

A Survey by the Remittance Coalition to Identify Problems & Solutions to Electronic Payment & Remittance Exchange & Reconciliation

By Debra Hjortland

Abstract

Recent statistics show that a disproportionate number of business-to-business (B2B) payments continue to be made by check compared to consumer payments, despite the benefits businesses gain from using electronic payments: lower costs, lower fraud risk, improved cash reporting and fewer errors. In 2011, a group of financial institutions, service providers, industry associations, vendors, standards organizations, and business practitioners formed the Remittance Coalition (RC) to increase the efficiency with which B2B payments are made and reconciled.

The RC identified a need for additional information about the barriers to increased use of e-payments and remittance data and to better understand the views of business practitioners on ways to improve the processing of payments and remittance data. Thus, the RC developed a survey to gather more information. A survey was developed with the objectives:

- To assess industry perception of the major obstacles or “pain points” to increased use of electronic payments and remittance processing.*
- To gather feedback on which of the five proposed “solutions” to the problems would be most effective in addressing these problems and increasing the use of electronic payments and remittance information and enhancing the ability to reconcile the two.*

The survey was distributed between June 5, 2012, and July 20, 2012, to business practitioners by five professional associations participating in the RC:

- Association of Financial Professionals (AFP)*
- Credit Research Foundation (CRF)*
- Institute of Financial Operations (IFO)*
- National Association of Purchasing Card Professionals (NAPCP)*
- Association of Small Business Development Centers (ASBDC)*

Survey Respondent Profile

There were 662 responses received, with CRF accounting for approximately half of the responses. Survey respondents were business financial professionals in several functions including accounts payable (AP), accounts receivable (AR), treasury, accounting, and purchasing. Half the survey respondents are responsible for AR while four in ten (40%) have treasury responsibilities

Based on annual revenues, over half (53%) of the companies responding are considered large (\$500 million or more annual revenue); one-fourth (26%) are considered medium (\$50 to \$499.9 million), and the remainder (22%) small (up to \$49.9 million).

Payment & Remittance Profile

Over half the respondents reported that they make and receive most or all of their B2B payments by check. About one-fourth said that they make and receive most B2B payments by ACH. Larger companies are more likely to make most of their payments by ACH and less likely to receive most of their payments by checks. (Table 1A and 1B)

Table 1A
Primary Method for
Making Payments (n=654)

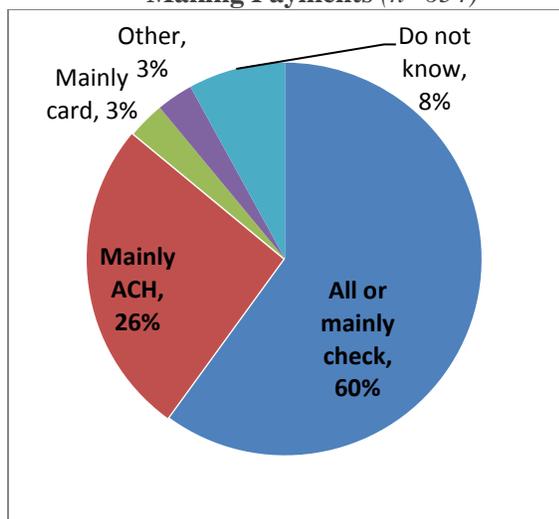
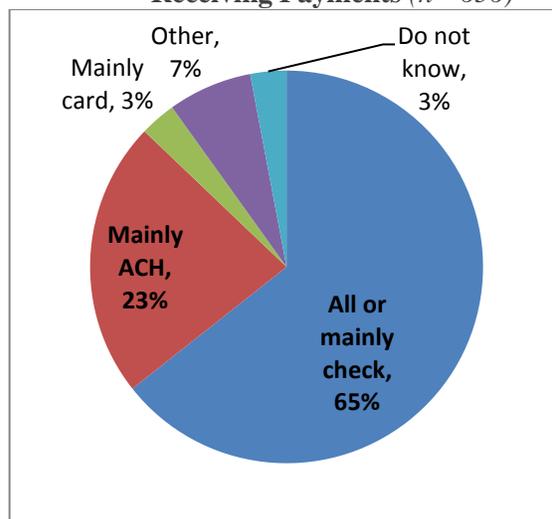


