

AFP® Training

WEBINAR

Payments Update: The Remittance Riddle

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AFP thanks RBC for the sponsorship of AFP Payments Educational Programs, including this third part of our series of *Payments Update* Webinars

Agenda

- Discuss the payment and commerce relationships between large corporations and small businesses



Agenda (the Real One)

- What's the core problem with remittances & payments?
- Why do we have this problem?
- What solutions for a skeptical (or hopeful) audience exist?
- What actions are underway to fix the problem?
- Your questions



About the Remittance Coalition

- **What it is** National group of associations, small & large businesses, financial institutions, vendors, standards development organizations, & others
 - Formed in 2011
 - 180 members (including AFP) & growing
- **Mission** Work together to solve problems related to processing remittance information associated with B2B payments in order to promote use of electronic payments & straight through processing (STP)



RC Survey of Businesses Just Completed

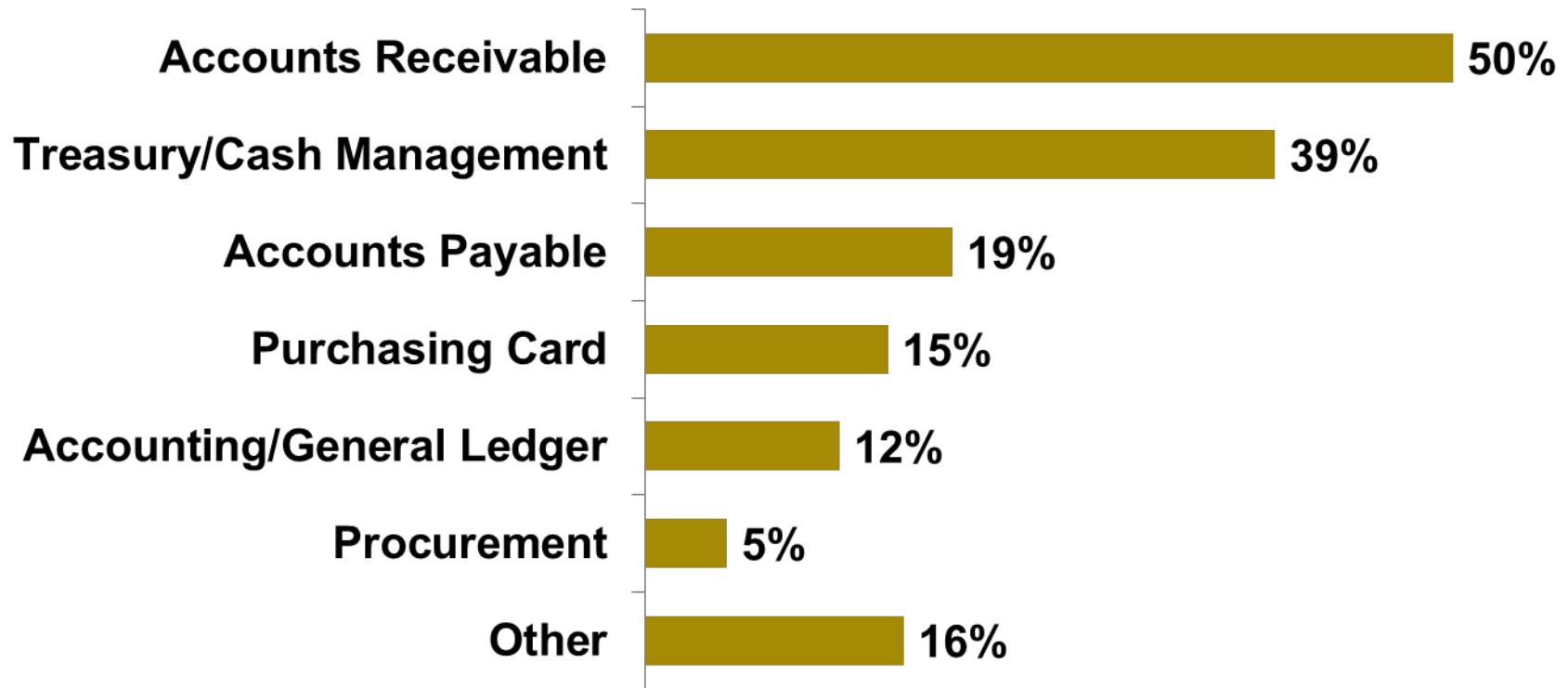
- Surveys e-mailed this summer to (corporate) members by: AFP, IFO, CRF, NAPCP
- Also included Association of Small Business Development Centers member survey
- Total of 662 respondents
- Objectives:
 - Assess industry perception of major obstacles to increased use of electronic payments & remittance processing
 - Gather feedback on which of five proposed solutions would be most effective
- Survey design by RC members; analysis by Fed



Job Functions: Good Cross-Section of Practitioners Dealing w/Remittances

Primary Responsibilities

(n= 660)



Note: multiple responses permitted

Source: 2012 Remittance Coalition Survey

Remittances & Payments: The Problem?

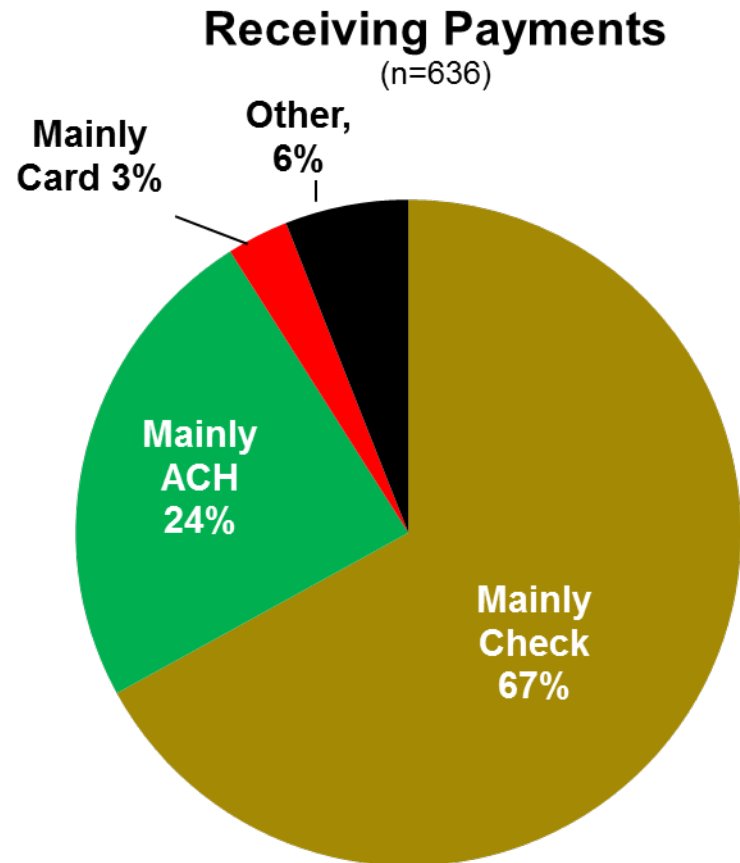
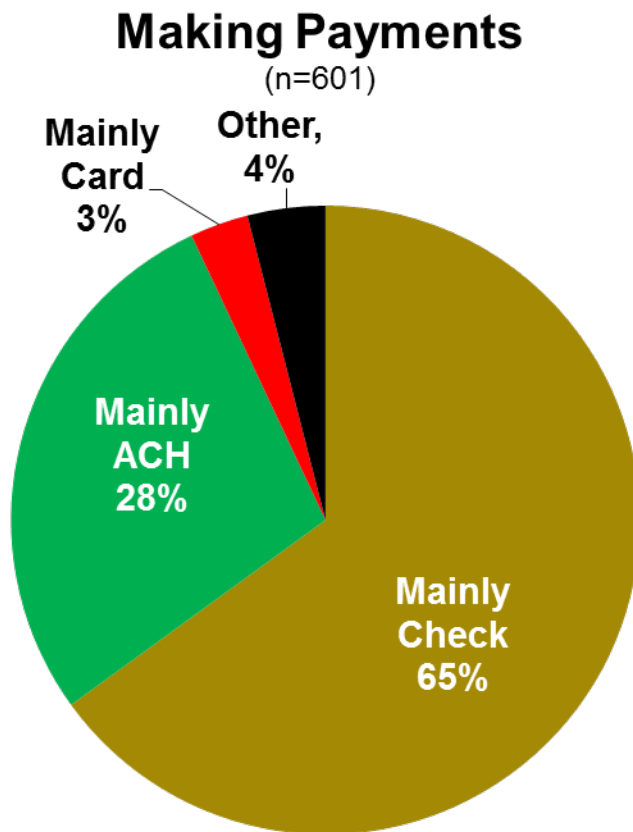
Adoption & Automation:

