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INFORMATION

# **Electronic Payments and Remittance Data: Impossible Dream or Practical Possibility?**

**Roy DeCicco**

**Sandra Roth**

**Claudia Swendseid**

**James Wills**

# TODAY'S DISCUSSION

- ❖ **The Issue**
- ❖ **The Question**
- ❖ **The Potential**
- ❖ **The Opportunity**
- ❖ **The Need**



Disclaimer: The views expressed here are those of the speakers & do not necessarily reflect the views of the companies for which they work

# ROY DeCICCO



**Roy DeCicco** is a Managing Director for the Treasury & Securities Services (TSS) Global Markets Infrastructure team at JPMorgan Chase. He is responsible for managing

staff engagements with industry associations, public policy authorities, market infrastructures, & other global financial institutions that impact the payments business.

Mr. DeCicco is Chairman of the ASC X9 Board, co-chair of the SWIFT Payments Market Practice Group and vice-chair of the ABA Payment Systems Committee.

## JP Morgan Chase

- ❖ Global financial services firm in investment banking, financial services for consumers, small business & commercial banking, financial transaction processing, asset management & private equity
- ❖ Assets of \$2 trillion
- ❖ Operates in more than 60 countries with over 200,000 employees



# SANDRA ROTH

## Sandra Roth

Sandra Roth is Manager of the Trade Financial Management team at Johnson & Johnson Sales and Logistics Company (JJSLC) – which represents the Johnson & Johnson Consumer companies in the United States and Caribbean. Ms. Roth manages supply chain activities related to risk management, collections, and accounts receivable and is the Business and IT expert in this functional space for JJSLC.

*Johnson & Johnson*



## Johnson & Johnson

- ❖ Is the world's sixth-largest consumer health company
- ❖ The world's largest medical devices and diagnostics company
- ❖ The world's eight-largest pharmaceuticals company & sixth largest bio-tech company
- ❖ Johnson & Johnson has more than 250 operating companies in 60 countries employing approximately 129,000 people

# CLAUDIA SWENDSEID



**Claudia Swendseid** is a Senior Vice President at the Federal Reserve Bank of Minneapolis. She serves on the Bank's Management Committee and has responsibility for FedACH

operations & application development, Information Technology, Customer Contact Center, & the Payments Information & Outreach Office.

Ms Swendseid conducts industry relations on behalf of Federal Reserve Financial Services, serving as a liaison to various industry associations & corporate end user organizations.

## **Federal Reserve System:**

- ❖ Establishes & executes U.S. monetary policy
- ❖ Promotes a stable financial system
- ❖ Supervises & regulates financial institutions (FIs)
- ❖ Provides financial services to FIs & U.S. Government





# JAMES WILLS



**James Wills** is a senior business manager with the Banking Initiatives Team for SWIFT Americas. Mr. Wills works closely with a variety of standards-setting bodies, trade associations, and member communities on standardization issues in financial market areas including compliance, payments, cash management, and trade finance.



## SWIFT:

- ❖ Is a member-owned cooperative headquartered in Belgium, providing proprietary communications platform, products & services for over 9,000 FIs, securities institutions & corporate customers in 209 countries to connect & exchange financial information securely & reliably.
- ❖ SWIFT serves a catalyst to bring the financial community together to work collaboratively shaping market practices, defining standards & considering solutions to issues of mutual interest.

# THE ISSUE

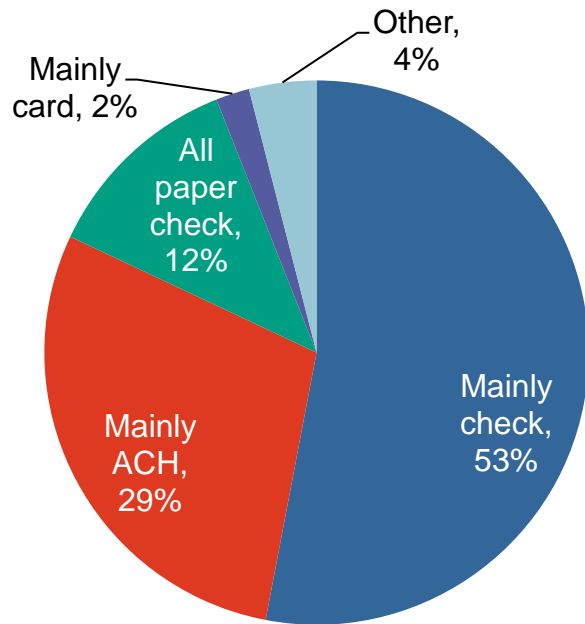
B2B payments & associated remittance data still rely on paper checks, paper documents & manual processes. So, the purchase-to-pay process is less efficient & more costly.



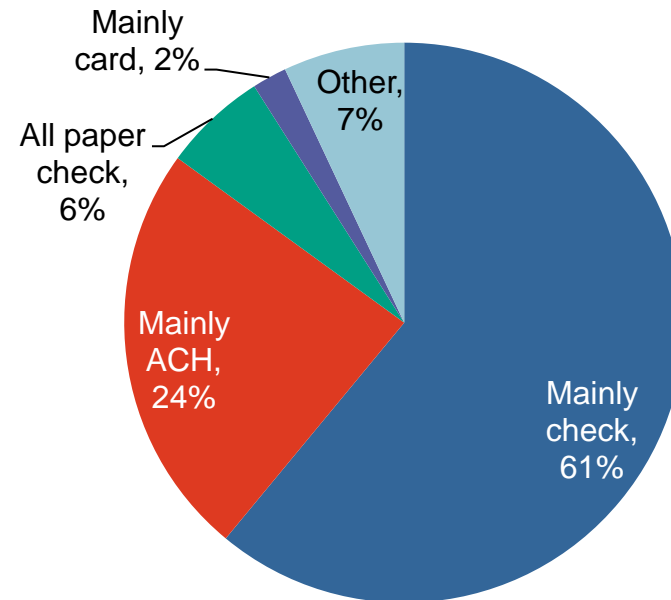
# CHECKS STILL MAJORITY OF B2B PAYMENTS IN U.S. – SENT & RECEIVED

Over half of U.S. businesses surveyed mainly pay & are paid by check

## Making Payments



## Receiving Payments



SOURCE: 2012 Remittance Coalition Survey



# E-PAYMENTS MORE COMMON AMONG MAJOR TRADING PARTNERS

Payments to major suppliers & payments by major buyers are more likely to be electronic, but for both, checks are still the primary payment method.

