

Significance of Consolidation in SAP Disbursements

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Abstract: Large businesses using ERP such as SAP have enormous volumes of transactions, prominent amongst which are the collections and disbursements. These form a major part of the operations and may run into millions of records in SAP. Organizations go for Banking partners based on convenience and necessity, factoring the risks from the point of view of their treasury functions. The versatility of Bank Accounts surmounts increased charges if not kept under proper check. The Treasury department may want to achieve the economies of these functions and ensure a seamless execution at the same time. This article ponders upon the consolidation of SAP disbursements through a systematic segregation of payment types and volumes as per the Organization's preferences. The global consolidation solution helps not only in reducing the banking costs substantially, but also streamlines the AP processes internally.

I. INTRODUCTION

Disbursements in SAP are mostly through the automatic payment runs. The Beneficiaries are picked by the run based on the payment terms of the individual Beneficiaries and the payments are executed in SAP. The outcome of the payment run comprises the documents posted in SAP, which takes care of the internal System bookkeeping. Once the instructions for payments are executed, these are encompassed in a flat file utilizing the DME functionality. The file contains explicit instructions to the Banker(s) to release the payments to the relevant Beneficiaries. The related information is thus supplied in the file. The number of payments in the file varies and so do the payment methods. The number of payment instruction files dropped to the Banker are proportional to the number of times AP executes the run in SAP. A globally diversified Organization may have multiple runs catering to different geographic regions, thereby sharing files to Banker at staggered intervals of time. It is more of a business need than mere convenience to execute payment runs frequently.

II. PAYMENT PROCESS AND INSTRUCTION FILES

A. Configuration in SAP: The payment process in SAP needs a specific configuration to be done by creating the payment methods at the country and Company Code level. There are numerous payment methods such as Domestic wires, ACH, RTGS, Cross Border wires, Checks, etc, each of which indicates the way the payment has to be processed by the payer which is the Bank. The payment methods at the Company Code level specify the maximum and minimum amounts that can be paid. There is an established link between the SAP configuration, which is internal to the organization, and the Bank as the Bank Account information ought to be in synchronization. The Account numbers and House Bank must appropriately be configured in SAP as the Banker recognizes the payments instructions basis Bank Account number. The House Bank in SAP is set up with actual GL Account to which the transaction has to be posted post confirmation by the Banker about the payment being released to the Beneficiary.

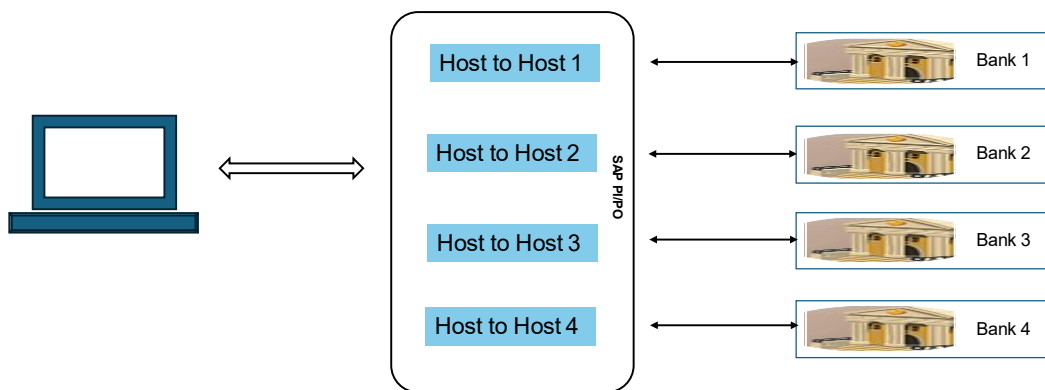
There is a well designed set up in SAP to arrive at the format of the instruction files. Apparently, it is in conformity with the existing standard formats, prominent of which is the standard XML format. The contents are result of configuration in the Data Medium Exchange to encapsulate the information that is eventually sent to the Banker electronically. There is every possibility for customization in the data to be captured.

B. Payment Run: AP schedules and executes the SAP payment run for a specific date and by usually specifying the range of beneficiaries. The Beneficiaries to whom the payment is due are picked automatically and shortlisted for payments utilizing the payment method(s) specified. The invoices that are due are picked and payments are posted against them in SAP in the form of SAP documents to take care of the accounting in Finance. It is important to note that the payment document is posted on the clearing GL Account set up in the payment run configuration and not the actual GL Account assigned to the Bank Account in SAP. The reason for this is that we do not have confirmation from the Bank if the payment is actually made to the Beneficiary or not. Until we receive such confirmation, it is not permissible according to the accounting principles to book the payment to the actual GL Account. The payment run per se generates the file to be sent to the Banker and has instructions contained therein.

C. Dropping of files enroute to Bank: Now that the payment instruction file is ready, the next step is to drop it to a channel for electronic transmission to the Bank. Most Organizations automate this process to avoid manual intervention to ensure internal control and inculcate the internal checks. The payment file is thus extracted from SAP and stored at a secured file path via SFTP (secured file transfer protocol). The extraction of payment files is triggered through batch jobs set up in SAP to run at periodic intervals. The Files are then picked up by the Bank based on the access rights provided to the Banker by the Client Organization. This essentially means that the Bank connects to the file path and provides the necessary credentials for accessing the file path. On successful login, the Bank picks up the files. The Bank also sends back the payment file receipt acknowledgement once the file is picked up from the file path. The acknowledgement is an indication that the file is successfully transmitted to the Bank for further processing.

