



Integrated Payables: Adapting to Disbursing Needs

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Integrated Payables: Adapting to Disbursing Needs



Session Agenda

10:10 a.m. – 11:00 am

- Welcome and Introductions
- Definition of Integrated Payables
 - History
 - Types of Programs Supported
 - Examples of Providers
- Overview of an Integrated Payables Process
- Benefits and Best Practices
- Q&A and Close



Introductions



John Marciniak

FIS Commercial Treasury Solutions

Channel Management - Corporate Products



Commercial Treasury Solutions

- 16 of the top 20 FI's
- \$15B monthly Cash Concentration
- 8MM monthly Data Interchange transactions
 - ✓ 1,500 FI's in the network
- Top 10 ACH volume processor
- 450 on-line banking clients
 - ✓ 50,000 large corporate
 - ✓ 350,000+ small business
- 3MM Account Analysis accounts
 - ✓ 2MM price point exceptions
- \$1.7 Trillion complex payments processed

FIS Global Processing Reach



2,800 core processing clients



77M debit cards worldwide

64M credit cards globally

360,000 ATMs in network

130M prepaid cards

350M+ bill payments annually

\$1.2 trillion moved annually

More than 80% of N.A. deposit new accounts scored

Data as of December 2010

Integrated Payment Services



Integrated Payables: Adapting to Disbursing Needs

“...treasury services are more important in the current environment than ever before...
‘the importance of what we're doing for clients has never been greater’”

*Treasury Services Are Proving to be a Beacon Amid the Dark Economy for Banks
Payments & Cards, 6/21/09*

The 2010 Treasury Management survey conducted by *Global Concepts* lists “payables automation/integrated payables” as the number three “new electronic channel” behind only investments in Mobile Services and Web-Based Cash Forecasting.

**Integrated payment services offer the advantages associated with
electronic payments combined with the efficiency gains of
Straight Through Processing methods**

