Five Best Practices for Managing Global Payments in a Changing World

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Companies are seeking new ways to effectively address complex global payment and cash management issues. Comprehensive and flexible payment hubs will soon become the “dominant architecture in the payment industry,” and new strategies are required to optimize the use of this emerging business model.

**Today’s Payment Challenges**

Managing enterprise payments has become increasingly complex and demanding. Businesses now face a host of challenges that did not exist a decade ago when the world was undergoing a boom period and credit was plentiful. In that business environment, a lack of efficiency and discipline in payment processing and cash management could be obscured within the overall positives of the macroeconomy. We now live in a very different world where credit is tight and the macroeconomic environment is both risky and fragile. As a result, an organization’s inefficiencies have the potential to make the difference between survival and failure.

Another challenge facing today’s enterprises is the emergence of a truly global economy. Ten to 15 years ago, the supply chain for most corporations was primarily domestic and managed by a central organization. Now the supply chain, on both the buy and sell sides, has become international. As a result, financial systems supporting the supply chain have become much more diverse. Globalization has led to new markets, operations, suppliers, customers and banks, not to mention new sources and uses of cash. Most legacy back-office systems are not capable of efficiently managing these new relationships. Increasing globalization has also led many companies to adopt regionalized treasury and accounting strategies that are far different from the centralized control that previously dominated.

A third factor affecting many companies is growth through mergers and acquisitions. This has led to financial and operating complexities including:

- Multiple divisions and business sites within an organization, often with different operating procedures and business processes.
- Multiple legacy and back-office systems, including banking, enterprise resource planning (ERP) and line-of-business applications.
- Multiple accounts and banking relationships to manage cash, disbursements and collections.

The removal of the unlimited-credit safety net, the addition of complex new requirements for international commerce, and the inconsistencies and complications brought on by corporate mergers and acquisitions have led many organizations to seek innovative new approaches. Today more than ever, businesses need integrated solutions that will address all the multifaceted business processes surrounding global payments and cash management.

**Enterprise Payment Hubs Unify Payment Operations**

Many high-performing organizations are deploying a payment hub (also known as an enterprise payments architecture) to streamline and standardize their payments processing across all enterprise applications, payment types and banks. Acting as a single payment gateway, a payment hub helps increase efficiency, improve control over funds, mitigate risk and increase visibility.
Unlike transaction-based, siloed systems that are dedicated to specific payment types (wire transfers, checks, electronic funds transfer, etc.), a payment hub manages the interface between all back-office systems, treasury workstations and other systems associated with payment and cash management. According to a report by McKinsey & Company, “Payments hubs are still a new technology but over time they will become the dominant architecture in the payment industry.”

Implemented properly, a payment hub can:

• Support global payment and remittance standards.
• Seamlessly manage electronic and paper payments.
• Consolidate workflow, inquiry, reporting and control capabilities.
• Leverage technology to provide scalability and high availability.
• Manage the complete payments lifecycle.
• Reduce exposure to risk.

The rest of this paper will examine five key areas that a payment hub must address and recommend best practices that can ensure you execute the business-process changes required to minimize risk and improve cash management.

**One: Managing Domestic Payments**

**Current Situation**

**The Paper Chase.** Great inefficiencies plague the domestic accounts payable (AP) process, and the number one culprit is paper. The Aberdeen Group estimates that more than 70% of business-to-business (B2B) payments remain paper-based in the U.S.

The effect of this reality is profound: increased cost, inefficiency and risk. Processing a paper check can cost up to $17 and can take up to 28 days. Compare that to Automated Clearing House (ACH) payments, where the average cost is $1.66 and it takes 1.5 to 3 days for payment issuance. Beyond the escalating costs and support requirements, paying by check also leaves your organization more vulnerable to risks such as check fraud (a recent AFP survey indicated that 93% of fraud attempts involved paper checks), duplicate checks and failure to meet escheatment-process requirements.

**ACH.** ACH payments, on the other hand, offer significant benefits, which is why many best-in-class companies have moved from checks to ACH as their primary means of managing repetitive AP payments. Not only are electronic payments much more cost effective and resistant to fraud and errors, but they also allow you to achieve the efficiencies you need in order to take advantage of contractual discounts. The average company takes only 66% of its contractually available early-pay discounts. That means, if a company spends $1 billion a year, it could lose $2 million to $5 million annually—money that goes directly to the bottom line.