D. Host to Host connectivity:

It is imperative that there is host to host connectivity between the Bank and the paying Organization without which there can be no transmission of files or data. From the SAP standpoint, it involves SAP PI/PO (Process integration) as the middleware between the SAP Server and the Bank's Server. The Payment file as a result of the SAP payment run is placed in the file path from where it is sent by PI/PO to the Bank's Server post encryption. So, there are multiple connections with the Banks and PI/PO plays an important role in routing the relevant files to the respective Banking Folder. In recent times, there is more adaptability of the Multi-bank connectivity channels such as EBICS (Electronic Banking Internet Communication Standard) and SWIFT (Society for Worldwide Interbank Financial Telecommunication). The advantage of Multi-bank connectivity is that the paying companies can send payments and receive bank statements through a single channel and using a single format to multiple banks. It thus becomes easier for Organizations to maintain the connectivity as there will no Bank specific settings to be done.



III. FILE PICK UP AND PROCESSING IN THE BANK'S SYSTEM

Payment instruction files are picked up by the Bank and the encryption key details are shared with the Bank so that the files are decrypted. This takes care of the security aspects by the usage of appropriate decryption algorithm. The files are processed on the Bank's Software Systems. The processing is preceded by appropriate validation of the instructions contained in the files. Any offending data will result in prevention of processing of such instruction. On successful validation of the payment instructions in the file, Bank goes ahead with the release of payments to the respective beneficiaries as per specified mode of payment. For instance, some beneficiaries are paid through RTGS, some through domestic ACH, some other through cross border wires and so on. On successful completion of the payments, Bank updates the status in the Bank Account(s) of the payer Organization and the same can be checked by the latter online. Communication is then sent from the Bank to the Payer via same electronic channel through which the payment instruction files have been received. These are sent in the form of Bank statements back to the paying Organization as a confirmation of the release of funds from their Account.

IV. BANK STATEMENTS AND POSTINGS IN SAP

The Bank's processing system generates statements detailing the transactions and disbursements to the various beneficiaries of the Customer. The Statements are not sent the same day, but are dispatched to the Customer the next day electronically after proper validation. The statements are in formats such as Swift MT940/ MultiCash/ camt.053.001.02/ camt.054.001.02/ DTAUS . On receipt of the statements, the payer Organization receives the confirmation whether the payment has been done to the Beneficiary or not. Accordingly, the document is posted in SAP in most cases through the SAP Electronic Bank Statement functionality. EBS set up specifies the GL Accounts and the posting keys to be used for posting the documents. The SAP document in Accounting nomenclature is the journal entry posting. This time around, the actual GL Account mapped to the SAP House Bank is booked rather than the Clearing GL Account. The reason for using the actual GL is that there is an explicit confirmation that the amount is deducted from the Account with the Bank.

V. CONSOLIDATION OF PAYMENT FILES

Choosing the Banking partners is a very strategic decision for an organization and particularly important for the Treasury Department. The frequency of payments varies for a global Organization and at times can result in huge banking charges. It is difficult to curtail the payment runs and the number of files that need to be sent to the Bank. Consequently, the Businesses end up incurring substantial charges. However, the whole business process can very much be streamlined by efficient technical solutions. The consolidation function provides an optimal solution to this challenge. After the payment run is completed in SAP, the file is extracted from SAP through a batch job using the underlying ABAP program. The batch job has a pre-determined frequency in consonance with the business needs. For instance, there might a batch run once during the APAC hours, one during the EMEA hours, one more during the US and LATAM hours respectively to meet the payments needs of Beneficiaries across the world. The consolidation process is about consolidating the batch of payment files of a single Banking partner that are required to be moved to the Bank's folder. In comparison, one file would have been processed at a time with every batch job without consolidation. The consolidation is ensured by appropriate code encompassing ABAP or Unix scripts or a combination of both. The consolidation process thus combines one or more files that are ready in SAP, and then moves the consolidated payment instruction file to the Bank's folder from where it is picked by the Bank dynamically. The reduction in the number of files due to consolidation has tremendous potential to reduce the processing at the Bank's end and results in lesser charges than without consolidation. The functionality can be further enhanced by utilization of AI after a very comprehensive analysis of the business processes. The consolidation solution needs to be highly structured, systematic, discussed with the Banking partners in totality for availing the economies of consolidation. It should be thoroughly validated prior to going live. The consolidation process would need the business to be disciplined and prudent in the release of payments from SAP. This can be automated by the usage of chat bots or ML validations to ensure that the payments are executed at definite intervals with properly validated exceptions if any.

VI. CONCLUSION

As there are discrete payment needs for the Organizations, it is somewhat tricky to assess the accurate savings. But based on experience, it is observed that the consolidation of payment files has huge potential to reduce bank charges. In fact, there could be a 35 to 45% reduction depending on the payment activity. With the advent of so many new functionalities to further simplify the host-to-host connectivity, there is scope for further improvement in the near future. The Multi-bank connectivity channels are making the process even more easier.

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