

TREASURY ADVISOR

Insights from  KeyBank

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E-Commerce migration prompts new payment and information trends in treasury

Electronic commerce continues to revolutionize the treasury function, as companies pursue the efficiencies and bottom-line benefits of moving to electronic from paper transactions. This *Treasury Advisor Special Report* looks at the growing array of electronic payment alternatives as well as new challenges and opportunities for managing the information around e-payments. Here's a brief look at what you can read about in this KeyBank report:

The growing array of e-payment alternatives. Treasury functions that rely solely on ACH or financial EDI aren't realizing the full range of cost savings and efficiencies possible with electronic payments. Here's an overview of some next-generation e-payment services that aim higher. [Full story](#)

The check conversion explosion. In the consumer payments arena, one of the hottest new e-payment alternatives is check conversion. This article describes the five types of check conversion —and reports on the status of a proposed rule allowing the conversion of corporate checks to ACH debits. [Full story](#)

The quest for e-payment information integration. Treasury departments are now receiving electronic payment information in a variety of formats from a multitude of payment systems. Are there any integration solutions on the horizon? [Full story](#)

The growing array of e-payment alternatives

The idea that electronic payment solutions can transform and dramatically improve treasury operations is hardly new. It provided at least part of the impetus for e-payment solutions such as the Automated Clearing House (ACH) network and financial Electronic

Treasury Advisor Special Report is published as a complement to our monthly, single-story e-mail newsletter.

With three separate articles, this report offers an in-depth look at trends in electronic payments.



Register to attend "e-Commerce Treasury Trends," a KeyBank Virtual Seminar, on May 13, 2003, at 1 p.m. ET.

Data Interchange (EDI), which have been in existence for many years.

Neither of these e-payment solutions has been perfect, however. ACH provides limited mechanisms for converting payment data into electronic form and transmitting it, and EDI has proven to be difficult and expensive to fully integrate with a host of newer treasury and finance-related technologies. As a result, treasury functions that rely solely on ACH or EDI transmissions aren't fully realizing the complete range of cost savings and efficiencies inherent in the concept of electronic payments.

In response to this issue, banks and third-party vendors have in recent years introduced an array of new, more multifaceted e-payment alternatives. Among the most significant of these new tools are Electronic Invoice Presentment and Payment (EIPP), Internet-payment enablement via ACH, online procurement and various forms of check conversion.

"Every company is unique," says Christine Adkins, Vice President of e-Commerce Product Management at KeyBank. "A next-generation e-payment solution may be right for some companies, while simply moving more payables from check to ACH will be the right 'next step' for others."

Next-generation service advantages

The key advantage associated with the new e-payment options is that they all—to one degree or another—provide for the electronic delivery of payment information along with the payment itself. However, determining which e-payment tool or combination of tools will deliver the best results for a particular company requires treasury personnel to thoroughly educate themselves about these new alternatives.

With [Electronic Invoice Presentment and Payment](#), trading partners can send and receive electronic invoices, make adjustments to those invoices electronically, and then send or receive payment for those invoices using credit cards, the [ACH](#) or [financial EDI](#). ! In addition to eliminating paper processing and expediting payment, EIPP helps automate workflow, shorten the adjustment process, and improve management of payables and receivables.

[Online procurement](#) solutions are online marketplaces that bring suppliers and buyers together while also streamlining the purchasing process using automated payment and product ordering technologies. Buyers can implement these solutions to help simplify and expedite the procurement process.

Additionally, companies today can use Internet-payment enablement solutions to add payment functionality to Web sites that already permit trading partners to view invoices and billing information. Basically, these Internet-payment enablement tools transform Web sites into more comprehensive, fully functional payment facilitators.

Banks are also offering a range of new check conversion services for the business-to-consumer (B2C) payment environment. With these new services, a business can accept a consumer payment in

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the form of a check or MICR line information and convert the item or information into an ACH transaction ([view a related story](#) below).

The key benefit associated with all of these e-payment alternatives is that they help companies move closer to a straight-through processing environment and more fully realize the cost savings and operating efficiencies such an environment offers. In addition, they contribute to more integrated trading processes in which information is more transparent and issues regarding purchases are resolved more quickly. That, in turn, leads to better trading relationships.

