

SOUND SYSTEMS

TONY DE CAUX OF THE BANK RELATIONSHIP CONSULTANCY AND **ALAN BURNS** OF STABLE BANKING SOLUTIONS DELVE INTO THE WORLD OF ENTERPRISE PLANNING AND RESOURCE SYSTEMS.

Many companies are installing enterprise planning and resource systems (ERPs), sourcing them from key suppliers such as SAP, PeopleSoft, JD Edwards and Oracle. But installing them and integrating them into all the existing systems within the company is a time-consuming and expensive process. Therefore, many firms look to leverage off this investment. In the finance area shared service centres, or 'payment factories' are often the natural areas to consider.

Other companies that still have multiple accounting systems, possibly from different suppliers, or that are still in the roll-out phase of installing an ERP system, often also want to centralise and/or rationalise certain operations into a shared service environment. There are many areas to consider when setting up this type of vehicle, from the location, to staffing issues, but in this article we will focus on the business, technical and operational side of things.

BUSINESS COMES FIRST. The first issue is to decide what functions the new vehicle will carry out:

- will the whole accounts payable function be centralised or just the payments;
- likewise, is the whole accounts receivable function to be carried out centrally or just the collections; and
- where will the bank reconciliations be carried out? This latter question can become a major issue if the new vehicle, for example, only makes payments centrally and collections and the accounts receivable (A/R) functions are left in-country.

The types of payments or collections that will be handled is another important aspect that needs to be examined:

- will they include supplier payments, customer receipts, regular payments, such as insurance premiums, payroll and pensions;
- can treasury settlements and other ad hoc items be included; and
- will local instruments such as LCRs in France or Ribas in Italy be required?

Many companies also handle inter-company payments or settlement of a group netting system through such a vehicle.

The next thing is to establish which countries and currencies will be included. Generally, these vehicles are set up in the first instance to operate for one region. Regions are usually time-zone-based to take advantage of the local clearing system's cut-off times and for

ease in corporate communications. Historically, companies such as Philips started this way by first centralising all their activity in Europe into one centre. Then they brought in countries from other regions such as Asia when it made financial sense to do so. Accounting for the activity of a shared service centre (SSC) is usually centralised as well. Many firms additionally link their SSC to their in-house banking operations, and settle inter-company transactions in a cashless way by debiting or crediting in-house bank accounts, rather than physically moving funds between the different groups via the international banking system. This has a significant positive impact on bank charges and makes liquidity management far easier. In-house bank accounts can be run on the ERP system itself or on companies' treasury management systems (TMSs).

Setting up shared services vehicles usually means that a company has to take a new look at areas such as internal controls, operational

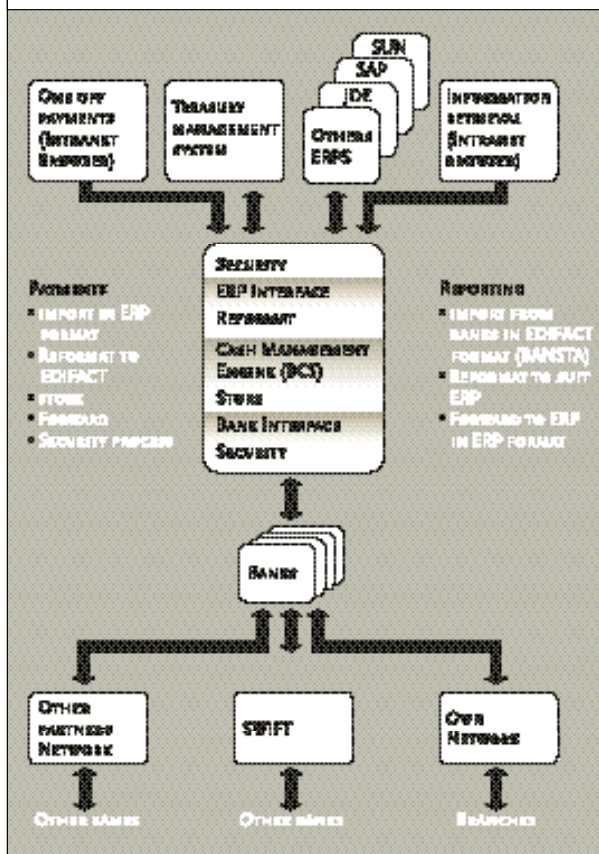
'BANK RELATIONSHIPS NEED TO BE RE-ASSESSED. WHAT IS OBVIOUS IS THAT THE FEWER BANKS BEING USED, THE EASIER THE INTEGRATION'

procedures and security. How invoices received locally are approved for payment and then find their way through the accounts payable (A/P) system, and eventually result in a payment being made, also needs to be re-mapped and new procedures and levels of authority established. If the idea is that A/P items entered into the ERP or accounting system will automatically be made into payment instructions for delivery to a bank, then the security of the initial system would have to be as good as that expected from a bank's electronic funds transfer system.

GO FOR QUALITY, NOT QUANTITY. Bank relationships need to be reassessed. To follow, we will discuss the technical issues of linking a SSC or payment factory to the banks, but what is obvious is that the fewer the banks being used, the easier the integration.

