# Flotation Devices for the Ocean of Payments

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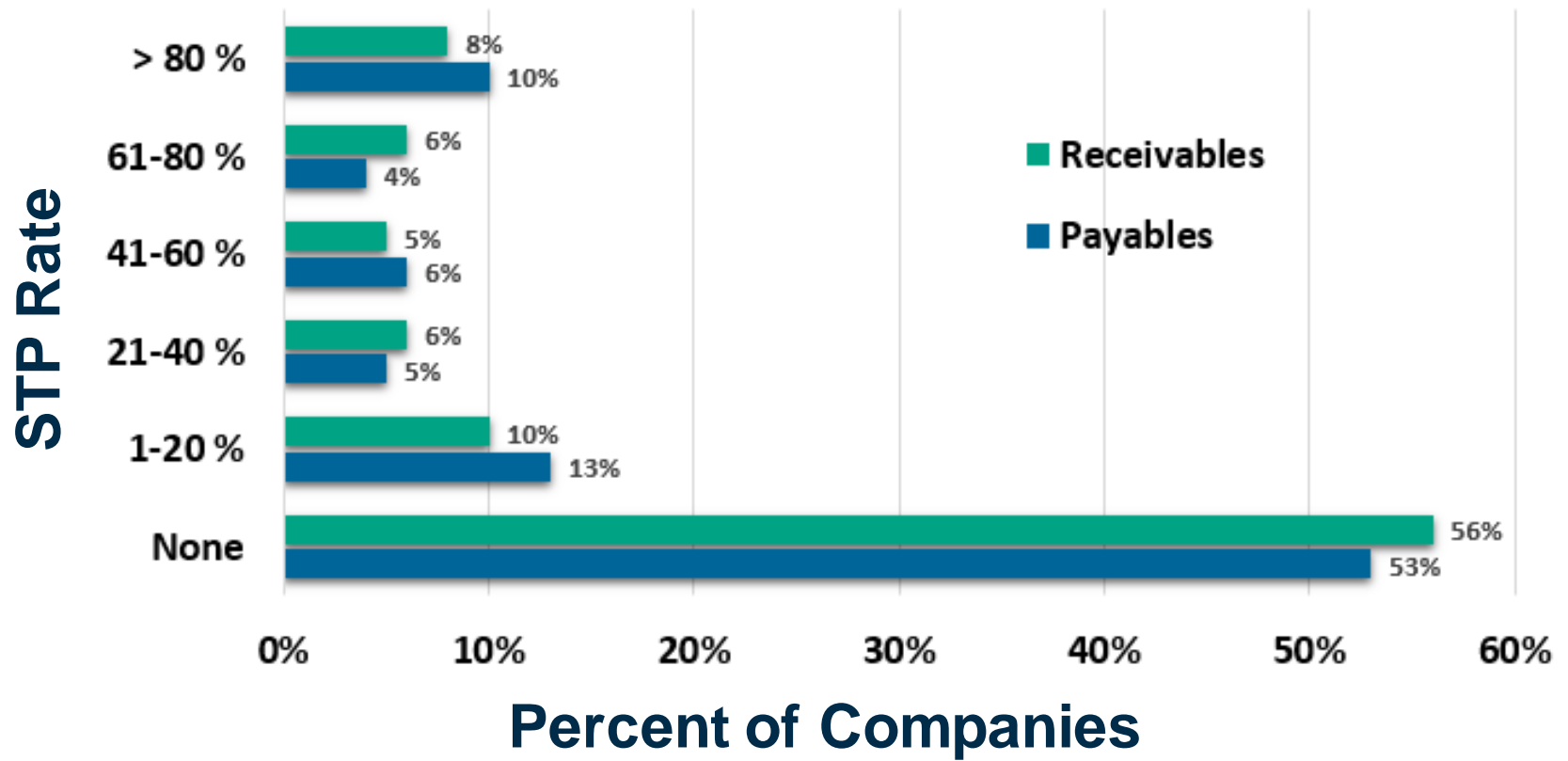
*PNC Bank*

# What is your type?

C2B

B2B

B2C

C2C

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# 94%

# Straight Through Processing

**56% of companies do NOT use any STP**

**Only 10% have > 80% STP**

Data Source: 2016 AFP Electronics Payments Survey

# In the Beginning…

- Decentralized operations
- No backups
- No segregation of duties
- Cash and checks in field
- Random credit card process
- Manual efforts
- Non-standard procedures
- Posted to oldest open

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# The Launch...

