



Payment Hubs:

Supporting 5 Best Practices for Effective Payments & Cash Management

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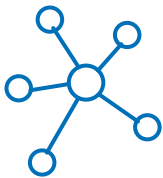
As corporate organisations seek new ways to effectively address complex global payment and cash management challenges, payment hubs offer a comprehensive, flexible and cost effective solution. This guide examines how payment hubs underpin five areas of best practice and makes recommendations for business process change required to minimise risk, reduce costs and enhance payment processes.

Today's Payment Challenges

Managing enterprise payments continues to be complex and demanding as the macroeconomic environment is increasingly risky and fast-changing. As a result, exposed inefficiencies in payment processing and cash management can impact a company's success.

In parallel, many organisations are growing through mergers and acquisitions. This has led to financial and operational complexities, including:

- Multiple divisions and business sites, often with different operating procedures and business processes
- Disparate legacy and back-office systems, including banking, enterprise resource planning (ERP), and line of business applications
- Numerous bank accounts and banking relationships to manage cash globally, with a wide range of payment and collection types.



A payment hub helps raise financial efficiency, improve control over funds, mitigate risk and increase visibility across multiple systems.

The scale of large multi-national corporations (MNC) and the distribution of their subsidiaries means there are local banking and payment requirements in many countries. It is common for a MNC to have hundreds of bank relationships holding thousands of accounts in the name of the group head office as well as the many different operating subsidiaries and branches. Managing domestic and international payments and cash across a large corporation is therefore a complex and specialist activity usually governed by a central treasury and, or, regional treasury centres across the globe to cater for different time zones.

Their need for greater efficiency, connectivity, visibility and security have led many treasurers to seek innovative, integrated solutions that address all the multifaceted business processes relating to global payments and cash management.

Payment Hubs Optimise Operations

Payment hubs centralise and standardise payments processing across all enterprise applications, payment types and banks.

By capitalising on advancements in technology, and combining solutions to combat regulatory pressures and increased risk, payments hubs are delivering improved control, visibility, scalability and streamlined payment processing occurs naturally due to centralisation.

In addition, further cost savings, easy adoption of new payment schemes and services and faster deployment times can be realised where the payment hub is hosted in the cloud. A growing number of corporates are implementing payment hub solutions in an outsourced, secure cloud model, as it is felt that proven service providers are better placed to deliver and support resilient and flexible platforms, in a cost effective way.

Operationally a payment hub acts as a single payment gateway, and creates a centralised system for:

- All payment and collection types
- Balance and transaction reporting
- Other mission critical corporate to bank communications
- All transaction bank relationships.

A payment hub should include the following ten characteristics:

1. A centre of excellence for payments and collections on behalf of the entire enterprise, or more typically for a geographical region
2. Secure, standardised interfaces
3. Centralised controls, with segregation of duties
4. Pan-enterprise visibility for treasury
5. Reformatting capabilities
6. Segmented visibility by units of their local / regional activity
7. Full audit functionality
8. Validation of payments
9. Standardised bank connectivity
10. Payment security and compliance



Making the right choice. There are two main deployment models: full centralisation and a virtual or decentralised model. The right choice will be influenced by factors such as organisational culture, structure and strategic priorities.

The traditional centralised payment hub allows a limited number of people in one location, often a shared service centre, to manage the payments and collection processes for a specific region.

A decentralised model allows some roles and responsibilities to be retained at subsidiary level but the entire organisation uses one central platform for managing payments, bank connectivity and relationships. Larger corporates may deploy a worldwide, decentralised model with hundreds of users.

Although these approaches are at opposite ends of the spectrum, they both allow corporates to enjoy similar benefits.

Extending Treasury Management Solutions. Although a good Treasury Management System (TMS) has many benefits there can be some limitations that can prevent complete payment efficiency. In particular they do not handle large volumes of bulk payments and issues can arise regarding third party or non-treasury personnel accessibility due to licensing models

In the world of fast-shifting technology and rapid adoption, when is a TMS no longer enough?



This is exactly where a payment hub compliments a TMS and demonstrates its value. It is designed for a range of payment types (including bulk payment and Direct Debit files) and to accommodate a wider group of users who can each see their local or regional activity, without accessing the overall enterprise treasury position. This extended access can be granted to Finance, Accounts Payable and Accounts Receivable personnel, local senior management and external and shared service centre staff.

