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SAP Fioneer Virtual Account Management

September 2022 – white paper in partnership with bancon (preferred implementation partner)

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Introduction

Transactional banking is forever changing thanks to the new wave of innovation entering the market, forcing treasurers to question whether they are getting the most from their bank.

One area of increasing focus for large corporates is the desire to have a deeper and more immediate insight into their real-time liquidity position throughout the day and being able to react when changes need to be made, without intervention from their bank.

In light of these demands, banks are investing heavily into enhancing their cash management and payment platforms, bringing a host of new products and capabilities to market. One product increasingly being discussed is virtual accounts: a concept introduced in the Nordics and Asia over 30 years ago, but one treasurers are only now seeing as a necessity of their incumbent bank.

SAP / SAP Fioneer and bancon have collaborated with several large financial institutions, including Lloyds Bank, to innovate a new

Virtual Account Management (VAM) solution.

This highlights that the dominant financial institutions also see this as a fundamental product to add to cash management and payment offerings.

Thanks to advances in technology, we are also starting to see VAM enabling new business models in the B2B2C sector including, centralised digital wallets, digital marketplaces and virtual savings pots.

However, given the prominence of virtual accounts within corporate cash management and the pressure to optimise cashflow compounded by the pandemic, this white paper focuses on how a VAM solution can be an important tool for any corporate treasury function looking to get better oversight into the business' real-time cash holdings.

Overview of virtual accounts as a concept

Virtual accounts are a set of administrative 'sub-accounts' underlying one physical bank account maintained in the bank's ledger, usually known as the master or real account. This real ledger account is mirrored 1:1 in the VAM solution and known as a clone, header or sub-ledger account. Both the clone and real account stay synchronised through a range of accounting techniques which ensure transaction and balance control are maintained between them both.

Payment postings to the real account are replicated on the clone, which then allocates the debit or credit to the designated underlying virtual account, using either virtual account numbers or reference IDs. This provides greater transparency by allowing for the segregation of funds and automation of reconciliation without the need to operate several hundred real, on-balance accounts.

From here, treasury teams can organise account hierarchies and align them to their legal, operational or business function structure.

With the virtual account structure in place, treasurers are able to use them to simplify and automate a range of activities, that often require a high amount of manual intervention.

One use case is 'On Behalf Of' management which includes both payables (POBO) and receivables (ROBO).

'On Behalf Of' essentially categorises payments and receipts to help automate the posting and reconciliation of them. Given that the movement of money within the virtual structure is only virtual, corporates could radically simplify their account structure to less than a few or even just one real account, in turn drastically reducing reconciliation and day to day administrative treasury activities.

Finally, given that the money is centralised inside one real account, treasurers are also able to reduce or move away from complex liquidity arrangements such as notional pooling, which require strict regulatory oversight and are often costly to run.

The term 'virtual accounts' is a broad categorisation often referring to Virtual IBANs, Virtual Account Management or Virtual Ledger Management. In its simplest form, virtual account solutions are designed to simplify the reconciliation of payables, receivables and/or to provide greater oversight of a business' real-time cash position.

Depending on the type of solution, virtual accounts are managed through a web portal, accessed from the bank's existing website or a corporate business' ERP system.

Key benefits – value proposition for corporate businesses

Greater visibility over the business' realtime cash position

- By centralising funds under a single real account, treasurers gain instant insight into their business' overall cash position.
- Simplified reporting gained through this centralisation of accounts.

Unlock working capital

- Operating from a centralised cash position means liquidity that would have otherwise been trapped across multiple local or international bank account structures is unlocked.
- Accelerating the cash conversion cycle by automating the allocation of receipts, via the improved straight through processing of payments.

Improved operational efficiency

- Utilising tools such as 'On Behalf Of' management, Client Money Management or Payment Factory capabilities reduces the time needed for reconciliation processes.
- Streamlined supplier management and improved supply chain risks.
- Centralisation of banking relationships therefore reduces and simplifies banking arrangements.

Greater control

- Treasurers can take on a more complete self-serving offering, through an attended web-channel, often accessed through an existing online banking portal. The result of which gives greater control over user access management, liquidity management arrangements and the management of both the opening and closing of accounts.

