

Rational administration of payments through Bank giro service

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Summary

Efficient use of the structures and services available from Bank giro service creates opportunities such as:

- Ensure payment on time
- Simpler control of the company's liquidity
- Reduced work and costs
- Reduced cost of credit
- Secure and rational processes

Introduction

Large numbers of transactions are difficult to handle manually. With increasing numbers of transactions the need for secure and automated services arises, both when considering the actual booking of the transaction and the logistics of the information connected to these transactions.

The bank giro system

Bank giro service is an open system. It is open for both the payer and the payee. The payer can always reach the payee, regardless of the preferred bank of the payee and vice versa.

Most banks operating in Sweden are connected to the open bankgiro system. When a bank is connected to the system, Bank giro service acts as the link between the sender and receiver of the payment.

In addition to performing the actual routing and clearing activities, the system also handles the carrying and distribution of information connected to the transaction to all the parties involved.

The information is always transmitted and delivered in a standardised way to ensure the readability for all participating banks at either end of the transaction.

The bank giro number

A bank giro number consists of a series of numbers often compiled as two strings of four digits. The number sequence is unique within the bank giro system.

A bank giro number can be connected to bank accounts of the participating banks. The bank giro number is not an account number, but a public address to a specific bank account.

Transactions are made to the public address of the bank account, the actual bank details are never revealed to the external party.

Since the bank giro number works as a public address it is also possible to change the connected bank account or to add more than one bank giro number to the receiving bank account.

Handling incoming payments

Large numbers of transactions are difficult to handle manually. With increasing numbers of transactions the needs for secure and automated services arises, both when considering the actual booking of the transaction and the logistics of the information connected to these transactions.

In order to handle multiple transactions in an efficient way there are some vital bits of information that need to be read and processed by the receiving company. The information included must facilitate the means of identifying the payer and identify the item in the accounts receivables. The means used to communicate this information is:

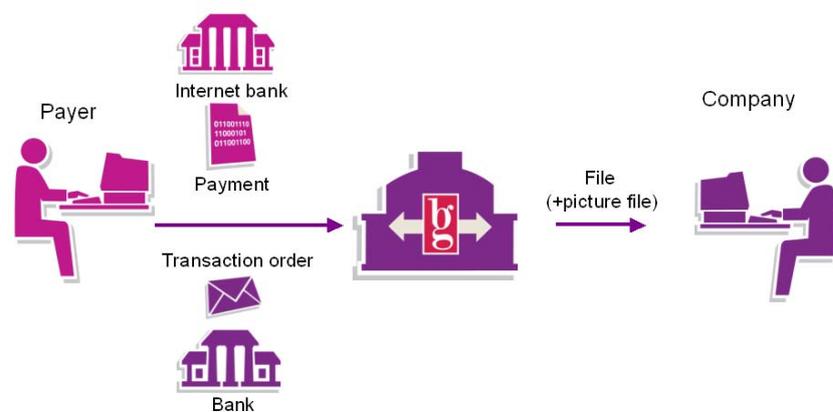
- OCR-reference
- Payer's name, address, and SSN-number.
- Possible picture of payslip attached to the payment

The aim for the recipient of the payment is to process the information, and automatically reconcile the accounts receivable to the maximum extent possible, without any manual interaction.

In cases of default payments where the OCR- reference is missing or the reference are formatted incorrectly its causal to match the payment against the company's accounts receivable in order to make the accounting entry.

In the past, the receiver of the payment had to handle various file formats and/or hard copy lists, containing the specific payment details, forcing the recipient to work with several parallel processes of which some are both a source of errors and time consuming.

In recent years there are new services from bank giro service that combines all available information about the transaction regardless of origin or payment method. This new service allows the company to handle all payments in the same structured process by adapting there general ledger system to the new file format.



Flowchart: Handling of incoming payments from Bankgirocentralen

Information connected to the transaction

As mentioned earlier, the information attached to the transaction is there to enable easy matching, and to reconcile the accounts receivable.

The most important information is held by the OCR-number. The service is based on the reference number given on the invoice or payment slip. The payment information, which among other things contains the reference number, is delivered to the company via file, which can be fed automatically into the accounting system.