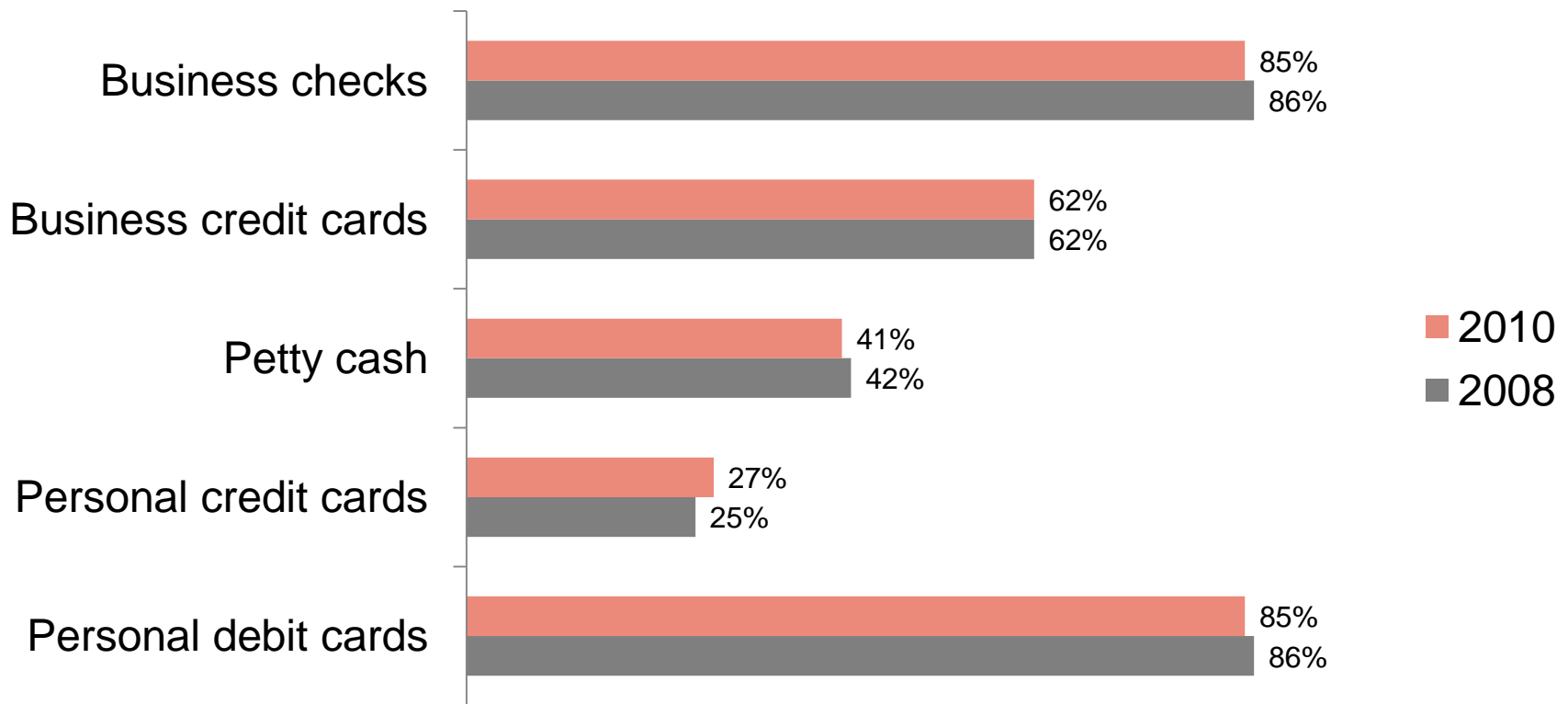
Primary Payment Method Buyer Uses to Pay	Major Suppliers	Other Suppliers	Primary Payment Method Supplier is Paid	Major Buyers	Other Buyers
Checks	49%	64%	Checks	47%	71%
ACH Credits	26%	23%	ACH Credits	26%	14%
Wire Transfers	17%	10%	Wire Transfers	19%	12%
Purchasing Cards	5%	3%	Purchasing Cards	3%	1%
ACH Debits	3%	-	ACH Debits	5%	2%

Figures reflect percentage of annual transactions with major suppliers/buyers compared with “other” suppliers/buyers

SOURCE: 2010 AFP Payments Survey

# B2B CHECKS MOST DOMINANT AMONG SMALL BUSINESS

## Payment Tools Used By Small Businesses



Note: includes U.S. and Canada

SOURCE: 2010 VISA North American Small Business Cash Management Survey

# PAPER IS MORE COSTLY THROUGHOUT THE PURCHASE-TO-PAY CYCLE

Costs to Seller	Print & Mail Invoice	Send Payment Reminder	Remittance & Cash Mgmt.	Archive	Total
Paper	\$5.66	\$0.73	\$6.53	\$3.19	\$16.11
Electronic	\$0	\$0.58	\$4.35	\$1.45	\$6.38

Costs to Buyer	Receive Invoice	Codify	Validate & Match	Dispute Mgmt.	Make Payment	Archive	Total
Paper	\$1.59	\$4.35	\$5.80	\$3.63	\$6.96	\$3.19	\$25.52
Electronic	\$0	\$0.58	\$1.74	\$2.90	\$4.21	\$1.16	\$10.59

Source: Billentis, 2009 cited in *Customer Self-Service in B2B Order to Cash*, Genpact, 2012

