Aite Novarica

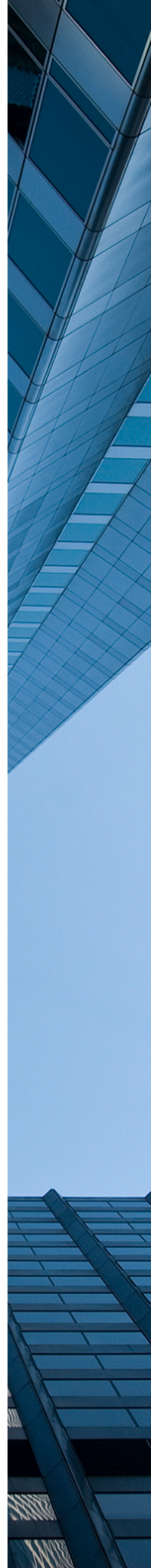
DECEMBER 2021

RECONCILING RECEIVABLES

THE BIGGEST PAIN POINT FOR BUSINESSES

PREPARED FOR:

dadepay
by dadesystems



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EXECUTIVE SUMMARY

As the payments landscape is becoming more complex with access to emerging payment types and technology, businesses are being forced to figure out how to make payments faster and more efficient. Reconciling receivables is one of the biggest pain points that businesses are trying to solve, as payments and remittance information are coming in from so many different sources in varying formats. Matching payments to their respective remittance information is increasingly challenging as payments shift to electronic transactions, customer portals become more widespread, and accounts payable (AP)/accounts receivables (AR) workforces are more distributed.

Key takeaways from the study include the following:

- The total number of payments in the market is increasing, and within that increase, electronic payments and faster payments are experiencing a surge in adoption much higher than legacy payment types.
- Payment data inconsistencies add to the complexity businesses must contend with in order to create efficient receivables processes.
- Recipients must be flexible in how they are accepting payments to ensure on-time payments from payees, but they also must be able to apply those payments quickly to maintain cash flow.
- Implementing a robust integrated receivables or AR automation solution can increase straight-through processing (STP) rates and eliminate unnecessary manual intervention to apply payments.
- A robust receivables solution should be able to pull remittance information from all necessary sources, regardless of payment type, and provide a user-friendly interface for decision-making and to apply exception items.
- Businesses can implement a solution to automate their receivables process from a financial institution or a fintech provider directly.

INTRODUCTION

AR automation has been a hot industry topic, but many businesses have not had a solution accessible through their financial institution, creating a lag in adoption and understanding of the offering. However, receivables are becoming increasingly complex due to the variety of payment methods and accompanying remittance data with which businesses are forced to contend. This has made payments reconciliation a top pain point for businesses of all sizes.

This report is written for businesses that utilize or plan to use an integrated receivables or AR automation solution and the financial institutions and fintech firms that serve them. For businesses, it is critical to create and execute a payment strategy that helps to automate the receivables process to accurately match payments to invoices and remittance information, improve cash flow, better service customers, and reduce demand on internal resources. There is also significant market share to capture for financial institutions and fintech firms that have a robust solution in the market to serve a large percentage of businesses planning on implementing an integrated receivables or AR automation solution.

METHODOLOGY

This report is based on Aite-Novarica Group research from two recent research studies. The first is a February 2021 quantitative survey of 213 U.S.-based midsize and large businesses, and the second is a survey of 81 U.S.-based businesses with annual revenue between US$100 million and US$500 million. The report also draws on the author's in-depth knowledge of the industry and the subject matter.

