

## Remittance Coalition Vendor Forum

### In-Person Meeting Summary

August 19, 2014

#### Attendees:

Katy Jacob and Claudia Swendseid, Federal Reserve Bank of Minneapolis

Lyle Wallis, Credit Research Foundation

Tammie Calys, Transformation Management Consulting

Rich Urban, IFX

Rob Unger and Amy Norris, NACHA

Magnus Carlsson, AFP

Brad Boe and David Easton, Performance Food Group

Ernie Martin, Tungsten Network

Ted Means, SunGuard

Mitch Rose, BillTrust

Diana Silveira, ACI Worldwide

Mary Ann Rydel, Hanse Orga International Corporation

Sean Rodriguez, Federal Reserve Bank of Chicago

George Reichmann, Commerce Bank

Rudet Fountain, UTA

David Bonneau, C/LECT Consulting

Lyle Wallis opened the meeting. He explained that the Remittance Coalition focuses on promoting electronic payments in the business to business space. In this space, there are two major obstacles. One is how to get trading partners on board, particularly small businesses. Lyle noted that that is not the focus of this forum. The Vendor Forum is focused on how a business receives information about a payment once it has been paid. The Remittance Coalition works on establishing standards to enable this transference of remittance information. However, standards only work if vendors are also on board.

Rich Urban provided an overview of standards of interest to the group. He explained that a key issue is to get parallel adoption of electronic remittance information. Checks provide an easy way to

communicate what is being paid for—e payments don't have this capability, so there has been resistance to adopting epayments. Interoperable standards provide the most promise in this area. A few standard approaches are more likely to be successful than multiple approaches that compete with each other. Rich provided an overview of different kinds of standards development organizations and explained that some organizations and standards address data content issues, while others focus on business practices or processes. When talking to partners, it is important to understand the different types of standards.

Rich explained that the Remittance Coalition has an interest in monitoring standards related to payments remittance information. The Coalition identifies the most promising standards and monitors implementation and adoption of those standards. The Coalition looks to groups like the vendor forum to find out what is on the horizon and to communicate standards that are the most promising. Adoption of standards is a classic problem. If you are looking to buy software or modify an existing process, for example, that is a good opportunity to consider standards adoption as a part of that change. It is difficult to make a stand alone cost benefit analysis on standards unless your partners are requiring standards adoption. Therefore, companies need a long term horizon view of standards and to consider adoption of standards as part of a broader business strategy. Then the key is to communicate with partners and use the same standards so that critical mass can be achieved.

Rich provided an overview of the Remittance Coalition's recent accomplishments related to standards. In 2013, the Coalition had three technical reports published by X9. These reports focus on: Remittance Standards Inventory, Remittance Glossary, and simplified Core Adjustment Reason Codes. Rich explained that while there are a variety of slides in the handouts that cover BTRS, those are for reference only and he is not going to cover them within the session.

Rich then described the ISO 20022 Stand Alone Remittance Messaging project. IFX and NACHA partnered to develop two stand-alone remittance messages. NACHA is very interested in making sure these messages can be carried on the ACH network. This is more of a content oriented standard. Because these messages stand alone, companies can send remittance information with whatever format they choose (email for example); such information can also be sent with the payment. The payment and the remittance information will reference each other. This sets up a dynamic where trading partners that are sending remittance information to each other can send it regardless of where the other partner banks or what the payment services are—they can use their existing processes but send information through a standardized format. This format has strong international support. It will be used in the SEPA countries, which will help push adoption.

Claudia Swendseid brought up the point that the U.S. tends to have large amounts of remittance data, while other markets truncate data. She asked if IFX is thinking about developing a business practice standard that recognizes this difference in relation to ISO 20022. Rich explained that there is another group called the Common Global Implementation Market Practice Group (CGI), whose role is to publish best practice implementation guides. IFX is participating in CGI and has published a background paper on how to understand ISO 20022. The CGI document will be published in a year or more.

