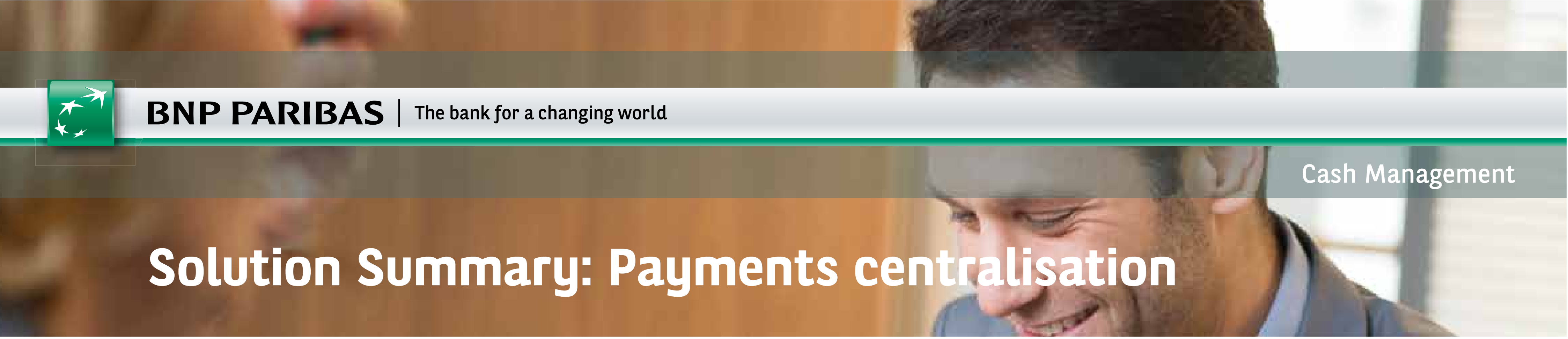


BNP PARIBAS | The bank for a changing world

Cash Management

Solution Summary: Payments centralisation

Companies of all sizes, across a wide range of industries, profiles and geographies are increasingly seeking to centralise business support functions such as finance, procurement, IT support and HR. Typically, the primary objectives are to improve efficiency, reduce costs, and enable business units to focus on the company's core business activities. However, as these centralised functions mature, they are moving beyond cost savings to become service companies that contribute demonstrable value to the organisation.

Finance and accounting activities such as payments, reconciliation, cash allocation and forecasting, and in some cases collections are amongst those that can be centralised successfully. Centralising payments is often a logical first step, enabling companies to standardise processes, rationalise technology platforms and bank connectivity, and build centres of expertise.

Please contact your BNP Paribas Relationship Manager to discuss your payment requirements in more detail.

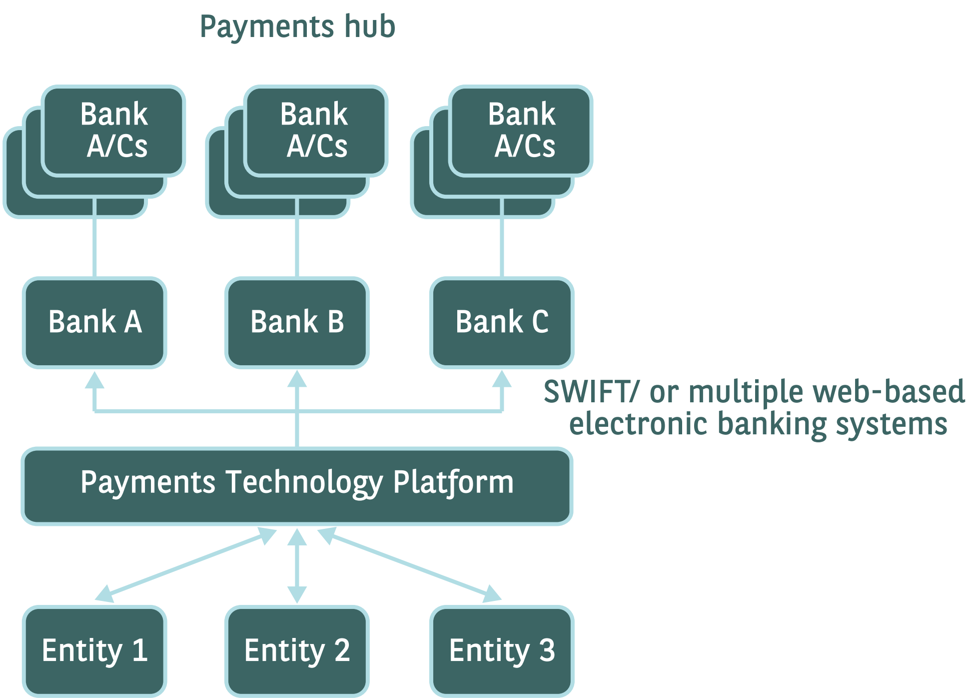
Alternatively, please email: cmatlas@bnpparibasfortis.com