Table 1B
Primary Method for
Receiving Payments (n= 656)

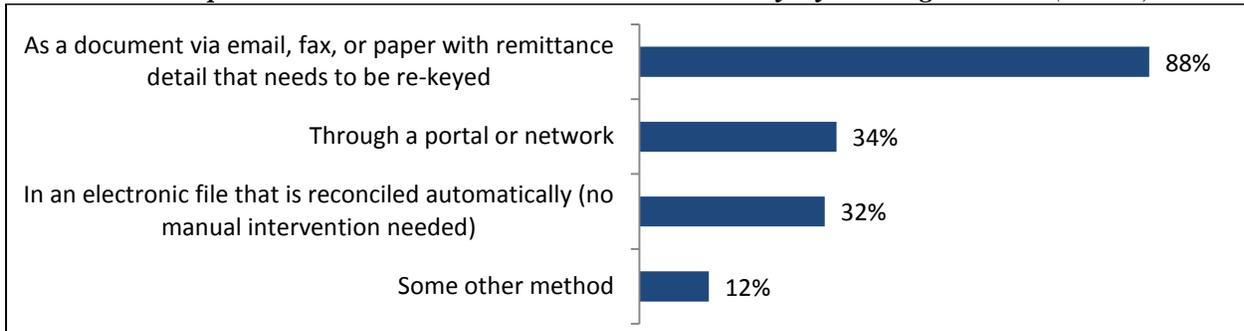


Summary of Results

Current Methods for Receiving Remittance Data

Most respondents receive some remittance data directly from a trading partner and separate from the payment transaction - usually in a format that must be rekeyed. (Table 2)

Table 2
How Respondents Receive Remittance Data Sent Directly By Trading Partners (n=481)



When remittance data is included with an electronic payment, only one-fourth report that the data can be reconciled automatically; 16% said that they do not receive remittance data carried in an electronic payment from their bank or payment processor as shown in Table 3.

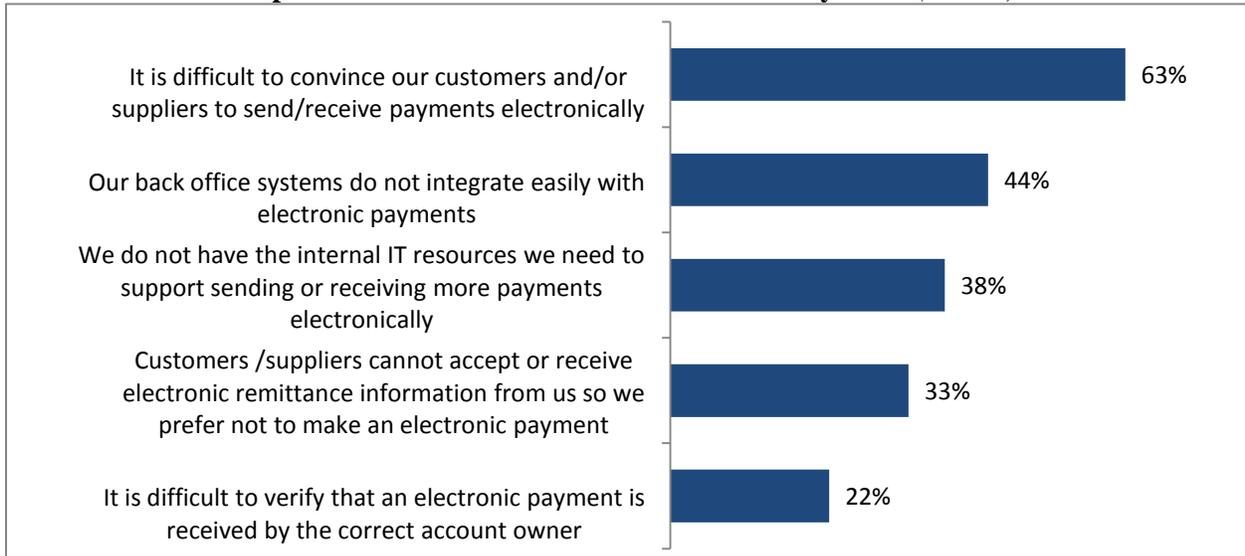
Table 3
Format Provided by Bank or Payment Processor When Remittance Data is Carried in an E-Payment Received (n=601)

