

# INITIATIVE

## The Pulse of New Jersey Business

### Adopting Electronic Payment Strategies to Improve Cash Flow Management

While economists, politicians and media pundits continue debating the depth of the recession and the coming of the inevitable recovery, tough economic times continue to linger.

Faced with tight credit markets and aging receivables, more organizations are adding electronic payment solutions to their treasury operations to optimize working capital, expedite cash flow and safeguard against check fraud.

#### Minimizing Risk from Unauthorized Disbursements

Faced with having to do more with fewer resources, decisionmakers are transitioning to business processes that save money, improve productivity and expedite cash

flow. This trend includes adding electronic payment solutions to their treasury operations to optimize working capital.

Findings from the *March 2009 Payments Fraud Study* of 5,300 corporate participants fielded by the Association for Financial Professionals seemed to confirm the ABA's survey results:

- 71 percent of respondents' organizations experienced attempted or actual payments fraud in 2008.
- Incidents of check fraud increased for organizations of all sizes in 2008 compared to 2007.

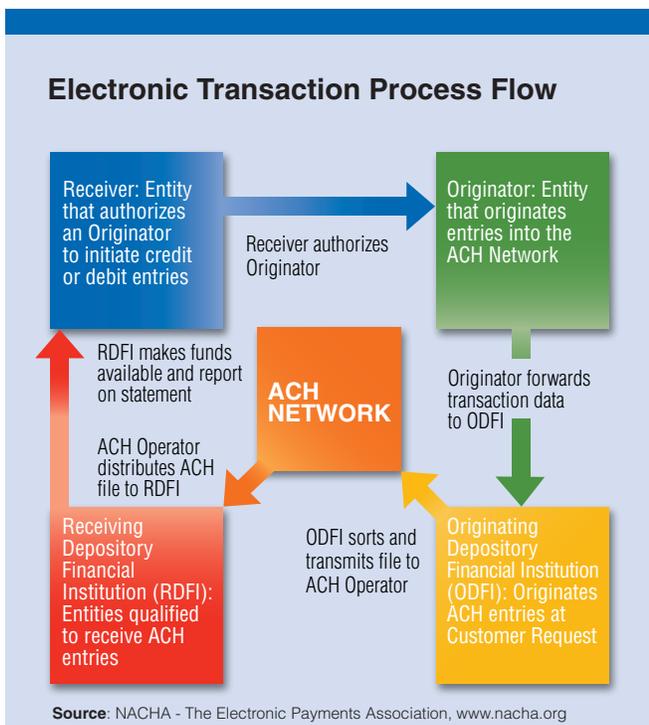
While checks are still the most widely used method for business-to-business payments, they remain the method most often targeted by criminals to commit fraud. To safeguard against potential financial loss, businesses can look to products like **Positive Pay** that can put them in a better position to monitor and detect unauthorized check disbursement activity.

Featuring robust analytics and reporting capabilities, treasury teams can review daily checking activity and compare check issue files and actual paid check data to identify discrepancies. In addition to minimizing the risk of check fraud associated with large-dollar payable accounts, a Positive Pay electronic payables solution provides timely information on check payment items and improves oversight and control through a comprehensive early decision process that allows for the return of unauthorized check items.

#### Accelerating Your Receivables

The historical reliance on paper documents and manual processes is a giant cash flow anchor for companies trying to collect their receivables in a timely manner. In an effort to shorten their invoice-to-collection cycle, many are now employing electronic payment tools to:

- Reduce their days sales outstanding – the average number of days it takes to collect revenue and convert it to cash after a sale has been made.



- Uncover opportunities for working capital optimization embedded in their payment operations.
- Lessen their reliance on costly and time-consuming paper-based processes.

A prudent first step in transitioning from paper checks to electronic payments is the **Automated Clearing House (ACH) Network**. This is a secure and centralized electronic funds transfer system administered by NACHA – The Electronic Payments Association® that links all of the financial institutions in the U.S.

ACH is a paperless alternative to processing paper checks for core disbursement functions such as:

- Direct deposit of employee payroll
- Conversion of consumer checks into electronic ACH debit transactions
- Electronic transfer of invoice payments to suppliers and trading partners
- Direct debit for recurring transactions
- Initiation of federal, state and local government tax payments

Earlier this year, NACHA reported that ACH payment volume increased by more than 475 million transactions in 2009. This brought the year-end total transaction volume to 18.76 billion, a 2.6 percent increase over 2008 activity with growth coming from Direct Deposit, B2B Payments and Consumer Internet Transactions.

A growing number of businesses and local governments have embraced the safe, smart and green attributes of ACH electronic payments over paper. By their nature, ACH payments are faster and cheaper than traditional paper check processing options and offer improved funds availability and next-day settlement.

## Increasing Transaction Activity Control and Oversight

Organizations looking to centralize control of their multiple disbursement and collection account activities and achieve greater transaction oversight should look carefully at the **Zero Balance Account (ZBA)**.

Organized on the hub-and-spoke model, the core operating account, or ZBA Parent, becomes the repository for all collection activities while subsidiary ZBA accounts are utilized to handle disbursements for accounts payable, payroll and petty cash. This enables CFOs to increase investment opportunities and reduce administrative expenses since it is no longer necessary to manually transfer funds between accounts. Plus the daily net credit position can be swept overnight into an investment vehicle of the company's choice.

ZBA functionality ensures that all debit and credit activities at the ZBA Sub level are netted daily and that the net position of each sub account is either moved to the ZBA Parent Account (net credit) or pulled from the ZBA Parent Account (net debit). In addition, automatic transfers of exact net credit/debit position will return the sub accounts to zero balances.

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