

It is not every day that organizations can cut the costs of a key overhead activity to a mere fraction, and at the same time achieve significant gains in its efficiency. Nevertheless, that is exactly the **opportunity that electronic payments present to accounts payable departments today.**

Historically, the payment process has been personnel and resource-intensive, involving the use of expensive preprinted forms, with production taking place in the IT department, followed by several stages of post-process prior to mailing. **Cost per payment has hovered around \$2.00**, and even more when all background overhead is considered.

The arrival of **MICR-laser check printing on blank security check stock** eliminated the need for printing, inventory and handling of forms as well as virtually all of the post-processing. In most cases, it also shifted check production scheduling and control to accounts payable. **Costs usually dropped by some 75 percent.**

Electronic payments using the banking industry's Automated Clearing House network (ACH) reduce disbursement costs even further, eliminating the need for paper checks and introducing electronic distribution procedures for advice of deposit (payroll) and remittance advice (accounts payable) information. The transfer of funds directly from the corporate account to the payee account minimizes personnel requirements, accelerates distribution and further enhances security.

MICR-laser check processing had already impacted the check fraud liability problem significantly by reducing the risk of form theft, check duplication and alteration. By dispensing with paper documents, using fewer people, and reducing the points of vulnerability, **electronic payments provide still greater protection for the corporate treasury.**

PAYROLL LED THE WAY

Electronic payments have proven themselves in payroll, where an estimated **71 percent of employees opt to be paid by direct deposit and who express a 97 percent satisfaction level.** (Source: NACHA, the Electronic Payments Association) All of this being true, why is it that there is still resistance to the implementation of ACH payment processes for accounts payable?

Inertia is certainly one reason -- the reluctance to change something that already works. But there are other identifiable factors as well. One is the reluctance of vendors to divulge banking information to outside parties. Another is the need to change the way a company communicates with its vendors.

Still another is confusion over just how to bring vendors on board for the ACH payment process. These obstacles persist, despite the fact that significant advantages result on both ends of the transaction.

TIDE TURNING

There is a growing body of evidence that the tide is turning. The Federal Reserve Bank reports that in 2000 there were a total of 72.5 billion non-cash payments. The number rose to 81.2 billion in 2003, representing a compounded annual growth rate of 3.8 percent. The figures include checks, credit cards, ACH, offline debits, online debits and electronic benefit transfers. (For this article we will focus only on the trends in checks and ACH payments.)

In 2000, 41.9 billion checks were issued, compared with 36.7 billion in 2003, a compounded annual rate of decline of -4.3 percent. During the same period, ACH payments grew from 6.2 billion to 9.1 billion, a 13.4 percent compounded annual growth rate. Significantly, while total payments continued to increase, the ratio of checks to ACH payments continued to favor ACH and the trend continues. According to current NACHA reports, there were nearly **14 billion ACH payments in 2005, an increase of 16.2 percent over 2004.**

ROOM FOR GROWTH

Payments by ACH thus have more than doubled in only the past five years, and the association projects an increase to well over 15 billion in 2006. Nevertheless, ACH payments still represent less than 17 percent of all non-cash payments, assuming that the 3.8 percent compounded annual growth rate holds.

The benefits that accrue from using ACH for the accounts payable process suggest that **organizations that continue to delay, cost themselves money needlessly.** But is it realistic that companies will shift from checks to all-electronic payment environments in a single jump?

Probably not. Fortunately, it is possible to **implement highly automated, blended payment processing solutions that accommodate MICR-laser check processing and ACH disbursements within the same payment run.**

For example, ACOM Solutions, Inc. (<http://www.acom.com>) offers parallel solutions that run in the Windows and the IBM System i environments; between them accommodating all major operating systems and financial management

systems, using native code which assures that the software is optimized for the platform on which it runs.

- Users can program vendor preferences for type of payment and mode of advice/notification distribution right into the payment run.
- The intelligent payment data stream diverts check data to a MICR laser printer and routes electronic payments to the ACH network.
- Checks go into the mail with the remittance advice printed right along with the check.
- ACH payments go directly into payee accounts, with notification of deposit delivered via automated email or fax, or by posting to a secure website.
- The electronic notifications indicate when the payment was issued, when the funds will arrive in the respective bank account, and what invoices are covered by the payment.

like ACH creation, check printing, and Positive Pay creation. It should also allow key users to be **notified via email** when any of these processes takes place as well as provide a **detailed listing/audits of all payments affected** by the process.

ACH is demonstrably the payment solution for our times, benefiting all participants with greater economy, efficiency, security and control: it represents one of those rare win-win situations that keep businesses forging ahead. *The key here is to find the solution that can make the transition easy while providing the right levels of automation, efficiency and controls.*

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HOW TO SIGN UP VENDORS

Setting up ACH consists primarily of coordinating data flow with the payee's bank. Once that is accomplished, the payment distribution process is automatic and seamless. From there, it is a matter of getting vendors on board.

Often, companies attempt to do this by telephone and not unusually, they encounter some resistance for the reasons mentioned above. We suggest using a **vendor self-registration process that allows vendors to control and access their own information securely within the payer's software**, and limiting access to that information to one or two responsible individuals who are clearly identified and who can access it only with payee permission. Self-registration can be executed remotely and automatically via a secure, web-based application, usually initiated on a tiered basis, with high-volume vendors in the first tier, medium in the second, and so on.

SECURING THE TRANSACTIONS

Security is always a critical issue with any disbursement system. It is even more critical when dealing with electronic payments. A solid disbursement solution should include advanced security features that cover both traditional issues related to paper checks and the newer challenges that are unique to electronic payments. A robust security setup should establish multiple safeguard parameters such as **multi-level passwords** and task separation as well as include **features for real-time monitoring** of critical events