An electronic file in an ACH format that we input manually	34%
A document via email, fax, or paper that is rekeyed	33%
An EDI data file in a format that can be reconciled automatically	26%
We do not receive any remittance information	16%
Information in a BAI2 (or BTRS) file	15%
Do not know	13%
Some other method	8%

Barriers to Greater Use of Electronic Payments

Respondents were asked to identify up to five barriers to increasing their use of electronic payments, shown in Table 4. The barrier cited by the greatest number of respondents (63%) is difficulty in convincing customers or suppliers to send or receive payments electronically. Other high ranking barriers are the lack of easy integration of back office systems with electronic payments (44%) and the lack of internal IT resources to support implementation of electronic payments (38%).

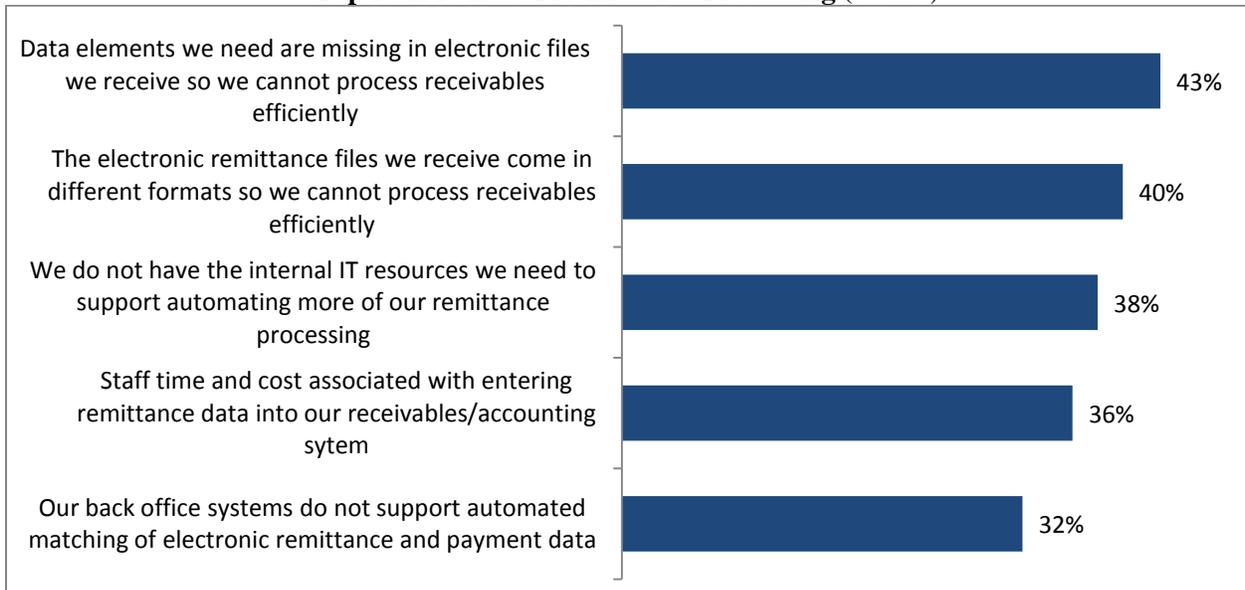
Table 4
Top Barriers to Increased Use of Electronic Payments (n=609)



Top Pain Points of Remittance Processing

Respondents were asked to identify up to five pain points in processing remittance information, shown in Table 5. The top two relate to file problems: missing data elements and files received in different formats. The next three pain points reported relate to internal support concerns: respondent organizations do not have sufficient internal IT resources to support automating more of remittance processing; staff time and costs are required to manually enter remittance data; and back office systems do not support automated matching of electronic payments and remittance data.

