Expanding the Horizons of Cash Management

A report on the ACT's 3rd Cash Management Conference

London

February 2007

An update on:

- Payments and receipts
- Supply chain management
- Liquidity manangement

TREASURY, RISK AND FINANCE PROFESSIONALS

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Introduction

The ACT's third annual Cash Management Conference, "Expanding the Horizons of Cash Management", sponsored by Barclays, proved to be a resounding success with 120 delegates hearing from a wide range of industry experts including 11 corporate treasurers who provided insight into their own practical experiences. For the first time, the conference was extended to two days which reflects the degree of change and development in cash management and supply chain finance.

This report provides readers with an overview of the practical advice provided, and key points raised in the presentations, debates and discussions over the two days of the conference.

The first article covers payments and receipts management. The EU Payments Services Directive (PSD) and the Single Euro Payments Area (SEPA) are within sight, albeit moving slowly, and their implications should at the very least be considered by the treasurer. UK faster payments are imminent and will be here in November 2007.

The second piece examines how treasurers can get to understand the full range of their organisation's finance processes, incoming and outgoing, and get to grips with them. There may not be any settled 'best practice' but a number of ideas for a 'smarter way of working' were explored. Automation may have made some aspects of the treasurer's job more efficient but new management skills need to be brought to bear to ensure that the whole process works for the treasurer.

Those who attended the conference certainly felt that they learned a lot. We are pleased to have been able to pass on the benefits of this advice and insight. The ACT would like to thank the sponsors, Barclays, for their support of the conference and of this report.

Barclays is delighted to have been able to support the cash management conference. The dynamics of the cash management market are undergoing a period of unprecedented change which will affect all corporates. The aim at Barclays is to help corporates to benefit from these developments as quickly and cost-efficiently as possible for them to be able to develop their own optimal cash management model.

Angela Potter
Barclays

Richard Raeburn
ACT

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ACT

Payments and receipts management

Day one focused on the implications for treasury of regulatory developments in banking,UK faster payments, CLS for corporates and SEPA, as well as developments in the US.

If you are responsible for payments in your organisation do you get those requests from the CEO to pay countless millions cross-border by 3.00 pm this afternoon? Outsiders somehow assume that payments are easy and anything is possible. To an extent that is true but you do need to have set up the right systems and to be prepared. Yet even then there are limits on what is possible. Fortunately the payments industry does not stand still. New developments are being planned or are already time-tabled for implementation all the time. It was these new possibilities that were the focus of the first part of the ACT's Cash Management conference 2007.

In Europe the EU Payments Services Directive (PSD) is within sight of final approval, but then we thought that was the case in 2006 too. The German Presidency of the European Council of Ministers is determined to get the PSD finished by June 2007 and as we go to press the signs of consensus are positive. The Directive proposes relatively light regulation, presumably to encourage new entrants and competition, but this is not universally welcomed. The corporate users who deal mainly with reputable banks are less concerned with this as compared to the sections regulating the more practical mechanics and time cycles for payments. In these areas the Association of Corporate Treasurers (ACT) and the European Associations of Corporate Treasurers (EACT) have been active in giving the corporate user's views to the Commission and to the Council.

The PSD will create a common legal framework in the EU and EEA (European Economic Area, i.e. Iceland, Liechtenstein and Norway) for electronic payments (not cheques or cash), particularly specifying who is responsible and therefore liable for the various stages in a payment. It is therefore a necessary precursor to SEPA (Single Euro Payments Area) which will offer a common SEPA-wide mechanism for pan-European credit transfers, direct debits and card payments. The Directive will be applicable across all the EU currencies, including purely domestic sterling payments. The Directive will require that:

- payments are made by D+1 (D+3 until 2012, subject to final agreement);
- there must be no deductions in transit;
- there should be no float days taken to the detriment of the user;
- the 'unique identifier' determines correctness of execution; and
- the user has refund rights for unauthorised transactions.

SEPA is a commercial environment whereby the banking community – including Switzerland, which has confirmed that it will adhere and commit to the PSD – in the shape of the European Payments Council (EPC), have agreed a set of rulebooks which specify how the payments processes for euros will work, in sufficient detail to allow the infrastructures to be built to make it all possible. The start date for one SEPA element is currently set as 1 January 2008, but this deadline is recognised as very tight. However the delay in finalising the PSD has resulted in a deferral for Direct Debits until 2009 at the earliest. The SEPA credit transfer will not look hugely different from existing domestic mechanisms but the user will have the confidence that payments will reach the destination bank and the beneficiary account by D+3 (ultimately this reduces to D+1) and with the full 140 character remittance field intact, where data has been included.

This latter field is a free format one. Identification and reconciliation of inward payments is for many a significantly labour intensive task. Ideally this field could be used to aid the automation of that process and to this end the EACT is working with the EPC to see if an optional structured format can be devised to include additional and more standardised information into that field.