In order to ensure high quality of the OCR-information you can attach specific attributes to the series of digits. You can specify the number of digits used in the OCR-number and have it checked by adding a length digit in the numerical sequence. An additional attribute that you can attach to the OCR-number is the check-digit. The check-digit will validate the rest of the numerical sequence. The idea is to minimize the errors before receiving the payment in order to streamline the accounting process.

Checks in the Internet bank

Payments made from Internet banks can be checked even more thoroughly, you can carry out a “hard” or “soft” check of the reference number when payers register their transaction. These checks are implemented on the bank giro number and not on the OCR- number itself. The purpose of these checks is to allow your company to reach higher quality in the reporting of payments.

Hard checks

Payment registered using an incorrect reference number or missing a reference number will be rejected by the Internet bank.

Soft checks

The Internet bank accepts payment messages even if the payer submits an incorrect reference number or an alternative reference. The payer is shown an alert message stating that the payee wants a correct reference number to check. The payer is urged to check and possibly change the reference. However, the payment message may be carried out even if the payer does not change the reference.

Handling errors in the OCR-references

In the case of a faulty or missing reference we need to match the payment based on other information. The information available in the new file formats from the Bankgirocentralen is scanned image files, and additional information about the payer.

The picture file gives you a scanned image of the actual pay slip used for the transaction. The known information about the payment is stated in the main file and the image is linked to a specific entry in the main file. The information stated on the pay slip is then used to complete the transaction in the company general ledger system.

If the transaction was made without an OCR-reference or pay slip we have to address the additional information given about the payer. If the transaction was made from an Internet bank we will receive the payer’s name, social security number and registered address. Using this information assumes that the payment was intended for same person.

Auto giro Direct debit

Direct Debit is a fast and efficient way for companies to manage payments. The service is particularly suitable for companies with a fixed client base and regular payments.

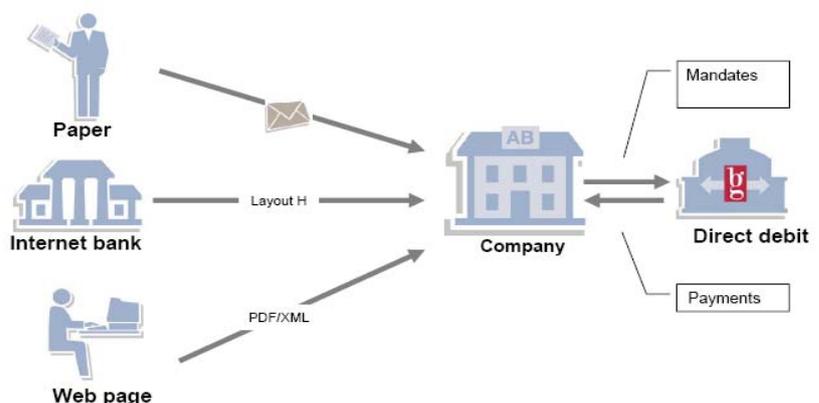
Bank giro service's Direct Debit services are based on an agreement (a mandate) between the company and the payer. The payer signs a mandate, stating that money may be transferred automatically from their bank account to the company's bank account. Both the company and the payer can easily amend or cancel the mandate.

The payment is made exactly on the payment day specified in the payment message. When invoicing, the company makes a summary of the payment messages, which are sent via file to Bank giro service.

On the payment day, the payers' bank checks that sufficient funds are available in the customer's bank account. If there are sufficient funds in the payer's account, the money is transferred to your company's account. The company receives notification of money orders from Bank giro service and the payer receives notification of payments made via their bank statement.

New mandates can be set up in several ways, the traditional way is to send a written agreement for the customer to sign. In addition to this there are also electronic mandates and mandates set up from the company's webpage; this form of agreement requires that the payer signs the mandate with an electronic ID.

Direct Debit electronic mandate means that the payer may submit a mandate via their Internet bank. If the company chooses to accept Direct Debit electronic mandate as a file, it can be processed fully automatically by the accounting system, and the company can avoid time-consuming handling of mandates on paper.



Flowchart: Different ways of setting up new Direct debit mandates

New direct debit

The realisation of the EU vision of a common European payments market demands common legislation in all European countries. The new legislation will be enforced in Sweden no later than 1st November 2009 . The new regulations include the harmonization of consumer protection. In the case of Autogiro, the Swedish Direct Debit product, this entails the introduction of repayments of an incorrectly executed direct debit payment.

Strong consumer protection can result in payers being more willing to sign mandates. The right to repayment is considered as one of the most important factors in the popularity of Direct Debit services.

