

Survey results What are the real costs of payroll processing?

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Manual payments handling is considered the largest payroll overhead by 44% of companies. This is one of the key findings from research into the challenges of payroll processing carried out by B2B payments specialist, Modulr. The survey also identified that:

- Nearly 40% of companies still rely on Excel to receive, submit and process payroll data
- Manual reconciliation at 37% and inconsistent staff workloads at 35% were the second and third largest costs cited by respondents
- While 48% of firms use off-the-shelf payroll software, 37% maintain an in-house or customised solution

About the research



Modulr, in partnership with Reward Strategy, questioned payroll professionals from bureaus, human resources software and services firms, umbrella agencies, accountancy firms, and private and public-sector employers to gain better insights into the way in which they process payroll and the challenges they face. Ninety three companies responded to an online survey and a selection of respondents then participated in qualitative telephone interviews to explore key issues in more detail. Payroll bureaus managed anywhere from hundreds to tens of thousands of salary payments on behalf of their clients. They ranged from one-person operations to large-scale firms with a dedicated team member for each client.

Please note that some of the survey questions provided the choice to select more than one option. For example, the same company may use both Excel spreadsheets and in-house payroll software to manage their payroll processes.

This paper summarises the findings of the research and outlines how better integration between payroll and payment systems can reduce the costs of payroll processing and enable bureaus to offer a faster, more reliable service to their customers. →



Payroll should be a simple process, but it is one of the most complicated things that a company does – so you need to get it right.

Processing approaches

Nearly all bureaux and employers rely on payroll software to manage their payroll processes. A small minority of employers outsource the management to a third-party provider. This is unsurprising as payroll calculation is complex. What is interesting is that over a third of companies questioned use in-house developed software or third-party commercial systems that they have customised themselves.

Technical capability is an important differentiator for bureaux. Payroll calculation and management is complicated, and bureaux exist to help companies, especially SMEs without in-house capabilities, to get payroll right.

Bureaus compete on their professional expertise, responsiveness and ability to meet the specific needs of individual customers. This means having people with the right professional payroll skills and using data handling and payment processes that are optimised for efficiency and accuracy. It also means deploying optimised software tools and technology to support them and offering a custom service to clients.

Despite this apparent sophistication, one of our notable findings is the reliance that companies have on Excel. Approximately 40% of employers and 20% of bureaux rely on spreadsheets to complete their payroll processing. There are still some elements of the payroll process that require a semi-manual approach, such as the submission of data files between clients and bureaux, calculation of non-standard payments and submission of Bacs files. Some bureaux do not have the capability for clients to submit data directly into their systems and for many small clients, Excel is the format they are best able to handle. "We don't have a back-end portal so clients submit data on Excel," said one payroll bureau that handles more than 50,000 payslips a month for 1,500 clients. "It comes back in Excel and we import it and check it. If there was a better way to do it, we would."

There may be a need to manually calculate non-standard salary arrangements. For example, as one bureau explained, "If a company agrees a staff member will have unpaid leave for one day a week and say they have health care, we will need to manually calculate that and the amount the employee will have to pay." In these non-standard scenarios, spreadsheets can still be the most effective way of calculating the payments due.



Nearly 40% of private and public-sector employers and 20% of bureaux rely on spreadsheets to complete their payroll processing.



The UK's oldest payment scheme, Bacs provides business-to-business and business-to-customer payments, Direct Debits and Direct Credits.

90%

UK employees paid using Bacs Direct Credit



Low-value "real-time" payments system. Opened in 2008. Mostly used for standing orders, internet and telephone banking as well as mobile payments.



3 WAYS TO ACCESS:

- Go direct
- Submit batch file to bank
- Use a payroll bureau

Speed:
3 days to process



ACCESS

- Bank Portal
- Direct Corporate Access
- Payment Service Provider

Speed:
Real-time



*Depending on provider

The unnecessary cost of manual processes

Manual payments handling is the most common cause of unnecessary process costs, with 44% of businesses saying that this is an issue.

Recent legislation has, however, had a significant impact on the time and cost of processing. Payroll takes longer now than it used to, due to compliance checks and due-diligence requirements. One of the main challenges is managing pension auto enrolment.

Common manual elements of pension auto enrolment include the uploading of data to individual pension providers. This often entails logging onto different providers' portals. Companies often have to deal with multiple providers and there is no standardisation of formats or processes. The ability to effectively outsource and / or automate this data handling would be welcomed by many of the employers and bureaux that we interviewed.

Manual reconciliation and checking of accounts for cleared incoming funds is also viewed as an unnecessary overhead for 37% and 11% of businesses respectively. An example is integrity checking after completion of a Bacs run to ensure that the payments have been processed correctly. "This is still a manual process," said one bureau, "as the data we get back from Bacs doesn't have the correct format for us to use it in a Vlookup in Excel."

Use of batch files can be a cause of costly errors, with 11% of respondents reporting problems. Fifteen percent of companies report unnecessary costs associated with dealing with errors arising from failed payments.

One of the consequences of undue manual processing is the uneven administrative workload this places on businesses. Thirty-six percent of those we questioned saw inconsistency in admin team workload as an unnecessary cost. Uneven workloads may mean that businesses need to overstaff to deal with the workload on the busier days. Effective automation can reduce this overhead and even out the admin staff's workload.



For 44% of businesses, manual payments handling is the most common cause of unnecessary process costs.