Reduce costs

- Rationalising bank accounts, without compromising on operational requirements, delivers a considerable reduction in bank account fees.
- As cash no longer moves through clearing systems, there is a significant reduction in transaction costs.
- Reducing or removing complex liquidity structures and streamlining intra-group fund management removes the costs associated with traditional notional pooling arrangements.

Key benefits – value proposition for banks

Protect fee-based income

- Introducing a VAM solution reduces the need for costly traditional cash management products such as notional pooling, while still offering similar benefits.
- With corporate treasurers looking to reduce their banking fees, banks risk losing a portion of their fee-based revenue by not offering a solution that is in-demand and becoming more widely available.

Improve client centricity

- By introducing a solution that promotes the reduction of bank fees and simplification of banking arrangements you are lowering the barriers that are often the cause of poor user experience.
- By promoting a solution that by design drives self-service adoption, you are empowering treasury teams to instruct actions without bank intervention.

Decrease operational costs

- Traditional notional pooling products require high degrees of regulatory oversight that increases operational costs of an already low margin revenue generator.
- By extending more control to corporate clients through a self-serve portal, banks are able to reduce administrative tasks executed by back office support functions.
- By reducing on-boarding effort through simplifying account structures and subsequent 'Know Your Customer' collection.
- By reducing maintenance costs through bank account rationalisation.

Expands the bank's product portfolio

- Providing a solution, which has a growing demand among corporate treasurers. Not yet widely available through traditional domestically based financial institutions.
- Being able to enhance existing legacy cash management and payment platforms without the need for an entire end-to-end replacement.

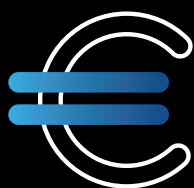
34%

of treasurers see improving the efficiency of treasury using innovative technology as a strategic priority.

– SAP, October 2019

Target audience

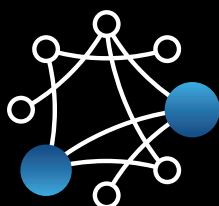
Whilst virtual accounts can offer industry-agnostic solutions to solve every day cash management challenges, it is those corporate businesses with the more complex needs which are set to benefit the most for the following reasons.



Transact in multiple currencies



Operate in multiple currencies



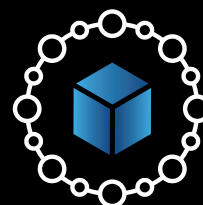
Complex multi-entity structures



Hold multiple banking relationships



Hold a high volume of client monies



Large complex supply chain

Use cases

Whilst the concept of virtual accounting isn't new, the technology and client demand has advanced exponentially since its introduction in the Nordics during the late 80s.

This has seen vendors dramatically improve the functionality and user experience of their solutions, meaning treasury teams can now address an even broader set of business challenges.

Over the next four pages, some of the key value propositions that virtual accounts offer are highlighted:

- **'On Behalf Of' management,**
- **Client money management,**
- **Virtual cash management,**
- **and virtual multi-bank management.**

Virtual accounts provide a one-stop shop for corporate businesses of all industries, sizes and structures, allowing them to transform their banking operations to suit their individual requirements.

