New-age receivables

WHAT INSTRUMENTS CAN A CORPORATE USE TO STREAMLINE ITS COLLECTIONS? AJAY ADITYA PROVIDES A PRIMER ON OPTIONS USED ACROSS EMERGING MARKETS

The order-to-cash side of the working capital cycle caters to the revenue side of the business and begins when a buyer initiates a purchase transaction leading to the creation of a receivable. In an ideal world, corporates would receive cash as early as possible to reduce costs in the working capital cycle.

The choice of a receivables management solution will depend upon factors such as industry sector, size of the business, proportion of local versus international business, the competitive position of the company, market conventions and buyer profiles. But when it comes to what corporates want from their receivables management approach, there are fewer variables. Most corporates want a collection infrastructure with these features:

- Cost-efficient;
- Straight-through processing;
- Safe and secure;
- Eliminates float;
- Enhances fund availability;
- Wide adoption and coverage;
- Flexibility;
- Possibility of reporting and tracking;
- Reduces manual processing; and
- Mature clearing infrastructure.

The solutions offered by banks can be characterised as physical (cash) and electronic (non-cash) forms. Here are some examples:

Physical instruments

Cash collection is perhaps the most inefficient and expensive option. However, benefits include immediate availability, which makes it the preferred instrument during illiquid market conditions.

Cheque collection is still widely used in markets such as India (and also in the US) due to the prevalence of cheques as a means of funds transfer. However, implementation of mobile-initiated cheque submission and truncation options have reduced disadvantages, such as float and overhead costs associated with cheque clearance.

Lockbox: Post-office boxes and drop boxes are typically outsourced to service providers, such as banks or other third parties. Cheques are dropped with or without advice and are then scanned and sent for clearing. Cheque details are uploaded to client enterprise resource planning (ERP) applications so that credit can be immediately applied upon clearing, and credit lines can be released for the buyer. Benefits include reduced float and processing costs due to centralisation and scale.

Cheque management and discounting: In some developing markets where cheque collection is still underdeveloped, corporates use cheque management and discounting solutions from the banks. Examples of cheque management users include housing or real-estate developers warehousing post-dated cheques and presenting them for clearing on the due date. To obtain immediate credit, corporates can get cheques discounted by banks to avoid paying overdraft charges on a current account.

Electronic instruments

Direct debit is the cheapest option available to corporates. The buyer's commitment is prearranged and no formal communication is required before initiating the transaction, leading to more certain cash forecasting. Further benefits include a reduction in payer identification efforts as corporates initiate the transaction and receive information from banks on any individual failure of direct debit instructions.

Electronic payments: International collections via SWIFT or charge cards are increasingly viable. Using SWIFT, corporates can send MT101 or pain.001 messages to initiate transfer of funds requests, whereby receipt would transfer funds to the sender. A bilateral agreement is required between both the bank and its clients, so repeat payments are a condition for this method. Charge card-based payments can also be initiated by the payee. However, issues such as charging in the receiver's currency rather than the buyer's may make this option expensive for larger amounts. There are now various lockbox companies providing services to corporates along these lines.

Electronic lockbox is generally implemented when collection services are outsourced or shared by a corporate and its subsidiaries, as scale is needed to make this option competitive in some markets. Electronic funds are received in a central account number on behalf of corporates by the outsourcing entity and then transferred to corporate ERPs at periodic intervals along with reference/buyer information to aid payee identification.

Virtual account is where various buyers of a corporate are assigned a unique identifier by the bank, and buyers are asked to pay the corporate using a combination of corporate identifier and buyer identifier. Once the payment has been received, internal processing at the bank will make sure that funds are applied to the right account of the corporate.

The benefits of this approach include immediate identification of the payer and application of funds, leading to faster release of credit lines. This helps to substantially reduce payer identification investigation and manual processing at the corporate end. Main users include telecom and utility companies, and tax authorities – all of which expect regular payment of smaller denominations.

SHUTTERSTOCK

EMERGING MARKETS AND MOBILE PAYMENTS

Mobile payment services offer a safe, secure, cost-efficient, immediate electronic fund transfer by leveraging the coverage and reach of mobile infrastructure. This service has been popular in nations where financial inclusion is limited due to the low profitability associated with smaller deposit base accounts. This service is popular in markets like China, India and Kenya. Benefits such as 24-hour availability, immediate transfer, low cost and the extendable nature of this service suggest huge potential and growth.