The new EU regulations are considered to provide better consumer protection than today's so-called payer letters which are sent to payers when new mandates are registered. The purpose of these payer letters is to inform payers of new mandates. With the new EU regulations, a payment can be made the day after a mandate is approved instead of today's mandatory six days waiting period.

With the new Direct Debit system, the company can reduce manual administration as all registration and information is handled directly with your ERP-system or the new web service, Autogiro Online.

The new services will be launched in June 2008. Before converting to the new format, software suppliers need to update the systems, and new administrative procedures need to be created.

How to handle communication with Bankgirocentralen

Most communication with bank giro service is handled by the bank. The files to and from bank giro service are sent via the bank. The administration of files is handled in the company's online bank.

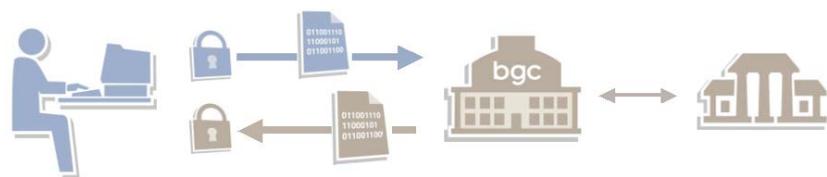
This setup requires a lot of administration and is a potential source of errors because the need to create and save files on a local hard drive or on the company network.

A better and more efficient way of handling the files is to integrate the general ledger system direct with Bank giro service. One solution for integration is FTP via Internet.

FTP via Internet uses TCP/IP FTP, a standard product used for file transfer. Connection to Bank giro service is via a VPN tunnel over the Internet. VPN is a method used for creating secure data communication over a non-secure (often public) network, such as the Internet. A secure channel, or "tunnel", is created between two nodes by means of encryption.

All traffic between the two nodes is passed through this channel before being released at the other end. This means that nobody other than those individuals sitting at either of the two ends is able to access files or data, even though these are being transferred via the Internet.

The software used to set up the tunnel must be secure at all levels to ensure that the node at the other end can be identified with confidence. For VPN, this means first identifying a node or a computer, unlike, identifying a user - an individual. This gives that all checks and signings of the transactions need to be handled before the file is processed since the users does not sign the transactions within the online bank.



Flowchart: Communication with Bankgirocentralen

For security reasons, all files containing payment orders which are sent to BGC must be equipped with electronic anti-tampering protection – also called an electronic seal. The approved method is Nexus Electronic Signature.

Example of rational handling of payments

The key to rational handling of payments are the possibility to adapt the software used in the business to fully take advantage of the potential of the services offered. The banking software used in Akelius Spar handles all the modern file formats enabling us to work in a rational manner.

Incoming payment made from online bank

The OCR-number is validated with a hard check within the online bank; no payments that do not check out are accepted.

The files from bank giro service containing the information about the payment are automatically transferred to and imported to the banking system, without any manual handling.

The general ledger transactions are pre-defined in the system and dependent on the transaction type. The booking of the transactions is automated and is done simultaneously with the file import.

Payment made manually with pay slip

The files from bank giro service containing the information about the payment are automatically transferred to and imported to the banking system, without any manual handling.

Attached to the payment item in the file there is an image of the actual pay slip. The banking software allows the user to view the image and book the payment to the correct customer. The general ledger transactions are pre-defined in the system and are carried out automatically.

Payments with direct debit

The files from bank giro service containing the information about the payment are automatically transferred to and imported to the banking system, without any manual handling. This goes for all direct debit files such as new and cancelled mandates, standing orders and changes.

The general ledger transactions are pre defined in the system and depending on the transaction type. The booking of the transactions is automated and is done simultaneous with the file import.

To minimize the manual handling of mandates we encourage the clients to set up the mandates themselves in there online bank. This gives us an automated process with no manual interference.

All types of errors are logged in the banking software and are reported as work items to enable follow-up. In some cases automated messages are sent to the client to inform him of the error.

Payments with errors in the reference

The files from bank giro service containing the information about the payment are automatically transferred to and imported to the banking system, without any manual handling.

In some cases we are forced to receive payments without a proper reference. In order to match the payment to the accounts receivable we are able to read the additional information in the file. This information consists of name and address and social security number of the payee, and is therefore easy to match against our accounts receivables.