How Virtual Accounts Respond to Your New Collection Challenges

SEPA contributed a major step towards the harmonisation and the standardisation of formats, so corporates should be in a position to significantly improve their collections through greater automation and accelerate the centralisation of their cash. But some challenges are still keeping them from taking full advantage of SEPA, and significantly improving their order-to-cash cycle as a result.

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An efficient order-to-cash cycle: an imperative for all finance stakeholders

Although it is a general practice for managers to be responsible for the profitability of their company, they are rarely incentivised on the

Impact of a well-performed reconciliation

- Higher client satisfaction
- Reduce operational and processing costs
- Better credit risk management
- Lower days sales outstanding
- Positive impact on working capital
- Improve visibility on business units' performance

level of working capital. The impact of bills' reconciliation on the whole order-to-cash cycle is often under-estimated and cash is not seen as a strategic resource for success. Yet in a financial environment where access to cash and liquidity has been drastically reduced in the last few years and probably will be reduced further in coming years, such considerations must be reviewed in order to re-position reconciliation at the heart of the financial processes, with the following objectives:

1) A positive impact on the days sales outstanding (DSO) and consequently on the whole working capital
2) Lower processing costs due to the reduction of associated manually intensive tasks
3) Better credit risk management

Even though SEPA has led to the simplification of the collection process for electronic instruments and opened new doors to data exchange, some issues still keep corporates from achieving a high rate of straight-through reconciliation (STR), particularly on incoming credit transfers.

One dedicated bank account per client with virtual accounts

With as many bank accounts in IBAN format as they have clients, corporates can now implement a true and unique end-to-end reference with each of their clients. This capability brought by virtual accounts is fully transparent for their clients (debtors), their banks and clearing houses, and it allows a 100% rate of automated payer identification.

As an example, a company with a global turnover of EUR 1bn has an outstanding position in its account receivables of EUR 220m, leading to a DSO of 79 days. The positive impact of improving the reconciliation by two days can free up almost EUR 10m of cash.

Virtual accounts provide the answers to two main challenges: automatic identification of the payer and identification of the final beneficiary of funds.

Centralisation: the new leitmotiv for collections

As corporates are now SEPA compliant, they aim to benefit from the new European format to centralise their organisation not only for payments but also for collections. One area where centralisation has been facilitated by SEPA relates to bank account reduction. Indeed, fewer bank accounts means lower account administration costs - multinationals can use over a hundred full-time equivalents just to open, close and update account signatories. More importantly, fewer accounts also means facilitated internal control and oversight.

The ultimate centralisation model for collection accounts consists in striving to limit the number of accounts to one per currency, an account that would be used for collections for multiple entities. This model, sometimes known as the collections on behalf of (COBO) model currently brings a number of regulatory, tax and operational challenges, one of these being identifying the final beneficiary of funds received on the central account.

Here again, virtual accounts provide a reliable technical response. Indeed, as the solution makes it possible to customise the virtual accounts numbers, corporates can replicate their organisation structure into a 'virtual bank' account structure. By doing so, they directly allocate payments to the right beneficiary and automatically create intercompany accounting entries in their accounting system.

To summarise, virtual accounts provide the answers to two main challenges: automatic identification of the payer and identification of the final beneficiary of funds, a solution that brings corporates one step closer to a more efficient reconciliation process. ■