WHITE PAPER

Transferring the Lessons of Domestic Payment Processes to the International Arena

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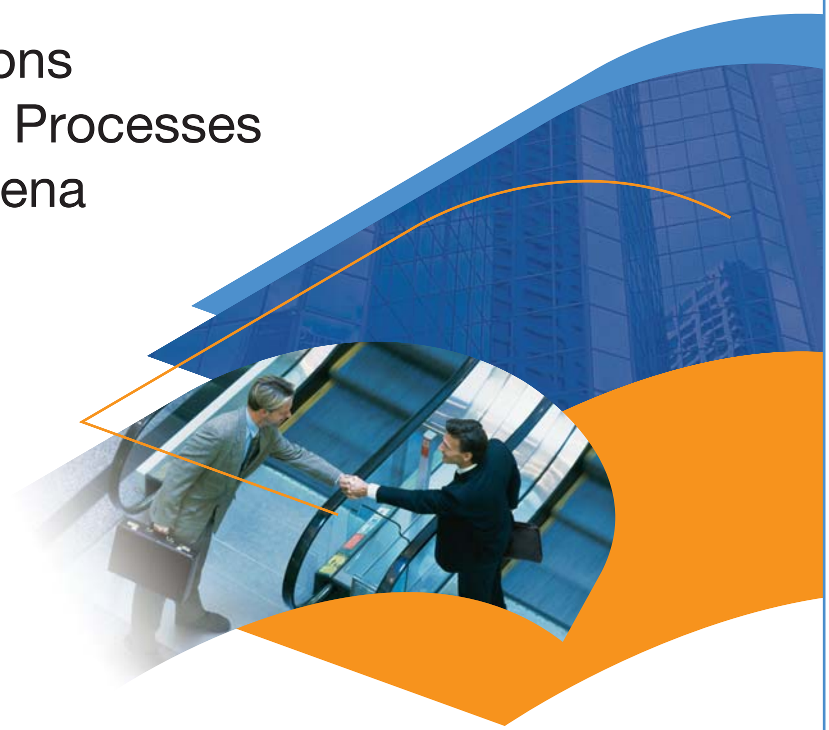

With the rapid rise of global commerce in the last decade, corporations of all sizes in the U.S. have had to respond to the requirements of a changing business landscape. As part of this transition, long-standing processes largely designed for domestic commerce have been retooled to accommodate an organization’s ability to transact business in nearly every corner of the globe. While some processes have proven more readily adapted for success on the global stage, some have not, perhaps most notably corporate payments.

In the payments world, moving from domestic to international payments brings with it a profound array of international payment options that make the execution of a multi-national payments strategy challenging to say the least. Not only do corporate treasurers have to identify the right international partners and locales, they must also determine how best to originate and receive payments across borders while managing associated risks.

Whether a business has been handling international payments for less than a year or more than 10, there are some fundamental best-practices that can help ensure that international payment processes operate as efficiently as possible, while also providing treasurers with the level of global cash visibility and control needed for strategic decision-making.

Tackling Domestic Payment Processes

Before tackling the challenges associated with international payments, it’s important for treasurers to closely examine their existing payment processes. So long as check processing provides the nation’s banks and Federal Reserve system with a key revenue stream, and states maintain archaic laws categorizing checks as personal property, we aren’t likely to see the disappearance of checks in our lifetime. But for companies seeking to maximize the value of their payment processes, overcoming the common, intra-company barriers associated with electronic payments at the domestic level is the logical first step. These barriers often include:

- **Loss of Check Float:** Many organizations print checks in order to capture the benefits of check float. Checks are commonly issued off of zero balance accounts, and check liabilities invested in overnight vehicles, until the check is presented for payment, which can be from 1 to 15 or more days.

- **Check-less Society:** There will always be a need for paper-based payments, whether it’s an un-banked individual, an un-banked supplier or a situation involving joint parties.

- **Determining Best Candidates for ACH:** While the more efficient and cost-effective option, ACH is simply more suitable for some businesses and individuals than others.

- **Resistance to Providing Bank and Account Information:** A key requirement for electronic payments, many organizations often encounter suppliers hesitant to provide this information.

- **The Internal Sell to Executive Management:** Like any IT initiative, adoption to electronic payments requires the support of executive management, who are often hesitant to “green light” projects that affect changes to long-standing business processes and practices.