Areas causing unnecessary costs to businesses

Respondents could choose more than one option

37%

Manual reconciliation

11%
Manually checking

35%

Inconsistency in admin

9%
Contractor call handling

11%
Errors caused by batch files

15%
Internal error handling process

20%
Other issues

44%
Manual payments handling

2%
Downtime of outbound payments service

More companies could benefit from Faster Payments

Bacs, which operates a three-day processing cycle, is the dominant method for processing salary payments, according to our survey. It was used by 87% of those surveyed. Only a third of respondents are making use of Faster Payments. A small proportion (included in these percentages) made use of both Faster Payments and Bacs, but anecdotal evidence from the payroll bureaus we interviewed suggests that Faster Payments tended to be used as a contingency, or 'back-up', if a payment failed to go through using Bacs, or if payroll was left to the last minute to be processed.

Bacs is the oldest electronic payment scheme in the UK. It can be cost effective, so long as monthly payroll is prepared and signed off in time to meet the three-day processing cycle. In some instances, Bacs can be an advantage: "Bacs gives us the security of knowing we have a three-day lag so we can rectify any errors," reported one payroll bureau. There are, however, drawbacks associated with Bacs. The three-day cycle associated with Bacs means the process needs to be completed by lunchtime on a Tuesday, at the latest, if salaries are to be paid into accounts by the Friday. This perhaps explains why 35% of respondents highlighted inconsistent admin team workload across the week as being a cost to their business.

For some employers, the three-day delay with Bacs means sometimes businesses may not get payroll signed off in time. In these cases, use of Faster Payments can provide more flexibility. As one bureau explained: "For some clients, getting sign off three days before is difficult; they take it down to the wire."

The cost of becoming an accredited Bacs bureau is also high and the application process can be complex, which acts as a barrier to some bureaus offering their clients a Bacs service. "The charges for Bacs facilitation are prohibitive and the whole thing is more complex than our current process," said one bureau that processes a relatively small volume of payments in the UK. "It doesn't make sense for us to become a registered Bacs agent." The annual fees also need to be considered and manual file submissions are an unwelcome process overhead.

If a problem has arisen that delays the normal payment processing cycle, Faster Payments means employees can get paid on time. Similarly, where there is a need to quickly process specific one-off transactions, such as redundancy payments, it can be of benefit.

Faster Payments also offers significant advantages for weekly payrolls and those where hours and payments are variable and need to be calculated very close to payment date. It can also have benefits at holiday times, which are often a busy and difficult periods for bureaus, as one of our interviewees explained: "From an operational perspective, being able to file one day before pay date would give us more time for processing in the month, which is always good. It would also alleviate the pile up of pay dates that always happens across holiday times such as Christmas and Easter." →



21% of bureaus and accountancy companies have lost clients due to delayed payments or errors.



It would be great if Faster Payments could be activated by payroll people for an emergency; in case something happens and we can't get the submission done on the correct date.

While delays should not be an issue for the majority of payroll processing transactions that do not take place on a weekly basis, the consequences of payment failures can be serious. Bureaus can lose business when payments fail. Twenty-one percent of bureaus and accountancy firms in our survey reported that they had lost clients due to delayed payments or errors.

While Faster Payments has benefits, it is not always easy to access, with set up arrangements and costs varying from bank to bank. Most respondents accessed Faster Payments via a banking portal, which again requires manual login and authorisation of payments.

Those companies that we interviewed agreed that a simple, accessible and automated way for employees and bureaus to access Faster Payments or Bacs, when needed, would bring significant time-saving benefits and costs.

The need to protect margin

Payroll bureaus are incentivised to tackle excessive overhead. They typically operate on single-digit margins, so controlling cost is essential to making sure they can price competitively, invest in the business and remain profitable. While some manual processing elements are inevitable, bureaus are working to automate as much as possible.

The drive for further automation and the promise of APIs

The payroll companies that we spoke to during our research clearly identified further automation as a priority. It provides an opportunity to address unnecessary manual processing overheads, reduce errors and protect margins. A strong internal development capability is an important enabler for some companies, especially since the fast-moving technology, regulatory and compliance landscapes make it difficult for software vendors to keep pace.

Better integration between payroll software systems and external providers, including Bacs and Faster Payments systems and auto-enrolment pension providers, was also high on the wish list.

APIs that allow for an “auto payment button” within the payroll software, or integration with Bacs and Faster Payments, would remove the need for manual CSV exports of employee payment information and manual uploading of CSV files to bank accounts. →



The more margin we make, the more services we can create to help us stand out from other providers.

How Modulr can help

Modulr is a business payment platform that provides cost effective access to Faster Payments, Bacs, CHAPS and SEPA through a simple API. This allows for easy integration with payroll, accounting and other software suites providing simple triggering of payments, automated exchange of payment data and records and facilitating fully automated reconciliation.

Modulr can provide payroll bureaus, employers and software vendors with a more effective payments processing solution that will help address the challenges of modern payroll processing.

Modulr is working with a number of payroll software providers to integrate payments functionality into their software. This allows payments to be triggered automatically without the need for manual file uploads. Modulr's simple API also makes it easy for companies with in-house payroll solutions to add automated payments processing and reporting. In either case, the benefits can include:

- Reduced per transaction processing costs
- Increased flexibility to use Bacs or Faster Payments as appropriate
- No manual processing of Bacs batch files
- No need for manual CSV exports of employee payment information or manual uploading of files to bank accounts
- Reduced manual amendments to payment files
- Fewer payment errors
- Faster payment processing times

Contact Modulr at hello@modulrfinance.com to find out how we can streamline your business payments and reduce overheads.



www.modulrfinance.com



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