



Payment Factories

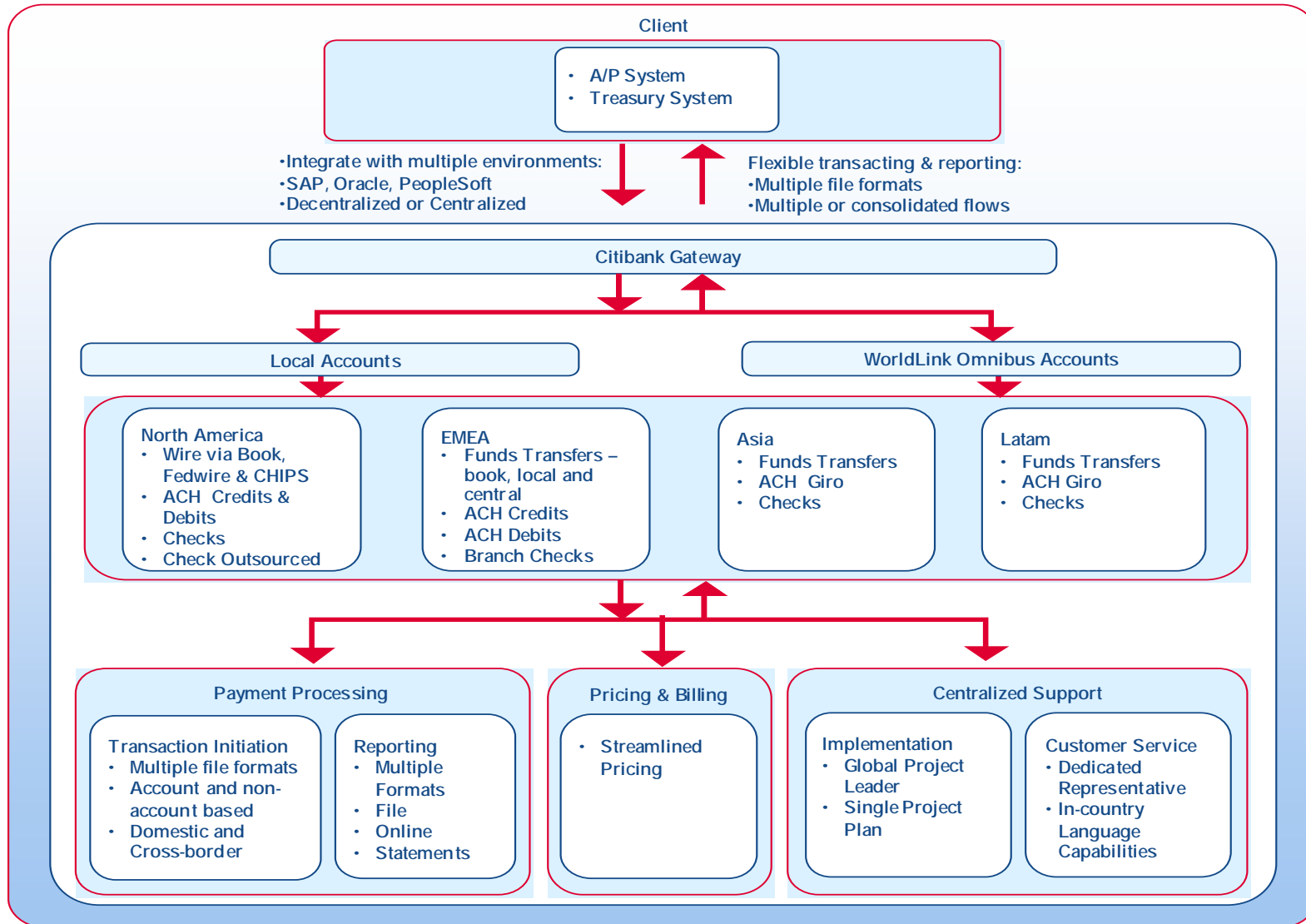
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What are Payment Factories?