These solutions can also contribute to more effective accounts receivable and accounts payable operations because they deliver real-time, accurate, electronic access to transaction information. For example, companies can use EIPP to determine when their trading partners are scheduling future payments, which contributes to improved cash forecasting.

Implementation challenge

While it's easy to list the benefits associated with these new e-payment alternatives, implementing them can be challenging. In many cases, that's because effective implementation involves more than just treasury functions. It also requires cooperation and input from accounts receivable, accounts payable, information technology (IT) and other internal functional areas. And, getting all of these areas to agree on the best solution or combination of solutions can be difficult.

The good news is that banks can often provide valuable assistance to companies in working through these issues. For example, they can assist treasury managers in the process of locating their firm's internal "pain points" and then selecting the solution that will most effectively relieve that pain.

One way for companies to locate those pain points is to address the following questions:

1. Are you a business-to-business company, a business-to-consumer company or both?
2. How big are you and how many trading partners do you have?
3. What is your IT infrastructure and the level of your staff expertise?
4. Have you secured senior management backing for your efforts?
5. Are you accounts receivable challenged, accounts payable challenged or cash forecasting challenged?
6. What is your preferred format for receiving payment?

Companies that thoughtfully answer these questions and carefully assess their e-payment needs can then determine which e-payment alternative—or combination of alternatives—will provide the most

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effective e-commerce solution. They will then be poised to reap the full range of benefits that electronic payments have long promised but often only partially delivered.

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The check conversion explosion

One of the fastest-growing new e-payment options owes its meteoric rise to the fact that it still has one foot in the paper world.

“Check conversion” describes a range of new business-to-consumer (B2C) payment options that allow consumers to continue to initiate payment with paper checks or checking account information. The checks or checking data are converted early in the payment process into Automated Clearing House (ACH) transactions and processed electronically the rest of the way.

This new family of payment services—sometimes referred to as “electronic check” or “e-check” services—avoids many of the hurdles faced by new business-to-business (B2B) electronic payment models. Check conversion doesn’t require payers to change their paying habits, nor does it require businesses to alter their accounting integration processes.

A series of new ACH operating rules implemented beginning in September 2000 have paved the way for five check conversion services. NACHA—The Electronic Payments Association, which establishes standards and procedures for electronic payments, reports that aggregate quarterly volume for the five services has risen to nearly 100 million transactions worth almost \$20 billion.

As of third quarter 2002 (the most recent period for which NACHA has published statistics), e-check transactions already accounted for 6.67% of all commercial interbank ACH volume.

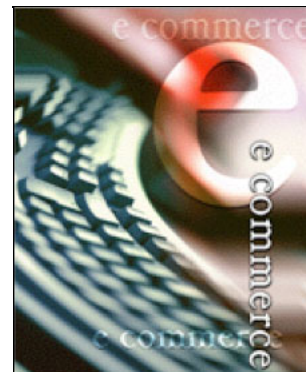
Five e-check services

Here’s a brief overview of the five forms of check conversion, with their NACHA Standard Entry Class Code shown in parentheses:

Telephone authorization (TEL). TEL is a single-entry consumer debit initiated by a verbal authorization by telephone. For example, TEL allows a company to call a consumer about a past-due account and give the consumer an opportunity to initiate payment during the call. In a TEL transaction, the consumer provides check MICR line information—bank routing number, account number and check serial number—so the company can initiate an electronic debit of the consumer's account.

Internet-initiated entry (WEB). Similarly, WEB allows consumers to go to a company's Web site, authorize a payment for a particular amount, and provide the check information the company needs to initiate an ACH debit against the consumer's account. Some credit card companies provide this payment alternative.

Internet-initiated entries have been the most popular e-check service, representing nearly half of e-check transaction volume.



Accounts receivable conversion (ARC). ARC is the electronic conversion of checks mailed to a biller or deposited at a dropbox for payment. An example of an ARC application would be converting a check that a consumer sends to a department store's lockbox. The lockbox provider would scan the check and turn it into an electronic item for further processing.

Re-presented check (RCK). RCK allows a company to re-present an NSF (non-sufficient funds) or uncollected funds check of \$2,500 or less as an electronic entry. RCK is designed to reduce paper-processing costs and improve collection rates by re-presenting checks faster.

Point of purchase (POP). Merchants at the point of sale can use this e-check service. The consumer submits a check payment to a cashier, who scans the check to capture MICR line information. The cashier returns the check to the consumer and uses the scanned MICR line information to process the payment electronically.