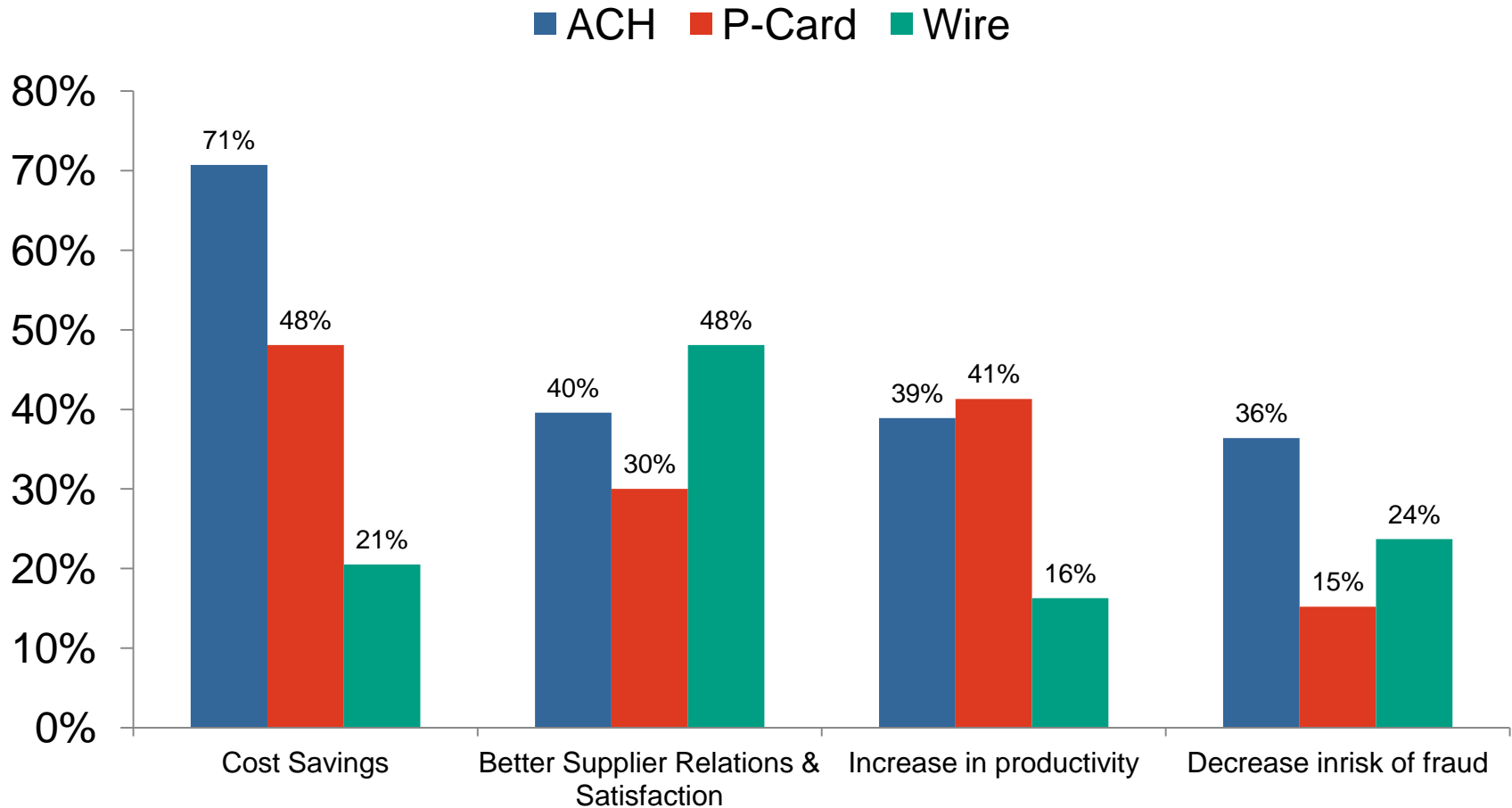
# THE QUESTION

Do businesses see benefits to adopting more e-payments & electronic remittance data?  
If yes, what's stopping them?





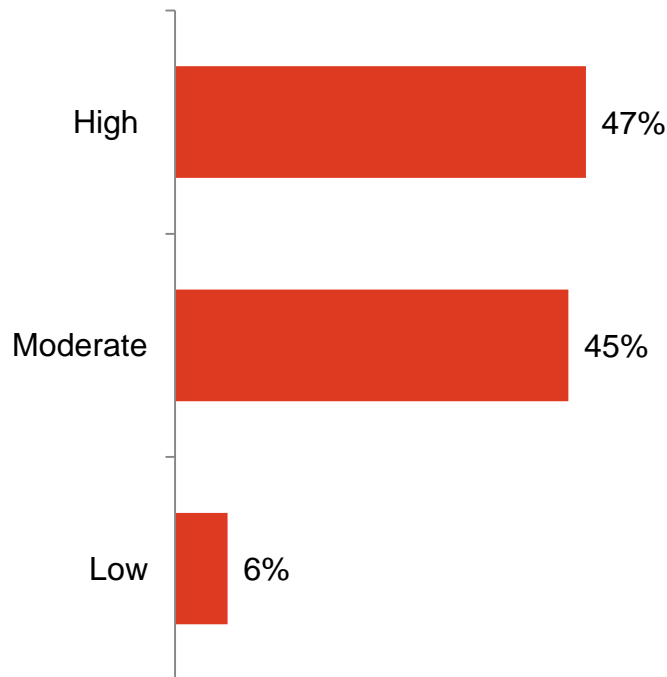
# BUSINESS SEES BENEFITS OF ELECTRONIC PAYMENTS



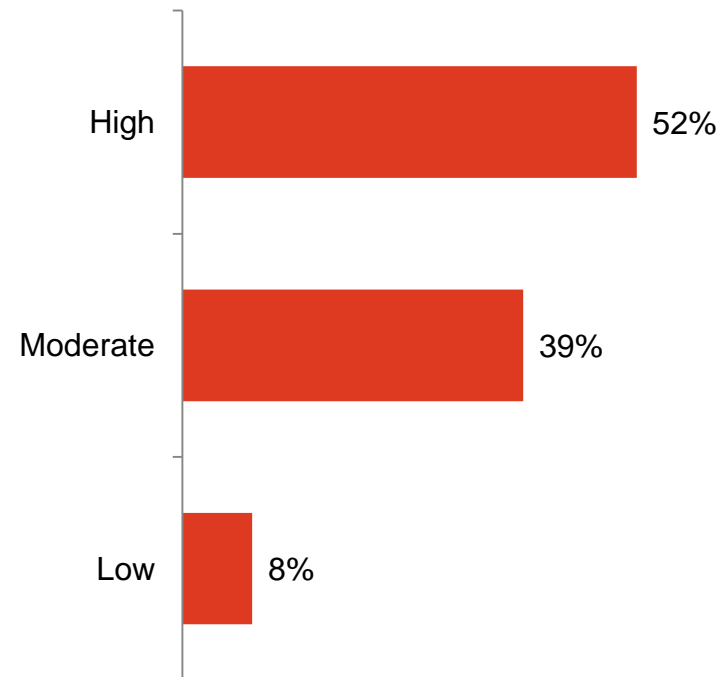
SOURCE: Electronic Payments – Trends in Accounts Payable, US Bank Winter 2010