Slower adoption of electronic payments due to difficulty of back office integration & automated reconciliation between payment & remittance information



...assuming electronic payments are more efficient/lower cost

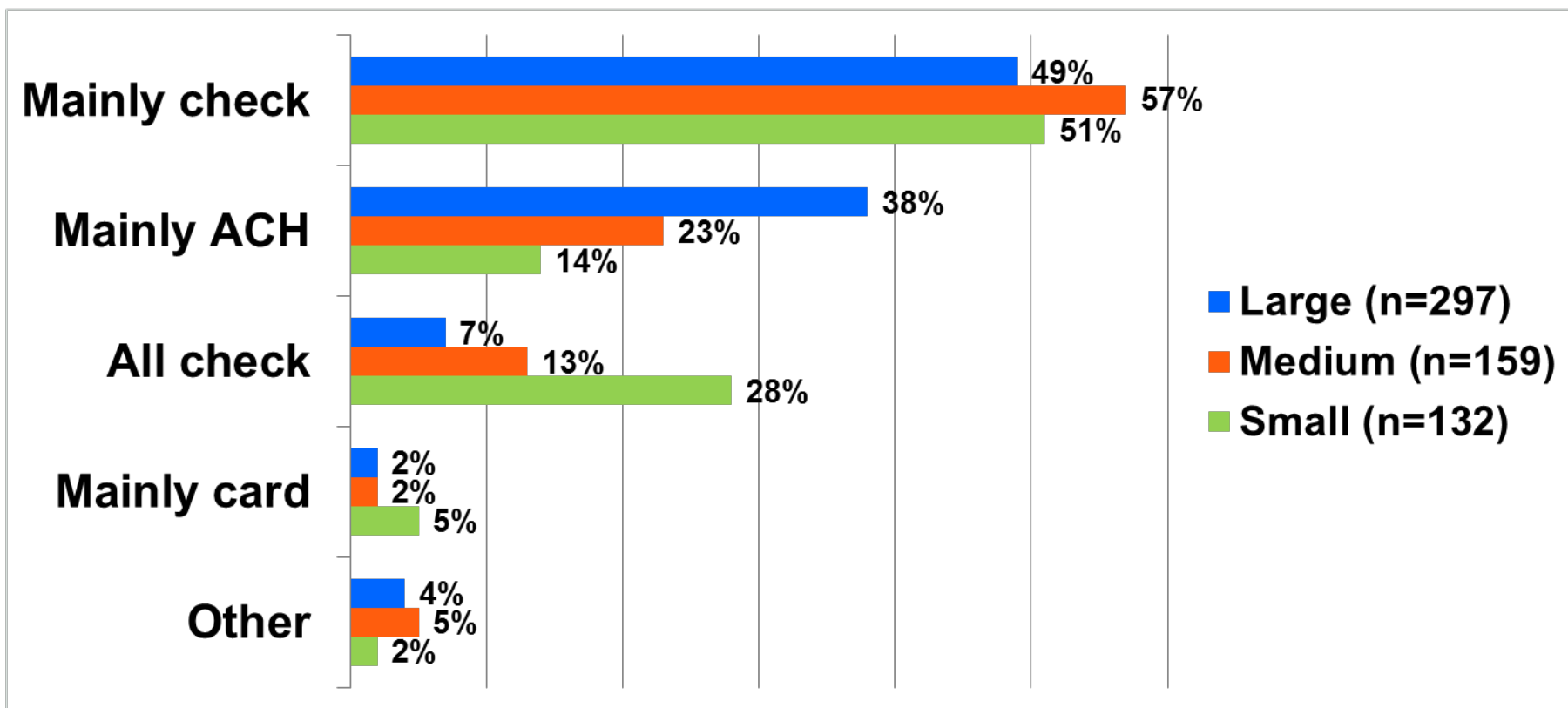
Adoption: Businesses Still Mainly Pay or Are Paid By Check (Over Half)



Source: 2012 Remittance Coalition Survey

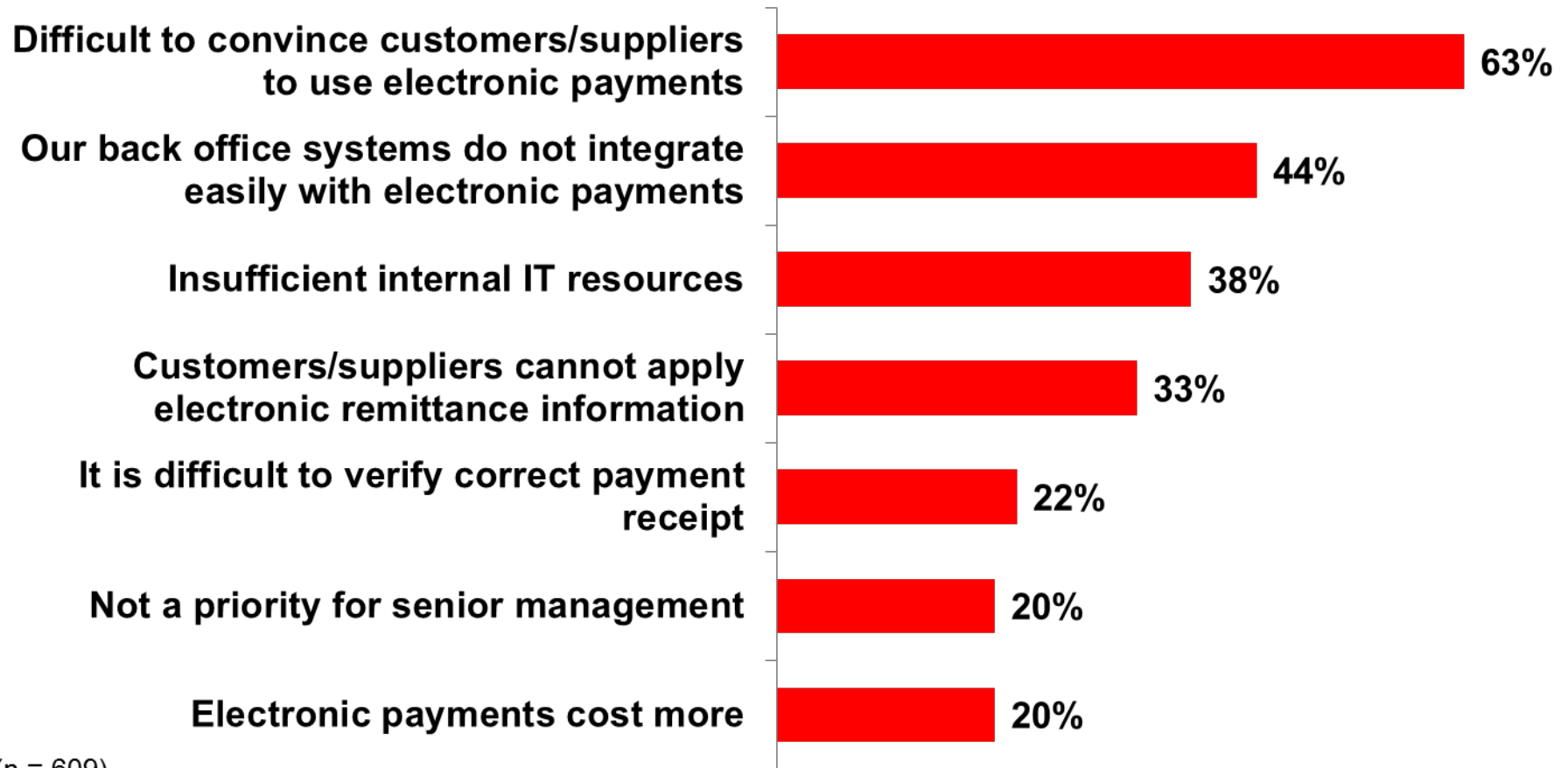
Why? Size is Major Driver of Payment Mix, but Large Biz Still Depend on Checks

