



On the Path to Straight through Processing

Jessica Butler, Attain Consulting Group

Bill Hutchins, Lowes

**Claudia Swendseid, Federal Reserve Bank of
Minneapolis**

Who We Are – Jessica Butler



About the speaker:

Jessica Butler
Principal

- An expert & thought leader in deduction management & negotiation
- Leads a group of companies to develop deduction best practices through Compliance Advisory Board.
- Speaks frequently at conferences & seminars on deduction management

About Attain Consulting:

- A deduction & chargeback management advisory firm providing practical, experience-based solutions to help companies “take control of deductions”

Who We Are – Bill Hutchins



About the speaker:

Bill Hutchins
Sr. Accounting Manager,
Corporate Payables

- 18 years of experience in EDI, Payables, Recovery Audits, Supply Chain Financing & Project Management.
- Joined the Remittance Coalition to make payment automation simpler while reducing the risks introduced by systemic processing.
- Bill holds a M.S. in Accounting & is a licensed CPA in North Carolina

About Lowes:

- Founded in 1946, Lowe's has grown from a small hardware store to the second-largest home improvement retailer worldwide.
- Fiscal year 2011 - sales of \$50.2 B & net earnings of \$1.8 B. Has recorded profits every year since becoming public in 1961.
- Lowes employs 248,000 at 1,745 stores in U.S., Canada & Mexico; serves ~15 M customers a week.

Who We Are – Claudia Swendseid



About the speaker:

Claudia Swendseid
Senior Vice President

- An expert & thought leader in the payments industry, especially on B2B payments & fraud.
- Oversees payments & support departments at the Minneapolis Fed; leads Federal Reserve industry relations directed at business end users.

About the Federal Reserve:

- Central Bank of U.S.
 - Sets & executes monetary policy
 - Seeks to ensure safe & secure financial institutions & markets
 - Provides payment services to financial institutions & U.S. government
- Mission in payments is to foster integrity, efficiency, & accessibility of U.S. payment & settlement systems in support of financial stability & economic growth.

Disclaimer

The opinions expressed are those of the individual presenters & not those of the organizations for which they work.

Agenda



1. About the Remittance Coalition (RC)
2. Barriers to Straight Through Processing (STP)
 - A. Lowe's Case Study
3. RC Initiatives To Advance Positive Change
 - A. More Standard Business Practices & Processes
 - B. Addressing Technology & Standards Issues
4. Getting Involved
5. Appendix

Topic 1

About the Remittance Coalition

Remittance Coalition

Mission

- To address problems related to processing remittance information associated with B2B payments in order to increase the use of electronic payments, improve B2B payment efficiency & achieve straight through processing