1 MODELS FOR CENTRALISED PAYMENTS

Payments centralisation can be implemented in different ways according to the company's culture and organisational structure, as well as the regulatory requirements in each of the countries in which payments are made:

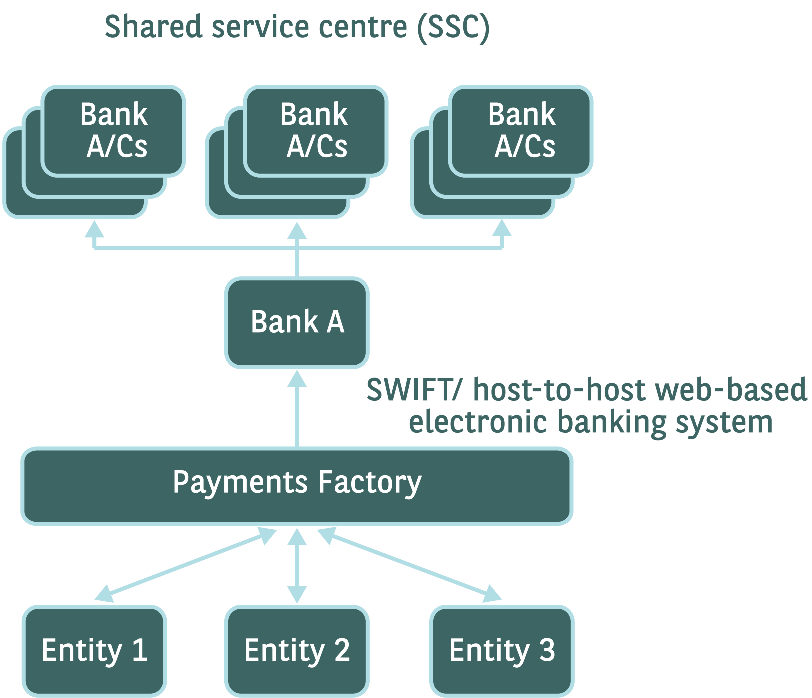
Payments hub

A payments 'hub' has a central technology infrastructure accessed by accounts payable functions located in different parts of the group. This approach enables multiple teams to use a single system with consistent processes and reporting, therefore improving controls and reducing technology costs, but without necessarily impacting on organisational structures or banking relationships.



Shared service centre (SSC)

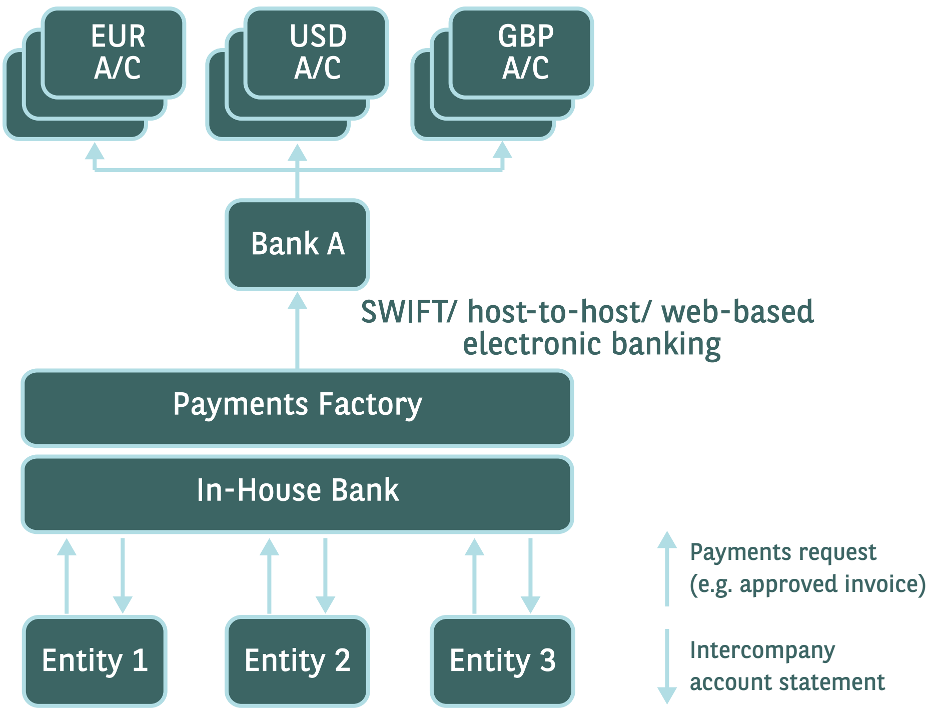
An SSC or payments factory involves centralising payments processing into one, or more than one, centre. This approach typically expands further on the benefits of a payments hub. Companies typically rationalise banking relationships as part of a SSC or payments factory project and streamline bank communications. This creates economies of scale and reduces cost and administration; furthermore, by concentrating resources either globally or regionally, SSCs become centres of excellence within the business.