- % of payments made by ACH increases with the size of the company
- % of payments made by all paper check decreases with the size of the company



Source: 2012 Remittance Coalition Survey

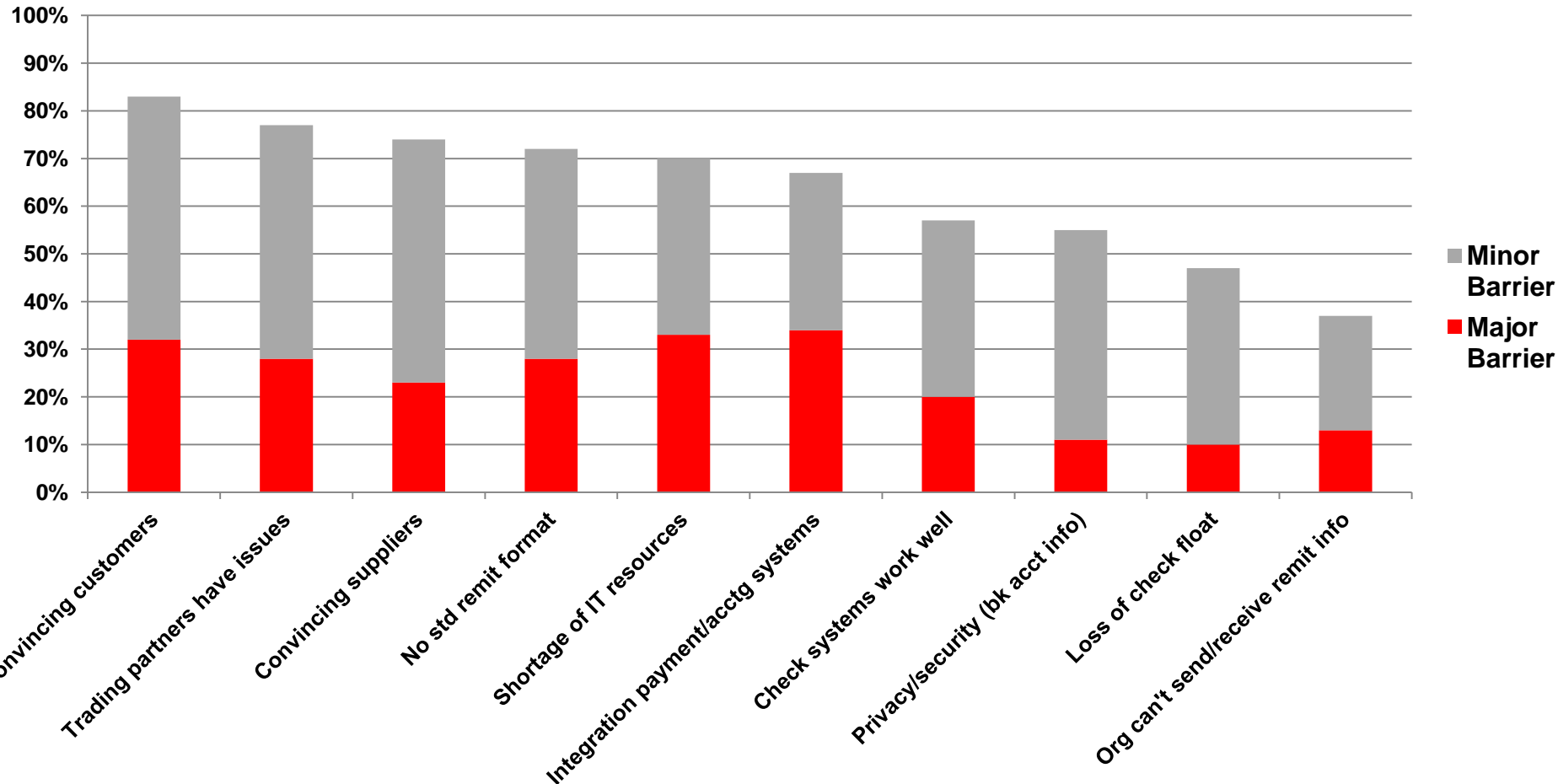
Why? Barriers to Increased Use of Electronic Payments



(n = 609)

