
Deriving Benefits From the Changing World of Corporate Payments

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The ultimate payments goal for corporates should be a centralised, flexible and scalable platform that handles invoices and payments for all suppliers, banks and accounts. This may be a complex undertaking, but the rewards will be worth the effort.

While much of the early focus on the single euro payments area (SEPA) has been around financial institutions, the bank-led initiative also promises to bring substantial benefits to banks' corporate clients. SEPA was designed to create a level playing field, eliminating the concept of 'cross-border' for payments made within the eurozone. In streamlining payments processing for banks and introducing standards, SEPA will also bring automation benefits, in the form of end-to-end straight-through processing (STP), to the corporate world.

But it is still early days - SEPA Credit Transfers (SCTs) went live on 28 January 2008. SEPA Direct Debits (SDDs) are scheduled for implementation by November 2009 by which time the European Commission's Payment Services Directive (PSD), which provides a legal framework for SDDs and SEPA card payments must have been transposed into national law in all the EU Member States. Momentum has yet to build behind SEPA and it will take some time for the industry to realise the benefits. But banks and corporates will have to move this year if they are not to be left behind.

One problem is that banks can charge their corporate customers more for a non-SEPA message than for a SEPA message. There has been little incentive for banks to go out and sell SEPA to their corporate clients.

But rather than thinking about the potential losses in the short term, banks should recognise that SEPA is an infrastructural investment that creates the stage for future gains. And the same applies to corporates, too. But in the current economic climate, it is difficult to justify any investment, no matter how attractive it may be in the long term; the credit crunch means a minimalistic approach is being taken and, at least for the short term, decisions regarding SEPA have been delayed. Some banks fear that replacing or updating existing legacy systems in order to take full advantage of SEPA's potential will be costly and difficult - there's an attitude of 'if it ain't broke, don't fix it'.

The Role That E-invoicing Can Play

There is evidence, however, that despite the cost of complying with SEPA and the loss of cross-border payment revenues for banks, there are significant gains to be realised. A study by CapGemini, commissioned by the European Central Bank (ECB) and published on the day SEPA went live, estimates that there is €123bn of 'market potential' in SEPA. The study, called 'SEPA: potential benefits at stake', pointed out that electronic invoicing (e-invoicing) could create potential extra revenues of €0.4bn-€3.4bn per year.

This is because SEPA standardises and harmonises payments processing across borders, thus reducing the complexity of implementing e-invoicing solutions that has until now existed. E-invoicing solutions can be integrated into the back offices of sellers and buyers. Moreover, the PSD harmonises regulation and legislation, further lowering the barriers to e-invoicing.

E-invoicing is a crucial first step in automating the financial supply chain, thus enabling banks to meet the increased demands from corporates for more sophisticated services and enabling them to recoup some of the payments revenues that will be lost to SEPA. A number of activities fall under the umbrella of e-invoicing, including all of the steps in purchase-to-pay and the order-to-receive cycle. Sending and receiving invoices, dispute handling, acceptance, payment and collection, reconciliation and archiving are all tasks that can be automated and streamlined. E-invoicing improves efficiency by eliminating manual tasks, achieving higher reconciliation rates, shortening processing cycle times, and reducing penalty interest.

E-invoicing improves efficiency by eliminating manual input, achieving higher reconciliation rates, lowering processing cycle times and reducing penalty interest. Corporates have made substantial investments in automating the physical supply chain - at any time, a corporate can track the whereabouts of goods, but it cannot track the payment associated with those items. Goods can be delivered within hours, yet the associated payment cannot. And there is no reason for this - the standards and the technology exist to enable information to be automatically sent into back office systems for reconciliation. With a combination of standards and best practice, the financial supply chain can be as efficient as the physical supply chain.

This lack of automation in the financial supply chain means that corporates spend a huge amount of time managing their accounts receivable (A/R) and accounts payable (A/P) activities. Paper-based invoicing is cumbersome and prone to error given the high level of manual handling required. The majority of corporates do not know the exact status of payments and have great difficulty in matching payments with their invoices. The average cost in Europe of processing a paper invoice manually is about €30. By leveraging the infrastructure and standards such as ISO 20022 that are being promoted by SEPA, the potential cost savings are in the order of 80%. European corporates could in total save about €243bn in processing costs.

Now is the time to focus on the financial supply chain, automating it so that the financial information can literally flow and payments can be made within hours, if not minutes.

To realise the full benefits of their investments, corporates need to take a holistic view, taking into account their banking

relationships, financial supply chain optimisation, compliance requirements and cash flow/liquidity/credit management.

In order to really benefit from SEPA, corporates will also have to make investments and changes. The key issue here is information exchange - by linking payments and invoicing, corporates can gain greater visibility and control over their liquidity. At a time when credit is hard to find, such a capability is paramount.

Implementing an E-invoicing Programme

There can be three phases of implementing e-invoicing:

1. Invoice distribution.
2. Payment association.
3. Liquidity and cash flow.

In the first phase of e-invoicing, the distribution of invoices can be automated, with invoices coming in electronically rather than in paper form. There are different approaches to this, including the use of invoicing consolidators that will exchange invoices on a users' behalf and distribute them electronically. This first phase can be supplemented with other services, such as invoice acceptance and dispute management, where any disagreements arising from the invoice can be resolved.

Payments come into play in the second phase of e-invoicing. By linking payments closely to the first invoicing phase, matching payments to the invoice is much easier. A lot of time is wasted by manually matching payments to invoices and at present, the information contained in bank statements is insufficient to enable corporates to readily identify payments. Given that some of the very largest corporates issue and receive thousands of invoices per day, the cost savings generated by automation of matching can be very high indeed.

Once these two phases are completed, a corporate can centralise and optimise the liquidity it has in different bank accounts. Being able to track invoices, and knowing that they will be paid and when they will be paid, means corporates can make use of their liquidity immediately, rather than having to wait until payments are received and borrowing in the interim. The predictability of funds flow that can be achieved by automating A/R and A/P activities will deliver real business benefits.

Other Drivers in a Changing Payments World

SEPA and the PSD are not the only drivers for change in the payments world. As banks and corporates become increasingly global in their activities, other regulations, such as Sarbanes-Oxley in the US and the Basel II capital adequacy directives also have a part to play. These regulations require greater transparency, accountability and operational risk management.

The more open and competitive market in Europe will require greater efficiencies between banks and corporates - competitors will find it much easier to set up shop in the incumbents' home markets. And with China and India growing as economic powerhouses, competition will also come from further afield. New competitors in the banking space are unencumbered by the legacy systems, some of which are more than 20 years old that have hampered innovation by banks. These new entrants often have solutions that are more user friendly and flexible, posing a legitimate threat to the banks' domination in the payments space.

Financial supply chain automation will be a key element for both banks and corporates to succeed in an increasingly competitive business environment. By first focusing on invoicing and payments, corporates and banks can take advantage of the industry initiatives, standardisation and infrastructure programmes to automate. It is an exciting time - initiatives such as SEPA, SWIFT 's SCORE programme for corporate access and its cash management and exceptions and investigations services, can help corporates to achieve the same levels of STP in their treasury that banks enjoy in their back offices.