# BUSINESSES WANT MORE E-PAYMENTS & E-REMITTANCE

Interest in Using More  
Electronic Payments



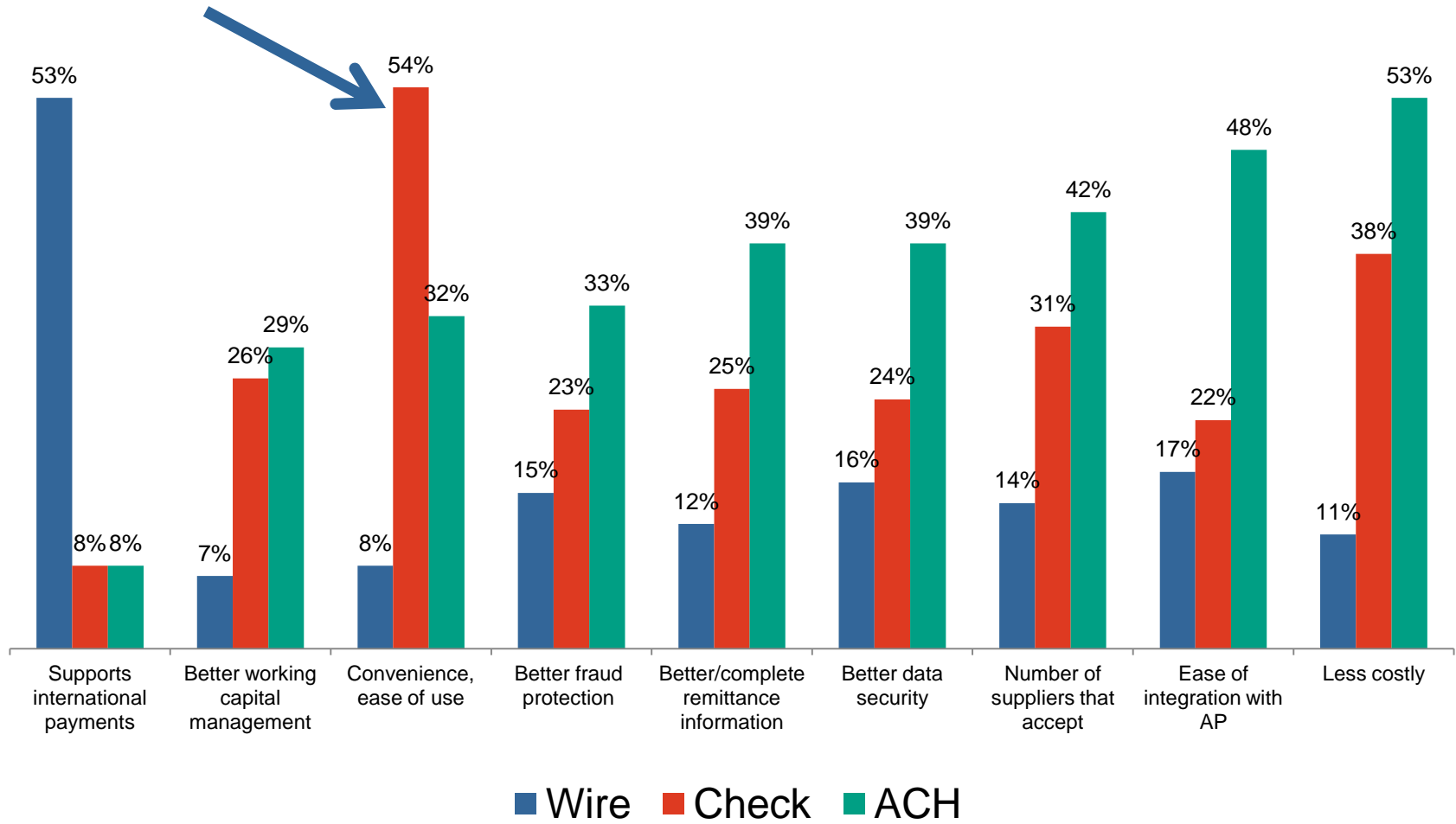
Interest in Using More  
Electronic Remittance



Survey asked degree of interest in greater use of e-payments & e-remittance

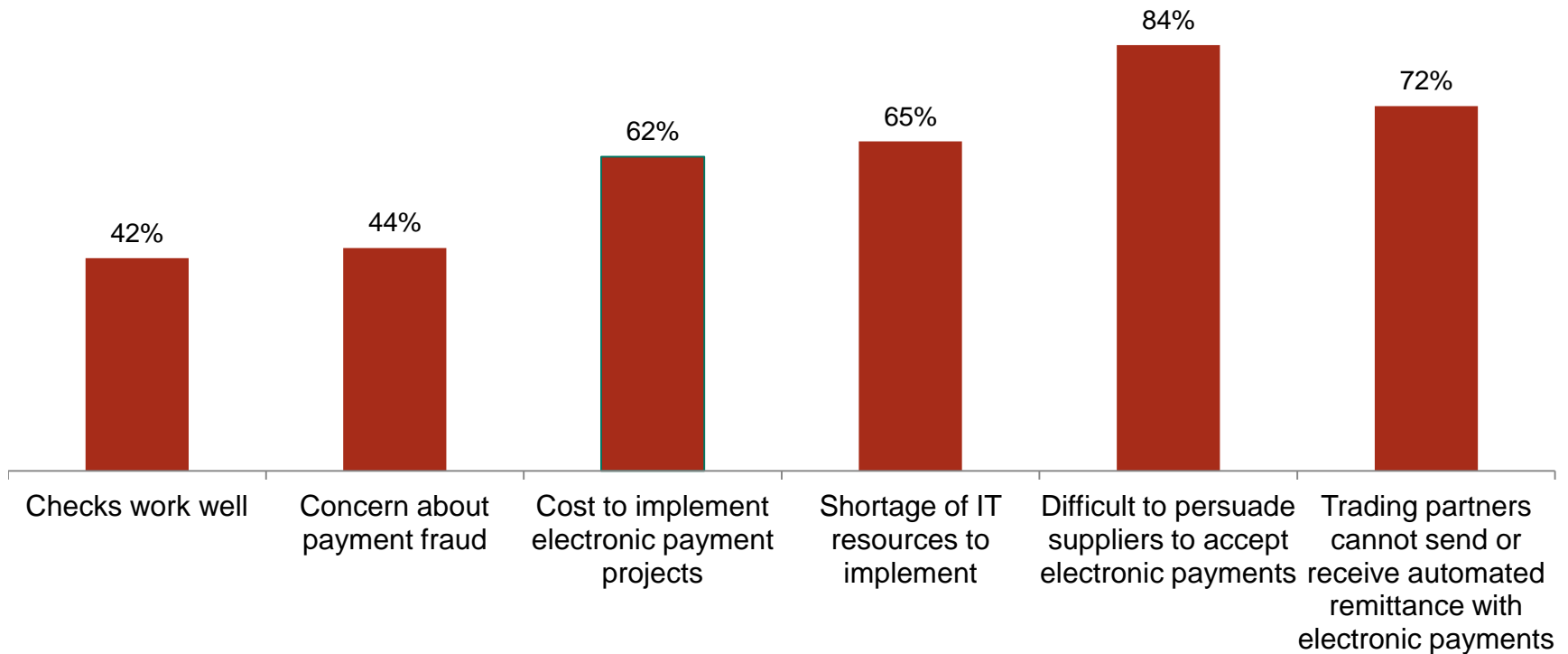
SOURCE: 2012 Remittance Coalition Survey

