Reducing the Pain of Payments

Analyzing Primary Challenges, Providing Steps to Overcome Them

A Treasury Growth Equation

RAPID CHANGE + **PAIN ANALYSIS** + **TREASURY-LED ADAPTATION** = **SUCCESS**

Introduction

For modern treasurers, navigating the payments process can be a real pain.

The industry faces many obstacles, like the globalization of business, disparate legacy systems, limited visibility, resource overwhelm, format inconsistency and more. Add in pervasive fraud risk on a global scale, and the friction intensifies.

As with all adversity, however, payment headaches don't exist to help us grow. They tell us where the problems are. With better, faster, more precise technology solutions now readily available, enterprising practitioners can become leaders in the field. The future belongs to those who pursue streamlined operations that prioritize security and innovation.

This comprehensive guide, provides the insights you need to make informed decisions about treasury payments, as well as information on the tools you will need to help ensure their success.

TREASURY'S RESPONSIBILITIES

Steward Financial Assets
- Manage payments activity/cash inflows and outflows.
- Maintain visibility and control over cash balances, optimize working capital, and assist with strategic investment decisions.

Monitor & Refine Processes
- Watch ongoing payments activity closely and refine use of systems, formats and procedures.
- Identify inefficiencies in the payments process and improve upon them.

Stay Educated & Updated
- Remain abreast of payments developments/updates and their applicability to treasury operations.
- Understand how new technologies and innovations will impact treasury's operations and those of the organization at large.

Treasury at the Helm

If any industry knows the subject of payments inside and out, it's treasury.

In fact, treasury personnel often have far more oversight regarding payments processes than any other group within an organization. With practitioners regularly negotiating high-value fund transfers and overseeing myriad other transactions, liquidity managers play an active role in setting the course and cannot operate on autopilot.

Today's treasurer must effectively juggle numerous responsibilities while navigating control and compliance issues.

When changes occurring across the payments landscape are factored in, the prospect of streamlining heavily manual workflows may seem untenable to some treasurers. Unfortunately, this overwhelm could leave companies stuck with an outdated approach that, while perhaps historically successful, will eventually cause them to lag behind competitors in a hyper-digitized environment.

Despite the turbulence, there is a tremendous upside to effectual progress. Organizations worldwide are undergoing the process of self-evaluation encouraging industry pioneers to adopt leading practices and leverage better technology. The results? A far more scalable, secure and controlled payments environment.

