

HOW PAYMENT FACTORIES  
IMPROVE LIQUIDITY  
MANAGEMENT THROUGH  
CENTRALIZED CONTROL  
AND VISIBILITY

## **Introduction**

*Simply put, a Payment Factory is a critical element in a company's cash management and liquidity strategy. Many corporations manage payables processes, payments, and banking relationships at the subsidiary or business unit level. While this method offers flexibility, it can also result in increased transaction costs, poor visibility, higher cost of ownership, increased fraud, and the lack of standardization as each locality supports a fragmented view of cash.*

*Driven by tighter regulations and the need for better cash management, corporations are more focused on expanding insight into their cash positions and forecasts.*

*Payment Factories allow organizations to realize company-wide centralization of payment processing connectivity with local subsidiaries; allowing payment capture and processing, account statement retrieval, and reconciliation within a single centralized solution.*

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In a typical corporate environment, a company allows its subsidiaries to manage their own payables and payments processes as well as banking relationships. This results in higher transaction costs and banking fees since each location uses its own staff and infrastructure to support the operation. In addition, less transaction volume results means higher bank fees and less negotiation power with banking partners.

As a result, organizations are increasingly looking to payment factories to generate all payment instructions for the enterprise. These instructions include standard formats, bulk and high priority payments as well as direct debits. Decentralized and uncontrolled processing of payments is further complicated by fraud and error.

## **How Does a Payment Factory Work?**

A Payment Factory is a centralized payables and payment processing system that offers back-end integration with ERP systems (via secure interfaces) resulting in an aggregated and centralized payment processing center. Further, it handles incoming payment information in multiple data formats while providing workflow management of payment approvals, a rules engine to determine the lowest-cost method of payment, and links to multiple banking systems. Increased visibility can also be realized through the use of consolidated account statements and reporting, giving a more complete view of liquidity. The Payment Factory can allow subsidiaries independence on a specified range of operations and processes as well as centralized visibility and control of their cash.

The Payment Factory links cash out-flows directly with the centralized treasury to offer visibility and accuracy to a corporation's cash activities and liquidity management.

Key Payment Factory benefits include a stronger negotiating position with the company's banking partners, better visibility into funding needs and liquidity management, and improved control over payment timing.

The Payment Factory is especially effective when the payables systems of multi-national subsidiaries are centralized, as cross-border banking fees can be significantly reduced. For example, it can automatically offset payments due between company subsidiaries, resulting in smaller cash transfers and reduced foreign exchange charges, wire costs, and lifting fees (a fee charged by the bank for receiving a payment). Also, the Payment Factory provides functionality to route payments through in-country accounts avoiding high international settlement fees.

### **Improve Control & Visibility with a Centralized Operation**

Notwithstanding the move toward unified ERP systems, many corporations have still failed to realize the true benefits of centralization. Issues have developed wherein corporations are operating on a variety of ERP solutions due to acquisitions or lags in implementations. Faced with disparate systems and lack of automation, many organizations are not able to gain a complete view of cash and risk. To further complicate the situation, some organizations have set out to build in-house systems to help interface these solutions. However, due to changes in regulatory requirements, formats and standards, these systems often fail to stay current or are unable to scale. For this reason, many companies are investing in solutions that can help address several of these challenges by consolidating data from multiple systems and geographies.

With the centralization of the payments operation, full benefits of liquidity management can be realized. Whether operating from a centralized or regional shared service center, companies are now able to gain control and visibility over their cash out-flows (payments processing) and cash in-flows (receivables management) which in turn offers treasury greater control over cash and risk.

By using a Payment Factory, standard accounts-payable files are consolidated from the operating units and payment instructions can be prepared in one process. The end result is that a single payment file can be sent to a global or regional bank with the payments in relevant local clearings.

The benefits in the ability to achieve local pricing on payments that started as cross-border transactions and visibility of payment flows and supplier activity. This level of control also helps save time, effort, and resources in the operating units.

