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Alias-based payment option emerges to tame risk in B2C transactions



Alias-based payments, which are convenient and eliminate the risk associated with collecting and storing payee bank account information, are beginning to emerge for business-to-consumer (B2C) applications. U.S. Bank is working to support one such option through its ownership in the clearXchange payment network.

To achieve greater efficiency, organizations are shifting toward paying consumers electronically rather than with paper checks. However, traditional electronic payment options, such as the Automated Clearing House (ACH) network, require organizations to gather and maintain payees' bank account information, which can create a security risk. This is where alias-based payments offer a benefit — an organization only needs a consumer's mobile phone number or email address to initiate an alias-based payment.

The clearXchange network

U.S. Bank is among a group of major U.S. banks that owns clearXchange, an emerging B2C alias-based payment option. The U.S.-based digital payment network began as a fast, convenient person-to-person (P2P) payment network. It enabled one consumer to pay another by electronically transferring money directly from one bank account to another, which eliminated the time spent writing and depositing checks, and waiting as many as five days for the payment to clear. Millennials, in particular, appreciate the convenience and simplicity of making P2P payments using their mobile devices.

To make clearXchange payments, payers must bank with a clearXchange bank, and their recipients must be registered with the clearXchange directory (i.e., link their mobile phone number or email address to their bank account). Payments typically settle within one or two business days.

In a classic example of how P2P alias-based payments work, a group of friends eating at a restaurant can “split the check” by having one diner pay the bill and the others send their portion of the tab to the payer by phone. The diner paying the bill doesn't need to accept cash from the others or visit the bank later to deposit checks from them.

Already more than 25 million consumers are registered in the clearXchange directory, and in 2015 they made or received payments from 7,500 banks in the United States, the network reports.

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The security advantage of B2C payments

U.S. Bank currently provides P2P payment capability on clearXchange — with a real-time settlement option — and is in the process of building a B2C payment solution through the network.

“With all of the recent highly publicized payment-related security breaches, companies are looking for an alternative way to make payments electronically without having to maintain their payees’ banking information,” says Laura Listwan, senior vice president and group product manager at U.S. Bank.

If an organization is paying a consumer that banks with a clearXchange bank, only the consumer and its bank have the consumer’s bank account information. “Consumers that don’t bank with a clearXchange bank can still register to receive clearXchange payments, however their payments are routed through the ACH network and they are required to share their bank account information,” Listwan explains.

Just a few examples of likely B2C payment applications for clearXchange include consumer refunds, disaster recovery payments and, for insurance companies, claim payments. For example, when an auto insurer’s client is at fault for an accident and the insurer must pay the accident victim — with whom it has no business relationship — clearXchange will provide a fast, convenient and secure payment alternative, says Laura Listwan.

“Any company or government agency that has a significant interaction with consumers will be a potential candidate for clearXchange disbursements,” Listwan adds.

When you take into account the entire cost to generate a payment, including enrolling payees and maintaining the electronic solution, clearXchange is expected to offer B2C electronic payments efficiencies. “Cost savings aren’t the primary benefit,” Listwan says. “The compelling driver for using clearXchange for B2C payments is that the network provides businesses with a secure, reliable and convenient way to pay their consumer customers or counterparties without warehousing their banking credentials.”

To learn more about how your company might benefit from alias-based B2C payments — including through the clearXchange network — contact your Treasury Management Consultant.

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Consolidated vs. Segregated Payment Files: Which should you use?

Most companies today make payments in several different payment formats. In some cases, it makes sense to consolidate all payment types into a single payment file.

By Adam Kruis

Vice President, Working Capital Consultant, U.S. Bank

Organizations of all sizes are tasked with finding ways to improve working capital efficiency. One area that is currently ripe for improvements in both technology and process is the ever-changing landscape of business-to-business and business-to-consumer payments.

Most organizations still issue many checks, albeit at a declining rate. A common goal within accounts payable (A/P) departments is to eliminate all paper-based payments, but very few organizations have succeeded. In fact, few companies have a clear view of when they can expect checks to disappear entirely from their payment mix. The reality is that check payments continue to be appropriate in many circumstances. Checks remain a necessary payment option that companies must manage now and into the foreseeable future.

At the same time, most organizations are also disbursing via wire transfers, Automated Clearing House (ACH) payments and payment cards. The myriad of electronic payment options now available to U.S. businesses explains, in part, why check volumes are decreasing in most organizations. Companies looking to improve process efficiencies are moving the bulk of their payments to ACH and card, and automating the processes around payment generation. This electronic payment automation is achieved by eliminating the steps of printing the check and associated remittance detail, stuffing envelopes, applying postage, and placing and tracking the

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By using file transmissions to integrate with their banking partners, payment initiators achieve enhanced working capital and savings in many different ways.

