



WHITEPAPER

How Enterprise Payment
Optimization (EPO)
Supports Establishing an
In-House Bank

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In a perfect world, end-to-end organizational visibility for payments and liquidity would be achieved through the complete centralization and integration of all a company's systems, banking partners, and business entities with one another. In other words, every system used by an enterprise would connect directly to every other system, and 100% real-time information visibility would be a reality. Of course, this vision is unrealistic for enterprises today. Instead, given the fragmented ERP and systems landscape that often exists across the back-office, a holistic view of payments information is most easily achieved by implementing an EPO "orchestration" layer of software, data, and support. This EPO layer sits above an enterprise's technology stack and manages connectivity across all their back-office, banking, and 3rd party platforms. And by integrating with each platform in an enterprise's technology stack, the EPO layer can become the sole channel through which all company payments are managed, controlled, and analyzed. This in turn can provide the perfect basis for establishing an In-House Bank (IHB).

The ability to leverage consolidated data is a prerequisite to establishing an In-House Bank (IHB)

The ability to actively use consolidated payment data is key for better decision making throughout an organization. It is the basis for managing cash, monitoring liquidity, engaging in cash forecasting, and supporting the information needs of finance, risk, compliance, and the managing board. This information can also benefit procurement in their vendor negotiations. Managers will be able to make better and more informed decisions by using business intelligence and data analytics, impacting both the top

and the bottom line. The ability to leverage this type of data is usually a prerequisite for the implementation of an In-House Bank. Every company may assign different duties or responsibilities to their In-House Bank (e.g., management of pooling, netting, lending, or foreign exchange), but an IHB can certainly support a centralized payment process as well. The possibilities are both multi-faceted and exciting, opening the door to far more standardization and process automation.

A payment factory may be a logical step if centralized information is available

A payment factory may be a first or early step for companies who are growing rapidly and seeking better control and visibility of their transactions and liquidity. Centralizing collections as well as payments, although possible, is a much more difficult task. This is due to tax and regulatory considerations, systems limitations, as well as the need or desire to service clients and vendors locally. Beyond legal and regulatory issues, there are other points associated with centralization of payments. One may be a business need to maintain local bank accounts or to access local payment instruments such as the RIBA in Italy or LCR in France. Finally, time zone considerations, local knowledge and language skills should also be considered.

A payment factory can be a Shared Service Center for multiple legal entities, part of finance or the IHB, or set up to handle group payments and data at arm's length. A payment factory can consolidate both the actual process of making payments to suppliers, partners, and staff globally as well as the responsibility for authorization of these payments. This consolidation, however, requires the payment factory and/or the IHB to establish connectivity to all relevant banking partners. Payment files must be sent to these financial institutions and information on balances and transactions received and reconciled. This process is neither simple nor straight-forward. Connectivity to banks can be extremely complex as well as time and resource consuming, especially if an enterprise is working with a variety of systems, business lines and banks globally.

“The TIS solution is ideal for us, because it means we only have to operate one channel instead of the 15 various e-Banking tools used to date. The fact that the solution is completely web-based brilliantly suits our principle strategy to operate our IT systems exclusively through outsourcing.”

-Bas Coolen, Group Treasurer



Global bank connectivity and financial messaging are complex tasks

Maintaining an optimized bank connectivity and financial messaging structure is crucial for multinational enterprises today. It is key for treasury and finance teams to properly manage tasks that range from payment execution and cash forecasting to payments security and compliance as well as accounting. However, developing a robust bank connectivity structure is not a simple task. Since the origination of SWIFT MT messaging in the late 1970s, systems, protocols, and formats that companies use to transact with their financial institutions have been changing. Innovations such as cloud-based open APIs or new standards such as ISO 20022 are helping to improve the speed and transparency of payments and financial messaging. However, countries and regions, as well as banks, have developed proprietary formats and protocols over time. This creates a complex task for

enterprises. As a result, it's common for multinationals to maintain dozens of custom connections with their banks resulting in additional work for both IT and treasury teams. And once a connection is in place that is not the end of the story. An enterprise needs to maintain, update, and constantly upgrade their bank connectivity over time. In most cases, corporates are using a back-office ERP or TMS (Treasury Management System) to create payment files that must be forwarded to the appropriate bank, who, in turn, executes the payment. The FI then delivers a bank statement, reporting back to the ERP and/or TMS. This may sound relatively straightforward; however, an enterprise's payments are usually being generated through multiple ERPs or treasury management and payroll systems, or from a variety of entities and locations.

“TIS provides us with a sophisticated yet easy-to-integrate cloud-based solution that provides end-to-end bank information and transaction management through a single platform.”

