Hybrid Cloud ERP: Taking Treasury by Storm

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It might sound too good to be true, but there is a way to gain greater visibility over group cash, reduce payments fraud, and extract further value from your ERP – without migrating decentralised subsidiaries into the ERP environment. In this month's Executive Interview, Sven Lindemann, CEO of Hanse Orga Group, explains the benefits of the new hybrid cloud ERP model and how it could transform corporate treasury in 2018 and beyond.

In your view, what are the top concerns for corporate treasurers in 2018?

Centralisation, automation and fraud prevention are key themes on corporates' to-do lists. Underpinning these priorities, there is a clear desire to use technology in a smarter way. Treasurers are keen to extract the maximum value from existing system investments whilst leveraging new technologies to make payment processes smoother and more secure, all while gaining greater visibility and control over cash.

A confluence of external and internal factors is driving these trends. The growing number of high-profile financial fraud cases, for example, is incentivising corporates to centralise outgoing and incoming payments. Today's treasurer needs to be aware of whom the organisation is doing business with at all times, so the greater extent to which payments can be centralised, automated, and have thorough

compliance and fraud checks embedded within the process, the better.

Treasurers also need to have complete visibility and control when it comes to the company's cash. That means having a firm handle on bank accounts and balances across the group. The challenge, however, is that not all companies operate in a centralised environment – with decentralised subsidiaries not using the ERP, making it more difficult to obtain the desired levels of transparency since critical information is not aggregated in one place.

How are corporates tackling these issues and to what extent can technology solutions assist?

One interesting trend that we're seeing in reaction to this challenge is more multinational companies (MNCs) – in particular those who have recently undertaken M&A – setting up global payment hubs as a means to centralise information quickly. These payment hubs bring the whole order-to-cash process together in one place, enabling the company to increase automation, review and improve payment processes, reduce fraud, and mine their payment data more effectively.

Although payment hubs aren't a new concept, the growing use of a hybrid cloud ERP model as a means to achieve this level of centralisation is an up-and-coming phenomenon in the treasury world.

What exactly is the hybrid cloud model and how does it work in practice?

The hybrid cloud is a cross between an on-premise ERP solution and a cloud solution – this essentially involves connecting an ERP system with the cloud environment to produce a single source of truth, without any complex interfaces.

Take the example of a large MNC that has 80% of its subsidiaries using SAP, with the rest being non-SAP users. The hybrid cloud model can bridge that systems gap and put in place a central reporting capability for the entire organisation without causing any systems disruption or upheaval to users. As such, the hybrid cloud model allows a

corporate to make the most of its existing ERP-integrated solution, whilst gaining visibility over the cash of any decentralised subsidiaries which are not on-boarded onto the ERP.

Elsewhere, the hybrid cloud model allows different departments to work in different systems, whilst still utilising the same set of data. There is no need for treasury to work in the ERP simply because the rest of the finance team chooses to. Instead, treasury can work in a modern cloud environment, with a user-friendly interface, whereby every transaction that is keyed into the cloud, and every approval that is made in the cloud is automatically updated in the ERP system, in real-time.

In the same vein, the accounts receivable and accounts payable departments, can continue to work in the ERP environment but have seamless visibility over all of the information and transactions carried out in the cloud. And any changes made in the ERP are instantly reflected in the cloud environment.

With the hybrid cloud model therefore, ERP and cloud users can see everything that has happened in both worlds, yet have one central source of data because both solutions communicate 100% automatically with each other all of the time.

Is this the beginning of a new era for ERP solutions, and Hanse Orga Group, then?

To be clear, there is still a strong market for ERP-integrated solutions but at the same time, treasury departments do not necessarily want to work in the ERP environment by default and corporates want to extend the value of their ERP. As such, we are seeing a growing demand for the core solutions in an ERP system and satellite solutions around these ERPs in a cloud environment.

We strongly believe that the hybrid cloud model is a great way to achieve centralisation without the logistical challenges of migrating multiple decentralised subsidiaries onto the ERP. It can also lead to less complexity in the overall IT infrastructure. To this end, we recently purchased a cloud vendor, called Tembit, in order to bolster our offering in this space. Our hybrid cloud solution works

out of the box with SAP and other ERPs, so there is no complex integration to be done.

Centralisation aside, treasurers are still facing payment-related issues like multiple formats and fraud. How can these be overcome?

As much as centralisation and transparency will give treasurers a better handle on all of their payments data – which should make it easier to tackle the issues of fraud and formats – we have also developed a suite of managed services to help with these common hurdles.