Table 1 *Direct debits: BACS and SEPA compared*

UK BACS direct debit	SEPA direct debit
DD originator must sign an indemnity in favour of the banks	An indemnity is not a requirement of SEPA although individual banks may seek one
DD payer can demand a full refund of any payment with no time limits	Refund period set at six weeks (but may yet be changed)
The payer receives an immediate refund from the paying bank which in turn claims under the indemnity	The payer only receives a refund from his bank when the creditor has agreed to settle the claim but with a backstop of 30 days after which the debtor bank can debit the creditor
Paperless mandates allowed	Only paper mandates envisaged although electronic signatures allowed
Delivery of mandate to payer's bank can be in paper form	Delivery to payer's bank (debtor bank) must be dematerialised
Originators have to allow a day from submitting the mandate authority and making the first collection request	Dematerialised mandate can be sent with first collection request but must be at least five working days before the due date
Automated messages exist for submission of DD authorities (AUDDIS), amendments from paying bank to originator (ADDACS), and return of unpaid collections (ARUDD)	No equivalents in SEPA, although DD mandates are submitted electronically
For customers switching accounts a mechanism exists to transfer DDs and standing orders (ToDDaSO)	No SEPA equivalent
Interchange fees not part of the scheme	EPC is considering interchange fees

Comparing the SEPA credit transfer with the UK BACS direct credit scheme a few features are missing from SEPA.

- A BACS payment may be recalled up to 3.30 pm on the first day of the payment cycle. There is no concept of a cancellation in SEPA.
- BACS provides some powerful automated messaging services, namely ARUCS (Automated Return of Unapplied Credits Service) and AWACS (Advice of Wrong Accounts Credit Service) to notify the remitter that despite invalid account details it has been applied to the corrected account or that there are new details where the account has been moved. There are no comparable services in SEPA.
- Under BACS a company can submit payment files directly. Under SEPA the originator must access the scheme via its bank or payment provider.

Of rather more impact is the fact that SEPA will create for the first time a genuine pan-European direct debit with full reachability of accounts in the EEA 30 countries plus Switzerland. And, as Dermot Turing of Clifford Chance explained, this could mean that UK accounts in sterling become capable of accepting Direct Debits in Euro from abroad! Of course the FX risk will rest with the account holder.

The DD mandate will be signed or authorised in some electronic way by the debtor (the payer) and held by the creditor (the payee). The creditor passes the mandate onto his bank in electronic form who in turn will pass it onto the debtor's bank in the time window of D-14 to D-7 D being the due date for payment. This mechanism is referred to as the Creditor Mandate Flow and is the default process.

In response to concerns from some users in continental Europe an alternative route for the mandate is being actively debated for future versions of SEPA. In these proposals the mandate will go from debtor – debtor bank – creditor bank – creditor and be called the Debtor Mandate Flow. The idea here is that the debtor bank is in a better position to fulfil any checking responsibilities that the payer wishes him to perform.

In several countries in continental Europe, the idea of a six week period when the payer under a direct debit could revoke a payment introduces an unacceptable level of uncertainty. For the UK where we are used to an unlimited refund period, six weeks was not a problem. However, to reassure business users a new business-to-business form of direct debit is being considered for a later launch, which will not have any refund rights. To counterbalance that feature the Debtor Bank will need specifically to check with the Debtor that the mandate arrangements are correct and valid.

The implications of SEPA for customers

From the viewpoint of the corporate user of payments services the over-riding principle of SEPA, namely to make cross-border Euro payments as straightforward as domestic payments has to be welcome. A degree of standardisation of processes, the certainty as to timecycles and the certainty that information and amounts will both arrive intact, are all significant improvements. Yet somehow SEPA has failed to catch the imagination of the majority and the sceptical views from Martyn Smith of Dyson were typical. For the moment so many details, not least costings and the realistic start date, are still unknown. The specific products to be offered by banks are largely unknown too, although ideas are now beginning to be talked about.

For companies with legacy systems, or those who have created complex networks of bank accounts in Europe to access the local domestic clearing houses, some of the theoretical advantages of SEPA are not so different from their existing work-around solutions. In theory, in a post-SEPA implementation environment, a company could hold all its euro accounts in one place or even work from a single account. However in Smith's view the reality is that you would still need local domestic accounts to handle paper-based transactions and in any case multiple accounts for different legal entities or branches can make identification of payments and receipts easier than if they were all to flow through a single account. A long and messy transition period needing mixed files of SEPA and non-SEPA payments would not help either.

On the other hand, for smaller or middle ranking companies which do not have special arrangements in place already, SEPA could make all the difference. Being able to take a direct debit from any country into a single account in your home centre could be a powerful new instrument.