⦿ Started Shared Service Center (SSC)

⦿ Implemented a lockbox service

- Lump deposit by day
- Paper check image batches in trays
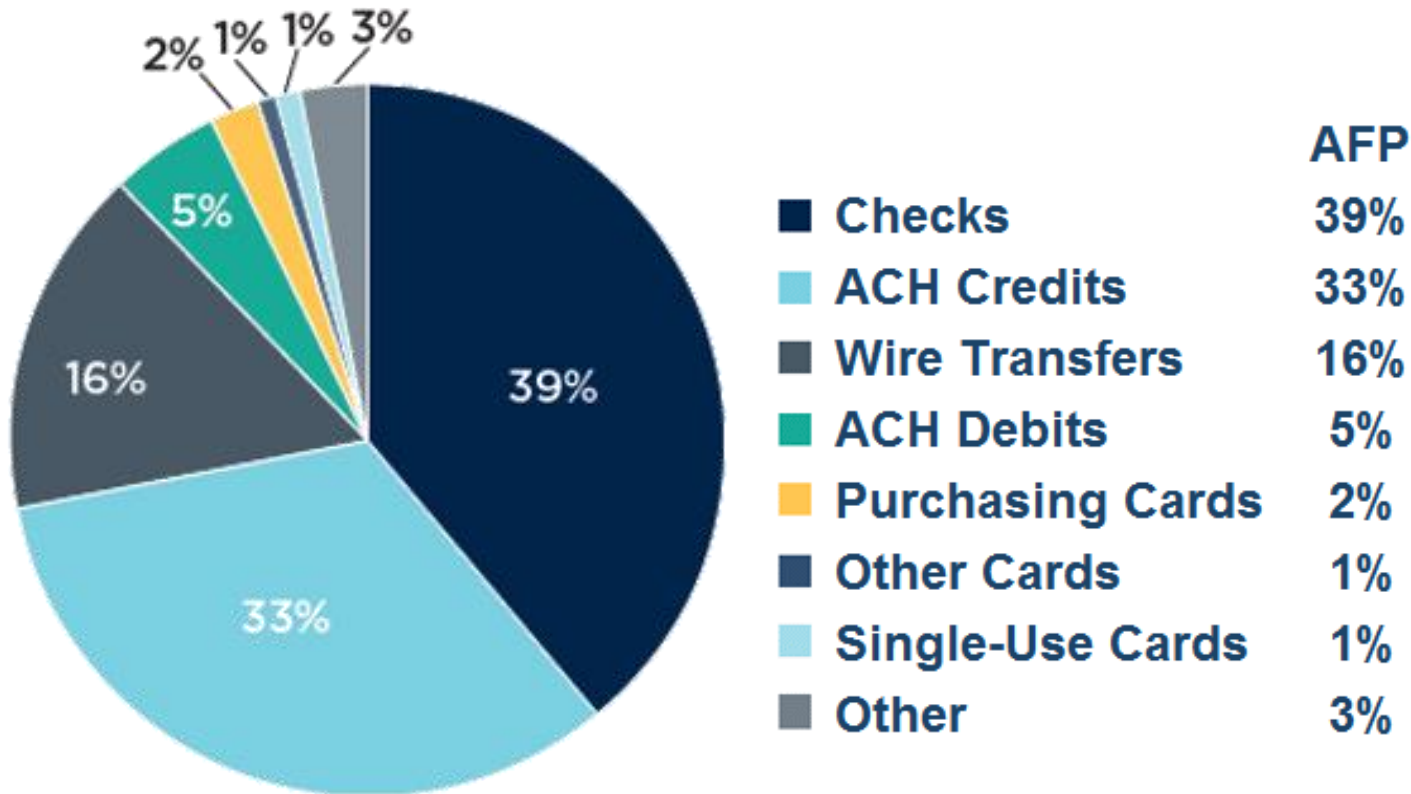- Manually keyed each batch
- Balanced on a steno pad

