Corporate payments trends in India

December 2021

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Foreword

Dear readers,

It is my pleasure to bring to you the latest edition of PwC's Payments newsletter.

In this edition, we look at the corporate payments trends prevailing in India, disruptions by FinTechs with newer applications, and innovations in corporate payments. We have also analysed the challenges involved and the key considerations for adopting corporate payments trends.

We hope you find it to be a good and insightful read.

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In this issue

01 Introduction

The Indian payments industry has undergone significant developments in the last few years, especially post demonetisation. After the retail payments revolution, the corporate/SME payments segment is poised for disruption. The types of payments transactions opted for by corporates depend on both their business-to-business (B2B) and business-to-customer (B2C) models. B2B businesses consist of large-value transactions with relatively lower volume, whereas B2C businesses have relatively small-value transactions but a high volume. Traditional solutions may not be customised to suit the size, business model, and complexity of corporates. However, in recent years, many solutions enabled by FinTech have resulted in a makeover for corporate payments. This transition is predominantly visible in the areas of payments, liquidity/working capital management, cross-border remittances, and reconciliations. Banks and corporates can evaluate and implement modern solutions (described in detail in the later sections of this newsletter) to achieve better cash and transaction management.

B2C businesses generally accept cash, card-based and UPI payments. A few B2C businesses have recently started to operate on the subscription-based revenue model. Such payments are either card or mandate based (collected through automated clearing houses). Each of these modes has an impact on the cost of collection of money, the liquidity position of corporates, and the opportunity for automated accounting and reconciliation. Generally, a no/low credit period is granted to customers in the B2C segment. Thus, the working capital stress is a result of inefficient inventory turnover, collection methods, multi bank account management, and delayed accounting and reconciliation by corporates.

B2B businesses generally accept payments made by cheques or through electronic payment modes. These businesses frequently use various trade finance products such as a letter of credit, factoring and forfeiting. It is customary to offer a credit period to customers. This adds to the working capital stress in addition to the reasons mentioned for B2C businesses.

Banks and FinTechs are developing newer payments solutions to resolve the issues faced by corporates.

New trends such as virtual account management, cash pooling, payments tracking capability, blockchain-based letter of credit, supply chain management and smart contracts have enabled corporates to manage their payouts and collections in a much sophisticated manner. Large corporates have integrated their enterprise resource planning (ERP) solutions with the payment channels for automation of payments and their accounting. In a recent study on payments, it was observed that 79% of firms agreed that automation of the accounts receivable set-up would improve their efficiency.[1]

1 https://www.pymnts.com/study/b2b-payments-innovation-readiness-american-express-ar-automation/

02 Challenges faced by corporates

Corporates face several challenges while managing their liquidity, paper-based and digital payments transactions. Some of the challenges faced by corporates include:

1. Lack of receivables management and reconciliation

Most B2B companies run their businesses on credit. They receive large amounts through multiple payments channels from various banks in multiple currencies. These amounts have to be accounted for accurately on a timely basis as it enables corporates to identify overdue receivables and manage liquidity.

Several corporates have a manual process of managing receivables and accounting for them post the collection. Further, they lack integration of payments channels and banking systems with their enterprise resource planning (ERP) solutions. In the absence of this integration, managing receivables and reconciliation becomes a tedious task.

2. Inefficient global liquidity risk management

Multiple companies are expanding their businesses overseas as global economics is becoming intertwined. Corporates usually open and operate accounts at multiple locations for their day-to-day operations. As their businesses grow, the number of bank accounts keep increasing and may span across multiple banks. It may become challenging for corporates to track all these accounts and get a consolidated view of transactions/balances. Corporates are also often exposed to foreign exchange risk as they maintain balances in different currencies across different parts of the world.

Furthermore, different banks use different payments technologies and corporates are required to adapt to technological solutions offered by each of them. It may require corporates to communicate using different file and messaging formats as well as different communication channels.

3. Lack of traceability of payments

International remittances have surged significantly in the last decade, especially for B2B businesses. The SWIFT international payment network is the most prominent method of sending/receiving international remittances. Although SWIFT is undergoing a significant number of developments, corporates face a number of challenges such as poor visibility of the end-to-end flow of the transaction, lack of visibility of deductions due to bank charges and FX conversions, and lack of a mechanism to transfer payment information from payer to beneficiary.