Brigid Crookes of Barclays accepted that there would be challenges in running old and new formats in tandem, but ultimately doing nothing was not an option. In the SEPA world there would be a deeper and more liquid market with increased competition. The new model would drive some immediate benefits: in facilitating the activities of a shared service centre; in allowing fewer systems; in enabling more automation; and giving the potential for banks to develop new capabilities and new services, perhaps with enhanced information and reconciliation capabilities.

For Barclays, SEPA is only the start and will be part of many complementary initiatives, for example improved remittance information and automated reconciliation services, e-invoicing and all that comes with the wider concept of e-business, digital signatures and so on. This is the key. Companies must be open to the wider vision and possibilities that SEPA will lead on to. This is certainly the aim of the European Commission which sees massive economic advantages if Europe can move forward with e-business intitiatives. The message is that we should all, at the very least, start to plan for possible changes and to help in that process there is now extensive information on the EPC website www.europeanpaymentscouncil.eu

UK Faster Payments

While some may still regard SEPA as a payment process yet to come into being, and yet to prove its worth, that cannot be said of the UK faster payments (FP) arrangements covered by Paul Smee of APACS. Come November 2007, there **will** be a new and faster payment mechanism available in the UK.

In December 2005 the Office of Fair Trading (OFT) and the banking industry agreed to create a new payments capability for the UK by the end of 2007. For internet banking transfers, and telephone transfers between banks, the objective is that the movement will be near real time, with standing orders being processed on a same day basis. Currently, BACS works on a D+2 time cycle, and standing orders suffer two days float time since a payment is funded on day D even though the recipient will only get value on D+2.

The banks have agreed that FP will be introduced from November 2007 and that it will work on a near realtime basis. There will be something like a two hour delay in order to allow a short window for fraud detection measures.

Features of FP

A payer can make an immediate payment which the scheme can process 24 hours a day, seven days a week, depending on the delivery channel, and where the initial size limit is up to £10,000. There will also be a standing order payment, that will be paid only on bank working days, and with a limit of £100,000. There will be no float days on standing orders as currently happens under BACS. The intent is, that assuming all goes well, these limits will be rapidly raised.

Payments will only be made if there are funds available to meet the payment, and will be irrevocable so that the recipient should have certainty and availability within two hours. Customers can seek near real-time feedback on whether the payment has successfully reached the beneficiary account.

Costs

Charging for Faster Payments is a commercial matter that will be determined by market forces. It is important to remember that Faster Payments is an entirely new payment system and not simply an extension of BACS. However, there is an expectation that for high volumes of low value payments that are currently being made via

AMD: A US global case study

AMD is a leading global provider of innovative microprocessor and graphics solutions with a turnover of $6bn and a USD functional currency. As is only to be expected, their own payables and receivables systems and communications are highly developed allowing a small centralised treasury staff of just four people in the US to look after the entire global cash management. Virtually all bank accounts in all countries are with one global bank simplifying the job of checking global balances. All collections are remitted to the US and AMD centralises the investment function in the US. They keep very minimum cash balances in overseas entities by sending funding to the entities according to their cash forecast.

An accounting group of 100 people is based in Malaysia using SAP for accounts payable (A/P), accounts receivable (A/R), expenses and bank reconciliations, with a link into the global bank. The A/P system sends invoices round for the relevant approval and ultimately generates the appropriate file format for payment by the bank. An online web page is available to vendors allowing them to check the progress of their invoices and to sort out any queries for themselves. On the receivables side all USD payments are remitted to the US and the payments details loaded directly from the global bank into the A/R system in SAP.

Information and automation and the efficiency benefits derived from this are the priority rather than chasing the last dollar of spare cash sitting in a local bank account.

other payment systems, the market price will be closer to BACS pricing than CHAPS pricing.

Corporate file submission

There is no plan for a forced migration of BACS file payments to FP. However, there will be ways that a corporate can choose to submit a file of same day payments using the FP scheme.

BACS direct submitters (i.e. using the BACS TEL IP) service will be offered a very similar service but for submission to the FP scheme via Direct Corporate Access (DCA). The technical model would be very similar to your BACS TEL IP setup. The business model would also be similar with a corporate being sponsored by a member bank. This DCA proposition will not be available until 2008 whereas the member bank offerings are likely to be available earlier.

Implications for users

Payments initiated via the internet will be virtually immediate. This could have a significant impact on how individuals manage their internet accounts and move balances to higher interest accounts. For purchases, the seller has immediate certainty of payment, with obvious benefits for credit control. There is no risk of a payment bouncing as with a cheque.

For business critical payments it will provide a real alternative to CHAPS and, in fact better, feedback from the beneficiary confirming that the payment has arrived. Perhaps for payroll it will allow last minute calculation of overtime to be fed into the payment run, although for normal supplier payments, the expectation is that BACS will continue to be used.