'On Behalf Of' management

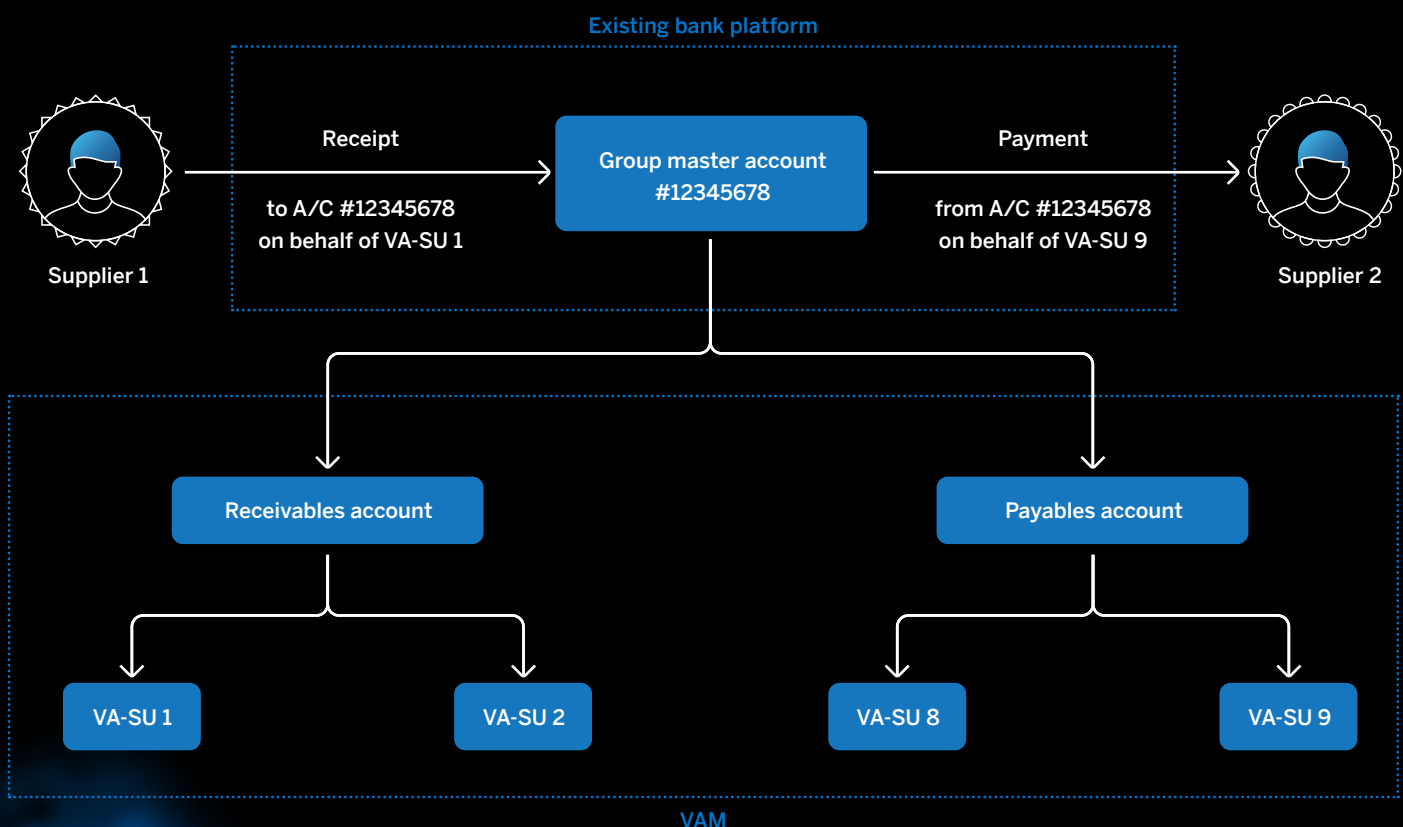
Traditionally, receivables are processed using a single physical account which is used to manage payments from all remitters on behalf of either a single entity, multiple entities or business function, with treasury teams manually reconciling enlisted entries.

With **ROBO** (Receivables On Behalf Of), remitters are each assigned a virtual account linked to a unique reference which remitters are asked to include in all payment correspondence. Upon receipt of payment, the VAM solution identifies the unique reference or account number and routes the payment to the required virtual account. This automates the reconciliation process and allows for the remitters to be reliably identified.

For payables, virtual accounts allow for a more efficient way of linking payments to a specific cost centre, business function or client monies accounts. With **POBO** (Payment On Behalf Of), corporate treasurers are able to clearly identify a paying unit for each transaction even though actual funds are debited from the real master account. Recipients are clearly able to identify initiators as the payment message contains not only the real paying account, but that of the underlying virtual account too.