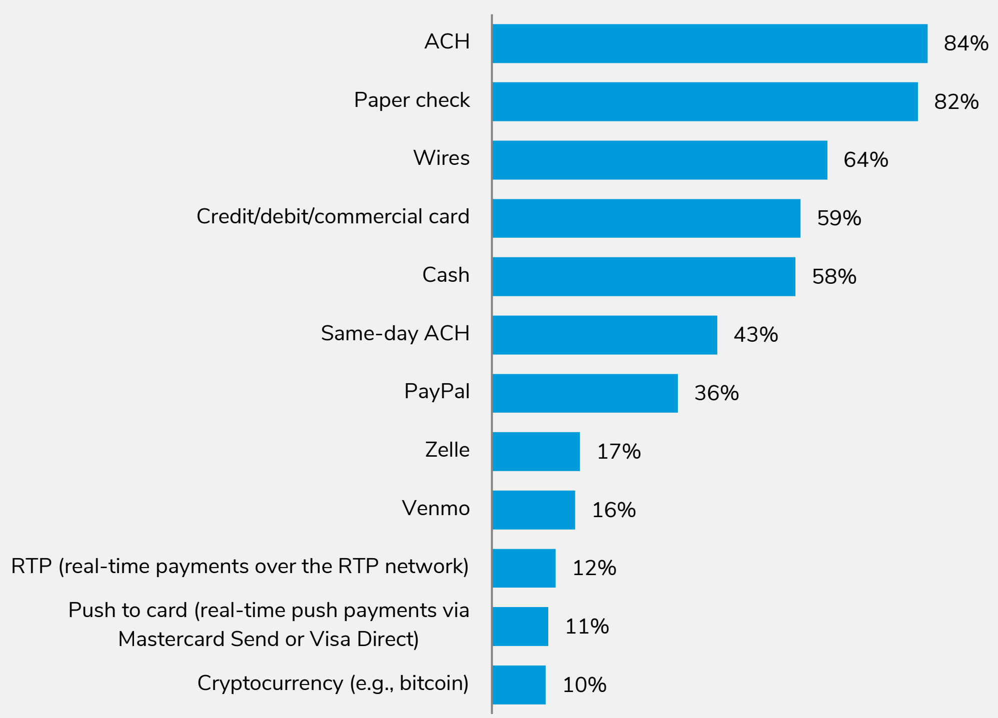
Respondents in both surveys are highly qualified payments professionals and executives with titles such as head of finance, controller, and vice president/director of payments in finance, accounting, and payments divisions within their organizations.

THE COMPLEX PAYMENTS LANDSCAPE

Payments are becoming more than just how businesses move money—payments have become an important part of a solid business strategy. Selecting the right payment methods and tools to send and receive payments can create market differentiation, customer loyalty, and operational efficiencies. To realize these benefits, a business must understand how different payment methods work in different situations, which can be a difficult task. Exclusively utilizing legacy payment types, such as ACH, checks, wires, and cash, is not sufficient in today's market. Recipients want a better experience and quicker settlement. On the disbursement side, businesses also want a better experience and quicker settlement of funds but are being forced to accept a greater number of payment methods than ever before due to payers being at various stages of executing a payment strategy, making efficiencies difficult (Figure 1).

FIGURE 1: PAYMENTS ACCEPTED BY BUSINESSES

Q. Which of the following payment methods does your compnay accept from payees today? (Base: 213 payments professionals at midsize and large businesses)



Source: Aite-Novarica Group survey of 213 payments professionals at midsize and large businesses, Q1 2021

With new payment methods entering the landscape and with no legacy payment types going away, businesses must be able to reconcile payments from different streams that do not have consistent data. The inconsistencies add to the complexity businesses must contend with to create efficient payment processes.

THE RISE OF ELECTRONIC PAYMENTS

As the total number of payments in the market continues to increase, within that is a greater number of electronic payments. As businesses execute on updated payment strategies and select payments based on use case, known recipient information, and operational considerations, emerging faster payment methods are becoming a critical part of the payments landscape. These emerging payment types have been developed to facilitate faster payment settlement, have more robust data, and provide a better user experience.

Examples of emerging faster payments include RTP, Zelle, Mastercard Send, Visa Direct, PayPal, and cryptocurrencies such as bitcoin. While there is potential to realize great improvements on both the sending and receiving sides of faster payment transactions, several factors must be considered in addition to speed (Table A).

TABLE A: PAYMENT METHOD CONSIDERATIONS

DISBURSEMENT CONSIDERATIONS	RECEIVABLES CONSIDERATION
Accepted recipient methods	Remittance information format
Known recipient information	Remittance information source
File requirements	Data fields available
Transaction dollar limits	Reconciliation tools/capabilities

Source: Aite-Novarica Group

On the receivables side, recipients need to be as flexible as possible to receive payments from payers, as on-time collection is the primary goal and is critical to cash flow. However, recipients also need to be able to match and apply those payments, and this is where the complexity of the payments landscape becomes an even bigger hurdle.

