

Banking online helps you take control of your business finances. It lets you do more, at a lower cost and with less effort, than traditional banking approaches.

WHAT IS ONLINE BANKING?

Getting better control over your cash is the key driver for many businesses. So it's perhaps surprising that, despite the growth of e-business, online banking, in general, has been one of the least developed areas.

Initially, online banking was aimed at private individuals and small businesses. But this is all changing. The internet is now a proven technology with strong security. As a result, banks are targeting larger enterprises and their mission-critical financial operations.

THE BENEFITS

Online banking:

- **Saves money** – Internet accounts often attract lower bank charges and better interest rates. By managing finances more efficiently you reduce transaction costs.
- **Saves time** – Do your banking at times and places that suit you.
- **Improves security** – Online banking reduces the need for cash on the premises and the risk of lost or stolen cheques.

Integrate your online banking capability with your accounting systems to maximise your business efficiency.

- **Reduced credit risk** – Set up and manage same-day payment mechanisms and synchronise stock movements with financial flows. Pinpoint differences in accounting and banking records to spot possible errors quickly and reduce your credit risk.
- **Improved financial control** – Integrating online banking improves the audit trail for transactions. You can manage accounts with multiple banks and branches from a single location.
- **Improved forecasting accuracy** – With an integrated system you can reconcile actual and projected cashflow in real-time. You can have a clear, accurate picture of funds available at all times.

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- Supply chain benefits – Build closer supplier relationships using automated payment systems. Improve customer retention through direct debits and other electronic payment mechanisms.
- End-to-end e-commerce – Authorise new clients in real-time, or to initiate payments or transfers. An integrated system allows you to analyse the implications both for actual and for projected cashflow streams.

ONLINE BANKING SOLUTIONS

Basic services

Most banks will allow you to:

- check balances, view and order statements
- transfer money to and from high interest accounts
- set up payee details and pay bills, suppliers and salaries
- create, change and cancel standing orders
- order cheque books, open special purpose accounts
- download information into a range of spreadsheet and accounting packages such as Microsoft Money, Excel and Sage.

The exact services available vary between banks and depend on your corporate status but there are two basic approaches to online banking: internet banking and PC banking. Which you choose will depend on factors like speed of internet connection, and the location and number of people who will need access.

Internet banking

Most of the major banks in the UK offer internet banking, often without charge. Using an internet-enabled PC, a password and user ID, the service lets you operate your account from their website. While this is an excellent option for small businesses, you are limited by the speed of the bank's website and by your internet connection.





PC banking

With PC banking, you receive software that enables you to access the bank's own network to query accounts, change details and exchange and download information. Since PC banking is faster and generally gives you a wider menu of options than internet banking, some banks charge fees for the service. This can be about £30 a month and include a set-up fee of about £100.

The downside of PC banking is that you have to upgrade your software whenever the bank does and that, unlike internet banking, you can't access it on the move or abroad – access is via a set number of machines.

Additional features

Depending on your banking provider and your business status you may also be able to:

- originate and amend Direct Debits and Credits electronically
- use CHAPS and SWIFT – systems for making electronic payments directly to overseas bank accounts
- automate factoring and invoice discounting systems.

Direct debits and credits

Direct debit is popular with customers: in 2000 nearly 2 billion payments were made. For suppliers, it's cost-effective – as little as 1p per payment as opposed to the 60p cost per cheque. The direct credit system is also widely used – there were 1.1 billion payments made this way in 2000.

Paperless Direct Debit (PDD) originators no longer have to get written consent to add or update direct debit instructions. Now it can all be done by telephone, via the internet or using a touch-tone keypad. To originate direct debits electronically you need live AUDDIS (Automated Direct Debit Instruction Service) status. Talk to your bank to find out whether your business qualifies and which applications it supports.

Security

For businesses trading online, trust is a key limiting factor. At each stage in the value chain, whether it's finding a new trading partner, negotiating price or payment and delivery, both parties need to be sure the other is who they say they are and will deliver on promises.

The banks currently only see transactions at the payment stage but typically there are several stages before then, such as trust and authorisation services, where banks vouch for their clients. So banks have got together with SWIFT, the global funds transfer network, to develop TrustAct and e-paymentsPlus.

TrustAct is a secure messaging environment. It is legally enforceable and uses digital signatures based on PKI cryptography to guarantee identities (see the Information Security section on our website). E-paymentsPlus is the related online payment initiation and assurance solution.

Businesses can use e-paymentsPlus with multiple banks and on multiple websites. E-paymentsPlus is a 'click and pay' service; it requires minimal upfront investment from corporates. Once registered and as long as your trading partner is also a subscriber you can use it to identify, authorise and initiate various kinds of payment online.