To an extent one could ask why faster payments are needed for regular creditor payments, after all the current BACS set up simply means that a company must get its approval and processing timescales organised, to be finished two days prior to an invoice due date. Use of faster payments would be more costly and implies poor organisation. On the other hand, for a company finding its suppliers are holding up deliveries until overdue accounts have been settled, the ability to pay two days faster could be commercially important.

The initial cap of £10,000 means that FP is not a real alternative to large CHAPS payments so that a speedy increase of that limit will be important. That said the average CHAPS payment is amazingly low at around £10,000.

Cash forecasting and balance management could become far more difficult if payments are arriving in real-time with no warning and indeed are even arriving over the weekend (albeit the credit to the bank account will be made the next working day). Of critical importance will be the type of sweeping arrangements that can be made available by the clearing banks so that cash balances can be put to good use immediately.

The big unknown at the moment is exactly where the banks will pitch the fees for faster payments. Rumours exist that they will be closer to CHAPS than to BACS. Were that to be the case then FP would be of far less relevance to corporates.

Tracy Sims of Royal Mail summarised their reactions "Although faster payments may be beneficial to businesses, there remains the issue of cost versus benefit to be addressed. There are a number of other mandatory requirements that are scheduled during 2007, particularly for payment cards and given budget constraints and scarce resource, faster payments may not be a priority.

Also, until the costs for faster payments are available, their viability over BACS or CHAPS cannot be assessed. The target audience for faster payments will be

interesting, the take up may be led more by the personal banking user rather than by businesses."

NACHA

Looking further afield the conference received an update on developments in US payments from NACHA – the Electronic Payments Association that develops operating rules and business practices for the Automated Clearing House (ACH) Network in the USA. Of particular importance is the International ACH Transaction, meaning a debit or credit entry where one party is not subject to US jurisdiction. Rule changes to be approved shortly, for implementation in September 2008, will mean that far more details of the originator and the beneficiary and their banks will be required because of anti-terrorist and anti-money laundering issues raised by the Office of Foreign Asset Controls (OFAC). The file contents of inward payments coming from SWIFT onto a US ACH will need to be able to populate all the required fields, including one for the 'reason for the payment'.

For SEPA payments in euro, the biggest benefit will come when the information content is sufficiently standardised to allow better automation. In the US too, increasing efficiency is a key project, with work starting to establish a global standard of processing rules, formats and procedures picking up much of the SEPA formats where possible. A white paper on this is available on www.internationalpaymentsframework.org

Speakers at the ACT Cash Management Conference sponsored by Barclays

The ACT and Barclays would like to thank the following speakers for their insight and advice.

Stephen Crompton, ACT Immediate Past President – Conference Chairman

Charles Barlow, Group Treasurer, Coats

Adrian Bates, Assistant Treasurer Operations, GlaxoSmithKline

Nathalie Booth, Cash Product Head of Payments, Barclays

Phil Clark, Deputy Group Treasurer & Finance Executive – VGSL Operations, Vodafone

Brigid Crookes, Head of Financial Institutions Product Management, Barclays

Kevin Grant, Regional VP, Northern Europe, Wall Street Systems + Corporate Client

Priscilla Holland, Senior Director Network Products, NACHA

Darsh Johal, Head of Global Cash Management, Shell

Sarah Jones, CEO, SCF Capital / Former Treasury Director EMEA, Hewlett Packard

Richard Martin, Head of Payments & Cash Management, Product Management, Barclays

Martin O'Donovan, Assistant Director – Policy and Technical, ACT

Michelle Price, Director, Corporate Treasury Advisory, Deloitte

Keith Reed, VP Treasury, InterContinental Hotels Group

Adrian Rodgers, Director, ARC Financial

Mark Runiewicz, Representative of Institute of Export & Managing Director, Novus Initium

Tracy Sims, Group Treasury Manager – Banking, Royal Mail

Paul Smee, CEO, APACS

Martyn Smith, Director of Tax and Treasury, Dyson

Gianfranco Tabasso, Chairman of EACT Payment Commission & VP Association of Italian Corporate Treasurers

Dermot Turing, Partner, Clifford Chance

Steve Weiland, Chairman, The Weiland Financial Group

Brian Welch, Group Treasurer, Halcrow Group

Ron Wells, Credit Manager, Chevron Global Supply and Trading

Alice Xu, Cash and Risk Manager, AMD

Liquidity management and processes

Day two focused on the treasury department's processes and how treasurers can keep the cash flowing, as well as the best way to work with your bank to achieve your aims.

Treasury as a profession is built on the foundation of a number of financial disciplines ('pillars'), all of which are not only vital in their own right, but also support and complement each other. Amongst these pillars, Money management is defined by as "*managing [your] company's cash so the business won't have to borrow [more] than is necessary and to make the money it has work harder*".

