Outsourcing Transaction Processing

Evaluating the Benefits

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Strained IT budgets, combined with continuous technological change, are driving an increasing number of organizations to consider outsourcing their non-core business activities. Outsourcing transaction processing, such as disbursements and invoices, can create value by providing access to best practice payment processes, reducing overall processing costs, and facilitating the transition from high-cost paper to lower-cost electronic payment processes.

Security and Peace of Mind

Outsourcing can provide peace of mind by offering added security. For instance, in the event on-site printers or physical facilities become incapacitated outsourced payment processing fulfillment can execute critical transactional data without interruption.

Outsourcing financial transactions can offer further security advantages:

- Elimination of in-house blank check storage to reduce the threat of fraud;
- Reduction or elimination of in-house check issuance to heighten security and control;
- Consolidation of payments into one stream to reduce the number of bank accounts and maintenance on multiple payment systems, and to simplify oversight for fraud and other security threats.

Successful Outsourcing

To ensure a successful outsourcing experience, you need to guard against introducing liabilities. Evaluate outsourcing candidates for established and extensive security measures covering facilities, personnel, equipment, software, and data transmission to protect your information and ensure complete confidentiality of your data.

Thoroughly investigate each vendor’s security procedures for protecting transactional data. The procedures should include firewalls that allow for transactional workflow while restricting unauthorized traffic, and encryption of key transmissions. Network management software should monitor hardware, software and network traffic, and data should be stored within robust relational databases that are backed up nightly and stored offsite.

Demand a comprehensive audit trail for tracking all user activity, transactional details, and real-time reporting. You should also have the capability to generate custom and administrator reports as needed.
As an added measure to combat check fraud, select physical paper stock with security features such as invisible fluorescent fibers, which contain special reactors that display any attempts to use solvents, and toner that signals any attempt to alter or remove laser images. Checks should also incorporate watermark and microprint features.

**Local Control of Signature and Application Files**

Most outsource payment processors require customers to maintain signature and application files at the print facility. However, it is vital to retain local control of valuable entitlements and security clearances so that signature and application files remain behind your corporate firewall, not at a remote print shop. This ensures consistency in any changes, such as personnel or organizational changes, and gives your audit team the peace of mind that traditional outsource print and fulfillment vendors cannot provide.

**Multi-Payment Platform Capabilities Enhance Value**

Electronic payment capability provides substantial cost advantages, and can be a significant benefit of outsource transaction processing. An industry study conducted by JP Morgan concluded that paper payments cost an average of one dollar more to process than electronic payments (Internet Currency: Patience Is a Virtue, JP Morgan H&Q). However, JP Morgan Research estimates that of the roughly 78 billion corporate payments made each year, only 10% to 15% are made electronically.

A one-step processing approach can simplify both paper and electronic payments by sending a single consolidated data stream with all payment information and remittance advice utilizing outsource paper checks, Positive Pay and ACH. Seek a solution with sophisticated tools to route instructions as needed to automatically perform electronic payments, with electronic remittance delivery for the appropriate payees.

**Demand Enhanced Electronic Check Fraud Avoidance**

Most outsource check print and fulfillment vendors simply output physical checks with Positive Pay capabilities. This process begins and ends with a hard-copy printout of a check register, which then gets physically mailed to customers’ banks. Instead, enhance your security by seeking a solution that can immediately upload electronic transaction data to your financial institution for fast, accurate Positive Pay confirmation.

**Distributed Payment Requests with Local Printing**

Managing enterprise-wide local check printing from the desktop provides compelling advantages such as fraud avoidance, centralized cash management, and convenience for finance staff and end users alike. Secure printing eliminates the need for standalone desktop software, the expense of overnighting checks to remote sites, and the risk posed by remote paper-based checks and checking accounts, while facilitating Positive Pay throughout the enterprise. Look for outsource payment processors that can provide you with both batch processing as well as on-demand/on-off payment processing from remote locations.

**Multi-level Approval, Workflow, and Routing**

Financial controls and approvals are a critical element of a corporation’s payments function. For added security, seek an outsourced solution that provides the greatest control and management of the workflow approval process.

**Advanced Remittance and Payee Self-Help Portal Provide Even Greater Benefits**

Studies show that the typical finance staff spends up to 20% of its time answering remittance requests from outside vendors and internal inquiries, an unwelcome and costly reality of accounts payable processing. When dealing with outsource transactions, this process can become even more unwieldy unless the vendor can support customer self-help.

A customer self-help portal can reduce the cost of doing business and improve customer relations by making information available to employees, vendors, and customers via a secure web site. A self-help portal allows authorized parties to instantly check the status of payments or invoices - whether it’s the date and time that an ACH transaction was delivered to the bank or details regarding an anticipated check. What’s more, an organization can realize additional cost savings whenever internal or external inquiries are self-managed.
Total Cost of Ownership

Total cost of ownership is far more important to the organization than the initial investment. Have a thorough understanding of your organization's needs before beginning the evaluation process. Then, review solutions for ease of installation, maintenance, data integration, setup, and test runs. Also, examine ongoing fees and transaction charges. Review options for multiyear contracts that ensure the best possible pricing. Keep in mind that electronic transactions are significantly less expensive than paper, because there are no paper or postage costs involved.

Look for a solution from a seasoned vendor that has deep experience performing data and bank file integrations, customer setup on hosted applications, end-to-end testing, and user and administrator training. Before selecting a vendor, talk to established customers.

Security, savings, service, and flexibility are among the many attractive features of outsourcing transaction processing in today's global economy. Although it is no small undertaking, careful planning and thorough research in advance will pinpoint the organizations needs and the best outsourcing options to serve those needs. When well-matched, an outsourcing vendor can serve as a valuable business partner to support your company's long-term growth and development.

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