Table 5
Top Pain Points of Remittance Processing (n=634)



Solutions

Respondents were asked to evaluate the importance of each solution and provide information and reactions on to assist in identifying how the solutions should be implemented. They were also asked to rank the relative effectiveness of five potential solutions in terms of whether the solution increase their company’s use of electronic payments and improve the efficient processing of remittance data. These solutions are shown in Table 6 below.

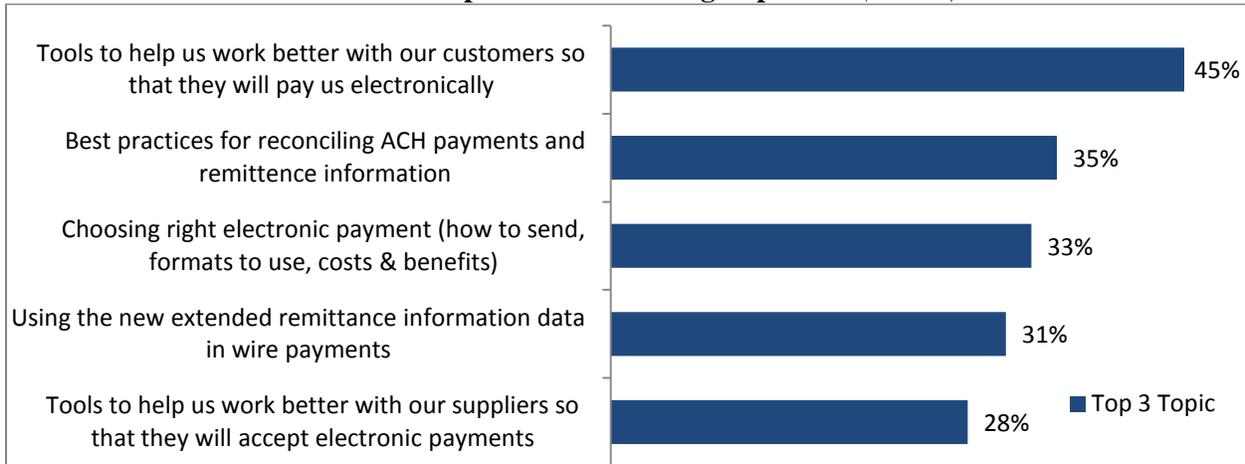
**Table 6
Potential Solutions Presented in Survey**

<p>Educational Opportunities Provide education to businesses on making & receiving electronic payments, on exchanging electronic remittance information and on reconciling the two.</p>	<p>Secure Trading Partner (Buyer/Seller) Reference Directory A secure, non-proprietary electronic directory that provides buyers & suppliers with information needed to exchange electronic payments & remittance data.</p>	<p>Universal Remittance Warehouse A universal remittance warehouse allows any business to deliver/store remittance information in a database & securely access it as needed. This warehouse supports any payment method & remittance type/format.</p>	<p>Businesses Practices & Processes to Reconcile Payments & Remittance Data Develop and adopt common “best” practices and processes that all types of businesses can use with existing payments and remittance data</p>	<p>Work with Technology Vendors to Enable STP Work with technology vendors to support electronic payments & remittance & automatic reconciliation. These services include improved automated solutions as well as making solutions more readily available and accessible</p>
--	--	--	--	---

Educational Opportunities

Seven in ten (70%) of respondents said that additional education on electronic payments and remittance exchange is critical or important to have. Respondents consistently identified customers as most in need of more education, followed by employees and then suppliers. The educational topics that respondents believe are most needed include tools to help their organizations work better with their customers so that they will pay electronically; best practices for reconciling ACH payments and remittance; and choosing the right electronic payment. (Table 7)