Payment Hubs Support Five Treasury Best Practices

Payment hubs drive a greater degree of consolidation, control, visibility, and speed over decentralised payment flows. The flexible and innovative technology supports the increasingly strategic responsibilities of today's Treasurers by helping to minimise risk and enhance financial performance.

Payment hubs drive efficiency through the following five best practices:

1. Secure controls and standardised processes
2. Streamlined global payments
3. Robust multi-bank connectivity
4. Short term liquidity forecasting
5. Fraud and financial crime prevention

Let's look at these in more detail.



"Least Privilege" policy is the restricting of employees or system users to only the functionality or information they must have to perform their daily operations.

1. Secure Controls and Standardised Processes

Driven by regulations such as Sarbanes-Oxley, GDPR and the need for strong corporate governance, there is a continuing need to improve the documentation and implementation of internal controls, workflows and financial reporting across the enterprise. The absence of efficient, rules-based technology and effective reporting creates an over-reliance on manual efforts, prone to errors, lacking in security and appropriate approval workflows, and open to manipulation.

Payment hubs help standardise procedures, and automate internal controls such as workflow and segregation of duties, limits and auditability. It offers comprehensive, accurate reporting and strengthens visibility of all multi-banking, payments and treasury activities.

- **Workflow control** – Configurable entitlements for definable user groups, based on multiple approval levels by payment type, templates and transaction limits should be controlled by system administrators who, in accordance with best practice principles of segregation of duties, should not have any direct powers within the payment approval process itself. Automatic alerts are triggered by specific business conditions, such as payments awaiting approval, error corrections, incomplete approvals, or payments rejected. Such levels of automation will improve throughput and productivity.

Access to bank account and reporting information must be available throughout the business, but must only be accessible by personnel who have been duly authorised. Some users will have entitlements for only their specific division or



geographies, while other users, such as those in treasury, are granted powers across the enterprise. This control framework approach provides a full audit trail of who does what and when.

- **Automation reduces risk and error** – Operational risk can be greatly reduced through greater levels of automation payment hubs provide, eliminating paper-based processes and reducing manual intervention throughout the payment lifecycle. More timely access to payments data allows faster and more accurate reconciliation, while costly investigations can be reduced via strict data validation and matching rules which minimise potential user errors and contribute to lower operational risk.

Automation also supports the validation of payment details ensuring they are properly formatted and complete by checking routing codes, such as UK sort codes and account numbers, BICs and IBANs or US ABA codes. As banks often offer lower pricing for payments which achieve straight through processing (STP) this automated validation helps to keep bank charges to a minimum.

- **Consolidation of multiple systems** – Where mergers and acquisitions result in a raft of ERP systems, payment hubs can cut across the often prohibitive costs and time involved in ERP rationalisation programmes. Uniting ERP systems, Treasury Management Systems (TMS) and various forms of secure multi-bank connectivity, payments and cash management processes increase in speed and efficiency and costs are reduced. With data reformatting being a core requirement, a payments hub is able to exchange data with multiple legacy systems, without modification, as well as provide banks, clearing and settlement systems with the exact formats required for straight through processing.



Payment hubs drive lowest cost routing and maximum efficiency

2. Streamlining Global Payments

Historically complex, costly and slow, often due to missing or incomplete beneficiary or mandatory (AML) compliance details and opaque processing fees, the speed and ease of making cross border payments has now increased due to new payment schemes and service level agreements between groups of partner banks.

A payment hub delivers greater cost and operational efficiency for cross border payments

- **Cross-border payments** – To reduce costs associated with cross-border transactions a good policy is to convert cross-border payments into local domestic payments by operating a local in-country disbursement account. This reduces transaction fees and can mitigate exposure to volatile exchange rates, thanks to the matching of flows of inward and outward payments. This reduces the need to make multiple and costly FX purchases and sales. If a significant balance accumulates over time, occasional cross-border payments can repatriate surplus funds to the main head office bank account.

