



GLOBAL CASH MANAGEMENT: GOING GREEN

INTRODUCTION

As environmental issues gain greater attention, pressure is being placed on all industries, including financial services, to implement “green” initiatives. While green banking is not yet a key reason for most customers to select one financial institution over another, customer demands and greater environmental awareness are driving a number of financial institutions to go green. In fact, according to the U.S. Green Building Council, almost every major U.S. bank has at least one large office property going green, whether it be through the use of more environmentally friendly materials for carpeting, greater use of energy-efficient light bulbs, or some other means. Additionally, many banks are also implementing green banking initiatives to help customers reduce their impact on the environment and better protect natural resources.

To date, more than 90% of new green banking initiatives have been targeted toward consumers (i.e., credit cards with green rewards, green lending, promotions for receiving e-statements and paying bills online, etc.). That said, Aite Group is beginning to see early-stage efforts by banks to implement green initiatives for their corporate and small-business customers as well (Figure 1 on page 2).

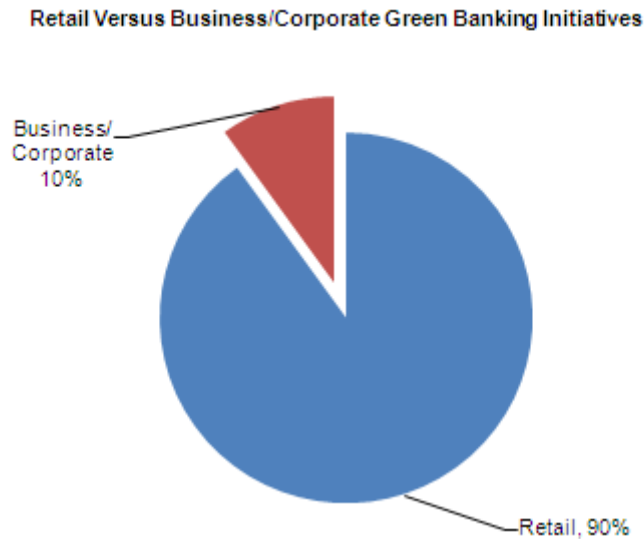
This paper analyzes the cash management industry, and the ways in which financial institutions can help their corporate customers become greener. It also identifies areas in which new opportunities exist for banks to help corporate clients eliminate paper-ridden processes, as well as potential environmental benefits of those initiatives.

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IMPACT NOTE

FIGURE 1: BREAKDOWN OF BANK GREEN INITIATIVES ACROSS RETAIL AND CORPORATE BANKING

Source: Aite Group

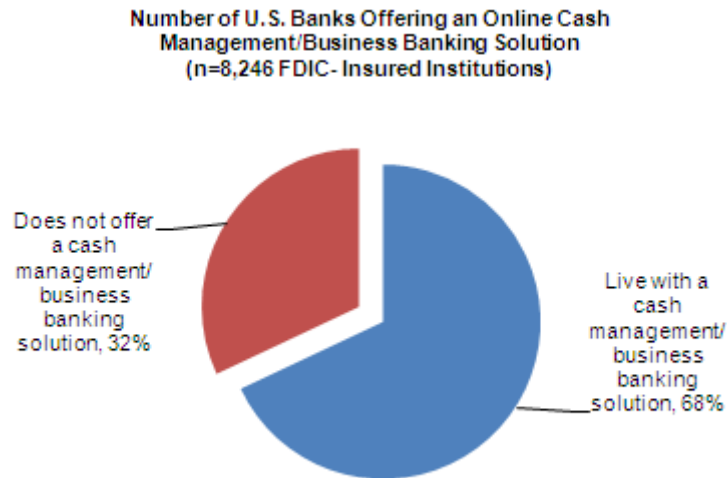
HOW “GREEN” IS CASH MANAGEMENT?

Aspects of the cash management industry have been electrified to a large degree over the last decade. Online cash management/business banking solutions, for example, are currently offered by approximately 68% of U.S. banks and most banks around the globe. These platforms are environmentally friendly by design, automating paper-based processes and helping remove paper from hosting banks and their customers alike (Figure 2 on page 3).

