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How to determine if a prospect will be a “boom” or a “bust”

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The prospects for faster payments are ready, and you’re on the clock. It’s time to see what will be a boom — and what will be a bust. Can you make the right call for your financial team?

We love following drafts for major professional sports. Each prospect goes through intense training and marketing just to get on a general manager’s radar during draft season. But for every major draft pick that establishes a successful career dozens of other picks fizzle out.

Faster payments solutions work in the same way for your business’s payments strategies. Each solution has been widely marketed, and it’s unclear how each will fare in the larger market. Will it boom, or will it bust?

Every general manager needs an adept scouting team to assess prospect capabilities. It’s not just a matter of assessing the talents of each, it’s also about potential fit with your organization’s culture and style of play. At U.S. Bank we see ourselves as the payments scouts for your financial general management. Let’s take a look at each major faster payments solution and envision scenarios where each could be a boom or a bust for your payments strategy.

Same Day ACH: The college veteran

Think of Same Day ACH as the established veteran quarterback who led the team to consistent bowl appearances in college. This player is not necessarily flashy, but consistent and familiar with your playbook. It wouldn’t take long to integrate this player into your team’s game plan.
Here’s how Same Day ACH could be a boom or a bust:

• **Boom**
  - Requires minimal investment from IT or educational perspectives
  - Includes extensive remittance capabilities, and can provide automation services
  - ACH already has significant volume today; same day merely enhances an existing capability
  - Same Day ACH is the only option that has a debit component

• **Bust**
  - Process is not immediate, occurs daily but not in real-time
  - Same Day ACH debit adds a layer of complexity making it critical to have appropriate controls in place to detect fraud and early processing
  - Limits transactions to less than $25,000, and this limit likely won’t quickly increase to match other options in the market
  - Due to traditional functionality, if Same Day ACH starts to trail behind other newer options it might never catch up

**Zelle®: The up-and-coming superstar**

If Same Day ACH is the established veteran, then Zelle would be an up-and-coming prospect with wide support from the establishment. This player has been on the draft boards of many financial institutions, especially as they look to compete with players already in the market (like Venmo).

Here’s how Zelle could be a boom or a bust:

• **Boom**
  - Zelle truly addresses a significant issue in payments: consumers don’t always feel comfortable sharing their bank information and businesses don’t want to go through the hassle of collecting it for infrequent payments
  - P2P sharing is already visible in the consumer space (PayPal, Venmo), so other providers have already made inroads on education regarding alias-based payments
  - Consumers only need to register once and then anyone can pay them
  - Many consumers registering with the bank where their bank account resides provides security and money-access benefits versus similar competitive solutions
  - Supports both fast and standard payments, so it provides payment timing flexibility
  - As the network grows, companies only need to depend on their own firm from an investment and technology standpoint; they wouldn’t be dependent on similar investments from other organizations to utilize the service

• **Bust**
  - Consumers must register for the service, which could be a barrier for some
  - Fast payment implementation could be challenging, as consumer experiences and transaction limits may differ based on which bank they use
  - Existing competitive solutions have a lead on Zelle in the market
Mastercard Send/Visa Direct: The familiar prospect with new skills

Some factors are simply innate with the prospect – they come with the territory. For Mastercard Send and Visa Direct, the connection with those respective debit card networks brings great benefits for faster payment transactions. However, this player carries some restrictive factors that could slow your playbook development.

Here’s how Mastercard Send and Visa Direct could be a boom or a bust:

• Boom
  o Simple process for consumer — they have their wallet, and they likely can quickly find their debit card number
  o Businesses can use Send and Direct to pay international recipients, which is a key challenge for faster payments in general
  o Debit card networks are already in place, so setup is minimal
  o The Send and Direct models will integrate with other solutions such as Zelle

• Bust
  o Requires compliance with Payment Card Industry (PCI) data security standards
  o Consumers who have identify theft concerns may not wish to supply card numbers
  o Issues with cost structure: Interchange with debit card payments may require higher fees than some competitor solutions

Real-Time Payments: The raw recruit with enormous potential

While this player may need the most training and development before reaching the big leagues, potential is immediately apparent once scouts witness the capabilities. Real-Time Payments (RTP) can help address some of the biggest challenges within the payments industry, though the rookie contract likely won’t be cheap.