THE RECONCILIATION PAIN POINT

Electronic and faster payments are not beneficial if businesses are not able to apply those payments in a timely manner. While the biggest pain point is paper checks—due to the costs and manual processes associated with them—the next biggest issue is how to reconcile payments, which also includes checks and all the other available payment methods in the market (Figure 2).

FIGURE 2: PAYMENTS PAIN POINTS

Source: Aite-Novarica Group survey of 81 payments professionals at businesses with US$100 million to US$500 million in revenue, Q4 2021

Reconciling payments by matching the remittance information with the payment itself to apply that payment can be a struggle with all payment methods. For example, ACH remittance information typically comes in via email, checks have mailed paper remittance information, and RTP can contain the remittance information within the payment itself, but there has to be a way to ingest that data. While having only one of these payment types coming in can create time-consuming, laborious work when not effectively automated, adding in several more payment types with different remittance information sources and formats can be overwhelming. Certain tools can help automate the process and greatly reduce manual application of payments. It is becoming critical for businesses of all sizes to prioritize receivables automation by selecting a technology partner—either a financial institution or a fintech provider—to facilitate this automation.

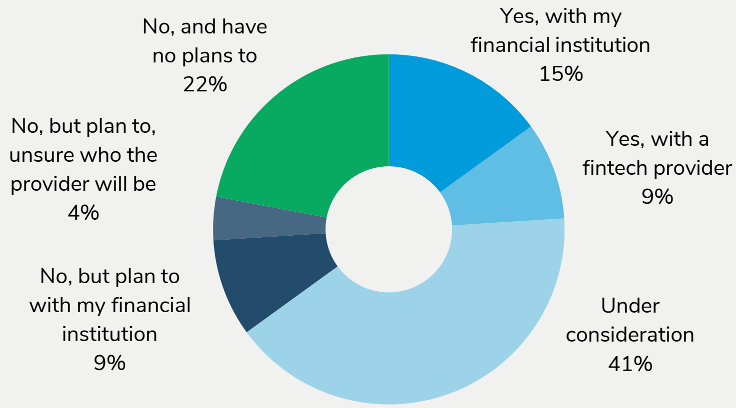
INTEGRATED RECEIVABLES AND AR AUTOMATION SOLUTIONS

The goal of an integrated receivables or AR automation solution is to reduce the manual intervention needed to apply payments. Although many businesses have been able to create automation by utilizing a lockbox offering for check payments, this is just one piece of the optimization available. It is also important to seek a solution that addresses the reconciliation of the growing number of electronic payments. A robust solution should be able to pull remittance information from all necessary sources, regardless of payment type, and provide a user-friendly interface for decision-making and to apply exception items. Ideally, the solution should also be able to create and recommend if/then rules to become more efficient over time and provide information to quickly solve customer inquiries for time-sensitive transactions. Embedded machine learning is a feature that is no longer next generation and should be included in any viable integrated receivables solution. Market-leading integrated receivables solutions also include risk scoring to identify at-risk invoices as well as to make credit term decisions.

A robust integrated receivables or AR automation solution can help a business achieve well over 90% STP rates, with some achieving closer to 98% to 99%. As the number of electronic payments continues to rise and presents greater reconciliation challenges to businesses, more businesses are realizing that it is critical to make the process more efficient. In fact, about three-quarters of businesses either have an integrated receivables solution, are planning to implement a solution, or are considering the market options (Figure 3).

FIGURE 3: INTEGRATED RECIEVABLES IMPLEMENTATIONS

Q. Do you currently have an integrated receivables solutions to automate payment reconciliation? (Base: 81 payments professionals at businesses with US$100 million to US$500 million in revenue)



Source: Aite-Novarica Group survey of 81 payments professionals at businesses with US$100 million to US$500 million in revenue, Q4 2021

One impact on integrated receivables implementations in the market is the lack of awareness of solutions. Financial institution rollouts tend to lag in the market. With financial institutions being the primary point of education and source of commercial financial services for businesses, many businesses find themselves challenged to solve their pain points around reconciling receivables. For some businesses, it has become a better option to engage directly with a fintech provider. Fintech providers have now gained enough market share and experience to help make an implementation easy and accessible to businesses of all sizes. As more businesses become educated on available options, and as more financial institutions launch new product offerings, businesses will have an easier time accessing the automation that they desperately need.

