White Paper

Rise in Person-to-Person Payments Causes Reconciliation Challenges

How to Maintain Accuracy, Speed and Efficiency in Reconciliation as Channels and Transaction Volumes Grow

the speed of life®

Person-to-person (P2P) payments surged in 2020, a direct consequence of the COVID-19 pandemic. Consumers quickly adopted payment channels that limited physical contact or added convenience when in-person interactions were restricted.

Early Warning Services, LLC, the network operator behind Zelle®, reported record payment volume and value in 2020 with 1.2 billion transactions, totaling $307 billion sent – an increase of 58 percent and 62 percent year-over-year, respectively.

The increase in online payments is a boon for consumers and the financial institutions that serve them. While consumers enjoy the time-savings and convenience of digital channels, financial institutions benefit from the increase in transactions. It's a win-win, but it can be a challenge for finance and accounting.

Rising Transactions Can Cause Difficulties

P2P is another payment channel that finance and accounting must account for, adding to an already hefty list that includes debit, credit, ACH, wires, ATMs, check, cash, calls, online and mobile. While the number of channels and transaction volumes have grown, the requirements and timeframes for reconciliation haven't budged. Many finance departments struggle to meet financial close requirements across the enterprise using traditional, spreadsheet-centric methods.

When *Zelle* transactions exploded in 2020, finance and accounting staff had to roll them into daily and monthly reconciliation processes. Every transaction must be tracked and reconciled in a timely and accurate manner, whether staff are managing 7,000 transactions a month or 70 million. Outstanding and in-transit *Zelle* balances must be substantiated against the general ledger and core accounting system, often in accordance with *Zelle* cutoff times.

What does that process look like? The first step for organizations with manual reconciliation usually involves formatting data. Most financial institutions must incorporate data from *Zelle* into a workable format to review detailed transaction reports. Those reviews are often completed with inefficient tools, such as spreadsheets and highlighters.

As *Zelle* grows within financial institutions and transaction volumes increase, financial institutions can consider changing their approach to reconciliation.

Yet many organizations continue using manual processes. The Benchmarking Accounting & Finance Function: 2019, a report produced by Robert Half and Financial Education & Research Foundation, found that although the manual reconciliation numbers are declining, there were still 48 percent of U.S. and 40 percent of Canadian respondents who reported not using any technology tool or system for account reconciliation.

There are also differences in the ways various departments reconcile their own accounts. The lack of consistency makes it more difficult for finance teams to verify the data and close their books on time each month.

Reconciliation Shouldn't Be Risky

Reconciliation is an important control for fraud and error. But with manual reconciliation, financial institutions may be introducing unnecessary risk. High-volume manual reconciliation can introduce compliance, audit and internal control issues.

Manual matching, reconciliation and exception management processes can be slow and susceptible to error. Manually keyed data, formulas that can be altered and a lack of segregated duties all make it easy to miss, mistype or deliberately manipulate data during reconciliation. As transaction volume increases, those problems intensify and it takes longer to work through exceptions.

Manual, high-volume environments also are challenging to audit. Financial institutions and audit teams need greater visibility into the data as well as standardized processes to help protect against fraud.

Manual Processes Can Limit Productivity

Manually driven processes also can limit a financial institution's growth, flexibility and scalability. Eventually, no matter how many associates tackle a problem, it can become difficult to effectively or efficiently reconcile accounts.

Reviewing sheet after sheet to match transactions or search for discrepancies can be a repetitive, painstaking task. When talented resources are underutilized, employees can become dissatisfied and disengaged.

Automation Streamlines Reconciliation

A technology solution can be the answer. By automating reconciliation and certification, financial institutions can accommodate channel growth without overextending their operations and human resources.

> "We are saving hours using Frontier™ Reconciliation to reconcile our large volume of daily *Zelle* transactions. All our items are clearing in one to two days with a few exceptions. We understand all outstanding items and the transparency gives us peace of mind."
>
> **Wendy Bell,**
> EVP and CFO
> Carter Bank & Trust

Every step of *Zelle* reconciliation can be improved by an automated solution and can be expanded to other types of reconciliations:

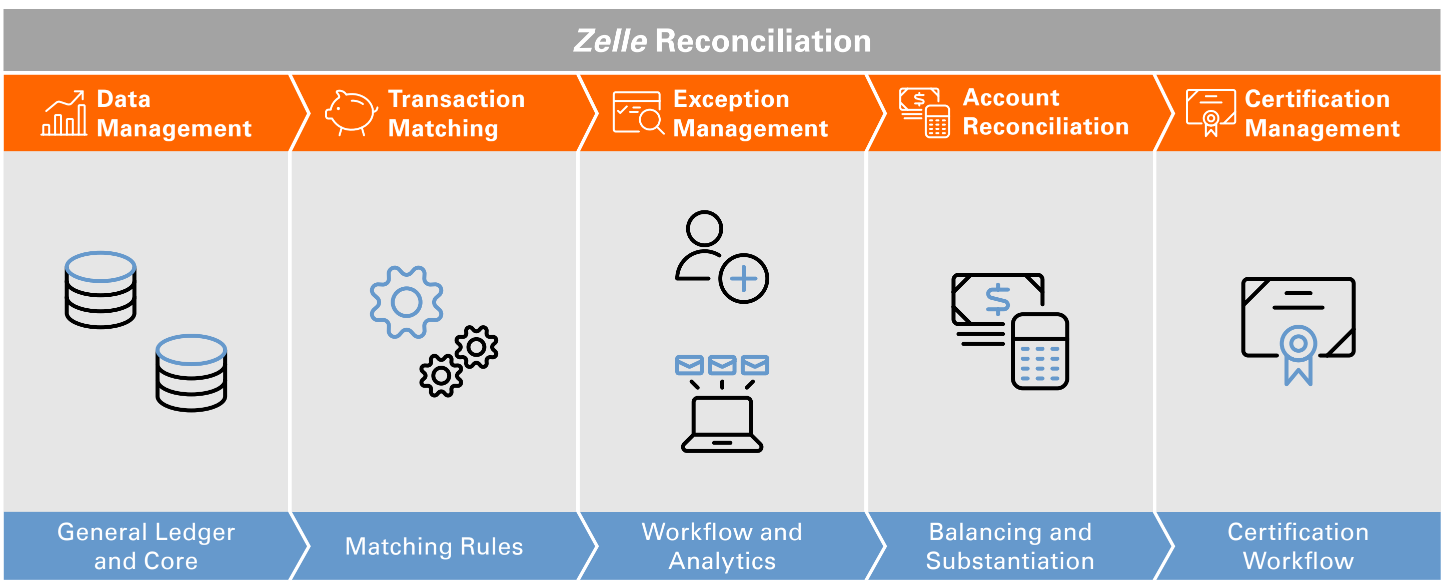
Data Management – Reconciliation tools automatically collect data from various sources across the organization, regardless of format and create a single place for it to be stored, viewed and interrogated. A data-agnostic reconciliation solution will collect all the organization's transactional data, making it usable and traceable.