Key benefits

- + Centralised treasury operations
- + Improved cash flow
- + Reduced costs
- + Straight through reconciliation
- + Better tracking of intercompany funds
- + Facilitate in-house banking



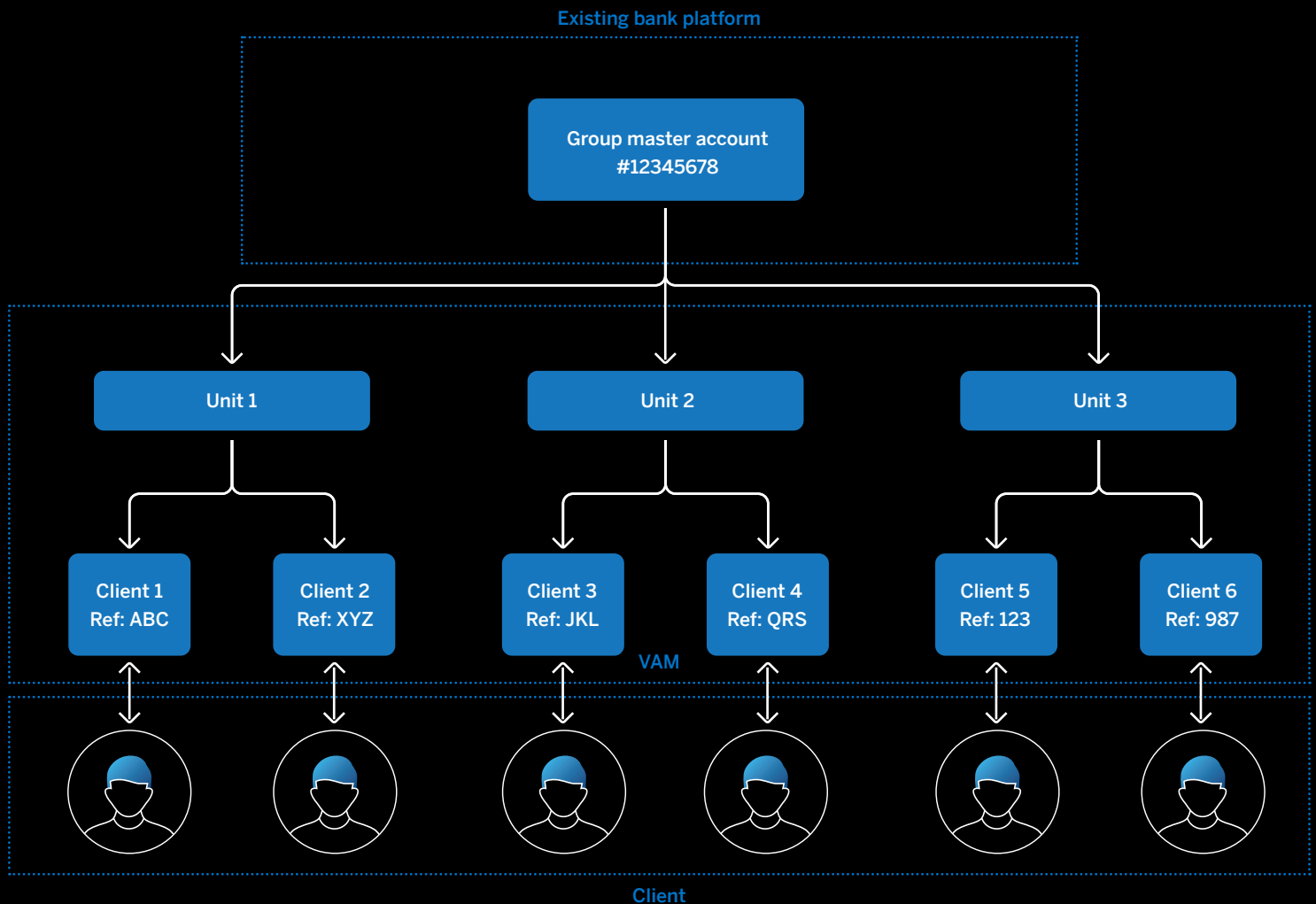
Client money management

Virtual accounts have radically simplified how corporates segregate, manage and reconcile client funds.

With client money management, corporate treasurers can create virtual accounts for each of their users, assigning them a unique routing reference which is to be entered into the payment credit reference field each time by the remitter. Funds are then collected by the real or master account before being routed to the designated virtual account for easy reconciliation and segregation of funds. As with all virtual accounts, funds are notionally offset and provide corporates with a centralised view of their realtime cash position.

