



HOW TO SOLVE THE ELECTRONIC PAYMENTS CHALLENGE WITH AUTOMATION

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Electronic payments have helped accounts payable (AP) departments save time and reduce costs but for accounts receivable (AR), taking on more payer-controlled payment types has resulted in more work and more risk, due to the fact that many electronic payments are decoupled from their remittance data.

Automation has the potential to help AR gain significant cost savings and operational efficiencies, but for most mid-sized companies finding the right mix of technology and internal processes to get ahead of the decoupled remittance data challenge has been an obstacle. Treasurers need strategic and well-informed approaches to implement the right solution for their business to attain optimal productivity from their AR departments.

The Challenge with Decoupled Remittance Information

According to the National Automated Clearing House Association, 71% of remittance information associated with electronic payments — the information needed to match payments to their corresponding invoices, including the billing account number and invoice number — travel separately from the actual payment. Payments are often sent via web portal while the remittance data arrives by email, meaning it isn't included in the posting files received from one's financial services provider.

Decoupled electronic payments have introduced greater complexity to processes across AR as well as more manual reconciliation work and more room for human error. As a result, companies are less likely to prevent late payments and unauthorized discounts, or short payments. And they are more likely to experience delays applying funds to accounts, which can strain customer and supplier relationships.

With poor cash application, which is the process of applying payments to open accounts receivables, it becomes difficult for finance departments to produce accurate forecasts and maintain optimal cash flows. This directly affects how an organization makes important decisions about its business and customers, and how it manages risk.

Insufficient cash flow visibility can also force companies to rely heavily on credit and potentially exceed credit limits, impacting their ability to make timely sales and increasing the possibility of doing business with unqualified customers because of late or missed payments.

An Integrated Approach to Reconnecting Remittance Data

Simply asking your financial service provider to combine payments into a single file isn't enough to get ahead of the decoupled remittance data challenge and see meaningful improvements in cash application.

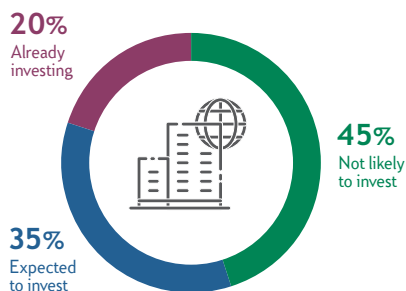
AR departments need to move toward integrated receivables solutions — and many forward-thinking companies are already doing so. According to the Aite Group, 20% of middle-market and corporate companies are already investing in integrated receivables solutions and 35% are expected to invest.

There may be variations on what constitutes an integrated solution, but there are a few key capabilities to look out for that are the basis of a best-in-class solution.

First, a fully integrated receivables solution needs to agnostically address all payment types and channels, both paper and electronic. Second, any solution must be able to incorporate remittance data retrieved either by email or from AP web portals. Finally, the solution should have the capability to use business rules to match the data to an open AR file source.

Best-in-class integrated receivables solutions not only reconnect decoupled payments, but they also open the door to automated processes and workflows. And with the ability to apply business rules based on payer behavior, it becomes possible to deploy artificial intelligence (AI) and machine learning (ML) tools. AI and ML can identify patterns and behaviors, which improves the payment identification process and accelerates the matching of remittance data to open invoice files.

Estimated likelihood of U.S.-based middle market and corporate companies to invest in integrated receivables over the next two to three years.



Sources: Aite Group Estimates

The advantage of automation and integrated receivables isn't the ability to directly speed up the receipt of payments, rather it is the ability for AR departments to apply payments more effectively, to eliminate manual tasks and streamline workflows and to do more with the abundance of data available. That said, addressing the issue of decoupled remittance information puts businesses in a far better position to proactively take charge of how they receive and manage electronic payments.

From Manual Processes to Operational Efficiencies

When it comes to productivity in AR, the impetus to reduce costs and gain operational efficiencies is strong but manual processes, whether processing payments, key entering data,

managing exceptions or sending payment reminders, are some of the biggest impediments. As they look to make up for lost revenues, top-performing companies are turning to automation as a way forward.

Best-in-class organizations, according to a benchmark report by the Aberdeen Group, are 13 times more likely than other businesses to automate major receivables processes. Automation is helping them gain instant savings by eliminating repetitive tasks, trimming resources dedicated to low-value tasks and reallocating those resources to more strategic undertakings.