Transaction Matching – Powerful matching engines can automatically match line-by-line transaction data. By applying rules set by the financial institution and unique identifiers, such as transaction IDs or date, reconciliation tools can match up to 98 percent of transactions. From a process point of view, that leaves far fewer exceptions for staff to manage and those exceptions are automatically routed to the right users for resolution.

Exception and Case Management – Exception and case management processes are smoother when they follow a repeatable set of processes, not just for individuals, but also for teams across the organization. With technology, leaders establish rules around escalation, documentation and timing. Then technology reliably and consistently ushers the exception transaction through the organization through configurable workflows. It takes less time to resolve issues. Dashboards help leaders keep track of exceptions and emerging trends.

Account Reconciliation – Key information is stored in one place, so it's easy to substantiate the balance and transaction data for the point in time that's being reconciled, whether daily, intradaily, weekly or quarterly. All the reconciled data is accessible for drill-down review, if needed, so leaders can approve the data with confidence.

Certification Management – With an end-to-end reconciliation and certification solution, executives who certify the financial close can see data down to the transaction level and understand what they are certifying. Supporting information, outstanding items and approvals are stored electronically within the tool, along with time- and date-stamped activity logs, creating a full and transparent audit trail. After certification, account information can easily be retrieved for compliance checks, audits or further review.



Accounts/Transactions Benefiting From Automated Reconciliation

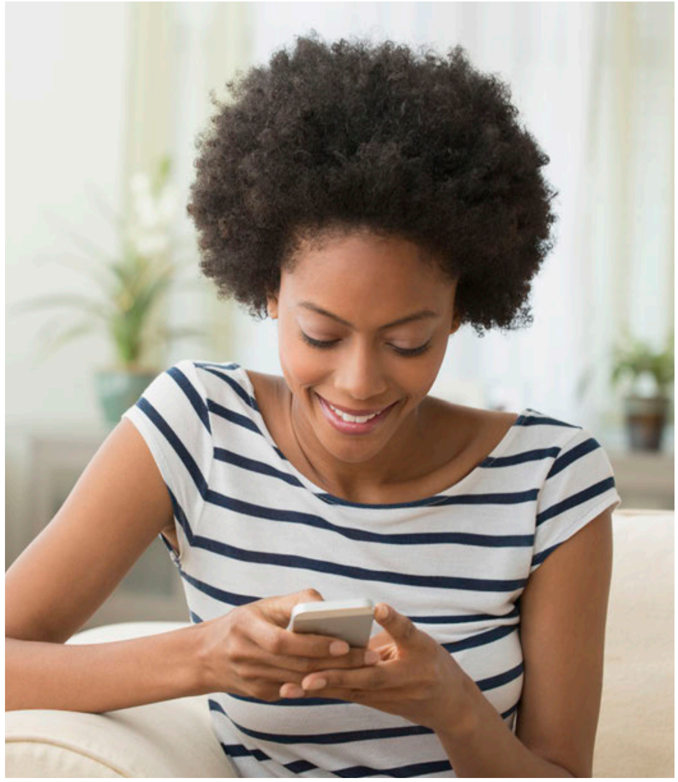
- Federal Reserve/Correspondent Accounts
- ATM Transactions
- Debit/Credit Transactions
- Loan-Clearing Accounts
- Loan and Deposit to General Ledger Accounts
- Fixed Assets, Prepaids and Accruals
- *Zelle*

Increasing transaction volumes shouldn't be a problem. The right automated solution is flexible and can reconcile millions of transactions per day.

Applied across the reconciliation life cycle, technology can create efficiency, stronger internal controls and greater visibility. And it's faster. Automation can reduce reconciliation time by as much as 85 percent, errors by as much as 50 percent and write-offs by as much as 75 percent, according to users of automated reconciliation solutions.

According to the Robert Half report, "For accounting and finance teams, the trend toward less manual work means more opportunity to pursue interesting projects that can increase departmental productivity and individual job satisfaction. For financial leaders, the automation of routine processes helps to reduce the potential for human errors. It also frees staff to focus on more value-adding initiatives for the business."

Those benefits can be applied to new, powerful channels, such as *Zelle* or to operational accounts across the organization. One set of technology can solve for multiple reconciliation problems.



"By providing operational efficiencies, stronger internal controls and ease of research, Frontier Reconciliation enables us to continue to roll out new products to our clients and support continued organizational growth."

Wendy Bell,
EVP and CFO
Carter Bank & Trust

Connect With Us

For more information about
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