# BUT CHECKS ARE MORE CONVENIENT & EASIER TO USE THAN E-PAYMENTS



SOURCE: Payment Advisors Report, "Electronic Supplier Payments," 2011

# COMMON BARRIERS TO ADOPTING MORE B2B E-PAYMENTS & REMITTANCE



SOURCE: Electronic Payments – Trends in Accounts Payable, US Bank Winter 2010



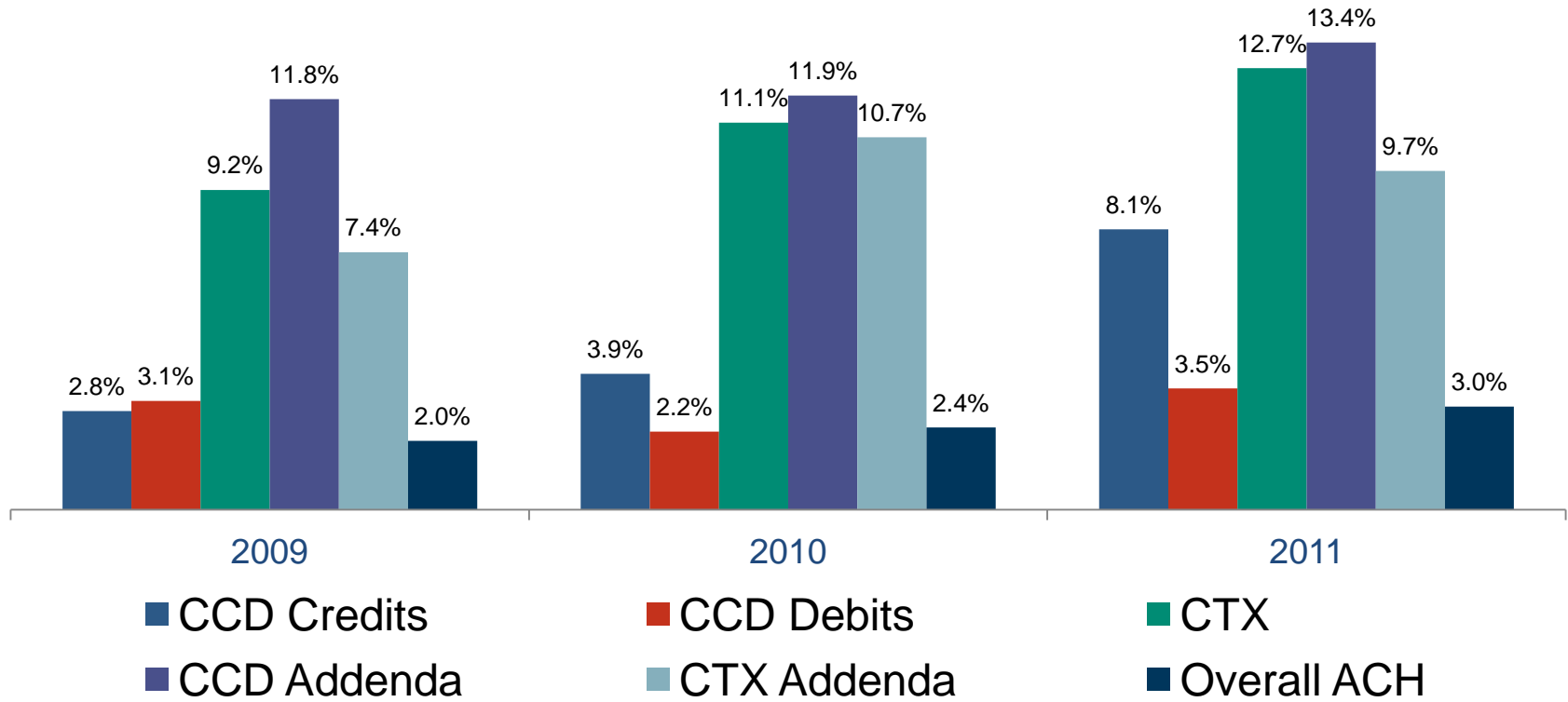
# THE POTENTIAL

Despite barriers,  
e-payments are  
growing,  
especially in ACH  
& cards



# ACH B2B GROWING FASTER THAN TOTAL ACH

ACH Growth by Select Category: 2009 - 2011



SOURCE: NACHA Statistics

# BUT REMITTANCE SENT WITH ONLY ~40% OF B2B ACH PAYMENTS

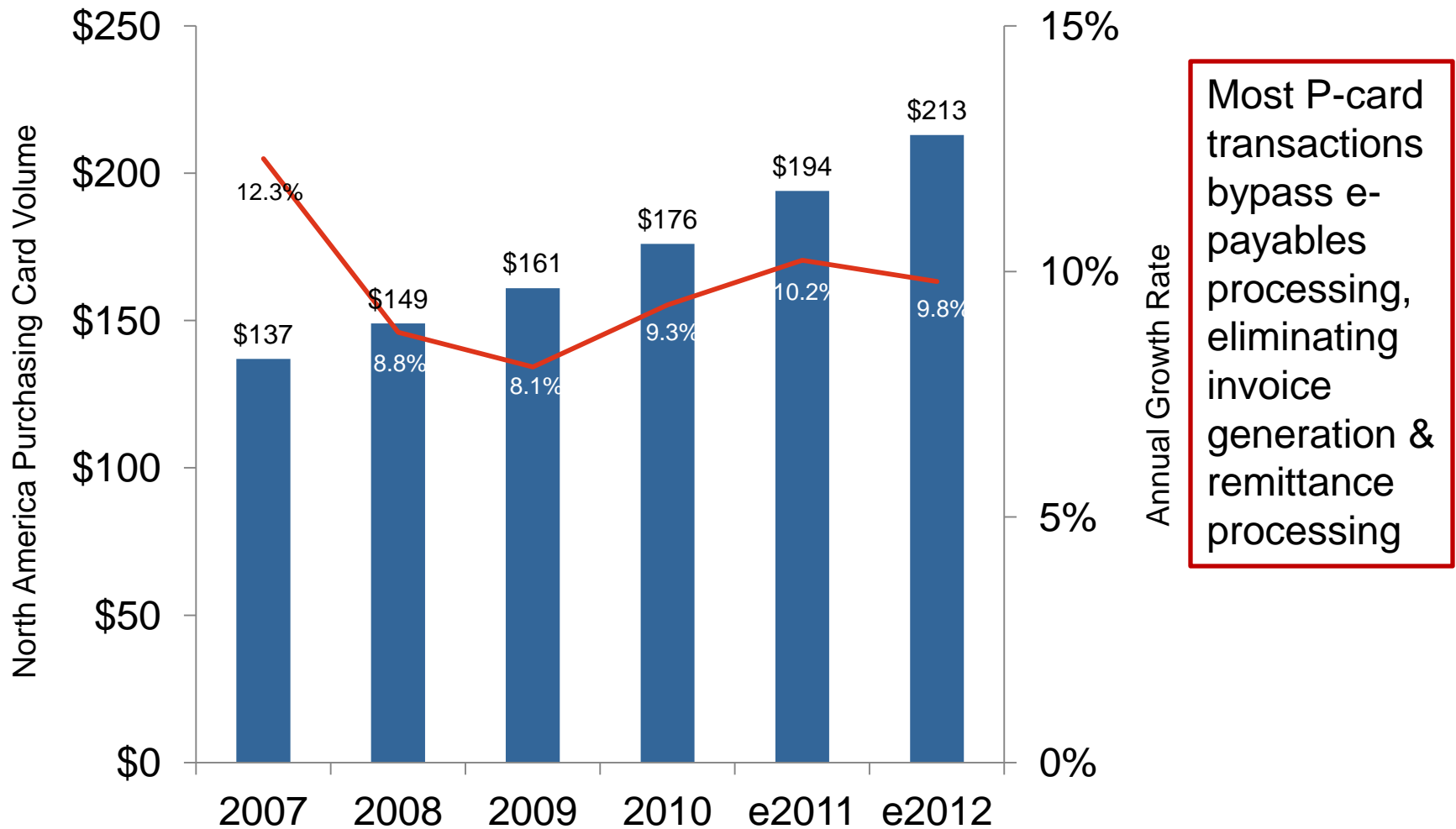
ACH payment can carry standard remittance data, but a lot of remittance information is still exchanged via email

