

PERSPECTIVE

Maximizing Value to Corporate Customers A Web-based Cash Management Approach



Synopsis

The white paper gives a high level understanding of what would constitute a “value” cash management offering to a bank’s corporate customers. Banks can also use it for evaluating vendor offerings in the web based cash management space.

Introduction

Cash management is perhaps the most important function of a corporate treasurer. Sophisticated services are offered by banks to address the needs of the corporate treasurer, centered on the seemingly simple job of efficient management of receivables and payables.

Cash management is evolving and gaining value in many countries across the world. Specifically a lot of attention is being paid to the cash management services required by the corporate sector, quite rightly so as the volumes of business ensures the investment requirements for offering innovative solutions.

Of late web-based cash management has caught the imagination of banks and their corporate customers alike, thus bringing the capabilities directly to the corporate customers through the Internet. Corporates are also becoming more and more receptive to the Internet model as security concerns are increasingly being addressed well by the world-class cash management offerings.

Some of the critical criteria that companies would evaluate before they decide on a cash management services provider are:

- a) Wide branch network
- b) Good payment cut-off timings
- c) Reasonable pricing (value for money)
- d) A cash management culture
- e) Strong back office capability
- f) Good credit rating
- g) Adequate delivery systems
- h) Availability of a wide range of cash management products

Keeping the above needs of a corporate treasurer, the following constitutes the main functional modules that can be expected of a state-of-the-art cash management solution:

- Collection Services
- Transaction / Payment Services
- Information Management
- Data Management
- Customer Billing
- Investment Services
- Electronic Invoice Presentment and Payment (EIPP)
- Electronic Bill Presentment & Payment. (EBPP)
- Authorization and User access control
- Surround Services

Surround services would typically be secured e-mail infrastructure, reporting infrastructure and other surround services. A very important aspect of a cash management solution is availability of a robust Security and Control infrastructure.

A good cash management solution should satisfy the following main business goals of a Bank:

- a) Defend existing Revenue by retaining existing customers.
- b) Increase revenue by introducing new revenue generating products/services.
- c) Increase existing customer business
- d) Capture additional customers
- e) Improve operational efficiencies and reduce cost

Collection services

Collection services would be two types – Physical cheques/ bills collection and processing and Electronic receivables management.

Physical cheques / bills collections are increasingly being outsourced by the corporates to the Banks. Banks leverage the large network of branches and appointed agents to collect cheques on behalf of their customers. Another popular mechanism employed is Lockbox collections, typically offered to Credit card issuing companies, utility companies etc. Lockboxes are usually installed at branches, ATM centers or popular places such as post offices or shopping malls. In some countries such as those

in the Asian sub-continent, where the clearing mechanism is inefficient, banks also offer various funding schemes surrounding the collection services.

However, an increasingly important aspect of the collection services is electronic receivables management. Example of such receivables would be an inward GIRO or Inward SWIFT remittance or Electronic Cheque Conversion (ECC) [ECC is increasing becoming popular in US].

Two specific solutions address the space of electronic receivables management i.e. Electronic Bill Presentment and Payment (EBPP) and Electronic Invoice Presentment and Payment (EIPP). These are important cash management functionalities and are addressed in details later.

The following services would be expected to be available to a corporate customer in a comprehensive collection services module:

- Details of Cheques deposited and status of clearance.
- Cheque Image delivery
- Lockbox reporting
- Lockbox image delivery
- Capture and display of additional information submitted with deposited cheques (example: a cheque slip may have Purchase order number along with the cheque)
- Ability to handle Post dated cheques.
- Capture standing instruction from customers for making payout /investments from collection account.
- Interface to GIRO / RTGS /ACH / SWIFT for expected credit information based on pre-intimation.
- Interface to clearing modules of core banking system in a bank for further processing of cheques through central clearing system such as GIRO / ACH.
- Details of payments received / payments rejected based on uploaded bills (by utility companies) or uploaded invoices.