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check through the mail. These are all manual and costly activities and most importantly, non-value added tasks for a company.

ACH and wire transfers are initiated directly from a company's enterprise resource planning (ERP) system or via a bank-hosted online payment portal. Card-based payments are initiated via the ERP system, point-of-sale terminal, phone, email or the receiving partners' websites. Many of the inefficient manual tasks are eliminated using electronic payment methods.

The speed, security, and cost savings afforded by ACH and card payments provide motivation for disbursement focused working capital optimization efforts; however, as companies are working to increase automation across all the disbursement methods, they need to simultaneously work on creating an effective integration plan with a trusted banking partner. Organizations that most effectively drive impactful automation do so via payment files initiated directly from their ERP systems and having a knowledgeable and experienced banking partner who can create and maintain a superior payment file strategy for customers is key to the success of these endeavors.

By using file transmissions to integrate with their banking partners, payment initiators achieve enhanced working capital and savings in many different ways. First, they provide tighter control over timing of payment. By using these batched payment initiations, the payer is able to more effectively control the date the payment is initiated through the automated process. This helps to reduce variance of when the payment will ultimately settle and be

deducted from the disbursing account by decreasing dependency on human intervention for payment initiation, allowing for enhanced forecasting.

Second, payment costs are reduced by batching payments together and eliminating the manual tasks associated with the initiation of payments on a singular basis. By using technology to do the heavy lifting for the payment initiation, the payer dramatically decreases the expenses related to initiating, tracking and researching the payment.

Third, the payer benefits from superior fraud mitigation via file-based payment controls. By implementing common automated controls within the ERP prior to file initiation, the payer avoids intervention by their own employees or outside parties that could disrupt the intended payment. This can result in significant savings.

Finally, when file integration is used to drive payment volume to online purchasing cards, commonly referred to as cardless payments or virtual cards, this can result in a revenue share rebate agreement with the card issuer. If the payment dollar volume justifies, the payer receives a cash payment equal to an agreed upon percentage of the interchange collected by the card issuer, providing obvious working capital benefit. For all of these reasons, establishing bank integration is a crucial step in developing the efficiencies that lead to working capital optimization.

As companies are re-evaluating which payment types they use, or are undertaking an initiative to improve working capital by streamlining payment processes, they should consider

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whether it makes more sense to build a separate payment file for each payment type, or to attempt to consolidate all their payments to a single, consolidated disbursement file.

When Segregated Files make the most sense

There are several reasons an organization might choose to maintain separate files for each payment type. First, doing so can simplify the creation of payments in an ERP system. The ability to create a simple payment file for check issuance, ACH and batch wires comes built into many ERP systems' standard offering.

For example, developing a commonly used NACHA-formatted ACH file is a staple of many ERP payment modules. As a result, treasury or payables teams looking to implement a file-based ACH initiation process do not have to enlist their other resources for creating or finding file layout specifications and manually coding them into the ERP. If setting up a new payment process would require this type of effort, this might delay the entire improvement effort in a company with constrained resources. In contrast, using the payment file outputs that come standard in the company's ERP payment module may mean the company can launch payment-process upgrades using minimal technical resources.

Second, even in a company with the IT resources to create customized payment files, using the file types that come standard in the ERP system, off the shelf, can reduce implementation timelines. If the company uses a single ERP system, and if timeliness

is a crucial factor in the payments initiative, then the company should carefully consider how long each option would take before deciding whether to consolidate payments or to maintain separate payment types in separate files.

Finally, in making this decision, treasury managers should analyze the types of payment files the organization is currently generating, along with the types it anticipates adding in the future. Consider the case of a company that is already creating and transmitting one file for printing and issuing checks, another file for NACHA-formatted ACH payments, and a batch wire file that is sent directly from the company's ERP system to its banking partner. If the company has decided to add a virtual card program to the payments mix, it should evaluate the pros and cons of consolidating all these payment types into a single file. They may find that adding on a separate virtual card payment file output makes more sense than tearing down and rebuilding due to the short-term cost and timing benefits.

When a Consolidated File is the way to go

Over time, organizations can achieve significant benefits by consolidating payments for batch wires, ACH, virtual card (cardless) payments and check payments that are outsourced to a third-party processor. One reason is that developing a custom payment file gives an organization greater flexibility with increased efficiency.

