

Major Trends in Receivables

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“The future will be determined in part by happenings that are impossible to foresee; it will also be influenced by trends that are now existent and observable.”

Emily G. Balch, Nobel Prize 1946

Agenda

- 1. Taking a look at Receivables**
- 2. Major Trends in Receivables**
- 3. Q&A**

Taking a look at Receivables



RECEIVABLES

Past

- Paper-intensive, largely manual processes
- Banks as main providers of collections services
- Companies preferring local banks with good physical network coverage
- Companies managing collections on a decentralized basis

Present

- Switch towards electronic channels
- Standards implemented to allow straight through processing and reconciliation
- New non-bank players in the Consumer to Business (C2B) flow
- Single/Few collection bank providers
- A clear trend towards centralization of receivables

Final goal is the same

**Collect funds as quickly and inexpensively as possible
and identify who is paying**

Question for the audience No 1

How do you perceive the change from physical collections channels to the electronic collection channels in the way you have collected from your customers in the past few years?

- a) Not significant**
- b) Moderate**
- c) Very significant**

1st Trend – Cash & Cheques ... close to an end?

- Cash&Cheques are the most costly and time-consuming collection channels
- The universal “Cash is King” saying is not applicable anymore
- The new trend in the cheques world is cheque imaging



1st Trend – Cash & Cheques ... close to an end?

Key success factors/Challenges

- **Cash is still there due to:**
 - The preference for convenience
 - The level of market sophistication and development

- **Cheques are still there because:**
 - Cheque clearing is an efficient system in some countries
 - Systems costs are already depreciated
 - Anyone can be paid anywhere

Benefits

- **Reduce costs**
- **Reduce fraud risk**
- **Improve reconciliation**

2nd Trend - DSO reduction

... is the new Commercial Force



- Days Sales Outstanding (DSO) – most important receivables indicator
- Reduced DSO - a good collection process
- Accounts receivables - more difficult to manage than the payables side
- Companies are implementing methods to put more discipline in defining payment terms, scheduling invoicing and tracking overdue receipts.



$$\frac{\text{Accounts Receivable}}{\text{Total Credit Sales}} \times \text{Number of Days}$$



2nd Trend - DSO reduction ...is the new Commercial Force



Key success factors/Challenges

- **Improving DSO is about understanding:**
 - the drivers of debtors' current behavior
 - why certain customers pay late
 - what payment instruments are commonly used by a company's customers to settle invoices and what drives this
 - how convenient is the payment process that the company offers compared to its competitors

Benefits

- **Better cash flow management**
- **More competitive pricing**
- **Translating a financial advantage into a commercial advantage**

3rd Trend – Standardization game

- Standardize transaction codes across banks and countries
- Standardize settlement instructions
- Standardize reference fields
- SWIFT, ISO, EDIFACT, TWIST, ACH, RTGS or SEPA formats – familiar acronyms for specialists in banks and companies



3rd Trend – Standardization game

Key success factors/Challenges

- **Corporates are looking to:**
 - Achieve Straight Through Processing
 - Have an universal applicability of the standards throughout the collection or payment value chain and the other banking service
- **Banks are looking to:**
 - Improve customer satisfaction
 - Minimize number of standards to be developed
- **Solution Vendors are looking to**
 - Improve STP for corporations
 - Minimize number of standards to be developed and maintained
 - Increase in the rate of re-sales for certain solutions

Benefits

- **Improve reconciliation**
- **Reduce costs**
- **Apply Cash sooner and more efficiently**
- **Short cut to Share Service Centers**

4th Trend - Shared Service Centers...

adding the Receivables piece



- Companies looking to reduce costs, increase efficiency and to achieve more while spending less
- SSC known so far as “payments factory” as the payables piece was the first to centralize
- With standardization, there is a clear opportunity for receivables to be on the radar for SSCs.



4th Trend - Shared Service Centers... adding the Receivables piece



Key success factors/Challenges

- Companies looking to replicate success from economies of scale on payables and liquidity infrastructure
- Companies should look not only to centralize what today is decentralized but also to improve the collection channel mix

Benefits

- Improve reconciliation
- Reduce costs
- Apply Cash sooner and more efficiently



Question for the audience No 2

Would you consider centralizing your Receivables into a Shared Service Center?