Here’s how Real-Time Payments could be a boom or a bust:

• Boom
  o The only solution offering enhanced capabilities beyond speed for B2B processing
  o RTP directly addresses why companies still use paper for processing
    • It’s not that companies just want an electronic payment solution, they want to automate everything
  o Format and messaging support should automate many manual processes and the format (ISO 20022) is a global standard, making it easier for some to adopt
  o More so than the other options, RTP is all about the data
    • Can connect remittance data and references with external data sources to improve processes
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- Bust
  - Initially, payers aren’t able to get access to all banks — it would only solve a portion of their payment needs
  - May require significant IT investment to adhere to ISO 20022 standards
  - Faces competition in the B2C space with Zelle, Visa Direct, MasterCard Send, Venmo, etc., which are further along in popularity and adoption
  - Dependency on trading partner utilization to gain traction with B2B payments; need both payers and receivers to utilize RTP to facilitate transactions
  - Starts off with a $25,000 limit, just like Same Day ACH
    - Note that this limit is temporary and will likely increase as customers familiarize themselves with the platform

Build your playbook for long-term success

The draft process — whether in sports or in finance — is always littered with risk and unknowns. It’s impossible to truly make selections with any guarantees or certainties. However, this doesn’t mean that it has to be a complete guessing game. With a good scouting process, you can identify the top prospects and measure potential success before making the pick. If you’re in need of a good scouting team, we’re here to help.
Cyber-hackers: Waging war against an invisible enemy

When it comes to cybersecurity, the advice CFO Rick Mills gives to fellow finance executives is straightforward—and chilling. “Until your company has been hit by an attack,” says the finance chief of online retailer Headsets.com, “you probably think you’re more protected than you are.”

Mills isn’t trying to amplify the anxiousness finance executives already feel about the cyber-crooks that are constantly circling, testing different tools for cracking open a company’s network. “As an individual, it’s discouraging to know that there are people out there who are focusing on hacking your data and taking your site down,” says Mills. “But I’ve gotten numb to that. We’re doing the best we can, but I’ve learned that it’s pretty impossible to become immune to them.”

It’s a lesson Mills absorbed the hard way. A recent survey found that most CFOs are hyper-alert to and ultra-concerned about coming under attack by cyber-hackers—even if they haven’t been drawn into hand-to-hand combat with their invisible foes. The survey, titled Cyber and Data Security in the Middle Market, was conducted by CFO Research, in collaboration with Visa and U.S. Bank. The online questionnaire drew 316 responses from U.S. finance executives, a plurality of whom hold the title of CFO, with controllers also amply represented. All respondents work at companies with annual revenue of more than $25 million and up to $500 million. The survey-takers represent a broad range of industries.

But they share a common adversary: cyber-hackers. As one survey respondent instructs, “Always assume that someone is trying to get access to every process and bit of information possible, and be vigilant in following the proper procedures to help ensure nothing is compromised.” Among survey-takers, only 21% have had business activities disrupted by hackers in the past two years—compared with the 37% who report having had physical property swiped during that same time frame. In terms of
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damage, the proportion of respondents whose companies have suffered the loss of customer data, financial assets, or intellectual property reaches no higher than 15% (see Figure 1).

Not that finance executives of middle-market companies consider their businesses, by virtue of their scale, to be less appealing targets to cyber-criminals. Only a quarter (25%) of respondents see their companies as “too small to be the target of cybersecurity breaches and data theft.” In their written answers to survey questions, respondents frequently express the exhausting persistence required to safeguard their proprietary data. They advise “ongoing vigilance” and “constant checking,” as well as “keeping your eyes on every detail” and “being proactive not reactive.”