As a file is created that accommodates all the various payment types, a company may choose to add more details on each transaction. Using

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separate ERP export files for each payment type creates multiple updates in order to add the new piece of transaction detail to every file.

For example, a property management company determines that, to most effectively reconcile payments going forward, they must include the property number in the outgoing payment. If they are currently initiating ACH, batch wires, virtual card and outsourced checks with four separate payment files, they must conduct a project to update each of these files to include the property number. Conversely, if they are using a single, consolidated disbursement file, only a single update is required to accomplish their goal.

Another benefit of using a custom, consolidated file is that it provides for a consistent format and process across all payment types. With a consolidated file, a company can complete payment runs via one process (one file created, one approval process, etc.). Segregated payments files use similar yet separate processes to produce ACH, check, wire and card batches from file creation through approving the payment batches and finally closing the confirmation loop. These variations can cause confusion and inefficiencies.

Many payers find it challenging to control and understand the payment detail submitted with each option. For example, employees of a company may assume that a certain amount of payment detail is included across all payment types, when in reality, one payment file may allow for more remittance detail when compared to another. Depending on how a company is using addenda information, this can

be a common occurrence for ACH versus check payment files. This often results in sub-optimal payments, with subsequent customer service support expense to reconcile, for both the payer and receiver.

A consolidated file helps to ensure that the payment detail is consistent across payment types. Additionally, ensuring that each segregated file is received by the banking partner with associated responses can be difficult. For a company using all four of the established file payment exports this can be four separate response files that the company is accountable for monitoring on a daily (sometimes more often) basis. Considering that perhaps one of the payment options may not have been used for that particular payment run (i.e. there were no batch wires that day) it's understandable how monitoring and ensuring processing of all of these different files can be a challenge. Using a single file helps to create simplicity in payment generation as well as providing benefits resulting from a consolidated response file.

Additionally, once a company has created a custom, consolidated payment file, it becomes easier to add new payment types in the future. As the organization grows and adjusts, the flexibility that a consolidated payment file offers can be paramount. The consolidated file enables the company to add new payment types more easily; simply plugging them into the company's existing process minimizes the need to test and monitor new payment file transmissions. For example, an organization that currently issues outsourced checks, ACH payments and batch wires in a

A consolidated file helps to ensure that the payment detail is consistent across payment types.

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consolidated file, could add virtual card payments to that file more efficiently than it could create and transmit a new, separate file for virtual-card-only payments.

Moreover, although this analysis has focused on the four payment types that are commonly transmitted today, it's likely that additional automated payment options will be developed in the future, for both consumer-based and business-based payments. Those payers that have established a consolidated process for payment transmission should be in a position to more efficiently take advantage of the benefits that emerging technologies will offer.

A fourth benefit of using a consolidated payment file is that vendors and consumers transitioning from one payment type to another will not disrupt payment initiation and reconciliation. Due to contract renegotiation, market pressures and other factors, trading partners often shift from receiving payment via one method to another. Currently, the most common direction is to migrate from check to ACH or virtual card. In the future, new options may offer efficiencies that lure companies to migrate away from today's most popular payment types. Whatever the future brings, a consolidated payment file would support the migration of transactions from one payment type to another. The creation and reconciling of a payment are not materially affected when the payment type changes, as long as both types use the same consolidated payment file.

Conversely, when using segregated payment files, an organization is forced to establish a new file format and transmission connection to their

banking partner as new payment type technologies arise in the future. This continues to add further complexity for the company. For trading partners choosing to switch current payment types (i.e. transitioning from check to ACH), using segregated files forces the paying company to ensure that they are properly set up to direct payments for that particular payee to the desired payment type file. This can be a challenge if the payments for that specific payee require unique payment details in order to reconcile. A multinational distributing company may have ensured that the location code is sent with each check payment for a specific manufacturer, but doesn't have that functionality in place with the ACH payment file to date. This can delay the payment type conversion for this payee and create additional cost for the distributor.

Finally, issuing a single payment file transmission increases security. For the same reasons established where file maintenance is simplified and response file consolidation provides efficiency, security is enhanced when there are fewer files to monitor and, therefore, less risk. All security efforts focused on transmission and payment controls can be concentrated on this single file. Monitoring four or more separate files every payment run creates more opportunity for error and business disruption. As payment risk and file maintenance continue to be areas of focus for attentive organizations, the need to enhance security measures and simplify file-based processes remains. By creating an environment where a single file transmission is used, a company optimizes the process for ensuring business continuity.