FINDING A TECHNOLOGY PARTNER

As previously mentioned, businesses primarily look to their financial institutions for payment tools and capabilities; however, some businesses are willing to partner directly with a fintech provider. Both approaches have some advantages. When partnering with a financial institution, there is the established relationship ancillary, and complementary services are or can be in place along with integrated receivables. With fintech providers, they have a niche understanding of the tools they offer, oftentimes highly specialized to solve a specific business problem in a repeatable and scalable manner. For businesses, any provider that is easy to work with, provides a robust solution, and has a stellar servicing model is a great choice.

If financial institutions want to remain the preferred partner for businesses directly, it is key to understand the market options and commit to building, co-developing, or partnering with a provider that offers a robust and comprehensive solution to its business clients.

These are key considerations businesses are seeking in a partner:

- The ability to provide education and guidance on how receivables automation works
- Proven implementations with qualitative results of increased STP rates
- Machine learning technology to “learn” how to continue to improve automation
- The ability to include all legacy and emerging payment types
- Seamless integration with accounting systems
- Responsiveness to servicing requests and issues
- Easy-to-understand pricing structure
- Has a robust roadmap and will continue to improve the solution as new technology demands emerge

As more financial institutions seek a technology partner to speed time to market and receivables automation capabilities, these considerations are essential to keep in mind not only for the targeted business clients but also for the financial institution itself.

CONCLUSION

Financial institutions:

- Helping businesses understand the role a solid payments strategy can play in long-term successes is key to building a strong relationship foundation.
- To remain a preferred partner for business clients, financial institutions must provide access to the tools and capabilities that help businesses solve the biggest payments pain points, especially payments reconciliation.
- Consider the advantages of partnering with a technology provider that helps bring a robust solution to market quickly, through either a referral arrangement or white-labeling of a platform that integrates into existing cash management tools.
- If the financial institution has already launched an integrated receivables solution, use the market conditions as an opportunity to capture new market share, as more than half of businesses are planning to adopt a solution.

Businesses:

- As the payments landscape becomes more complex, understanding how each available payment method fits into business processes is not only important but can also create market differentiation and customer loyalty.
- It is important to make it easy for payers to pay a business, but it is equally important to be able to apply that payment to reduce the manual intervention required that can cause delays in cash flow.
- Select an AR automation partner that has the features and capabilities to significantly improve STP rates and also to meet future demands as payments continue to evolve.
- If an integrated receivables or AR automation solution is already in place, ensure that the solution has the right capabilities to increase STP rates and identify at-risk receivables.
- Take advantage of educational opportunities that demonstrate the capabilities of payment automation and how these capabilities can and should impact business processes by eliminating process pain points.

ABOUT DADESYSTEMS

DadeSystems helps businesses unlock the possibilities of smarter AR.

Today's AR teams are challenged by a growing volume of complex business payments. The DadePay suite of integrated AR automation solutions quickly eliminates manual cash application challenges to drive efficiency and scalability, reduced payment processing costs and days sales outstanding (DSO), and improved customer payment experiences.

With an easy implementation that delivers a return on investment in 60 to 90 days, straight-through cash posting rates of over 90%, and complementary mobile AR and payment portal capabilities, DadePay is used by hundreds of businesses across industries to receive, match, and apply any payment from any channel.

Seven of the top 65 North American financial institutions deliver the market-leading DadePay solution to their corporate customers.

Learn more at www.dadesystems.com.

ABOUT AITE-NOVARICA GROUP

Aite-Novarica Group is an advisory firm providing mission-critical insights on technology, regulations, strategy, and operations to hundreds of banks, insurers, payments providers, and investment firms as well as the technology and service providers that support them. Comprising former senior technology, strategy, and operations executives as well as experienced researchers and consultants, our experts provide actionable advice to our client base. The quality of our research, insights, and advice is driven by our core values: independence, objectivity, curiosity, and integrity.

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