For finance executives, they sound almost helpless when it comes to concretely capping the budget for cyber-defense. “Save the data by a very secure way, whatever it costs,” writes one respondent. Another, in a slightly less freewheeling mode, suggests “making cybersecurity a big portion of the IT spending budget.” What’s most important as collectively communicated by the finance executives surveyed, is developing a realistic grasp of the risk, prioritizing the assets that most need protecting, and equipping the business to bounce back from any hacking-related event.

![FIGURE 1 BREACH FRONT](image)

Has your company been the victim of any of the following security breaches in the past two years? (percentage answering “Yes”)

- Physical property: 37%
- Disruption of business activities due to hackers: 21%
- Theft of customer information: 15%
- Theft of financial assets: 15%
- Intellectual property: 11%

Such events may include unsuccessful cyber-attacks, which can expose vulnerabilities that require immediate securing. Among survey-takers, six in ten (60%) report having lost time and resources as a result of managing a security breach (see Figure 2).

What fuels the ever-escalating challenge facing finance executives is not just the relentlessness of cyber-hackers. Freshly emerging technology such as the Internet
of Things (IoT) brings with it additional risks, requiring companies to make sure their web-connected devices, from factory machines to surveillance cameras, are fully secured. The dynamic nature of the cyber-hackers makes them an especially stealthy opponent. Not long ago, cyber-criminals would infect desktop machines by enticing users to download fake tool bars. Then came malware—banking Trojans and the like—that was designed to burrow inside a machine and steal sensitive data such as log-in credentials. More recently, cyber-thieves have been unleashing “ransomware” on corporate networks.

As the name suggests, this category of malware, which is often spread via phishing emails, encrypts user files then demands that users pay ransom to regain access. The first time it happened at Headsets.com, the thieves demanded just under $1,000—but were caught by the FBI. Last year, an attacker barraged the company’s site with fake traffic, shutting it down. The attackers demanded $200,000. As a result of having its site shut down intermittently for a day and a half, Headsets.com lost about $15,000 off its net margin. The company also ended up hiring a service that screens its web traffic for about $35,000 a year.

“You don’t think you need something like that until you find out that you really need it,” says Mills. “In fact, we were probably getting off cheaply by not having that service for a long time. When these kinds of attacks hit your company is when you find out how common they are.” The answer, by his calculation: too common.

FIGURE 2
IT’S ABOUT TIME
Has a cybersecurity breach caused any of the following types of damage to your company in the last two years? (Respondents could choose multiple responses)
Power/mation and U.S. Bank

Efficient accounts receivable processing frees up staff to add more value

Power/mation distributes sensors, safety products, programmable logic controllers and other high-tech products, and provides value-added services from its headquarters in St. Paul, Minnesota. They also provide value-added services from their Pewaukee, Wisconsin, location.

At one time, the company manually applied all of its incoming Automated Clearing House (ACH) and check payments, which today number about 3,000 items a month, says Mike Solarz, accounting processes manager. Employees in his department spent approximately 24 hours a week posting cash to customer accounts.

Solarz set a goal of moving to an automated posting process; one that would free up his department to make a greater contribution to the company. “We’re a team,” he says. “We want to help the company as a whole.”

U.S. Bank worked with Solarz and his colleagues to analyze Power/mation’s accounts receivable processes. The review revealed Power/mation could automate and streamline its posting processes, slashing the time required to apply payments while boosting accuracy, with VantagePoint™, an integrated receivables platform.

Indeed, since Power/mation implemented VantagePoint, the amount of time its employees devote to cash application has been cut in half. Further, the percentage of ACH payments that are rejected, requiring manual intervention, has declined by approximately 40 percent. Companies like Power/mation that implement a deliberate strategy to drive straight-through-processing can achieve dramatic results.
VantagePoint and ACH Remittance Reassociation

VantagePoint uses business rules and exception queues to integrate incoming lockbox, E-Lockbox, ACH and wire payments into one interface, providing a consolidated view of received payments, and delivering a posting file with a higher percentage of automated cash application.

Power/mation went live with VantagePoint in March 2016 for both lockbox and ACH payments sent with remittance detail. Two departments within Power/mation were involved in the implementation, including IT and accounting.