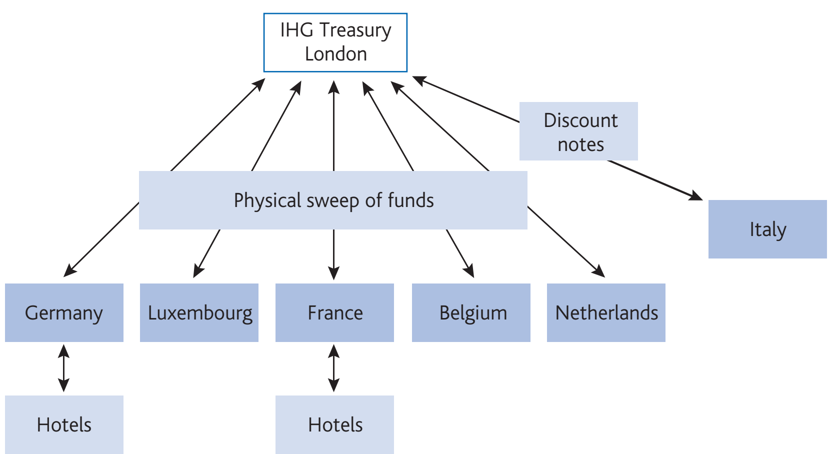
Cash management, however, has moved on from being a cashier role. Increasingly treasurers have had to expand their role to encompass all aspects of a company's commercial activities from the initial purchase of goods and/or services through to the final sale of the company's own output. The whole process has become known as 'supply chain finance management'. This growth in treasury responsibilities has been accompanied by a proliferation in the supply of services and technology from banks, software firms and others, designed to assist the treasurer in any management overview. While it may be the case that the focus has generally been on incoming cash, considerable time is now being spent on the outgoing payments process.

The challenge for treasurers is to understand and shape their organisation's processes and communicate them not only to management colleagues inside the business but also to a range of external service providers. These stakeholders have critical roles to play in delivering more efficient financial management for a business, even more so when a treasurer's bonus partly depends on performance measures relating to cash management! Indeed it is not only the traditional measures of 'cash' (e.g. average credit balances or minimised overdrafts) that are of importance but business-wide measures such as invoice-to-payment cycles. This becomes especially pertinent when the business undergoes change, either in respect of its business model, or its ownership. It is even more critical when dealing cross-border with all the attendant jurisdictional and money transmission issues.

We heard from Keith Reed at InterContinental Hotels that the treasurer, therefore, must build his structure beginning with the operating units of the business, servicing both local needs as well as central corporate requirements. This remains a guiding principle even when the business changes its approach and moves from having to manage all aspects of local hotel operations to being a fee-based 'franchise' business. The challenge was that the existing liquidity structure was no longer valid and the treasury needed to respond to the question: "Is there a simpler, cost-effective solution which could replace it"?.

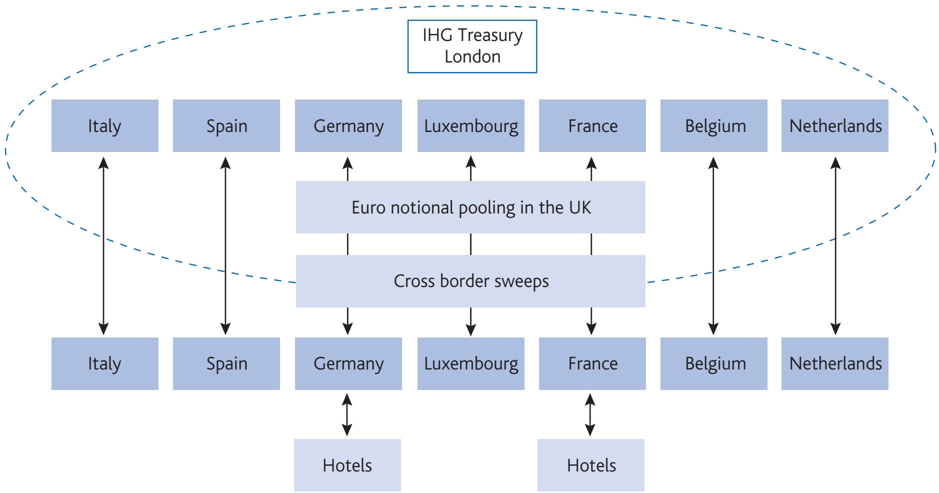
As is mentioned elsewhere in this report, there are considerable doubts about both the timing and likely value of the PSD, and SEPA. Direct practical experience from treasurers seems to support this scepticism even though SEPA will happen. What is clear however is that there is no settled 'best practice' for cash collection and management in the EU or Eurozone. In a complex business with multiple accounts in a

Figure 1 *European liquidity management – Cash concentration*



Source: IHG

Figure 2 *European liquidity management – Notional pool*



Source: IHG

single currency, the choice is broadly between cash concentration and/or notional pooling. IHG has outlined the structure of these options in Figures 1 and 2.