Method for Exchanging Remittance	% Remittance Volume for ACH Sent	% Remittance Volume for ACH Received
Email	63%	62%
EDI/CTX transmission*	39%	42%
Mail	18%	22%
Fax	16%	22%
Customer website	6%	14%
3 <sup>rd</sup> Party website	6%	10%
Own Organization's website	6%	7%

\* EDI remittance data may flow with ACH CTX transmission or via private network

SOURCE: 2010 AFP Payments Survey

# P-CARD SPEND CONTINUES TO GROW



SOURCE: RPMG Purchasing Card Benchmark Survey 2010



# BUT RECONCILEMENT IS DIFFICULT FOR INVOICED B2B CARD PAYMENTS

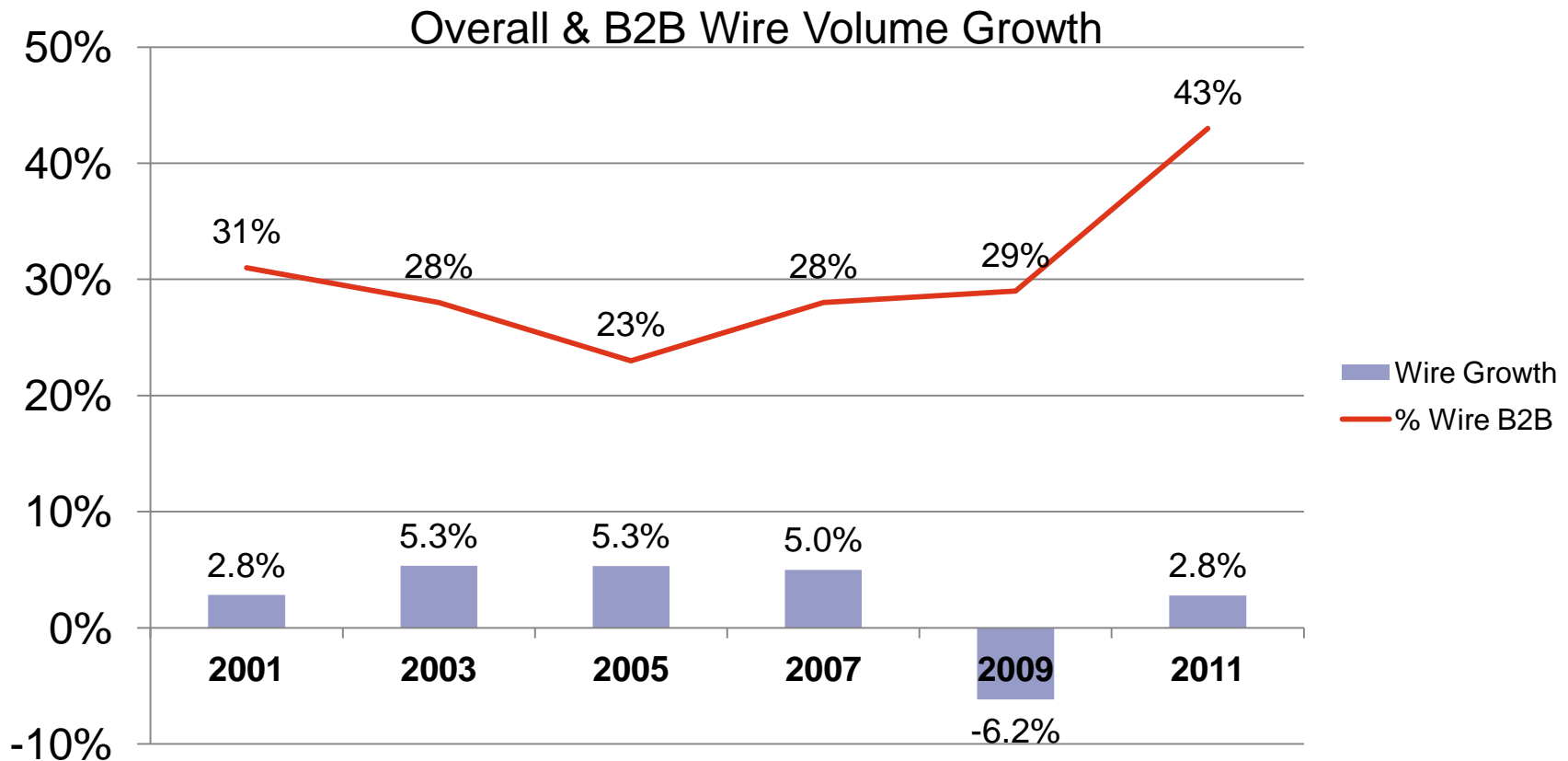
- ❖ For invoiced B2B card payments, only 7% of suppliers can close invoice upon receipt of card payment & achieve straight through processing (STP)
- ❖ Level II & III data (provided by seller) can be used to facilitate STP as it includes remittance-type data, e.g., customer code, sales tax amount, item description, item quantity, product code, freight amount, etc.
  - ❖ Sellers that supply Level II & III data also qualify for interchange discounts



SOURCE: Aite Group, "Way Beyond Plastic: The Status & Prognosis of Purchasing & Corporate Cards, 2012

# WIRE B2B PAYMENTS IS ALSO GROWING

Recent B2B usage of wires has increased



SOURCE: Federal Reserve Board of Governors & CHIPS volume data

# WILL ERI IMPLEMENTATION INCREASE WIRE B2B VOLUME?

- ❖ In late 2011, CHIPS & Fedwire Funds implemented format changes to carry extended remittance information (ERI)
- ❖ To carry ERI, Balance & Transaction Reporting Standard (BTRS) created (replaces BAI2 format), which enables banks to provide remittance data to their corporate customers (adoption of BTRS has just begun)
- ❖ ERI volume is small: 1st quarter 2012, Fedwire & CHIPS reported 8,808 ERI messages (out of ~55 million wire messages)