Key benefits

- + Centralised cash overview
- + Segregation of fund and/or payments, assigned to individual clients or supplier
- + Auto-reconciliation by utilising POBO & ROBO



Virtual cash management

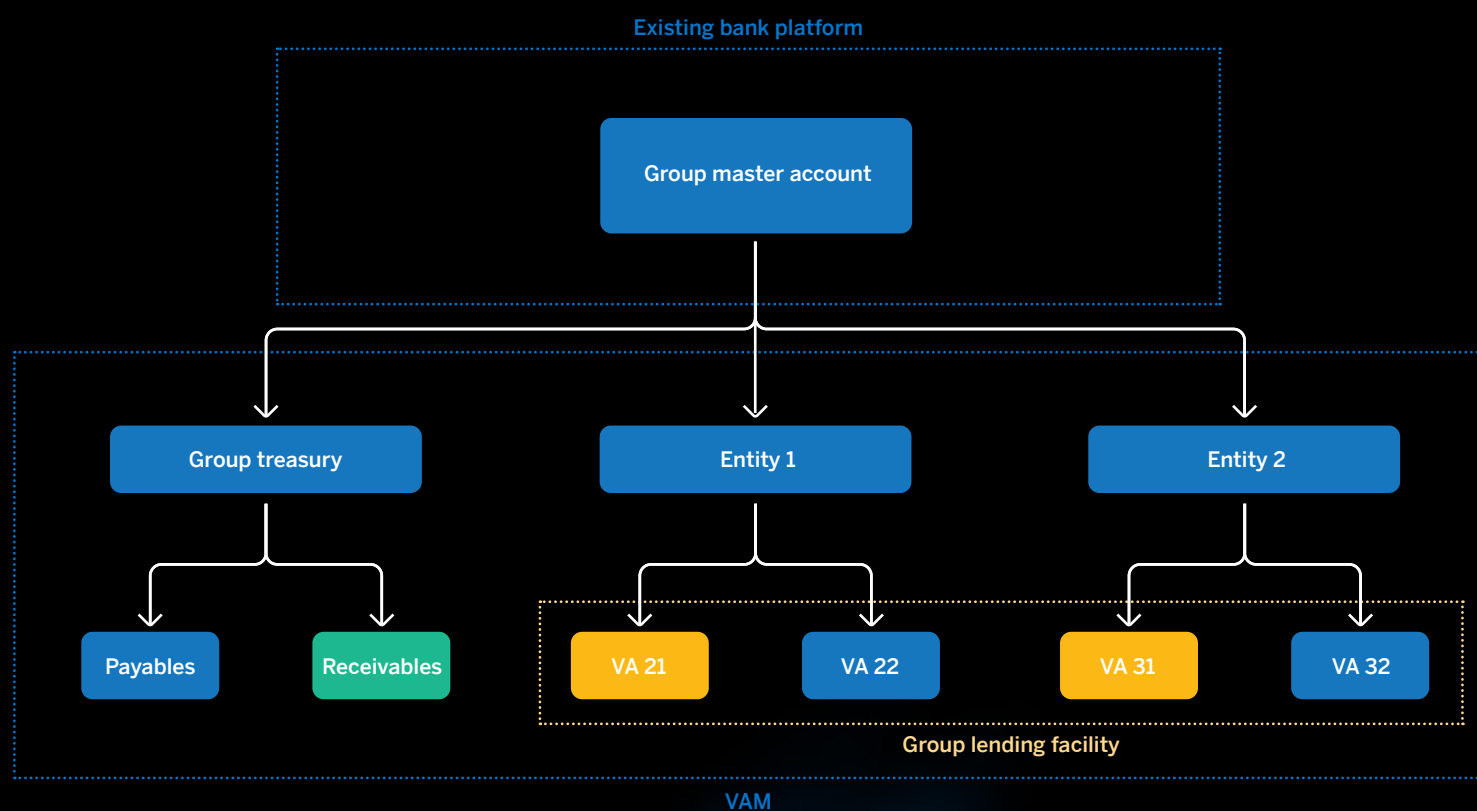
Virtual accounts can reduce the complexities created by traditional liquidity management methods such as notional pooling and physical cash concentration, as well as being able to easily obtain and manage the real-time centralisation of cash.