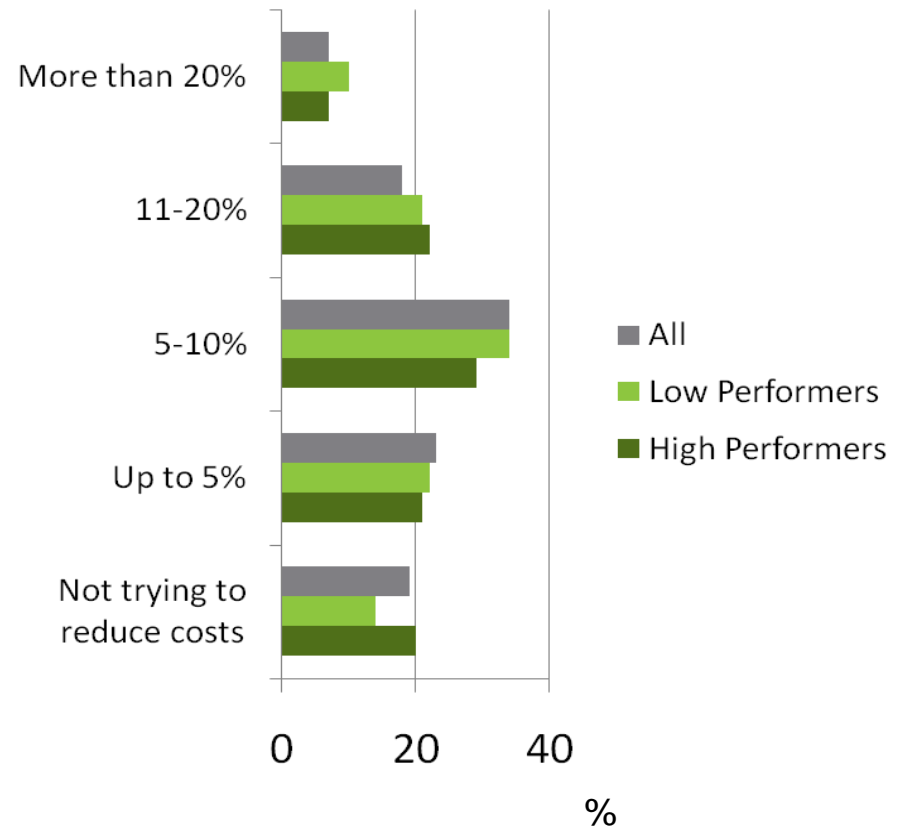
Trends - Reduce Operating Costs

Ongoing Focus



- **Reducing costs constant focus for last 2 years**
 - Only 19% of companies not trying to reduce cost ... status quo?
- **Best in Class**
 - Investing in processes, tools and training to achieve greater productivity
 - Focusing marketing efforts on better serving most profitable customer segments
 - Seeking better commercial terms from partners

By how much is your company trying to reduce total cost?



Source: <http://www.EY.com> *Competing for Growth: Winning in the new economy – Cost competitiveness*

Integrated Payables



What is the point?

- Allows company to outsource the disbursement process
 - Reduction in internal handling of payment instructions
 - Far fewer points for fraud/failure
 - Reduced commitment of staff time
 - Improved control over payment process
 - Single fulfillment path
 - Online tools and reports to track processing
 - Transparency of operation

Evolution of Integrated Payables



Advent of single channel payment methods

- ACH origination services
- Check production services
- Wire transfer upload capabilities
- Purchasing card services

Adoption of EDI

- Concentrated in certain verticals
- Standards support payment instruction well

Advances in technology

- Improvements in network and online services
- Lower cost structure

Definition of Integrated Payables



Two Basic Approaches:

— Payment Outsourcing

- Company sends a single data file to a payment processor
- File contains full details for of all payments to be made
- Each file defines when to issue a disbursement and to whom
- Company defined the payment method to be used (e.g., check, wire or ACH)

— Payment Networks

- Payor sends limited payment information – Details are maintained by the network
- Processor maintains a database of payees
- Payee details, such as preferred payment methods, specific remittance information, and receiving financial institutions are maintained in the database
- New payees and changes to existing payees (e.g., payment preference) are maintained by processor.

Definition of Integrated Payables



There are many variations on the two approaches



Regardless of approach, the goal for the payor is to outsource much of the disbursements function, thereby reducing the sum cost of the accounts payable operations.

Examples of Program Approaches



TYPE	DESCRIPTION	EXAMPLES
Payment Outsourcing	Payment outsourcing. Value proposition is outsourcing fulfillment.	<ul style="list-style-type: none"> • Wells Fargo Payment Manager® • M&I Bank Integrated Payables, • Fifth Third Bank Integrated Payables
Payment Network	Payee management outsourcing. Third party is responsible for managing payee attributes.	<ul style="list-style-type: none"> • Paymode-X • Ariba • Visa Payables Automation
Supply Chain Finance	Provides elements of integrated payment processing but value is financing.	<ul style="list-style-type: none"> • Ariba • Orbian • Prime Revenue • Syncada

Overlapping Services



Supply Chain Financing solutions

- Emphasis on financing portions of the order-to-pay process
- Payment is a necessary subset

Electronic Invoicing and Payment solutions

- Emphasis on invoice/billing presentment
- Typically incorporates limited payment options
- The chief beneficiary is the biller, not the payor

Financial EDI solutions

- Provides STP and electronic communication efficiencies
- May be limited on payment options

Integrated Payables Defined



Common Characteristics of Integrated Payables

Used primarily for B2B Payments – But not always

- Accounts Payable
- Intercompany Funding
- Disbursements

Single data file

- Record for each payment to be made with data such as:
 - Payee – to whom to direct payment
 - Payment date – when to make payment
 - Payment method – approach to use in completing payment

Common file format

- EDI 820, by far, most common
- Other commonly defined formats

Integrated Payables Defined



Offered as a Component of the Bank's eCommerce Platform

- Compliments single channel payment solutions
 - ACH File Upload
 - Wire Transfer Origination
 - Check Printing Solution
 - Card
- Positioned as a Premium Offering

