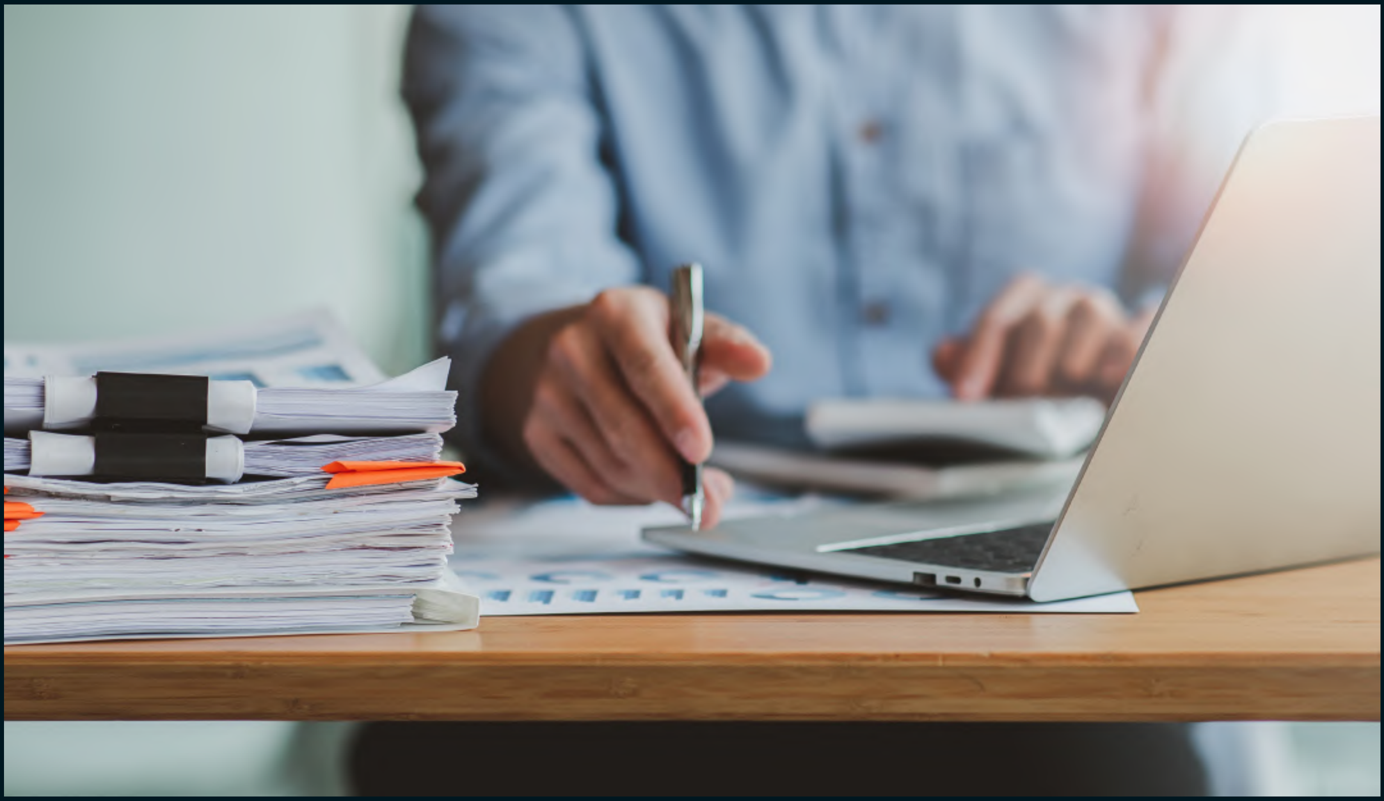
WHITE PAPER

Compliance is not a killjoy

How to use it as a tool for combating risk



It's time to make friends with compliance.

Compliance. Most businesses see it as a necessary evil, a process that puts red lines in new ideas and complicates seemingly straightforward plans. And globally, everyone from financial officials to criminal investigators seems to have a hand in accounts payable (AP) and receivable (AR) transactions, particularly the investments and payments portions.

In short, for the finance team, compliance is a mandate, a killjoy, a Debbie Downer, a source of problems.

Or is it?

As it turns out, compliance, particularly as it relates to financial transactions, is more than a checklist of requirements. It creates an opportunity for businesses to think differently about how they function and offers an inroad for examining business practices in a new light. If your business integrates compliance into proactive planning processes, it also influences the business ethos, often resulting in a more ethical, profitable entity.

So, how does an AR/AP team go from seeing compliance as a burden to embracing it as an opportunity? It starts with understanding both the threat of non-compliance and the business case for being proactive.