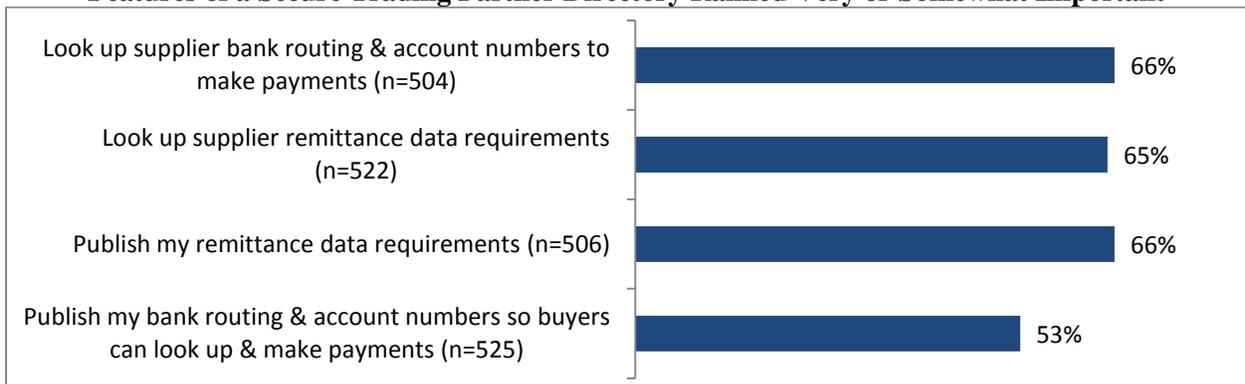
Table 7
Education Topics Ranked Among Top Three (n=521)



Secure Trading Partner Reference Directory

Almost half (46%) of respondents view the availability of a secure reference directory for B2B transactions as critical or important. Respondents were more interested in a secure reference directory to look up supplier bank routing and account numbers than they were in making their own bank routing and account numbers available. (Table 8)

Table 8
Features of a Secure Trading Partner Directory Ranked Very or Somewhat Important



Universal Remittance Warehouse

A little over one-fourth (27%) of respondents view having a universal remittance warehouse as critical or important. Fewer than one in ten (7%) respondents reported using a remittance warehouse, but of those that do, more than eight in ten said that it contains sufficient data to post and reconcile payments and six in ten said that they can download data from it electronically. (Table 9a and 9b)

Table 9A
Current Warehouse Usage
(n=506)

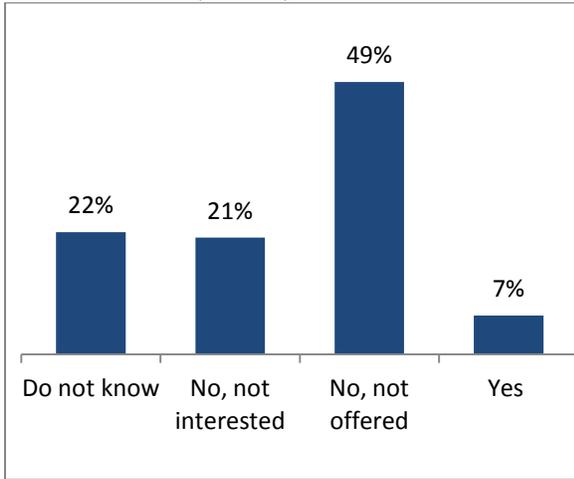
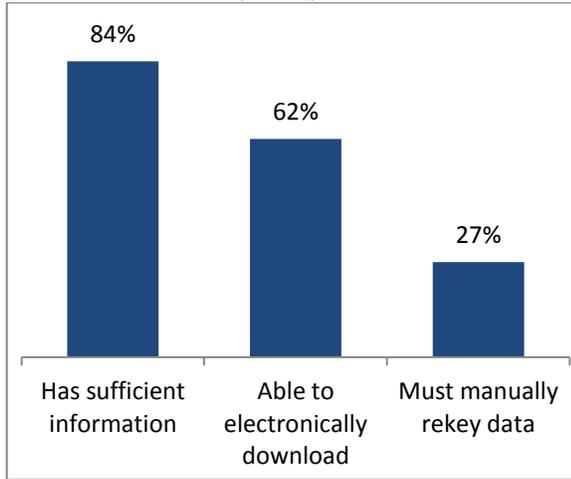


