Summary of Remittance Coalition Vendor Forum Conference Call, December 2, 2014

<u>Attendees</u>

Katy Jacob, Federal Reserve Bank of Minneapolis

Claudia Swendseid, Federal Reserve Bank of Minneapolis

Tammie Calys, Transformation Management Consulting

Rich Urban, IFX

Rob Unger, NACHA

Sandra Hurd, CIT

Ted Means, Sungard

Chris Carberry, Direct Insite

Greg Maynard, Clear 2 Pay

BC Krishna, Mineral Tree

Patti Ritter, Republic Services

Francisco Robles, Federal Reserve Bank of Chicago

Siobhan O'Malley, Federal Reserve Bank of Chicago

Jessica Butler, Attain consulting

Brian Mantel, Federal Reserve Bank of Chicago

Larry Buettner, WAUSAU

Jim McShea, Direct Insite

Rob Olsen, Commerce Bank

Mario Reichel, Payment Group (Germany)

Lyle Wallis, CRF

Claudia Swendseid provided an introduction and thanked the co-moderators. She explained that the Remittance Coalition is dedicated to enhancing the process of B2B transactions to make them more automated and efficient. The Vendor Forum was created to provide a venue to partner with software vendors to encourage the adoption of standards related to remittance and payments processing. The Coalition would like to know more about how to engage vendors in the future.

BC Krishna (MineralTree) then provided an overview of the Remittance Coalition's B2B Directory Project. He explained that checks are stubborn in the B2B area, especially for small businesses. There is no equivalent of a "phone book" for payments; check payments can be used ubiquitously. The B2B Directory seeks to provide a "payee information lookup" function that is designed to serve as an industry utility that is scalable and secure. BC reiterated that the Directory is not a payment system. It is payment channel agnostic and does not dictate a particular remittance format. Counterparties that want to pay can suggest how they would like to receive information and the Directory facilitates that information. BC said that the Coalition envisions a governance model that ensures that the information that is put into the directory is trustworthy. The Coalition is currently working on a business proof of concept to test how the Directory would work on a day to day basis. Further, though the model will be a nonprofit effort, the Coalition is thinking about potential revenue sources to bring it to fruition. The Coalition envisions that there will be a Directory Association that will oversee the Directory going forward. Tammie Calys (Transformation Management Consulting) asked if the Directory would be set up to encourage the use of remittance standards. BC replied that the Directory governance structure will strongly encourage the use of such standards but will not require them. BC also said that while some entities might resist such a Directory as a form of competition of cannibalization of their current products, there has been strong interest and support from a variety of sources. Patti Ritter (Republic Services) agreed and said that she would like to see participation from across the business spectrum, from mom and pop shops to large corporations.

Jessica Butler (Attain Consulting) then provided background on TR-42-2014 Core Adjustment Reason Codes, a Technical Report authored by the Remittance Coalition and published by X9; that report is available to the public free of charge. She explained that in the past, there were over 600 adjustment codes that were used in various EDI transactions. This cumbersome list of codes posed challenges within the industry. Thus, the Coalition formed a work group to simplify the codes. The work group developed nine categories for core codes and greatly simplified the list of codes. The new core codes were then cross-referenced with old versions. The core codes concept benefits suppliers by enabling them to group existing codes and also helps the industry move toward common codes. If customers are using EDI currently, they can look to this guide

for streamlining or updating of their current codes. Jessica said that the Coalition is hoping that software vendors will take these core codes and include them in their software in the future.

Rich Urban (IFX) provided an update on ISO 20022 stand-alone remittance messages. NACHA was a key participant in the development of these messages. Rich said that the hope is that the messages will provide a common reference standpoint so that banks, vendors, and trading partners will no longer have to wait to see who is going to "go first" in adopting the new standard format. Further, an ISO 20022 common global implementation market practice workgroup has been created and expects to release a white paper at some point in 2015 to help ease implantation issues.

Rob Unger (NACHA) provided an update on rules and specifications available through NACHA to enable compliance with ISO 20022. ISO messaging will not replace EDI messaging; rather, it will complement it. NACHA is currently looking to provide standard guidance on how to translate ISO payment messages to ACH transactions. Tammie asked how long paying messages through ISO have existed, and Rich answered that the specifications were published in 2006. SEPA's decision to make ISO adoption mandatory was a main driver of interest particularly in large multi-national. He noted that software vendors are the key to the uptake of these specifications.