⦿ Centralized each office in turn

**Finally…  stability…  with 300 people!**

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# The Payment Maelstrom

**Payment Method Used to Receive Payments From Major Customers**
(Mean Distribution of Payments Received)



| | AFP |
|---|---|
| ■ Checks | 39% |
| ■ ACH Credits | 33% |
| ■ Wire Transfers | 16% |
| ■ ACH Debits | 5% |
| ■ Purchasing Cards | 2% |
| ■ Other Cards | 1% |
| ■ Single-Use Cards | 1% |
| ■ Other | 3% |

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Source: 2016 AFP Electronics Payments Survey

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# Rescue Tactics… Bank Accounts

- Find a great banking partner(s)
  - Lockbox, credit card, and EFT experience
- Learn the language of fees – **ask!**
- Centrally control and consolidate
- Limit cash use
  - Dual balancing and control
- Select POS bank with wide footprint
- Use remote capture for in house checks
- Balance from **bank windows** daily

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# Rescue Tactics… Lockboxes

**Use of Checks for Collections (B2B)**

Checks are king
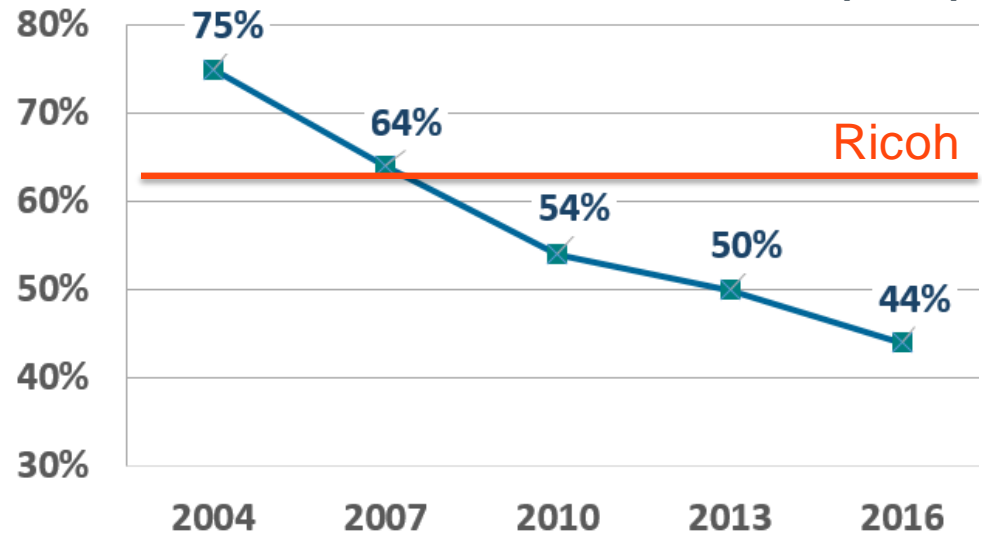
Determine best locations for customer base

For best match…

- Use scanline encoding on invoice coupon
- Avoid check MICR matching **unless…**
  - Very clean customer master
  - Prefer 'on account' balance forward posting

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**9**

Data Source: 2016 AFP Electronics Payments Survey

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# Rescue Tactics… Lockboxes

- Lockbox rules for everything
  - Scan, image, captured, company names, data interpretation
- Save the DSO!
  - Maximize cut-off times
  - Minimize number of lockbox files
  - Intraday postal deliveries
- Use consistent file formats from banks

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# Rescue Tactics… Lockboxes

🛟 Post receipts to specific invoice indicated!

- Optimize ERP lockbox posting rules
- Leave systemic audit trails if repost
- Build history to refute chargebacks
- Give a way to collect an **invoice**
- Make the switch even if it hurts
- Auto posting rates WILL go up

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# Rescue Tactics… Lockboxes
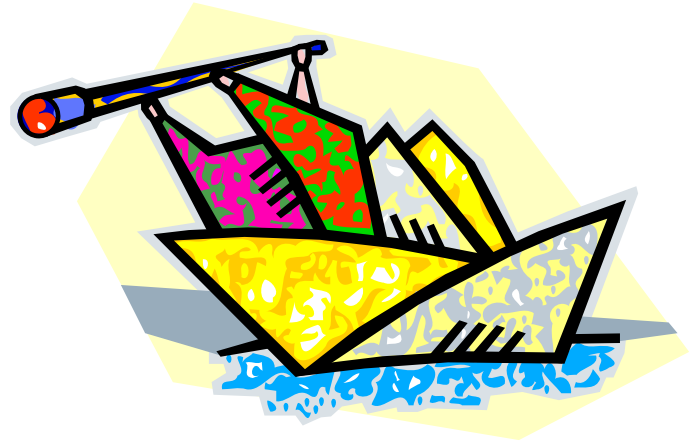
Lockbox exception manager service