Table 9B
Remittance Warehouse Capabilities
(n=37)



Common Business Practices and Processes

Nearly two-thirds (64%) of respondents said that the need for more common business practices to reconcile payments and remittance data is critical or important. Questions about two specific areas of business practices and processes were asked: the use of discount and adjustment codes and the use of the X12 EDI 820/STP 820 remittance format. Most respondents said their customers and suppliers do not use a common set of codes, yet a minority consider it a problem. (Table 10A and 10B)

Table 10A
Do All Your Customers & Suppliers Use Same Set of Deduction Codes?
(n=497)

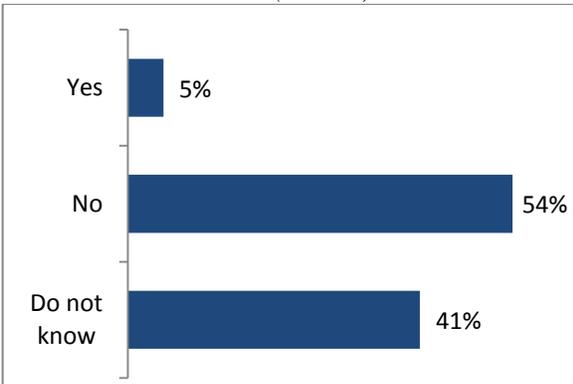
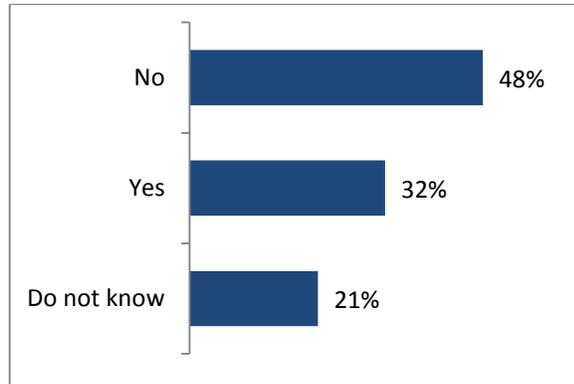


Table 10B
Is This a Problem?
(n=101)



As for usage of the X12 EDI 820 or STP 820 formats, over one-fourth said that supplies and customers do not use these format in a standard way with almost half (48%) viewing this as a problem. (Table 11A and 11B)

Table 11A
Do All Your Customers & Suppliers
Who Use EDI 820/STP 820 Use Them in
A Standard Way? (n=499)

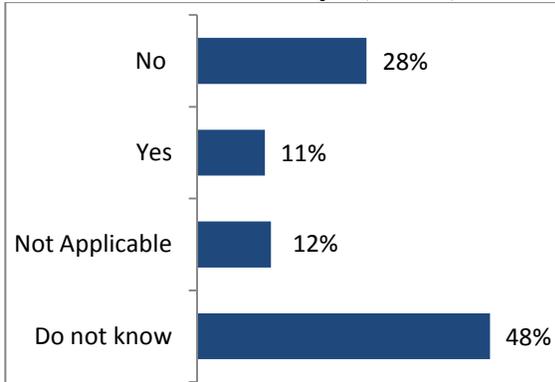
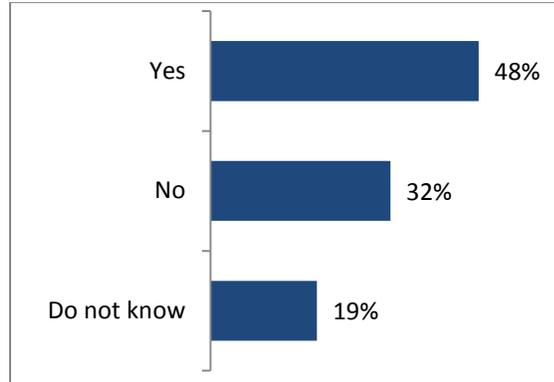