Involves some level of implementation services from Bank

- Configuration of payment fulfillment channels
- Configuration of payment instruction file upload process
- Additional ongoing support

Advantages and Barriers



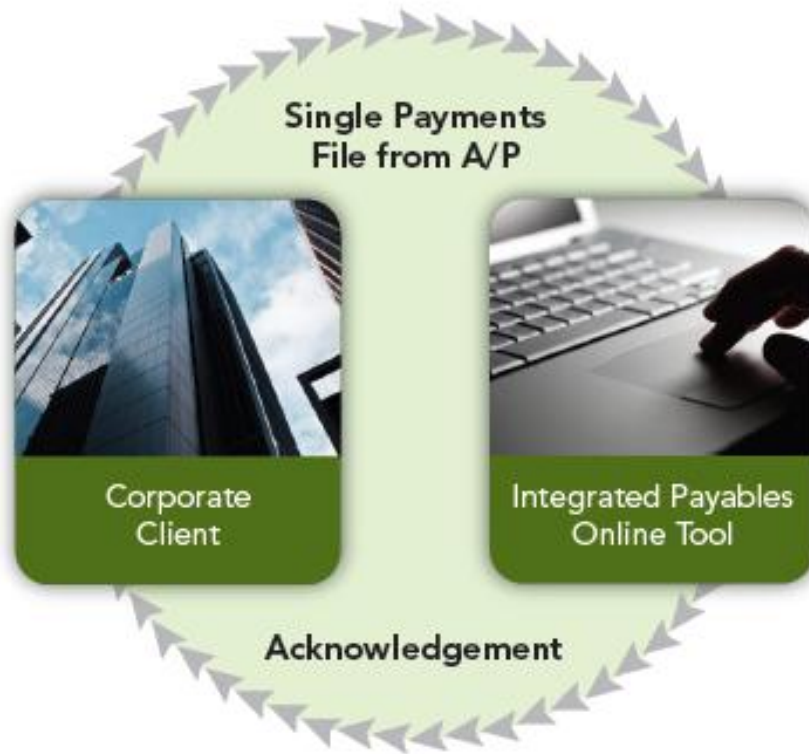
- Advantages of integrated payment services
 - Leading companies are pursuing automation of payments
 - Reduced costs
 - Improved control
 - Realize the benefits of ePayments in a recovering economy
- Barriers that must be addressed
 - Overcoming the inertia of current processes (over **75 %** of commercial payments still rely on paper checks)
 - Understanding what program works best
 - Selecting the right provider
 - Securing internal tech resources to complete the project



Overview of Integrated Payables Process

Common Functions and processes in an integrated payment solution

Overview of Integrated Payables Process



- Address growing client demand
- Reach untapped marketplace
- Leverage existing capabilities

Integrated Payables Functions

- Client File Upload
- Translation
- File Validation
- Report Delivery

Plus

- Generates Files by Payment Method
- Routes Payments for Fulfillment

Other Payments Systems



Checks

Wire Format



Wire

ACH Formats



ACH

Overview of Integrated Payables Process



- Bank customer provides combined file containing payments
 - FTP
 - Secure File Upload: Branded Web Site
 - Value Added Network
 - Leased Line
- The file is unpacked and routed for processing based on information for each payment record
 - Timing and routing method may vary by type
- Clients manage their payment processing
 - Online Tools for monitoring and file upload
 - Status monitoring
 - Ad hoc reporting

Overview of Integrated Payables Process



Payment Instruction File Format

- The key to communicating payment details
- Should be easy to understand
- Should allow for all required data elements
- The corporate client confirms how they plan to provide payment instructions

820 Payment Order Detail

ISA Segment: Interchange Control Header

Purpose: To start and identify an interchange of one or more functional groups and interchange-related control segments.

General Information: This segment is mandatory. It contains the value of the data element separators, data segment terminators, the identity of the sender and receiver and the required authorization and security information.