There are four primary models for mobile payment:

- **SMS-based transactions;**
- **Mobile operator billing;**
- **Contactless Near Field Communication (NFC) payments; and**
- **Mobile web payments.**

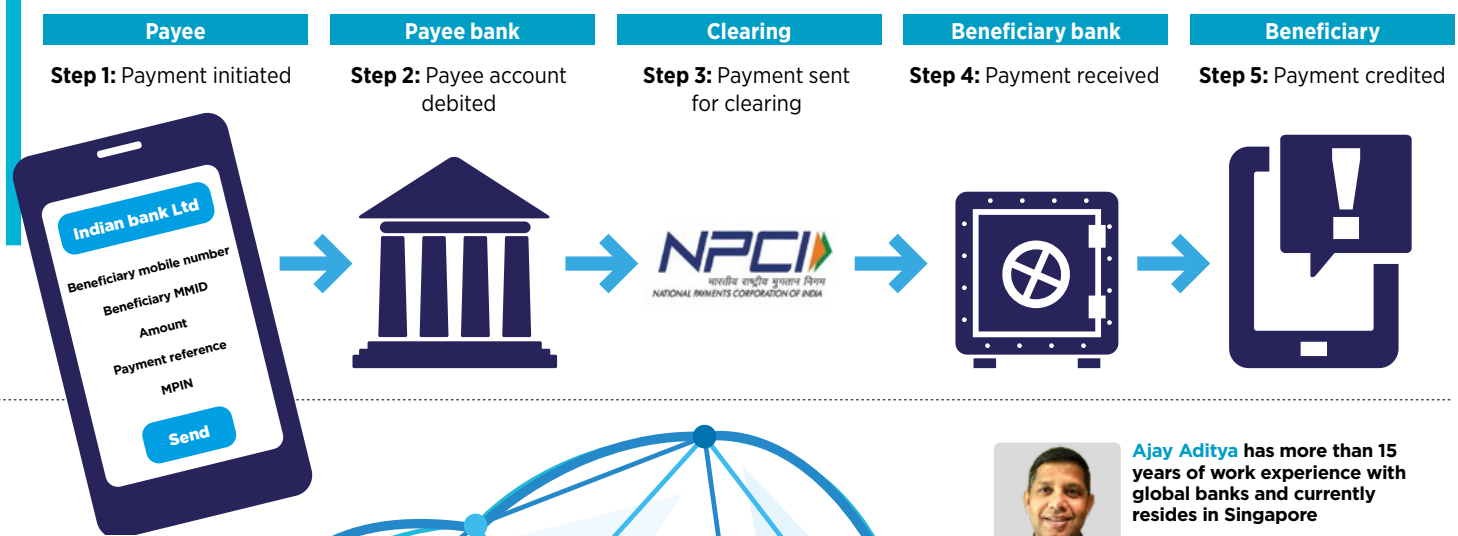
The SMS model is the oldest, where a customer is charged for the goods or services by sending an SMS to a particular phone number and charges are applied to the phone bill or mobile wallet of the request originator.

Mobile operator billing is used by e-commerce sites for the payments of services offered by them using two-factor authentication. The benefit of this model is that credit card operators and banks can be completely bypassed.

Contactless NFC payments are made using smartphones that are NFC enabled. The user charges a prepaid account using PIN authentication to approve a transaction. Both the buyer and seller should have an account with the same bank providing the facility.

Mobile web payment models are based upon wireless application protocol, in which an application needs to be installed or user connected by a browser to initiate payment transactions. Online wallets services providers like M-PESA (Kenya) or India's Immediate Payment Service (IMPS) are good examples of where users can transfer funds to the beneficiary using their network.

In the Indian market, the national payment corporation is at the forefront of rendering this mobile wallet service standardised and efficient. To initiate a funds transfer using IMPS, both remitter and beneficiary need to register for a mobile banking service with their bank and receive a Mobile Money Identifier (MMID). The payee initiates the transfer using their bank's app and by providing the beneficiary phone number and MMID along with the usual details. Money is debited by the payee bank from its account and a payment instruction is sent to the National Payments Corporation of India for clearing. After clearing, the funds are sent to the beneficiary bank to be credited to the beneficiary account, which may be individual or corporate.



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