> ▍**RECOMMENDATION**
>
> To avoid potential pitfalls and inform future treasury decisions, be sure to review the information in this eBook carefully, whether you are a treasurer, treasury operations manager, head of accounts payable or in an IT role. Not only does this guide offer an in-depth look at the key considerations, pain points and solutions redefining modern domestic and cross-border payments, it also helps practitioners understand crucial aspects of the landscape that determine what structures, systems and processes organizations should focus on most.
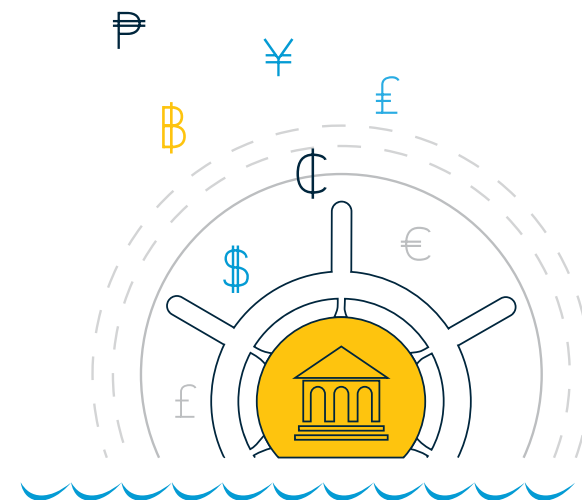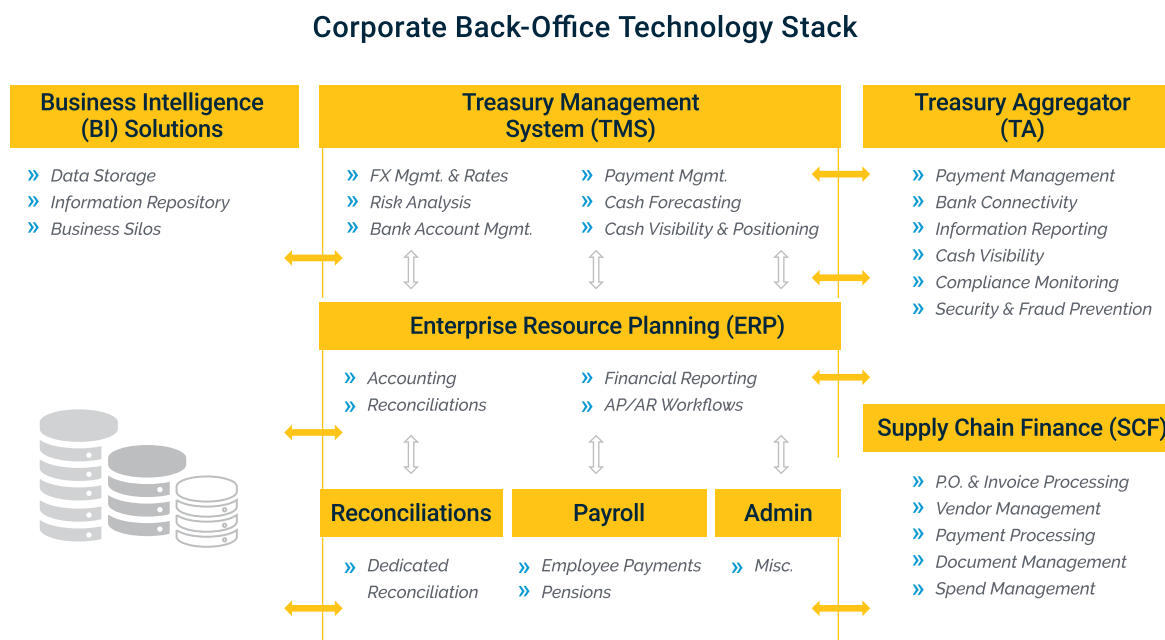
As the payments domain continues to see lightning-fast advancements, it is vitally important for treasury to stay informed and understand the impact new developments will have on organizations worldwide.

System Integration Frustration

Developing a technology stack that allows for the quick and easy flow of data is much easier said than done.

From a company's early beginnings, the use of multiple Excel spreadsheets for managing workflows and tracking financial information can create disparate processes. As organizations grow, siloed data hubs become a more common theme; new technology solutions are added, but never fully integrated with existing systems.

For those using enterprise resource planning (ERP) software or a treasury management system (TMS)—along with a business intelligence (BI) solution and potentially other programs for reconciliations, supply chain finance and compliance—keeping track of where information is stored and how it is disseminated can become overwhelming.

Keeping track of where information is stored and how it is disseminated can become overwhelming.

Corporate Back-Office Technology Stack

Business Intelligence (BI) Solutions
» Data Storage
» Information Repository
» Business Silos

Treasury Management System (TMS)
» FX Mgmt. & Rates
» Risk Analysis
» Bank Account Mgmt.
» Payment Mgmt.
» Cash Forecasting
» Cash Visibility & Positioning

Treasury Aggregator (TA)
» Payment Management
» Bank Connectivity
» Information Reporting
» Cash Visibility
» Compliance Monitoring
» Security & Fraud Prevention

Enterprise Resource Planning (ERP)
» Accounting
» Reconciliations
» Financial Reporting
» AP/AR Workflows

Supply Chain Finance (SCF)
» P.O. & Invoice Processing
» Vendor Management
» Payment Processing
» Document Management
» Spend Management

Reconciliations
» Dedicated Reconciliation

Payroll
» Employee Payments
» Pensions

Admin
» Misc.

Considerations For Treasury

- Which system collects each type of data?
- What systems need to be integrated?
- Where and how is data ultimately stored?
- How often is data transmitted between systems?

---

01 Modern-Day Tech Stack
While each back-office system may have its own set of workflows, many of these solutions operate using the same or similar sets of data, which makes integration and STP a very important feature.