Example:
ISA*00* 00* ZZ*YOURID*ZZ*BGTEST*WER*95031*0815*U*000040*0001*Q*T*

Segment ID	Ref. No.	Segment Name	Req./ Opt.	Contents
ISA01	001	Auth. Information Qual	Req.	00
ISA02	002	Auth. Information	Req.	All Spaces
ISA03	003	Security Info Qual	Req.	00
ISA04	004	Security Information	Req.	All Spaces
ISA05	005	Interchange ID Qual	Req.	Trading Partner Defined
ISA06	006	Interchange Sender ID	Req.	Your Interchange ID
ISA07	007	Interchange ID Qual	Req.	Int. ZZ Prod. 01
ISA08	008	Interchange Receiver ID	Req.	Your BGTEST 03 months

1. Standard EDI 820-based format
2. Bank Standard Format (client performs mapping from application)
3. Custom Format (Bank/FIS performs mapping/translation as part of implementation)

Payment Instruction File



Example of Simple File

```
ISA*00*      *00*      *ZZ*100123456260 *ZZ*100000123456789*110221*0730*U*00401*000000001*1*P*^~
GS*RA*123456789*123456260*20110221*0730*000000001*X*004010~
ST*820*0001~
BPR*C*1.00*C*ACH*PPD*01*123456789*DA*12345***01*999999999*DA*99999*20110221~
NTE*ZZZ*ACH Test Payment to ABC Corp~
N1*PR*IP Customer~
N3*111 E Main~
N4*Milwaukee*WI*53202*US~
N1*PE*IP Payment Recipient~
N3*343 Courtside Dr~
N4*Milwaukee*WI*53202*US~
PER*ZZ*Payee Name*EM*payee.name@company.com~
N1*RB*IP Payment Recipient Bank~
N3*4555 Peachtree Industrial~
N4*Norcross*GA*30092*US~
ENT*0001~
RMR*IV*1234567890**6218.42~
SE*16*0001~
GE*1*000000001~
IEA*1*000000001~
```



Payment Instruction File Delivery



Payment Instruction File Delivery

Established method of file delivery from the client to Financial Institution:

1. Secure upload to supported web-site
2. Batch upload to FTP server
3. Value Added Network
4. Direct/Leased Communication Lines



Make the process **secure** and **reliable**

- Provide acknowledgement for uploads
- Application advices for individual payments
- Ability to track progress of file

Sample Payment File Upload Screen



Upload Payment - File Selection

To upload a payment file, select the file to upload, and click "Upload file." To view status of an uploaded payment file, go to [Payment Upload History Report](#).

Payment Upload Information

Service name: Integrated Payables

Description: EDI 820 Format

File to upload:

Browse


Upload file

[How Do I...](#) [Terms](#) [FAQs](#)

Simple online process for selecting and uploading files

Sample Payment File Monitoring Screen



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Payment File Upload History

To view more payments, click on "Search Payment File History". To find the status on a specific payment which has been delivered, go to [Payment Inquiry Selection Criteria](#).

Report created: 12/12/2008 at 09:04:25 AM EDT
Status: Verifying
Pending Approval
Transmitting
Delivered
Rejected
Date range: 12/08/2008 to 12/09/2008

Provide controls over file upload process

Payment File Upload Information

[Search Payment File History](#) . [2-day View](#)

(To view the approval history details, click file name. Files that are verifying or transmitting cannot be viewed.)

File Name	Upload Date ▼	Upload By	Status
Payment_12092008_024138.TXT	12/09/2008 02:41:38 PM (ET)	USER1	Verifying
Payment_12092008_092246.TXT	12/09/2008 09:22:46 AM (ET)	ADMIN	Pending Approval
Payment_12082008_082536.TXT	12/08/2008 08:25:36 AM (ET)	USER1	Delivered
Payment_12082008_081236.TXT	12/08/2008 08:12:36 AM (ET)	ADMIN	Transmitting

Payment File Upload



- Key Things to Consider

- Require multiple approvers prior to transmit
- Require multi-factor, strong authentication
 - Tokens
 - Picture/phrase
 - Other
- Ability to track and research file history
- Integration with other eCommerce Functions
- Responsibility for managing environment
- **Whether it would be preferable to use a system-to-system solution instead**
 - Security
 - Automation