With so many clear advantages to paying strategic vendors via ACH, why isn’t its use more widespread? Many companies that resist moving to ACH give two primary reasons: concern about loss of check float and the need to provide detailed remittance information. The use of a payment hub eliminates both of these concerns as it provides the capability to control the date that an ACH is sent to the bank for payment and also allows unlimited flexibility in the formatting of remittance data to meet each vendor’s requirements.

**Domestic Wire Payments.** In addition to ACH, another form of electronic payments that must be managed is wire payments—also known as “real-time gross settlement” (RTGS). Most often used to meet critical, same-day settlement requirements, RTGS transactions are not subjected to any waiting period. The challenge that most companies face with wire payments is that they are:

• Often originated outside the standard payment workflow.
• Labor intensive since they need to be keyed into the appropriate bank-specific workstation and then separately into the appropriate back-office system.
• Susceptible to data-entry errors and subject to processing overhead and expense.
Industry Best Practice

Best-in-class companies are eliminating checks for payments to the majority of their strategic vendors and are automating processing for their remaining AP check requirements. By using a payment hub, you can receive payment data from ERP and other back-office systems for multiple payment types in a single file. The payment hub can then discern what type of payment is being requested, process it in whatever format is received, and automatically generate the type of payment required.

In order to be successful, your payment hub must meet the following requirements for each payment type:

- **ACH.** Create files for payments that can be released for payment based on the corporate requirements for cash-flow management. These payments must be formatted to meet the organization’s ACH clearinghouse requirements and must provide remittance in whatever format the vendor requires. This eliminates the check-float and remittance objections raised as a barrier for adopting ACH.

- **Wires.** Automate and standardize the management of the workflow and data associated with wire payments. This includes meeting both the internal and external compliance requirements and being able to automatically execute the wire transfer in whatever format is required for domestic and international RTGS payments.

- **Paper Checks.** Automate the entire check processing workflow, including offering local or distributed issuing and printing of checks and providing remittance information in whatever format is required. In addition, the payment hub must manage the post-check-issuing process, including positive pay, risk mitigation for duplicate checks, escheatment and reconciliation to help eliminate internal and external fraud.

Domestic Payments Best Practice

Adopt electronic payments for the majority of your payments to strategic vendors and automate all approval and disbursement processes to improve the efficiency of other payments, including checks.

Best Practice Implementation:

- Generate validated ACH payment files that meet both NACHA and other clearinghouse formats and vendor remittance requirements.

- Deliver remittance information electronically in whatever format the vendor requires.

- Standardize all processes associated with management of urgent/high-value real-time payments.

- Ensure that paper check processing is as automated as possible by centralizing approval, supporting distributed printing, positive pay, escheatment management and other check fraud mitigation techniques.

Two: Managing International Payments

Current Situation

The most daunting payments challenges facing U.S. companies doing business globally center on electronic funds transfers:

- **ACH.** Most countries outside of the U.S. have their own ACH structures. This requires extensive knowledge of local requirements in order to successfully complete an ACH transaction. Furthermore, ACH payments in the United Kingdom pose an additional challenge not faced elsewhere. The Bankers Automated Clearing Service (BACS), the electronic ACH system used in the United Kingdom, has a set of unique requirements because it is “conversational,” requiring authentication for each message. This necessitates a messaging conversation between the receiving BACS service center and the service sending the payment. Many systems/services are not currently capable of handling this requirement.
International Wire Payments: While wires (or RTGS payments) are very popular internationally, they pose a set of idiosyncratic challenges. Individual banks often have their own rules for the format of wire payments, which can complicate transactions. This has led many organizations to be dependent on multiple, bank-specific workstations, which increases both operational and support complexity.

Checks: Checks are much less of an issue for international payments because their use is rapidly declining, especially in Europe, where checks are no longer used in many countries. When making cross-border payments by check, the biggest hurdle is translating the payment line into the language of the receiving country.

Industry Best Practice
Best-in-class companies are implementing a single payments solution that is capable of automatically configuring their international payments into whatever format is required. Success calls for a payment hub that can:

• Automatically manage the specific ACH format of the countries where you are making the payment, including the outbound and associated confirmation aspects of the UK’s BACS system.

• Support the Society for Worldwide Interbank Financial Telecommunications (SWIFT) message format (now considered the standard for international banking communications and leverage a library of bank-specific adapters to satisfy the unique formatting needs of individual banks around the globe.