Collections or Direct Debits (DDs) can be handled in a similar way. Domestic format DD files are sent to the local bank which in turn submits them to the local ACH. Once these monies are received, the treasury may decide to leave the funds in-country, especially if there are imminent disbursements to make, or any surplus funds may be swept back to head office or regional bank accounts.

- **Adapting to local payment models** – Local ACH payments are lower cost but slower than wires (RTGS or Real Time Gross Settlement payments) which are generally only used for high value urgent payments. Domestic 24/7 real time payments are generally priced between ACH bulk payments and wires for businesses, whereas they are free for consumers in some countries, such as the UK. Real time payments in a number of countries still have relatively low transaction limits. In the USA The Clearing House's Real Time Payments system limit is currently only US\$25,000, while Singapore's FAST system has a limit of SGD 50,000 and the EU's limit for SEPA Inst is EUR15,000.

Any corporate payment strategy, should fully consider the local costs, payments parameters and also access model differences. The UK payment schemes, for example, allow Direct Corporate Access to Bacs (ACH) and the Faster Payments Service. Elsewhere corporate payment files are submitted to the local Automated Clearing House (ACH) via their payment banks. A payment hub automatically incorporates these local requirements and nuances giving greater flexibility and lowest cost routing.

Payments and collections managed by a payment hub will be primarily electronic, especially in Europe. But in North America, Asia and to a lesser extent France and Ireland, it is still important to be able to manage the controlled production and distribution of cheques. This may be done on premise or more sophisticated payment hubs provide outsourced cheque production and distribution to beneficiaries. Multi-currency cheques should be specially designed to clear via local bank accounts helping the beneficiary to avoid paying his banks high cross-border cheque collection charges.

- **SEPA: the starting point** – The launch of SEPA (the Single Euro Payment Area) proved to be a catalyst for many organisations to consider implementing payment hubs on a regional or even global basis in order to streamline payments and reduce costs. Corporates which became SEPA compliant should have already achieved:
 - Standardised euro payment and Direct Debit instruments across the Eurozone, using the ISO 20022 format
 - Standardised and centralised internal processes
 - Lower processing costs and a lower number of bank accounts in the Eurozone
 - Reduced fees on compliant Credit Transfers and Direct Debits
 - Lower operational risk and easier audit
 - Improved cash flow forecasting and reconciliation.



*Using ISO 20022 formats,
corporate businesses
can create a truly global
payment hub.*

SEPA is a good example of regulators imposing a new scheme in order to reduce the cost and complexity of cross-border payments, through common standards, and enforcing only domestic transaction charges for any payments made in euros anywhere within the Single Euro Payments Area. The logical next phase of a payment hub programme is to go beyond the Eurozone and SEPA, to achieve similar benefits in other currencies and geographies.

- **Beyond SEPA** – There is now an exciting opportunity to leverage the flexibility of ISO 20022, already utilised within SEPA. Increasingly this is being used by major transaction banks, to make it easier for their corporate customers to make bulk payments and Direct Debit collections in other countries, outside the Eurozone. This helps large corporates to reduce the time and effort involved in implementing projects for payment instructions and cash reporting with their multiple banks. The same message structure can be used with all of their transaction banks across the globe. Many banks still have specific requirements for codes and references in chosen fields, but the overall process of adopting formats for multi-bank payments and cash management has become considerably easier.

The increasing use of payment hubs, handling both payments and Direct Debits in a standardised manner, is set to drive the wider adoption of payments-on-behalf-of (POBO) and collections-on-behalf-of (COBO). The SEPA ISO 20022 format includes a dedicated field to indicate the entity on whose behalf the payment is made, or to whom the inbound credit belongs. This simplifies the reconciliation process for beneficiaries and makes POBO and COBO much more feasible.

- **Tracking services for cross-border payments** – In the last 12-18 months a growing number of banks and solution providers have introduced significant improvements in cross-border payments, regarding their speed, reliability and transparency. Generally known as gpi, or Global Payments Innovation, this major initiative led by SWIFT is a fast growing new payment scheme, under which participating banks sign up to a service level agreement (SLA). Under the new scheme, banks provide:
 - Advance information of all fees and FX rates, whether as paying bank, intermediary bank or receiving bank
 - Same day settlement (at least) into to the beneficiary's account
 - Tracking of payment status for sending bank and end customer initiating payment
 - Detailed remittance advice
 - Open reporting of bank performance under the gpi SLA.



