PUBLISHED BY

CLEAR PATH ANALYSIS

TREASURY & CASH MANAGEMENT, EUROPE 2018

Navigating Risks, Building Returns on Cash Holdings

MAY 2018

SPONSOR

SALMON SOFTWARE

An Bradán Feasa

THIS IS AN EXCERPT OF A FULL REPORT.

[Download](#) the full report from www.clearpathanalysis.com

SPONSOR

Salmon Software offers A World-Class, Elite, Treasury Management System and related professional services via our flagship 'Salmon Treasurer' application. Built upon Microsoft technology, the system has evolved to reflect the technological innovations and wide-ranging scope of treasury requirements that face Treasurers today. Salmon Treasurer and its broad instrument coverage and extensive functionality was developed from our continuous investment in R&D. Salmon Treasurer is available as a Cloud (SaaS) solution or an On-Premise solution.

An Bradán Feasa SALMON SOFTWARE

2.1 INTERVIEW

How global players can take advantage of fintech services for new Payment Services Directive II agreements and automate their payment flows

Interviewer

Noel Hillmann,
Chief Executive Officer,
Clear Path Analysis

Interviewees

John Byrne,
Founder, Managing Director and Chief Executive Officer,
Salmon Software

SUMMARY

- *The Payment Services Directive II (PSDII) spectacularly reduces the cost of making payments directly through the same API*
- *The risks associated with manual process, or the "human element" as you put it, is far greater than the risks of automated processes*
- *When considering the cost of a payment mistake, the price of automation could reduce both those costs and the risks involved*
- *In acquiring technology and preparing staff training, you must cater for different time zones and a significant mix of technology experience*

Noel Hillmann: What are the unique challenges you see global companies face that make their challenges distinct from that of single country operators, and how does this effect their payment flows?

John Byrne: The Payment Services Directive II (PSDII) is a European Union (EU) directive, which means that all banks have to make account balances and transactional data available to their clients through the Application Programming Interface (API). They are obliged to facilitate the ability of corporates to make payments directly through the same API.

The challenges are not that great for the global companies as many of them are already doing this through other third party providers such as existing bank portals, Service Bureau, SWIFT, etc. Smaller corporates operating within their own country, i.e. single country operators, have tended not to use these facilities because of the expense of doing so. This directive spectacularly reduces the cost of making payments directly through the same API. The large corporates can reduce the costs they currently have to bear, and the single country operators or smaller corporates are very likely to start using this capability for cash management and automated electronic payments. These are functions that smaller corporates have historically carried out manually because the cost of doing it otherwise was too prohibitive.

The real challenge under this directive is for the banks themselves. Many have the capability already but are charging for it. Now, they must provide these services for free. Other banks, who don't have this capability, have to offer it. So, they have two challenges, one to update their systems to provide the services and two, to do so free of charge. This directive makes it an obligation on the banks to facilitate third party players, such as Salmon Software, to collect balances and transactions and to deliver payments on behalf of our clients through this API.

Noel: When looking at the multi-country operators do you see unique challenges that they will face with incorporating PSD II into their operations in a way that EU only banks wouldn't?

John: When the directive comes in there is this opportunity to get this facility for free within the EU countries, but it isn't going to be free and nothing will change immediately for countries outside of the EU. Therefore, current providers will have to continue to stick with the status quo.

Corporates will run into the same difficulties, if they are global and operating inside and outside the EU. They will still have a dependency on the current modus operandi because of this mix of banks. If they want to continue using these facilities, in the short term, they will have to continue with their current providers and pay for the privilege

> FOR CORPORATES WITH A SMALL NUMBER OF BANKS CONNECTED OR FOR CORPORATES WITH NO CURRENT CONNECTIONS, THE ADVANTAGES ARE CLEAR

until this directive finds itself outside the EU, whereby all banks in all jurisdictions are going to have to make this available. We see this happening sooner rather than later.

Of course, if banks within the EU are obliged to make this facility available for free then it will be very difficult for banks outside the EU to justify their charges regardless of any regulation. For example, post Brexit, if EU banks must provide this facility for free, it will be difficult for any banks to charge for it inside the UK.

Noel: How is the new PSD II agreements primarily impacting your clients and what are the hidden costs and risks you're uncovering in client consultations?

John: There aren't any hidden costs as the costs that do exist are already there in the current solutions. There are obvious rewards available in the new solution because the banks must make this facility available for free.