• Handle the translation of check amounts and MICR lines into whatever format and language is required.

International Payments Best Practice
Implement an enterprise payments architecture that is capable of creating industry-standard, bank-specific and nation-specific formats for payments.

Employ a payment hub that:

• Facilitates a diverse array of complex global payment types.

• Effectively manages cross-border payments for ACH, wires, and multicurrency and multibank checks, and drafts.

• Supports the latest industry-standard electronic payment formats including SWIFT, BACS, U.S. and international EDI standards, Fedwire and international RTGS requirements.

• Provides the capability to support bank-specific formats when required.

Three: Managing Workflow and Business Process
Current Situation
Managing the global payments workflow is challenging for most organizations. A company may employ straight-through processing; have several payment approval variants based on the type of transaction, amount of the payment and/or account balance issues; or use a combination of both. In addition, payments may originate in several different systems and there may be multiple generation and approval workflows that further complicate the process. The inescapable result is widespread inefficiency.

While many organizations have one or more systems addressing some part of their payments workflow, most lack integration among the workflow components of those systems. The reality is that most organizations still manage a significant amount of their payments process manually. This further slows decision-making and decreases productivity and efficiency.

Considering all these factors, it is not hard to understand why most companies have found it very difficult to centrally manage their approval and disbursement workflow. Current payments operations are in most cases highly idiosyncratic, lack consistency and do not take full advantage of the benefits automation can provide.
Industry Best Practice

Best-in-class companies are automating their entire payments workflow using flexible solutions that can accommodate all the different variants associated with the approval and disbursement of a payment. A payment hub is the ideal vehicle to centralize this activity and provide a consistent workflow process regardless of payment type or the system of origin.

Your payment hub needs to incorporate sophisticated workflow management capabilities that enable you to:

- Consolidate workflow into a single, centrally managed system.
- Easily customize and automate business rules.
- Set up configurable entitlements so that everyone of a particular level or function is part of a group that has the ability to approve and/or view a defined set of payment activities.
- Efficiently handle required entitlement changes as employees are added, transferred or leave the organization.
- Produce automatic alerts triggered by specific business conditions, such as payments awaiting approval, error corrections, incomplete approval, payments rejected, etc., to improve throughput and productivity.

Workflow and Business Process Best Practice

Implement a consistent workflow across all payment types that is flexible enough to support your unique organizational requirements.

Best Practice Implementation:

- Select a payment hub with a flexible, rules-based workflow engine.
- Ensure that all transactions, regardless of payment type, go through the same workflow.
- Define transaction types and business rules for each entitlement and approval level.
- Group your employees into logical groups based on approval privileges to increase payments processing efficiency.

Four: Managing Risk Mitigation

Current Situation

The threat of payments fraud is a major concern for financial and treasury executives. According to a survey by the Association of Financial Professionals (AFP), 71% of organizations experienced attempted or actual fraud in 2010, while 82% of organizations with annual revenue of $1 billion or more were victims of payment fraud. According to that same survey, “checks are the dominant payment form targeted by fraudsters, with 93% of the affected organizations reporting that their checks had been targeted.” The U.S. Secret Service reports that check fraud is growing at a rate of 11.9% a year and that the annual loss to check fraud in the U.S. is $5 billion. Furthermore, a recent Association of Certified Fraud Examiners Survey showed that more than 60% of check fraud incidents involve employees.

In addition to the need to guard against fraud, organizations must also adhere to a growing list of regulations or risk penalty or prosecution. This includes ensuring that:

- All transactions are checked against lists, such as OFAC, to avoid making payments to government-sanctioned countries, organizations or individuals.
- International payments satisfy local and global regulatory requirements.
- Uncashed checks are escheated to the state government after a specified amount of time has expired. This is further complicated because laws vary by state and frequently change.
New risks have also arisen with the advent of a global business environment and the introduction of multiple international banking relationships. Organizations need to be able to react quickly to unstable political or financial situations in order to protect capital invested in foreign banks and uninsured funds in domestic banks. Because of the potential threat of fraud, the growing number of compliance requirements and the changing economic landscape, organizations must be ever vigilant and take proactive steps to reduce their exposure to risk.