- a) We have already done this**
- b) We are still evaluating this opportunity**
- c) We are not considering this option at all**

5th Trend - Non Banks acting in the collections field



- People looking for easier, accessible and faster solutions for bills payment
- Cash based economies impacted by the rise of non-bank collection points
- New players in the bills collection game at the expense of bank flows



5th Trend - Non Banks acting in the collections field



Key success factors/Challenges

- Bar-codes “adopted” by the major bills issuers on the market
- Banks’ eagerness to implement and promote alternative collection channels
- Companies’ eagerness to offer an alternative collection channel to their consumer
- People’s mentality towards accepting paying their bills in a gas-station
- Strong marketing plan in boosting the new collection method
- Easily accessible alternative collection points

Benefits

- For companies: extended physical collection coverage multiplies collection points
- For banks: “collection outsourcing” from their own premises
- For retailers/Post-Office: additional revenues and increased traffic in their locations, that allows X-Sell opportunities
- For payers: convenient and accessible bills payment solution

6th Trend - Direct Debits ... as killer C2B collection channel



- Banks looking to redirect transactions from physical to electronic channels
- In WE signing direct debit mandates to pay bills is already a habit
- Emerging Markets need a boost in this field



6th Trend - Direct Debits ... as killer C2B collection channel



Key success factors/Challenges

- Regulatory environment in place and support from the Central Bank in promoting this payment solution
- Market being ready to switch from physical to electronic collection channels (companies, banks and end users)

Benefits

- Increase effectiveness in accounts receivables reconciliation
- Debtor satisfaction
- Reduce Days Sales Outstanding
- Timely and predictable cash flow
- Productivity gains through automation

7th Trend - Card collection as a solid Web and direct debit collection instrument



- More and more companies looking to implement card collections
- Increased consolidation of the card acquiring industry
- Commercial card payments still represent a very small percentage of the total volume of payments



7th Trend - We here more and more about ...Card collections



Key success factors/Challenges

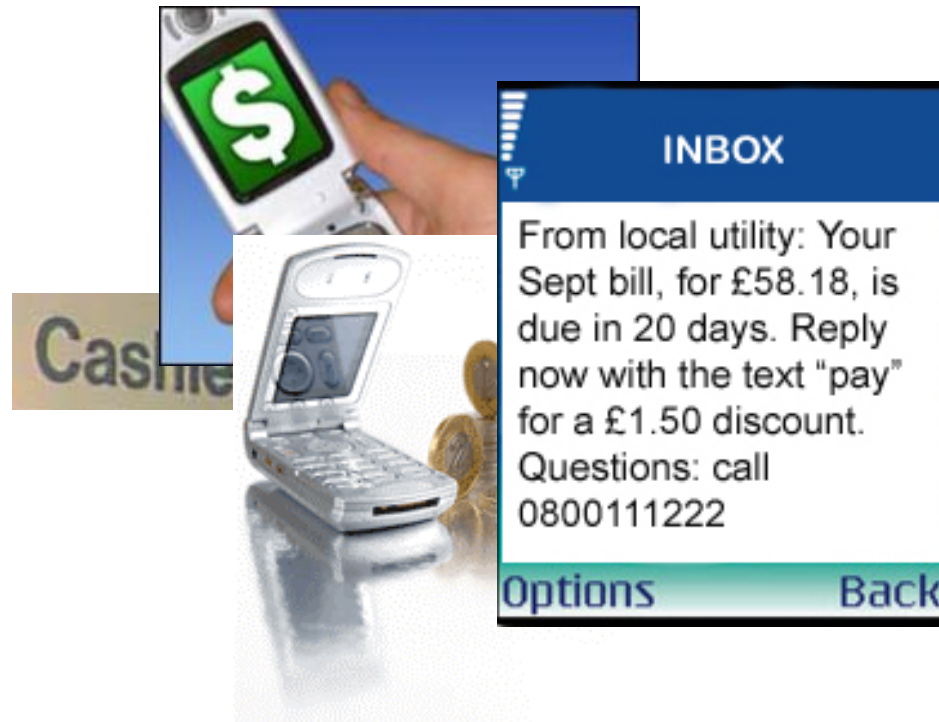
- **Credit cards being used via different collection channels:**
 - **Traditional POS**
 - **Web**
 - **Direct Debits**
- **Challenges: New and improved security measure to reduce fraud**

Benefits

- **Reduce cash cycle conversion**
- **Wider accepted among individual payers**
- **Easier reconciliation**

8th Trend - Going mobile

- Mobile phones have joined keys and wallets as “must have” items before leaving home
- The developing trend is to use this opportunity to add a new feature to the mobile phones and make them an everyday bills payment method