- Allows for intraday data augmentation
- Later transmission with more accuracy
- Reduces overtime on critical days
- May be easier than ERP method
- Increases hit rate even more
- Pushed Ricoh from 90 to 94%

# How Far Can You See…

- Imaging is critical!
    - Customer research
    - Quality control
    - Legal disputes
- Ability to retrieve image easily
    - Short term - the bank scans – use it!
    - Long term options
        - CD
        - Long term with bank
        - Long term with customer participation

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# Balancing the Load…

- Daily Cash Balancing
  - Bank window
  - Subsystem to GL
  - Resolve quickly
  - Research by the source
- Debit blocks – review before release
- Consolidate –
  - Increase efficiency - reduce fees
  - Give extra effort to customer redirects

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# Save the Treasure…

- Internal cash controls
  - Think of ways to add control
  - Institutionalize the culture
  - Distill to the most important
  - Audit review
- Document your processes
  - Hold employees accountable
- Segregation of duties
  - Understand risk points – think like a criminal!

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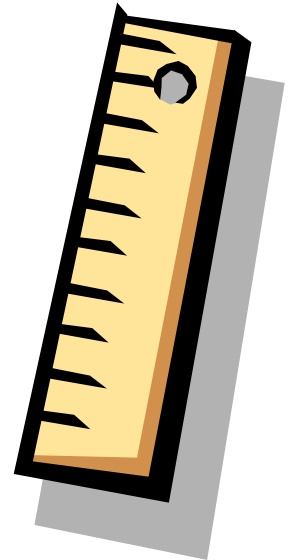**PNC**

# How High are you Floating…

- Metrics and measures critical to success
- Build low effort metric tracking
  - Lists of values
  - Prescribed formats for notes
  - Date and time stamps
  - Compile early for proactive response
- Obtain relevant benchmarks
  - Frequent comparisons

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# How High are you Floating…

- 2.1m payments/Y applied to 4.4m invoices
- Interim hit rate
  - Bank work 90% - with exception manager tool 94%
  - Day 1 review 97% - Further follow-up 3%
- Unapplied on account and unidentified
- Cost per x, y, z
- Know where your issues live
  - 70% of unapplied on 3 accounts
  - 90% is on accounts with AR > 30 days
- Measure bank fees over time by type - Ask!

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# **Sharks in the Water… Refunds!**

- Refunds are risky and costly
  - Measure refund location
- Partner with collections
  - Treat good customers well
- Explore root causes
  - Duplicate invoices, credit/rebill, statements
- Automate refunds
  - With systemic and manual controls

