



## Consolidated vs. Segregated Payment Files: Which should you use?

Most companies today make payments in several different payment formats. In some cases, it makes sense to consolidate all payment types into a single payment file.

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Organizations of all sizes are tasked with finding ways to improve working capital efficiency. One area that is currently ripe for improvements in both technology and process is the ever-changing landscape of business-to-business and business-to-consumer payments.

Most organizations still issue many checks, albeit at a declining rate. A common goal within accounts payable (A/P) departments is to eliminate all paper-based payments, but very few organizations have succeeded. In fact, few companies have a clear view of when they can expect checks to disappear entirely from their payment mix. The reality is that check payments continue to be appropriate in many circumstances. Checks remain a necessary payment option that companies must manage now and into the foreseeable future.

At the same time, most organizations are also disbursing via wire transfers, Automated Clearing House (ACH) payments and payment cards. The myriad of electronic payment options now available to U.S. businesses explains, in part, why check volumes are decreasing in most organizations. Companies looking to improve process efficiencies are moving the bulk of their payments to ACH and card, and automating the processes around payment generation. This electronic payment automation is achieved by eliminating the steps of printing the check and associated remittance detail, stuffing envelopes, applying postage, and placing and tracking the

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check through the mail. These are all manual and costly activities and most importantly, non-value added tasks for a company.

ACH and wire transfers are initiated directly from a company's enterprise resource planning (ERP) system or via a bank-hosted online payment portal. Card-based payments are initiated via the ERP system, point-of-sale terminal, phone, email or the receiving partners' websites. Many of the inefficient manual tasks are eliminated using electronic payment methods.

The speed, security, and cost savings afforded by ACH and card payments provide motivation for disbursement focused working capital optimization efforts; however, as companies are working to increase automation across all the disbursement methods, they need to simultaneously work on creating an effective integration plan with a trusted banking partner. Organizations that most effectively drive impactful automation do so via payment files initiated directly from their ERP systems and having a knowledgeable and experienced banking partner who can create and maintain a superior payment file strategy for customers is key to the success of these endeavors.

By using file transmissions to integrate with their banking partners, payment initiators achieve enhanced working capital and savings in many different ways. First, they provide tighter control over timing of payment. By using these batched payment initiations, the payer is able to more effectively control the date the payment is initiated through the automated process. This helps to reduce variance of when the payment will ultimately settle and be

deducted from the disbursing account by decreasing dependency on human intervention for payment initiation, allowing for enhanced forecasting.

Second, payment costs are reduced by batching payments together and eliminating the manual tasks associated with the initiation of payments on a singular basis. By using technology to do the heavy lifting for the payment initiation, the payer dramatically decreases the expenses related to initiating, tracking and researching the payment.

Third, the payer benefits from superior fraud mitigation via file-based payment controls. By implementing common automated controls within the ERP prior to file initiation, the payer avoids intervention by their own employees or outside parties that could disrupt the intended payment. This can result in significant savings.

Finally, when file integration is used to drive payment volume to online purchasing cards, commonly referred to as cardless payments or virtual cards, this can result in a revenue share rebate agreement with the card issuer. If the payment dollar volume justifies, the payer receives a cash payment equal to an agreed upon percentage of the interchange collected by the card issuer, providing obvious working capital benefit. For all of these reasons, establishing bank integration is a crucial step in developing the efficiencies that lead to working capital optimization.

As companies are re-evaluating which payment types they use, or are undertaking an initiative to improve working capital by streamlining payment processes, they should consider

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whether it makes more sense to build a separate payment file for each payment type, or to attempt to consolidate all their payments to a single, consolidated disbursement file.

## When Segregated Files make the most sense

There are several reasons an organization might choose to maintain separate files for each payment type. First, doing so can simplify the creation of payments in an ERP system. The ability to create a simple payment file for check issuance, ACH and batch wires comes built into many ERP systems' standard offering.

For example, developing a commonly used NACHA-formatted ACH file is a staple of many ERP payment modules. As a result, treasury or payables teams looking to implement a file-based ACH initiation process do not have to enlist their other resources for creating or finding file layout specifications and manually coding them into the ERP. If setting up a new payment process would require this type of effort, this might delay the entire improvement effort in a company with constrained resources. In contrast, using the payment file outputs that come standard in the company's ERP payment module may mean the company can launch payment-process upgrades using minimal technical resources.

Second, even in a company with the IT resources to create customized payment files, using the file types that come standard in the ERP system, off the shelf, can reduce implementation timelines. If the company uses a single ERP system, and if timeliness

is a crucial factor in the payments initiative, then the company should carefully consider how long each option would take before deciding whether to consolidate payments or to maintain separate payment types in separate files.

Finally, in making this decision, treasury managers should analyze the types of payment files the organization is currently generating, along with the types it anticipates adding in the future. Consider the case of a company that is already creating and transmitting one file for printing and issuing checks, another file for NACHA-formatted ACH payments, and a batch wire file that is sent directly from the company's ERP system to its banking partner. If the company has decided to add a virtual card program to the payments mix, it should evaluate the pros and cons of consolidating all these payment types into a single file. They may find that adding on a separate virtual card payment file output makes more sense than tearing down and rebuilding due to the short-term cost and timing benefits.

## When a Consolidated File is the way to go

Over time, organizations can achieve significant benefits by consolidating payments for batch wires, ACH, virtual card (cardless) payments and check payments that are outsourced to a third-party processor. One reason is that developing a custom payment file gives an organization greater flexibility with increased efficiency.