Often set-up where the group account heads a multi-tiered, single virtual structure beneath, with sub entities created as virtual accounts track individual cash positions. This structure allows for cash to be centralised against the headed account, on a realtime basis.

In addition, several market solutions allow you to combine VAM with more established liquidity management solutions such as cash sweeping, cash concentration and group lending limits. With these solutions, treasurers are able to blend traditional cash management methods within their virtual structures to further enhance and optimise treasury activities.

Key benefits

- + Centralised cash overview
- + Reduced account volumes
- + Increased operational efficiency
- + Reduced regulatory oversight associated with traditional notional pooling arrangement
- + Reduced costs often associated with traditional cash management methods



- Sweeping: fund account
- Sweeping: defund account

Virtual multi-bank management

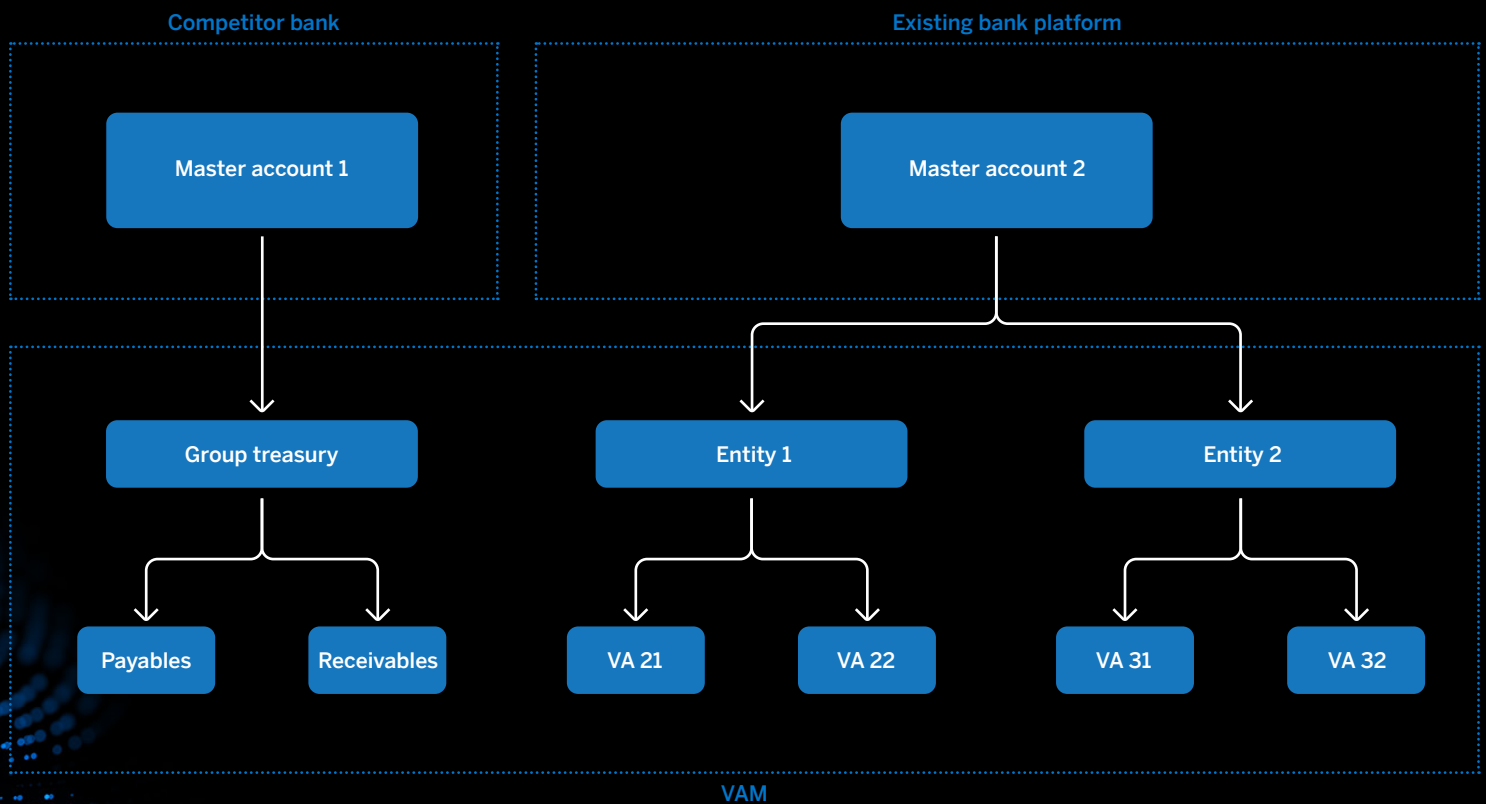
Corporate businesses generally maintain accounts across multiple banks for several reasons including reducing risk, increasing flexibility or obtaining special lending and/or pricing arrangements. Whilst holding multiple accounts across several banks has its advantages, it also poses several challenges in being able to easily obtain a true picture of a corporate business' real-time cash position.

