# Bringing Cash Posting Into a New Era

Cash posting is often a headache for companies. Even when customers pay specific invoices as expected, it can be time-consuming to match payments against outstanding invoices. But more often than not, cash posting is more complicated than that.

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Customers might have multiple invoices to pay, and choose to pay only some; other invoices may not be paid in full for a variety of reasons; and trying to get customers to pay using your preferred methods can be tough.

Of course, some companies have enjoyed success in trying to shift customers from checks to electronic payment methods. According to a survey conducted by Credit Research Foundation in partnership with NACHA (which administers the ACH network), ACH transactions are on track to surpass checks as the leading form of payment used by business customers this year, accounting for 45% of payments, compared to 34% for checks.[i]
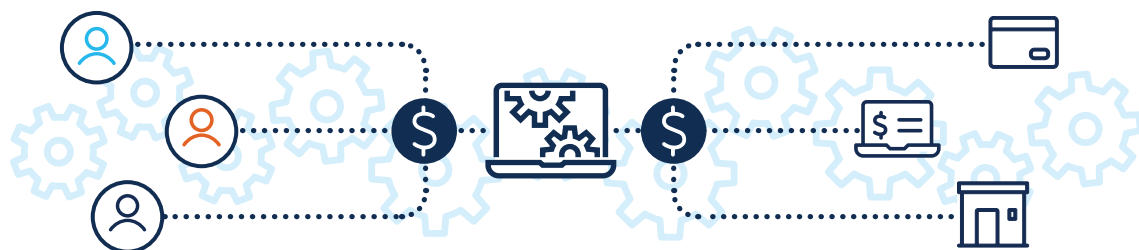
The rationale for moving to ACH is straightforward. The median cost of a check transaction is estimated at $3.00 compared to a range of $0.26 to $0.50 per ACH.[ii] But while moving to electronic payments makes sense, it also creates operational challenges associated with cash posting. To understand why, some context is helpful.

Many companies use Lockbox, a long-standing product that, over many years, has been refined to become an extremely efficient workflow tool. By utilizing technology such as optical character recognition to digitize documents, Lockbox has effectively eliminated mail float. More recently, artificial intelligence has been introduced to streamline and automatically apply cash receipts against a company's general ledger to reduce their accounts receivables workload and overheads.

However, the move to electronic payments disrupts this workflow. When an electronic payment is received, the recipient company gets an email remittance from their bank. So, as companies convince their customers to make electronic payments, a nominally paper-based but automated solution (Lockbox) is progressively being replaced by an electronic but largely manual process, as each remittance email must be matched up against outstanding invoices. So much for progress.

Companies facing the challenges of getting their customers to pay electronically and then understanding which invoices have been paid face an administrative burden. But delays in getting paid and applying cash also take a toll on Days Sales Outstanding (DSO) and working capital efficiency. The good news is that solutions are available to address both these problems and deliver a transformative impact on treasury.

Combining electronic invoices and payments

Citi's Present and Pay solution can help companies struggling to get their customers to pay their invoices on time or by a preferred payment method. This comprehensive electronic invoice solution allows companies' clients to view, download, dispute and pay invoices. It works via a secure web portal; customers simply log in, select the invoices they want to pay and then pay them via a method approved by the company (usually ACH, but credit card can also be accepted). As well as making one-off payments, Present and Pay can be used for recurring payments.

What's attractive for companies is that the invoice is presented to their customer alongside a way to pay electronically; this makes reconciliation straightforward as the information is automatically attached to the payment and is received by the company as an auto-cash application file; there is no need for manual intervention.

Take this example: a school can post tuition bills on the portal; parents then log on, print invoices for their own records, and pay. There's no need to mail an invoice to the parent and then wait for a check to be posted and cleared. That reduces the school's administration burden (and the hassle associated with following up with people who have not paid). Furthermore, because the school is getting paid more quickly (and because ACH can be reconciled once initiated rather than when the payment clears, which is required for check payments), it improves the school's DSOs and enhances its working capital.

Present and Pay is also convenient for the payer; as well as being easy to use, it is flexible enough to accommodate partial payments if the company allows them. Take another example: a manufacturer might be sending multiple shipments to retailers that sell its products. But some items arrive broken. The company has a strong relationship with its retailers, and allows them to reduce the payment to the appropriate level for the undamaged goods the retailers received. Alternatively, the retailer might want to dispute an invoice and wait for a response from the manufacturer; this can all be done through the portal.

Streamlining cash posting from electronic payments

Given the cost savings, companies are understandably shifting their customers from check to ACH payments where possible. But reconciling electronic payments with email remittance advice is a time-consuming, manual process that can be error prone – just finding the necessary remittance information within an email to reconcile invoices can be problematic given the various ways they are formatted. Cash application can also be slowed down by payers behaving inconsistently or using a number of different payment methods.

To overcome these hurdles, Citi has developed a solution called Smart Match. It uses artificial intelligence (AI) and machine learning (ML) to read remittance notices received by a company and to extract various useful pieces of data. These are then automatically matched to received payments. As a result, both invoice and payment become part of the same workflow – just like with Lockbox.

By bringing together disparate pieces of payment data, applying AI and ML, and then automating payment matching, the cash application process of matching open invoices to payments becomes significantly more efficient. Automating manually intensive processes reduces costs and saves time (it also means exceptions can be quickly managed, increasing operational efficiency). And by speeding up reconciliation, DSOs are decreased, which optimizes working capital.

Making electronic payments and invoices work effectively

All companies are under pressure to increase operational efficiency, lower costs and enhance their working capital. Electronic payments are clearly part of the solution; they are inexpensive to manage and provide greater visibility and control than checks. But while they have solved many problems for companies, they have also created some new ones.

Improving cash posting and reconciliation is critical to overcoming these challenges. Present and Pay and Smart Match both address longstanding problems for companies by making it easier for companies' customers to pay electronically, and by automatically matching invoices with payments received. In short, by bringing cash posting into a new era, they allow companies to realize the full potential of electronic payments for the first time.

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[i] https://www.nacha.org/news/ach-transactions-top-checks-top-form-b2b-payment-2020-new-survey

[ii] https://www.cfo.com/applications/2015/10/electronic-payments-10-times-cheaper-checks/

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