Exploring On-Behalf-Of Payment Models: *How Citi is helping corporate treasurers achieve payments optimization*

As companies continue building the treasury of the future, many are exploring On-Behalf-Of (OBO) payment structures as part of their In-house Bank (IHB) strategy. OBO models can deliver significant benefits, including centralized payment control, reduced bank account complexity, improved cash visibility, and better liquidity management. However, implementation can be complex, with considerations varying by corporate structure, geography, payment type, and regulatory requirements. An experienced global provider with deep expertise can help companies evaluate, implement, and optimize OBO payment structures as part of their broader treasury transformation journey.

In 2025, our advisory team wrote about how In-house Banks are as relevant as ever in today's world (Read here). As clients embark on or continue their journey towards building a treasury of the future and deploying or enhancing IHB structures, many consider implementing On-Behalf-Of payments, where payments are processed centrally, typically on behalf of wholly or majority-owned affiliates. These structures can provide benefits through centralizing control, rationalizing bank accounts, improving visibility and freeing trapped liquidity. However, along with these potential benefits, OBO structures are also subject to a range of complexities, which can vary by corporate structure, markets in scope, payment types, and other factors.

For companies who have determined this model may be the right fit for their organization, Citi has multiple solutions to help clients deploy OBO payments. This article explores how Citi can partner with you to advance your IHB strategy, outlining our robust suite of solutions and the key factors for corporate treasurers to consider when approaching and implementing such structures.

Assessing a payments and receivables On-Behalf-Of structures

Many corporate treasurers evaluating the implementation of OBO models point to a potential core advantage of consolidating and simplifying payment processes and account structures. This centralization can significantly improve visibility and control over enterprise-wide cash flow, laying the foundation for more accurate cash forecasting and the optimized allocation of working capital.

Successful implementation requires careful consideration of potential challenges from the outset. Corporates should start by conducting a detailed assessment of their end-to-end processes, treasury policies, and related requirements to determine if OBO makes sense for them — and whether it is worth overcoming the sometimes complex nature of rationalizing payments and accounts into a centralized OBO model.

Five Points to Consider Regarding On-Behalf-Of Payments

- **Business case:** A clear business case must be developed, outlining the expected costs, benefits, and return on investment. Effective communication with all stakeholders is essential to gain buy-in and commitment to ensure successful implementation and to address concerns.
- **Technology:** A robust treasury management system (TMS) or a capable Enterprise Resource Planning (ERP) system is critical to automate IHB processes, manage intercompany positions, and provide real-time visibility.
- **Tax and legal:** The structure can have significant tax implications, particularly concerning transfer pricing for intercompany loans and services. It is crucial to engage with tax and legal experts to ensure compliance with regulations in all operating jurisdictions. Clear ownership of the entities proposed to participate in the OBO structure is essential for assessing the associated implications and ensuring compliance with bank requirements.[1]
- **Regulatory compliance:** Understanding and adhering to local regulations regarding cross-border payments, restrictions on non-resident accounts, currency controls, and corporate law is critical for a global IHB. Consultation with compliance experts is essential.
- **Jurisdictional requirements:** Regulatory or operational requirements in certain jurisdictions may necessitate the use of in-country physical accounts for specific payment types, such as tax and payroll payments. Examples include local tax payments in Italy and payroll providers that require funding from domestic accounts, which could limit the use of virtual or offshore account structures often employed in OBO.

[1] *For Citi solutions:* For an entity to act as an IHB within an OBO structure, it must satisfy one of the following criteria:
Parent Entity as IHB: The entity is a parent that directly owns more than 50% of all affiliates for which it is acting as IHB. *Affiliate as IHB:* The entity is an affiliate of a parent that holds more than 50% ownership of all its affiliates. In this scenario, the IHB itself must be over 50% owned by Citi's client (either directly or through a common parent) and specifically support as the IHB for that parent and its other affiliates.

Finding a right-fit solution for your On-Behalf-Of payments model

While detailed assessments prior to engaging in OBO models are key, many companies are capitalizing on ERP/TMS upgrades and transformation projects to drive further efficiencies through OBO rollouts, and banks have a range of solutions to help support them.

Determining the right-fit solution depends on a range of factors. For example:

- Which markets will be in scope? Will more markets or affiliates be added in the future?
- Will the implementation be for Payments On-Behalf-Of, Receivables-On-Behalf-Of or both? What payment use cases are in or out of scope? For collections, are customer receipts from individuals, SMEs or large companies?
- Which payment instruments are required? Are both domestic and cross-border payments in scope?
- Is a sub-ledgering and accounting solution on the bank side required? Does your TMS have the capabilities necessary to support an OBO structure?

A closer look at solutions

Structured OBO payment tagging – which involves tagging affiliates in dedicated 'ultimate debtor' fields in an ISO payment message – enables the identification of OBO participants in outbound payments. The growing adoption of ISO 20022 XML payment standards enables corporates to execute OBO payments in a more standardized, data-rich, and bank-agnostic manner. Focusing on markets where payment rails are ISO native or are migrating to ISO in the future is a good starting point with this approach.

Virtual account solutions are also an important enabler of OBO models. Virtual accounts can not only provide a solution for reconciling payments and receipts, but often feature value-add features which can support activities such as intercompany loan management and interest reallocation.