In August 2016, the company added the VantagePoint Remittance Reassociation service to solve a long-standing challenge when migrating to electronic payments: Many businesses are unable to deliver the data necessary to post with the payment transaction. When adopting electronic payments, customers have come to rely on email and fax as a means to deliver remittance data to reassociate payment with remittance. The service captures the emailed remittance information from Power/mation’s customers, and matches it to the corresponding electronic transaction received by the bank. Both the payment and remittance information are transmitted to Power/mation in their posting file. As a result, Power/mation employees no longer spend time on the very manual process of reviewing emailed remittance data, finding the corresponding payment, and then posting the information.

As a best practice, Solarz recommends that companies using VantagePoint ask their customers to include the remittance data with their ACH payments, versus sending emails with that information. However, there will always be customers unwilling or unable to include the remittance data with the ACH payment. VantagePoint can solve this for clients with Remittance Reassociation.

Automation reduces exceptions and frees up time

Each evening, Power/mation imports a transmitted posting file from U.S. Bank into their enterprise resource planning system. The file includes invoice information used to identify the customer sending each payment. The following morning, Power/mation runs a batch process that posts all payment transactions to customer accounts.

If there’s a complete match on all invoices remitted by a customer, Power/mation allows the payment to post to their customer’s account. Now, more than 84 percent of payments are matched at the invoice level to customer accounts, Solarz says.

If the A/R match is incomplete, perhaps because of an incorrectly formatted or missing invoice, the payment posts to a “dummy” customer account that Power/mation uses to resolve payment application exceptions. Solarz and his team then examine the rejected payments to identify the proper customer account and related invoices.

The ERP system generates a report of total cash applied to customer accounts by general ledger account, which employees compare to a summary report provided by U.S. Bank to verify that all cash has been applied.

By upgrading from a manual cash application process to one in which most payments are automatically applied to customer accounts, the company has cut the time required to process customers’ payments, freeing up 13 hours a week for other projects.
Since Power/mation implemented VantagePoint, almost all exceptions are due to customer errors, such as sending incomplete remittance information. Solarz notes that this surprising drop in his rejection rate surpassed his expectations. Power/mation hopes to see even further automation once they work with their customers to improve the accuracy and completeness of the remittance information they send.

**A breath of fresh air**

Working with U.S. Bank has been a “complete breath of fresh air,” Solarz says. “The bank took time to learn about us, our operations and procedures, and the areas in which we could make improvements.”

“VantagePoint was positioned as a path to improve the effectiveness of our receivables strategy, introducing automation to streamline traditional cash application processes,” Solarz recalls. “Our engagement process with the bank has transformed from a lockbox or ACH discussion to one that takes a holistic view to achieve greater receivables automation.”

In addition, communication between U.S. Bank and Power/mation remained strong throughout the project, he says.

When Power/mation began its VantagePoint implementation, the product was still in development, and the bank was very responsive to any concerns, Solarz notes. For instance, when Power/mation realized some customers were sending duplicate payment records — once with the ACH payment and again by email or fax — the bank was able to “address and resolve the issue quickly,” he says.

“U.S. Bank continues to work on improving this service, which is a testament to their desire to provide a top-of-the-line payment processing solution for their customers,” Solarz says. “VantagePoint has great potential to eliminate the manual processing for a majority of our incoming payments.”

Power/mation is planning to build on its success. It will begin using the information within VantagePoint to identify which customers aren’t sending any remittance information with their ACH payments, to then contact and help them to provide additional remittance detail. The company also plans to work with customers to eliminate the practice of sending remittance information by both email and within the ACH payment, which will further reduce our rejection percentage, Solarz says.

Most important, U.S. Bank remains a trusted partner. “They listen to us and make our wants and needs top priorities in designing a solution that works best for our company,” Solarz says.

**Benefits**

- Time freed up from the previous manual process can be applied to projects that add greater value to Power/mation.
- Improved automated cash application frees up working capital.
- Greater transaction visibility to quickly and efficiently resolve exceptions.