To fix these problems, several solutions offer what is known as multi-bank-capability. This provides the ability to view all accounts on a single digital channel, populating account information through inter-bank Swift messaging or open banking. A handful of solutions takes this one step further by offering corporate treasurers the ability to create virtual hierarchies and incorporate virtual liquidity management underneath multi-bank accounts.

This solution provides treasurers with even greater flexibility, as they are no longer required to choose between bank accounts in order to obtain favourable conditions or a more complete VAM solution.

Key benefits

- + Reduced account volumes
- + Simplification of banking relationships
- + Even greater oversight as to the centralisation of cash holdings



Voices of corporate users

The need to adopt new banking practices that increase efficiency, decrease costs and above all else, unlock much needed working capital has been compounded by the volatility caused by international trade wars, Brexit and Covid-19. Out of all the social-economical vulnerability one thing is evident: it is never been more paramount for treasury departments to have clear, instant visibility of their business' cash operations.

Whilst a Virtual Account Management Platform isn't the answer to all of the world's problems,

it certainly goes some way to addressing top industry concerns when it comes to treasury operations.

The stats below, reported by SAP following their Treasury Management Conference in October 2019, reinforce some of what has been covered in this white paper.

What is your highest priority for the way ahead?

Over 250 leading treasury and risk management professionals from all industries answered a few questions that summarise what is top of mind for them and where they are in their digital transformation journey. Here's a snapshot of the results.

Improve the efficiency of treasury using innovative technology

34.4%

Get better visibility of my cash position and cash forecasting

22.2%

Streamline and automate my ability to process payments

17.8%

Better connect treasury with the other parts of my company's operations

13.3%

Automate and simplify my bank management and relationship

12.2%

Introducing SAP Fioneer Virtual Account Management

Founded in 2021 as a joint venture between the global technology leader SAP and investor DEDIQ, SAP Fioneer's vision is to build the next generation of financial services software and platforms.

By combining proven world-class technology with development expertise and a broad ecosystem of partners, SAP Fioneer enables banks to transform, grow and differentiate their business while meeting their needs for speed, scalability and cost-efficiency through digital business innovation, cloud technology and end-to-end solutions.

The Virtual Account Management solution from SAP Fioneer was built in collaboration with a leading Tier 1 universal bank.

Virtual Account Management as part of the SAP Fioneer banking solution portfolio

To address a growing demand from some of the largest banks in the world, SAP Fioneer committed to designing and developing a new Virtual Accounts solution. SAP Fioneer enlisted bancon as their preferred implementation partner to jointly lead the discovery, design, development and delivery of what is now the standard solution.

This close collaboration and detailed client insight enabled SAP Fioneer to design a compelling client-centric solution. As a result, the solution

provides financial institutions with a complete out-of-the-box-platform that allows banks to provide their corporate banking customers with a market leading cash management solution.

The functionality scope however, is not limited to corporate banking needs and is well positioned to cover various use cases and serve banking customers from different segments – including SME and retail banking customers.