Overview of Integrated Payables Process



Validate and Translate Payment File

- Validate the file uses proper syntax
 - Application edits, such as ODFI account number validation are performed
 - Applications edits also validate data by fulfillment method
- Create EDI acknowledgements and advices
 - 997 Functional Acknowledgments
 - 824 Application Advice
 - Both functional and application acknowledgements will be returned to the customer via the appropriate channel, FTP or Online eBanking
- Report the acceptance or rejection of the file and the transactions within the file

Functional Acknowledgment File



Example of Simple File 997

```
ISA*00*      *00*      *ZZ*123000123456789*ZZ*123987654321 *110221*1200*1*00400*000000001*0*T*?\
GS*FA*987654321*123456789*20110221*1200*1*01*004010\
ST*997*000000001\
AK1*RA*04 \
AK2*820*000000001\
AK5*A\
AK2*820*000000002\
AK5*A\
AK2*820*000000003\
AK5*A\
AK9*A*3*3*3\
SE*10*000000001\
GE*1*1\
IEA*1*000000001\
```

Application Advice File



Example of Simple File 824

```
ISA*00*      *00*      *ZZ*123000123456789*ZZ*123987654321 *110221*1200*1*00400*000000001*0*T*?\
GS*AG*987654321*123456789*20110221*1200*1*01*004010\
ST*824*000000001\
BGN*11*000000004*20110220*1100\
OTI*TA*TN*000100*123456789*987654321*20110220*1100*04*000000001*820*004010\
AMT*TT*150.00\
SE*5*000000001\
GE*1*1\
IEA*1*000000001\
```



Overview of Integrated Payables Process



Route Payments

Payment engine pushes payments to processing destination:

- Process may have complex timing consideration
 - Different payments may or may not require return acknowledgement
-
- NACHA files routed to ACH service
 - Wire transfer files directed to integrated wire platform for processing
 - Check files sent to fulfillment center
 - Card transactions directed to card platform



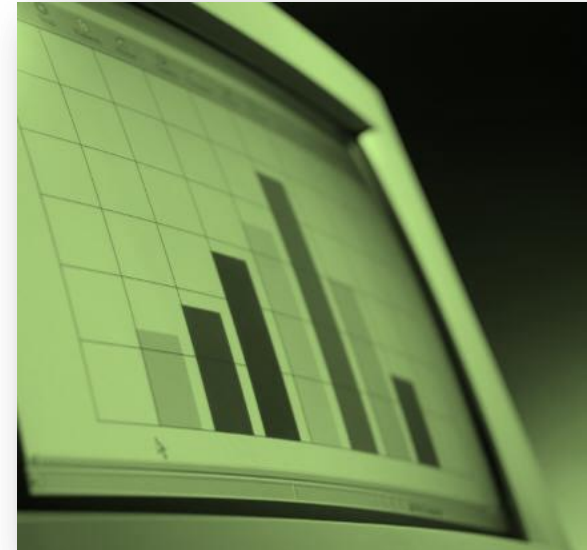
Overview of Integrated Payables Process



Report/Manage/Bill

Any Integrated Payables solution must provide bank staff and customer with complete view of payment process

- Payor reporting
 - Standard
 - Ad Hoc
- Internal reporting for Financial Institution
- Billing information for service usage
 - Online facility for status checking and statistical reporting
 - Integration of check process with account reconciliation tool
 - Billing information provided to account analysis



Example of Ad Hoc Reporting Screen



Payment Inquiry Selection Criteria

Select payment criteria and click "Submit." To find the status on an uploaded file, go to [Payment File Upload History](#).