As a file is created that accommodates all the various payment types, a company may choose to add more details on each transaction. Using



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separate ERP export files for each payment type creates multiple updates in order to add the new piece of transaction detail to every file.

For example, a property management company determines that, to most effectively reconcile payments going forward, they must include the property number in the outgoing payment. If they are currently initiating ACH, batch wires, virtual card and outsourced checks with four separate payment files, they must conduct a project to update each of these files to include the property number. Conversely, if they are using a single, consolidated disbursement file, only a single update is required to accomplish their goal.

Another benefit of using a custom, consolidated file is that it provides for a consistent format and process across all payment types. With a consolidated file, a company can complete payment runs via one process (one file created, one approval process, etc.). Segregated payments files use similar yet separate processes to produce ACH, check, wire and card batches from file creation through approving the payment batches and finally closing the confirmation loop. These variations can cause confusion and inefficiencies.

Many payers find it challenging to control and understand the payment detail submitted with each option. For example, employees of a company may assume that a certain amount of payment detail is included across all payment types, when in reality, one payment file may allow for more remittance detail when compared to another. Depending on how a company is using addenda information, this can

be a common occurrence for ACH versus check payment files. This often results in sub-optimal payments, with subsequent customer service support expense to reconcile, for both the payer and receiver.

A consolidated file helps to ensure that the payment detail is consistent across payment types. Additionally, ensuring that each segregated file is received by the banking partner with associated responses can be difficult. For a company using all four of the established file payment exports this can be four separate response files that the company is accountable for monitoring on a daily (sometimes more often) basis. Considering that perhaps one of the payment options may not have been used for that particular payment run (i.e. there were no batch wires that day) it's understandable how monitoring and ensuring processing of all of these different files can be a challenge. Using a single file helps to create simplicity in payment generation as well as providing benefits resulting from a consolidated response file.

Additionally, once a company has created a custom, consolidated payment file, it becomes easier to add new payment types in the future. As the organization grows and adjusts, the flexibility that a consolidated payment file offers can be paramount. The consolidated file enables the company to add new payment types more easily; simply plugging them into the company's existing process minimizes the need to test and monitor new payment file transmissions. For example, an organization that currently issues outsourced checks, ACH payments and batch wires in a

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consolidated file, could add virtual card payments to that file more efficiently than it could create and transmit a new, separate file for virtual-card-only payments.

Moreover, although this analysis has focused on the four payment types that are commonly transmitted today, it's likely that additional automated payment options will be developed in the future, for both consumer-based and business-based payments. Those payers that have established a consolidated process for payment transmission should be in a position to more efficiently take advantage of the benefits that emerging technologies will offer.

A fourth benefit of using a consolidated payment file is that vendors and consumers transitioning from one payment type to another will not disrupt payment initiation and reconciliation. Due to contract renegotiation, market pressures and other factors, trading partners often shift from receiving payment via one method to another. Currently, the most common direction is to migrate from check to ACH or virtual card. In the future, new options may offer efficiencies that lure companies to migrate away from today's most popular payment types. Whatever the future brings, a consolidated payment file would support the migration of transactions from one payment type to another. The creation and reconciling of a payment are not materially affected when the payment type changes, as long as both types use the same consolidated payment file.

Conversely, when using segregated payment files, an organization is forced to establish a new file format and transmission connection to their

banking partner as new payment type technologies arise in the future. This continues to add further complexity for the company. For trading partners choosing to switch current payment types (i.e. transitioning from check to ACH), using segregated files forces the paying company to ensure that they are properly set up to direct payments for that particular payee to the desired payment type file. This can be a challenge if the payments for that specific payee require unique payment details in order to reconcile. A multinational distributing company may have ensured that the location code is sent with each check payment for a specific manufacturer, but doesn't have that functionality in place with the ACH payment file to date. This can delay the payment type conversion for this payee and create additional cost for the distributor.

Finally, issuing a single payment file transmission increases security. For the same reasons established where file maintenance is simplified and response file consolidation provides efficiency, security is enhanced when there are fewer files to monitor and, therefore, less risk. All security efforts focused on transmission and payment controls can be concentrated on this single file. Monitoring four or more separate files every payment run creates more opportunity for error and business disruption. As payment risk and file maintenance continue to be areas of focus for attentive organizations, the need to enhance security measures and simplify file-based processes remains. By creating an environment where a single file transmission is used, a company optimizes the process for ensuring business continuity.

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## What's the right payment approach?

Which method is best for a particular organization depends on that company's goals, timelines and resources. A company that has already established integration with its banking partner for separate batch wire and ACH transmitted files, with no intent to optimizing check payments and with no interest in virtual cards, may not be best served to invest in the creation of a consolidated file. Additionally, creating separate payment files for each payment type is prudent for organizations that are attempting to minimize implementation timelines and are facing significant limitations when it comes to technical resources. Most other payment originators should see a significant positive impact if they consolidate payments into a single file. The simplicity, consistency, scalability and flexibility of a consolidated payment file can create long-term efficiencies that provide significant financial benefits such as cost savings and fraud expense avoidance.

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As a Working Capital Consultant, Adam helps companies optimize cash conversion cycles by providing tailored consultations on their processes. As a financial optimization agent and process improvement specialist, Adam works with all levels of clients to streamline, increase controls and reduce costs through industry expertise and emerging technologies.