Tammie Calys then began the moderated discussion. She began by outlining the basic questions: What types of remittance information are corporates willing to accept and deliver? What are financial institutions willing to do? What are solution providers able to support today, and where are their product roadmaps for the future?

She first asked for the corporate perspective. One representative said that they accept all formats, “from spreadsheets to napkins.” Some companies send in decoupled remittance advices or spreadsheets with thousands of lines of data. Another company explained that their internally-developed ACH process is very sophisticated; for new products, customers can go in and select which invoices they want paid. If they short pay, there are reason codes set up to handle that. There are restrictions with the new EIPP model currently being deployed, which will only cover some of the legacy systems; remittance data will not be automatically posted. To get that to happen, they would need a single source system (such as SAP) to aggregate payments through the auto cash process, but that is years down the road. Right now they operate on 27 different legacy ERP systems. Tammie noted that many of the legacy ERPs can’t handle this on the back side, and more companies are moving to larger most sophisticated SAP/Oracle frameworks. However, many companies, both large and small, are still on legacy systems.

Tammie then asked for the financial institution standpoint. She mentioned that during the last Vendor Forum meeting, participants noticed that banks are not always consistent with what types of remittance information they originate and what they accept. One bank explained that when they need to service thousands of clients, they can’t accommodate everyone. They do exception processing when possible. Another noted that they support community banks, most of them small. They build software to support these banks; they mostly use Fed standard platforms but they customize if necessary. Tammie said that the goal is to get to a point of flexibility within a standardized approach that wouldn’t preclude anyone from using that approach.

Next, Tammie turned to the solution providers. The vendors said that they support EDI 820, BAI2, and EDI 823. One vendor said that they will support whatever platform their customers demand. It doesn’t matter what systems customers use, they will send a file back that they can incorporate into that system. Another vendor explained that there is no standard direct integration with banks, even if it’s the same bank-- it’s a new process with each customer. It was mentioned that this is also true with BAI’s platform. Vendors noted that it is the bank that requires customization. One mentioned that in each case, file formats were always slightly different. In other cases there were variances in what type of remittance information was included. A vendor noted that BAI2 is a very flexible platform that allows you to choose which fields you want included in your files. Reason codes can fit into the format, but they need to be defined. Another vendor disagreed that the problem originated with the bank. He felt that customization is necessary because of customers’ varied AR platforms. Tammie observed that even if everyone moved to an SAP platform, customization would still be required. Even if companies get away from legacy platforms, there will be differences based on business structures. Ultimately, what we are trying to accomplish will come down to how adept the backend AR systems are at accepting and complying with the new standards (Oracle etc.). If companies don’t have a place to post information into an ERP system to reconcile their Accounts Receivable, it doesn’t matter if they demand the data.

Tammie then asked about customer demand. What is most commonly requested? One participant explained that remittance data is only available in 820--there is no other format. For SAP platforms, companies are using BAI2. Others can use the 823 format. One company said that they had been asked to support email attachments such as spreadsheets and PDFs with decoupled remittance information. However, that data still needs to be transferred to a standard format such as 820. A few participants said that customers are starting to ask them to support XML, but not in a standard format. However, the XML standard is intended to solve the problem of multiple formats. Rob Unger explained that some originators want to be able to send a payment instruction file to an ODFI using an ISO format. NACHA is looking into whether there will be a standard way to incorporate this for ACH.

Claudia mentioned that in relation to wire transfers, Fedwire and Chips will carry similar stand-alone remittance messages via XML. It is not the exact same format as for the ISO messages that Rich outlined, though it is possible that the wire messages could be updated to match that format. It was noted that remittance data should be payment method agnostic.

Tammie then asked about challenges. Often, companies say that they don't want to move to epayments because they don't want to lose remittance data and are unsure of what kind of remittance information they would receive and what it would look like. How can we resolve that disconnect?

