Payment Factories: different ways of achieving payment efficiency

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The term Payment Factory is becoming increasingly talked about in the drive to achieve payment processing efficiency. This article examines the route to setting up a Payments Factory and highlights how – despite having one goal - Payment Factories take on many forms.

Payment Factories

The term Payment Factory is used widely and is often interpreted in different ways. Broadly speaking, a Payments Factory refers to an organisation establishing a central hub to gain a degree of central control and management over the processing of previously decentralised payment flows. The actual structure of a Payment Factory can manifest in a number of ways with internal factors, such as configuration of processes, technology and staff, and external factors, such as bank counterparties, connectivity and account structures, leading to varying models.

One interpretation describes a Payment Factory as the construct resulting from a full centralisation of both account payables processes and staff into a single location – as within a Shared Services Centre (SSC) - while other organisations would consider a Payments Factory to be a centralised hub, solely responsible for execution of payments to banking partners and facilitated by decentralised accounts payable processes. Neither interpretation is wrong therefore we need to understand the factors that influence a Payments Factory set-up and what benefits can be realised.

Corporate Landscape

Today many corporates continue to manage their payments processing and bank accounts at the business unit level or at the subsidiary level. While these methods may offer a degree of flexibility, at the same time they can often result in poor visibility and high maintenance costs. Multiple systems, banking relationships and processes tend to introduce higher costs, lack of visibility into cash flows, complex approval processes, operational risks, reporting challenges and a general lack of standardisation.

Cash management and payments processing structures will be influenced by various factors including nature of business, trading model, location of buyers and suppliers, bank relationships and degree of centralisation of processes. Payments setup will be influenced by relationships with suppliers, operating currencies, bank connectivity and services, technology/ERP status. Thus the starting point when evaluating payments structures will likely be different for most corporates and also the benefits of centralisation.

While pressure to reduce costs has typically lead corporates to assess their processes, SEPA developments are also leading organisations to focus on Payment Factories. The
European Parliament recently enacted a law which set 1st February 2014 as the end date, within the Euro Member States, for the migration of Euro credit transfers and direct debits to SEPA standards. This has focused many corporates to assess their existing Euro payment flows in order to understand the impact of SEPA to their organisation and the necessary preparation activities. As part of this SEPA effort, which promises standardisation, efficiency and a reduction in Euro accounts, many are taking the opportunity to evaluate their wider payments infrastructure.

What value can payments factories deliver?

A centralised approach to payment activities can help a corporate achieve benefits in a number of areas dependent on their current activities and cash management strategy. These include:

**Increased Standardisation & Efficiency**

- Gain consistency in payment process enabling automation, higher STP rates, less manual activity and resultant cost reduction
- Ability to reduce number of banking relationships and rationalise account structures
- Standardisation of Euro payments processing through the utilisation of SEPA Credit Transfers
- Harmonisation of bank connectivity and file formats utilising SWIFT and ISO 20022 XML

**Increased Visibility & Control**

- Visibility over internal payment and control over funding arrangement leading to optimisation of liquidity
- Easier reporting for internal and regulatory purposes as payment information becomes available centrally
- Fraud reduction through process management, visibility and implementation of control policies
- Consolidated supplier visibility enabling better supply chain management and cost negotiation
Lower Costs

- Lower transaction costs with better management of banking
- Improved Foreign Exchange spreads with consolidation of payment flows
- Better utilisation of available funds as funding processes and interest conditions are optimized

Different starting points towards a Payments Factory

The structure of a corporate’s payments factory will vary depending on their existing payment setup and the future cash management strategy of that organisation. Organisations that are starting from a decentralised, multi-banked basis, will likely be seeking, as their priority, control, visibility and standardisation over their payment flows. This is typically achieved by either using a shared banking application or by adopting a system that facilitates the receipt of instructions from business units and creates payment files for onward delivery to banking partners. Essentially all external payments are sent and all bank statements are received through a single delivery channel.