In-house bank (for third party payments)

The third, and most efficient form of payments processing is an in-house bank, with payments made on behalf of group companies through a single account (usually per currency), with payments booked on the originating entity's intercompany account. This is often known as a payments-on-behalf-of (POBO) model. The original entity on whose behalf a payment is made is identified on the remittance information for identification and reconciliation by the beneficiary. An in-house bank builds on the advantages of an SSC by enabling companies to reduce the number of external accounts that they operate. This lowers costs and simplifies cash management e.g. there is less need for complex cash pool structures.

In-house bank (for third party payments)



2 A CATALYST FOR CENTRALISATION

Although establishing SSCs or payments factories has been a trend for a number of years, the rollout of SEPA (Single Euro Payments Area) is proving a catalyst in many cases by standardising payment instruments and formats across the Eurozone and permitting a simplified approach to account structures and banking relationships.

Before the introduction of SEPA, and the Payment Services Directive (PSD) that underpins it, Euro accounts still had to be held in each country, so the opportunity to rationalise accounts and simplify cash management was limited. Since 2009, companies have been able to hold only one Euro account across all of their entities if they wish to do so. As there is no longer a distinction made between domestic and cross-border SEPA credit transfers and direct debits, there are no longer any external reasons for holding accounts in each country, so treasurers and finance managers can simplify their account structures, reduce costs and streamline processes.

3 A GLOBAL APPROACH TO PAYMENTS

POBO payment factories are not restricted to Europe or the Euro. Increasingly, we are seeing companies expanding POBO models on a global basis, allowing companies to channel payments through one account per currency in countries where regulations permit. In the past, this has been difficult to achieve both as a result of regulatory restrictions in many countries, but also due to the diversity of formats used for exchanging information with payment banks. This has often led to remittance information being truncated or removed from payment messages. Without this information, the beneficiary does not know on whose behalf the payment has been made, resulting in multiple supplier queries and potential supply freezes if payments cannot be allocated promptly.

This challenge is becoming less significant due to the growing use of ISO 20022 formats (this is the format used for SEPA payment instruments are based but it has global applicability). ISO 20022 formats (both within SEPA and globally) include a structured field to indicate the entity on whose behalf a payment is being made. This data is passed consistently through the payment process, enabling reconciliation and account allocation to be automated and accelerated. The use of remittance advices, which bypass remittance data clearing constraints, further improve reconciliation.

4 IMPLEMENTATION CONSIDERATIONS

There are some specific considerations that companies need to make when implementing a payments factory on a POBO basis, or enhancing an existing payments factory:

- Intercompany agreements need to be in place to authorise the payments entity to make payments on behalf of each participating group company.
- External regulatory issues need to be explored to ensure that POBO is permitted for each currency and country that is included within the scope of the project.
- Internal obstacles, such as organisational structures that ringfence entities or restrictive statutes need to be considered.
- Systems used for payments processing need to support POBO, specifically the 'on behalf of' field in the ISO 20022 format.

In-house banks becoming increasingly popular for third party payments amongst companies that have already implemented a payments hub or SSC. Although it is a bigger step for those that are centralising payments for the first time, it is entirely achievable and optimises the advantages of centralised payments processing.