Now corporates are having to pay a lot of money to Bureau, Swift and multi-bank platforms to have cash management options as well as electronic, automated payment options. These costs are not hidden but rather overt and substantial because both the providers and banks charge a lot.

The risks are more technical in so far as if you are operating within the EU as a corporate, you might be migrating from your current provider to some other third party who is now offering the same service through the API where the cash and transaction files are available and payments can be submitted in the same way.

However, the migration of multi-country operators may not be as widespread as at first envisaged because connectivity to the individual banks is still required to make collections and effect payments. Also, not all of the banks used by multi-national corporates are within the EU. So, they are unlikely to move to using the API because firstly, they already have the multi-bank connectivity they require in place and they are also unlikely to create two processes for the same function, one to cater for their banks within the EU and another for their banks outside the EU. Secondly, the disruption, the risk and the cost of these would strongly mitigate against it.

However, for corporates with a small number of banks connected or for corporates with no current connections, the advantages are clear and this is where the greatest disruption to the status quo is going to take place.

Noel: Automating processes removes the human element from the payments process. Is there a risk of over reliance on technology and the risk of automation failures going undetected? How can treasurers ensure such perils are addressed?

John: In my opinion, the risks associated with manual process, or the "human element" as you put it, is far greater than the risks of automated processes, especially in the area of payments. Ask any treasurer and he or she will tell you that payments is the one area that will keep them awake at night more than any other. The consequences of any of these events have the potential to be catastrophic:

- ***Late payments***
- ***Mistakes, e.g. paying the wrong amount with an extra 0 (zero) in the wrong place and***
- ***Fraud***

These are far more likely with manual processes than with automation. Ask any Treasurer which he or she would prefer, a manual process or an automated one and automation always wins.

There are very few corporates I know where the payments would be automated and processed within the treasury system and sent to the banks for execution, without any further approval. Most corporates process the payments within the treasury management system, send them in automatically to the banking system encrypted and digitally signed to identify their origin and to ensure that they arrive as they left the system, i.e. untouched. Once they arrive at the bank, they are, in most cases, given a further review within the banking environment itself where a final set of eyes peruses them before final execution.

Noel: Can you estimate the cost efficiencies that can be gained or achieved from automating these types of processes?

John: I suspect that there will be significant cost reductions because the cost of the services from the Bureau, Swift and multi-bank platforms are very high. Of course, the cost varies depending on the number of bank accounts and bank connections a company might have or need. If you look at a large global corporate, they could have anything from 100's to 1,000's of accounts requiring multiple bank connections. Then as stated earlier, many corporates will stick with these providers.

However, the directive is very likely to result in reduced costs for these services. The two reasons for that are:

a. ***Many will take the free option available from the banks, and:***

b. ***The directive facilitates new entrants into the supply side***

Currently we see costs of between €20,000 and €100,000 per annum for these services. We envisage that these could be reduced by 50% or more due to the pressure from the directive.

However, while these costs are high, consider the cost of a mistake or fraud. You could, double, treble, quadruple the above cost of such an event. Indeed, pick a number because Treasury Management typically deals with very large transactional values.

Automation reduces manual processes and the dependencies on Excel. The cost savings in automation are obvious: more efficiency, more effective use of personnel, better and speedier information, etc.

“Currently we see costs of between €20,000 and €100,000 per annum for these services. We envisage that these could be reduced by 50% or more due to the pressure from the directive”

However, the potential costs of mistakes and fraud are compelling reasons for all corporates to now take advantage of what this directive offers them.

Noel: The cost of staff training on technology is a huge operational and resource expense for global organisations operating in disparate cultures, languages and time zones. Does a centralised approach overcome this issue, reducing the need for multi-country staff training, or does local training for the correct inputting of data still mean the same training expenses exist?

John: You will still have significant staff costs even with a centralised payments function. If you are a global organisation you do have to cater for the different time zones, cultures, systems and languages. If you are trying to shoehorn all the payments into a single process or provider, you will still have those costs.

A centralised approach will not eliminate those factors as people are geographically situated in different parts of the world and speak different languages. Even though English is the language of the markets, you still must cater for other languages by having some of the information available in other local languages.

Equally you must cater for different time zones and a significant mix of technology experience from none to primitive to mediocre to excellent. Truly global companies must deal with all of these simultaneously. So, while centralised payments sound great and has its merits, there are serious challenges about implementing it.