Source: 2012 Remittance Coalition Survey

Why? Barriers to Electronic Payments— Results Similar to AFP/Corporate Survey

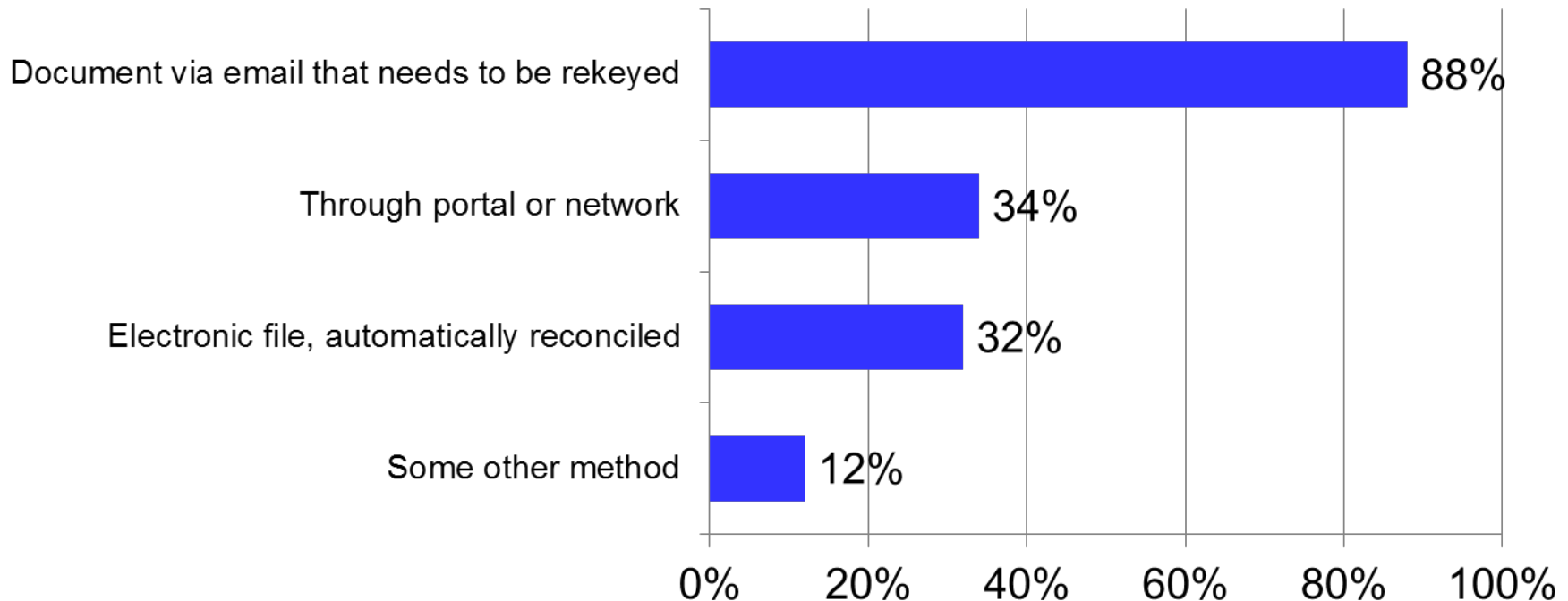


Source: 2010 AFP Electronic Payments Survey

Automation: Many Remittances Received Separately from Payments by Most Companies

77% of survey respondents receive information directly & separate from the payment transaction from some of their trading partners.

Current Methods of Receiving Remittance Data
(n= 481)



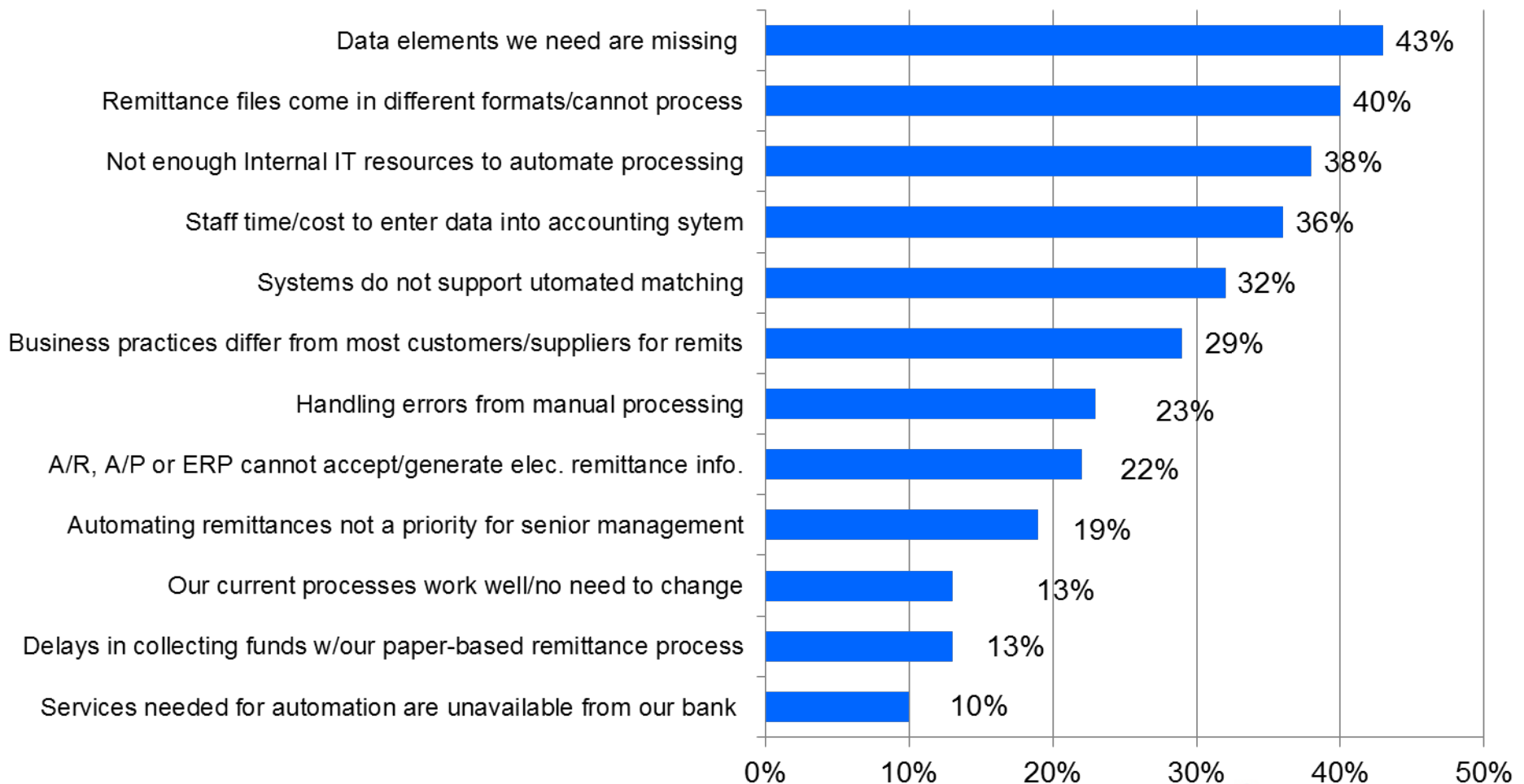
Source: 2012 Remittance Coalition Survey

Automation: 43% of Remittances Still Require Manual Intervention

Channel/method for providing remittance details that require key data entry or other manual processes	# of Monthly Remittances
Sent by mail	2.6 billion
Included with payment in an unstructured or free form format	1.7 billion
Sent by email	1.5 billion
Provided by telephone	0.5 billion
Sent by fax	0.4 billion
Total	6.7 billion
Total remittance volume estimated at 15.5 billion per month	

Source: *Remittance Details: When & How They Arrive for U.S.-Based Companies*, 2012, Aite Group

Why? Barriers to Automation of Remittance Processing/Payment Reconciliation



Why? What Respondents Said

“Remitters cannot or will not send quality remittance data in the payment addenda. Separate email forces a completely manual process.”