Utilizing software to connect to in-house systems (ERP, TMS, etc.), banking institutions or payment networks, the Payment Factory can act as a centralized operation for multiple locations. The payment center maintains full control over payments associated cash flows, operational issues through embedded workflow and approval settings which are configured to meet internal and external requirements. Savings can be realized through lower transaction and operational costs and better management of bid-ask spreads on foreign exchange transactions. In terms of enterprise liquidity management, Payment Factories can play a significant role in cash flow forecasting by producing a more accurate and timely view of cash out-flows.

## Centralizing Payment Processing to Control Cash Flow Forecasting

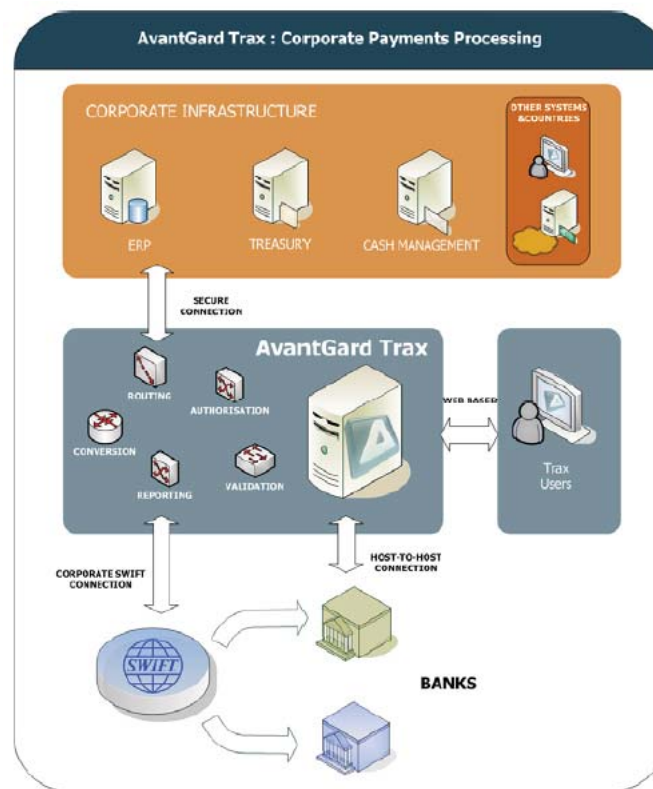
A Payment Factory provides a centralized platform for straight-through-processing (STP) of payments to simplify corporate-to-bank connectivity. The connectivity to banks or payment networks such as SWIFTNet, streamlines the payments cycle and delivers out-of-the-box interoperability with major worldwide payment and bank statement formats. By centralizing payments to one central location, corporations are able to successfully take the In-House Bank to its next level. By using regional payment factories to feed into a centralized operation or shared service center (SSC), it is possible to automate treasury, payments and receivables processes, to improve liquidity and reduce operational costs.

### Core Functionality of a Payment Factory

When evaluating Payment Factory solutions, organizations should focus on systems that allow them to realize company-wide centralization of payment processing connectivity with local subsidiaries; allow for payment capture and processing, account statement retrieval, and reconciliation within a single centralized solution.

#### Key components of the solution include:

- Bulk processing for payments and debits - Manual entry of urgent payments
- Automation enrichment & repair - User defined conditional routing
- Plug-in banks, affiliates and applications - Support distributed organization
- Format conversion tools - Comprehensive format library
- Security & audit management - Detailed reporting & reconciliation



## **Automation & Workflow of Payment Execution**

All payments, whether manual or generated out of the ERP or TMS system, are processed and released via highly customizable workflow.

Payment factories need to offer a highly sophisticated and configurable workflow to appropriately adjust to corporate policy and custom designed processes.

The system needs to be capable of managing the entire life-cycle including the collection of bank statements, transmission of the payment instructions, validation, enrichment and repair, payment approval and routing.