Those organisations that have already achieved a degree of payments centralisation will be more focused on achieving further process efficiencies through improving straight-through-processing (STP) rates, improving funding efficiency and automating processes. In-House Banks, Netting and Payment-On-Be Half-Of (POBO) structures are also often employed to facilitate intercompany activities, manage cash positions and aggregate payment obligations.

Some important questions that need to be addressed at this stage include:

- How are payments processed today?
- How many banks are providing payment services?
- How does the communication take place with these providers?
- What are the core currencies for the organisation?
- Are incoming collections funding payments activities?
- Is there visibility and control across payment activities?
- How efficient is the funding process?
- Where is working capital trapped?
**Varying corporate priorities**

Having first understood the current structure, the next step is to define a future vision for cash management and payment activities. This will inform the Payment Factory priorities, help drive internal and external discussions and assist the process of determining the payment factory solution. For some organisations the main focus and priority will be increasing cash utilisation, for others it will be headcount reduction or having a bank agnostic infrastructure. This vision is often driven by identifying the immediate key challenges and cost areas in the corporates payments process. Discussions with banking and technology partners can also help guide the decision making process and help inform corporates of solutions that can support their Payment Factory model.

**Corporates should consider the following:**

- **Scope** (e.g. geographies and business units in scope, scope of change – processes, staff numbers/location, intercompany activity)
- **Banking Strategy** (e.g. preferred number of payments processing partners, bank capabilities, requirements for local account services)
- **Liquidity Management** (e.g. currencies, preferred account structures and locations, funding arrangements, aggregation of liabilities, business unit control)
- **Connectivity and File Formats** (e.g. preferred method of bank communication, relative importance of bank agnostic channels and formats SWIFT/ISO 20022 XML)
- **Internal readiness to support changes in processes** (e.g. changes in technology required, ability to support changes in desired timelines, conflicting projects, cultural hurdles such as local business unit autonomy)
- **Legal and Tax** (e.g. changes to account structures, tax implications, reporting requirements)

Desired Payment Factory models can vary based on multiple factors. While the drive towards efficiency is common, so too is the use of technology as an enabler of payments factories – today corporates are using, in varying ways, ERPs, TMS, online banking applications, host to host connections and additional middleware to achieve their payments objectives. Below are some examples of how organisations can evolve their Payments Factory set-up.
Diagram 1: Example of Payment Factory that facilitates the receipt and of instructions from business units and creates payment files for onward delivery to banking partners

Source: Citi.

Diagram 2: Example of Payment Factory within a Shared Service Centre

Source: Citi.

Establishing a Payments Factory

As with any change project, establishing a Payment Factory requires internal scoping, planning and preparation. The participation of treasury, accounts payable, legal/tax, technology, and project management teams will likely be required.
The continued trend towards bank rationalisation

Despite the economic uncertainty and increased corporate focus on bank counterparty risk, the trend of centralisation of payments activities to core processing banks continues as corporates continue to see the value in working with fewer banks for their payments needs. Multiple banks relationships introduce inefficiency into the payments process as duplications of processes and connectivity, varying bank requirements, processing cut-off times, etc. all lead to higher costs, lack of visibility, control and general inefficiency.

Multinational organisations require global banking partners who can support their multi country banking requirements, advise on payments structures, identify opportunities for efficiency and deliver payments solutions that enable corporates to achieve their cash management goals.

In summary, a Payments Factory can materialise in several forms but the underlying focus is universal – a drive towards greater visibility, control and efficiency. Having a clear understanding of your set-up and your vision while working with the right partners can help unlock these benefits.
About the Authors

Jonathan Jordan is currently the EMEA Payments Market Manager for Citi Transaction Services. In this role Jonathan is responsible for positioning and packaging payments solutions for Citi Transaction Services. He is based in London. Prior to this, Jonathan was a Business Development Manager, responsible for executing partnerships and non-organic opportunities for Citi. He has also worked in cash management and trade services roles for Citi in other Western European and Middle Eastern countries. Jonathan has been in the banking industry for nine years. He started his career with Citi in New York after completing his degree in Business Information Systems from the Dublin Institute of Technology, Ireland.
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