

## A Pioneering Approach to Optimising Collections

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Many treasurers have taken great strides in optimising working capital and streamlining financial processes, but centralising collections, which arguably brings the greatest advantages, has proved the most challenging. As the timing of incoming payments, and the payment method used by customers, are beyond a company's control, it is difficult to streamline collection activities or develop economies of scale, particularly as instruments and formats, together with local regulatory and tax issues, can differ so widely across markets.

The barriers to centralising collections are slowly breaking down, for three key reasons: a more harmonised payment landscape; product innovation to address operational challenges; and the ability of banks such as BNP Paribas to support the set-up of domestic, regional or global collection factories.

### **A compelling value proposition**

While there are potential challenges, the benefits of a centralised collections model can be compelling, and often outweigh those of other centralisation projects. This is particularly the case when implementing collections-on-behalf-of (CoBo), where one entity collects customer payments on behalf of other group companies. Channelling incoming flows through a single entity and account allows treasurers to maintain fewer bank accounts, simplify account administration and manage liquidity at a group level. A CoBo approach is also a highly effective mechanism to support structures with one single legal entity but having different business units.

### **A harmonised payment landscape**

With SEPA (Single Euro Payments Area) now bedded down, some payment and collection instruments are now consistent across the Eurozone (SEPA Credit Transfers [SCT] and SEPA Direct Debits [SDD]), with no distinction between domestic and cross-border flows. Collection accounts can also be located in of the Eurozone country of a company's choice. These two factors make centralisation of collections more straight-forward, particularly if companies can encourage customers to use only efficient payment instruments such as SDDs. Using SDDs, whether for consumer or business customers, increases the predictability of incoming flows, which has positive working capital implications.

### **Solution innovation: Virtual Accounts**

The sophistication of solutions to support collections centralisation and CoBo is increasing. In particular, BNP Paribas has invested significantly in tools that make it easy and convenient for customers to pay, and for treasurers and finance managers to identify, reconcile and post incoming payments automatically. In addition to providing a comprehensive CoBo offering, BNP Paribas has developed a comprehensive Virtual Accounts proposition that is now firmly established as part of clients' collection and reconciliation processes.

?Virtual Accounts? has become a widely used term and can refer to different product offerings, but BNP Paribas Virtual Accounts solution is based on the concept of a virtual IBAN. The company maintains one physical account often held by the collecting entity (which acts as a service provider to participating group entities), and each entity is provided with a unique Virtual IBAN to which customers make payments. The operational challenge of receiving all incoming flows from several legal entities is related to the re-allocation of funds to the correct final beneficiary of funds (intercompany accounting). In reality, each of these Virtual IBANs is linked to a single physical account, which is located in the same country. When reconciling this account, the Virtual IBAN allows the treasury centre or the shared service centre (SSC) to identify the legal entity to which flows relate, and also use the IBAN to automatically reconcile and post these items to customer accounts.

Virtual IBANs also offer significant value for companies that have a single entity. For example, individual IBANs could be used to identify business or product lines, country, customer segment etc., simplifying account posting and data analysis.

BNP Paribas Virtual Accounts solution is now live in nine European countries: Bulgaria; Germany; Hungary; Luxembourg; Spain; Switzerland; Poland, UK and Turkey. Four further countries will follow during the course of 2016, namely: Belgium; France; Netherlands and Portugal.

#### **Advisory services in practice**

While market harmonisation and innovative Virtual Accounts solution are vital steps in enabling treasurers and finance managers to centralise and transform collections, they do not address what is probably the greatest challenge to centralising collections and implementing CoBo, namely the diversity of regulatory, legal and tax conditions across markets. Today, however, BNP Paribas advisory services create an unprecedented opportunity to approach collections transformation projects with confidence and a comprehensive awareness of a realistic and achievable project scope. Some of the areas in which BNP Paribas offers particular value include:

**Research and expertise** BNP Paribas has invested heavily in researching and documenting the tax and legal implications of collections centralisation and CoBo across a wide range of markets in conjunction with a leading consultancy firm. This intelligence is crucial when defining the scope of a collections transformation project, and maximising its reach. As regulations evolve, and the range of countries in which clients wish to extend their centralised collections infrastructure increases, BNP Paribas will continue to review, refine and expand the geographic scope of this study.

**Bespoke project definition** BNP Paribas has pioneered a project definition and implementation approach with a series of workshops at the start of each project to explore and resolve both internal challenges and potential regulatory, legal and tax issues in each country and currency that are within project scope. The result of this workshop process is a detailed blueprint specific to a client's project, to ensure that the project expectations, scope and deliverables are realistic and achievable, avoid unwelcome surprises, and ultimately maximise success.

#### **Solutions in practice**

These three factors: market harmonisation, product innovation and BNP Paribas expertise now mean that CoBo, in conjunction with Virtual IBANs, has moved from vision to reality. BNP Paribas is working with European, North American and Japanese corporations across a variety of industries to centralise collections on a CoBo basis with Virtual Accounts to reduce costs, improve working capital and support international growth. Initially, most of these projects start with a single country or region, such as Europe, but with a view to expanding in future phases, reflecting the company's international growth trajectory.

However, this is not the end of the journey in the evolution of Virtual Accounts. BNP Paribas is firmly established as a solution innovator, committed to working with clients to understand, anticipate and address changing cash management needs. As BNP Paribas continues to expand its value proposition in collections optimisation, clients can adopt transformational solutions such as CoBo, Virtual Accounts progressively and seamlessly as their strategic agenda evolves, with expert advisory services to offer confidence and transparency locally, regionally and globally.

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