

MERCK

Merck Optimizes Performance Employing ISO 20022 XML for ACH Payments

Key Results

- Cost reduction (maintenance, labor, bank fees, etc.)
- Optimized payment routing with lower cost ACH
- Streamlined processes, efficiency gains, and time savings including daily global auto-reconciliation often within half an hour
- 95 percent of payments flow through three global banks processing 200,000 to 250,000 payments a month
- Reduction of over 450 bank interfaces to an enhanced network security with a single pipe
- Focus on higher value added treasury activities
- Bank agnostic connection

Company Background

With revenue of nearly \$40 billion, approximately 68,000 employees, and operating in more than 140 countries, Merck is one of the largest biopharmaceutical companies in the world. Headquartered in Kenilworth, New Jersey, the global healthcare leader is committed to improving health and well-being around the globe. “We focus our research on significant health challenges that face our world today, such as cancer, hepatitis C, cardio-metabolic disease and Alzheimer’s disease,” comments Cheryl Rabito, Director of U.S. Treasury Services at Merck. While the large biopharmaceutical company is on the front lines of fighting emerging global pandemics and discovering new cures, it is also pushing boundaries in other ways with innovation in financial services and optimizing payments processes to achieve efficiency gains.

Today Merck is leveraging the international messaging standard ISO 20022 XML to execute all payment types – from ACH to wires and checks – for commercial transactions in the U.S. as well as for the rest of the world. However, moving away from proprietary formats is not the only way the company is deriving benefits. Merck is also generating savings with a combination of payments solutions and processes.

Global Market Manager of Channel Services, Rene SchuurMan of Citi, one of Merck’s primary cash management banks and key U.S. banking partner notes, “Merck is one of those clients with a well-disciplined Treasury function that already knows in hours, if not days in advance, their cash position and can make most payments with ACH. There is typically no need to apply last-minute expensive payment transactions.” Realizing these efficiency and cost gains was not without its challenges though.

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Director of U.S. Treasury Services
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The Challenge: Transforming Worldwide Treasury Operations

With an extensive global footprint, Merck faced over 450 different bank interfaces, dozens of proprietary formats, and a myriad of bank connection options. Previously, transactional banking activities had to be tailored to meet local market needs and local banking processes. Hans Maarten van den Nouland, Director of International Treasury Services heading

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up in-house banking at Merck explains, “Because we had all these different bank interfaces and proprietary formats for all the banks, if a local bank decided to change something, I suddenly had to get under the hood to make changes to that interface.” Such practices contributed to inefficient payment routing decisions, higher costs and enhanced risks.

The Treasury executive had a vision for a future with one neutral standard that would avoid such customization. “It would be great to have a single message, meaning a single interpretation of the payment file around the globe. I wanted my U.S. message to have exactly the same information as a Chilean message or a Japanese message and the bank would derive what is needed to satisfy the various clearing systems. That sounds like utopia – and it was.”

The Solution

Merck installed a standardized, global SAP ERP platform and implemented the ISO 20022 XML standard across the globe to streamline its interaction with its banks. In the course of the rollout, the company re-engineered its processes worldwide to establish a centralized infrastructure through which it routed all collection runs and payment flows.

In its quest to achieve one methodology across the globe, Merck worked with a small, select team with deep ISO 20022 XML expertise. Hans Maarten van den Nouland offers, “It was two competing banks, a technical specialist at Citi, a technical specialist at HSBC and myself. We basically sat around the table, looked at what the local markets needed and we built a global interface from there.”

Citi worked with HSBC and the biopharmaceutical company to standardize the ISO 20022 XML message on a global scale. Besides mapping to U.S. ACH payments (i.e., CCD/CCD+, PPD/PPD+, and CTX), they also optimized the ISO 20022 XML payment instruction beyond one country to support different payments around the globe. Rene Schuurman attributes the success of the project to having to do with “the disclosure and transparency among all the parties. That has really been a key, and something we’ve tried to replicate with our other clients. In implementing these types of solutions, it is critical that you are aligned with all the parties in the value chain, between all the banks and the corporate clients. It’s not a competitive thing. It’s trying to get to a level of coordination and collaboration that we’re all using the same ISO XML outline as much as we possibly can. I believe that has really elevated how we as an industry have been servicing our clients.”