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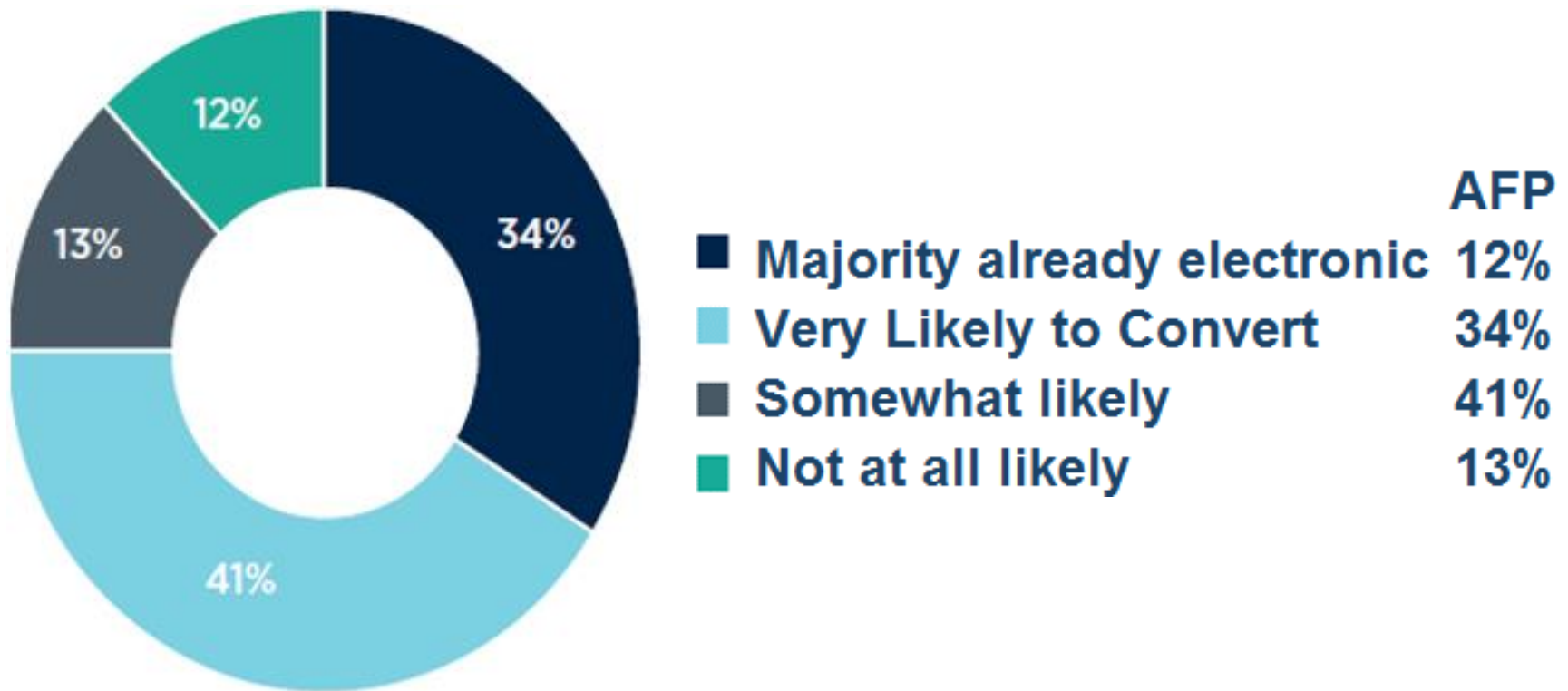
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# Navigating "Other"

- Analyze exceptions to process
  - How big is it?
  - Is it really "other"?
  - Are customizations needed?
  - Example: Third Party Financiers
    - 50 employees to handle research  - 100% manual
    - Found repeatable pattern
    - Partnered to define common custom interfaces
    - Added match by serial number and meter clicks
    - Now we have 63% auto post and 15 employees!

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# Ride the Electronic Wave

**Organization Likely to Convert Majority of B2B Payments From Checks to Electronic Payments within Three Years**



| | AFP |
|---|---|
| ■ Majority already electronic | 12% |
| ■ Very Likely to Convert | 34% |
| ■ Somewhat likely | 41% |
| ■ Not at all likely | 13% |

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Source: 2016 AFP Electronics Payments Survey

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# The Electronic Wave… ACH

- ACH inexpensive to receive but…
  - Expensive to process
  - Customers

    Customer Education

    - Send bad or no information
    - Decouple backup from payment
- Discipline & control required
  - Use CTX or CCD+
  - Give bank instructions judiciously
  - Ricoh – 54% auto post vs. 33% average

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# ACH Rescue Tactics…

# UPIC

- Change accounts for ACH?
  - Hard to do – account reopens
- Be Mobile – Use UPIC
  - Transportable account alias
  - Eliminates need for redirect
  - Transparent to customer
  - Secure and flexible
  - Credits only