NACHA noted that at one conference, a company complained that ACH conversion led to less straight through processing. In one survey, more than half of US respondents had STP rates of 0 related to remittance information. Another participant said that because the AP side generates ACH, until it is generated in an automated manner, someone needs to manually generate information on both ends. There is a disconnect, because on the AP side, they are focused on getting the invoice paid. Remittance data on the other end is secondary. Tammie noted that remittance data is key for both buyer and supplier. She said that providing remittance information can help drive adoption of epayments within the supplier community, because they need to be able to reconcile payments. She said that both sides (buyer and supplier) have the perception that they can't get what they need from the other side.

Tammie then moved into the topic of standards adoption. On the last call, a few solution providers said that they struggled with adoption issues, as they provided support for BTRS, ISO 20022, and other formats, but customers did not use them. The question remains: Who pays for standards adoption? Should a company pass the cost through to its customers? What happens when a standard is made available and no one knows what it is or uses it?

Solution providers said that they are considering adoption of ISO 20022 standards. However, they are unsure of customer demand. One explained that they serve the AR side of the house. It is a battle between AR (seller) and AP (buyer), and AP does what they are going to do. Therefore, AR is going to do whatever it has to do to make the sale. This has nothing to do with standards. The question is, who makes money on this? A return on investment argument only works on year one, but not after that. Companies will be spending more money on IT costs in the future. Costs have to be transferred somehow. However, another participant disagreed about AP being the driver. He said that that depends on the industry and size of the customer. Big manufacturers will tell you how you are going to deal with

payment on the AR side, and you are going to do it. Another participant argued that the very large merchants are a different animal and should be taken out of the discussion. One vendor said that discounts can lead small players to adopt efficiencies and standards. Another argued that both AR and AP departments are fighting for efficiencies.

The topic then turned to the issue of segmentation. One participant suggested that companies should focus on the size of buyers and suppliers and differences among them when considering how remittance information formats should be handled. Another way to segment would be to look at where most invoices come from, and target those companies when moving to new remittance information formats. Yet another solution would be to base the segmentation on where the automation problem lies. In other words, a company could come up with a new solution when they realize that automation is impossible in a certain scenario. Companies could also segment based on the importance of the relationship at hand. Tammie asked if there are certain sectors that are ripe for adoption of new remittance information formats. For example, is health care a sector that is ripe for adopting standard remittance formats because everything is being overhauled right now? Or, could we leverage international mandates for standard information adoption and focus on multinational companies? One vendor said that he doesn't think targeting customer segments would work. We are at risk of being a technology looking for a problem to solve. Clients just say they will figure it out and accept the status quo. It is difficult to identify the win-win for both sides. We do not want to chase down a problem that doesn't need solving. Another participant said that automation for AP will result in automation for AR and cited EDI as an example. Tammie noted that EDI works, but it is very expensive for both the AR and the AP side of the house and is only feasible if both financial supply chain counterparts agree that they are going to have a long term strategic relationship that warrants the investment.

One participant mentioned parallels to SEPA: Europe envisioned this amazing payment system and felt that all they had to do was develop it, and everyone would love it. Then nothing happened because there was no business case for it. So they had to mandate its usage through central authority. Claudia provided the example of how the U.S. dealt with a similar problem. In 2004, a law was passed allowing legal presentment of electronic checks. This happened as a result of 9-11; no one could have foreseen that change. This example shows that while change can happen quickly, in the U.S., it takes a large event or market dynamic for us to be willing to force the change through law or regulation. However, if we did mandate change regarding remittance information, we would see the business case over time, just as we did with checks. However, there would be winners and losers in this case. She noted that distributed technologies present in blockchain protocols currently used in digital currencies such as Bitcoin could change the game for payments relatively quickly.

The meeting concluded with an acknowledgment that it is important to involve merchants and AP practitioners in this discussion. Remittance Coalition members will be discussing these issues at the RVCF conference in November, and will continue to partner with other merchant groups. The final meeting of the Vendor Forum will be held on Tuesday, December 2, from 12:30-2 PM CST.