More than a quarter of global cash is not visible to the corporate treasury on a daily basis. This may be related to the challenges of finding an implementing the right bank connectivity solutions.

PWC: 2019 Global Treasury Benchmarking Survey

An intermediary or receiving bank automatically generates a MT199 or XML ISO20022 Payment Status Report messages which provides the sending bank with a detailed transaction status, including fees and FX rates.

At present multi-banked corporates can only access gpi via the e-banking platforms of their individual banks, instead of all aggregated information being available on a consolidated basis via the same multi-bank platform.

Payment hubs however provide access to gpi and enable the corporate community to benefit more fully from gpi in a multibank environment. A Unique End-to-End Transaction Reference (UETR) is attached to the payment throughout its life cycle to allow for tracking, reconciliation and reporting. This applies to all cross-border payments whether in MT 101 or XML format. Visibility of the status of the payment is brought to the user via a dashboard which importantly helps to manage exceptions more easily, without the need to raise queries with the bank.


3. Robust Multi-bank Connectivity

For many corporates multiple banking relationships means dealing with an array of systems, with disparate protocols, passwords, smartcards or USB tokens. In some cases, payment instructions from ERP or treasury systems are not in the right format for each electronic banking platform. This can result in re-keying of instructions, leading to errors and delays. Additionally, some payment files are imported in a non-secure environment opening areas of vulnerability where individual payments can be modified in a fraudulent manner.

Secure integration into ERP and treasury systems and multi-bank connectivity is at the core of most successful payment hub initiatives mitigating the risks caused by the inefficient disconnect between the corporate back office and banking partners.

Increasingly, corporates and non-bank financial institutions are joining SWIFT as a proven way to achieve a range of financial, operational and strategic benefits, such as:

- Improved visibility of bank accounts, leading to better liquidity management
- A secure and resilient interface to multiple bank relationships
- A bank agnostic form of connectivity, delivering greater bank independence

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- A large, diagonal photograph of the New York City skyline, featuring the Empire State Building prominently, is positioned on the left side of the page, partially overlapping the text area.
- Access to multiple payments types, such as domestic and cross-border wires, as well as bulk payments and direct debits
 - Reduced costs through standardised messaging and straight through processing (STP)
 - Enhanced control, audit and non-repudiation of messages
 - Reduced operational risk and compliance.

To date over 2,000 large corporates and MNCs have joined SWIFT in order to streamline their payments and cash management. These are estimated to represent up to 100,000 legal entities. SWIFT provides large corporates with secure access to the large community of 10,000 banks around the world already using SWIFT for their financial messaging relating to payments, treasury, securities and trade finance.

Using bureaux – Most corporates joining SWIFT decide that the easiest and most practical way to connect with the messaging network is via an outsourced SWIFT service bureau.

The benefits of outsourcing to a bureau are:

- Step by step guidance on joining SWIFT and connecting to the messaging network
- “Go live” faster and more easily
- Lower total cost of ownership, with no new hardware or software required in-house
- No need to hire SWIFT expertise in-house
- Eliminate the risk of having to maintain a SWIFT interface in-house
- Proven resilience and Disaster Recovery (DR), with 24/7 support reduces operational risk.
- Seamless up-grades to the SWIFT infrastructure, which are handled by the bureau
- Easy access to value added services like data transformation and reconciliation
- Flexible subscription based pricing, paying only for what you use in terms of message volumes and modules.

Secure multi-bank connectivity is essential within a cloud-based payment hub to deliver the enhanced benefits of a centralised aggregated payment system. The most effective technology partners therefore combine this with a SWIFT service bureau, and have the expertise in connecting securely with a wide range of banks internationally.

There are a small number of super bureaux which offer a growing range of protocols and connectivity options. For examples, EBICS, widely used for secure corporate to bank communication in Germany, France, Benelux and Switzerland is cheaper than using SWIFT in these countries. In the UK, Bacs is an efficient and cost effective scheme for gaining Direct Corporate Access to Vocalink for clearing and settlement of Sterling payments. By combining a SWIFT bureau with outsourced Bacs and Faster Payments capabilities, a cloud payments solution provider is ideally positioned to offer its customers an optimal platform for efficient payments and cash management, spanning multiple payment types, protocols, connectivity options and messaging networks.