- The access control set-up done by the bank for a specific user would guide access to one or more of the above.

Transaction / Payment Services

A good cash management system should enable the bank and its corporate customers to handle different types of payments, with bulk processing capability.

A Corporate customer is expected to avail the following services in a comprehensive Transaction/Payment services module:

- Request funds transfer between corporates own account within the same bank.
- Request funds transfer to another corporate's account within the same bank.
- Request ACH/GIRO Transfer. System should be flexible enough to define a GIRO/ACH payment limit based on country specific regulation.
- Request RTGS payment (Example: FEDWIRE or RENTAS or SARIE). System should be flexible enough to define a RTGS payment limit based on country specific regulation.
- Request domestic banker's cheque / Demand draft.
- Request cross border transfer request. System should be flexible enough to define and change (without requiring code change in the supplied solution) declaration forms based on limits imposed by central bank of a country regulation. Such limits could be different depending of the customer categorization as per Central Bank guidelines.
- Request foreign currency draft. System should be flexible enough to define and change (without requiring code change in the supplied solution) declaration forms based on limits imposed by central bank of a country regulation. Such limits could be different depending of the customer categorization as per Central Bank guidelines.
- System should support inputting multiple instructions (for all types mentioned above) on screen.

- Request bulk domestic payments through upload of files.
- Request Bulk Banker's Cheque / Demand Draft through upload of files.
- Request bulk printing of cheques through upload of files.
- Request Bulk Cross border payments Draft through upload of files.
- Request Bulk Foreign Currency drafts through upload of files.
- Bulk printing of Banker's Cheque, Demand Draft (domestic & foreign currency) and Cheques. In case of a bulk printing solution is available in core banking or as an independent solution, the cash management system should interface to the existing system for uniformity.
- Make salary payments to employees as a bulk payment requested through upload of files. System should be flexible enough to help capture specific details associated with salary payments.
- Make Government Tax payments. This type payment should be available either as single/multiple on screen entries or as file uploads. System should be flexible enough to help capture specific additional details associated with a specific type of tax payment.
- Make dividend payments as a bulk payment requested through upload of files. System should be flexible enough to help capture specific details associated with dividend payments.
- Make Employee Provident Fund (EPF) payments by corporates. This type payment should be available either as single/multiple on screen entries (typically to be used by small corporates) or as file uploads. System should be flexible enough to help capture specific details associated with EPF payments.
- Make other payment requests such as Social security payments by corporates. This type payment should be available either as single/multiple on screen entries or as file uploads. System should be flexible enough to help capture specific details associated with the specific type of payment.
- Stop a cheque.
- Request re-issuance of a Banker's Cheque / Demand Draft.
- Request cancellation of pending payment request.
- View status of the above types of payments and view additional details associated with a request.
- Request future dated payment requests and automatically forward for processing on the due date.
- Request recurring payment instructions for automatic processing.
- Request repayment of a loan account or withdrawal from an unutilized line of credit.
- System should support different cut-off times for various types of payments. For example, GIRO, ACH, RTGS and Cross-border payments would have different cut-off time.
- Payments initiated by the corporate user would go through the approval / authorization cycle specific to the corporate. The details of the same are discussed under section "Authorization and User access control".

For end-to-end processing of the above functionalities, it may be required that the Cash Management Solution is interfaced to the appropriate backend such as the Core banking system or Payment gateways.

It is highly desirable that an ideal payment solution would provide flexibilities to introduce new payment requests/products (example: a new corporate tax payment) with little or no additional programming efforts, which could be undertaken by the Bank IT staff themselves with minimum dependencies on the solution vendor.

Information Management

Information management is a key aspect of cash management solution. A good cash management solution should pull information from various back-ends and be the "One-stop-shop" for all information requirements on balances, payables and receivables.