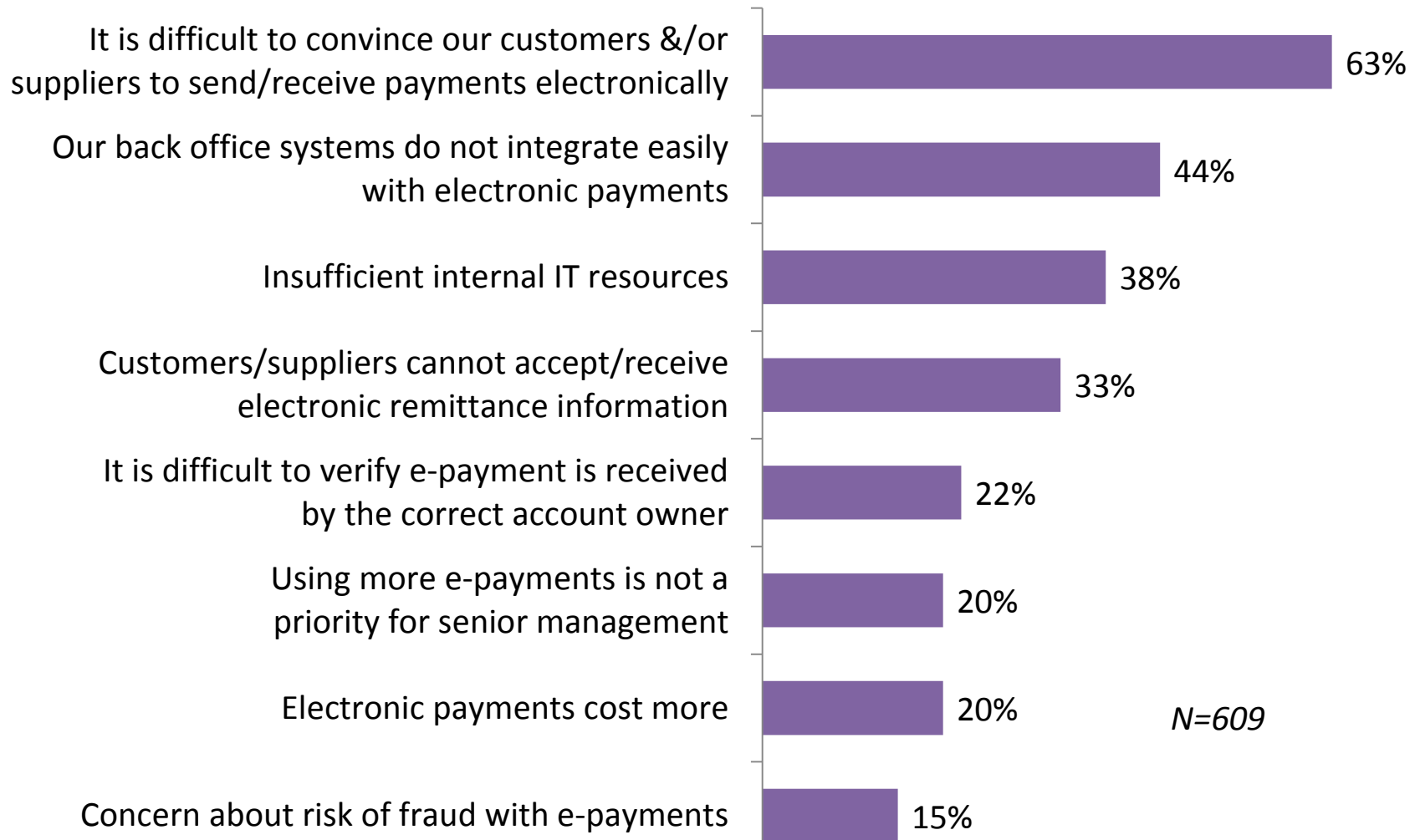
Organization

- Group of individuals from industry associations (including IFO), small & large businesses, financial institutions, vendor & service providers, standard development organizations & others
 - Formed in 2011
 - 240+ members & growing
 - No dues or criteria for joining other than a willingness to work together to advance the mission