**Seller Obtains UPIC from Seller's Bank**

**Seller Releases UPIC to Buyer**

**Buyer Initiates ACH Payment with UPIC**

**Buyers Bank submits UPIC ACH**

**ACH Operator Translates UPIC**

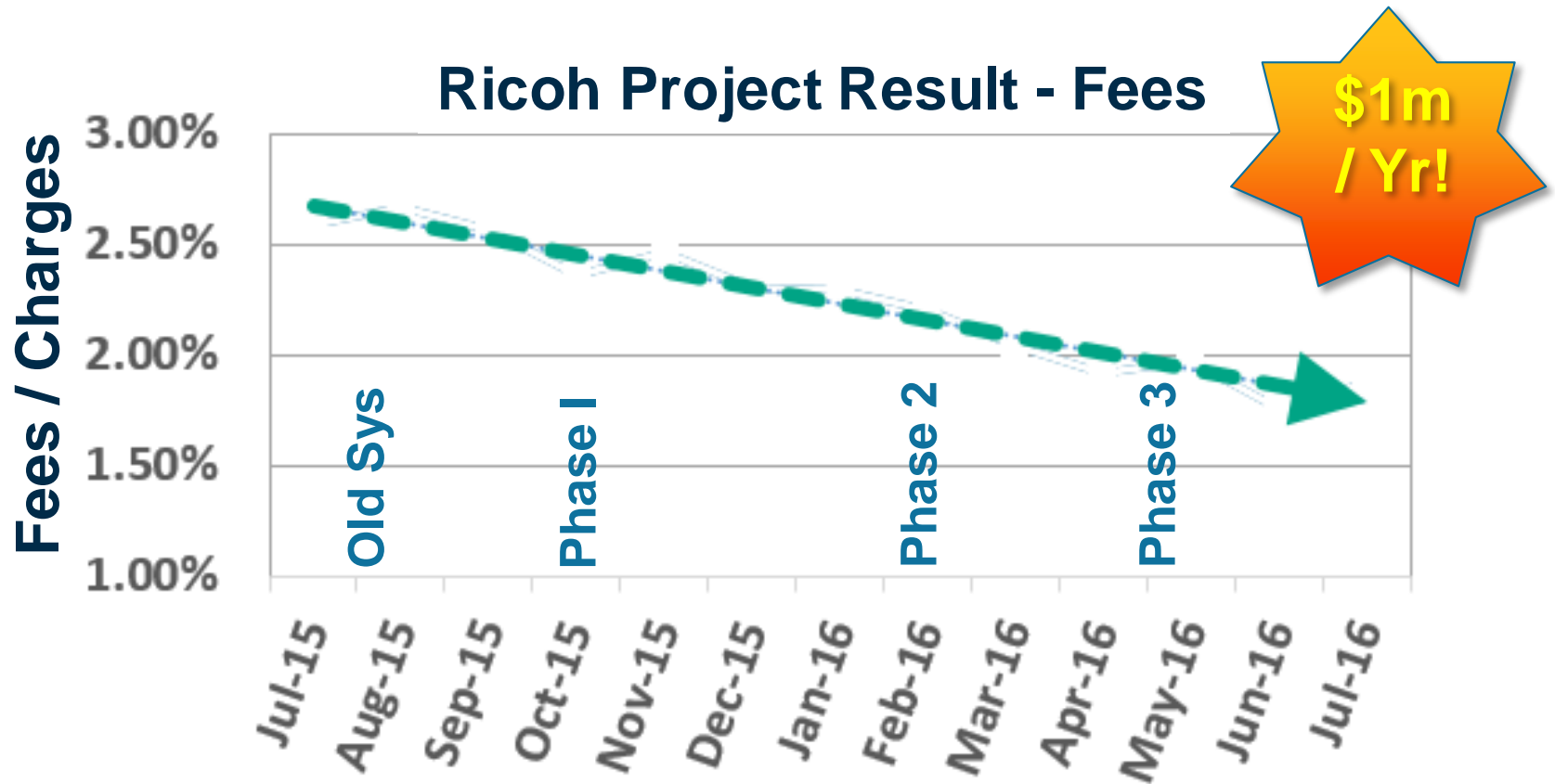**ACH Processes to Sellers Bank**

**Seller receives payment**

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# Whale OR Shark… Credit Cards

| Friend | or | Foe |
|--------|----|----|
| Easy non cash method | | Very hard to integrate for STP |
| Payment in 2-4 days | | Timing doesn't match receipt |
| Risk shifted to association | | Disputes and chargebacks |
| Some customers insist | | Fees can be astronomical |
| If integrated, 100% STP | | Hard to control 'when' |
| In AP - negotiate rebates | | Card security concern |
| | | PCI Compliance |

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Source: 2016 AFP Electronics Payments Survey

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# We're Saved!

- **Project to tokenize, gateway, level 3 processing**



Ricoh Project Result - Fees

$1m / Yr!

# Floating Higher…

Online payments and bill presentment

- Is your billing and AR ready?
- Custom invoice formats?
- One time vs repeat (login)?
- Recurring and automatic variable?
- Control on when present credit card option?
- PCI compliant?
- Intraday deposits and interfaces of detail?
- Transparent look and feel?

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# Let's talk…

- Questions?

**Thank you!**

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