02 Disparate Data Sets
Many organizations suffer from siloed information hubs in their back-office tech stack. This may be due to legacy systems not properly integrating with new solutions, or because improper implementations have resulted in disparate data sets being housed across each system.

03 Rationalizing the Back-Office
Intentionally structuring a technology stack with clearly defined and integrated workflows allows treasury to automatically pull the information they require from the appropriate back-office system (i.e. ERP for sales data).

04 Standard APIs Can Help
In recent years, the use of standardized APIs across the Fintech landscape is helping to streamline communication across systems. By using standardized APIs, vendors ensure that their systems can easily integrate with one another.

REDUCING THE PAIN OF PAYMENTS

FORMATTING & NETWORK COMPLEXITIES

If you've ever dealt with treasury payments on a global scale, you've likely faced a few formatting headaches. To streamline your approach and keep the end-game in mind, it helps to evaluate your organization's current processes and future goals. Questions to ask:

- ▶ How many formats does your firm use now, and how many would you like to use in the future?
- ▶ Do these formats vary by region?
- ▶ Are there limitations around attachment or text size?
- ▶ How is format conversion handled?
- ▶ Is it a manual process or automated?

Data Validation

To reduce the amount of improper payments, accurate identification and authentication are paramount. It's important for companies to feel confident in the seamlessness and viability of their transactions. Not only does file integrity strengthen a firm's efficiency, it also helps with onboarding, visibility, speed and cost.

Transaction Limits

48% *of organizations say transaction limits impact the value of faster payments options. High-value payments typically cannot be sent through domestic systems due to dollar-value limits on funds transfers.**

Competing Payment Methods

74% *of corporates plan to further their use of low-value electronic transfers over the next 12 months. Alternatively, recent data shows smaller planned increases for cards (38%) and wires (22%).**

Strategic Treasurer Market Research.

Fraud Prevention and Sanctions Screening

Security is vital for solutions that generate and execute payments.

Across the modern B2B payments sphere—as in one's personal life—safety is crucial for survival. To ensure this hierarchical need is met, treasuries must proactively address potential fraud concerns with urgency and vigor.

▶ **Sanctions Screening.** Criminals who are up to no good won't let a little thing like account sanctions get in the way of an illegal windfall. Treasurers must be prepared for bad actors who try to bypass system flags, conceal their identity or mask various activities.

▶ **Fraud Prevention.** For those who feel the rule of law is merely a suggestion, crime—along with dogged persistence, clever techniques and evolving attack methods—DOES pay. To keep thieves in check, treasurers can implement conditions like full encryption measures and digital signing requirements, as well as inspect control totals that indicate numerical discrepancies and reduce situations in which people can alter existing files.

▶ **Complete Coverage.** The more exposure points an organization has, the greater the risk of a security breach. Cracks may exist within a company, others appear through a bank or third-party contact, and still more may show up while data and funds are in transit. It's up to treasury to ensure each vulnerable position in the payments process is fully protected, along with all stakeholders.

It's also worth noting that organizations should seek to protect all internal data accessed through an aggregator's cloud by verifying authorized users and requiring VPN/SFTP connections. Additionally, independent entities should inspect and approve data storage on an annual basis.

Organizations Want Greater Security:

61% of corporates see fraud prevention and enhanced security components as major drivers that would impact their decision to implement new payments technology.*

Strategic Treasurer Market Research.

Connectivity

A variety of connectivity methods are available for delivering B2B payments.

▶ **Portal-based.** Making treasury payments through a bank portal has become commonplace over the past few decades. Bank portals often offer robust functionality, they are easy to access, and they don't require back-end connectivity to be put in place.

When working with a very limited number of banks, portal payments can be a good choice. They are, however, very open to challenges, as working within numerous bank portals presents concerns over both efficiency and exposure. From an exposure standpoint, if an unauthorized user(s) gains access to your portal, they may be able to monitor your activity or send fraudulent payments on your behalf.

From the perspective of efficiency, users must learn to navigate each bank's portal, become familiar with new graphical user interfaces (GUIs) that may be released by the banks and learn to scan activity daily in each portal for any potentially fraudulent activity.