A Corporate customer is expected to avail the following services in a comprehensive Information Management module:

- View a complete relationship view with the bank. This would include having a consolidated view of balances for all accounts, loans, credit lines and trade positions in a single screen.
- Define an account pool and view pool notional balances in a given currency.
- View online account balances for various types of accounts such as Operative accounts, Credit card, Loans & Investments accounts.
- View transactions (account statements) for an account or pool of accounts in a given date range.
- View additional details associated with a particular transaction.
- View loans & deposit schedule information.
- Request for additional details of a transaction in offline mode, if not available as on-line details.
- Request e-mail delivery of account statements.
- Request e-mail delivery of cheque image.
- Download account statements.
- Create an expected credit (collection) and debit (payment) entries. Expected credit/debit could be a domestic or International or cheques. Expected entries could be done through screen entries and /or through upload of files. Expected entries are used for reconciliation, tracking and balance forecasting purpose.
- Perform Bank reconciliation & view account reconciliation reports.
- Balance forecasting on a given date and drilling

down to account and transaction level details.

- Receive several information alerts such as Account balances falling below a specified amount. [Please note that alerting is typically a part of a separate solution and alerts are considered as value added Information reporting].
- Access to several standard reports such as 'Previous Day Summary Report', 'Previous Day Detailed Report', 'Weekly forecasting Report' etc.

very important aspect of a good cash management Solution is to bridge the asymmetry of information availability. A web-based interface provides power in the hands of the corporate end user by providing a unified view for all information, often pulled from disparate back-ends. The bank staff, however, remains constrained to access many different back-ends for a consolidated view, a process that is often expensive and time taking. Selectively, certain bank staffs need to know unified information in the same manner as available to the corporate user in order to effectively handle the relationship, track business done and decide on targeting new business to the customer. Hence, a web based cash Management System should provide access to the internal bank staff for getting unified view of the customer information in the same manner as available to the end user.

Data Management

A good cash management system is expected to provide a large degree of flexibility in managing data, thus providing ease of operating the system.

The following services are expected to be present in a comprehensive Data Management module:

- Download account statement in flexible formats. Typically leading solutions supports MS Money, Excel, MT940 and other formats.
- Download statements in formats compatible to ERP systems such as SAP or PeopleSoft. Banks typically support a specific set of certain formats based on requirements of top customers. Specific interfaces to various GLs, Account Receivable and Account Payable packages are typically custom developed projects as per bank's requirements. Such custom projects also helps a bank differentiating its solution from a

rival bank, often using a similar packaged solution.

- Download collection reports in flexible formats. Typically Excel / text format is supported by leading solutions.
- Download payment-processing requests in flexible formats. Typically Excel / text format is supported by leading solutions.
- Flexibility to accept upload files (for payment processing, creating expected collection/payment records) from different customers to accommodate their existing formats.
- Flexibility to retrieve and activate previously executed transaction. The user would require minimum data entry efforts, changing only basic details such as amount and value date.
- Support payee/beneficiary libraries. Beneficiary libraries could be maintained by the corporate user or by bank administrator.
- Support other standard libraries like Bank Names, Locations, Currencies and Product definitions.

Customer Billing

Customer billing is an important aspect of any transaction-oriented systems. It should be possible for the system to do the following in terms of customer pricing:

- Support customer categorization for differentiated charging
- Support fixed charges per transaction. The charge could be different for different types of transactions.
- Support for variable charges based on transaction amount ranges
- Support charge reports
- Support periodic (example: monthly) charges

It may be noted that executed charging as a separate solution that is used by several systems

within the bank such as the Core banking engine, cash management solution, Trade finance solution etc. In such a scenario, the cash management system should be interfaced with the centralized charging system for uniformity.

Investment Services

Investment services module in a good Cash Management System addresses the concentration of surplus funds and investing the same.

