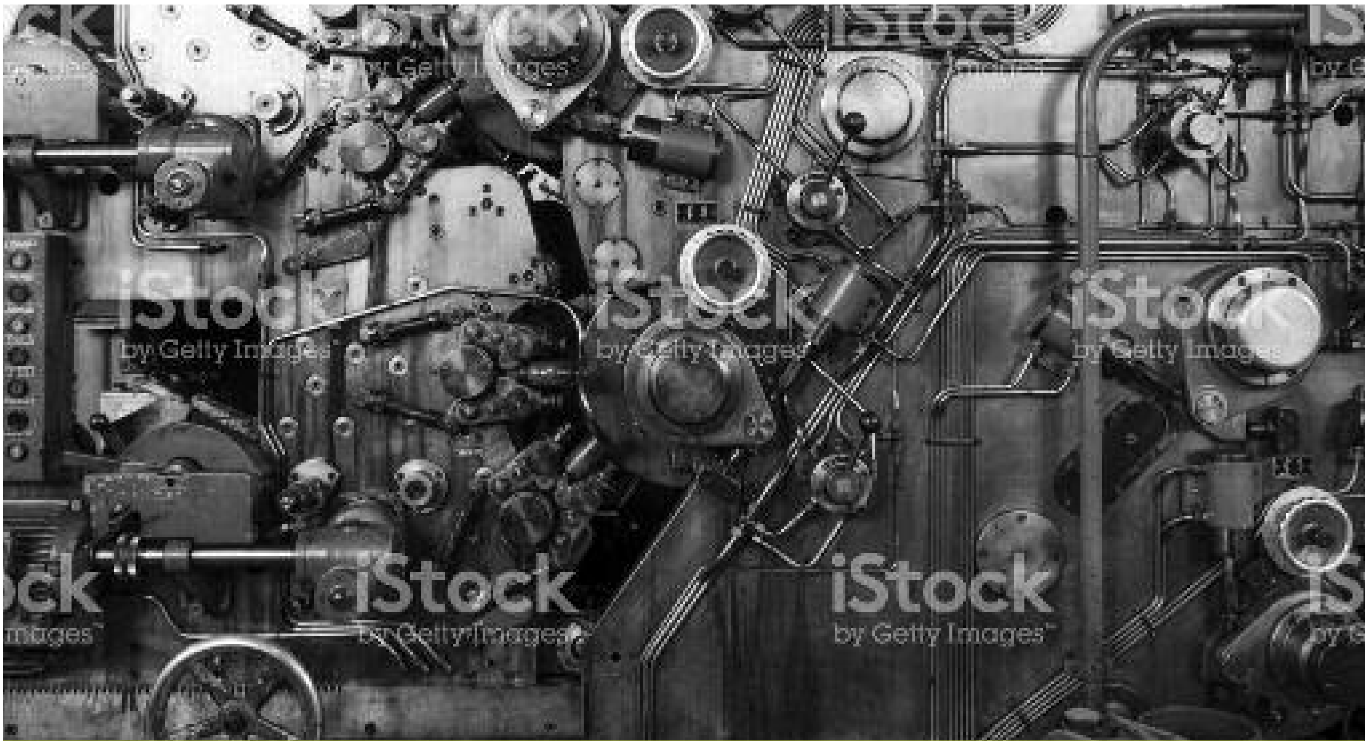

Payment Factories

While there are many different interpretations of the term 'payment factory', it most generally refers to a central hub established by a company to control and manage the processing of its payment flows. Some payment factories operate full centralisation of both accounts payable processes and staff in a single location, while other companies set up a hub which is responsible only for the execution of payments to banking partners and is supported by decentralised accounts payable processes.

The constant pressure on corporations to reduce costs often leads companies to re-assess their cash management and payments processes, and SEPA, the single euro payments area, has led to a particular focus on payment factories.

Benefits

A centralised approach to payments offers benefits in a number of areas. The establishment of a payment factory creates a single platform for many, or ideally all, of the company's payment and collection types and for its dealings and communication with its bank(s) together with balance and transaction reporting. This results in a reduction of both costs and risks and provides a higher level of cash visibility.

Cost reduction is achieved via rationalised processes, higher straight-through processing (STP), lower transaction and communication costs and reduced expenditure on the maintenance of formats and systems. In many cases the use of such a payment factory enables the company to reduce its number of banking partners. The risk of fraud is substantially minimised by the use of a single and secure communication channel, with standardised and secure authorisation processes and controls both for users and at the database level. Higher automation and the use of a central data repository lowers the risk of errors. Liquidity management is improved by the optimisation of payments and central visibility into the real-time cash position of the group. Further benefits in this area include improved foreign exchange (FX) spreads by the consolidation of payment flows and the better utilisation of available funds as funding processes and interest conditions can be optimised.

Increased use by SMCs

The use of a payment factory was for some time confined to larger firms but smaller and medium-sized companies (SMCs) are today increasingly availing themselves of the benefits. The main obstacles in the past were technology, expertise and cost. Solutions such as DataLog's CashPooler, the world's first web-based payment factory, and new communications protocols have made the implementation and roll-out of a payment platform much easier and less expensive than it used to be.

Several models have been developed over the years and it is now recognised that a payment factory can be established in several phases: a corporate has no need to build an extremely sophisticated and complex structure covering all its cash flows and business entities from the word go. Payment on behalf of (POBO), for example and inter company lending can be incorporated at a second stage, and this in turn means that achieving the necessary expertise is less of a challenge. The investment can be spread over several phases and several projects, while new possibilities in bank connectivity have also contributed to cost reduction.

Discussions between the corporate and its banking and technology partners will facilitate the decision-making process and provide the corporate with information about new solutions that could support their particular payment factory model.

Connecting the payment factory to other systems

A payment factory is located at the very centre of a company's information system, and it has to communicate with the company's ERP(s), HR systems, other treasury management systems (TMSs) and with banks. The main features of an effective payment factory include its ability to read and produce files in any format and provide simple, fast set-up of new formats. It must be capable of handling various types of banking protocols and be able to set up a connection with a new bank, for example, quickly and easily. If these functionalities are missing STP will be very difficult to achieve and operational efficiency will be poor.

Operational efficiency is maximised if communication between the payment factory and other systems is direct and immediate. This is a compelling feature of our solutions suite, where payments processed through the payment factory can automatically produce forecast in the liquidity tool, bank statements retrieved by the payment factory can be used directly by the reconciliation module and deals captured in the market and risk module can automatically create confirmations and/or settlements in the payment factory.

Limits to potential automation

Limitations to the automation of a company's payments and reconciliation systems arise not so much from the systems themselves but from other factors such as corporate policy, or the environment in which it operates. In some cases and some areas, a group may prefer to retain regional expertise and knowledge rather than embracing full centralisation, or to maintain its relationship with a local bank or banks even if they are not connected to the central platform. Local tax or other regulations sometimes also prohibit cash pooling or POBO.

Coping with market instability and financial risk

DataLog's payment factory is fully integrated into Treasury Line, our new TMS that covers all aspects of cash and treasury management from front to back, to payment and to booking. Positions in Treasury Line, the first Front-to-Back-to-Book-to-Payments software package, allow treasurers full visibility of their risk exposure (including liquidity, rate, FX and security) and simulation of the positive or negative impacts of their hedging or finding scenarios. ■

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DataLog Finance

Since 1997 DataLog Finance has been providing on- premise or SaaS solutions (including TMS, payment and collection factories and cash management) designed to meet both the current and future needs of corporate treasurers.