▶ **File-based.** This payment delivery method begins to set payment activity on a more programmatic course. One system will be set to look for certain files at a programmed cadence, and then to forward them on for action. These connections allow for proper credentialing on a system level, more robust security and encryption of payment files in transit. The bank can determine, based on the successful encryption and decryption process, if the file has been modified in any way before receipt at the bank.

▶ **API-/Vendor-Managed.** An API- or vendor-managed connection allows for a more real-time confirmation process. Knowing that file totals are fine and that the file has been processed and received by the other bank makes a significant impact for treasury.

BANK CONNECTIVITY

▶ **Incomplete Payments Remittance.** Many organizations would like to see payment methods support more character in the reference fields. Many domestic systems are still operating off outdated messaging standards. Limited remittance details make it more difficult to discern the allocation and intent of the funds, which creates additional work for treasury.

Payments Controls

The central areas of significant strain should be analyzed before significant change occurs. At what points in the process do inefficiencies around these spots arise?
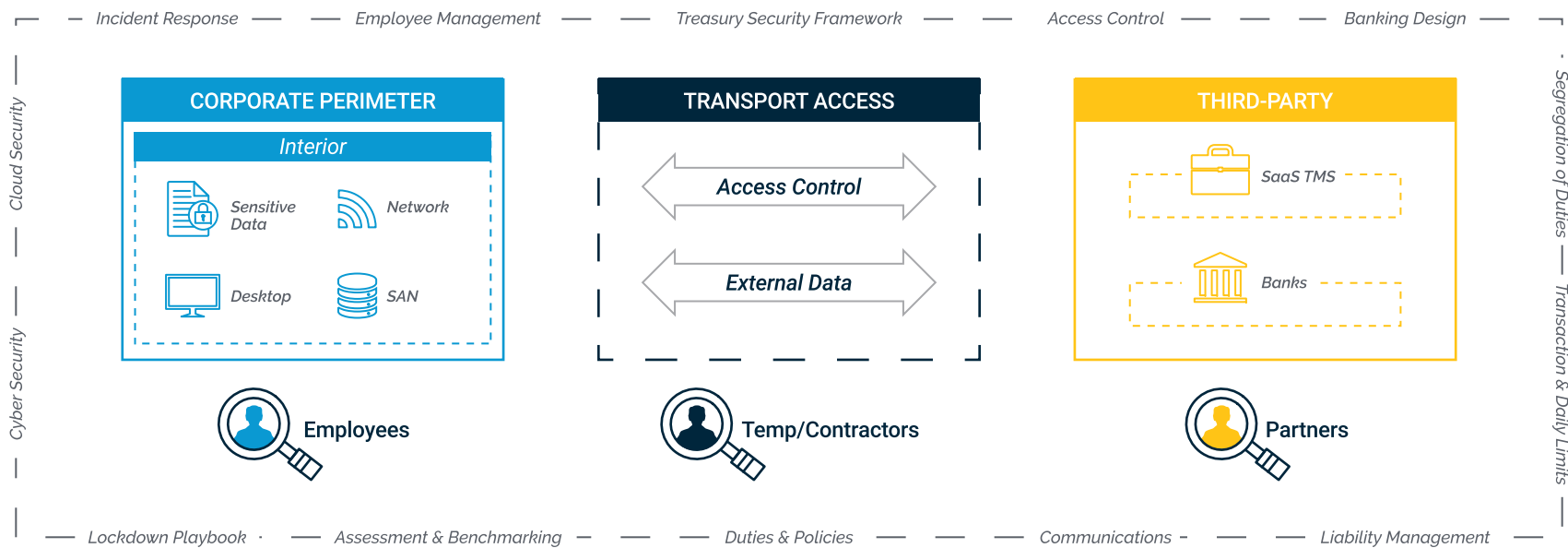
IN-HOUSE

Internally, each step along the payments path is a potential point of exposure, from sending files and accessing records, to rerouting transfers and copying information to another directory. Automated, end-to-end processing is the goal for many organizations seeking to process payments with precision and confidence.

EXTERNAL

From an outside perspective, the very nature of global payments processing can expose firms to mistakes, redundancies, lengthy confirmation delays, sanction management violations, reportable events, false positives and more. When an aggregator is used, however, work flows are faster and more streamlined, the potential for human error is mitigated and problems are identified before disaster can strike.