Dr. Christoph Rösch

Global Head of Digital and
Core Banking,
SAP Fioneer



At SAP Fioneer our products and services are directed at customer centric innovation in banking and the wider financial services industry. Our Virtual Accounts solution exhibits a way of achieving this goal: for developing this state-of-the-art solution we joined forces with an innovative partner and equally innovative clients. This clearly drives value, not only for the business but also for IT, e.g., through a modern and clean architecture.



Furthermore, the solution delivers unparalleled self-serve capability whilst connecting seamlessly across core legacy digital channels. This innovative solution caters for all IT landscapes by utilizing SAP Pioneer Banking Services or SAP Pioneer Transactional Banking for S/4HANA, deployed on premise, or in the cloud.

SAP Pioneer Virtual Accounts Management solution forms part of SAP Pioneer's banking portfolio.

It is now available as standalone solution as well as add-on to the SAP Pioneer core banking product shelf such as Banking Services and Transactional Banking for S/4HANA.

Implementing SAP Pioneer Virtual Account Management.

The strength of having bancon and SAP Pioneer implement this new innovative solution together lies in the deep expertise of the people who have spent their careers mastering SAP Pioneer Banking. Whether you're considering upgrading an existing Virtual Account platform, or looking to introduce this as a new offering we – SAP Pioneer and bancon – are more than happy to help and share our profound joint experience.



Philipp Bieberstein

Product Owner, Virtual
Account Management,
SAP Pioneer



SAP Pioneer's Virtual Accounts solution provides significant value to banks and their clients. Banking customers benefit from a wide range and depth of capabilities that for instance simplify cash management, unlock working capital and improve operational efficiency. Banks that use SAP Pioneer's solution report significant improvement of key value drivers such as, customer conversion and revenue streams.



About bancon

bancon is a certified SAP and SAP Fioneer partner, transforming a wide range of business challenges across varying industries through data management, consultancy, implementation and product design and development.

Leveraging their deep knowledge in financial services, they have been continuously innovating SAP banking solutions in partnership with SAP and with SAP Fioneer. From product design and client implementation, through to in-house development that now makes up the standard SAP solutions. Put simply, bancon understand business transformation.

We're an agile team which means we don't prolong projects beyond what is necessary.

We do it differently, getting straight to the heart of the problem and solving it in the leanest, most efficient way. Why? Because that's true transformation.

www.bancon-it.com

About SAP Fioneer

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www.sapfioneer.com

Authors

Jörg Mauelshagen

Co-Founder and Group Director of bancon. Jörg started his career at SAP within the area of ERP production management where he later went on to become one of the founding development architects of the SAP Core Banking foundational platform. Since co-founding bancon in 2001, Jörg has been heavily involved in further feature developments, market localisation and innovative product builds including Virtual Account Management, which now feature as part of SAP's standard offering.




Bradley Jarrett

Managing Director of bancon's Global Financial Services division. Before joining bancon, Bradley worked for several leading global financial institutions, where he was responsible for enabling and accelerating digital adoption within their respective group transformation divisions. Within this period, he was the Lead Product Owner for the Virtual Account Management solution that formed part of the new Global Cash Management and Payment offering, GEM at Lloyds Bank.




Dr. Christoph Rösch

Christoph is responsible  for SAP Fioneer's digital and core banking product portfolio as well as its embedded finance business. He has more than 15 years of experience in financial services as a senior executive at Check24, where he was responsible for fintech and insurtech businesses, and as a management consultant at McKinsey & Co..



Philipp Bieberstein

Within the business unit  Digital and Core Banking Philipp focuses as Senior Solution Manager on the strategic development of our banking portfolio. Together with clients and partners he drives innovation. As product owner he is responsible for the Virtual Account Management solution at SAP Fioneer. Prior to SAP Fioneer he served banking customer across the world working for a strategy consulting firm.



Get in touch

Bradley Jarrett

Director, Financial Services Transformation, bancon
bradley.jarrett@bancon-it.com

Philipp Bieberstein

Product Owner, Virtual Account Management, SAP Fioneer
philipp.bieberstein@sapfioneer.com

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