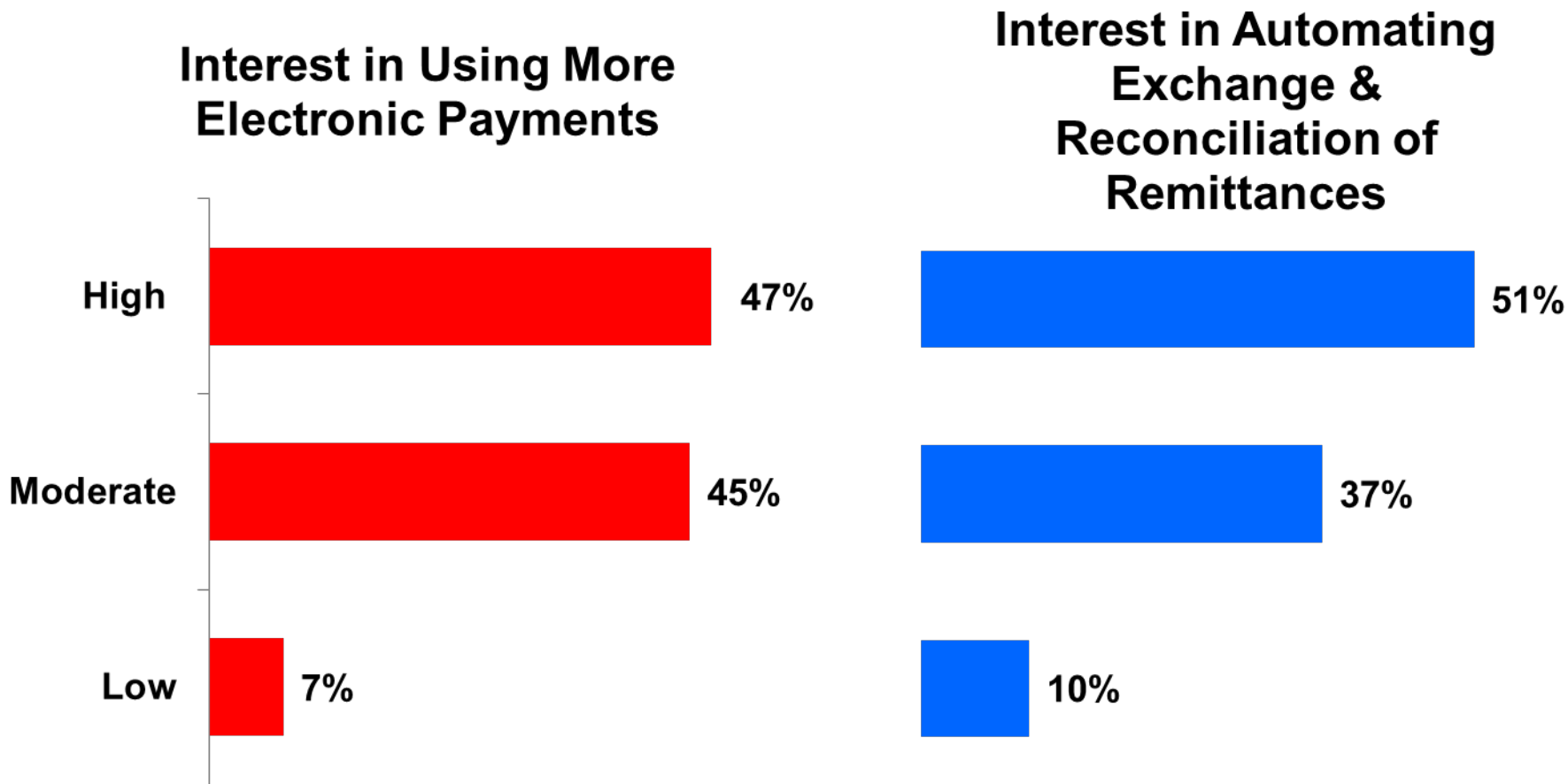
“Missing data elements & lack of consistency in formatting cause us to post remittances to our customers late & often requires communication back & forth between us & the customer to determine what they are paying.”

“ Multiple formats for remittance information create a reconciliation nightmare – it is not easy to automate.”

“Many of our vendors are small &/or located in remote areas & do not accept or receive electronic remittance information.”



Why Not? Clear Demand for Capabilities to Boost Adoption & Automation



Source: 2012 Remittance Coalition Survey

Why Not? Let's Talk Solutions to Boost Adoption & Automation

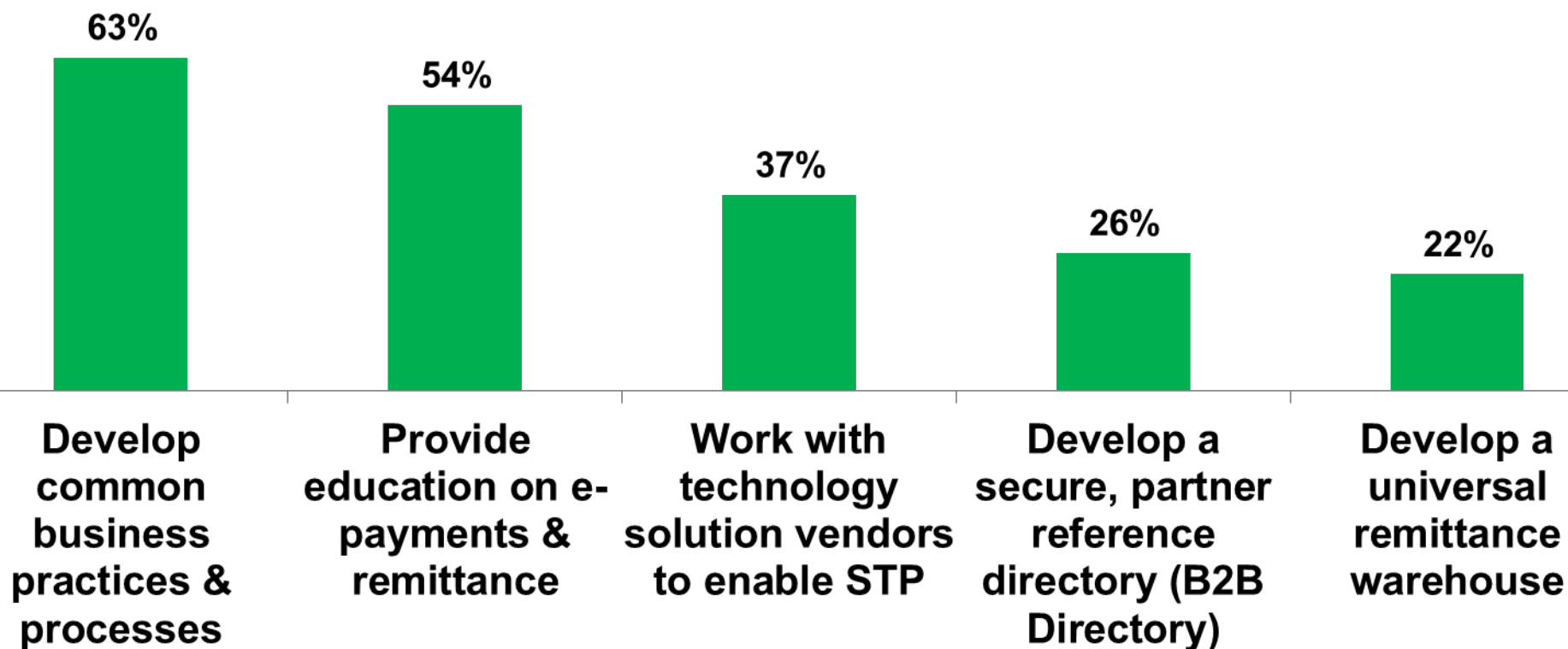
Choices offered in 2012 Remittance Coalition Survey:

1. Provide better education on e-payments & remittance
2. Develop common business practices & processes – e.g., deduction codes
3. Work with technology vendors to enable straight through processing
4. Develop a secure reference directory of payment & remittance information (B2B directory)
5. Develop a universal remittance warehouse



