



# TreasuryPulse

## SEPA, Global XML Standard Help Drive Adoption of Integrated Payables



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Integrated payables has become a best practice in treasury management, due in large part to the Single Euro Payments Area (SEPA) mandate and greater standardization that's been developed around the XML message format.

Integrated payables refers to using a common file format and connectivity method to deliver payment initiation instructions to a bank for a range of payment types — from high-value wire transfers to batch payments such as Automated Clearing House (ACH) transactions to checks — often in the same file.

### Efficiency and Control

Standardizing your file format and bank connectivity method allows you to eliminate the overhead associated with maintaining a variety of formats and connectivity methods. This is significant when you consider all of the various formats corporations maintain related to different payment types (e.g., wires, ACH and checks) and country-specific requirements, and all the different methods companies use to connect with their banks.

What's more, using a single file format reduces the number of potential breakage points, and the odds of a break occurring, throughout the payment process — from the generation of the payment instruction file, to the bank's processing of that file, to the back end where

corporations receive returns, rejects, confirmation files and other reconciliation data. Fewer breakage points result in a higher level of straight-through processing.

Efficiency is also served because integrated payables reduces the need for staff to monitor and maintain a host of formats and connectivity methods, and you can redeploy individuals who handled those duties to more value-added parts of the business.

A value of integrated payables that has been somewhat underappreciated is the control it affords by giving treasury managers visibility to all the payments that move through the consolidated payables pipeline.

Additionally, it offers you great flexibility in deciding which bank you will use for payables, and in switching banks if need be. The global financial crisis shone a spotlight on this benefit. Concerned about the financial viability of some banks during the crisis, treasury managers noted that an integrated payables process, featuring a single file format and connectivity method, would make it less onerous to move payments business to another bank, if ever deemed necessary.

## Adoption Hurdles

Integrated payables has been around for decades but didn't take off until recently because of challenges around cost justification, resource availability and time.

Many of the efficiency benefits of integrated payables relate to soft-cost savings that are difficult to document. How do you measure the savings of redeploying an accounts payable staff member to another area, for instance?

Even when corporations secured the budget to migrate to integrated payables, there was always the additional challenge of getting in line to secure information technology (IT) resources to commence the project.

And then there's the constant challenge that most treasury managers face in finding the time to embark on any new project, with treasury organizations being so lean.

## SEPA's Impact

SEPA gave corporations the first big push to move past these obstacles and take advantage of integrated payables.

SEPA mandated that corporations making payments in the euro zone move from country specific payment types and various file formats to the XML format for all euro payments. That requirement meant that adopting integrated payables was no longer a matter of making a strong business case and securing the necessary IT resources. Instead, it became an obvious part of the solution to a regulatory requirement. Since the SEPA mandate called for

companies to change their payment file setup and abandon their legacy payment files and connectivity methods, for many the decision was easy to migrate to XML — and a single connectivity method such as SWIFT — and implement integrated payables.

## A More Standard Standard

Also propelling corporates toward integrated payables has been the Common Global Implementation (CGI) framework for the XML file format.

Previous electronic data interchange (EDI) formats for payments were so flexible that each bank's version could be a little different, somewhat negating the value of having a "standard." However, the new CGI framework for XML creates the first truly bank-agnostic file format, a standard that can be used not just in the euro zone but worldwide.

As a result, corporations are now able to realize all of the benefits they can get by using integrated payables in the euro zone when making payments globally.

## Building Block and Complementary Practice

Integrated payables enables corporates to achieve greater efficiency and cost reduction while addressing many of the other typical drivers in treasury today — greater visibility to cash, increased control and improved risk management.

The practice can lay the foundation for, as well as complement, a number of cash management structures, including in-house banks, payment factories and "payment on behalf of" models.

But a key point is that you don't have to implement integrated payables all at once and immediately rework every type of bank connectivity you have in place. When implementing a uniform file format and connectivity, you just need to start somewhere, for instance within one business unit or country. Start with smaller projects that are easier to get approved and manage. Then, when you add new payments or payment banks, implement them using your new standard, integrated channel. Over time, the legacy processes will disappear.