# CORPORATES WANT REMITTANCE DETAIL IN WIRES

Planned Wire Remittance Usage	Middle Market	Large Corporate
Percent rated 4 or 5 (1=low, 5=high)		
Likelihood of using remittance capability in wire origination	59.1%	61.0%
Likelihood of requesting customers to include remittance with wire	59.6%	64.8%
Percent responding "yes"		
Would remittance information capability cause you to move payment to wire system?	14.4%	8.5%
If yes, would you move at least 5% of electronic payment to wire?	77.5%	66.4%

SOURCE: 2011 Phoenix-Hecht Treasury Management Report: After the Financial Crisis: Resetting Your Bank Relations



# THE OPPORTUNITY

Making it easier to integrate processing of payments & remittance data should promote adoption of e-payments, improve efficiency & lower costs



# PAYMENTS ARE ONLY ONE PART OF A COMPLEX END TO END PROCESS

Back office:

- ✓ ERP
- ✓ PO initiation
- ✓ Invoice matching
- ✓ A/P



Buyer

Initiate Payment



Buyer's Bank

Purchase Order

Goods

Invoice

Make Payment & Provide Remittance Info



Supplier

Back office:

- ✓ ERP
- ✓ PO Receipt
- ✓ A/R
- ✓ Payment matching

Notify of Payment

Initiate Payment Clearing



Processor



Supplier's Bank

# AUTOMATING PAYMENT & REMITTANCE RECONCILIATION IMPROVES EFFICIENCY

- ❖ Remittance data is information shared between a seller & buyer that explains what a B2B payment is for
- ❖ Buyers send remittance data to sellers so they have a detailed accounting of the items / services paid, any deductions taken & discrepancies noted
- ❖ Sellers use remittance data to reconcile a payment against an accounts receivable entry



# BUT A LOT OF REMITTANCE DATA IS STILL EXCHANGED VIA PAPER

Channel/Method For Providing Remittance Details of 15.5 Billion Monthly Remittances Exchanged in the U.S.	# of Mthly Remittances
Sent by mail	2.6 billion
Provided through bank or third party lockbox resource	2.4 billion
Included with payment in an unstructured or free form format	1.7 billion
Provided at location such as online banking site or remitter's website that is accessed with a code or key	1.6 billion
Included with payment in a format supported by a standards group	1.5 billion
Sent by email	1.5 billion
Provided in EDI format directly to your company from your trading partner	1.2 billion
Provided through a value-added network in EDI format	1.1 billion
Provided by SWIFT	0.8 billion
Provided by telephone	0.5 billion
Sent by fax	0.4 billion
Provided by trading partner network that is supported by third party vendor	0.4 billion

SOURCE: 2012 NACHA Remittance Survey conducted by Aite



# COMMON PAIN POINTS WITH REMITTANCE PROCESSING



SOURCE: 2012 Remittance Coalition Survey



# MANY OPTIONS FOR EXCHANGING REMITTANCE

- ❖ Paper remittance information may be mailed, faxed, or emailed
- ❖ Remittance information in desktop software formats may be attached to an e-mail or sent electronically, e.g., Excel & PDF
- ❖ Remittance data may be exchanged electronically using a variety of formats:
  - ❖ EDI, EDIFACT, RosettaNet, BAI2/BTRS, OAGIS, proprietary
- ❖ Remittance data may be carried in or with an electronic payment
  - ❖ ACH addenda, wire remittance fields, ISO 20022 remittance fields, SWIFT message formats
- ❖ Remittance data may be stored & accessed via a website or in a repository managed by a buyer, seller, or 3rd party
- ❖ And, when remittance data is not provide or is incomplete, it may be obtained through a phone call



# THE NEED

Improving the efficiency  
of payments &  
remittance information  
processing requires  
industry-wide  
engagement &  
consensus solutions



# REMITTANCE COALITION DEFINED

**What it is** Diverse group of experts from an array of organizations all committed to promoting practical actions that help achieve straight-through-processing & electronification of B2B payments & information

- ❖ Formed in 2011
- ❖ 100 members & growing – *many of your organizations*

**Mission** Work together to solve problems related to processing remittance information associated with B2B payments in order to promote use of e-payments & straight through processing



# REMITTANCE COALITION DEFINED

- ❖ **How? Promote more unified standards, processes, & automated tools that support:**
  - ❖ B2B e-payments for all sizes & types of businesses
  - ❖ Originating & delivering e-remittance information that can be associated easily with the payment