Cash concentration has its attractions in the automation of processes and a relative clarity of process. The downsides include the need to account for intercompany loans and sweeping is not suitable for every jurisdiction due to withholding taxes (hence the use of discount notes for Italy and Spain).

Notional pooling looks more familiar as many businesses operate the system on an in-country basis subject to local regulatory regimes. The issue of intercompany loans is also avoided. However issues to be addressed include maintaining numerous local accounts that may make the pool uneconomic and more accurate and time-consuming cash forecasting may be required.

Overall the key message for treasurers is to have a clear set of objectives, have the ability to measure the relative efficiency of competing processes and, be prepared to communicate consistently and frequently what you have achieved to the management team and service providers.

There has been a considerable amount of discussion and comment (often negative) recently regarding the position of private equity in the UK's business environment. The focus of comment is generally on accusations of asset-stripping or rampant capitalism rather than value-creation and business strategy. However, one of the least discussed, but for treasurers most critical, aspects of this form of ownership is its impact on the treasurer and the implicit driver of the whole process, cash.

Charles Barlow, Group Treasurer of Coats, the world's leading supplier of industrial threads and craft materials, provided the delegates with a comprehensive view of how he has approached the need for efficient cash management developing three themes in particular, calling it 'A smarter way of working':

- rationalising banking relationships;
- making greater use of technology; and
- moving from a country to a process driven organisation.

In principle the management of a leveraged business requires a different perspective on cash throughout the business. Even more so in Coat's case where, as a multi-national manufacturing business, the key element is to have local currency borrowing to offset local profit and tax so that cash can be moved to the UK centre to reduce debt and the 'net' tax charge.

There is an argument that cash forecasting has become a process that treasurers do because it is an expected – and measurable – output of corporate treasury departments. However many treasurers are increasingly convinced that collating often incomplete and time-lagged forecasts is at least an irritant and at worst an irrelevance to the business. This becomes worse the longer the forecast. Even where cashflow is closely watched, it is the flow that is becoming the critical feature rather than cash as an abstract concept.

The Coats' treasury philosophy is to keep a close watch on actual cash/debt positions and use its knowledge of the business to understand its flows. Coats has also mixed and matched its cash sweep/cash pool structures to suit the prevailing jurisdiction so is not tied to a single 'one size fits all' policy.

Coats has instigated a wider revamp of treasury practices driven by technology – accounting software (SAP), electronic dealing, treasury management systems and internet-based inter-company invoice netting – and many business transaction support functions have been outsourced to a shared service centre managed by IBM in Krakow, Poland. The use of treasury systems and corporate interfaces at Coats are shown in the figure below.

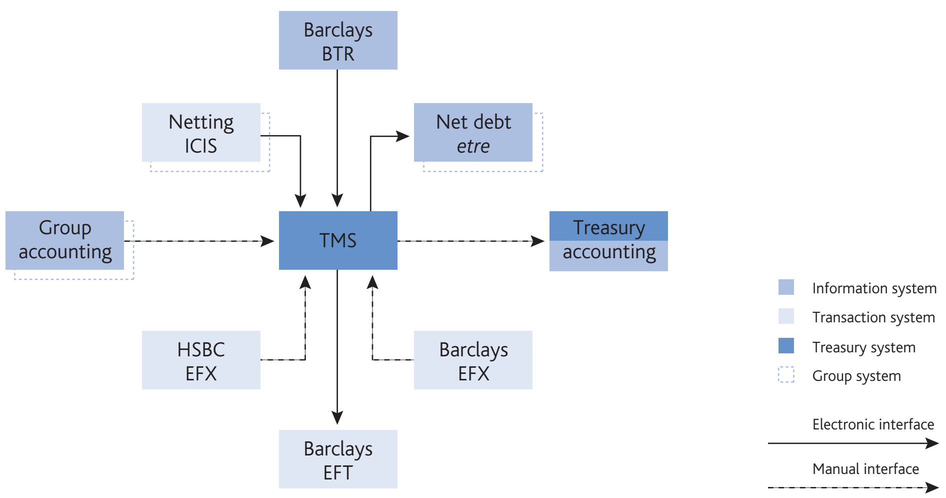
While the businesses discussed here have faced differing challenges, the responses have been similar:

- the use of technology to find the appropriate solution;
- communication of the strategy to all levels of management;
- understanding what cash does for each business; and
- manage to the business need.