4. Difficulty in expense management

Companies spend a considerable amount on expenses like employees' business travel, small-value/indirect procurements, and other ad hoc expenses. However, many companies do not have access to expense management processes and solutions. Typically, logistics companies find cash-based expense management for fleets drivers and owners quite expensive. The lack of processes and automated solutions may result in the payment of expenses beyond approved limits and budget overruns.

As a result of these challenges, there is a need for innovation and digitisation of corporate payments, enabling corporates to better manage their liquidity, collections and disbursements.

03 Trends in corporate payments

In this section, we have discussed the key trends in the area of corporate payments along with the benefits, key considerations and use cases.

1. ERP integrated with payments channel

a. Introduction

Front and back end system integration is required when the business of a corporate grows. Corporates need ERP solutions that can meet their complete needs and address both front and back end requirements. The global ERP market was valued at USD 39 billion in 2019.[2]

Various banks/financial institutions (FIs) offer an end-to-end integration of banking channels with ERP systems. This can be done through host-to-host connectivity or by integrating ERP with SWIFT applications at the corporate's end. A few companies offer solutions that interact with the ERP systems of B2B companies and post transactions on their ERP platform.

Some of the key trends in the area of corporate payments include:

- **Automated invoicing:** The provision of digital invoicing along with integrated payment methods can help corporates to improve their collections. They can integrate and submit their digital invoices to customers through automated clearing houses supporting direct debits. These auto debits can be useful for the timely collection of recurring payments such as utility and subscription-based payments. Further, in the B2C segment, corporates can utilise the 'request-to-pay' mechanism to improve collections and reduce costs associated with customer disputes. For example, the request to pay overlay service offered by UPI in India offers the option of payment rejection along with full payment. Similarly, Pay.UK provides five options to a consumer – full payment, partial payment, payment rejection, request for an extension, and query.

2 https://www.alliedmarketresearch.com/ERP-market

These payments solutions can be effectively utilised if the ERP system is capable of generating and submitting digital invoices in a format acceptable to the payments system. On the other hand, the accounting of these collections can be automated if the ERP system is capable of understanding the payments messages received from the bank.

- **Integrated expense management:** FinTechs and ERP solution providers today offer integrated solutions which include corporate credit card/ corporate prepaid cards along with petty cash management and expense management solutions. As a part of this solution, companies tie up with FinTechs who in turn tie up with card networks for issuance of credit cards, expenses management, etc. Many service providers also facilitate corporates in verifying the validity of expenditure in accordance with the expenditure policies of the corporates.

b. Benefits of an integrated digital ERP system

- Convenience in collection and payments accounting
- Simplified and automated reconciliation
- Efficient supplier credit management
- Reduced revenue leakages and unauthorised and fraudulent payments
- Comprehensive reporting tools for better control and visibility

c. Key considerations

Before adopting any new trends, corporates need to evaluate whether the same will add value to their businesses and operations. A few key areas and considerations that should be kept in mind while integrating an ERP system with payments systems include:

- **Understanding the corporate's nature of business and relevance of integration:** Depending on their nature of business, a corporate should evaluate the ERP modules (receivables/payables) that need integration with the payments channels.

For example, if the company provides a credit period to customers and has a large customer base, then integrating the collections/receivables module with a payments solution for collection would be feasible for the organisation.

- **Nature of solutions offered by banks:** Before evaluating ERP integration with banking and payments channels, a corporate should assess various technology solutions offered by banks through integration. This may include assessment of the level of technology solutions, mechanism of integration supported (on-premise, cloud-based and hybrid) and additional infrastructure required for integration (server configuration, data warehouse, and cyber security).
- **Associated costs:** The cost of integrating the ERP with a payments solution needs to be validated against the benefit that the corporate expects due to automation of the collection process and expense management.

d. Case studies

- Several FinTechs are offering ERP software to companies in which they can upload their invoices and an automated digital payment link would be sent to customers. Companies can monitor their receivables and payables on the same platform. They can also handle invoice-based tax payouts and utility payments for their business on the same platform.
- A leading FinTech owning a card management system provides corporates with expense management and fleet card management systems. The expense management system is driven on both prepaid and credit cards issued in partnership with a few leading banks. They also provide fleet management solutions on their software-as-a-service (SaaS) platform to logistics companies. They are using one such solution to issue a prepaid card to truck drivers for refuelling, toll payments, and paying for essential expenses incurred while on duty.