# REMITTANCE COALITION ACTIVITIES

## 1. Business Practitioner Input

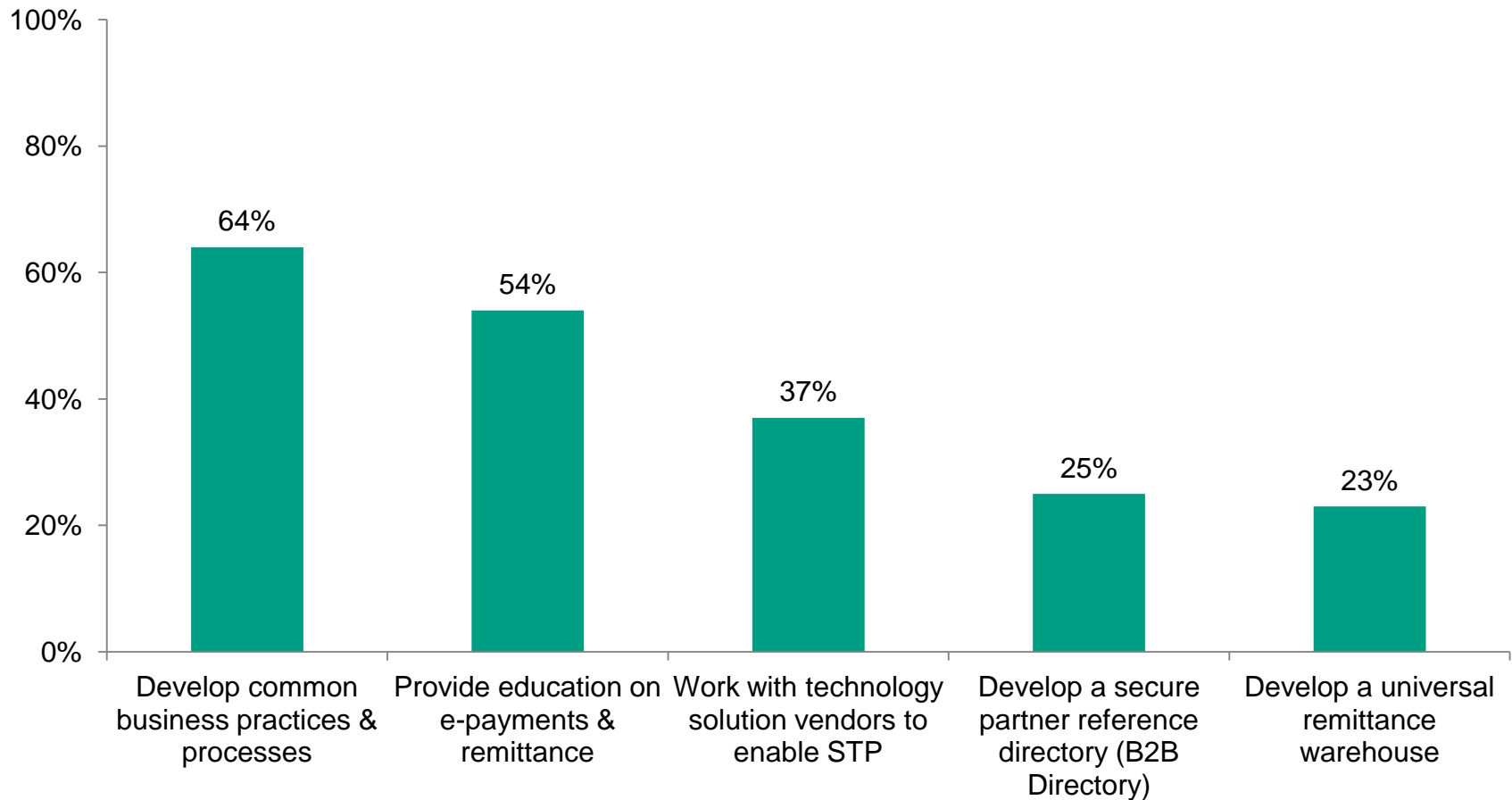
- a) Coalition conducted web-based survey of practitioner pain points & views on proposed solutions to remittance-related problems
- b) CRF conducted various surveys regarding discount codes, working with VCF to address large retailer use of discount codes
- c) Discussions in work groups & Coalition meetings & calls





# WHAT BUSINESS PRACTITIONERS WANT

## Preferred Solutions – Ranked 1 or 2



SOURCE: 2012 Remittance Coalition Survey

# REMITTANCE COALITION ACTIVITIES

## 2. Education & Outreach

- a) Present at industry conferences & publish articles in industry press to promote Coalition mission, vision & actions
- b) Share information among Coalition members about member-led initiatives
- c) Promote adoption of new solutions – e.g., extended remittance information in wire transfers (Fedwire & CHIPS); Balance & Transaction Reporting Standard (report by banks to corporate customers)
- d) Target education to small businesses – working with ASBDC



# REMITTANCE COALITION ACTIVITIES

## 3. Standards-Related Activities

- a) Develop glossary of remittance terms to promote education & common understanding - Led by X9
- b) Develop inventory existing e-remittance standards & their use – Led by X9
- c) Develop ISO 20022 extended remittance standard in XML for compatibility with ISO 20022 payment messages – Led by IFX & NACHA



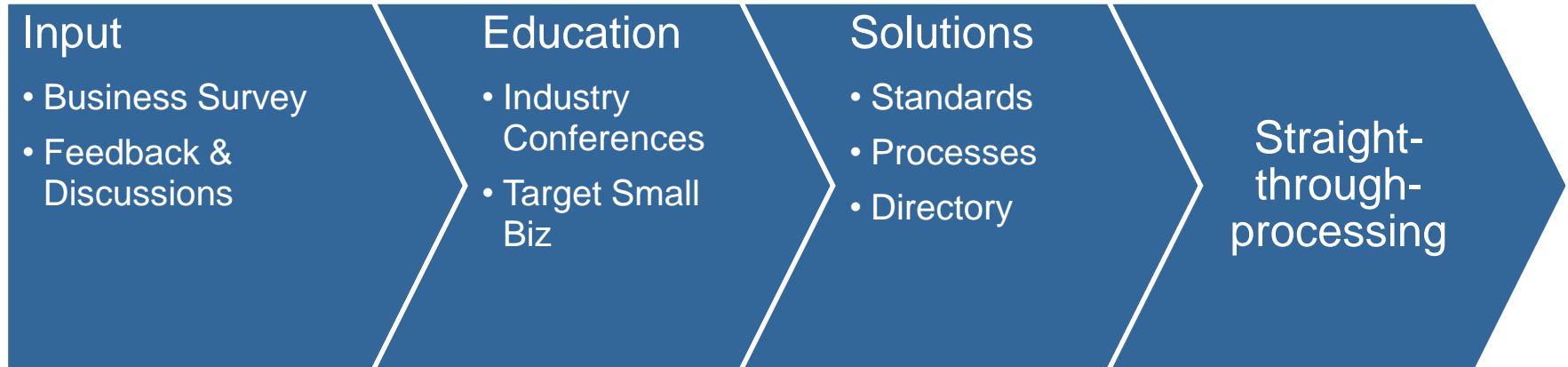
# REMITTANCE COALITION ACTIVITIES

## 4. Business Process Enhancements

- a) Develop simpler, standard practices for using discount & adjustment codes (EDI 820) & promote adoption
- b) Work with software vendors to adapt systems to enable more automated reconciliation of e-payments & e-remittance
- c) Facilitate discussions & potential development of open source, interoperable B2B biller directory to facilitate e-payments & e-remittance processing



# PUTTING IT ALL TOGETHER



Working together, the Remittance Coalition is bringing together the right set of stakeholders to address barriers to electronic payments & remittance exchange & reconciliation





# How COALITION MEMBERS STAY IN TOUCH

- ❖ Participate in work groups
- ❖ View progress on Federal Reserve Bank of Minneapolis website  
<http://www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm>
- ❖ Join LinkedIn group
- ❖ Regular telephone conference calls
- ❖ Occasional in-person meetings held at conferences



# IF YOU'D LIKE TO JOIN THE COALITION

To join the Remittance Coalition,  
send an email to:

[Deb.hjortland@mpls.frb.org](mailto:Deb.hjortland@mpls.frb.org)

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



# QUESTIONS?



# CONTACT INFORMATION

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# FOR MORE INFORMATION

- **For information about the Remittance Coalition**
  - <http://www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm>
- **For information about standards initiatives relevant to integrating electronic payments and remittance data**
  - <https://www.x9.org/btrs>
  - [http://www.frbervices.org/eventseducation/education/fedwire\\_chips\\_swift\\_format\\_info.html](http://www.frbervices.org/eventseducation/education/fedwire_chips_swift_format_info.html)