The subsequent presentations in the conference underlined the need for treasurers to equip themselves with an understanding of not merely the financial elements of cash management but also the technology, governance and regulatory aspects. The impact of each individual element on an organisation will vary but few other managers will appreciate the sensitivity of their function to these changes. One of the major challenges will be to separate the detail of operational functions from the broad scope of corporate operations. These changes suggest that although a treasurer may reduce the time spent on individual segments of the finance chain because of automation/outsourcing/efficient systems, the interoperability of the entire payment process will require new management skills.

Over the past couple of years there has been much effort devoted to improving the payments processes within

Figure 3 *Treasury technology*



Source: Coats

Figure 4 *What is CAST?*

CAST objective is to increase the efficiency of the Financial Value Chain by developing STP and Interoperability of existing Standards

CAST project	Objectives
1. E-invoicing/interoperability	■ Validate and promote **e-invoicing standards** and **best practices** in FVC ■ Evaluate **Business Models**, propose framework rules and requirements of an **Interoperability Agreement** between major EBPP operators ■ Recommend measures to facilitate **adoption of e-invoicing**, especially by SMEs
2. Digital identity and interoperability of electronic signatures	■ Evaluate models of Trust and Identity systems ■ Propose model/criteria for **interoperability of electronic signatures** to ensure verification and control of digital certificates at International and EU level
3. Extended remittance advice and e-reconciliation	■ Identity requirements and data elements of an '**Extended Remittance Advice**' that, in conjunction with major ERPs and delivery channels, will enable STP **e-reconciliation of invoices**

Source: EACT

Europe for electronic payments in euros. Treasurers within the ACT (Association of Corporate Treasurers) and the EACT (European Associations of Corporate Treasurers) have been working with the authorities in shaping these new developments in payments.

In the course of the EACT's work it has become apparent that although the initiatives on payments will be helpful in delivering efficiencies and benefits for corporate customers, there are in fact, many more benefits that could be captured if improvements in the whole financial supply chain could be introduced. By automating much more of the process of ordering, recording delivery, invoicing and making payment, along with all the necessary matching and reconciliations that take place, the cost savings possible would be enormous. The EACT has launched a series of e-business related projects to make some concrete progress in moving to a more standardised world where 'straight through processing' (STP) becomes a reality. There are three sub projects in these so called CAST (Corporate Action on Standards – see Figure 4 above) projects, namely:

- Standard Remittance Information for e-reconciliation. The new SEPA payment message will be able to carry 140 characters of remittance information. If this field can be structured in an accepted standard form it could allow an automated matching of payments against invoices being paid and hence an automated booking through to the debtors' ledger.
- E-invoicing. Various initiatives already exist to standardise invoices. It is essential that these initiatives attract high volumes that quickly reach critical mass.
- Digital Identity. In the world of e-business knowing exactly with whom you are dealing, with absolute certainty and security, is crucial. Again various standards and certification authorities already exist and these practical initiatives need to be monitored and co-ordinated and the end user views represented.

The project work is not to reinvent standards that already exist but rather to assess what ideas exist, to make sure that corporate user requirements are built in and to encourage, with the help of the Commission, a widespread adoption of the recommended standards.

Although technology driven solutions to buyer/supplier relationships are becoming commonplace, releasing value is less well understood. The use of digital identities/signatures is a response not only to globalisation but also to international security and 'Know Your Customer' concerns. There are also grounds for believing that non-bank suppliers of finance may supplant some traditional bank financiers and payments processing will become a more commoditised business. There is at least some consensus that there will be a concentration in bank product suppliers which will enhance

Figure 5 *New approach for treasury and finance functions are required for the 21st century*

Practical issues to overcome:

1. The need for common standards
2. The need for consistent interfaces
3. The need for integrated process flows
4. The need for trusted identities to enable 1-3 above

