Remittance Coalition Electronic Payment & Remittance Exchange Survey

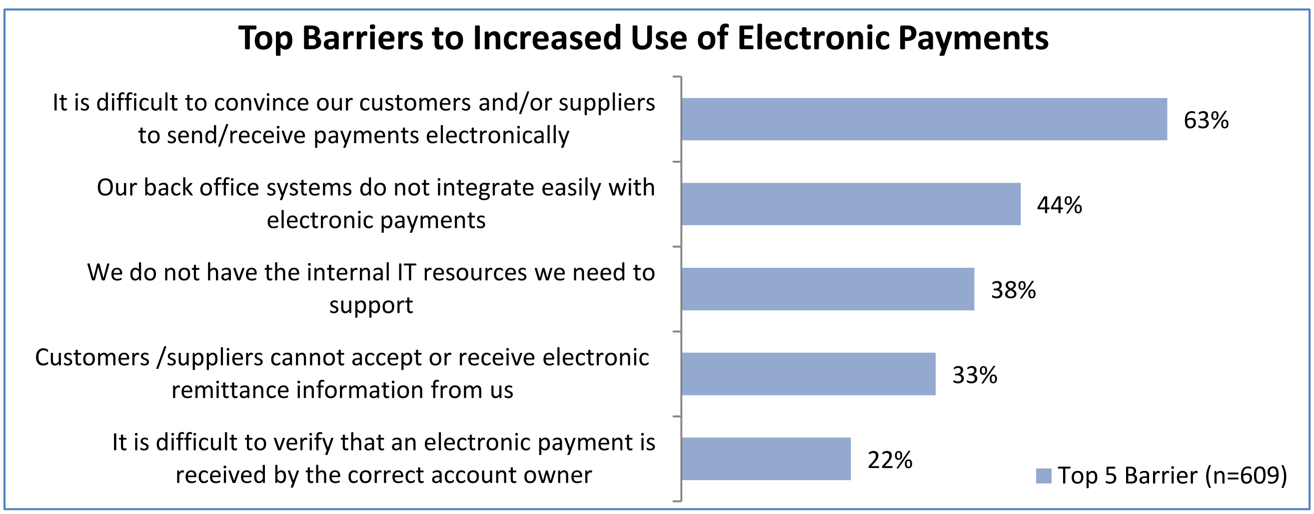
By Debra Hjortland

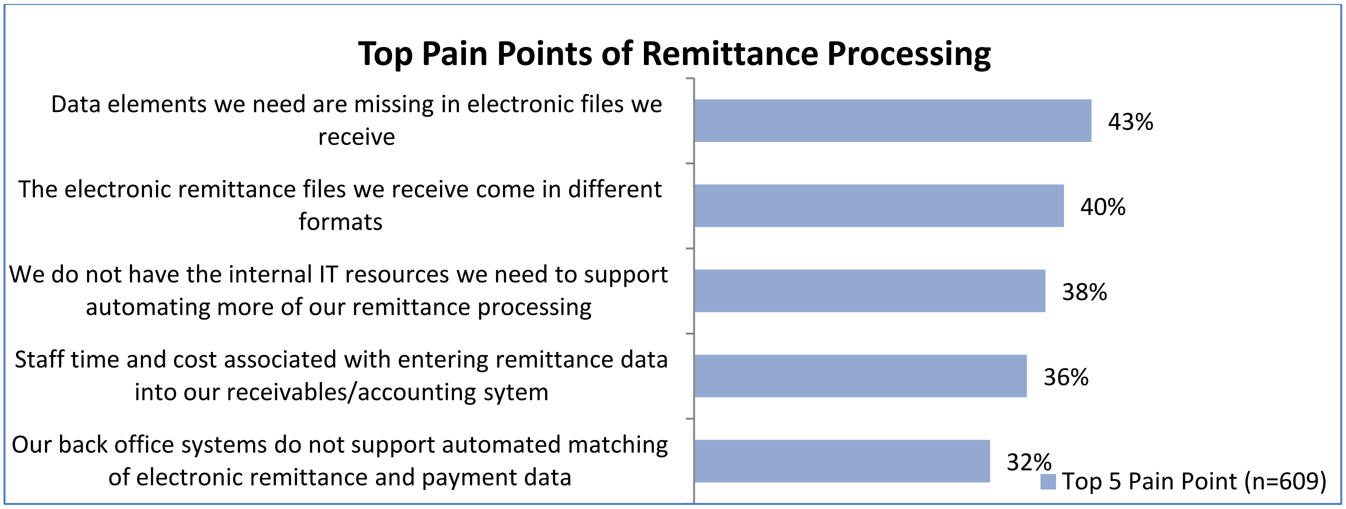
Recent statistics show that while business-to-business checks are declining, they are not doing so as rapidly as are consumer checks, despite the benefits businesses recognize in using electronic payments: lower costs, lower fraud risk, improved cash reporting and fewer errors. In 2011, a group of financial institutions, service providers, industry associations, vendors, standards organizations, and corporate treasury practitioners formed the Remittance Coalition to increase the efficiency with which business-to-business (B2B) payments are made and reconciled. The Coalition identified a need for additional information about the barriers to increased use of electronic payments and remittance data and to better understand the views of corporate practitioners on ways to improve the processing of payments and remittance information.