Another valuable element of super bureaux are host-to-host pipes. These enable organisations with large volumes of payments to exchange bulk files securely with their bank, without the need to join SWIFT. These host-to-host pipes typically connect with the bank via SFTP, leased lines or virtual private networks (VPNs).

- **Selecting a bureau –** With the growing adoption of cloud-based solutions, larger software providers of payment and cash management solutions now offer a fully outsourced payment hub solution with multi-bank connectivity and a range of flexible value-added solutions as an integrated service. Through cloud technology, new innovative capabilities can be deployed much more easily in response to customer, market and regulatory demands. This lean and agile infrastructure can position a corporate to rapidly scale up (or down) as business volumes change.



Select a bureau that can act as a trusted adviser, helping to solve cash management challenges.

In addition, although many banks are increasingly willing to allow their multi-banked clients to connect via SWIFT, on-boarding can be time-consuming, with each bank adopting a slightly different approach. It is therefore wise to select a bureau which has strong relationships with banks and a track record of on-boarding corporates to multiple banks.

Bureaux holding international attestations such as SSAE 16 provide additional comfort in terms of their robust processes and resilient infrastructure. Bureaux hosting SWIFT interfaces and software on servers in a secure and effectively bomb-proof data centre, with proven contingency and DR, should give the necessary assurances and peace of mind to even the most demanding corporate treasurer and Head of IT. Likewise, it is important to select a solution provider with the scale and financial stability to guarantee service continuity for the long term.

4. Short Term Liquidity Forecasting

Most organisations do not have the visibility and control they need to optimise working capital. In a world where speed plays a critical role, instant access to accurate, real time data, to aid decision making at the highest levels of the organisation, is crucial.



Most organisations lack the visibility and control they need to optimise working capital.

Globalisation and mergers and acquisitions has led to an expansion of international and domestic banking relationships and increased operational complexity. Cash reporting across these disparate internal systems and multiple banks is extremely challenging: often a manual process, time consuming and prone to errors and inconsistencies. Crucially the data collated and reported on is not current.

The consolidation of balance and transactional data affecting available working capital requires both global accessibility and real-time visibility. Accurate, timely, and complete Accounts Payable, Accounts Receivable and banking information is critical for overall corporate success. Best-in-class companies are therefore adopting an integrated payments solution that provides real-time global access to transactional information and account balances.

A payment hub provides visibility over all bank accounts across the enterprise and gives a clear picture of cash flowing into and out of the organisation. Automated reporting of cash balances directly from subsidiaries' bank accounts determines the true cash position at any point in time which can confidently be provided to the treasury team, executives and other payment functions.

- **Calculating your cash position –** Cash flow forecasting and efficient liquidity management are an important part of a treasurer's role. Cash forecasting, pooling and sweeping, regularly appear high up on the list of initiatives which corporates would most like to implement to increase their real time visibility. Central to this is the ability to consolidate data from over-night bank statements, intra-day statements, credit and debit notifications and outbound transactions. However, many treasury teams still rely on excel spread sheets and manual processes making it difficult to obtain an accurate and up to date cash position. Payment hubs automate the centralisation of all this critical data and can often highlight significant sums of cash, often in dormant, overseas bank accounts which can be mobilised for the benefit of the business.
- **Short term liquidity forecasting –** The SWIFT prior day statement is the starting point for this cash management process. Within a payment hub, transaction matching functionality will reconcile expected credits and debits with bank credit and debit notifications or intra-day statements. Real time reconciliation between outbound and inbound flows ensures the accuracy of the current cash position.

Account hierarchies create reporting groups that can be expanded or collapsed on screen, allowing users to drill down from the top line to individual transactions. Short term liquidity forecasts are built around a cash ledger which holds the transactions that need to be considered when creating short term cash forecasts. An efficient system automatically maintains the cash ledger, using message flows to and from banks, as well as any integrated ERP or Treasury Management System.