Table 11B
Is This a Problem?
(n=151)



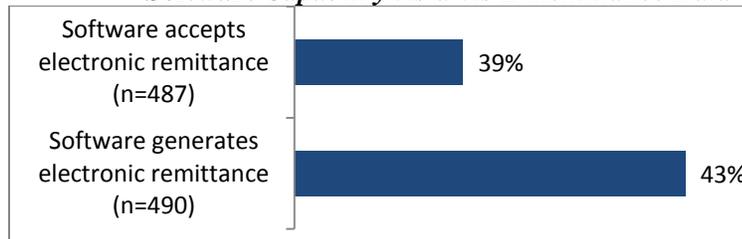
Open-ended responses about non-standard remittance data business processes focused on four areas:

- Missing information
- Inconsistent formats
- Non-standard use of deduction codes and non-approved deduction codes
- Other issues such as challenges related to reconciling card payments to invoices

Technology Vendor Solutions

Over two-thirds respondents (71%) said it is critical or important to have technology solutions that help their organization exchange more e-payments and remittance data. Over four in ten (43%) said that the software they use can generate remittance data while fewer (39%) said that their software accepts electronic remittance. (Table 12)

Table 12
Software Capability vis-à-vis E-Remittance Data



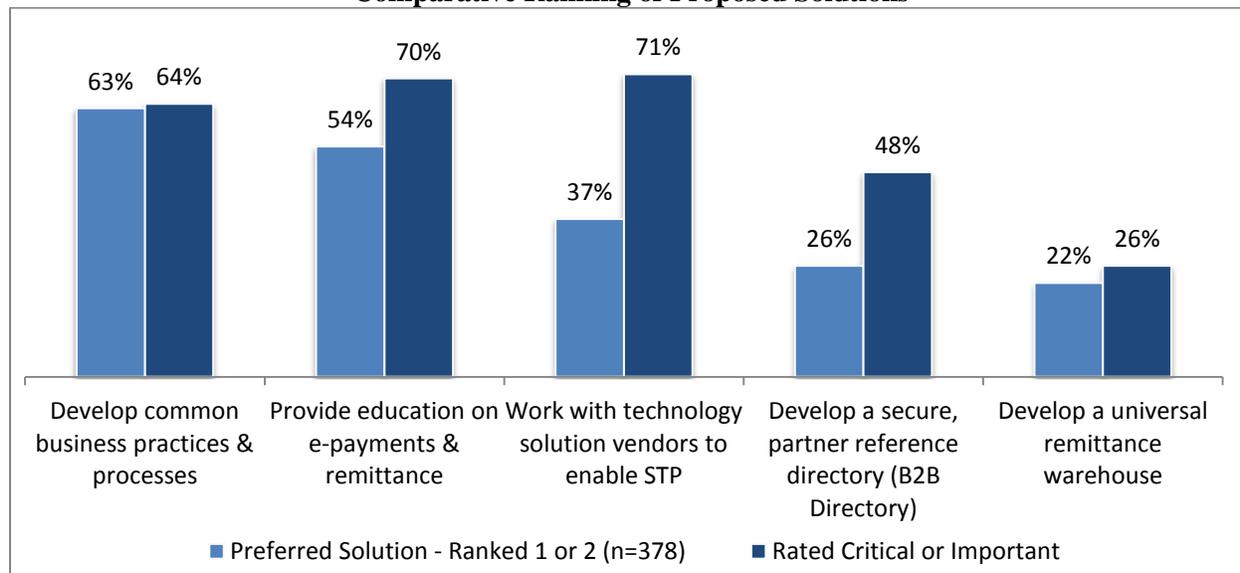
Even when electronic remittance is received, over one-fourth (28%) said that manual intervention is required to correct it more than half of the time. Over half (53%) of respondents said having a new

internationally recognized format in current technologies to move their organizations further toward electronic processing is critical or important.