AI-powered receivables systems can also make AR processes more reliable and less prone to human error. Intelligent tools catch and correct missing information, typos and truncated fields. And they can also identify mistakes such as duplicate payments, short or late payments, unauthorized deductions and mistaken debt collections. This equals considerable savings in time and effort for AR teams and can be a factor in preventing shortfall write-offs, lost sales and even fraud attempts.

For context as to how beneficial automation can be in catching errors and recouping revenues, a survey by the Institute of Finance and Management estimates that only 48% of all deductions included in payments are actually valid. According to The Credit Resource Foundation, 95% of deductions are adjusted or written off and only a small percentage are successfully charged back to the client and collected. The toll of invoice disputes and unauthorized deductions on the U.S. economy is nearly \$700 million a year, as estimated by the U.S. Department of Commerce.

A Clear Path to Cash Flow Optimization

Data optimization and greater visibility into collection processes and collections patterns are essential for good cash forecasting. But without automation and integrated AR functions, many companies have struggled to stay on top of collections, delinquency, and days sales outstanding (DSO), or the average number of days it takes a company to collect payment.

According to a PYMNTS study of small to mid-sized businesses, companies with moderately to highly automated AR processes achieve DSO of 40 days — versus an average DSO of 50 days for firms with no or low levels of technological implementation. For larger organizations, a Hackett Group study showed that receivables automation helped save 39% in DSO or \$48.2 million for every billion dollars in sales.

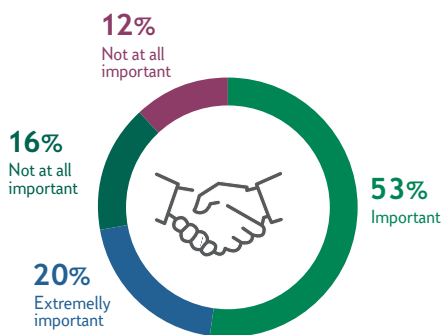
Alongside the elimination of manual processes, automation can help reduce late payments and give companies the insights and analytics they need to plan and forecast better. The faster companies can get paid after invoicing, the greater cash flow they have available to invest back into the business.

Data and analytics are also critical factors for understanding customer behavior and extending credit. Applying payments more efficiently can free up clogged credit lines and lead to additional sales. With automation, treasurers can also make more data-driven decisions and accurately manage payment risk.

Next Steps on the Path to Receivables Automation

The move toward automation has largely been led by large organizations with high receivables volume across multiple payment types but middle-market companies are steadily getting on board and interest is growing.

How important is a bank's ability to offer an integrated receivables environment to your business when selecting a new bank partner?



Sources: Aite Group survey of 138 U.S. based corporate treasury professionals

Alongside the complexity of decoupled payment data, one of the obstacles for mid-size companies has been the enormous complexity of launching solutions that mesh with existing enterprise resource planning (ERP) systems.

Companies need to focus on establishing integrated receivables systems that can neutralize their inputs and outputs and post AR files in easily incorporated formats. Most companies are still looking for practical solutions, but new technology is making implementation more feasible and affordable.

Leading the way are cloud-based solutions that offer minimal upfront investment and generally low requirements for maintenance and support staff other than a business expert who understands AR functions.

One of the developments that will facilitate wider adoption of AR automation is faster electronic payment initiatives such as real-time payments that include robust messaging and Request for Payment features that make it easier to reconcile and automate receivables processes. Application programming interfaces (APIs) will likewise be a key component of emerging solutions, allowing faster and more efficient ways to exchange information and giving businesses a direct line to consistent on-demand AR information.

Key Takeaways:

- 1. Look at the big picture.** Look at the entire AR workflow — from invoicing through collections — and don't limit your assessment to just one function. Cash application might seem like the problem, but the core issue may actually be somewhere else. Implementing an Electronic Bill Presentment and Payment solution (EBPP) will greatly assist in the goal of increased digital payments.
- 2. Build a benchmark.** Create a foundation for where your current performance levels are, not just across one metric. Measure automation rates by payment type and channel, payment volume, dollars and invoices. For AR departments, the key metric is often the number of invoices or remittance lines versus payments.
- 3. Keep learning.** The automation landscape is rapidly developing. Put yourself in the best possible position by educating yourself with a variety of different sources and staying on top of available technology. Also pay attention to what your customers are doing, talk to your financial partners and tap into your peer groups who are likely dealing with similar challenges.



Jay Matyas has more than 25 years of first-hand experience working with companies across many industries — developing solutions that allow them to expedite collections and improve straight-through-processing.



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