These solutions provide business customers with convenience, accelerated fraud detection, better operational efficiencies and a reduction in manual errors. To date, however, banks have done little to emphasize the green benefits that go hand-in-hand with the use of online cash management systems. By logging onto a bank's system, for example, a treasurer does not need to receive a fax from the bank to provide daily clearing and balance information, nor does he/she need to print and fax transfer request forms to initiate a wire. Reports for account transactions, which for large corporate users often average 10 to 30 pages daily, can be viewed online, reducing the amount of paper needed to support the process. These platforms also enable businesses to modify Positive Pay and ACH control lists online, rather than printing and faxing the changes to the bank. An estimated 210 billion sheets of paper are consumed by company faxes in the United States each year.

With the increasing importance being placed on going green by customers and the financial service industry and potential regulations focused on companies reducing their carbon footprint, banks should place a greater emphasis on communicating the green benefits of these online cash management solutions to their customers. In doing so, banks can increase the value they bring to their client relationships by supporting both ongoing and new corporate green initiatives.

FIGURE 2: SIXTY-EIGHT PERCENT OF U.S. BANKS OFFER A BROWSER-BASED CASH MANAGEMENT/BUSINESS BANKING SOLUTION.



Source: Aite Group

THE GREENING OF CORPORATE TREASURY

Adoption of bank cash management systems supports paper reduction and therefore benefits the environment, but more can be done. Everyday functions within cash management practices continue to be hindered by processes that rely heavily on paper. Aite Group recognizes that much of the paper will not go away overnight — in some cases, such as a business's ability to receive electronic invoices, going green may require the deployment of new technologies that corporate treasury departments may not have the budgets for. That said, several opportunities exist for the cash management and treasury process to have an even greater green impact. Aite Group sees the greatest green opportunities in: (1) information delivery, (2) payments, (3) invoicing and (4) interfaces between bank and corporate treasury systems.

INFORMATION DELIVERY: ACCOUNT ANALYSIS STATEMENTS

Aite Group estimates that despite high online cash management adoption rates, approximately 85% of businesses generating greater than US\$10 million in annual revenues continue to also receive paper-based account analysis invoices/statements. These statements provide bank clients with details about transaction volumes processed, number of accounts maintained, balances in the accounts and earnings credits for those balances, and serve as invoices from a bank. In a nutshell, the greater the number of accounts or transactions a customer has with a bank, the longer the statement. Across the industry, customers typically receive these statements via mail on a monthly basis.

Banks should help their corporate clients operate in a greener fashion by enabling them to take advantage of bank online offerings, which make account details available on the banks' Web site through e-mail or via secure e-mail links to the statements. On average, five to seven pages of paper per account analysis statement could be saved, along with mailing envelopes, postage, and the transportation involved with mailing paper statements.

By sending the information electronically to corporate systems, this process will also accelerate and support automating the account reconciliation process, though typically done through the use of third-party solutions. In addition to saving trees, electronic statements enable corporations to streamline processes, reduce risks of manual reconciliation errors, and free-up valuable staff time to focus on more strategic treasury issues. Automating reconciliation processes also provides hard-dollar benefits by assisting corporations in more rapidly identifying billing errors. As many banks auto-debit for monthly fees prior to corporate reconciliations, the sooner the errors are identified, the more quickly the funds are credited back to the corporation's account.

PAYMENTS

Perhaps the greatest near-term opportunity for corporations to reduce their impact on the environment, especially in the United States, is in the payments arena. Unlike in retail payments, where checks account for significantly less than half of all transactions, paper check transactions account for nearly three-fourths of all U.S. business-to-business (B2B) payments. The percentage of paper check transactions is lower on a global scale.

Many companies' accounts payables solutions automatically generate paper check issuance files. These files feed systems at the company, bank or other third-party vendors used to print the checks and mail them, along with lists of clarifying remittance information. Each paper check requires physical transportation and postage costs, which creates an immediate and persistent negative impact on the environment. In fact, Aite Group estimates that U.S. businesses currently write 7.7

billion paper checks per year. Table A describes the resources that could be saved by converting even 10% of B2B paper checks to electronic ones.

TABLE A: RESOURCES CONSERVED BY CONVERTING 10% OF PAPER CHECKS TO ELECTRONIC ONES

Resource	Savings
Pounds of paper saved	More than 2.3 million
Tons of greenhouse gas avoided	283,815
Gallons of gasoline saved	More than 29.2 million
Gallons of waste water prevented from discharging into rivers and lakes	More than 22.5 million

Source: NACHA's PayItGreen Alliance

Corporate customers can remove millions of paper check payments from processing flows by choosing alternative payment methods like wire transfers, ACH and commercial cards. Advances to bank online cash management solutions have made a significant impact on the general efficiencies of corporate clients. It's easier than ever before, for example, for business customers to set up one-time or repetitive payments, upload secure payment file transfers from corporate ERP systems, and benefit from the added security of multi-tiered entitlements, ensuring that only authorized payments are being released.