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What's the right payment approach?

Which method is best for a particular organization depends on that company's goals, timelines and resources. A company that has already established integration with its banking partner for separate batch wire and ACH transmitted files, with no intent to optimizing check payments and with no interest in virtual cards, may not be best served to invest in the creation of a consolidated file. Additionally, creating separate payment files for each payment type is prudent for organizations that are attempting to minimize implementation timelines and are facing significant limitations when it comes to technical resources. Most other payment originators should see a significant positive impact if they consolidate payments into a single file. The simplicity, consistency, scalability and flexibility of a consolidated payment file can create long-term efficiencies that provide significant financial benefits such as cost savings and fraud expense avoidance.

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As a Working Capital Consultant, Adam helps companies optimize cash conversion cycles by providing tailored consultations on their processes. As a financial optimization agent and process improvement specialist, Adam works with all levels of clients to streamline, increase controls and reduce costs through industry expertise and emerging technologies.



Break with tradition — earn discounts and other benefits by paying foreign suppliers in their local currency

There's a very simple strategy that U.S. importers can employ to earn discounts on purchases, extend payment terms, fix payment amounts and settlement terms, and improve trading partner relationships: Ask foreign suppliers if they would rather be paid in their local currency than the usual U.S. dollars (USD).

For years, the vast majority of U.S. imports have been paid for in USD. “Many U.S. companies view making U.S. dollar payments as simple and easy — they’ve always paid that way, and they feel comfort in knowing exactly how much is coming out of their account,” explains Sheryl Wilhelmy, vice president and international product group manager at U.S. Bank. “They shy away from foreign exchange (FX) because it seems complex.”

Furthermore, most foreign suppliers invoice in USD and no one questions the practice. “But, as a U.S. buyer, you should,” advises Joshua Quiroz, senior vice president and head of electronic foreign exchange sales at U.S. Bank. “There are hidden costs associated with paying foreign suppliers in U.S. dollars,” Quiroz points out.

Avoiding a USD premium

Although not all U.S. businesses realize it, they generally pay a premium on imports when they pay in USD. Foreign suppliers build that premium into the price of goods to protect against possible fluctuations in the dollar's value and offset bank fees for converting USD into local currency.

“If foreign suppliers are billing you in U.S. dollars, they are typically going to ‘pad’ the price of your goods by up to 2 percent or more,” Quiroz says. Instead, if you pay

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in the supplier's local currency, you eliminate its foreign exchange risk and you can potentially negotiate a discount, he adds.

“When the foreign supplier is getting paid in U.S. dollars, it prefers shorter payment terms not only for cash flow reasons, but also to minimize the time during which adverse currency-value fluctuations can occur,” he says. “If the U.S. buyer agrees to pay in the supplier's local currency, and assume the FX risk, the supplier will generally be more open to extending terms.”

Other advantages

Cost savings in the form of discounts is probably the main reason to consider this strategy. However, U.S. importers paying in their foreign supplier's local currency also can often negotiate extended payment terms, Quiroz says.

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When the U.S. buyer pays in a foreign currency and assumes the FX risk, a common risk-mitigation strategy is for the buyer to use some sort of bank hedging instrument, such as a forward contract, to lock in the USD value of the payment between the time of billing and the time of payment. Fixing exchange rates through hedging is typically less expensive for the U.S. importer than paying the premium the foreign supplier would add to the cost of goods if it was being paid in USD.

FX hedging provides the buyer with certainty regarding the amount of the payment and also provides fixed settlement terms, Quiroz says.

What's more, offering to pay your foreign suppliers in their local currency can engender loyalty and goodwill. “Many suppliers will consider it a huge benefit,” Quiroz says. “They know exactly how much they will be paid for each transaction, they no longer need to manage the foreign exchange risk and they can price their products more competitively.”

How U.S. Bank can help

U.S. Bank has FX experts available to explain FX risk mitigation instruments and show how easy they are to use. In addition, the bank offers online tools that put each user in command of the process: the SinglePoint® treasury management platform for initiating foreign currency payments and the U.S. Bank Foreign Exchange Web (FX Web) platform for secure, Internet-based execution of FX transactions, transmission of settlement instructions, online confirmations, and reports on historical and outstanding contracts.

Contact your U.S. Bank Treasury Management Consultant to learn more about paying foreign suppliers in their local currency. Your consultant can introduce you to one of our Foreign Exchange experts for further guidance.

usbank.com

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