What Business Practitioners Want

Preferred Solutions – Ranked 1 or 2

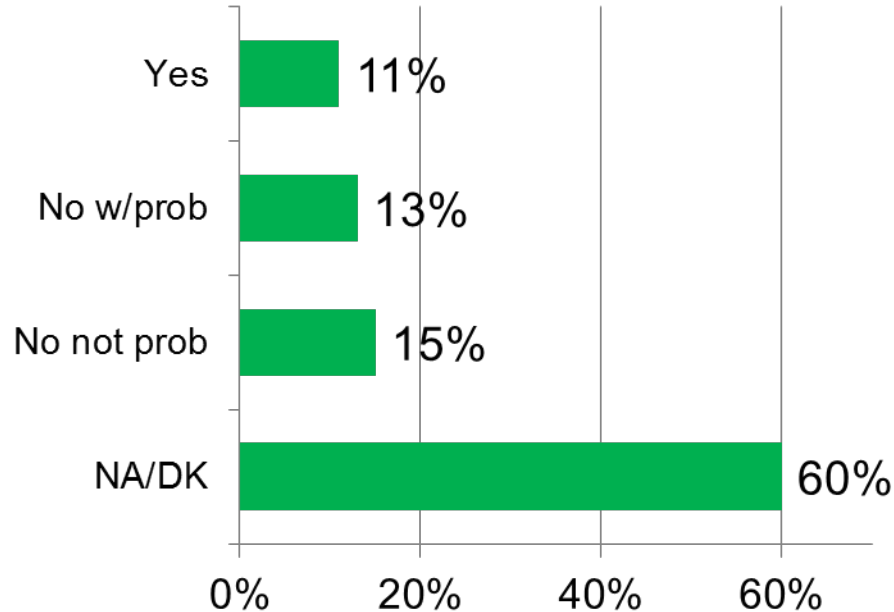


Source: 2012 Remittance Coalition Survey

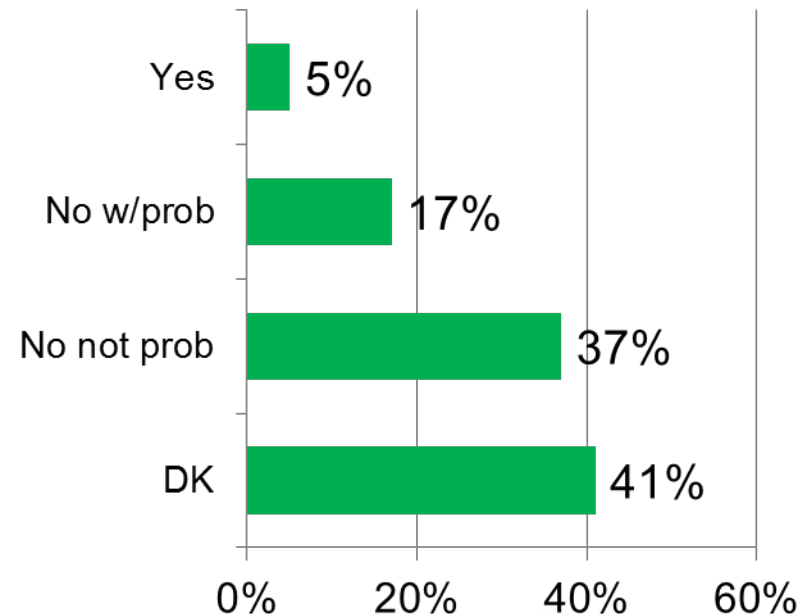
#1: Develop Common Business Practices & Processes: Format & Code Issues

The majority of organizations said their customers/suppliers do not use EDI 820/STP 820 remittance format in a standard way, nor do they use the same set of discount & adjustment codes

Standard Use of Remittance Format



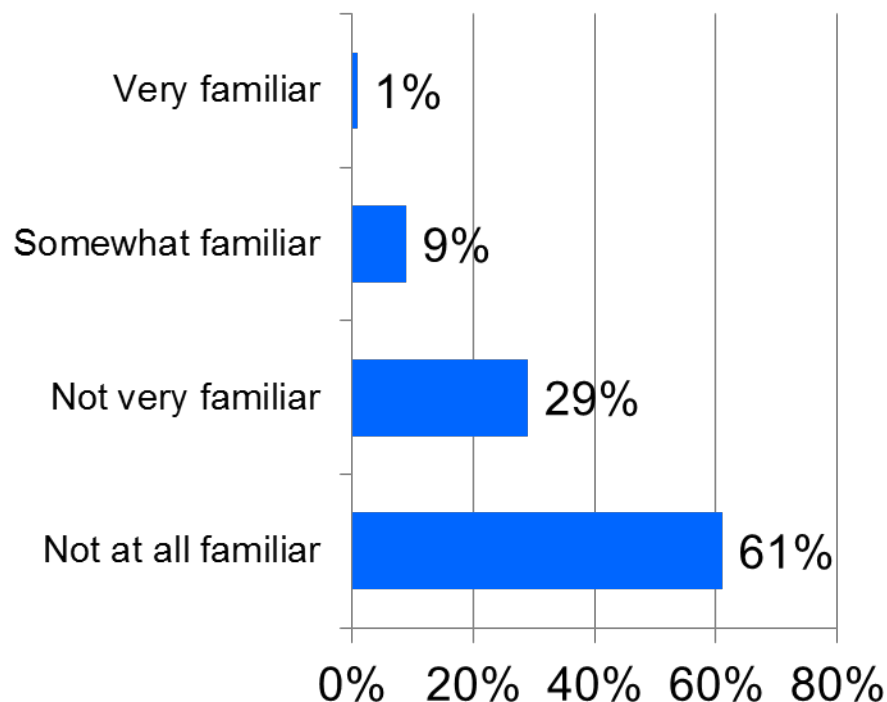
Standard Use of Deduction Codes



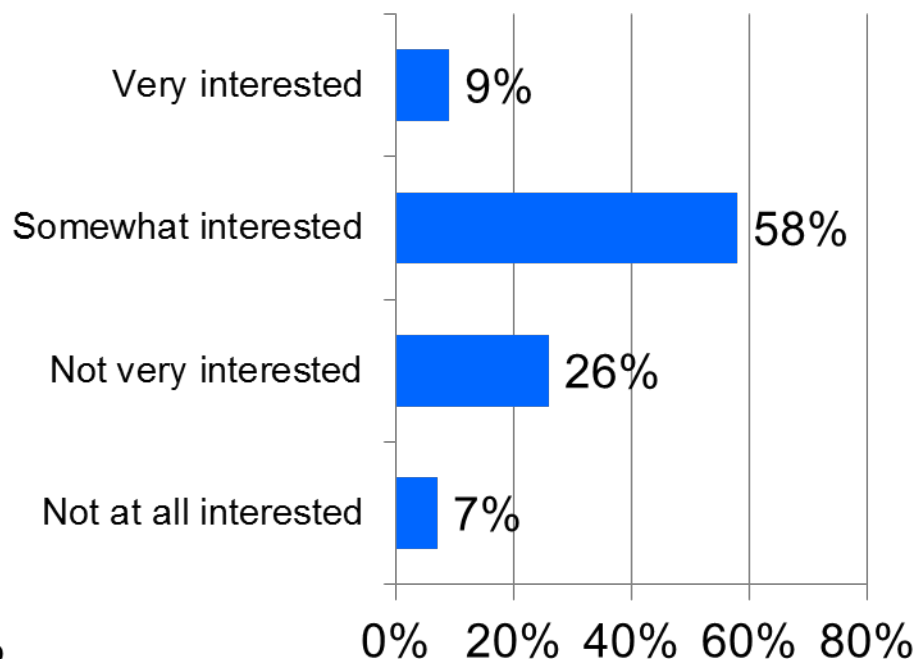
Actions to Address Need for Remittance Data Format Standard (in Theory & Practice)