**Industry Best Practice**

Best-in-class companies are using automated systems and controls to reduce risk and ensure regulatory compliance for both electronic payments and paper checks. A payment hub should be at the core of your risk mitigation strategy and must be configured to automatically:

- Check against a vendor master file and approved payee lists for all payments issued.
- Verify payee names and addresses against a variety of ineligible databases such as OFAC’s Specially Designated Nationals list, Federal Crimes Enforcement Network (FinCEN) database, etc.
- Monitor and block improper payments, including duplicate payments.
- Check vendor payments against lists of employee names and accounts to reduce internal fraud.
- Build “Positive Pay Plus” files for banks—which include account number, check number, payee name and dollar amount—to detect altered checks.
- Identify outstanding checks for escheatment.
- Quickly produce the information needed in the format required to move money from one bank/country to another in case of an unstable or volatile financial situation.

**Risk Mitigation Best Practice**

Leverage automation tools to mitigate risk.

**Best Practice Implementation:**

- Monitor checks as well as electronic payments.
- Automatically check payments against OFAC, FinCEN and other ineligible databases as well as against approved payee lists.
- Support Positive Pay Plus and provide tools that identify duplicate payments and potential employee fraud.
- Automate the escheatment management process.
- Provide the flexibility to quickly move funds if necessary.

**Five: Improving Visibility and Reporting**

**Current Situation**

Most organizations do not have the instant visibility and control they need to optimize working capital. Payments and cash positions are tracked separately, and the combination of globalization and mergers and acquisitions has led to an expansion of domestic and international banking relationships that further fragment process and control.

Reporting across multiple internal systems and multiple banks is extremely challenging for most enterprises. It requires time-consuming compilation of data from multiple sources and often involves manual efforts that are prone to errors and inconsistencies. In addition, the information reported is not in real time, which means financial executives are often making decisions based on outdated information. In many cases, this information is often unavailable when and where cash management decisions are made.
The increasing complexity of banking relationships and the need to consolidate balance and transactional data affecting available working capital requires both global accessibility and real-time visibility. It is no longer viable for companies to be operating on partial or out-of-date information. Accurate, timely and complete accounts payable and banking information is critical for overall corporate success.

**Industry Best Practice**

Best-in-class companies are adopting an integrated payments solution that provides real-time global access to transactional information and account balances. This can be achieved by implementing an enterprise payment architecture that consolidates payments and cash management positions in a single database by:

- Using industry standards for connectivity and messaging, such as SWIFT and BAI, to ensure visibility and management of activities within all of the enterprise’s banks and accounts.
- Interfacing with back-office AP and AR systems to integrate inbound and outgoing funds on a daily basis.

This centralization of immediately accessible information allows you to:

- Streamline the consolidation of financial information.
- View and control the balances on numerous accounts, across multiple banks, for optimal enterprise-level cash management.
- Receive up-to-date information for better visibility and control over cash positions.
- Forecast cash flow needs on a short-term basis and ensure that any upcoming disbursements are covered.
- Access reports consolidated by organizational reporting structure to make more informed decisions.
- Better manage liquidity by transforming data into actionable intelligence.

The solution must also provide the flexibility needed to easily organize report information depending on your needs and structure. Other desired reporting features include point-and-click functionality to make reporting faster and easier, multilevel drill-down capabilities for more efficient navigation through large quantities of information, and support for industry-standard reporting tools such as Microsoft Excel.

**Reporting Best Practice**

Implement a system that provides consolidated, real-time visibility to global cash-positions and transactions that affect available liquidity.

**Best Practice Implementation:**

- Have immediate access to consolidated, accurate and timely financial reporting on your entire cash position.
- Control balances on all accounts at all banks.
- Forecast upcoming liquidity requirements and availability.
- Enjoy the reporting flexibility needed to meet your organization’s unique needs.
Summary

Thriving in today’s demanding financial environment requires new strategies. The current macroeconomic situation and the increasing demands of a global supply chain and economy mean that you must become more efficient in your payments and cash management processes. A robust payment hub can provide an integrated solution that addresses the complex business processes surrounding global payments and cash management.

Implementing the right payments solution will enable you to adopt best practices in all the vital areas related to payments management:

- Domestic payments
- International payments
- Workflow and process management
- Risk mitigation
- Visibility and reporting

Adopting a state-of-the-art enterprise payments architecture in combination with proven industry best practices will allow finance managers to streamline the payment process and achieve new levels of efficiency, control and, ultimately, profitability.

References


