Transformation expectations

EBRU PAKCAN ENCOURAGES CORPORATE TREASURERS TO TAKE ADVANTAGE OF THE KEY TRENDS, CHALLENGES AND OPPORTUNITIES THAT ARE TRANSFORMING THE MODERN PAYMENTS SPACE.

Today corporate treasurers are increasingly seeking internal efficiencies to optimise working capital and reduce the cost of treasury activities. With the market turmoil and economic uncertainty in Europe and the US, many organisations are looking to invest or increase their presence in emerging markets. Consequently, corporate treasurers are evaluating what cash management and payments structure will deliver the greatest efficiencies for their geographic profile.

In my opinion, treasurers who have already invested time and money to optimise their cash management structures for existing markets should challenge their banks to integrate new markets into the existing model. Doing so will allow treasurers to leverage their existing infrastructure and reap the benefits of standardisation and centralisation, while avoiding potentially high start-up cash management costs for each new market entered.

For example, many multinationals already run shared service centres (SSCs) or payment factories handling centralised payments and collections activities through a single channel and file format for a particular region. Corporate treasurers should take the time to understand how new markets can be integrated into these existing structures and avoid process and system duplication. The question today is not whether it can be done, but how it can be done.

There are other factors too that companies should be aware of when expanding into emerging markets. Corporates should anticipate that the payments landscape in emerging markets is notably different to that in developed markets, and is constantly evolving, bringing both challenges and opportunities.

With the launch of new payment instruments, clearing systems and regulatory and market changes, corporates and banks are often required to adhere to changes within short timeframes. For example, in January 2012 it will be mandatory to provide an IBAN for payments made to accounts in Bahrain, while from June all payments to Nigerian bank accounts must include the newly introduced NUBAN (Nigeria uniform bank account numbering).

In addition, treasurers need to be mindful that the political environment may impact day-to-day activities, as demonstrated by the impact of the Arab Spring on financial markets and services. This emphasises the value of using a bank partner with on-the-ground presence and local expertise across the countries that your business operates in.

OPPORTUNITIES AND INNOVATION Emerging markets also present opportunities, and many emerging market countries are leading financial services innovation with some exciting developments in the digital space.

Some countries that lack widespread banking infrastructure are making giant leaps by adopting payment models which leverage widespread mobile phone penetration in the market. Mobile payments in these markets are based on the concept of a "mobile wallet" – a reloadable store of electronic value managed through a mobile device. In Kenya and increasingly across East Africa, the mobile infrastructure is being used, for example, by customers paying utility bills and for payments to be issued to individuals who may not hold bank accounts, displacing the predominantly high volume of cash transactions. Similar structures are also operational in Asian markets, such as the Philippines, and rapidly taking off in others, such as India.

I believe that corporates will very soon be able to leverage such mobile technology infrastructure to improve some of their more inefficient payment and collection flows, especially for those with high volumes of retail payments and collections. At Citi, we certainly see many opportunities in the evolution of digital technologies, from mobile wallets to exploring collaborative models with global technology and telecom companies.

THE MULTINATIONAL EXPERIENCE Companies that already operate in a large number of countries are increasingly evaluating whether there is scope for improvement in their current banking model and payments structure. Frequently, tactical cash management decisions have been taken following events such as mergers, acquisitions and divestitures, or as a result or entering new markets. This sometimes results in sub-optimum bank account and payments structures and leaves opportunities for improvement.

A recent trend has been for multinationals to seek generic open standards that will be supported across all their banks, both for bank connectivity and payment formats. The increasing corporate use of SWIFT as a bank connectivity channel and the rapid adoption of the ISO 20022 XML standard demonstrate how high this is on the agenda for corporates. It is important that banks bring global connectivity and single file formats to their clients and use their networks to provide this as widely as possible to serve multinationals. Companies that have adopted a single connectivity and file format for only a subset of their countries should see if further markets could be integrated.

DEVELOPED MARKETS For several years, the Single Euro Payments Area (SEPA) has been endlessly debated by regulators, banks and corporates in Europe and consumed resources and technology spend. During 2011, we saw a significant increase in client interest, participation and volumes. Finland decommissioned its local ACH clearing system on 1 November and migrated all flows to SEPA credit transfers. Now that end-dates are on the horizon, corporates not already using SEPA should ensure that they plan and budget for their transition to SEPA over the next two years.

In many instances, migration to SEPA is a powerful tool for account rationalisation for corporates and may also be an opportunity for bank provider consolidation. It is important that corporates work with a bank that can effectively analyse the benefits and impact to their organisation, providing transition support as well as geographic coverage across the SEPA region. Though some payment process re-engineering may be required to move to SEPA, there are many efficiency, working capital and cost benefits to SEPA, with clients that have already adopted SEPA reporting high satisfaction rates.

Many corporates have taken the opportunity to combine projects to streamline their technology, such as the adoption of the ISO 20022 XML format across their operations, together with their SEPA project.

PAYMENTS INDUSTRY EVOLUTION Over the past few years, there has been a rapid emergence of non-bank payment institutions, with new providers constantly developing their services and models. These payment institutions have achieved significant growth in the past few years, and encourage healthy competition in the payments arena. Competition drives innovation in payments and reinforces the need continuously to evaluate how to add true value to our clients.

Regulatory changes impacting payment flows are on the horizon. There are also many improvements and enhancements being proposed or implemented in different markets to continue to monitor and mitigate inherit risks of payment flows. Such changes will inevitably be challenging for bank providers and payment institutions alike.

Corporate treasurers' approach to risk management has also evolved as the concepts of operating risk and counterparty risk are redefined.

Such increased focus on risk management may be a costly burden on the smaller-scale payment institutions. A broader question is whether this trend threatens the profitability and sustainability of standalone payment institutions. In my opinion, this segment may see increased consolidation and changes in business model in the near future. These are factors which corporates need to keep in mind when evaluating providers of payment services.

THE NEXT LEVEL A trend that will become more prevalent is for corporates that have largely completed projects to achieve efficiency in their payment transactions to look at efficiencies across wider activities. Re-engineering other points along the process chains will allow greater efficiencies to be realised beyond the end-payment.

For example, payments to suppliers are the result of the procure-to-pay (P2P) cycle, which involves processes of purchase order generation, invoice receipt, and so on. Are there e-invoicing tools that companies can use to eliminate paper processes and further automate their P2P cycle? Can procedures and processes be standardised and centralised? Is there a business case for outsourcing certain functions? Can payroll processing be centralised or outsourced to a core provider? The efficiencies that can be gained by looking at these processes under the same umbrella will vary from company to company, but they present for most an untapped opportunity for the next level of efficiency.

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