-John Kluza, Group Treasurer

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What does the structure of an In-House Bank (IHB) look like?

Are virtual accounts integral to an IHB?

There are various ways to position an IHB within a corporate structure. Most often it is set up to reside between internal departments on the one hand and vendors, suppliers, and banks on the other. The In-House Bank is often surrounded by a “Chinese Wall” or “information barrier” in order to keep information and responsibilities both clear and distinct within an enterprise. In order to execute payments, pooling, netting, lending, or even FX, the IHB may decide to create Virtual Accounts (also known as Virtual Bank Accounts or Shadow Accounts).

Virtual (bank) accounts are ledger records or alias bank accounts used for internal purposes only and will usually mirror a client’s corporate structure. Virtual accounts can be housed within a company’s ERP (if the capability is provided – see also SAP APM below) or be part of a software package hosted and maintained by a financial institution. Virtual bank accounts have unique account numbers and can play a role in transactions in a similar way as physical accounts. However, even when working with a bank, these accounts cannot hold an end-of-day balance or technically “settle” money. Instead, they are used to support the pass-through of debits and credits between actual bank accounts mapping and reflecting the relevant transaction and balance activity.

Practitioners speak about the fact that virtual accounts save both time and money (i.e., through better reconciliation, far fewer physical bank accounts and much less “hassle” when opening and closing accounts). However, this may not be the right choice for every company. Why? Far fewer bank accounts are now holding more concentrated and centralized funds so that tax and legal implications need to be carefully reviewed. Although consolidated netting and pooling can bring significant advantages, inter-company loans may create penalties for multiple legal entity structures. If participants are part of the same legal entity, then moving the authority for both centralized bank accounts and virtual internal accounts is primarily about gaining the permission of all parties concerned. The IHB set-up allows those managing the supply chain, for example trade terms and conditions, to be responsible for these points. Other banking services including the actual payment process can be handled by a “center of competence.” Another advantage of centralizing authority is the ability to more competently negotiate banking fees and margins. The IHB should have a better overview of what has actually been used and what is needed. New regulatory and compliance rules can be implemented more easily as well. The IHB represents the interface between internal corporate departments and the bank(s) for some, if not most, banking services.

Scenarios enabled through IHB integration

Switching from many local and /or regional set-ups to a centralized solution also means the transfer of competencies from the original process owner to the new department at e.g., headquarters. This represents a shift in responsibility (and power) as well as a huge technical effort. As noted, this shift may also bring legal, compliance and tax consequences that need careful evaluation. While a payment factory is responsible for executing payments, the In-House Bank will usually take responsibility for other topics surrounding liquidity and rethink these challenges in a centralized world.

We realize that the IHB concept is not new, however it is once again gaining in popularity. This is partially due to increased risks, including fraud, new available technologies and more sophisticated service providers that can help solve some of the issues mentioned above. There are significant advantages that can be realized through the centralized visibility and management of data as well as processes and risk.