From a business standpoint, banks like volume. The higher the volumes of transactions they are given, the better the pricing and the service levels will be. A reassessment and rationalisation of banks needs to be carried out for both these reasons. Many companies

FIGURE 1
SSC PAYMENT 'FACTORY' SYSTEM SOLUTION.



have found, particularly after the introduction of the euro, that they have been able to make significant savings by employing fewer banks for their payment and collection operations. Using fewer banks also makes liquidity management easier and enables more sophisticated cash pooling techniques to be introduced.

Finally, it is also important to mention credit control in this section. Traditionally, like collections, this area has been carried out in most groups as a local in-country function. With a centralised ERP this is still possible but, increasingly, credit control is being regarded as yet another function that can be managed on a centralised basis from an SSC.

TECHNOLOGY TIMING. The technology issues will normally only have to be addressed once the new vehicle is set up – unless, of course, there are system changes or the roll-out of new systems that will affect the various interfaces. It is necessary to identify how many different financial systems operate across the company. All the systems used in the treasury and cash management areas should be identified, as well as those used for A/P and A/R. The review will also include treasury management and electronic banking systems. If payroll and pension payments are to be included then the systems supporting these activities will need to be studied as well.

It is also important to establish how easily files can be extracted or imported from or to these systems, and what file formats need

to be used. Depending on the age of the systems, it is quite possible that each system used will require a different format, so it is necessary to find out how many formats are used and to document them. Ideally, reconciliation will have to be carried out between the systems within the company and between whatever information and instructions that are sent between the company and its banks.

Having studied the in-house systems, some due diligence needs to be carried out to look at each bank's payment gateway. Will the company be able to send batches of urgent, non-urgent, multi-currency, multi-value dated payments through one mechanism, or will some banks require customers to use multiple links? Also, can the same platform be used for high value and urgent treasury settlements or will a stand-alone system be needed for this? Other questions that ought to be addressed relate to the technical timings and procedures around the bank accepting and processing the instructions and what happens in the event of problems or system failures, including the back-up and contingency arrangements available at each bank.

Communication protocols, security and handshaking have also to be understood. This should include the additional work, both from a technical development and operational standpoint, that the customer has to undertake to meet these requirements.

It helps the process if the customer has an in-depth understanding of the payment processes, both within each bank used and when payments are being moved from bank to bank. Not only will an understanding of SWIFT standards be necessary, but also how each domestic clearing system works in each country where payments or collections take place. In each country, the message formats, operating standards and central bank reporting regulations are different, and in some cases there are payments types unique to specific countries that need to be catered for.

OPERATIONAL ISSUES. Operational issues are those that affect the day-to-day work of managing and processing payments and collections, for example:

- how will the bank accounts used for making payments or receiving collections be monitored and funded or de-funded; and
- how will bank cut-off times affect the way payments are made? There is currently a wide disparity between cut-off times between banks, and this alone is a key determinant when looking at bank rationalisation and deciding which banks to retain.

The security and integrity of the data sent in either direction between the company and the banks is also important. With payments the firm should be looking for message authentication to current best practice levels to ensure data integrity and no tampering. This process should ideally be based on Public/Private key infrastructure that will provide a digital signature. Additionally, data encryption may be useful to ensure privacy. Regarding information coming back from the banks, it is needed in a timely manner and should be detailed so as to enable reconciliations to be undertaken in an automated way against the A/P and A/R systems.

On both sides, the parties must be able to provide the other with sufficient information, in the right format, to enable straight-through processing and only exceptional items should require manual intervention. Staff working in this area also need to understand the whole process. They should not be moved on to other areas until the project is fully operational and other staff has been well trained to take over from them.

'MANY CORPORATE DECISION-MAKERS WILL NOT APPRECIATE THE AMOUNT OF WORK THAT HAS TO BE DONE IN-HOUSE TO TAKE A POTENTIAL SOLUTION TO AN OPERATIONAL SOLUTION'

IN REALITY. When a bank says in a proposal to a customer that it will handle all their payment business, there is often the misunderstanding that all the planning, implementation work and operational training will be carried out by the bank. This is not the case. While the bank will provide some assistance at the point where the customer needs to link to bank, the internal corporate work needed to get to that point is usually down to the customer. Many of the corporate decision-makers in such a project will not appreciate the amount of work that has to be done in-house to take a potential solution from the proposal and concept stage through to an operational solution.

Similarly, the bank sales people, eager to make a sale and not fully conversant with corporate accounting systems, naturally give the impression that implementation is easy and frequently make over-ambitious promises. On the other hand, some firms have very specific requirements and expect the bank to bend its systems especially for them. Sometimes it is the bank that is led to believe that the firm is more capable than is actually the case. So there is frequently a mismatch between corporate demand and

expectations and the bank's capability or resources to match those expectations. These mismatches can happen very late in the process, sometimes a few weeks before the 'go live' date, causing major delays.

It is for these reasons that many companies are now using specialist consulting firms to assist with such projects. These firms can develop schemes that are based on corporate needs, rather than just bank capabilities. They can help find the right banks, the right systems and middleware applications, and they can provide valuable assistance with implementation.

Often banks will recommend a specialist firm, and they are usually more than happy to work with them. In the past, for larger projects, it has even been known for the banks to pay for the consulting firm to act as the co-ordination point and overall project manager for both sides of the project.

The concept of bank to corporate integration is not difficult to understand, and with open systems architecture and specialist middleware it is becoming a lot easier, but the real work starts with the implementation. However, in most treasury and accounting functions there are insufficient or inappropriate resources and help is needed.

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