2. Virtual account management (VAM)

a. Introduction

VAM is a cash collection solution provided by banks. It enables an actual corporate account to be tagged with multiple virtual accounts for better reconciliation and reporting. The virtual account number can be uniquely generated by the corporate for each of its child entities. The child entities could be different customers, business lines, departments or geographies. In such cases, VAM plays a key role in identifying the source of payments.

b. Benefits of VAM

- Easier reconciliation of receivables
- Simplified management information system (MIS) reporting of collections and payments
- The actual account number need not be shared in public if the virtual account number is shared
- There is no need to have multiple bank accounts since a single account can have multiple virtual accounts

c. Key considerations

The key considerations to be looked at before availing VAM services are given below:

- **Relevance to business:** VAM is suitable for businesses where the customers make recurring payments and the billing has to be managed for multiple customers on a periodic basis. Examples of such payments include electricity payments and telecom service provider payments.
- **Set-up costs:** Considerable costs are incurred during the initial set-up and thereafter, companies have to bear a recurring maintenance cost.

Therefore, such a solution is recommended only after thorough evaluation of whether the collections require it. The costs will go up if a similar solution is to be implemented across multiple banks.

d. Case study

A leading Indian dairy company had to streamline its cash management across all Indian cities. Given the number of endpoints, it was difficult to get an overview of the receivables collected. The VAM solution was implemented by the company to tag each area with a unique and identifiable identity code. The code was then used to collect money and accurately and speedily report the details. Region-wise and area-wise details could be extracted using the VAM which helped clients to better monitor and track their payments.

3. Payments tracking capability

a. Introduction

When a corporate initiates a cross-border payment or is expecting an international remittance, it may not be able to track the payment status and fees charged by the intermediaries. There may be a lack of end-to-end visibility at times because each intermediary may possess information only about the leg of the transaction in which it was involved. This limitation is addressed by SWIFT's Global Payments Innovation (GPI) initiative. Under SWIFT GPI and universal confirmation, a tracker is provided to track payments right from initiation to credit confirmation. Corporates using this facility can check the status of the payment and get to know about the charges and FX rates levied by the intermediary banks.

b. Benefits of SWIFT GPI

- **Real-time end-to-end view** of the cross-border payment process
- **Confirmation of credit** to beneficiary
- **Visibility of payment status** that enables corporates to track a payment in case it is stuck and contact the necessary personnel to expedite the clearance
- **Transparency of the bank fees charged**, and the FX rate applied to the cross-border payment
- **Better and efficient cash management** as money moves quickly and transparently, and companies can make better and efficient use of the cash, reduce risk, and explore new opportunities
- **Easier reconciliation** as payment data received from SWIFT GPI can be easily reconciled against invoices, thereby saving time and effort

c. Potential challenges

- Currently, the deadline for a non-GPI bank to confirm credit to the beneficiary and update the tracker is two days,[3] following the value date of the payment message. This does not serve the corporate's expectation of obtaining real-time updates about the payment status.
- SWIFT GPI is a paid service that has to be purchased to avail features like advanced search and tracking, FX amounts, intermediary routing and charge deduction. A corporate may not get complete visibility if its bank is not a GPI member.

d. Key considerations

The key considerations that corporates need to look at before availing the SWIFT GPI service are given below:

- **Nature of business:** If the corporate has a local presence and does not expect or make foreign remittances, then it would not require the GPI service. However, for a corporate which engages in large-scale foreign currency transactions, the service would be very useful.
- **Infrastructure set-up:** From a corporate's perspective, it should become a member of SWIFT and may require to implement certain technology changes to be able to connect and integrate the SWIFT GPI tracker into its business-as-usual (BAU) activities.
- **Cost analysis:** Integration with SWIFT involves installation costs and charges for using the services. Given that there is a cost involved in utilising the tracker services, a corporate has to decide if it is planning to avail this service and whether its nature of business requires the facility.