73% of corporates reconcile 90% of accounts on a monthly basis. In an environment where speed matters this is just not quick enough.

TREASURY FRAUD AND
CONTROLS SURVEY 2019

Additionally, expected or near-term future dated transactions can be automatically be combined with uncleared items from your banks to predict your future bank balances over the coming days. A user can modify and amend these forecasts and the treasury team can post one-off or recurring transactions directly into your forecast. This all helps ensure liquidity forecasts are accurate and ready for reporting. The same information used to create short term cash forecasts can be combined with business rules to manage cash sweeping and pooling.

- **Sweeping and pooling** – Working in conjunction with short term liquidity forecasting, some systems allow you to set up automated sweeps and cash pools. This can be simply for reporting purposes or to automate cash concentration and funding for your organisation. By associating an account hierarchy of parent and child accounts with rules establishing balance thresholds, an efficient sweeping system can work out the optimum set of bank transfers for an organisation's liquidity management. The treasury team can then accept or amend these recommendations and the system will create the definitive transfers and place these in a workflow queue for approval and submission to the bank.
- **Efficient reconciliation** – Reconciliation of important financial data is needed on an increasingly regular basis, such as once a day or even real-time. As data can often arrive in different formats, data transformation may be a required and important step before reconciliation can take place. Enterprise reconciliation solutions are increasingly being delivered in the cloud, as outsourced services, hence reducing total cost of ownership.

5. Preventing Fraud and Financial Crime

Fraud and financial crime continue to be a major challenge, especially for those doing business internationally. Fraudsters are increasingly sophisticated and invest significant time and money in planning comprehensive attacks, whether it be exploiting weaknesses in processes, infiltrating systems with malware, document manipulation or impersonation.

At the same time, due to growing geo political pressures and extensive financial crime networks, organisations are required to remain compliant with an increasingly complex series of rules and regulations to ensure people and entities known to be involved in organised crime are not being funded. For example, corporates are required comply with a growing number of regulations for Know Your Customer (KYC) and Anti-Money Laundering (AML), such as:

- Financial Economic and Trade sanctions
- 4/5th EU Money Laundering
- Proceeds of Crime Act 2002

63% of people said that managing false positives was their biggest compliance challenge. Bottomline Poll:

Bottomline Poll: Fraud & Risk
Strategy Forum 2019

- Policing and Crime act 2017
- The Bribery Act 2010
- Foreign Corrupt Practices Act.

The growing internationalisation of trade, particularly in high-risk jurisdictions, has driven up the cost of achieving compliance and breaching sanctions or failing to prevent bribery and corruption is a criminal offence punishable with significant fines, and senior management can now be held personally accountable. Manual methods of managing sanction lists, duplicate alerts and false positives can be time consuming and inefficient and requires robust internal controls and third party list screening processes

- **Industry best practice fraud prevention–** All organisations need to take a responsible position in securing their payment operations to protect themselves, their customers and supplier networks. Both data and money are the currency of any fraudster so robust, multi-layered controls are now unfortunately required as standard. For Treasurers this means that an increasing part of their role is to ensure cash is kept within the business to safeguard liquidity and cash flow, and payments are made to the right person or entity. All payment processes should be reviewed for weaknesses that could be exploited, and a strategy put in place to continually monitor, review and remediate as appropriate. Many systems in place today can identify abnormal transactions but after the fact. Real-time monitoring and machine learning capabilities are providing a greater level of control using a system alerts to flag any activity which does not conform to normal patterns or a set of rules. Encryption, segregation of duties, multi-level authentication and training add further layers of protection.

Extending payment monitoring capabilities to observing user behaviour, means organisations can protect themselves from internal fraud as well as external. Solutions that identify and record abnormal activities such as the opening of a supplier's file by a non-authorized employee, account detail screens viewed out of hours can also provide effective evidence to be used in any legal proceedings. When it is widely understood that these types of internal controls are in place it can also work as a deterrent.

It is important that abnormal transactions are stopped before they are released onto the payment or messaging network as recouping these costs is extremely difficult. Fraud prevention solutions are tightly integrated with payment processes as part of a payment hub environment.