Barriers to Increasing Use of Electronic Payments
(Percentage Distribution)

	Major Barrier	Minor Barrier	Not a Barrier
Difficult to convince customers to pay electronically	32%	53%	12%
Trading partners cannot send or receive automated remittance information with electronic payments	25	52	23
Shortage of IT resources for implementation	38	38	24
No standard format for remittance information	32	42	26
Lack of integration between electronic payment and accounting systems	30	43	27
Difficult to convince suppliers to accept electronic payments	18	55	27
Funding for electronic payments projects not a priority	22	41	37
Check systems work well	23	37	40
Privacy/security of bank account information	11	43	46
Loss of check float	11	42	47
Senior management not convinced of business case	15	34	51
Organization cannot send or receive automated remittance information with electronic payments	14	31	56

Source: 2007 AFP Electronic Payments Survey/Report of Survey Results.

A variety of barriers obstruct the path of organizations interested in increasing their use of electronic payments methods. These involve technology and integration issues, trading partner relations and internal corporate priorities.

Clearing the Way for Electronic Payments

As the use of electronic payments accelerates, a number of Web-based software solutions have emerged to assist organizations in making the transition to electronic payments. Through a pragmatic approach to overcoming these barriers, U.S. organizations can quickly begin to realize the benefits of electronic payments, which often stretch far beyond simple cost reduction into areas such as payment risk management and fraud prevention. By leveraging standards-based technology solutions and industry best practices, organizations can:

- **Counteract the Loss of Check Float:** Institute a policy whereby payments exceeding a specific threshold are paid via a check, and those payments below the amount are paid electronically. Organizations can also adjust payment terms (2/10 net 30 becomes 2/15 net 35 for example), as well as provide their purchasing group with the ability to negotiate payment terms that reward (i.e. faster, more immediate funds) the payee for accepting electronic methods.

- **Accommodate Both Paper and Electronic Payments:** Deploying a payments platform capable of handling both paper and electronic payments enables businesses to simultaneously support checks to the un-banked and joint payees, while supporting all ACH entry classes and electronic remittance delivery options for employees and vendors that wish to take advantage of them. This dual-platform approach also allows for incentives and other change management processes to be implemented that will, over time, seek to move more and more of your payee base to electronic payment vehicles.

- **Segment the Supplier Base:** Contrary to popular belief, determining which suppliers are best suited for electronic payments doesn't have to be a time-consuming process. View suppliers through the lens of frequency, not payment amount or terms. Reoccurring payees are ideal candidates for electronic payments, while non-reoccurring payees (i.e. one-time or ad-hoc payments) are not good candidates based on the infrequency of their business with the company.

- **Establish Electronic Payment Requirements as a Standard Means of Conducting Business:** As part of purchasing agreements with suppliers, insist upon receiving this information. In reality, it's no different than a tax ID or a social security number, which businesses and employees are required to provide for various reasons. When choosing an electronic payments platform, be sure to select a solution capable of supporting commonly accepted identification numbers such as NYCH (New York Clearing House Initiative), UPIC (Universal Payment Identification Code) and IBAN (International Bank Account Number).

- **Build the Business Case:** Moving to electronic payments isn't solely about eliminating paper and reducing costs. With the increasing number of regulatory mandates, the need for real-time visibility into cash balances and the growing importance of being able to initiate and process payments in different languages, countries and currencies around the globe, electronic payment platforms are quickly becoming a business necessity. And as frontline users, finance and accounts payable professionals must assume the role of educator and help ensure that the broader business value associated with electronic payments is clearly conveyed.

Top Three Benefits of Sending or Receiving Electronic Payments
(Percent of Organizations)

Cost savings	59%	62%	58%
Improved cash forecasting	41	42	39
Straight-through processing to A/P or A/R	32	29	37
More efficient reconciliation	31	31	31
Fraud control	29	25	31
Working capital improvement	28	29	31
Better supplier/ customer relations	27	30	24
Reduction in days sales outstanding	24	23	27
Ability to take early payment discounts	15	13	18
Other	3	3	1

Source: 2007 AFP Electronic Payments SurveyReport of Survey Results,

Organizations migrating from checks to ACH and/or other electronic methods can achieve a variety of benefits. The top three benefits involve cost savings and internal efficiencies, with few significant differences in the benefits gained by large versus small organizations.