3 https://www.swift.com/our-solutions/global-financial-messaging/payments/unlocking-payment-confirmations/frequently-asked-questions-about-universal-confirmations

e. Case study

One of the largest banks in India faced challenges as it could not share international payments details with its client. They decided to overcome this issue by taking membership of SWIFT GPI. Using the facility provided by SWIFT, they could track the payments and get other information like fees which helped them improve the customer experience since they could make better decisions related to pricing, multi-currency invoicing as well as rates and fees. The bank could pass on the information directly to its customers eventually using API to integrate SWIFT GPI with the back end. This removed the dependency of the client to reply to the bank since they could access it from their system. Thus, they enriched the customer experience by making it faster and convenient for accessing data at the fingertip.

4. Blockchain/smart contracts

a. Introduction

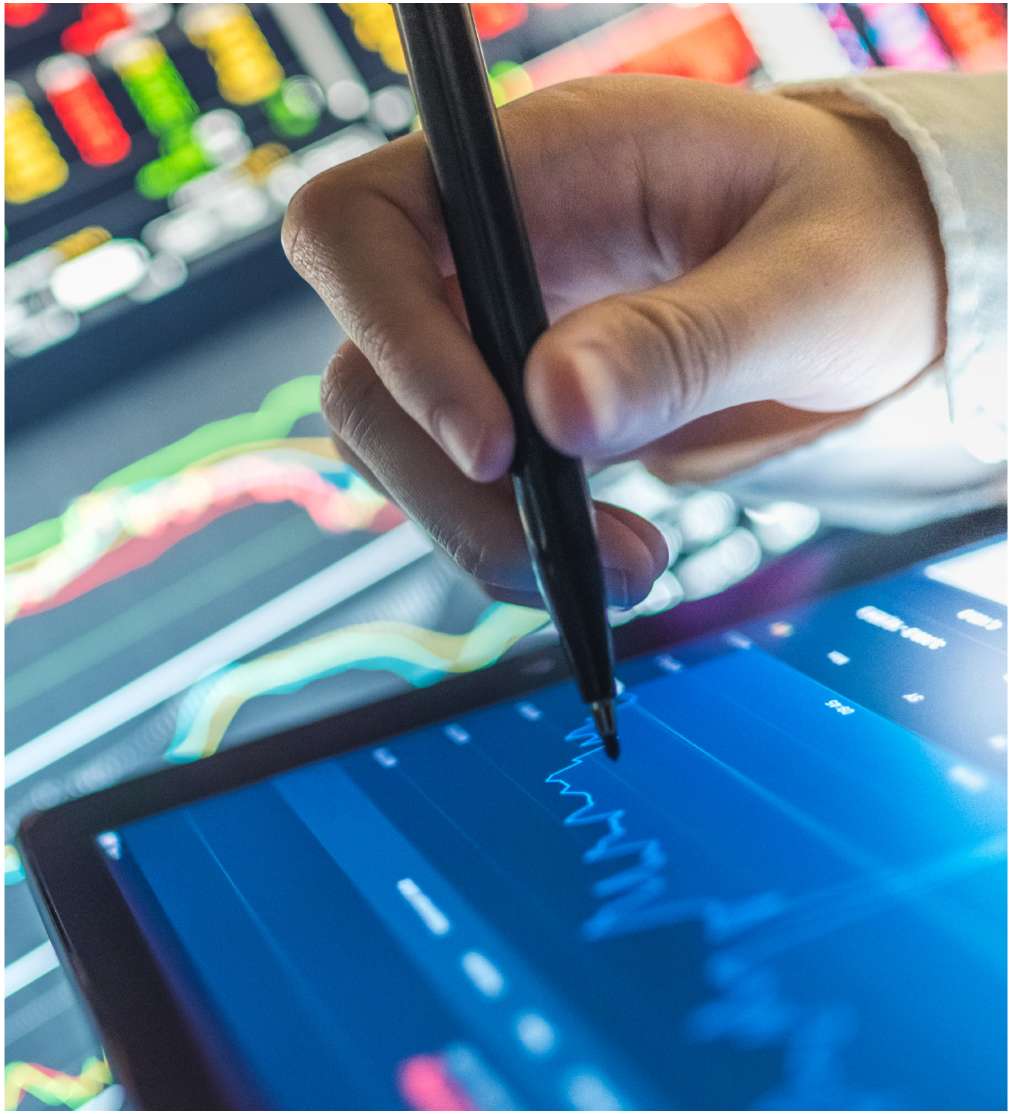
Several IT companies have developed blockchain-based solutions for corporates in collaboration with banks. Corporates can access the blockchain platform via their banks. Blockchain technology serves as a shared and immutable ledger that facilitates the process of recording transactions and tracking assets. Further, smart contracts have gained popularity due to the ease of their execution/decision making without any manual intervention. Smart contracts run when predetermined conditions are met. Corporates have started using smart contracts for collection of payments, validation of invoices, and making payouts without any error or duplication, after a specified credit period. This has helped corporates to achieve efficient supply chain logistics.