> "Our goal is to empower companies to do the right thing, by investing in compliance, in culture and in good corporate citizenship... an ounce of prevention is worth a pound of cure. Investing now in a robust compliance program is good for business, and it is good for our collective economic and national security."
>
> **U.S. Deputy Attorney General Lisa Monaco[1]**

60%

of companies believe compliance risk will grow.

Source:
KPMG Fraud Outlook[17]

20%

of global organizations rank regulatory compliance as a top-three challenge.

Source: PwC Global[16]

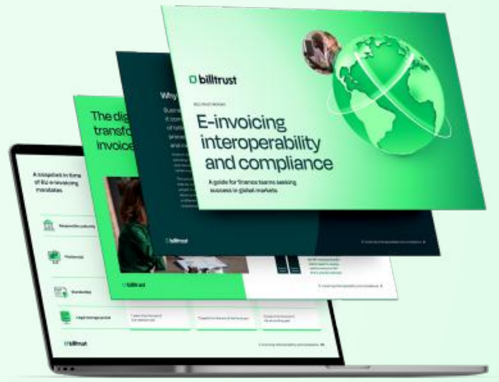
The threat of noncompliance

When finance teams look at why they comply, it starts with "because we have to." The most obvious reason for that comes in the form of the negative repercussions that result from noncompliance, including:

1. **Fines.** According to KPMG's 2022 Fraud Outlook, 55% of companies report suffering losses due to a regulatory fine or compliance breach, resulting in an average loss of 1.5% of profits when combined with fraud.[2]
2. **Reputational risk.** For many business executives, this consideration has risen in rank, taking precedence over bottom-line impacts. In fact, the KPMG study concluded that "More respondents say that reputational considerations cause their leaders to pay attention to compliance than say the same of fines and enforcement."[3]
3. **Increased regulatory scrutiny.** When noncompliance is an issue, regulators step up their level of attention and enforcement. Consider that more than 70% of businesses report that more rigorous regulatory enforcement is already drawing the time and attention of their executives. Add to that the potential for increased examination stemming from a noncompliance incident, and the burden grows exponentially.[4]

To add to this complexity, as these and other mandates are applied, AR/AP teams have to decipher sometimes murky guidance for remaining compliant. They not only have to consider how this information affects today's digital-first business practices but also how it may evolve to affect the new technologies they plan to put in place.

As consulting firm Deloitte noted in a payments trends summary, "While financial institutions, businesses, and customers continue to innovate, regulators are challenged to keep pace with the market and provide the clarity required for sustainable growth. Needs include a definition of standards and clarity on everything from accessibility to interoperability and value-added services."[5]



Global mandates are changing the game

And as new global regulations emerge, internal processes need to be updated and implemented to address shifts in requirements. This means that AR and AP teams are faced with training on new regulations, shifting or upgrading internal systems, and monitoring for additional changes to ensure they remain in compliance.

Take, for example, the mandatory e-invoicing protocols that have been brewing around the world. Many countries are now mandating electronic invoicing in one form or another, with more on the way. These mandates can differ dramatically, both in the scope of the transactions they cover (business to business, business to government, or business to consumer) and in the digital formats and technologies they utilize. Keeping track of the latest developments and updates to these mandates can be difficult, with so many languages and authorities to monitor globally.[18] But it falls on the AP/AR team to navigate this dynamic as they go.

Billtrust is aware of more than 100 countries currently mandating e-invoicing to some degree. Reference our e-invoicing compliance guide to find pertinent B2B payment information for all your business markets.

Compliance culture is good for business

Problems and pitfalls aside, there are benefits to building an AR/AP compliance-first approach to business. Given that in 80% of organizations, the financial team supports other areas of the organization—such as SEC compliance—this work predominantly already falls on them.[6] So, by embracing their compliance roles, finance teams can raise internal awareness of the way that compliance can benefit the business and its bottom line.

Making card policies watertight

For example, let’s look at a scenario of a law firm that was not compliant around card payments (the irony of a noncompliant law firm is not lost here). This firm began handling virtual card payments for customers, striving to make them more seamless and efficient. This payment method grew quickly among their roster, and before long, it was taking 200 to 300 manual payments each month.