Transitioning from paper to electronic payments not only helps the environment, but can create immediate savings for the business customer as well. While reducing paper and printing costs, electronic transactions also accelerate commerce. Instead of waiting for checks to be delivered or risking a check being lost in the mail, a corporate client can make an electronic payment and ensure it is delivered directly to the appropriate account.

Corporate treasury depends on the timely receipt of information to effectively perform daily functions. Electronifying information often impacts customers, and can create additional work if systems can't read the information. Recognizing this, electronic payments governing bodies such as NACHA, commercial card networks and the Federal Reserve are improving their information delivery capabilities for B2B transactions. ACH transactions are increasingly used to transmit information electronically, commercial card companies provide electronic information at the line-item level, and the Federal Reserve is in the process of standardizing remittance information for wire transfers to improve wire transfer information capabilities. This appears to be paying off, as NACHA has reported that payments with electronic remittances grew more than 15% from 2007 to 2008.

AUTOMATING INVOICING PROCESSES

Contributing greatly to the green opportunity presented by electronic payments is the automation of the supporting invoice and remittance information associated

with each payment. Companies produce invoices for all of their buyers. In the B2B space, a large percentage of these invoices are paper-based and multiple pages long. Driving this high volume of paper is the fact that many corporate systems are unable to accept electronic invoices or send electronic remittances. Since both buyers and suppliers depend on the information provided by the invoice to reconcile accounts payable and accounts receivable information, paper is necessary unless both parties can support electronic transactions.

One way to "green" this process is to increase the number of electronic invoices sent through tools such as robust supplier networks. While some banks utilize electronic data interchange capabilities to offer such a service to suppliers, most banks find it easier to work with vendors that offer capabilities for financial supply chain automation. A bank's role in such a scenario is to intercede between their supplier customers or the suppliers of their payer customers and the technology vendors to get buy-in for converting paper invoices to electronic ones. Banks may also work with payer customers to have the electronic invoices sent directly to the bank instead of the payer, where the bank can perform matching functions against the payer's purchase orders and payables files.

Assuming each payment has an invoice and remittance associated with it, the opportunity to reduce paper is enormous. As remittance info largely has a 1:1 ratio of check to remittance file, electronifying remittances along with the check payment immediately doubles the opportunity presented in Table A on page 5. B2B invoices, however, are at minimum two pages in length (one for the invoice, the other, the envelope), with many much longer. Invoices from utility companies, larger suppliers, shipping companies and other high-transaction-volume relationships can be far longer. Assuming the average B2B invoice is four pages long and includes only one remittance page and an envelope, converting just 5% of B2B paper invoices to electronic formats would save more than 3 billion pieces of paper annually!

INTERFACES BETWEEN BANK AND TREASURY SYSTEMS

Finally, business customers can reduce the exchange of paper by working with their banks to establish tighter integration and/or interfaces to their internal systems, such as treasury management system (TMS), enterprise resource planning (ERP) systems, etc. Faxes and mailings of paper remittance data utilize significant amounts of paper to provide companies' treasury areas with details on payments received.

In addition to saving paper, tighter integration also helps a bank's business customers operate more efficiently and reduce the risk of errors associated with manual entries. A recent Aite Group survey of the 50 largest U.S. banks found that 87% of survey respondents believed that a direct bank interface to their customers' ERP systems is either very important or extremely important to their

largest customers. While establishing such an interface may not be an easy task, it can be achieved if banks, vendors and their shared corporate customers work together, resulting in greener processes.

CONCLUSION

While online platforms have successfully removed a great deal of paper from the cash management process, opportunities continue to exist for the cash management industry to operate more efficiently and with fewer paper exchanges. Green banking is a win-win situation for all participants, and banks would be well-served in their efforts to bring these benefits to the attention of the corporate clients in an increasingly competitive marketplace. By adopting greener banking practices, businesses will not only be helping the environment, but will also benefit from greater operational efficiencies, a lower vulnerability to manual errors and fraud, and cost reductions. Banks are already offering many of the services necessary for businesses to enjoy these benefits, and they must be more vocal about the inherent green value proposition. It is now up to the businesses to adopt them. Every small step taken today will have a positive effect on the future of our planet.