The future

Today, less than a quarter of the world's business-to-business payments are conducted electronically, but by 2005 it's expected to rise to around 40%. It's anticipated \$2.8 trillion will be paid this way. There are two main initiatives underway that will alter the ways businesses make payments.

Straight-Through Processing

Banks want to offer new payment services to their customers but so far they have been hampered by the lack of an industry standard. Straight-Through Processing (STP) is seen as the mechanism for overcoming this.

By adopting a shared set of standards, transactions can be logged and their financial implications met without any human intervention. STP uses XML-based standards to authorise and execute payment instructions automatically.

The chief advantage for companies is that, instead of having to use applications provided by the bank, they can focus on sending and receiving data in the agreed XML format. This is far more flexible and allows for much tighter integration with existing software.



Internet-based payment systems

All of the major settlement services are also undertaking initiatives to migrate their delivery systems away from private networks and towards the internet. Businesses will get access to relevant customer details and be able to input transactions directly.

For business these developments mean:

- greater flexibility
- more immediate information direct to their desktop
- more direct control of electronic fund transactions
- improved compatibility between financial and commercial applications.

With these changes, banks should be able to offer continuous improvement in their services. This means you should review your online banking choices periodically, assess the new functionality on the market and see if it can further your strategic objectives.





IMPLEMENTATION CHECKLIST

Research & analyse

Set targets

Identify your online banking priorities. These might include:

- accessing new markets and customers
 - improving management information
 - reducing transaction costs
 - reducing administration overheads
 - integrating financial functions into commercial transactions.
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Cost benefit analysis

- Can you estimate the time saved on transaction processing?
- Are there any subscription fees? What is the cost of using online banking and how does this compare?
- Can you estimate expected savings from reducing errors, lower bank charges, extra interest earned?
- Will online banking give you access to new markets or protect your position in existing ones? What is the value of this?
- Work out the savings in transaction processing.
- What is the cost of additional equipment?
- What are the costs for set-up, installation and training?

Consult

With supply chain partners...

- Talk to your bank – what can they offer you?
- Find out which system would best suit your suppliers and customers.



Professional advice

If you lack the skills in-house, contact a Business Link adviser (or equivalent if you are in Scotland, Wales or Northern Ireland), in the first instance, for help on how best to:

- outline your requirements
- establish how much you can afford to pay
- scope the project
- advise on implementation
- provide training and software support.



Plan & test

Evaluate options

As well as functionality, the relative merits of PC and internet banking depend on the state of your business:

- Do you have a slow internet connection? If so, PC banking may be faster.
- PC systems are purpose-built applications. Are there are installation and upgrade issues?
- Do you need to do your banking from more than one location? If so, internet banking may be a better solution.

Plan the rollout phase

- Decide which staff will require training and allow time for them to adjust to the new system.
- What level of integration with existing applications do you need?
- Do you want to consolidate financial information from several banks?
- Do you need to reconcile actual financial flows with projections?
- Do you want to embed online payments into commercial transactions?
- Do your existing applications generate data that can be uploaded?

 Act

Implement online banking

- Roll out any necessary training.
- Encourage staff involvement and feedback, this will help smooth implementation, as staff buy-in can make or break a technology project.
- Consider setting up a cross-departmental taskforce to manage the implementation process – it will help with staff buy-in and ensure that implementation works company-wide.

Ensure ongoing security

Online banking systems give businesses tighter control over their financial transactions and this needs to take place in a secure environment. To minimise the risks when you system is up and running:

- use multi-level authorisation codes and change them regularly
- guard against electronic eavesdropping, recording or unauthorised access to log-on details
- never share passwords or smartcards.

Evaluate

- Monitor and review the impact on your business and against your objectives.
- Get feedback from staff, customers and suppliers on the changes.
- Evaluate the impact after 6 months and 1 year. Have you achieved your objectives? Establish how you could improve things further.



FURTHER HELP AND ADVICE

Providers

- www.eiger.co.uk – Electronic payment system vendor.
- www.sungardt treasury.com – Provider of treasury systems to corporates with an ASP offering.
- www.royalbankscot.co.uk/CBFM/eBanking_&_Online_Services/default.htm – Royal Bank of Scotland's online offerings for business.
- www.bankofscotland.co.uk/business/waysofbanking/internet/index.html – Bank of Scotland's PC and internet banking comparison pages.
- www.business.barclays.co.uk – Barclay's e-banking services.
- www.ukbusiness.hsbc.com – HSBC's business internet banking area.

Information

- www.pkiforum.org – on digital signatures and authentication.
- www.bacs.co.uk – electronic payment and the newBACS initiative.

Financial advice

- www.bcentral.co.uk/finance/banking/internetBanking.asp – Microsoft guide for small businesses.
- www.bottomline.co.uk – Financial resource management software.
- www.bfinance.co.uk – UK business finance portal.

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