For example, we offer a managed service for outbound payments that makes the payments process as watertight as possible – from a connectivity perspective, but also from a compliance perspective. MNCs deal with a variety of banks in different countries, using multiple currencies and connectivity channels. It's not unusual therefore for a single MNC to have to deal with tens or even hundreds of different payment formats, which can be extremely time-consuming.

Building on our experience of working with customers to set up such formats and connectivity channels (which they were then responsible for maintaining), we are now offering to do all of that for our customers as a managed service. The customer simply sends us their raw data and we map that data onto the correct format per bank, per country, per currency and so on.

We can also undertake the connectivity part of the payment for them, sending the funds via host-to-host (H2H), SWIFT or standard protocols like EBICS. And if the customer only wants the format mapping, without the connectivity, or vice versa, the service is sufficiently flexible to accommodate that. Customers can also opt-in to the service just for specific countries.

Is this kind of service only suitable for the largest of corporates?

The service is extremely scalable, making it suitable for a range of corporates. Once we have mapped outbound payment pathways

and formats for one customer, they are laid down for any other customers who want to use the same pathways. All of the big network banks are already set up, as well as the common global implementation (CGI) formats for the world's major economies. As such, there is no need to start from scratch for each corporate – except when new banks, countries, or formats are required – which makes the service much more cost-effective.

It is worth mentioning that we also offer a similar managed service for inbound payments. Corporates often have to deal with a variety of receipts in different formats, such as remittance advice from their customers, and statements or even lock box files from their banks. Just as we do for outbound payments, we now offer our customers an aggregation and format conversion service for their inbound payments. We not only collect and convert the data on their receivables, we can also perform enrichment of that data in certain circumstances, making it easier for them to extract greater value from their data, and to ensure the highest possible matching rate, reducing the need for manual intervention.

And what about reducing fraud? How are you helping customers to stay one step ahead of financial crime?

Knowing that fraud is a growing and genuine concern for treasurers, we have developed a number of new fraud prevention functionalities. Customers can now set up their own fraud monitor, for example. This will flag unusual or suspicious transactions, based on parameters set by the customer. So, if for instance, supplier ABC is typically paid €1m each month and yet this month's payment is for €10m, the system will send an alert to the treasurer to double check the details. Similarly, if multiple payments are being made to one counterparty who typically only receives a single payment, that will also be flagged for further investigation.

While some companies prefer to buy our fraud monitoring systems and then manage them by themselves, some prefer to outsource this task. We also now offer a managed service for our customers, whereby we take care of the fraud

monitoring on their behalf. Naturally, we don't make the decisions around what is or isn't fraudulent, but we actively monitor all of the transactions and if any suspicious activity or potential fraud is detected, we immediately refer it back to the customer so that they can decide whether or not to proceed with the payment.

In addition, Hanse Orga Group recently purchased a company called SOPLEX to assist our customers to uphold rigorous compliance standards by vetting buyers and suppliers before engaging with them. Sanctions and embargo screening are also part of this service, helping corporates to ensure that they are not dealing with blacklisted countries or counterparties.

All of these offerings come under our managed services umbrella and corporates can cherry-pick which services they want to deploy.

Another way of shutting out fraud attempts from the get-go, is our tight end-to-end process automation. If a financial transaction is automated from invoice to credit transfer, there is no opening for typical fraud attempts to disrupt the process.

Finally, returning to the subject of compliance, what is Hanse Orga Group doing to help customers meet the upcoming General Data Protection Regulation (GDPR) deadline?

In the age of increased transparency, GDPR is an important topic for our customers. Coming into force in May 2018, GDPR will have a wide impact on how the data of EU citizens can be stored. The new regulation will affect not only companies inside the European Union, but also entities that provide goods and services in the EU. What's more, companies may face strict fines for not complying with GDPR standards.

This means that corporates, treasury departments included, need to know what data they have on their system, where it is stored, and how it is used. With this in mind, we have acquired a US company called Dolphin that operates in the data life cycle management and archiving space. It's a very a strong fit with Hanse Orga Group's

existing capabilities and means that we can connect a data archive to both the ERP and the cloud solution, so that treasurers can have transparent access to critical data at all times – and that old data does not have to be stored in the ERP or cloud, rather it is stored in the archive, which is GDPR-compliant, and links to all of our solutions.

What this means is that the treasury function can have complete transparency into their buyers and suppliers at the touch of a button – even past transactions – and be confident that the data is being held in such a way that it meets the standards required by GDPR. And since the May 2018 deadline is fast approaching, there is no better time than now to look to comply. ∎

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