- MNC's AP center(s) send disbursement files in a uniform format to a global bank for payments:
 - In-country and cross-border
 - Local currency and foreign currency
 - Checks and all electronic wire types
- The global bank then:
 - Converts checks to ACH
 - Cross-border wires to local ACH
 - Converts one large FX transaction rather than many small one



Citibank Integrated Payment Service Process Flow



Typical Payment Capabilities

North America	<ul style="list-style-type: none"> ■ Wires (FEDWIRE & CHIPS) ■ ACH in US & Canada ■ Outsourced checks
Europe	<ul style="list-style-type: none"> ■ Funds Transfers in 16 countries ■ ACH Credit in 16 Countries ■ ACH Debit in 13 countries ■ Check production in Italy, Spain, Portugal (local instruments)
CEEMEA	<ul style="list-style-type: none"> ■ Funds transfers in 31 countries ■ ACH Credit in 2 countries ■ ACH Debit in 8 countries ■ Branch Checks in 23 countries
LATAM	<ul style="list-style-type: none"> ■ Wires in 22 countries ■ Book transfers ■ ACH Credit in 13 Countries ■ Checks in 22 Countries
Asia	<ul style="list-style-type: none"> ■ Funds transfers in 13 Countries ■ Book Transfers ■ ACH Credit in 10 Countries ■ ACH Debit in 10 countries ■ Checks in 11 countries
Non-account based payments	<ul style="list-style-type: none"> ■ 100+ Wire Currencies ■ 31 Cheque Currencies ■ 18 Funding Currencies



Effectively Controlled Disbursements

- Payment terms are dictated by a uniform value dating based upon the payment type
 - Disbursement payment timing is thus known directly from the payments file
- The disbursement files are typically funded by an in-house bank or by the operating unit
 - Dr. I/C Receivable, Cr. Bank
- STP from ERP to bank to ERP regarding disbursement clearing



Monetary Benefits

- Converting checks to ACH
- Cross-border wires to in-country ACH
- Interbank pricing on currency purchasing
- Better transaction pricing due to increased volume vs. never before bid out pricing
- Maintaining 1 file format vs. x previous local file formats
- Reduced costs of supporting vendor requests about payments



Intangible Benefits

- SOX benefit of uniform multi-unit disbursement approval procedures
 - Many banks have SAS 70 certificates
- Allows creation of a vendor website regarding payment status and remittance info
- Easiest way to centralize x-border cash management
 - Solves the liquidity problem that “justifies” unit holding excess cash
 - The collection accounts will centralize effortlessly



Necessary Pre-Requisite

- A common ERP system is needed to take maximum advantage of the benefits available
 - Multi-unit processing into 1 file format rather than many
 - Different file formats lead to diseconomies of scale
 - Easiest way to consolidate transaction volumes
- Sometimes, ERP middleware is needed to be able to convert to a payments file format



- Internal and external communication breakdowns due to lack of dedicated expertise and resources
- Cost savings do not materialize
- New structure becomes burdensome and expensive to maintain
- Failure of selected partner to invest in technology and people to remain an industry leader



Major Players

- ABN Amro
- Bank of America
- Citigroup
- Deutsche Bank
- HSBC
- JPMorgan
- Isabel - Belgian bank pan-European solution
 - ING/Fortis/KBC



Structuring Issues

- Typically done regionally rather than globally
- Legal issues regarding payment on behalf of
 - Otherwise, may need local bank accounts in names of various payment companies
- Continuing or not with unit's often quite efficient direct access to the local ACH system
- Proprietary bank format vs. EDIFACT
- Unit's ability to do emergency checks/wires
- Converting US domestic checks to ACH is not really a payments factoring benefit



Payment Files

Payments

- X12 820, EDIFACT PAYEXT and DIRDEB
- Bank of America Flat File (BAFF)
- CSV (via Electronic File Delivery Web Application)
- XML Credit Transfer Initiation Message (in development)

Acknowledgments

- X12 997 and 824, EDIFACT CONTRL and APERAK
- BAFF CONFIRM
- XML Status Message (in development)

Receipts

- X12 820 and 823, EDIFACT CREMUL

Information Reporting

- BAI2
- X12 821, EDIFACT FINSTA

Account Reconciliation

- Send issuance data in payments file
- Alternatively, data comes from check print facility



Transmission Protocols

File Transfer Protocol (FTP)

- Can be automated
- Encryption required
- McAfee E-Business Server (PGP)
- B2B Secured Connectivity (VPN)

Secure HyperText Transfer Protocol (HTTPS)