The outcome of the effort led to a single message format. A best practice Merck found is to completely overpopulate the message and include all available data to accommodate variances in local payment infrastructure requirements. For example, Merck will provide a BBAN (basic bank account number), an IBAN (international bank account number), a

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local bank code, and SWIFT BIC (Bank Identifier Code). If the bank needs to send a wire, they can use an IBAN or SWIFT BIC; if it is an ACH payment, the bank will take the local account code and local bank code. Merck supplies all the information that is necessary to make any type of payment, which has translated to significant maintenance and cost cuts for the company.

The standardization movement was not without wrinkles. As an early adopter and driver of ISO 20022 XML on a global scale, Merck encountered a unique issue of working with a newly established standard at the time. Rene Schuurman admits, "There were a lot of challenges to work through because Merck was one of the first companies to really embrace ISO XML beginning in 2005 and trying to drive it forward. There was definitely a learning curve on their end. There was a learning curve on our end. Constructs like (CGI) Common Global Implementation - Market Practice were still trying to get their bearings."

Both Merck and Citi concede that there are still gaps, particularly in supporting local clearings such as the U.S. ACH Network. Rene Schuurman of Citi comments, "The larger CGI community simply has not agreed to start working on it because they are what they consider to be market specific. They are only used in the U.S., so we haven't really seen much standardization around this. We are now excited to hear that NACHA is looking into ISO XML to figure out ways we can incorporate some of those more U.S. specific clearing instruments in an ISO XML construct."

George Throckmorton, Managing Director at NACHA - The Electronic Payments Association offers, "As part of addressing the present needs of financial institutions and corporations, NACHA continues to facilitate the integration of ISO 20022 with the ACH Network. We are building out NACHA's ISO 20022 Mapping Guide, adding other payment types, reason codes, among other key areas in an effort to support standardization of ISO 20022 adoption in the U.S."

The Results

The centralized solution and streamlined payments processes have delivered many benefits to Merck. Enabling control and visibility to the entire infrastructure has optimized payments and influenced payments behavior to reduce costs. Hans Maarten van den Nouland reports, "I can see what local markets are doing. You have countries out there that will pay everything with the most expensive payment type. I can override those payments. They have ERPs and those invoices are sitting there for weeks before they're due. If I receive it a few days in advance I can pay using the cheaper ACH. If it's urgent and due today, we automatically turn it into a wire. Most beneficiaries rarely care about how a payment is made as long as it is in their account on time and there is no associated cost. If I can do that earlier with a cheaper instrument, I will."

The transformation of the worldwide treasury operations has also led to a reduction of the bank interfaces it maintained from over 450 to just one. At the same time, Merck was able to rationalize its banking relationships to three main cash management banks and two additional overlay banks. And while Merck continues to maintain one legacy bank for every country to address local market needs, 95 percent of the businesses' payments flow through the three global banks that process roughly 200,000 to 250,000 payments a month.

Using ISO 20022 XML, Merck has further been able to automate cash management processes. For example, with the reference number (i.e., End-to-End ID) intact when it comes off the bank statement camt.053 (the ISO 20022 message for treasury bank-to-customer reporting), Merck is able to reconcile every day, in every country, and the majority done within half an hour.

The single global interface has had a positive ripple effect on Merck's subsidiaries as well. Smaller local markets that lacked IT resources now have access to the global model and are realizing associated benefits. The centralized in-house bank infrastructure, standardized processes, and automation have also enabled local treasury employees to focus on higher value-added activities.

Having all payments activity flowing through a single interface and channel gives Merck other advantages. If Merck ever has to move away from its primary banks in the future, it won't require reaching out to over 100 countries to instruct them to change the interface. Alternatively, the central point of connection also eases adding more financial institutions, if needed. Maintenance is now significantly lower and more controllable with a professionally managed and monitored central system, which has further enhanced network security.

While Merck is reaping many positive outcomes of migrating to ISO 20022 XML, Hans Maarten van den Nouland cautions that a move to ISO 20022 simply for the sake of implementing the format would be a futile exercise. Often companies focus on the technology efforts and ignore the people and process aspect of the change initiative. He observes, "With these moves to ISO, I question, what are you doing with it? Simply implementing an ISO message, at the end of the day, it will not get you anything. You have to consider the larger picture behind such an initiative, and that's usually the business case that people don't get." Indeed, as Merck's experience illustrates, the three key elements of a successful business transformation are people, process and technology.

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