Noel: You mentioned in a recent white paper that you're frequently asked about the use of technology and its ability to take over from a large array of manual processes. Thinking very much into the future, do you feel that there will be a point where the entire treasury function could be wholly reliant on technology and if not, where are the current limitations?

John: The treasury department won't ever become wholly dependent on technology. Treasury Management typically revolves around low volume but high value transactions. Big numbers are always involved, however, and there are so many decentralised operations on a global scale, the key aspect of good treasury management is decision making rather than technology. Technology is a tool to facilitate decision making through accurate and timely data.

Technology facilitates the decision making by automating processes, offering speed of delivery of information, accuracy and reliability about data. It facilitates the reduction in mistakes and fraud. Technology does not replace decision making and while that remains the key aspect to treasury management, complete automation is still a long way off.

Noel: With PSD II opening the payments market to new entrants, which will have the knock-on effect of competition, choice and better pricing for consumers, how will this further revolutionise what is expected by customers from the payments process?

Noel: From the research that we conduct, one of the biggest operational challenges we find treasurers and corporate finance professionals face in getting away from the use of Excel, is not so much a belief that the system won't be more effective, but that the fear of the unknown and risk in changing the current status. What are your thoughts on the carrot versus stick approach, with the stick being the EU directive and the carrot being something else?

John: The stick would certainly be the EU directive, but I don't think the stick works universally. You must cajole people into using innovative technology.

> What will drive change is mistakes, risks and fraud. All it takes in an organisation, is one big mistake to be made or one serious fraud to be unearthed

John: I do feel that more corporates are going to avail of cash collections, transactional information collection and electronic payments, both automated and encrypted because the cost is lower, and the access is easier. Therefore, PSD II is a game changer because the people who are already employing third parties will find that their costs will fall.

For those who aren't yet using this type of technology, they will find that it is much easier to access it now. They'll also find that the cost of doing so, which was prohibitive to them before, is now significantly reduced or gone altogether.

Noel: Do you have any further thoughts on this topic?

John: Everyone wants to improve their processes as well as introduce technology and automation. They also want to eliminate or reduce manual activity and dependency on generic applications such as Excel. These new services will help them achieve this.

Technology is changing all the time with mobile technology getting better and more accessible to everyone and benefitting the treasury function like it is in every other aspect of business.

Third party providers are also bringing out innovative technology, so we must look for ways to integrate with these new technologies as well as to improve integration facilities that exist already.

This kind of directive forces everyone to sit and think about how they are going to meet their obligations under these directives. This one is significant because it is putting pressure on the banks to make something available, which, to date many failed to provide in a way that they should have.

What will drive change is mistakes, risks and fraud. All it takes in an organisation, is one big mistake to be made or one serious fraud to be unearthed. Then everyone focuses their attention on how it happened and how to avoid it happening again.

Excel and using anything like it means that you have multiple instances of the same data and that lends itself to data duplication. Data duplication is to be avoided where possible. In fact, the word "duplication" is the wrong word because it implies the data is the same in all instances. Regrettably it rarely is. A better phrase for it would be "data versions". Eliminate these and you are well on the way to reducing the risk of mistakes and fraud.

Treasurers are concerned about risks in relation to mistakes and fraud. If a fraud is perpetrated or if a big mistake is made, then it is their heads on the block. Everyone knows that technology should be embraced and should be used wherever you can.

We don't meet that much of a resistance once a decision has been made to embrace technology. The biggest resistance to change is determining if the value gained is worth the expense, be that financial or time.

Treasury is typically a small volume, high value business. This means, whilst the transactions' values can be very large, the number of transactions can be small. The "low volume" aspect is the one thing above all others that motivates many treasurers not to embrace technology.

The two things that shake that belief are mistakes and fraud. Either of those tends to concentrate the mind. I believe the PSD II directive will be a positive force in that direction.

Noel: Thank you for sharing your thoughts on this topic.


SALMON
TREASURER
TAKE CONTROL
ACCELERATE VISIBILITY
An Bradán Feasa
SALMON
SOFTWARE
www.salmonsoftware.com

CLEAR PATH ANALYSIS

TO READ MORE FREE REPORTS VISIT:

www.clearpathanalysis.com

W www.clearpathanalysis.com
T +44 (0) 207 688 8511
E marketing@clearpathanalysis.com
ClearPathAnalys
clear-path-analysis