b. Benefits

- **No dependency on intermediary** as contracts are automatically executed when the conditions are met
- Smart contracts are **cost-efficient** since there is no need for an intermediary
- Blockchain stores the documents in an **immutable** and encrypted format, providing **safety and backup**
- The contracts are **accurately** processed as they are automated
- **No manual errors** in contracts or delays due to manual processing

c. Potential challenges

- With each country having its own rules and regulations, it is complicated to ensure **compliance with all regulations**. For example, the 'right to be forgotten' clause in the European General Data Protection Regulation (GDPR) is difficult to implement due to the immutable feature of blockchain.



- **Scalability is an issue** present in current blockchain networks which leads to congestion, increasing commission fees and time required to confirm transactions.
- **Energy consumed** by consensus mechanisms like proof-of-work **is very high.**

d. Key considerations

- **Infrastructure and resources:** The visibility of data in blockchain may result in restrictions on data sharing with those entities on the network and regulators monitoring it.
- **Skilled resources:** Smart contracts require distributed ledger network, off-chain system integration, and a suitable language to code/program a smart contract. Writing a smart contract requires specific technical skills which are very niche in the market at the moment. For example, Ethereum smart contracts are written in Solidity while Hyperledger Fabric supports Java, Go, etc.
- **Complexity involved:** The existing contracts complexity needs to be examined since smart contracts are at a nascent stage.

e. Case study

A leading multinational corporation (MNC) has used a blockchain platform for trade finance. Paper-based credit issuance, which was time-consuming and costly, is being replaced by an automated letter of credit that is compliant and fast. This has helped the MNC to efficiently manage its finances and processes, and also resulted in effectively creating, modifying and validating trade and contract agreements.

5. Supply chain financing

The few solutions that play a great role in addressing the supply chain financing issue for corporates.

- **Instant working capital finance for corporates:** Various banks and FinTechs offer solutions for an instant short-term loan to corporates looking at their history of tax payments, GST invoices, previous payments to suppliers, and by creating credit profiles of corporates. Backed by the technology of open banking and machine learning (ML), these banks/FinTechs disburse loans within a fraction of seconds post all documents verification, without going through the traditional banking process.
- **Prepaid/credit card:** Corporates today tie up with card networks and banks for issuing corporate prepaid or credit cards. Prepaid cards can also be linked to the line of credit of the corporates. These corporate cards are issued post verifying know your business (KYB) details and credit profiling using online ML. Corporates and their employees can pay for supplies and utilities online using such cards. Corporates can also use such cards for expense management and reconciliation.

a. Benefits of supply chain financing

- Easy availability of working capital/funds for corporates
- Better management of funds and expenses
- Improved buyer-seller relation