## **Format Conversion & Validation**

Today's complex cash management environments require the capture and output of numerous data formats for payment traffic and reconciliation information. Effective Payment Factories need to offer powerful format conversion tools and a comprehensive format library to facilitate straight-through-processing.

## **Bank Communication / Connectivity**

In terms of connectivity, a Payment Factory serves between the in-house systems such as the ERP and Treasury Management systems and the external systems and services. This requires integration with bank specific applications as well as with multi-bank standards such as FTP, SWIFTNet, Etebac, or EBICS; with multiple protocols supported in a single solution.

A Payment Factory validates output from multiple systems to ensure that payment instructions from the originating systems are cleansed and sent to the bank in the appropriate format. A Payment Factory helps mitigate additional fees or gaps in process by automatically formatting and sending instructions based on pre-configured workflow and templates as dictated by the various banking systems. This is critical because if a bank is required to repair payments, there is the danger of incurring additional costs and longer lag time. By incorporating validation tools covering IBANS, BICS and Sort Codes, Payment Factories can help cleanse data helping to reduce operational and transactional costs.

## **Lowest Cost Routing**

The use of Payment Factories affords corporations the ability to standardize processes and introduce controls around security and workflow. Lowest cost routing offers an automated decisioning process that identifies the appropriate payment channel for each transaction.

## **Flexible Set-up & Configuration**

The Payment Factory should be highly configurable and entirely modular, allowing seamless integration within existing infrastructure. Sophisticated solutions are specifically designed to integrate with any ERP system or Treasury Management Solution, covering both outbound and inbound payment flows. In order to accommodate the nuances of various business units and business operations, the solution should offer necessary tools for the entry and processing of manual payments as well as flexible set-up of roles and responsibilities between the local affiliates and the central treasury department.

Without this, the solution will not offer the level of sophistication required to become a truly global and centralized solution.

### **Reporting & Information Sharing**

Another key component of a Payment Factory lies in the ability to consolidate data from disparate sources for increased visibility and reporting. This includes account statements, balance & transaction reports, and settlement advice. Further, it is critical that the solution offers the ability to capture and disseminate this information, in an easy to use web interface.

### **Core Benefits of a Payment Factory:**

- Reduced Transactional / Operational Costs
- Improved Visibility to Enterprise-wide Payment Flows
- Harmonize and Optimize Payment Flows
- Streamline Banking Relationships
- Minimize Manual Processing
- Increase Efficiencies / Facilitate Growth
- Minimize Fraud and Error
- Sarbanes-Oxley Compliance
- SEPA Readiness

The underlying goal of a Payment Factory is to successfully execute payments on an enterprise-wide basis. With an increased push to consolidate treasury activities to a smaller number of locations across the globe, payment factories can offer the required combination of localized flexibility with centralized control and visibility. A centralized treasury & cash management function along with a Payment Factory enables companies to attain cost benefits and improve visibility of cash and risk.

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## ABOUT SUNGARD AVANTGARD

SunGard's AvantGard provides real-time visibility into cash flows and increased operational controls around treasury, receivables, and payments management. Customers turn to AvantGard to help them improve management of working capital, mitigate risk, and strengthen internal controls for regulatory compliance.

The AvantGard solution aggregates data for a single view of cash, drives productivity through automation, fosters enterprise wide collaboration, and facilitates connectivity between the ecosystem of suppliers, buyers, banks, trading partners, and customers.

### **Offering Best Practices and Subject Matter Expertise**

Drawing on the experience and best practices gained from supporting over 20,000 users worldwide, AvantGard offers more than just technology. AvantGard offers ongoing support services and process consulting from Subject Matter Experts to help maximize return on investment of time, capital, and resources.

AvantGard customers have demonstrated significant bottom line results such as improved management of cash, reduced risk, increased cash flow, and lower operating costs.

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