B2B payment option?

The goal of these e-check services is to add efficiency to collection processes in the B2C payment environment, while reducing backroom operating expenses and risk.

NACHA has proposed a rule change that would also allow for corporate check conversion. Under the proposal, checks for dollar amounts under \$25,000 could be converted to ACH debits when they are received at lockboxes or point-of-purchase locations, or when they are returned for insufficient funds. The proposal would allow corporations to opt out of having their checks converted to ACH payments by using an auxiliary "on-us field" in their checks' MICR lines.

The comment period for the proposed rule ended January 31, 2003. A NACHA spokesman contacted at the end of March said comments were being reviewed and the proposal for corporate check conversion was still "under active consideration."

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The quest for e-payment information integration

The recent growth in e-payment alternatives has allowed companies to offer their trading partners an array of convenient new payment options that contribute additional cost savings and efficiencies to the payment process. But it has also created a significant challenge for corporate treasury functions.

Treasury departments are now receiving electronic payment information in a variety of formats from a multitude of payment systems. As a result, they are struggling to consolidate and integrate this information in a way that allows them to quickly and automatically apply it to their ledgers and Enterprise Resource Planning (ERP) systems.

"It's good that companies are offering their trading partners the

ability to pay using credit cards, EIPP and the Internet, but in doing so they've created a bit of a monster," says Ron Chakravarti, a New York-based Principal with management consulting firm Treasury Strategies, Inc. "From our consulting work with corporations and financial institutions, we know there are real efficiencies and cost savings inherent in these options. However, because e-payment information arrives in different forms from different providers, treasury and accounts receivable staffs must expend considerable time and energy tracking it all down, organizing it and, in many cases, keying it into their systems."

In other words, corporations aren't realizing the full range of benefits inherent in e-payment solutions because these tools were introduced before companies had thought through the issue of how to integrate and apply e-payment data.

Ironically, in recent years many companies implemented ERP systems that have the ability to convert e-payment information into applicable accounts receivable and accounts payable data. However, these systems are often unable to accept e-payment information because it's transmitted in proprietary bank formats.

"Until treasury and finance areas find a way to integrate e-payment information and apply it quickly, the benefits of e-payment systems will never be fully realized," says Dick Poje, President of the R.J. Poje and Co. consulting firm, Barrington, IL.

Ad hoc solutions

Currently, some large banks have developed and are implementing ad hoc solutions to this problem with some of their bigger clients. However, these solutions are expensive and may be out of reach for middle-market firms unwilling to reinvest in the re-engineering of e-payment systems that they invested heavily in a few years ago.

"More and more banks are working on solutions to the problem of integrating the various forms of e-payment and paper-payment information," Chakravarti says. "However, on the customer side, implementing a workable solution requires the cooperation not only of treasury, but also of accounts payable, accounts receivable, IT and other areas, and getting them all to work together can be a big challenge."

According to Poje, some companies lack the basic infrastructure needed to accommodate these solutions. "I still see companies where treasury and finance staff are using 15-inch monitors and 386 machines," he says. "You can't implement these solutions on that kind of technology."

At other companies, the issue is simply a lack of focus. At these firms, treasury and finance functions are not viewed as mission-critical areas, so the pain they're experiencing in trying to integrate e-payment information has not truly registered with senior management.

A future priority

However, industry analysts agree that this problem will become a higher priority at many firms in the years ahead. "Improving working capital management has become a key priority for corporations,"



Chakravarti says. "There is a real drive for more accurate and rapid integration of payment information into accounts receivable, credit and treasury systems."

As a result, there should be an increasingly strong demand for bank solutions that address e-payment information integration robustly, flexibly and cost effectively.

Some believe that these solutions will not involve the adoption of a universal application or industry-wide product standard. Rather, the answer may involve proprietary bank translation engines connected to the Internet.

These translation engines would give customers the option to send or receive consolidated e-payment information in whatever file format they could most easily apply to their internal systems. Basically, banks would serve as information translation clearinghouses for their clients.

"Solving this problem won't require some new, leading-edge technology as much as it will require banks to invest in developing flexible, reasonably priced and integrated solutions," Chakravarti says. "So corporate treasury and finance functions should be looking to partner with providers who are actively and successfully working on exactly these types of options."

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