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WHITEPAPER

# Electronic Payments

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# Electronic funds transfer (EFT) is one of the fastest growing areas in the B2B world today.

While the banking industry seems relatively slow to adapt to changing circumstances, internet-based companies are quickly seizing new opportunities. New means of payment such as contactless and mobile are quickly becoming main stream. Electronic payment lowers costs for businesses. The more payments you can process electronically, the less you spend on paper and postage.

Europe remains at the forefront of this evolution from cash to electronic payments. Europe accounts for the highest density and strongest markets with regard to existing electronic payment volumes and traffic, and, the growth of electronic payments is predicted to increase on a global scale.

Even as Europe remains the largest market for electronic payments, North America, Asia, Asia Pacific and Africa are expected to see the highest evolving dynamics. Each region will owe its dynamic to individual specifics.

With regards to Africa, the 'underdeveloped' banking sector is most likely the decisive factor that leads to a faster growth of non-bank driven alternative payments. The driving force for China, on the other hand, will be more its general macroeconomic growth which will eventually close the remaining gaps with highly developed western countries.

In the US, for example, The Remittance Coalition, a group of organizations and individuals led by the Federal Reserve Bank (FRB) of Minneapolis to promote electronic business-to-business payments and electronic remittance data exchanges, recently found that while more than 90% of company respondents desire to increase their use of electronic payments, 65% still take payments mostly by check.

**For Europe, the biggest change in recent years is the SEPA initiative.**

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## Europe & SEPA

The SEPA initiative aims to establish a single market for electronic payments in Europe. Initiated in 2002, SEPA is designed to be a long term project. The project's primary aim is to improve the efficiency of cross-border payments and turn the fragmented national markets for euro payments into a single domestic one. SEPA will enable customers to make cashless euro payments to anyone located anywhere in the area, using a single bank account and a single set of payment instruments.



32 countries in Europe with more than 514 million citizens and over 9,000 banks are part of the project, which illustrates its complexity.

## SDD – SEPA direct debit

SEPA direct debit (SDD) aims to allow the exchange of direct debits in the entire SEPA zone based on standard rules.

The SEPA Direct Debit is a new scheme developed by the European payments Council on the request of the Authorities (ECB and EC). This new payment scheme sets a framework of technical requirements and business rules. It is stipulated that all participating national schemes must comply with these in order to achieve interoperability. The adoption defines business and technical requirements and stipulates the deadline for migration to be February, 1, 2014. A further transition period of 6 months was then announced with a final deadline of 1 August 2014.

## SCT – SEPA credit transfer

The SEPA credit transfer (SCT) scheme works as a rulebook for credit transfers in euro. It provides the technical specifications and rules for processing SEPA credit transfers that banks must adhere to. The deadline is February 1, 2014. A further transition period of 6 months was then announced with a final deadline of 1 August 2014.

## Benefits of SEPA

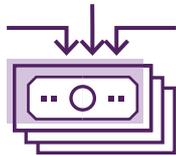
- Standardisation of euro payments: equal time limits, equal fraud-risk levels, equal processes, all-electronic straight through processing, no difference between national and international payments in the SEPA area; strengthening trust and reliability on a pan-European basis;
- Reduction of costs of electronic money and payment transactions through competition on the part of payment providers and banks;.
- Reduction of cash and increase of electronic money through reduction of electronic-money costs;
- Increasing surveillance of electronic money flow, particularly regarding money laundering and fraud prevention.

 B4B makes light work of overseas payments and the staff are always commenting on its ease of use. We achieved return on investment within the first month of implementation. 

# Benefits of EFT

Shifting to electronic payments creates lasting benefits for people, communities and economies, including:

## COST REDUCTION



Electronic payments can eliminate the handling, transportation and distribution fees associated with cash-based payments and also can eliminate the risk of fraud and theft, which is a persistent challenge of both in-kind and cash distributions. While cash is preferable to the distribution of physical goods, electronic payments are better than cash, with cost savings as one of the key benefits.

The shift from cash to electronic payments can dramatically reduce costs. A recent report by the World Bank found that governments alone can save up to 75 percent with electronic payment programs.\*

Cash results in significant overhead, transaction and administrative fees, including the cost for governments, finance departments and banks to process cash.

- The Brazilian social welfare program, Bolsa Familia, which delivers money transfers to 12.4 million recipients, reduced administrative costs from 14.7 percent to 2.4 percent of the total grant value by moving to an electronic payment program.\*\*
- The South African Social Security Administration saw its administrative costs of delivering social transfers drop 62 percent after moving to bank account transfers offered by the private banking sector.\*\*\*
- A study of four large cash transfer programmes in middle income countries found that social agencies could achieve cost reductions of 30-60 percent per transaction over physical cash payments, provided the infrastructure already existed to make electronic payments.

## FRAUD & SECURITY PROTECTION



- Cash must be protected from fraud, theft and corruption, which requires a high level of security.
- According to a recent McKinsey report, it is estimated that 75-80 percent of the \$22 billion in benefits of shifting India's government payments to electronic would come from reducing leakage of funds in government transfer schemes ending up in the wrong hands.
- A Mercy Corps study comparing the use of mobile money and physical cash distribution after the 2010 earthquake in Haiti found that incidents of theft of cash transfers fell by more than 50 percent, due to the use of mobile money.\*\*\*\*

Shifting the billions of dollars in cash payments to disburse salaries, pensions, social welfare stipends to electronic can increase transparency, reduce corruption and ensure accountability because financial flows can be tracked in realtime.

Electronic payments can also facilitate an audit trail helping governments, the development community and the private sector ensure payments and benefits end up in the right hands.

