Business Solutions

Payments & Working Capital Optimization

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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 payments 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. We live in a world where credit is tight and the macroeconomic environment is risky and fragile. As a result, an organization’s inefficiencies have the potential to make the difference between survival and failure.

Enterprises are also now operating in a truly global economy. Ten to fifteen years ago, the supply chain for most corporations was primarily domestic and managed by a central organization. Now, the supply chain has become international and the financial systems to support it have become much more complex. Globalization has led to new markets, operations, suppliers, customers, banks, and new sources and uses of cash. Most legacy back-office systems cannot efficiently manage these new relationships leading many companies to adopt regionalized treasury and accounting strategies far different from the centralized control that previously dominated.

Finally, increased mergers and acquisitions have led to financial and operating complexities including multiple:

- Divisions and business sites, often with different operating procedures and business processes
- Legacy and back-office systems, including banking, enterprise resource planning (ERP) and line-of- business applications
- Accounts and banking relationships to manage cash, disbursements and collections

The removal of the unlimited-credit safety net, the addition of complex requirements for international commerce, and complications brought on by mergers and acquisitions have led many organizations to seek innovative new approaches. Businesses need integrated solutions that will address all the multifaceted processes surrounding global payments and cash management.
Enterprise Payment Hubs

Unify Payment Operations

Many high-performing organizations are deploying a payment hub 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, a payment hub manages the interface between all back-office systems, treasury workstations and other systems associated with payment and cash management.

Implemented properly, a payment hub can:

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

This article examines three key areas that a payment hub must address and recommends best practices to ensure you execute the business process changes required to minimize risk and improve cash management.
Managing Domestic Payments

The Paper Chase

Great inefficiencies plague the domestic accounts payable (AP) process, and the number one culprit is paper. Industry analysts estimate that more than 60% of business-to-business (B2B) payments remain paper-based in the U.S. The effect of this is increased cost, inefficiency and risk.

Processing a paper check can cost up to $17 and 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 cost and support requirements, paying by check also leaves your organization more vulnerable to risks such as check fraud, duplicate checks and failure to meet escheatment-process requirements.

Industry Best Practice

Best-in-class companies are eliminating checks for payments to their strategic vendors and are automating processing for their remaining AP check requirements. Using a payment hub, they receive payment data from back-office systems for multiple payment types in a single file. The payment hub discerns what type of payment is being requested, processes it in whatever format is received, and automatically generates the type of payment required.
Your payment hub must meet the following requirements:

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

- **Wires.** Automate and standardize the management of the workflow and data associated with wire payments. This includes meeting internal and external compliance requirements and automatically executing the wire transfer in whatever format is required for domestic and international Realtime Gross Settlement (RTGS) payments.

- **Paper Checks.** Automate the entire check processing workflow, including local and distributed issuing/printing of checks and remittance information in whatever format is required. The payment hub must also manage the post-check process, including risk mitigation and reconciliation to help eliminate internal and external fraud.

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**Accurate, timely, and complete accounts payable and banking information is critical for overall corporate success.**
Managing International Payments

Current Situation

Most payment challenges facing U.S. companies doing business globally center on electronic funds transfers:

- **ACH.** Most countries outside the U.S. have their own ACH structures which require extensive knowledge of local requirements. ACH payments in the United Kingdom pose an additional challenge. The Bankers Automated Clearing Service (Bacs), the electronic ACH system used in the UK, 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 legacy systems are not capable of handling this requirement.

- **International Wire Payments.** Wires (or RTGS payments) are often required for international payments and pose a set of idiosyncratic challenges. Individual banks often have their own rules for wire formats, which can complicate transactions. This has led many organizations to rely on multiple, bank-specific workstations, which increases both operational and support complexity.

- **Checks.** Checks are much less prevalent for international payments because their use is rapidly declining, especially in Europe. When making cross-border payments by check, the biggest hurdle is often translating the payment line into the language of the receiving country.

Industry Best Practice

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

- Automatically manage the specific ACH format of the countries to which you are making the payment, including the outbound and associated confirmation aspects of the UK’s Bacs system

- Support standards such as the Society for Worldwide Interbank Financial Telecommunications (SWIFT) message format, 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
3. Improving Visibility & Reporting

Current Situation

Most organizations do not have the real-time visibility and control they need to optimize working capital. The combination of globalization and mergers and acquisitions has led to an expansion of domestic and international banking relationships that further fragments process and control.

Reporting across multiple internal systems and banks is extremely challenging for most enterprises. It requires time-consuming, often manual, data compilation from multiple sources and is prone to errors and inconsistencies. In addition, the information is often “stale”, which means financial executives are often making cash management decisions based on outdated information.

Companies require both global and real-time visibility. It is no longer viable to operate 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 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 (i.e. SWIFT, BAI) for connectivity and message formats 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 to provide more accurate forecasts

This centralization of immediately accessible information allows you to:

- Streamline the consolidation of financial information
- View and control balances on all accounts across multiple banks
- Receive up-to-date information for better visibility and control over cash positions
- Forecast cash flow needs on a short-term basis and ensure liquidity for upcoming disbursements
- Access reports consolidated by organizational reporting structure
- Better manage liquidity by transforming data into actionable intelligence
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. By adopting a state-of-the-art enterprise payments hub and proven best practices, finance managers can streamline their business and payment processes, achieve new levels of efficiency and control, and improve profitability.

About Bottomline Technologies

Bottomline Technologies (NASDAQ: EPAY) powers mission-critical business transactions. We help our customers optimize financially-oriented operations and build deeper customer and partner relationships by providing a trusted and easy-to-use set of cloud-based digital banking, fraud prevention, payment, financial document, insurance, and healthcare solutions. Over 10,000 corporations, financial institutions, and banks benefit from Bottomline solutions. Headquartered in the United States, Bottomline also maintains offices in Europe and Asia-Pacific.