8th Trend - Going mobile

Key success factors

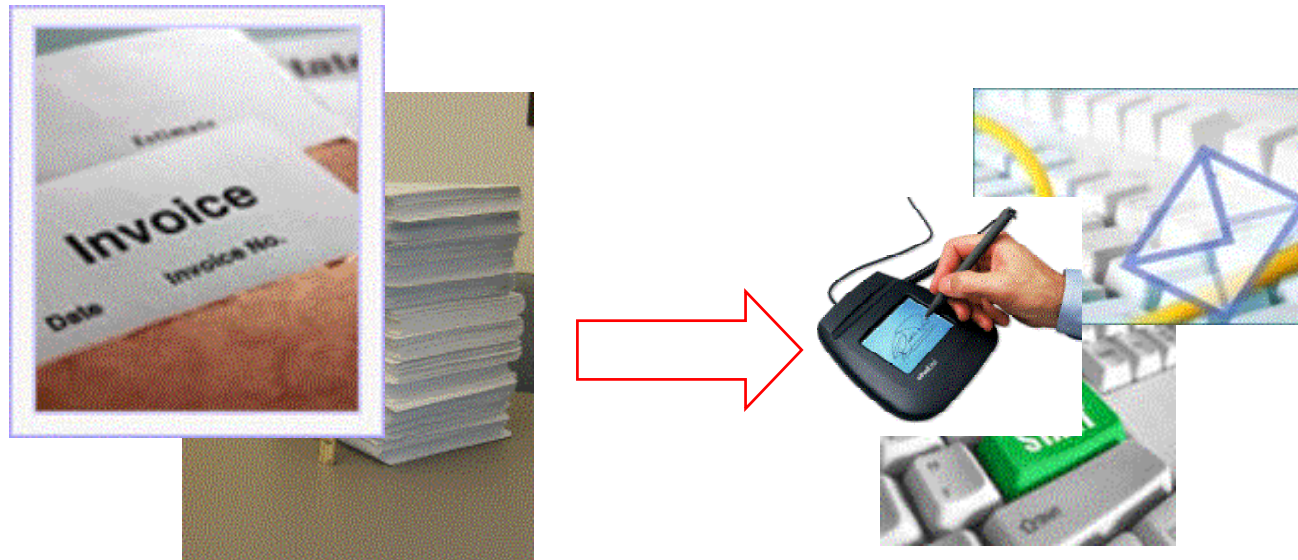
- **Large penetration of mobile among most countries**
- **User Convenience (paying the invoices via mobiles gives enormous freedom to users)**
- **Generation of electronic transactions for banks**
- **Added value services being offered by the mobile operator**
- **Successful implementation on a specific market depends on the**
 - Mobile and internet penetration on the market
 - % Share of Direct Debit and Cards collection in the market
 - Credit/Debit Card circulation in the market
 - People adoption of mobile for transaction services

Benefits

- **Very convenient payment method**
- **Control over each payment**
- **Reduced Days Sales Outstanding**

9th Trend - e-Invoicing

- 18 billion invoices issued in Europe yearly
- Invoices printing is both error-prone and expensive
- Moving to electronic invoicing might reduce costs by 80%
- Ultimate goal is to achieve a totally automated, electronic, efficient end-to-end process of receiving and processing supplier invoices



9th Trend - e-Invoicing

Key success factors/Challenges

- **Overcome legal and compliance issues**
- **Interoperability**
- **Overcome trust issues**
- **Creation of a regulatory framework**
- **Implement an international standard**

Benefits

- **Reduce operating costs**
- **Improve treasury management**
- **Enhance data accuracy**
- **Improve reconciliation**
- **Improve trading partner relationships**
- **Improve supply chain flows**

Question for the audience No 3

Where are you in the process of invoices de-materialization?

- a) I did not think about it**
- b) We are still discussing this initiative in our management committees**
- c) We have a clear action plan in this area**

10th Trend - Receivables financing

- Receivables financing (distributor or supplier financing) has been in the market for a long time
- However, Web based applications and new corporate-bank focus triggered a boost on this field



10th Trend - Receivables financing

Key success factors/Challenges

- **Implementation of programs with ‘no recourse’ or ‘partial recourse’**
- **Technology facilitate the flow of invoice information**
- **e-Invoice could represent a new boost for invoice discounting**

Benefits

- **Commercial benefit by freeing credit lines to customers**
- **Flexibility for customers in payment terms**
- **Simpler reconciliation process as bank provide funds and receivables information**

Questions?