SMAPLE CASES

DIGITAL BANK ACCOUNT MANAGEMENT

SUPPLY CHAIN MANAGEMENT

RISK MANAGEMENT

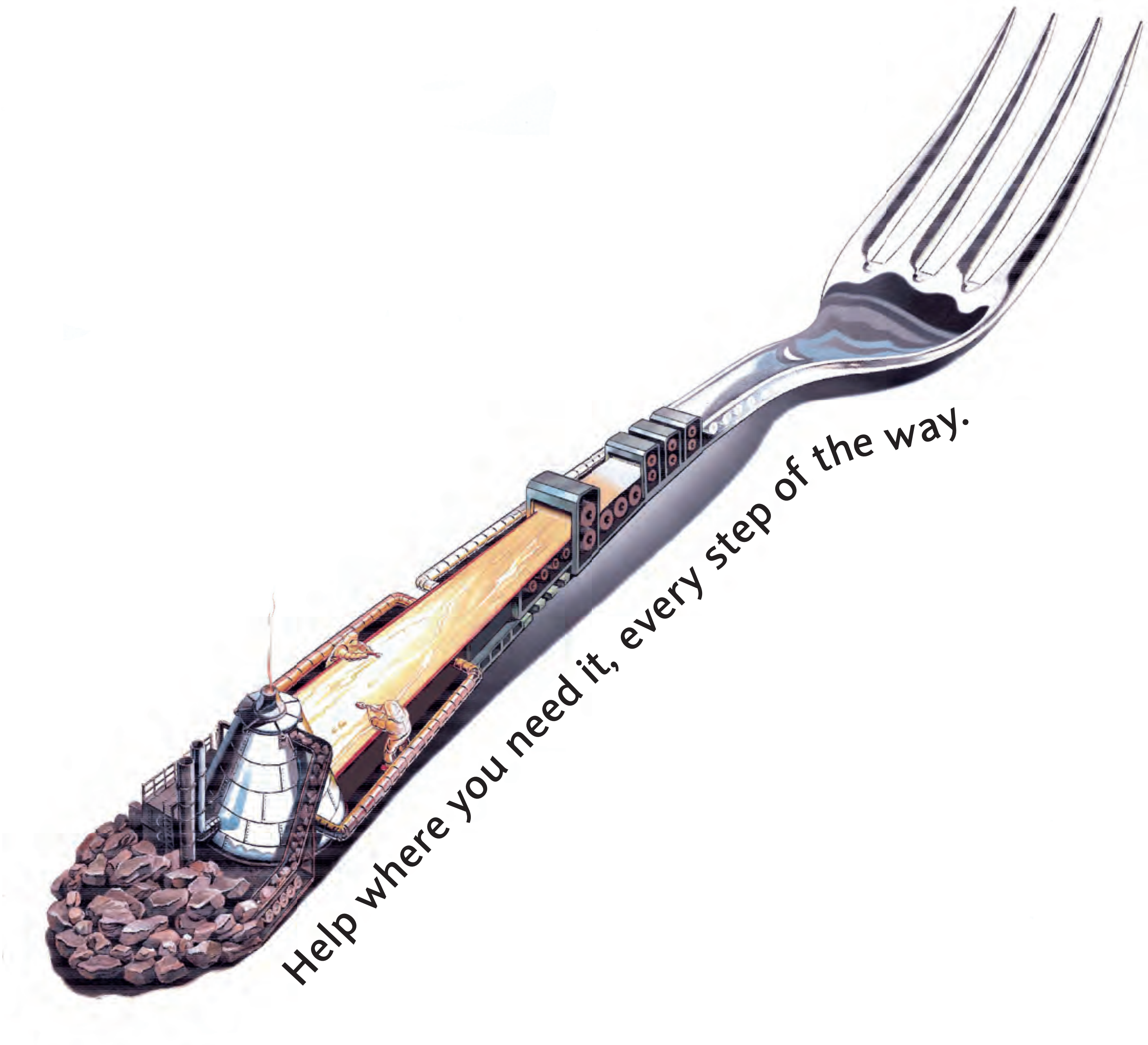
PROCESS STREAMLINING

Source: Shell

standardisation but perhaps lead to a reduction in efficiency for SME users.

Alternative payment systems based on developments in technology – such as mobile phone mechanisms – are reaching consumer finance and there is considerable interest in using existing systems such as SWIFT as corporate payment clearing houses. Other finance organisations may impose themselves in the payment process to suggest that value can be extracted from, for example, 'payment pools' which can be securitised in much the same way as other asset-backed securities such as car loans or domestic mortgages. One of the lesser-known impacts of globalisation is that large buying organisations (especially food and consumables retailers) have a need to ensure the continued financial health of their suppliers and merely running their business with 'free' working capital from their suppliers can have debilitating effects on the suppliers' ability to invest and develop product lines and processes to mutual benefit. Many large buyers have recognised this impact and positively work with suppliers, large commercial banks and other finance suppliers (e.g. regional trade finance banks).

The conference closed with a fascinating review of the treasury activities of Shell whose operations encompass every geographic region on the globe and 118 of its countries! Shell's approach is to embrace the changes in technology and regulation and to attempt to use them as widely as possible within its businesses (see Figure 5 above). It plans to use Digital Account Management (digital identities) for account opening and mandate management and has been a long-term user of the SWIFT corporate interface. Its service provider model relies on dealing with six 'primary' banks as contractors using service level agreements. Shell does not manage sub-contractors, relying on the primary banks to manage those relationships. The consistent message however is that treasurers must take an holistic approach to these challenges.



In every business there's an element of risk. Barclays International Trade and Cash Solutions can't make that risk go away, but we can manage it, by overseeing transactions with new and existing suppliers to ensure your supply chain cycle runs smoothly. What's more, it's a tailor-made service, so whether you're sourcing steel from Sheffield or textiles from Thailand, we can help. For details please email tradeandcashsolutions@barclays.com

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Now there's a thought