Locus of Controls

| Incident Response | Employee Management | Treasury Security Framework | Access Control | Banking Design |

Cloud Security
Cyber Security

CORPORATE PERIMETER
Interior
Sensitive Data · Network
Desktop · SAN
Employees

TRANSPORT ACCESS
Access Control
External Data
Temp/Contractors

THIRD-PARTY
SaaS TMS
Banks
Partners

Segregation of Duties · *Transaction & Daily Limits*

| Lockdown Playbook · | Assessment & Benchmarking | Duties & Policies | Communications - | Liability Management |

Payments Compliance

GLOBAL PAYMENTS COMPLIANCE

Managing KYC, OFAC & other payments compliance requirements serves as an added layer of assurance. While most (if not all) banks will screen payments as they pass through to ensure compliance with OFAC lists and other sanctions requirements and to verify message details, there are circumstances where a corporate can be held liable for a violation in this area. This is particularly true if the corporate does not have any established screening process in place. Cover this exposure by screening all incoming and outgoing payments and performing data validation checks to ensure messages are properly formatted.

COMPLIANCE OBSTACLES

Regulatory Concerns. 68% of organizations believed that current levels of regulatory oversight were higher or significantly higher than historical norms.*

KYC Headaches. 11% of organizations experience significant delays that impact the timing of their payments or onboarding of new clients/vendors because of bank KYC and documentation requirements.*

Ignore Sanctions Screening. 23% of organizations do not screen their payments for sanctioned parties.* Given the increasingly severe penalties for non-compliance, this is a risk.

*Strategic Treasurer Market Research.

Global payment challenges include the delay of settlement. For instance, it may take three to four days for a cross-border transaction to settle, and it can be difficult to track the status of each payment as it is delivered or obtain final verification of settlement. This is especially true if funds must pass through multiple correspondent banks before reaching their destination.

The task of overseeing payments activity is a heavy burden that, if handled improperly, can lead to misplaced working capital, reduced cash visibility and exposures related to compliance violations and fraud attacks.

Beyond the Challenges

Payments Processes Going Forward

There are a number of moving parts in the payments world that present a corporate payments professional with the opportunity to improve their positioning if they take several careful steps. These steps include:

▶ **Stay Informed.** While some of these new payment initiatives are already seeing major market traction, others are still in early development stages and have yet to make any significant impact. Payments initiatives around the world, however, are progressing rapidly, with major milestones announced on a monthly/quarterly basis. Due to these intense growth spurts, it's more important than ever for treasury to monitor developments as they occur and understand how major changes in the payments technology landscape will impact them.

▶ **Communicate Openly.** All stakeholders can contribute valuable information from a specific point of view regarding pain points to help clarify the overall payments picture. Open dialog also helps treasurers avoid redundancy in addressing various concerns.

▶ **Spend Intentionally.** Invest your money, time and effort thoughtfully. Chances are, your peers are investing in specific systems for a reason, and you don't want to be left behind. But also bear in mind there is no "one-size-fits-all" solution to immediately solve every problem. Organizations must consider "future-proofing" their tech stack and recognize that shifting technologies will impact their architecture. Invest in technology that not only solves your current challenges, but also propels you into the future.

▶ **Seek Innovation: Enhanced Tech Deserves a Second Look.** There is no one new technology or initiative that will suddenly alleviate all of treasury's payments concerns. There are, however, countless innovations occurring along the payments front that continually work to simplify treasury's task of managing payments by providing optimal efficiency, security and controls.

