

# THE IMPORTANCE OF PAYMENT CONTROLS

## THE STAKES COULDN'T BE HIGHER

Controls are all around us. Driving to the office you stop at a traffic light. You use a key card to access your building. You sign onto the corporate network. These are examples of controls in our everyday lives. But what about financial controls? Personal credit cards have spending limits. Most ATM cards can only withdraw cash a few times per day. Checks require an authorized signature. Controls like these are put in place to protect various parties, including you, from financial risks. When it comes to commercial payments, the stakes can be much higher.

Recent history has shown that payment innovations are frequently introduced for consumers and then adapted for commercial purposes later. Commercial payments are more complex than consumer payments and the transactions much larger. These factors mean higher levels of risk, and where there is financial risk, there is a need for effective controls. To this end, the latest commercial payment methods — and the various controls that come with these payment methods — enable CFOs, controllers and program administrators to exercise greater control and oversight over payment systems and practices.

### TYPES OF PAYMENT CONTROLS

Preventative Controls	Detective Controls	
	MONITORING	REPORTING
<p>Controls include Merchant category code/standard industrial classification (MCC/SIC), dollar and velocity limits</p> <p>Can be set at company, department and cardholder levels</p>	<p>Compromised Account Management System (CAMS)</p> <p>Fraud text alerts</p> <p>Visa® IntelliLink® Compliance Auditor</p>	<p>Range of reports through PNC</p> <p>ActivePay® and Visa IntelliLink</p>
<p>Approval transaction limits</p> <p>Permission groups employed to limit access to G/L coding based on budget or location</p> <p>Cascading approval logic</p>	<p>Complete audit trail of all invoice approvals.</p> <p>Ability to track all invoices throughout their life cycle in the system</p>	<p>Access to a KPI Dashboard and over 16 standard reports that can be filtered and exported for additional analysis outside of the system</p>
<p>Wide range of standard and optional controls, such as dual approval (secondary authorization) and transaction limits for various payment types, including funds transfer (wire), foreign exchange and ACH</p> <p>Token passcode is required for external funds movement modules</p>	<p>Fraud Monitoring tools, such as PINACLE® Positive Pay, Payee Positive Pay and ACH Positive Pay</p> <p>Automatic notifications when operator entitlements are updated in the Funds Transfer Foreign Exchange and ACH Modules</p>	<p>PINACLE reports include: company activity reports, detailed audit logs in ACH and funds transfer, and information reporting</p>

When it comes to commercial payments, there are two types of controls: *preventative and detective*. Preventative controls can stop someone from making an unauthorized transaction. According to 2014 research by Mercator, the most popular commercial card controls are custom merchant category codes (MCCs, used by 90% of commercial card clients) and single transaction limits (used by 86%), but there are a wide range of preventative controls available to commercial payments clients.<sup>1</sup> Detective controls, including monitoring and reporting, can identify when unauthorized or unusual transactions have occurred.

- **Preventative controls** are either built into payment products or are standalone control tools, which enable companies to establish (and adapt) rules that govern spending. Controls can be set and changed by the designated Program or System Administrator.
- **Monitoring tools** enable clients to continually observe spend activity; these tools serve as both an early warning system for unusual spending patterns, as well as providing the raw data for spending reports.
- **Reporting tools** distill spending patterns to support the decision-making processes by key company stakeholders, in areas like budgeting, negotiating discounts and creating business cases for investments in new payment systems.

## ORGANIZATIONAL BENEFITS

Implementing preventative and detective controls can provide a number of benefits to organizations, including:

- **Reducing fraud incidence** by both setting spending rules and quickly identifying real-time fraud attempts to limit fraud exposure; the 2016 AFP Payments Fraud and Control survey found that 75% of organizations used daily reconciliations on transaction activity to guard against payment fraud.<sup>2</sup>
- **Lowering administration costs** by using powerful spending monitoring and reporting tools, as well as having preventative controls in place that reduce expense processing and dispute resolution costs.
- **Gaining greater insights into spending patterns**, which in turn enable companies to manage budgets, forecast expenses, negotiate purchasing discounts and more.

The potential benefits associated with strong controls can be significant in terms of cost savings and peace of mind. Conversely, failure to implement appropriate payment controls can subject an organization to unnecessary financial risk.

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### READY TO HELP

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<sup>1</sup> Mercator Advisory Group survey sponsored by NAPCP, 2013.

<sup>2</sup> 2016 AFP Payments Fraud and Control Survey.

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