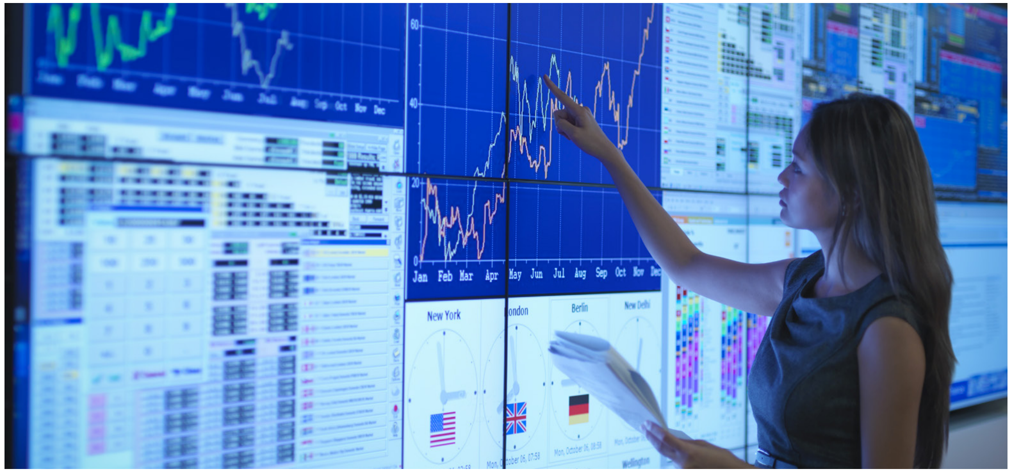
b. Key considerations

Before opting for any of the solutions, corporates needs to understand the significance of the same to their businesses and the costs associated with it.

- **Relevance to business:** Based on the business requirement, corporates should decide what type of services they would need. For example, if the corporate has reliable customers like blue-chip companies, then it can avail invoice financing.
- **Costs involved:** All the solutions stated above come with a cost. Corporates need to evaluate whether the cost structure (flat fee/variable fee) is affordable and would indeed serve the purpose and solve the issues faced by them. For example, in the case of invoice financing, corporates are required to share a percentage of receivables with the lenders. In such a case, if the corporate is running on thin margins, sharing the receivables may not be a suitable solution. At the same time, if the credit period provided by a corporate is longer and it is facing a severe cash crunch, availing of invoice financing would be beneficial.

c. Case studies

- A start-up in India launched an online marketplace where companies can sell their invoices to investors for getting short-term loans. Companies can manage the supplier's payments on the same platform.
- Several corporates in India have partnered with card networks for issuing corporate cards. These cards can be used for digital payments, resulting in better expense management, payouts, and reconciliation.



6. Cash pooling

a. Introduction

Cash pooling is a liquidity management solution in which the objective is to concentrate the money held by corporates in different bank accounts. Banks have been offering this solution to large corporates for more than a decade. Cash pooling can be done in multiple ways like horizontal cash pooling where the child account adjusts balances at the end of the day to maintain a predetermined balance, vertical cash pooling where the child account can be swept to zero balance, or a target balance into a parent account. With liquidity crises becoming even more prominent over the recent years, add-on services like intercompany netting and in-house bank (IHB) have seen more demand.

There are mainly two types of cash pooling models:

- **Physical cash pooling/cash concentration/sweep:** Under physical cash pooling, actual cash sweeping takes place between child and parent accounts automatically at the predetermined frequency to either turn the child account into a zero balance one or ensure that it has a predefined target balance. This type of cash pooling can take place across multiple legal entities and in multiple countries.
- **Notional pooling:** Notional pooling is similar to physical cash pooling except that there is no actual amount swept between the child and parent accounts and pooling is done using notional or shadow positioning of the child account.

b. Benefits of cash pooling

- Better liquidity management
- Improved risk management by converting forex balances into home currency
- Optimisation of interest to be paid on the overdraft account

- Centralised reporting of an entity's global bank balances, giving overall visibility
- Greater negotiating power for a corporate while dealing with banks

c. Potential challenges

The cash pooling facility comes with a few challenges. A corporate must be cognisant of the same before availing the facility.