An In-House Bank module powered by SAP; adding APM to an IHB architecture

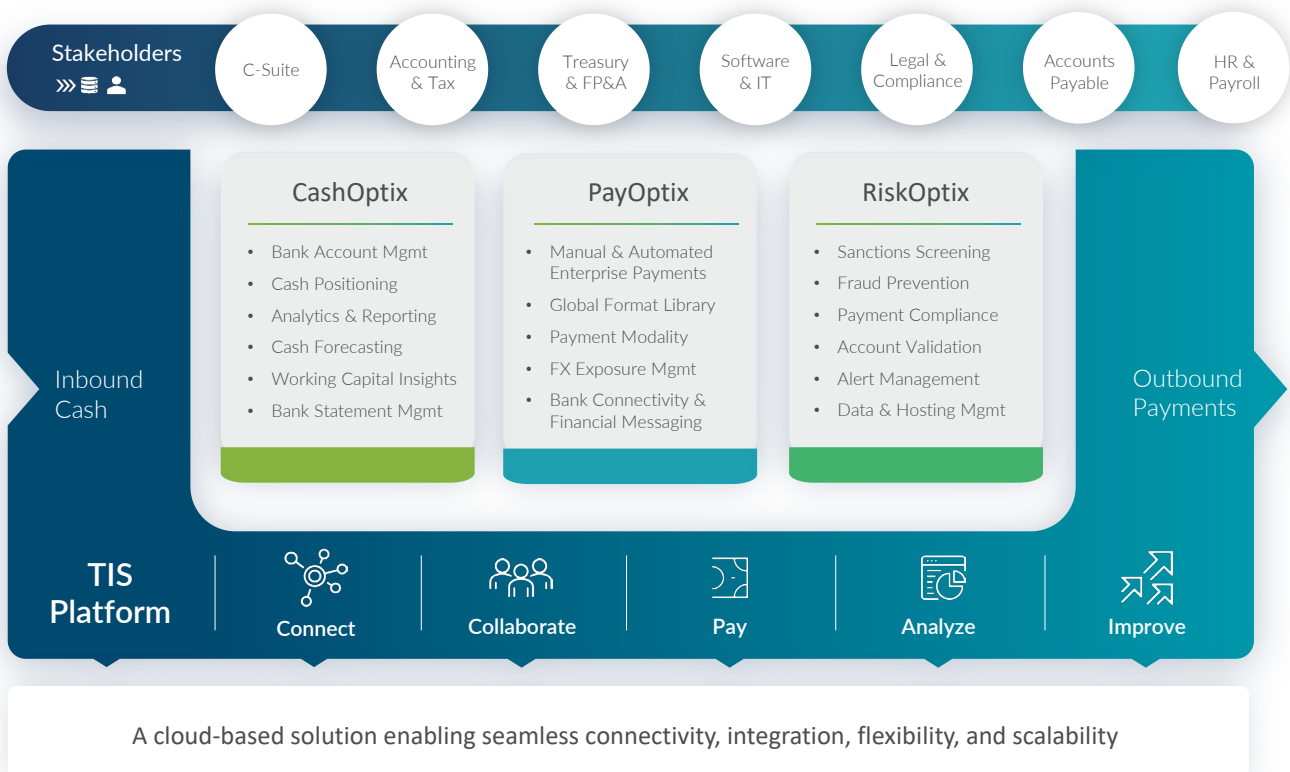
There are various points to review when considering an In-House Bank, however, there are only a limited number of technical solutions available today. Many corporates rely on SAP in their role as a market leader for ERP systems, however, SAP also provides an In-House Bank solution. They offer a variety of tools to help enterprises technically implement an IHB. The module In-House Cash can, for example, be used to create virtual bank accounts. There are, however, certain gaps in this solution which are addressed through the new SAP Advanced Payment Management (APM) offering. APM supports payment factory

initiatives while improving security and allowing the integration of non-SAP systems directly to the IHB system environment. APM supports the mapping of internal account numbers to external bank accounts, an important step towards further automation in treasury.

Embracing centralization, however, means significant changes for companies and the need for a variety of IT projects. Adding APM to an existing solution means reconfiguring all settings to fulfill new requirements. There would also need to be a connection to systems not integrated into the main SAP environment etc. Some of these obstacles may indeed be related to the

changes that are required to split tasks between local, regional and globally centralized entities. An IHB implementation comes with complexities and dependencies. An EPO platform enables an enterprise to decouple desired business improvements from a technical optimization.

THE TIS EPO PLATFORM & PRODUCT SUITE



“For our renewed banking landscape we looked for a centralized payments platform to make international payments more transparent and secure. With TIS, we can automate and standardize payments and monitor the processes from group treasury whenever necessary. For us, the core value of this solution is to enable us to follow closely the company-wide liquidity status at the push of a button.”

-Daniel Pier, Group Treasury Leader



The embedded In-House Bank – TIS can help through Enterprise Payment Optimization (EPO)

Once a decision is made to create a payment factory or an In-House Bank - regardless of the software vendor chosen - connectivity must be established to a variety of ERP, TMS, and HR systems as well as to financial institutions. This requirement transcends individual departments, such as accounts payable, HR, treasury, or finance and yet all these organizational areas may create or facilitate payments. The process requires connectivity to upload payment files to banks in their preferred format. Once connections to financial institutions are established, they must be reviewed regularly and updated. This is a time consuming, complex, and costly endeavor. Organizations can outsource complexity to gain the power of flexibility and choice. And by choosing the right EPO platform, corporations can realize far greater operational freedom! Freedom to more quickly and easily change or upgrade an ERP system, complete an APM integration, add a new subsidiary, or adjust a banking relationship. Changes are based on business needs rather than operational restrictions or bottlenecks, especially within IT.