Account:

<u>ABA/TRC</u>	<u>Account Number</u> ▼	<u>Description</u>
<input type="radio"/>	081203790 *2470	PRESTIGE HEALTH ACCOUNT
<input checked="" type="radio"/>	081203790 *4511	PRESTIGE OPERATING ACCOUNT
<input type="radio"/>	081203790 *4512	PRESTIGE PAYROLL ACCOUNT
<input type="radio"/>	081203790 *0740	PRESTIGE HIGH YIELD INVESTMENT FUND

Payment types:

- ACH
- CHECK
- WIRE

Status:

- Show all status
- Specific Status: ▼

Effective date range:


- Previous business day
- Current day (02/29/2009)
- From: / /
(mm/dd/yyyy)
- To: / /
(mm/dd/yyyy)

Payee (optional):

- Exact match

Example of Ad Hoc Reporting Screen



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Payment Report Selection

To view more payments, return to "Payment Inquiry Selection Criteria". To find the status on a file which has been delivered, go to [Payment File Upload History](#).

Report created: 03/09/2009 at 09:04:25 AM EDT
Account: 081203790 *4511 Prestige Operating Account
Payment type: Wire
Status: Show all status
Effective date range: 02/29/2009 to 03/01/2009
Payee: Present if entered

Payments

[Download transactions as a CSV file](#)


(To view details of a payment, click on the payment effective date.)

<u>Effective Date</u> ▼	<u>Receiver</u>	<u>Amount</u>	<u>Status</u>
02/23/2009 11:01:38 AM (ET)	Muddy Water Coffee Company	\$170.32	Approved
02/22/2009 11:01:38 AM (ET)	Retirement Trust and Investment Services	\$50,000.00	Approved
02/21/2009 11:01:38 AM (ET)	Plastic Pellet Supplier	\$10,130.00	Approved

[How Do I...](#) [Terms](#) [FAQs](#)

Example of Ad Hoc Reporting Screen



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Payment Report Detail - Check

Payment status is current valid up to the "as of" date and time. To select a different payment, return to [Payment Report Selection](#). To select a different list of payments, return to [Payment Report Criteria](#).

Payment

Payment effective date: 02/23/2009 11:01:38 AM (ET)
Payment type: Check
Status: Approved
Account: 081203790 *4511 Prestige Operating Account
Amount: \$50,000.00
As of: 02/23/2009 11:59pm (ET)

Receiver Information

Issue date: 02/23/2009
Issue number: 10061
Name and address: Muddy Water Coffee Company
7823 Main Street
Suite 1234
Attn: John Q. Supplier
Mason, MI, USA 48123-0987
Memo: Monthly coffee and tee supplies (optional)



Best Practices and Pitfalls

Best Practices: Integrated Payables

Improve your odds of success



- **Understand your investment business case**
 - Expected costs, both internal and external
 - Forecast financial benefits
 - Clearly define expected outcomes
 - Payee experience
- **Choose your partner wisely**
 - Services required
 - Costs
- **Reassess regularly**
 - Bank fees and Support experience
 - Financial targets

Best Practices: Integrated Payables

Pitfalls and Constraints



- **Executive Buy-In**
- **Know Your Budget**
- **Resources**
 - Aging North American (and European) work forces
 - Smaller financial teams
 - 17% fewer COO's in S&P 500 firms than in 1999 (*)
 - CFO's assuming broader range of responsibilities
 - 33% play active role in developing and defining strategy
- **Supplier/Vendor Buy-In**
- **Other Pressures – TIMING!!**



(*) Source: Crist Associates

Key Benefits of Integrated Payables



Companies can:

- More efficiently manage payments
- Combine transactions, regardless of type into one file

Banks can position more effectively as integral part of customer's financial value chain

Greater automation delivers stronger payee management and controls all stakeholders

Integrated Payables facilitates migration away from paper to electronic payment methods



Questions & Answers



**"It is not necessary to change.
Survival is not mandatory."**

W. Edwards Deming

- Evaluate your market and your needs
- Determine your “go-to-market” strategy
- Evaluate your current capabilities against your targets

Summing up, it is clear the future holds great opportunities. It also holds pitfalls. The trick will be to avoid the pitfalls, seize the opportunities, and get back home by six o'clock.

*Woody Allen, "My Speech to the Graduates,"
Side Effects, 1980*



Thank You

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