- **Tax and forex laws** of each country may be disadvantageous for corporates due to the increased cost of the transfer, excessive documentation requirement, and additional tax burden.
- **Time zone** constraints while initiating fund transfer across different countries could disrupt corporate activities.

d. Key considerations

Before opting for cash pooling, corporates need to consider the following aspects:

- **Relevance to business:** Understanding a company's account structure, geographical spread and objectives are important to recognising which model (horizontal/vertical/hybrid pooling) is optimal for it. A study of whether the client has multiple currency accounts will help to decide whether a physical or notional pooling solution will work best for the client.
- **Fund requirements:** Depending on the client fund requirement in accounts pooling, the method (zero balance pooling/target balance pooling) would need to be configured.
- **Associated costs:** Generally, cash management does not involve large fees in the case of domestic transactions. However, cash pooling from global accounts may be a costly affair due to the charges levied by intermediary banks in the payments chain.

e. Case study

A global professional services firm present in over 130 countries was striving to achieve greater efficiency in cash management and centralised treasury management. The firm implemented a notional cash pooling solution on their multiple currency accounts across the globe. This eliminated local borrowing and reduced external borrowing at a corporate group level, and provided a consolidated view at the same time. Thus, the ultimate goal of the firm of maximising the efficiency in global cash management was achieved.

04 Conclusion

Technology is evolving rapidly. Retail FinTechs are now focusing on SME and B2B payments, essentially solving the invoicing-to-payments leg. Banks, FIs and FinTechs are swiftly leveraging technological changes to solve the traditional challenges faced by their customers. There has been a rise in the number of innovative solutions that these institutions are developing for every section of the economy, including corporates.

With newer innovations and trends in corporate payments, corporates need to evaluate and drive the upgradation of technological solutions to be relevant in today's world. The newer trends and innovations can help them not only in becoming cost-effective but also solving business roadblocks and paving the way for future business initiatives, and getting customer loyalty. Although there are several evolving trends, a corporate needs to conduct a review of the nature of its business and perform a cost-benefit analysis to see if the trends are relevant for the business and whether adopting the trend justifies the cost associated with it. The challenges and key considerations listed in the earlier section can help corporates decide on the adoption of the trends.

Similarly, banks, FIs and FinTechs are the pillars for successfully managing corporate payments. They are best positioned to identify areas of improvement in corporate payments and proactively solve challenges by partnering with private players. Therefore, they need to step up and make some bold decisions when it comes to providing newer solutions to corporates.

Payments technology updates

Corporate Payments Outlook

Finastra

Addressing the payments landscape became a hot topic in 2020 for financial institutions. The COVID-19 pandemic encouraged broad-scale digital adoption as businesses moved to remote work environments, and consumers sought ways to manage money in a contactless society.

Know more.

The 10 biggest corporate payments trends affecting treasurers in 2020

The Global Treasurer

The corporate payments landscape has reached a transformative moment – one full of change, new challenges, and unmistakable opportunities for those corporate treasurers prepared to capitalize on several important industry trends. As the new decade begins, established payments processes are straining under increasing payment volumes and fast-paced organizational expansions.

Know more.

How Will Open Banking Help SMEs In India

Business World

Open banking is introducing a whole new way of doing business for small and medium-sized businesses, much in the same way that NeoBank ushered in the personal finance revolution. While open banking is often associated with fintech firms, the access, agility and financial transparency it enables is having an impact on businesses across the board.

Know more.

SWIFT GPI for corporates

SWIFT

SWIFT GPI has transformed the cross-border payments experience for corporate treasurers. Payments processing is now more efficient, shortening supply cycles, speeding up critical payments to minutes, and reducing lengthy and frustrating investigations.

Know more.

Supply Chain Financing – a boon for the MSME sector

Forbes India

Supply change financing is scaling new paradigms with digitisation enabling its growth and adoption. Technology-based solutions have helped lower costs, optimise working capital needs, especially kept the wheels of business moving for small and medium enterprises in a COVID-19 disrupted world.

Know more.

Are smart contracts smart enough for India?

Money Control

So much of Indian contracting is for show. It's a way for parties to tell each other what matters to them and who the boss is. It's only when breaches are egregious and perhaps catastrophically damaging that people re-read contracts after signing them.

Know more.

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