- **Industry best practice sanction screening–** Regulated banks and financial institutions are at the forefront of the fight on financial crime and money laundering. Anti-Money Laundering (AML) rules require banks and other regulated entities to identify and report transactions of a suspicious nature to the National Crime Agency. Under Know Your Customer (KYC) requirements, a bank must establish the identity of a customer and understand the kinds of transactions in which this customer is likely to engage.



Three out of four financial decision makers want to abdicate responsibility for sanctions checking to banks.

2019 BUSINESS
PAYMENTS BAROMETER

Technology adopted by banks to adhere to these rules can filter customer data, classify it according to level of suspicion, and analyse it for anomalies. Sanction filtering software flags transactions involving individuals, organisations and countries appearing on the multiple economic sanction lists produced by government bodies, such as The Office of Foreign Asset Control (OFAC). These solutions alert bank management and the Money Laundering Reporting Officer who must determine whether to file a report with the National Crime Agency, or local equivalent.

But the increase in enforcement action by the Office of Foreign Assets Control (OFAC) against businesses, underlines that corporates can no longer rely on banks to prevent payment to an entity, person or country on a sanction list. Corporates should consider implementing their own increased controls.

Sanction screening software makes it easy for a business to manage compliance activities and mitigate third party risk by filtering all transactions in real-time against updated sanction lists. This ensures faster and more efficient detection, investigation and remediation of a potential sanctions breach. Any alerts trigger investigation by compliance, security or legal teams. This approach ensures compliance with domestic and international sanction lists and prevents possible fines for AML breaches as well as avoiding reputational damage.

Risk assessment and screening can be extended beyond basic transaction or one-off supplier checks to cater for on-going reviews of external relationships, such as customers and suppliers. This can include one-off or batch screening of potentially complex relationships, including shareholders, directors and beneficial owners.

The most important sanction lists are produced by a range of official bodies, such as the EU, HM Treasury, the Office of Financial Sanctions Implementation (OFSI), The United Nations (UN), the Office of Foreign Assets Control (OFAC) and other jurisdictions where a corporate does business. Corporates should also consider screening customers and suppliers against other useful lists such as:

- Politically Exposed Persons (PEP)
- Special Interest People (SIP)
- Ultimate Beneficial Owners (UBO)
- Adverse Media

Screening solutions can also be used to create “good” and “bad” lists that identify inappropriate payments being directed to employees’ private accounts, thus helping to prevent internal fraud issues. Good Lists can be created to cover special beneficiaries which are allowed to be paid despite operating in sanctioned countries, ie The Red Cross. This can therefore simplify the management of false positives and repeat payments.

Creating a payment hub with an integrated sanction screening capability is a significant advantage in the fight against crime.

The Impact of Open Banking

Open Banking and PSD2 will bring about the introduction of a wide range of exciting new payment and banking services, more consolidation, transparency and visibility to a wider range of businesses

Historically, only large corporates have been able to gain a consolidated view of all their cash across multiple banks and to manage their payments in a secure and consistent way, as this is achieved usually by being a member of SWIFT. In the new “open” world, facilitated by a growing adoption of API’s, any size of organisation is able to instruct their banks to share their balance and transaction information with a regulated Account Information Service Provider (AISP) which will aggregate all this data and present it to the customer in a single app, via a user-friendly dashboard. The AISP can convert all this transaction data into the required format and send it to the customer’s Enterprise Resource Planning or Treasury Management System. But it is important to bear in mind the roll-out of APIs internationally is gradual. PSD2 only covers the EU, and other countries are only just beginning to announce initiatives to encourage or require the adoption of APIs for exchanging data securely. So it will be a long time before APIs can provide anything like the global coverage of multi-bank connectivity achievable via SWIFT.

Forward thinking solution providers are already developing a range of value-add applications to bolt onto their Account Information Services (AIS) and Payment Initiation Services (PIS) such as cash flow forecasting, bank fee analysis, cash allocation and reconciliation, sweeping and pooling and working capital optimisation.

This new environment is now a compelling opportunity for small and mid-sized corporates in particular to considerably increase cash visibility and make managing payments across multiple banks easier, faster and more secure.