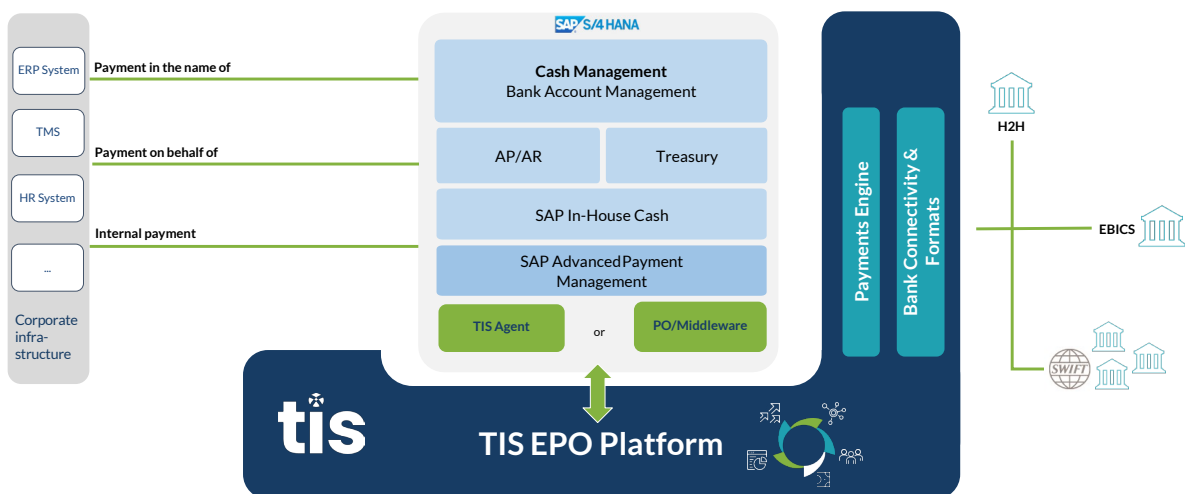
TIS has a proven track record of SAP integration and certification including the support of APM solutions. The benefit of choosing TIS as a partner for centralized, e.g., In-House Bank solutions lies in TIS' ability to provide and harmonize the needed interfaces to systems, financial service providers and banks. Companies can begin to realize a high level of both control and agility through Enterprise Payment Optimization (EPO). Based on our experience and expertise in reducing complexity in connectivity, we support multinationals to optimize their processes. In the case of transformation projects, TIS can also support the switch of interfaces. We help our clients by centralizing, for example, local ERPs to the EPO Platform, representing a huge reduction in time and effort to add existing legal entities and affiliates to an In-House Bank. The mapping to APM can also be done via TIS, so that corporate IT involvement is minimized. Adding new systems or banking relationships becomes easy as most of the heavy lifting will be done via the EPO Platform. Together with its partners, TIS also supports change management to secure a guaranteed project effort. Once connectivity is established from a client's system to their chosen bank, TIS takes care of future maintenance, thereby allowing an enterprise to avoid the pain of constantly monitoring and enhancing the connection. It is also possible to add manual payments to this process.

The TIS Enterprise Payments Optimization Platform functions as a global, multi-functional ecosystem

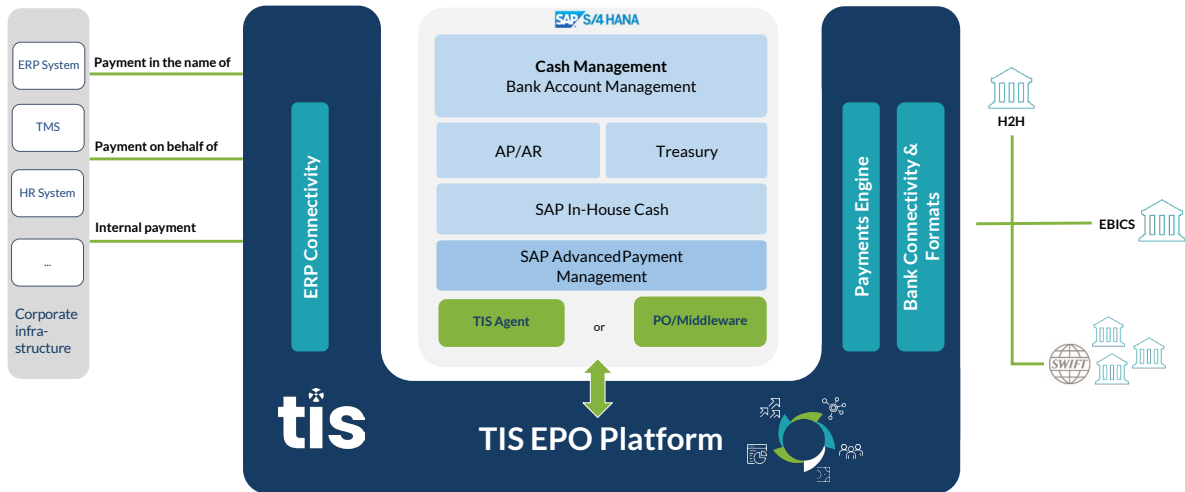
The TIS Enterprise Payments Optimization (EPO) Platform is a global, multi-channel, multi-bank connectivity ecosystem. The platform supports a solid foundation for connectivity to ERPs, TMSs, HR and other systems that create payments as well as to financial institutions. Data is uploaded from these systems through plug-ins or agents and passed on through the TIS platform to banks. The platform provides connectivity by creating and maintaining formats (host-to-host, EBICs, and other local “flavors”) and partnerships (e.g., SWIFT). The EPO platform automates and optimizes the processing of a company’s payments. It removes complexity resulting