Before transitioning to Tammie to moderate the discussion, Claudia mentioned that those on the call should think about if there is a need for new standards, revisions or implementation guides. The Remittance Coalition can work with its partners at ISO, X9, and other organizations on those ideas.

Tammie began the moderated portion of the discussion by saying that at the last meeting, Forum participants debated whether the accounts receivable (AR) or accounts payable (AP) side of the house drives the adoption of standards. She introduced speakers from Direct Insite and explained that the company was a procure to pay solution provider—they assisted buyers in getting information in electronically from suppliers. Direct Insite then made a strategic business decision to flip their model and support their suppliers. What drove the decision to make that shift?

Jim McShea (Direct Insite) opened the case study of his company's business decision by explaining that they will continue to support AP, however sales and marketing focus will now be directed toward the Order to Cash solution. Direct Insite recently introduced PayBox, a new platform that is focused on reaching the banking community in a white labeled environment. These solutions can be modified to meet any business need and would also work for the solution provider community. Jim turned to Chris Carberry (Direct Insite) to provide further detail.

Chris explained that the company had seen a lot of automation on the procure to pay side, followed by automation on the order to cash side. An uptick in online bill pay has led businesses to realize that they are behind in providing these types of solutions. Direct Insite saw a divergence between payments and remittance advice and decided to try to create an integrated receivables environment. The solution that was developed integrated electronic and paper environments and combined electronic payments remittance information with lockbox data. Therefore, when a paper check is received or when an electronic payment is received, they both can be applied seamlessly within the new application. Their large supplier customers need code standardization and are interested in accessing default settings from software providers.

Rich spoke about the combination of electronic payments and paper lockboxes at banks. He said that banks are seeing an erosion of paper checks, but need to protect lock box revenues. Chris replied that banks don't want to leave the process entirely but are being driven in different directions by corporate customers. Banks desire to create stickiness for corporates. Banks of all sizes want to know how they can make up what they are losing on the revenue side due to lockboxes. Larry Buettner (WAUSAU) concurred with Direct Insite: He said that they are seeing lockbox erosion due to conversion to ACH payments. Tammie noted that from the corporate perspective, the integration of electronic and paper payments into the AR system is a key requirement. This concept needs to get traction in the market to drive more standards adoption.

Rich asked if Direct Insite has looked to standards for remittance content. Chris and Jim responded that they would like to provide education about the importance of standards and hope to work with the Coalition on this effort.

Larry mentioned that they are not seeing activity on the part of the banks in moving to ISO 20022 because they have BAI 2 interfaces that are effective right now. Tammie asked how expensive the conversion cost is today. Larry said that the issue is that the corporate customer needs to have a sense of what the costs are. Moreover, Larry thought that the B2B Directory and standards adoption would go together in a complimentary fashion.

Sandra Hurd (CIT) brought to the attention of the Forum the existence of the Global Standards Management Process (http://www.gs1.org/gsmp). Through GS1, this group has an audience of suppliers and buyers and multiple work groups focused on standards. They are able to put out a body of work on standards of interest to their members. Claudia noted that GS1 works closely with X12 and suggested that the Coalition look into whether there is any overlap between this group and GS1 and what they do in the U.S.

Tammie then moved the discussion to looking into who is in the key role of generating remittance information. She suggested forming a smaller workgroup to focus on the AR/AP issues related to standards adoption. Several individuals volunteered to sit on this subcommittee, including: Tammie Calys, Rich Urban, Lyle Wallis, Katy Jacob, Larry Buettner, Sandra Hurd, and Mario Reichel.

Tammie then asked the Forum to consider the fact that very large companies such as WalMart can mandate protocol for remittance information. Is there an opportunity to target a segment of the market or an industry as a beta for where we have an opportunity for the greatest change? The Forum discussed targeting the healthcare industry at the August meeting. Claudia recommended targeting the food manufacturing and distribution vertical, as this industry is heavily concentrated on the supplier side. If one supplier would focus on standards, it would help drive adoption among distributors. Moreover, Claudia suggested specifically targeting WalMart in 2015 as part of this discussion. Other potential targets include Costco and Nestle. Tammie and Katy will work to communicate directly with these companies.

The next meeting of the Vendor Forum will be in early 2015, though no date has been set at this time.

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