A survey was developed and distributed to corporate practitioners by five industry organizations participating in the Coalition, including the Credit Research Foundation. The survey was initiated on June 5 and concluded on July 20, with over 660 responses – CRF making up nearly half of responses.

As other studies have also found, over half the respondents report that B2B payments are primarily made and received by check. As companies increase in size, more payments are made and received by ACH, wires, and cards. While most respondents reported that they are satisfied with their current processes and they believe their systems are effective in meeting their accounts payable and accounts receivable needs, they also said that they primarily receive remittance information in a format that must be rekeyed. Only 26 percent of respondents said that they receive remittance information in a format that can be automatically reconciled.

Respondents were asked to identify up to five barriers to increasing their use of electronic payments and up to five pain points for processing remittance information.





The survey highlights that barriers to efficient electronic payment processing and remittance exchange and reconciliation must be addressed both by convincing customers and buyers to send or receive electronic payments and remittance, and by addressing barriers and challenges in processing – complex and non-standard formats and processes, missing remittance data, inadequate back-office systems, and lack of bank services.

Convincing customers to pay electronically and suppliers to receive electronic payments is made more difficult because customers do not always know what is needed to make electronic payments, how to select the right electronic payment, or how to work with their bank or service providers to obtain electronic payment and remittance information services. Customers and suppliers need education to better understand how to pay and be paid electronically and exchange electronic remittance information. A small number of customers and suppliers prefer check payments because of float and fear of electronic payment fraud. Education, too, is needed to address these concerns and provide information about mitigation strategies.

But much of the resistance to the use of electronic payments and exchanging remittance information is due to automation processing inefficiencies and the lack of good technical solutions that support automated processes. The survey found that remittance data exchanged electronically is often received with key data elements missing that must be manually handled through exception processing. Remittance data is too frequently received in different formats for each customer so unique processing solutions and/or manual interventions are needed. Common remittance formats are too flexible or are creatively used. Varying business processes results in data, such as deduction codes, used inconsistently and tailored for each customer. Back office systems often do not accept commonly used standard remittance data formats. Businesses may not receive assurances that their electronic payment (i.e., ACH payment) is posted to the correct customer account. Making system changes requires internal resources, especially from IT, that are costly and scarce. It is often difficult to gain senior management's buy-in to secure needed resources for initiatives to improve payment processing, that are not usually a top corporate priority. With these challenges, it is understandable why it is difficult to convince trading partners to make and receive electronic payments and exchange automated remittance.

The survey also identified preferred solutions to address some of the barriers and pain points noted above. The top two preferred solutions were standardizing business processes and education. Already underway is an initiative led by CRF to address business process standardization by streamlining and standardizing use of deduction codes. In the coming months, the Remittance Coalition will review survey findings in more depth and identify initiatives to address these problems. For more information, or to join the Remittance Coalition, contact Debra Hjortland, Federal Reserve Bank of Minneapolis, deb.hjortland@mpls.frb.org.