Latest Trends in Cash Management

John Hand and Anne Carroll of AIB’s Corporate Cash Management Unit examine how organisations can capitalise on some of the latest developments in cash management.

In the last decade the cash management environment has seen significant changes and developments mainly brought about through the introduction and ongoing rollout of the Single European Payments Area (SEPA), the availability of new banking technologies and advancements in and the increased use of accounting and Enterprise Resource Planning (ERP) systems.

SEPA – The Single European Payments Area
The Single European Payments Area or SEPA is an initiative of the European Payments Council (EPC), with the aim of creating a borderless system for payments within the SEPA zone (which now comprises the 27 EU member states, Norway, Iceland, Liechtenstein, Monaco and Switzerland). SEPA is an area within which you can make and receive payments in euro under the same basic conditions, rights and obligations, whether between or within national boundaries.

SEPA – What Does it Mean for Irish Businesses?
This is good news for Irish businesses operating within the European marketplace. In practical terms, it means the cost of making electronic euro payments up to and including €50,000 from an account held within Ireland to another euro-zone country is the same as if it was carried out with a local bank in that country. As a result, SEPA has enabled many businesses in Ireland to consolidate their euro banking activities through their Irish held bank accounts and reduce and or eliminate their dependency on bank accounts held in other euro-zone countries. It has also enabled Irish businesses gain entry to new markets, leading to greater control over their euro receipts and payments and an overall improvement in their cash management activities.

The ongoing development and rollout of SEPA will see both businesses and consumers benefit further from this initiative e.g. from November 2010, the SEPA Direct Debit becomes available and mandatory within the euro-zone countries and in time will enable businesses to make euro collections using a standard format recognised across 32 countries. On the other hand the introduction of the SEPA Direct Debit enables both consumers and businesses to source and pay for services across Europe in a simple and straightforward manner. Other SEPA enhancements will include shorter payment cycles by 2012 and the use of expanded increased data fields to facilitate easier reconciliations.

SEPA – How will SEPA Manifest Itself in Ireland?
It is important to understand how SEPA will manifest itself in Ireland over the coming years. Whilst the use of cheques in Ireland has been declining at a rate of more than 10% per annum, Ireland still remains one of very few EU countries using cheques extensively, something that puts Ireland at a competitive disadvantage to its European competitors.

There is no pan European cheque clearing system in operation and the European Commission is mandating the retirement of existing domestic electronic payment standards, possibly by 2015 or 2016 with primary account identifiers switching from the current 6 digit National Sorting Codes (NSC) and 8 digit Account Numbers to the BIC & IBAN standards.

As a result, the Government, Irish Payments Services Organisation (IPSO) and the banks are working to ensure the strategic development of Ireland’s payment systems, part of which is the development of a National Payments Plan. IPSO envisages an “end-date” for cheques in Ireland and has proposed 2016. As a result businesses will now have to plan and prepare to update legacy, cheque-based accounting processes with electronic ones.

Advancements in Business and Banking Technologies
The development and integration of banking technologies with modern accounting systems have also kept pace with initiatives such as SEPA. As a result most businesses should now be in position to monitor customer and vendor payment information and cash positions on a real time basis using secure and internet based cash management systems. In addition, the ongoing advancement of accounting and ERP systems which can now be integrated with advanced bulk payment systems has seen a significant shift from traditional paper based invoice and payment processes to web invoicing and electronic payments.

The availability of such advancements is well timed in the current environment where organisations are being forced to examine all aspects of their business with the mantra of “doing more with less” very much the order of the day. This approach is a key driver underpinning the switch from paper to electronic invoicing and payments where companies are seeking to maintain their operations with fewer employees and more limited resources. This is particularly true in the case of Accounts Payable (AP) staff, who have to process more invoices and pay them faster with fewer people available to carry out such tasks. In such a scenario, where a business has a significantly high volume of both local and international payments, key AP resources can be stretched to breaking point unless the company’s bank is in a position to provide a single bulk payments service which manages both types of payments through a single, and preferably web enabled, payments interface.

In Ireland there is an active supplier market to provide cash management services to both the public and private sectors. These financial institutions should provide expert assistance in reviewing the above issues and recommend appropriate solutions.