services. In the meantime there was increased (either somewhat or considerably) card usage for 19.0% of business for utility bills; and for 18.4% and 18.8%, respectively, for local and foreign suppliers. Significantly fewer fractions of firms, in all instances, were using cards less frequently.



5.4 Online Banking

Aside from high percentages of firms that maintained their payment practices for online banking, the pattern also emerged where a significantly larger concentration was using the method more than those which scaled back on such practices. For salaries, this practice was increased on some level for 32.5%; for payments to local suppliers, 36.5% and by 26.1% for foreign supplier payments.



6 Understanding Instrument Usage

The survey also queried why some businesses did not conduct certain payments online.

As to their reasons for not conducting certain transactions via online banking, while the largest concentration (17.0%) of respondents in this grouping selected 'other' as their reason, an estimated 5.8% in these noted that the service was unavailable to them. Security risks and high bank fees were identified as inhibiters for 2.2% of firms in each case, while 1.9% indicated that settlement speed was too slow.

In a follow up question querying what would persuade non-participating business businesses to embrace online banking, 11.3% said an improvement in settlement speed would motivate them to switch. A smaller percentage of businesses indicated lower bank fees (6.6%) and more security assurances (6.3%). If the service was available, another 4.7% of respondents would be swayed to conduct their transactions online.

Finally, when asked to give their opinion on the level of changes or improvements needed in the current state of digital payments in the country, 64.3% of businesses said that fees charged by financial institutions required major improvements. Some 52.7% said major changes were needed with respect to potential to fraud and 51.3% indicated that the security of technology required major improvements. Additionally, 46.4% said major improvements were needed with respect to convenience and volume of customer interest and 43.4% noted that readiness of POS and receipting systems needed major changes.

7 Payment Receipting Practices

Businesses also shared payment receipt practices based on the share of revenue received through physical versus various categories of electronic instruments. Although insights were not queried on how each transaction volume shifted in comparison to 2019, there were indications that on net, revenues received through electronic payments (channels other than cash or cheques) increased during 2020. Additionally, respondents noticed increased interest from customer to use electronic payments.

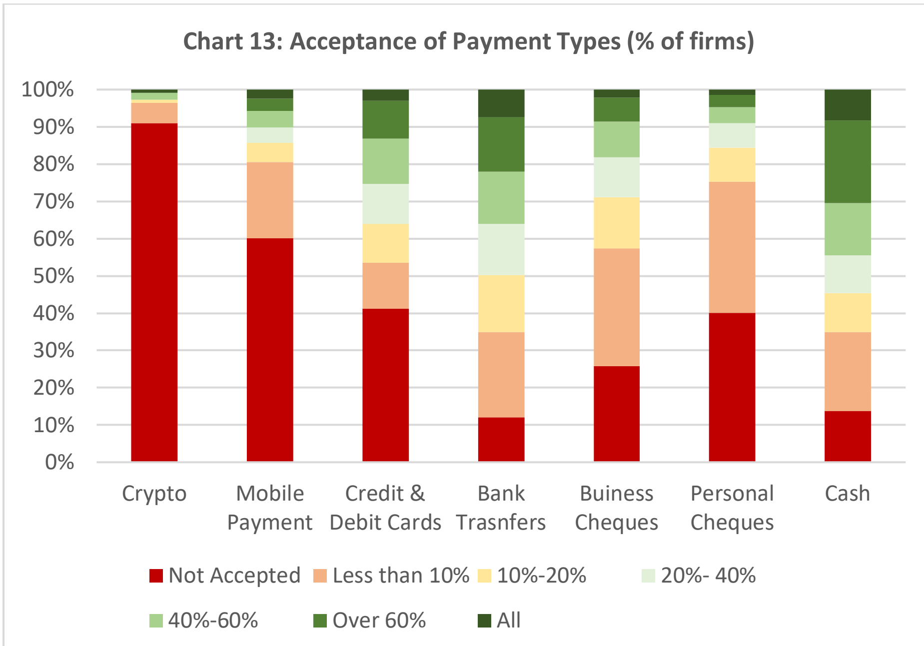
As to accepted means of payments, cash was still the most widely embraced, with the least accepted instruments being in the emergent categories of cryptocurrencies and mobile wallets. In particular, only about 13.7% of entities accepted no form of cash payment, while two-thirds indicated that cash represented about of 10% or more of their receipts. Still, less than 10% of businesses realised all of their revenues in the form of cash.

In the case of cheques, business-drawn instruments were more favoured than personal cheques with some degree of acceptance by three-quarters of firms versus only 60% of firms that also accepted personal cheques.

Credit and debit cards were accepted among approximately 60% of firms. However the average share of revenues from credit and debit cards was greater than for either category of cheques, and only outpaced by funds received through electronic bank/wire transfers.

In fact, wire transfers ranked second in importance to cash, for firms that received at least 20% or more of their intake through this medium—about half of all businesses versus approximately 55% of all firms that average such levels for cash.

On a weighted average basis[2], the revenue share represented by cash collection was estimated in the upper 20% to mid-30% range; a lower but slightly similar distribution was estimated for wired or transferred revenues, with credit and debit card potentially approaching about one-quarter of receipts; and cheque receipts accrued in the lower 20% range. That said, these reflect a sample weighted towards small businesses.



8 Conclusions

According to the business digital payments survey, both acceptance and use of electronic payments increased in the Bahamas during 2020. In the meantime, cash and cheque usage declined. Moreover, using outlays as an indicator in the business-to-business space, the cash usage rate was lower than for cash receipting, more indicative of the flow of consumer to business payments. Most businesses and entities participate on some level in electronic payments. Where it was indicated that usage was not yet the case, such as with the online banking transactions for some entities, cost considerations ranked lower in aggregate than collective concerns over speed of settlements, fraud and, in some cases, access to the convenience. These findings provide some strategic insights into national approaches that can be crafted to promote accelerated reduction in the use of cash and cheques in domestic payments.

[2] This calculated as the sum of is taking the mid-point of each revenue share range, and weighting by the fraction of firms providing selecting that for that revenue share range. The weights of the firms sum to one. A further scaling, normalizes the sum of the revenue shares to 100%.