in lower IT costs for connectivity, format development and maintenance and ensures a future-proof set-up. It enables consistent and seamless information exchange across departments and geographies. Additionally, EPO reduces the risks of compliance violations and fraud attacks with highly innovative features, like the sanction screening tool or the payee community screening module. With this, TIS reviews all your payments, including manual payments and payments from third parties, such as payroll providers, before they reach the bank. Summarized, EPO increases transparency, enables smart business decisions, lowers risk, and reduces costs.

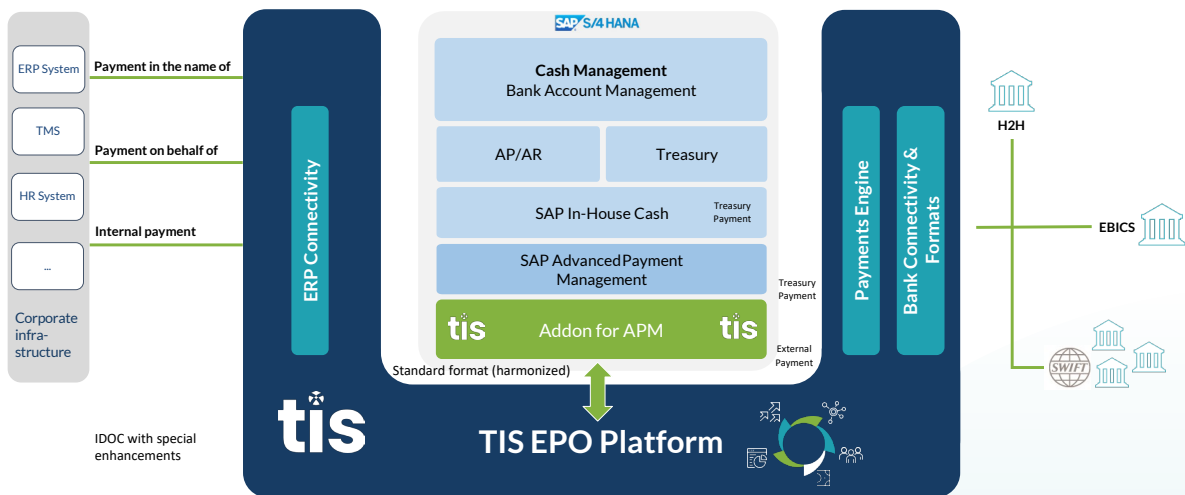
Scenario A: EPO as a Banking Gateway



Scenario B: EPO as Local ERP Integration and Banking Gateway



Scenario C: EPO Plug-&-play Integration



The TIS EPO platform maintains more than 6,000 bank formats, which translates into the largest format library in the world. This is vital for clients who look to TIS to outsource their systems and payments complexity. TIS has become a global leader regarding bank and country formats, receiving inquiries by international banks regarding best practices for various countries. For corporates, TIS continues to be recognized as both

a pioneer and a key innovator in removing complexity, supporting straight through processing, and connectivity as well as reducing fraud. TIS can support your journey to information centralization

>> Reach out to the TIS team for more details on how TIS can optimize your payment processes.

LEARN MORE ABOUT TIS

TIS helps organizations simplify and streamline their global payments and liquidity management operations. Our cloud-based platform empowers businesses to optimize critical functions surrounding cross-border and domestic payments, bank connectivity, cash forecasting, fraud prevention, payment compliance, and more. Corporations, institutions, and business vendors leverage TIS to transform how they connect with global banks and financial systems, collaborate on payment processes, execute outbound payments, analyze cash flow & compliance data, and promote working capital efficiency. Ultimately, the TIS technology platform helps businesses improve operational efficiency, lower risk, manage liquidity, gain strategic advantage – and ultimately achieve enterprise payment optimization.

Visit tispayments.com to reimagine your approach to payments and liquidity management.

Enterprise payments reimagined.

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