The Challenges Posed by International Payments

To a certain degree, international payments can be a Pandora's box of sorts, full of new monetary currencies, languages requiring payment system support for double-byte characters (i.e. Chinese, Japanese, Cyrillic, and Middle Eastern dialects), and a broad array of payment formats and messaging standards. For treasurers, dealing with these factors is further complicated by having to ensure that balance and transaction reporting must take a global view and provide the right level of data visibility and timeliness to effectively manage enterprise cash flow across multiple back-office systems and banking relationships. But before the processes tied to these actions can be addressed, treasurers must first start with addressing the infrastructure that supports these processes.

Although strides have been made in recent years with regard to alleviating some of the inefficiencies caused by disparate IT systems, the infrastructure supporting corporate payment processes remains a hodgepodge of disbursement systems and technology. Not only does this level of disparity ensure that maintenance costs will remain high and IT resources stretched thin, but that the idea of a single view of global cash will be nearly impossible to attain. By consolidating all of these disbursement systems onto a single, front-end payments platform, treasurers can create the necessary framework for establishing that single view of cash, while significantly reducing their total cost of ownership.

Creating A Payments Factory

With a single payments platform, organizations can establish a 'payments factory' that ensures centralized control and reduces the cost of making domestic and international payments. A single payments platform with global payment capability for paper payments (US Check, UK Cheque, Giros, etc.), bulk EFT (US ACH, UK BACSTEL-IP, Canadian CPA, Proprietary Global Bank formats – X12 EDI, UN/EDIFACT, etc.) and same-day EFT transfers (US FedWire, UK Chaps and proprietary global bank formats – XML, X12 EDI, UN/EDIFACT, etc.), provides the ability to consolidate global treasury and accounting operations, back-office systems, ERP instances and line of business applications, while maintaining the required service levels to customers, suppliers and employees.

An approach such as this provides the centralized audit and control companies today are seeking, while allowing individual users across the business to submit, approve and monitor every type of incoming and outgoing payment from a single Web interface. By eliminating the need for costly technical support, this centralized configuration enables treasury departments to monitor activity in real-time as local offices operate as distinct entities.

Across the globe, changes to paper check payments and the number of electronic payments and messaging standards are on the rise. In the realm of international payments, the treasurer's world in the U.S. has expanded beyond US Check, US ACH, EDI and Fedwire to include SWIFT, PEACH, BACSTEL-IP and SEPA. It's a new world of acronyms for sure but today's Web-based payment factories have been designed with these new payment types and messaging standards in mind. Through the benefits offered by a centralized payments factory, efficiently and cost-effectively managing cross-border payments, including multi-currency and multi-bank payments, drafts, ACH and wires can be a reality for today's treasurers.

Limiting Exposure to Risk

At the same time, a centralized approach to corporate payments provides the added levels of visibility and control required to manage risk and ensure regulatory compliance across multiple geographies. With a payments architecture comprised of disparate systems, there aren't many organizations capable of adequately monitoring duplicate payments across all of its areas of operation, or checking payee names against various watch lists such as OFAC and/or FINCEN for example. But by automating the risk management processes as part of the payments factory approach, treasurers can quickly reduce their exposure to risk and take the necessary steps to establishing long-term regulatory compliance.

As businesses continue to expand into new geographic regions, the pressure on corporate treasury departments will only intensify as their ability to transact business in emerging economies and garner real-time visibility into cash positions becomes ever more critical to business strategies for revenue growth and profitability. While the intricacies of international payments can certainly make it challenging to know exactly where to get started and how to deliver the desired result most efficiently and cost-effectively, viewing the situation through the lens of a centralized payments factory can help alleviate the most common challenges and help treasurers institute the types of payments processes that can generate long-term benefits for their businesses on the new global frontier.

About the Author

As the Vice President of Systems Engineering, Vince Bahl has extensive domain expertise in both corporate and wholesale payments and cash management. During his tenure at Bottomline, Mr. Bahl has been instrumental in the company's electronic payment product development efforts. Mr. Bahl and his team were responsible for the Bottomline-produced Federal Reserve FedEDI product, which more than 12,000 banks use for financial EDI translation. Prior to joining Bottomline, Mr. Bahl served in a variety of banking capacities including operations management for check and ACH processing, as well as float management at US Bank in Colorado. He also served as Cash Manager for Oppenheimer Asset Management.

About Bottomline Technologies

Bottomline Technologies (NASDAQ: EPAY) provides collaborative payment, invoice and document automation solutions to corporations, financial institutions and banks around the world. The company's solutions are used to streamline, automate and manage processes and transactions involving global payments, invoice approval, collections, cash management and document process automation. Organizations trust these solutions to meet their needs for cost reduction, competitive differentiation and optimization of working capital.

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