

Counting the cost of manual energy settlement

Why settle for second-best?

Anyone working in the hectic, day-to-day back office bilateral trading environment will be all too aware of the many challenges involved with manual settlement.

An inbox clogged with hundreds of invoices each month, each one having to be laboriously studied and cross-checked in detail; which in turn equates to lost time and money; a greater margin for error; and higher stress levels. Meanwhile, exchange trades are settled quickly, automatically – and correctly.




It's estimated that the amount of money wasted by the European OTC trading community in one year through manual OTC bilateral settlement is *between €37,200 for the smallest and €565,000 for the largest trading organisations every year.*

The good news: back-office professionals now have the power to change this situation by advocating for electronic settlement matching (eSM).

In the short term, this service boosts efficiency and drives down cost while contributing to a more productive back-office team.

In the longer term, it has the potential to enable faster (and even same-day) settlement.



In our new white paper called Making energy settlement fit for purpose, we explain how and why. In the meantime, here is a brief summary of what you need to know.

Supporting the bilateral trading community

While bilateral trades are still settled manually, other key bilateral trading processes are, of course, already automated.

Nearly 20 years ago the European Federation of Energy Trader (EFET) kick-started this process by introducing electronic Confirmation Matching (eCM); followed by electronic Regulatory Reporting (eRR). And both have delivered tremendous benefits to the European wholesale energy market in terms of improved risk mitigation, cost effectiveness and efficiency.



In fact, the amount of money at-risk saved by the European OTC trading community *in one year* through eCM is estimated to be €500,000,000.

Now, the third and final step in EFET's 20-year mission has arrived in the form of eSM: an automated settlement process based on an identical set of document formats, contents and rules.

Throughout this 20-year journey, Equias has worked in lockstep with the EFET to support the wholesale trading community - and make the strategy a reality through a family of user-friendly back-office services. The eRR and eCM services that you use today are almost certainly provided by Equias. The same applies to eSM. So how does it work?



In essence, eSM is matchmaker – where every invoice issued by a supplier is reconciled against an equivalent ‘shadow’ invoice from the customer.

Both documents are identical based on each trading party's own internal trade information; and then automatically matched – both at the headline invoice level but also line item by line item, via the eSM engine.



All pending invoices are held in queue and clearly visible in the eSM system prior to being matched. Thus, if an invoice or shadow invoice is missing it can be spotted and chased-up immediately.



Any significant discrepancy is automatically identified. The eSM system returns the invoice as a ‘mismatch’ and highlights where this has occurred. Inclusion of both party's own trade IDs ensures speedy resolution and identification of which party needs to make the appropriate adjustment.



Variables in this process are now automated. For example, VAT details are automatically cross validated on submission; while any changes in Standing Settlement Instructions (SSIs) are immediately applied to both the invoice and shadow invoice in the eSM system.



Netting calculations are hugely simplified. Because trading is so often a two-way street (with suppliers and customers switching roles), the matchmaking ability of eSM enables easy netting between both parties based on an ‘apples versus apples’ calculation.



**eSM: the ultimate
‘matchmaker’**



Savour the savings of automated trade settlement

The benefits of automated bilateral trade settlements are clear to see. But what of the bottom-line value?

We estimate that the efficiencies delivered by eSM (reduction of manual labour, less potential for human error, and the automation of key tasks like netting calculations and SSI)¹ equates to savings of:



€535,000 annually for a large organisation.

**€200,000 annually for a medium-sized organisation
(depending on trade volume).**

€37,500 annually for a smaller organisation.

On the road to same-day settlement

Today, individual bilateral trades often take seven weeks to clear from start of delivery: resulting in an estimated uncleared, industry-wide monthly debt of around €88 billion by the end of each month.

Looking ahead, eSM has the potential to solve this challenge as more trading organisations adopt the technology (eight leading energy traders are already using eSM and we estimate that number will jump to 12 in the coming months, thus achieving critical momentum). When this happens, payment cycles can be drastically reduced, and potentially even settled daily – as they are via the exchange.

A large trading organization (with sales of 15 billion) could save €120,000 annually purely in lost interest. However, given the current volatile market conditions, perhaps an even greater benefit is the ability to mitigate risk and reduce the potential for bad debt.

In fact, we calculate that a 5000% risk reduction can be achieved by settling OTC trades daily using eSM.

¹Making Energy Settlement Fit for Purpose: Equias®2023

Why not eSM?

When it comes to implementing eSM, the question is not so much 'why?' but 'why not?'. Regulatory reporting is automated. Credit matching is also now largely automated. Even in our private lives, most domestic energy bills are now settled digitally – and automatically.

Now the bilateral trading market has an opportunity to bring similar benefits to trade settlement – thus making this entire process proactive instead of reactive. Why settle for second best?

At Equias, we believe that when it comes to the bilateral trading community, business is simply too valuable not be taken care of. By taking care of business and automating settlements, together we can make the market more secure – and your business more profitable. So why not join the next wave in trade settlement today?



To learn more about eSM and the topics covered in this executive summary, [download our new white paper: Making energy settlement fit for purpose.](#)



Alternatively, you can [contact the Equias team](#) and we will be delighted to explain more.