Bottomline have also embraced this opportunity to develop a tailored solution, which combines Open Banking / PSD2 with our own SWIFT capability, for mid-sized corporates who do not want to join SWIFT. As a full member of SWIFT and an FCA regulated payment institution, Bottomline Payment Services Ltd is able to use its own BIC (SWIFT identifier) and offer a payments and cash management solution to mid-sized corporates, without any need for the customer to join SWIFT. The solution combines APIs as well as SWIFT messages to capture balance and transaction data for customers with multiple bank relationships.

This hybrid offering provides a greater geographical reach to companies trading internationally and an advantage over other solutions who are only aggregating data captured via APIs. However once the API market has evolved our customers will be able to transition easily.

The Future of Payment Hubs

Today most CFOs adopt the payment hub model because it provides embedded security, compliance and tangible operational and cost efficiencies for their organisation.

Payment hubs are now, however, reaching a new level of sophistication. This model provides opportunities to improve working capital, such as using Direct Debits, which provide a higher degree of certainty about the amount and timing of a payment. This in turn enables easier reconciliation, more accurate cash flow forecasting and improved DSO (Days Sales Outstanding). Similarly, invoices can be distributed electronically, which is faster and cheaper than using paper and postal services and helps to reduce DSO by accelerating cash flow.

Significantly, there is also a growing trend of strategic collaboration along the supply chain. For example where a payment hub feeds a supplier portal: a secure platform where suppliers can submit invoices electronically, check the status of their invoices, see when they are going to be paid and download remittance information. These supplier portals create the ideal platform for a buyer to negotiate early payment discounts with suppliers, via dynamic discounting, or to partner with banks to provide supply chain finance. This helps suppliers to improve their cash flow and cost of borrowing, while simultaneously positioning the buyer to negotiate extended payment terms, hence improving the buyer's own DPO (Days Payables Outstanding).

Payment hubs are evolving, embracing new technologies for greater connectivity to support a growing digital financial ecosystem, predictive models for cash flow forecasting, more insight and enhanced security. Payment hubs will be an increasingly important tool in the strategic pursuit of centralisation, process efficiencies and better working capital management.

"Today's payment leaders have become accustomed to doing things differently with technology, which means business payments must digitally transform to meet that increased expectation of convenience, speed, flexibility, and intelligence."

Robert Eberle President & Chief
Executive Officer, Bottomline
Technologies

A photograph of a dense city skyline, likely New York City, with various skyscrapers and buildings under a hazy sky. The image is positioned in the top left corner of the page.

Considerations

A first step to implementing a payment hub should be to talk to other treasury professionals and technology providers with experience in this space. You will need to consider whether you want the payment hub to be on your own servers, which will be more work for yourselves, or whether to outsource this to a proven solution provider. You should also think through the best way of achieving secure, multi-bank connectivity. Many of our customers, however, have found that the most productive first step is to get better visibility of cash by asking banks to send statements on a daily basis, or even intra-day, for particularly active or important accounts. Only once this key step has been taken would you be ready to improve your payments.

The payment hub model with multi-bank connectivity is an important tool for achieving centralisation and process efficiencies. To achieve a robust and agile infrastructure you should consider a payment hub which is hosted in the secure private cloud and connected to SWIFT and other protocols and networks. This cloud-based approach is flexible to cope with changing regulation and a corporate's evolving needs. All this positions an organisation to be more competitive and successful.

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

1. Secure controls and standardised processes
2. Streamlined global payments
3. Robust multi-bank connectivity
4. Short term liquidity forecasting
5. Fraud and financial crime prevention

Adopting a state-of-the art enterprise payments architecture with flexible technology to embrace new capabilities and adhere to new directives, regulations and trends will enable you to accelerate and streamline the payment process and achieve new levels of visibility, efficiency, security, control, and profitability.

About Bottomline Technologies

Bottomline Technologies (NASDAQ: EPAY) helps businesses pay and get paid. Businesses and banks rely on Bottomline for domestic and international payments, effective cash management tools, automated workflows for payment processing and bill review and state of the art fraud detection, behavioural analytics and regulatory compliance. More than 10,000 corporations, financial institutions, and banks benefit from Bottomline solutions. Headquartered in Portsmouth, New Hampshire, we delight our customers through offices across the United States, Europe, and Asia-Pacific.



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