The trouble came into play when its bank conducted a required audit and found the law firm’s card policies to be unstable and unsafe, introducing the potential for six-figure PCI compliance fines. Since that time, the firm has upgraded its AR/AP systems and switched to a compliance-first approach to accounting, which has saved it not only the potential fine payouts but also the reputational risk that would have resulted from noncompliance.[7]

Reducing the risk of high-value card transactions

Or consider an independent biomedical research institute that had a similar card compliance problem involving high-value transactions. This lab was processing more than 500 virtual credit card payments per month—accounting for upwards of $5 million in customer payments—in a way that could have been deemed PCI noncompliant and subject to extensive fees. By shifting its approach and partnering with a PCI Level 1 certified partner, it reduced its compliance risk exposure and went from compliance as an afterthought to a main driver of its programs. The research institute made that switch just in time, as it quickly grew to more than 800 monthly virtual card payments, accounting for over $8 million.[8]

Cross-market regulatory challenges

Individual vertical markets also face their own layers of regulatory scrutiny. For example, healthcare organizations not only have traditional payment-related considerations like PCI compliance; they must also meet the demands of the U.S. Health Insurance Portability and Accountability Act (HIPAA).

HIPAA creates an added layer of regulation, and those healthcare organizations that are receiving card data over the phone, email, or even fax are setting themselves up for PCI- and HIPAA-related compliance issues by exposing sensitive card numbers to employees.[9]

By partnering with a provider that understands the unique relationship it plays as a business associate of a HIPAA-covered entity, healthcare AP/AR teams ensure they are working with an organization that will adequately safeguard protected health information (PHI).[10]

In short, creating a culture of compliance in AR/AP functions is good for business. This approach reduces the potential for fine exposure and supports more efficient and effective processes that ultimately accelerate cash flow, control costs, and increase customer satisfaction.

> "Finance functions now marry financial and nonfinancial data when implementing leading-edge analytics, which can drive down costs, improve decision making, and maximize customer value."
>
> **Institute of Management Accountants (IMA)**[11]

4 steps to creating a compliance culture

So, how does a business make the transition from compliance as a mandate to compliance as a mindset? Four key steps can help finance teams lead that change:

Recognize that constraints can fuel innovation.

Seminal *Harvard Business Review* research evaluated 145 empirical studies on the effects of constraints on creativity and innovation, and concluded, "individuals, teams, and organizations alike benefit from a healthy dose of constraints."[12] With compliance a chief area of constraint, this research encourages finance teams to innovate not in spite of, but in response to, regulatory requirements.

Integrate compliance into early discussions about AR/AP problems and solutions.

Compliance is often an afterthought, a veil to lay over a new finance product once it's been created, purchased or implemented. But what if that approach shifted so that compliance became an integral part of early-stage ideation? By engaging compliance in that planning process, finance teams stand to benefit from phase one input that will help them develop a solution that better meets the organization's needs.

Explore design thinking concepts to address strategic and operational challenges with a compliance eye.

To bring compliance into the fold at the start of ideation, design thinking may offer a practical approach. According to IMA, "In today's volatile, uncertain, complex, and ambiguous environment, accountants and financial professionals in business are increasingly required to develop unique and novel solutions for business problems... In response, some accounting and finance firms and functions have adopted design thinking—a problem-solving methodology aimed at unleashing the creative power of teams—to contribute to fostering a culture of innovation and continuous improvement."[13] Incorporating design thinking—by nature an inclusive process—into AR/AP innovation means that as the team moves through stages from clarification to implementation, they are factoring in regulatory requirements and compliance considerations.

Identify a strong partner that can help with compliance requirements as the business innovates and digitizes.

According to the Association for Financial Professionals, more than half of businesses (51%) are reporting a greater emphasis on implementing technology/analytics to improve efficiency, accuracy and compliance of processes.[14] To do that, businesses must seek out partners that understand their complex compliance environments and offer the right mix of security and compliance certifications. Not only does having a compliance-centered partner provide the business with peace of mind, it also can significantly reduce the scope, cost and effort of its own compliance assessments.

> "Constraints force us to get crystal clear about the problem we're solving, and they help us get in the mindset to solve it efficiently and effectively."
>
> **Simone Ahuja, creator of *The Intrapreneur's Code*[15]**

By implementing these four steps and looking to a culture of compliance as a business driver, businesses can go from thinking of compliance as a point of contention to one of possibility. And that's a mindset shift that sets a business up for continued success, no matter the compliance hurdles in their path.

To dos for creating a culture of compliance

Integrate compliance into proactive planning processes

Incorporate design thinking into AR and AP innovation

Seek out partners that understand complex compliance environments

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Learn more

For more information on ways to become proactive in your compliance processes, visit billtrust.com or contact our sales team.

ABOUT BILLTRUST

Billtrust is a leading provider of cloud-based software and integrated payment processing solutions that simplify and automate B2B commerce. Accounts receivable is broken and relies on conventional processes that are outdated, inefficient, manual and largely paper based. Billtrust is at the forefront of the digital transformation of AR, providing mission-critical solutions that span credit decisioning and monitoring, online ordering, invoice delivery, payments and remittance capture, invoicing, cash application and collections.

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