ISO 20022 designed to provide structure to flexibility desired by companies

Familiarity with ISO 20022



Of Those Familiar, Interest in Remittance Data Exchange in ISO 20022



Actions to Address Business Practice & Process Obstacles: Simplification

Develop simpler, standard usage of deduction codes

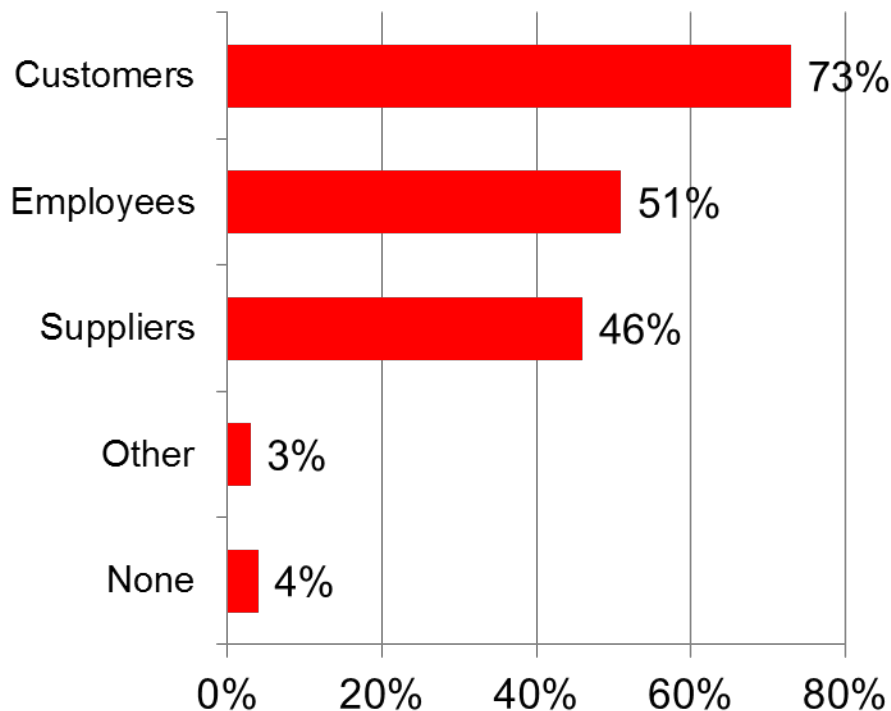
- Workgroup developed a subset of EDI deduction codes that meet needs of “most” businesses
- Work underway with standards organizations X9 & X12 to publish list as standard
- Work planned to communicate & educate industry, including vendors on codes to use & support in software



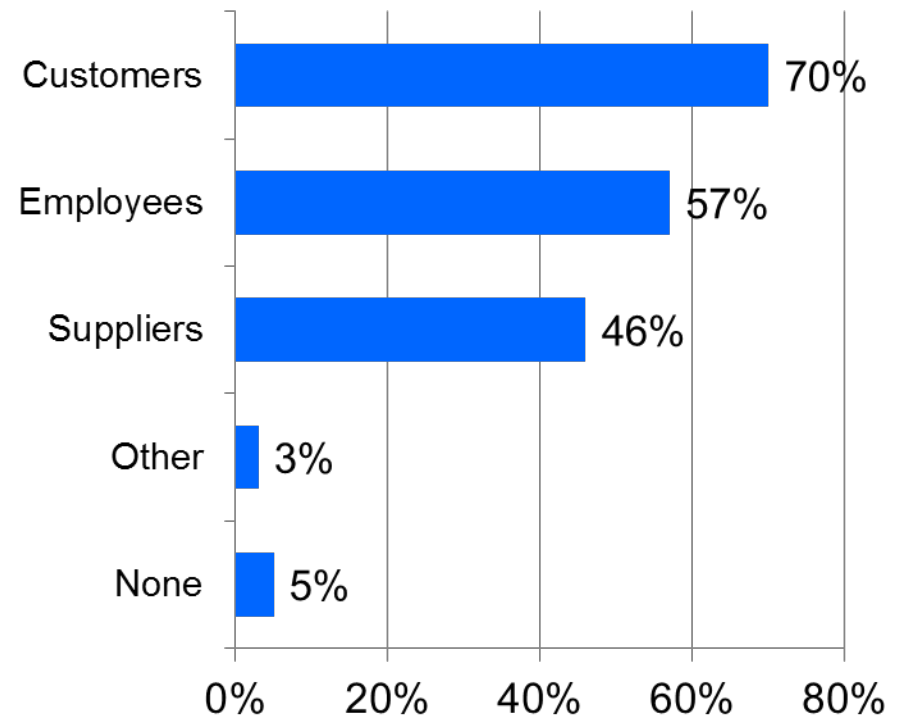
#2: Provide More Education

Regardless of function or industry, respondents consistently say that customers are the priority in receiving education