\*(See "Governments Can Save Up to 75% with Electronic Payment Programs," The World Bank, August 2, 2012.)

\*\* (See "Banking the Poor via G2P Payments," CGAP, December 2009.)

\*\*\* (See "Banking the Poor via G2P Payments," CGAP, December 2009.)

\*\*\*\* (See "CGAP: Mobile Money in Haiti: Strategies for a Multi-Competitor, Multi-Industry Market,")

## Challenges

The disconnect between payments and electronic remittance data hits many businesses that generally receive this essential information via email, as an email attachment or through a portal. Frequently, their receivables personnel must spend hours gathering that information and associating it with the payments.

The secret to solving this problem is all about mastering your receivables. To overcome the hurdle of payment association, corporations need the ability to integrate not only their payments, but the information about their payments in order to see a full 360-degree view. All organisations need to be prepared for new technologies, methodologies and the devices to handle day-to-day payment transactions.

## The Relationship with electronic remittances

As governments, the development community and the private sector accelerate the development and adoption of electronic payment systems; the resulting innovation, transparency and lower transaction costs can lead to new market access and economic development.

Do you have the capability to post thousands of £, \$ or €, with 100% accuracy, in seconds? Electronic remittances reduce manual posting of payments and reconciling accounts, thereby saving your company time and money. Electronic remittances promise a large return on investment and are recognised by many as a business-critical initiative to combat rapidly increasing transaction volumes, high administrative costs, complex regulatory compliance issues, and changing market demands.

## Challenges of the current paper-based payment process

The current paper-based payment process presents many challenges for organisations. Significant administrative costs and fees result from fragmented manual processes for posting and reconciling payments. The manual processes behind a paper-based system, such as having employees key information off of paper documents is very inefficient and error-prone.

According to The McKinsey Quarterly, in about 60 % of all health care claims payments, the payers print and mail checks to the providers, which manually reconcile the claims and deposit the cheques. The average system-wide cost per item is about \$8. With an annual volume of 2.5 billion claims payments, the majority reimbursed by check, the system costs \$15 billion to \$20 billion a year in postage, item processing, and accounting. Increasing the rate of electronic penetration to 90%, from the current 40%, would save \$6 billion or more across the industry.

## Benefits for Moving to Electronic Payment Receipt and Reconciliation

Transitioning from paper-based processes to electronic remittance systems has the potential to save the provider as much as \$35 billion and 2.5 billion pieces of paper annually by some estimates.

By adopting an electronic system, the challenge of handling the sheer size of bulk paper remits diminishes, along with the high error rate. Posting paper remits is an all-day job for one person in comparison to posting electronic forms that takes maybe minutes of someone's time, or indeed can be automated.

The true benefits of adopting the use of Electronic Remittance Advice, Reconciliation and Electronic Funds Transfer may not be readily apparent to some organisations. In fact, in a majority of instances where organisations have taken the initiative to implement Electronic Remittances, Reconciliation and EFT in their billing life-cycle, they've realized numerous dividends they had not originally accounted for in their ROI calculation..

In considering the rewards inherent in electronic transaction processing, let's consider a series of events that have taken place rather recently in Brazil and compare it to the current situation being experienced in the United States. The Brazilian currency, the Real, has experienced erratic fluctuations since 1999 and at various points had inflation as high as 80 % in a single month. As a result, it became absolutely essential to Brazilians that their cash was transferred into their accounts as soon as possible so they could immediately buy goods.

Under such conditions, everyone leaving cash in the wallet or under the mattress is losing money. In response, Brazilian banks drastically increased their use of electronic transaction processing and are now considered among the best banks in the world, processing transactions in a single day, compared to many U.S. banks which take two to three days to process transactions.

While inflation in the United States is nowhere near that level, the US has recently experienced the highest inflation rates in decades along with a Dollar that is falling relative to nearly every foreign currency. The time value of money is a very real phenomenon and the changing economic environment is a substantial incentive to adopt the use of ERA, EFT, and all available electronic transaction processing mechanisms.

The credit crunch that has resulted from the mortgage crisis is making it increasingly difficult for providers to obtain funds for reinvestment into their facilities. Decreasing the time it takes to go from claims-to-cash is a boon to providers by making available funds for reinvestment and by increasing creditworthiness in the eyes of lenders.

The banking and payments communities will play a vital role in the paper-to-electronic shift as they focus their attention on facilitating electronic transactions and cost reductions. Over the next two years, organisations are expected to increasingly send e-remittances and e-payments.

 B4B has really helped streamline the accounts payable process and gives improved control over cash management. The software is straightforward and logical to use, robust and reliable.

Added to this, the professional service and good humoured support provided by Professional Advantage (in particular Oliver Mayhew) during the implementation and 'go live' phases was enjoyable, creative and, in my opinion second to none.



## Summary

Moving to electronic payments, remittances and reconciliation provides substantial benefits to both payers and organisations. Organisations will reap the benefits from faster turnaround time in the processing of payments. Organisations realise reduced operating costs and streamline processes, compared to managing the manual process of paper remits. To realise maximum bottom-line results, organisations need to adopt electronic cash management solutions.

# Let's Talk

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## About Us

Professional Advantage focuses on providing technology and services that enable high-performance workplaces and organisations. Professional Advantage was established in 1989 and today employs more than 230 people in the UK, the US and Australia.

The company provides leading brand global business management systems such as financial management, ERP, CRM, retail, business intelligence, business process management and portal solutions to mid-sized organisations globally. Its multi-product offering is complemented by its development, systems integration, consulting, training, and support services.

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