In addition to taking the recommended steps, treasury and payments professionals will want to consider several new technologies that have the possibility of significantly altering the efficiency and security of payments. Firms are already using or piloting programs that leverage this technology. Since they have moved into the realm or real-world impact they merit consideration from all firms that have significant payment volume, complexity or responsibility.
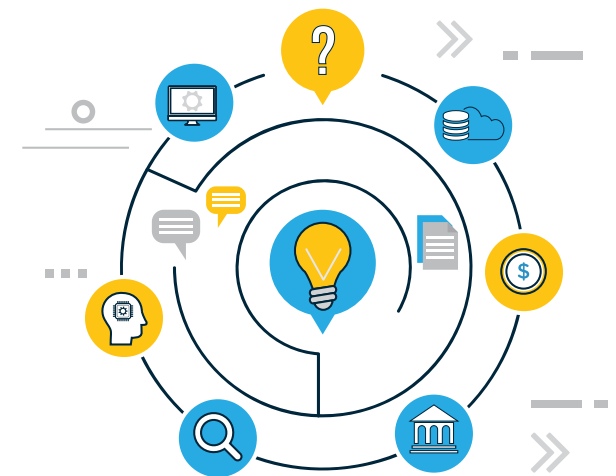
It is treasury's job to identify challenges that exist in payments operations and implement effective solutions. This means a big part of our responsibilities is staying current on new payments developments, technology trends and emerging initiatives.

Payment Hub/Treasury Aggregator. The implementation of a payments hub or aggregator can provide treasury with simplified visibility and access to company-wide activity. Routing payments through a central platform allows treasury to manage activity through a single interface, resulting in greater visibility, exception management and overall efficiency.

This system can also help eliminate many of the manual processes that bog down organizational operations. Functions like message format transformation, data validation, payments generation/ execution and more can be performed automatically, with a report delivered to the appropriate end-system for further analysis and upkeep.

Faster/Better Payments. While some new technologies and services have been introduced through user-specific offerings like TMS or ERP, others are being incorporated into various domestic and global payments systems, networks and clearinghouses. Examples include same-day ACH and real-time payments in North America, Faster Payments in the UK and SWIFT gpi for global cross-border transactions. There are dozens of initiatives beyond these examples, though, and collectively, they're reshaping the B2B payments landscape.

Artificial Intelligence. In another example, artificial intelligence (AI)—a disruptive analytical technology—is one sophisticated, cutting-edge solution being introduced to help identify and prevent the rising incidence of fraud worldwide.

APIs & Blockchain. In most circumstances, the primary intent of these initiatives is to provide same-day payment settlement services. Happily, the application of APIs, blockchain and other new technologies to the process is resulting in an even wider range of benefits that includes lower costs, greater security and a higher level of transparency into underlying transaction details.

Craving more treasury insights?
Talk to GTreasury.

Need more information on how GTreasury helps with payments?
Learn more.

For general information, email us at: *Marketing@GTreasury.com*

FINAL THOUGHTS ON THE WAY FORWARD

Although traditional forms of payment are still the most common, you can see there are many reasons to consider exploring new tech's friction-alleviating potential. Amid mounting pressure to cut costs, maintain data security and streamline cashflows, savvy companies and thought leaders are choosing to explore all available options. While some organizations are satisfied with the status quo, B2B payments may very well be nearing a tipping point.

About the Firms

GTreasury

GTreasury is a leading innovator of integrated SaaS treasury and risk management solutions for the digital treasurer. Developed using the latest technology, GTreasury helps empower organizations on their path to strategic treasury by enabling total visibility into their cash, liquidity, payments, and financial risk management. With enterprise clients spanning North America, EMEA and APAC, GTreasury is headquartered in Chicago with offices in London, Manila, and Sydney, Australia.

GTreasury's integrated TMS not only keeps pace with today's rapidly evolving enterprises, it surfaces the critical relationships between cash management and risk management. In this way, your treasury information becomes an invaluable driver of strategic business decisions.

Strategic Treasurer

Strategic Treasurer provides consulting, research, and professional services for treasury management, security, technology, and compliance. Since 2004, corporate clients, banks, and fintech providers throughout the world have relied on their advisory services which are backed by a deep awareness of current practices, plans, and perceptions through their annual surveys and decades of treasury experience.

The mission of Strategic Treasurer is to elevate and enhance the practice of treasury by advising individual clients and informing the industry at large. Headquartered in Atlanta with consultants also based out of Cleveland and Washington DC, Strategic Treasurer guides treasury and finance professionals through real-world, mission-critical issues that organizations face today.

GTREASURY

+1.847.847.3706
GTreasury.com
Marketing@GTreasury.com

STRATEGIC TREASURER

+1 678.466.2220
strategictreasurer.com
info@strategictreasurer.com

REDUCING THE PAIN OF PAYMENTS