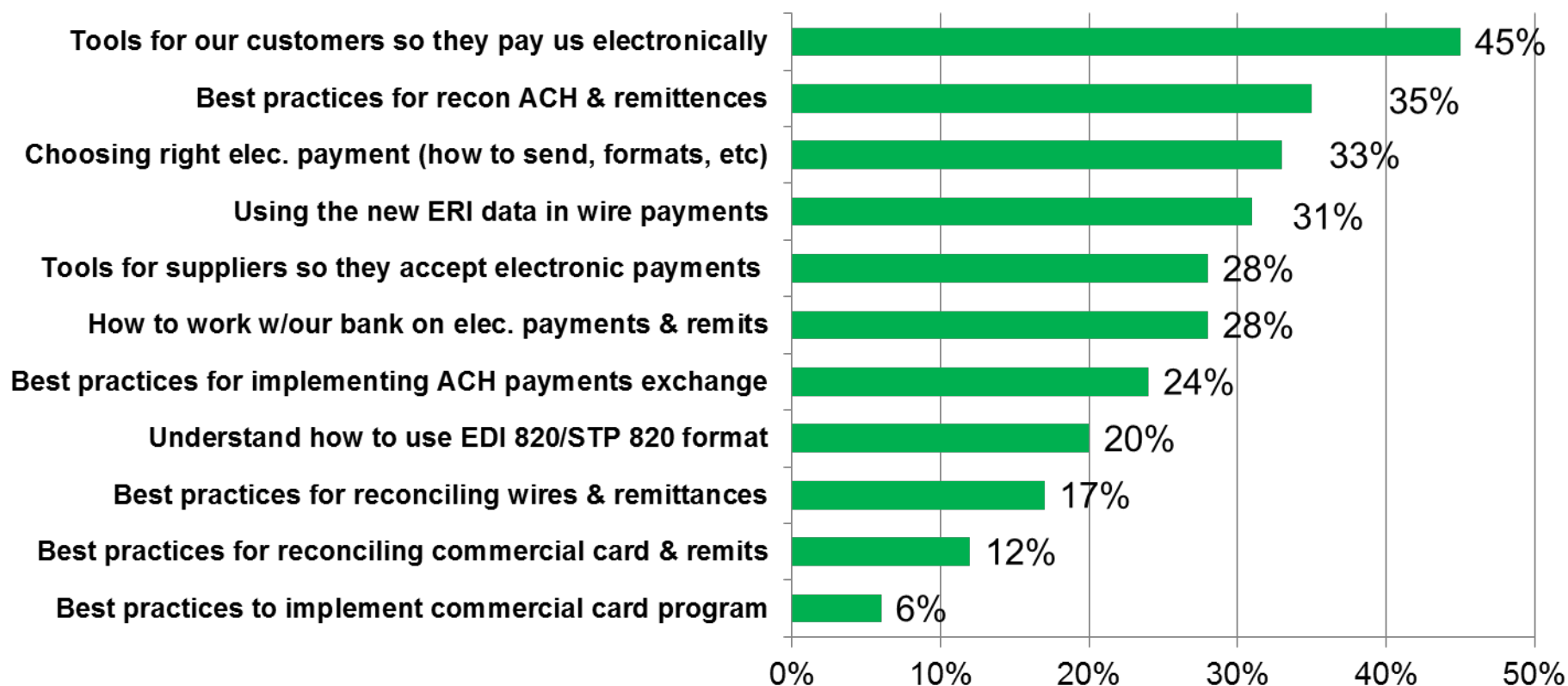
Education on Electronic Payments



Education on Remittance Data



Suggested Education Topics



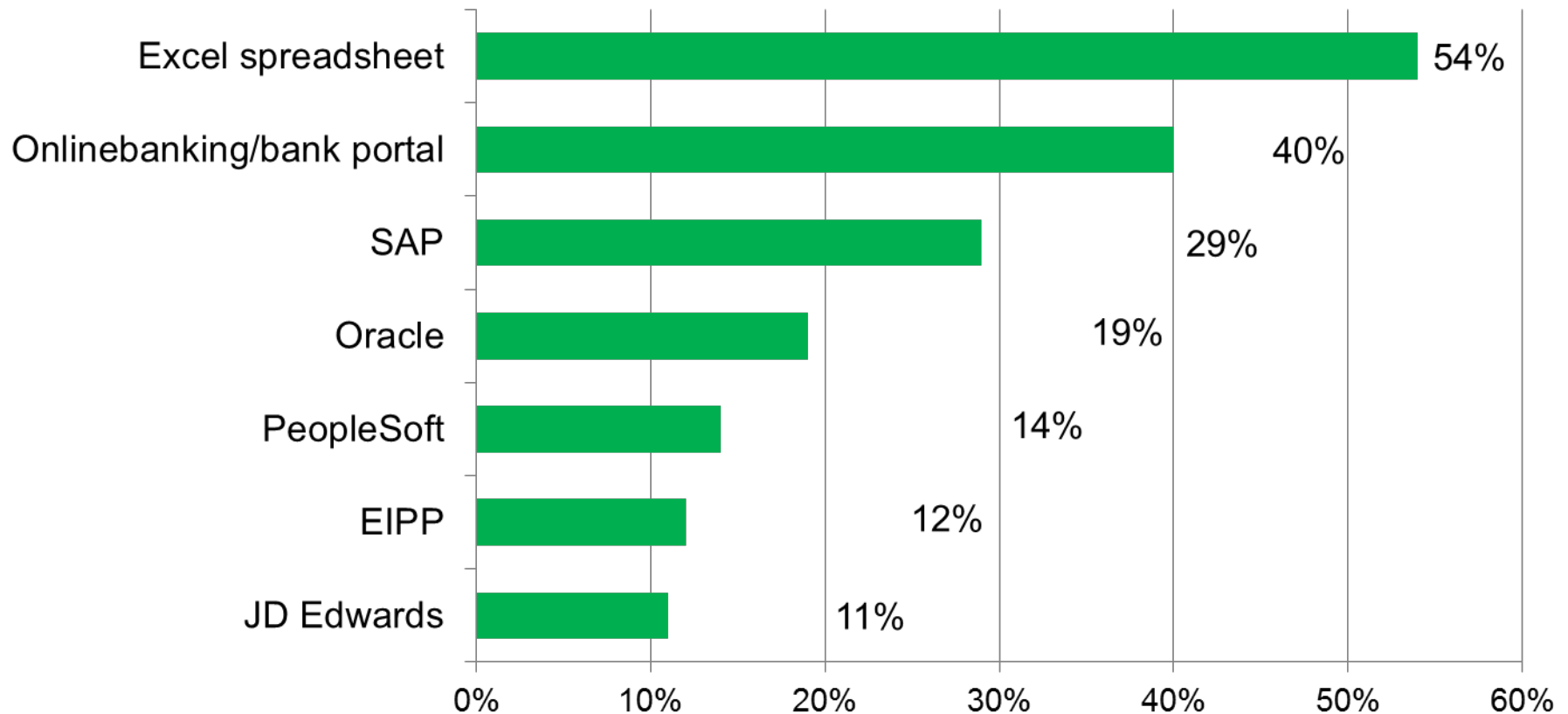
Actions to Improve Education & Outreach Are Ongoing

- Present at industry conferences & publish articles in industry press to promote Coalition mission, vision & actions
- Share information among Remittance Coalition members about member-led initiatives
- Promote adoption of new solutions, e.g.:
 - Wire Transfer Extended Remittance Information (ERI)
 - Balance & Transaction Reporting Standard (report by banks to corporate customers—replaces BAI2)
 - Target education to small businesses & small financial institutions



#3: Work with Tech Vendors for STP Solution: Most Businesses Still Stuck Using Excel

Current Software Solutions Used by Businesses



Actions Underway to Enhance Vendor Software Solutions Are Still Evolving

- Many vendors have joined the Remittance Coalition & are participating on specific initiatives
- As new “standards” are developed, e.g., deduction code simplification, ISO 20022 ERI, these will be promoted to vendor community
- Outreach to vendors in 2013 to determine how better to engage them in solutions

#4 B2B Directory – Business Requirements

- Companies want one service provider or “entry point” to access Directory Information
- Want to control processing:
 - Verify trading partner can send/receive elec. payment
 - Account owner verification
 - Assure receivers get the payment routing/remit info. necessary to receive, post & apply the payment & associated information
 - Allow payers to quickly/efficiently gather/validate routing & remit info. requirements established by receivers to accept an electronic payment
 - Provide a “matching” method or process—i.e., receivers & payers can quickly & easily match capabilities & requirements without manual intervention
- Supports accounting separation (companies w/multiple legal entities)
 - Parent/sub structures/hierarchy need ability to specify target accounts for receipt/application of funds (e.g., virtual/sub accounts—not DDA accounts)
- Prevents unauthorized access or use of company/account data



Actions to Create “Open” B2B Directory

Subgroup formed to better understand requirements & features of a B2B directory

- Currently gathering ideas for features of B2B directory
- Next step is to develop a “straw man” model & seek comments on its viability
- Assuming B2B directory is viable, may work with standards organizations &/or banks/vendors to develop a pilot
- B2B directory was one of two solutions that generated the greatest interest from the small business survey group of respondents:
 - 45% said that a “Secure Trading Partner Directory” is critical or important to have
 - Presents future opportunities to include small businesses in B2B directory solutions



Join the Remittance Coalition!

To join the Remittance Coalition, send an email to:
Deb.hjortland@mpls.frb.org

You will receive a new member welcoming packet by email with information how to get involved in work



Questions?

This presentation will be posted to:

<http://www.afponline.org/payments>

Contact Information



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