- Not automated
- Browser-secured transmissions over the Internet
- Encryption (128 bit SSL) + Access (unique ID and password)

Applicability Statement 2 (AS2)

- Can be automated
- Does not require 3rd party encryption package

CONNECT:Direct (formerly NDM)

- Can be automated
- Encryption required
- CONNECT:Direct Secure+
- B2B Secured Connectivity (VPN)

Web Interface

- Uploading a csv file
- 128 bit SSL



International Wires vs. Local ACH's

- International wires for low volume payments into a given country is usually cost effective
- Substantial volume usually drives to a dedicated pooling architecture:
 - ZBA accounts originating the local ACH instructions from individual subs
 - Manager account funded by IHB
 - Pooling fees
 - Overnight and overdraft rates



Small Payments FX Solutions

- The payment factory's electronic or auto FX conversion system
 - Negotiated spreads above “interbank”
- Treasury Center buys the consolidated FX with each transmission
 - Cumbersome
- TC prefunds the in-country header account with interbank-sized FX transactions
 - Need good overnight and overdraft rates



Citi's Local ACH Solution

- Citi promises local ACH payments without needing to set up a local bank account
- Citi's competitors say Citi is really using its consumer bank's x-border payments solution
 - Payments are in Citi's name
 - Can be time consuming to get proof of payment
 - Remittance info can be quite restrictive



Remittance Advice Issues

- The check stub can contain a significant amount of remittance info
 - An AP goal is always to consolidate invoices to make one payment to a vendor
- ACH formats often have limited remittance information
- Solutions for remittance advices:
 - Mail
 - Email
 - Vendor-only website



Check Outsourcing

All of the major players offer check outsourcing:

- Usual sophisticated check stock
- Printing and mailing of checks from a dedicated US center
 - Usually an outside provider to the bank
- Overnight couriering of checks that need to be sent from company



Web Management

All of the major players offer a web portal to manage the process:

- Used by both Treasury and the AP Centers
- Interrogate for payments status
- Initiate new payments, including emergency payments
- Integration with bank's balance reporting and payments initiation system
- Not an Isabel capability
- BoA's particularly impressive



Bank Selection Issues

- Access to local ACH systems
 - Directly or via a correspondent
- One box or many boxes sending out payments
- Ability to provide remittance information
 - Not all do vendor websites (but can ERP?)
- SLA promises
 - Actual vs. promised cut-off times
 - Customer service hours
 - Language capabilities to AP centers
- Post-implementation fine-tuning



Isabel Alternative

- Developed by the Belgian banks
 - ING, Fortis, KBC, etc.
- A pan-european payments file format
- Limited non-euro capabilities
 - USD, GBP and other Europeans
- Cross-Border payments best sent by an IHB entity in Belgian due to costs
- Not a best in-class solution, but may be an easy and quick win that gets 80% of the benefit



SWIFT has migrated to a secure internet-type network, SWIFTNet:

- FileAct - multiple transactions via single transmission (bulk payments)
- InterAct - real-time, interactive exchange of XML messages (inquiry and response mode or simply as an instruction or notification mode). Available mid 2006
- Browse - access private data warehouse and retrieve information within identified parameters. Available mid 2006
- Member Administered Closed User Groups (MACUG)



Microsoft and SWIFTNet

- BizTalk Accelerator for SWIFT (A4SWIFT) is Microsoft's solution for financial messaging
- For SWIFTNet Funds, MS's manual entry tool is called InfoPath
 - Part of Office and which provides a user with "forms" for all SWIFT messages
- InfoPath data is then run through A4SWIFT and converted into the right syntax before being released to the SWIFT interface and the SWIFT network
- MS is using these solutions to provide STP with their SAP system



Conclusion

- A payment factory is really an IT solution, not a treasury solution to a common major process
- With all of the implementation risks of any IT solution
- Once set up, it is an extremely effective treasury technique
 - Best practice in cash management is to manage (consolidated) collections flows separately from (consolidated) disbursement flows



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- Founded Greenwich Treasury Advisors in 1992, and author of:
 - *The Group of 31 Report: Core Principles for Managing MNC FX Risk* (AFP, 1999)
 - *A Risk Metric Approach to Hedging* (GTA, 2002)
 - FAS 133 chapter of *The Handbook of International Finance & Accounting* (John Wiley, 2004)
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