A Corporate customer is expected to avail the following services in a comprehensive Investment Services module:

- Define Sweeping rules
- Execute a sweeping rule or schedule rule execution.
- Move funds from the concentration account to any other account. This could be a payment instruction for moving to another account in the same bank or into an account maintained with another bank.
- Move balances from concentration account into deposits account.
- Interest netting services, where the bank typically works out an arrangement with the corporate on a pool of account and shares the benefit with the corporate. These services are typically offered to the select few, where the potential for additional business can compensate for loss of interest.

Electronic Bill Presentment & Payment (EBPP)

EBPP as a solution is typically offered to the retail customers of the bank. EBPP is an important service offered through Retail Internet banking to retail customer for their cash management needs. However, EBPP is also a useful element in the cash management offering to the corporate customers.

Corporate customers can be classified as two types with respect to EBPP:

- Corporate customer is consumer of a billing company
- Corporate customer is a billing company such as a Telephone Company or a Credit card Issuer.

- A)** A corporate customer as a consumer of a billing company should be able to do the following:
- Register for electronic bill presentment with various billers through the bank.
 - View Bills presented electronically and accept/reject them for payment.
 - Drill down to details of the bill.
 - Pay bills or schedule for future payment.
 - Set automatic payment of bills.
 - View payment reports.

The above functionality is part of the Payments capability of a Cash Management Solution.

- B)** A corporate customer as a billing company should be able to do the following:
- Track user registration and deregistration for electronic bill presentment
 - Upload electronic bills for the registered customers. The system should be flexible to accept different bill formats for different billers.
 - View payment & rejection reports.

The above functionality is part of the Collection capability of a Cash Management Solution.

Electronic Invoice Presentment and Payment (EIPP)

Electronic Invoice Presentment and Payment or EIPP is one of the fastest growing services in the area of electronic receivables and payable management. EIPP solutions are in themselves full blown sophisticated systems.

However, a corporate customer is expected to avail the following basic EIPP functionalities in a Cash Management Solution:

- Define personal payers and payees (beneficiaries) as a closed user group.
- Present electronic invoices within the closed user group. Presentment of invoices is typically supported through upload of files. The system

should be flexible to accept different invoice formats for different corporates.

- View invoices presented & drill down details.
- Pay invoices.
- View payment & rejection reports

Authorization and User access control

Like any other transaction-based system, a good Cash Management system should have strong authorization workflow and access controls. It is expected that:

- The physical approval cycle is replicated in exactly the same manner for all electronic payment initiations. Note that this approval mechanism can be different for different corporates.
- Several profiles can be created for different users. Example: Profiles of Clerk, Manager, and Approver etc. can be supported.
- Access to various functions should be made selectively available. Example: Only certain users can have access to only GIRO/ACH or only to Cross border payments or both.
- Access can be controlled at basic levels such as at account level i.e. User will have rights defined on account level to indicate whether he or she can transact on a specific account.

Surround Services

Other services available in a good web based cash management solution would include:

- Secured e-mail infrastructure for user to bank staff communication.
- Reporting infrastructure for new reporting needs of the bank. Typically these would be offered through third party reporting software.
- Interfacing services. Interfacing is critical for success of any cash management offering. Interfacing would depend upon the capability of the front end, Middleware (if used) and the respective back-ends. Interfacing would always be specific to the back-end systems in a bank.

- Easy customization capability.
- Ability to build surround services/ rollout new products based on infrastructure facilities.

Conclusion

Offering strong cash management solutions to the corporate customers has become a necessary condition for Banks to retain and increase share of business.

A detailed description of the common offerings in the area of Web-based cash management system clearly emphasizes the complexity involved in offering a value added service.

Whether a Bank develops such an offering in the project mode or buy a readily available solution from the market, the functionality is not the only issue that needs to be handled for success of a solution. Success of a cash management solution depends as much on the solution offering as on the operational and strategic support extended to the initiative. Hence, every successful cash management bank is expected to have a strong operational support for its cash management activities and also a strong sales team to take the offerings to the actual end users.

And, like all other solution offerings, a continued top management support becomes the critical differentiator.

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