An IHB provides a natural foundation for payment centralization. This model can be further enhanced on a global scale through advanced payment structures, creating multiple layers of efficiency. These structures can enable the IHB to manage and execute cross-border payments on behalf of its worldwide affiliates, often from a single, centralized account. This layered approach to centralization can significantly reduce operational complexity, optimize foreign exchange management, and improve global liquidity. It is essential, however, to recognize that the implementation of such cross-border payment structures must be carefully aligned with local regulations, particularly concerning tax and payroll requirements, which may necessitate specific in-country handling.

Successful OBO implementation requires careful consideration of the scope and potential challenges from the outset.

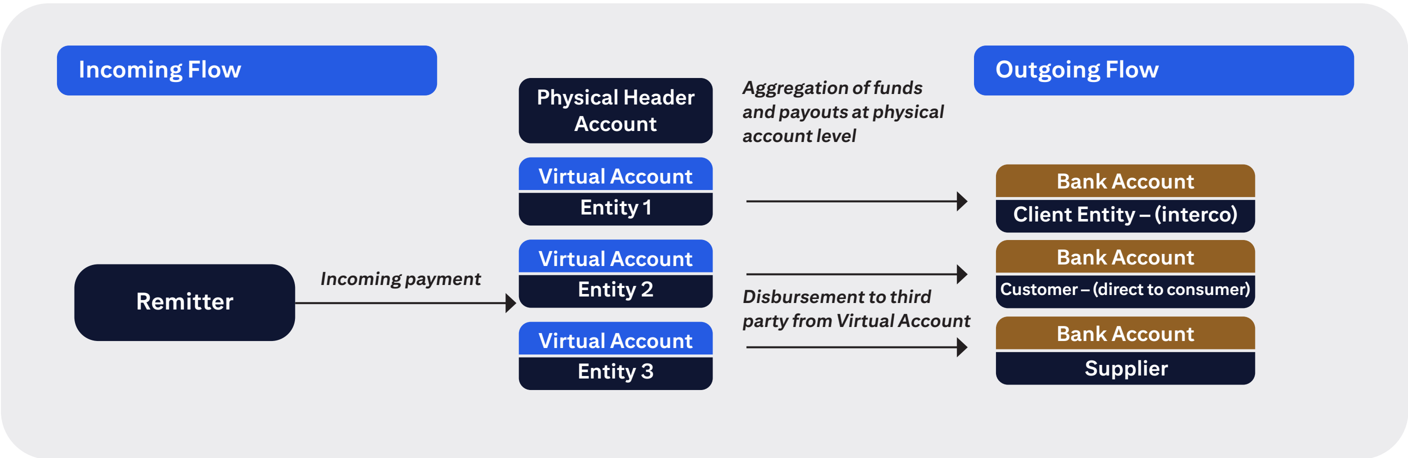
Solution 1

Virtual Accounts and Structured Tagging for Payments on Behalf of Transactions

Company need: A company sought to centralize their payments and receivables and support a multi-layered structure to reflect their business hierarchy. The business required access to domestic and cross-border payment rails, with the sub-ledgering system maintained by their banking partner.

OBO solution: In this scenario, the company can leverage a virtual account solution which takes advantage of structured OBO payment formatting. In this structure, the company's IHB initiates payments using the XML pain.001 format, providing the virtual account details in the ultimate debtor tag and the virtual header account as the debtor. With this approach, there is the ability to tag the ultimate debtor in dedicated structured fields to be passed through clearing for payments on ISO native rails. The virtual account structure creates a virtual ledger system to manage intercompany balances for the affiliates participating in the structure. For markets that may not support virtual accounts, but support structured tagging, it is also possible to support structured OBO outside of a virtual account structure.

Figure 1: Virtual Account-Based OBO Payments Model



Solution 2

Collecting on behalf of network of affiliates while leveraging a cross-border payments engine for international OBO payments

Company need: A company set up a global treasury center and aims to centralize supplier payments and receivables on behalf of for their extensive network of affiliates. The company needed local accounts to support their high volume of domestic pay-outs.

OBO solution: In this case, the company can implement a structured OBO payment formatting solution for multiple markets. For reconciling receipts or remitters in their OBO model, they can leverage a virtual identifier for a receivables solution, known as Payer ID at Citi, which can enable smooth mapping of receipt to OBO affiliate entity. The company can use this mapping to support intercompany management within their own ERP or TMS.

To streamline and rationalize cross-border payments, the company uses Citi's cross-border payments engine, WorldLink®, to manage international payments on behalf of its affiliates. This enables both OBO reconciliation and where supported by the payment method, provides the beneficiary with the ultimate debtor's name. Using a cross-border payments engine that is integrated with OBO capabilities, the client is able to support global payments for their affiliate entities using a single account.

Partnering with the right banking provider for OBO solutions

Look for a banking partner who knows how these structures function and operate. Establishing an OBO payments model requires careful planning, stakeholder engagement, and often the implementation of robust technology like a treasury management system.

As OBO solutions are becoming more prevalent, ERP and TMS vendors have developed solutions to help manage OBO structures with built in services, such as auto-reconciliation. Where an OBO model is a right-fit structure for your organization, it can likely deliver benefits through rationalization, centralization, and standardization of processes. Citi's team of product specialists is well-placed to help provide guidance on the structure to deliver a tailored and holistic solution leveraging Citi's extensive capabilities.

Reach out to your Citi representative to learn more.

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