Comparative Ranking

Respondents ranked the five solutions relative to each other in terms of their effectiveness in moving their organization to increased use of e-payments and processing of e-remittance data (Table 13). Solution 4, development of more common business practices and processes, is ranked as the first or second most effective solution by 63% of respondents; approximately the same percentage of respondents rated this solution as critical or important. This is followed by Solution 1, education, which over half of respondents (54%) ranked as the first or second most effective solution, yet 70% of respondents said this was critical or important. Fewer respondents ranked technology solutions as first or second, but this had the highest percentage of respondents rating this as critical or important (71%). The B2B directory and universal remittance warehouse were ranked by fewer respondents as the first or second most effective solution, although almost half (48%) rated a secure partner reference directory as critical or important.

Table 13
Comparative Ranking of Proposed Solutions



Discussion of Observations

The survey results show that businesses want to adopt more e-payments and improve the efficiency of reconciling with remittance data. While there is no single “silver bullet” that will address the complexity of issues affecting the adoption of electronic B2B payments and improving the processing and reconciliation of remittance data, the survey identified a number of specific areas that will address some of the barriers. These are:

Work to develop more common business practices and processes. In 2012 a work group of the RC has developed a simplified subset of the X12 426 Adjustment Reason code standard, mapping the existing list of over 600 codes to about 70 standard deduction codes. Similar efforts are needed, based on

further research among business practitioners, to identify specific, existing practices and processes that would benefit most from developing more standard approaches to their use.

Increase educational opportunities. There is a need to educate business practitioners about the benefits of e-payments and e-remittance data exchange and how to use these services. According to respondents, education is most needed on the following topics: 1) “*Tools to help us work better with our customers so that they will pay us electronically,*” 2) “*Best practices for reconciling ACH payments and remittance data,*” and 3) “*Choosing the right electronic payment.*”

Work to improve software and technology capabilities and adoption. Many opportunities exist to work with software vendors and technology providers to improve software capabilities to generate and accept e-payments and e-remittance data and automatically reconcile payments and remittance. Educational opportunities also exist to educate business practitioners on how to effectively use software capabilities in their current software packages and how to better interface with other back-office products. There is also a need for cross-vendor dialogue on ways to promote greater interoperability between vendor packages using common remittance formats and standards.

Investigate the feasibility of a B2B directory. In 2012, the RC began an initiative to explore the feasibility of a secure trading partner reference directory. The first step has been to flesh out the essential business features of the directory and work is underway to determine if and how a pilot could further the understanding of the case for the directory.

The Work Ahead

In the coming months, the RC will review these findings in more depth and identify initiatives to address these problems.

- Continue emphasis on outreach and education to business practitioner organizations and develop education program tailored to the needs of particular groups, including small businesses.
- Continue to solicit input from business practitioners to refine and focus action plans, notably in the area of additional business processes and practices that would benefit from more standardization.
- Strengthen relationships with key software vendors and banks to engage them in efforts to enhance their services in order to facilitate interoperability and end-to-end electronic processing.
- Explore development of new solutions that address gaps in the existing set of services—e.g., B2B reference directory.
- Continue using a coalition approach to enable different groups with varying expertise and interests to lead work efforts that provide solutions that improve B2B payment processes.
- Given the wide variety of business needs and experiences evidenced by survey results, the RC should continue to recruit new members so that more stakeholders have a voice in the solutions under development.

More information about the RC and specific RC projects to support these action areas can be found at the Federal Reserve Bank of Minneapolis’ public website: <http://www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm>

About the Author

Debra Hjortland is a senior payments consultant in the Payment Information Outreach Office of the Federal Reserve Bank of Minneapolis, where she addresses payment issues related to business-to-business payments and payment standards. She has been with the Federal Reserve Bank of Minneapolis for 28 years. Debra holds an MBA from the University of Minnesota with a concentration in Management Information Services and Strategic Management.