Topic 2

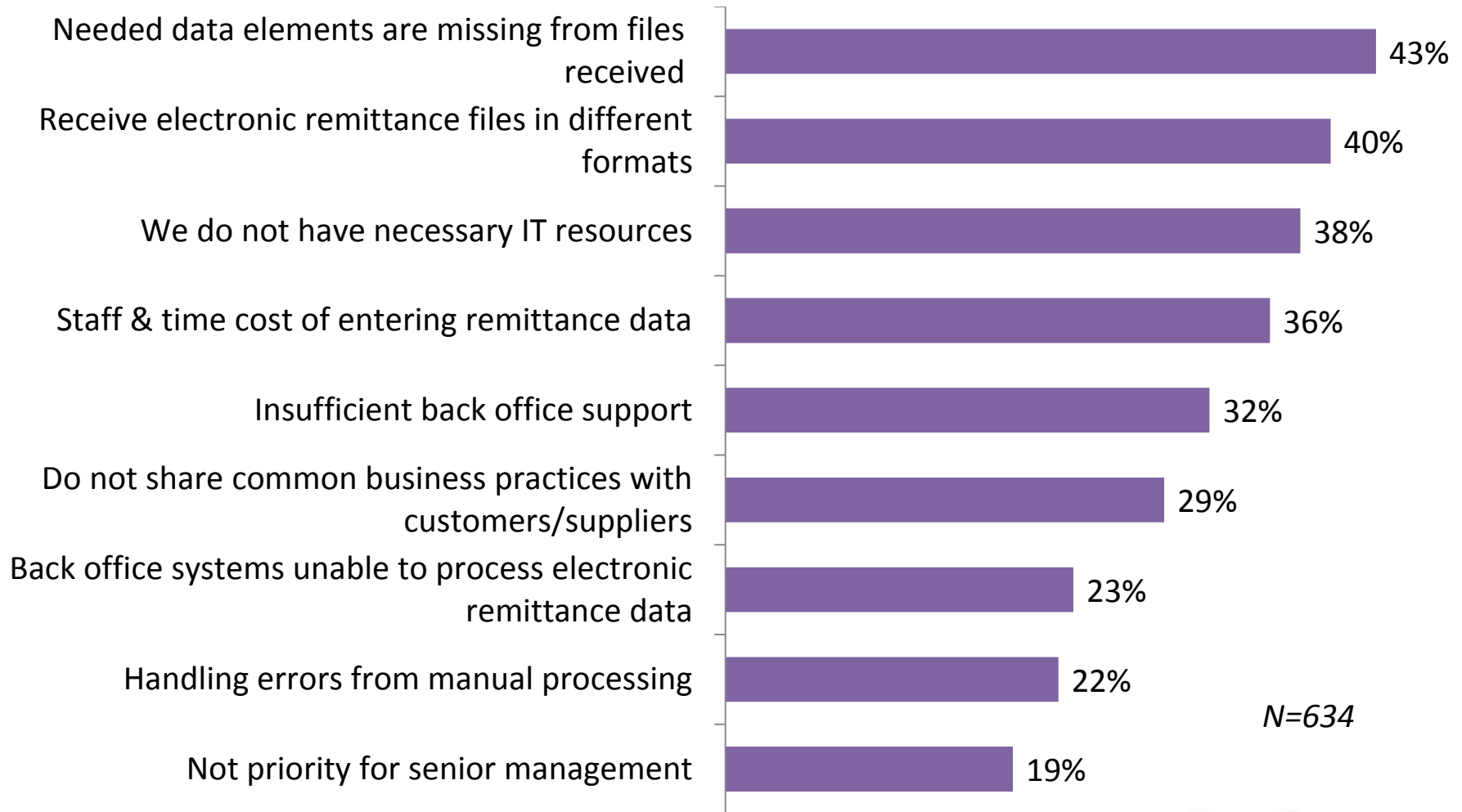
Barriers to STP: Remittance Coalition Survey

Barriers to Using More E-Payments



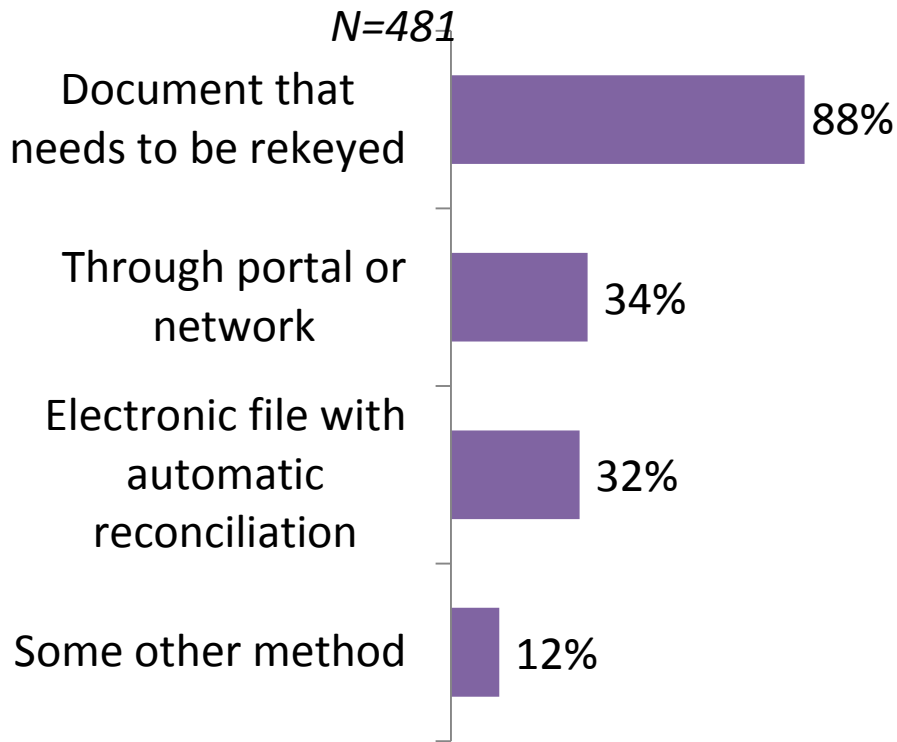
Source: 2012 Remittance Coalition Survey

Remittance Processing Pain Points

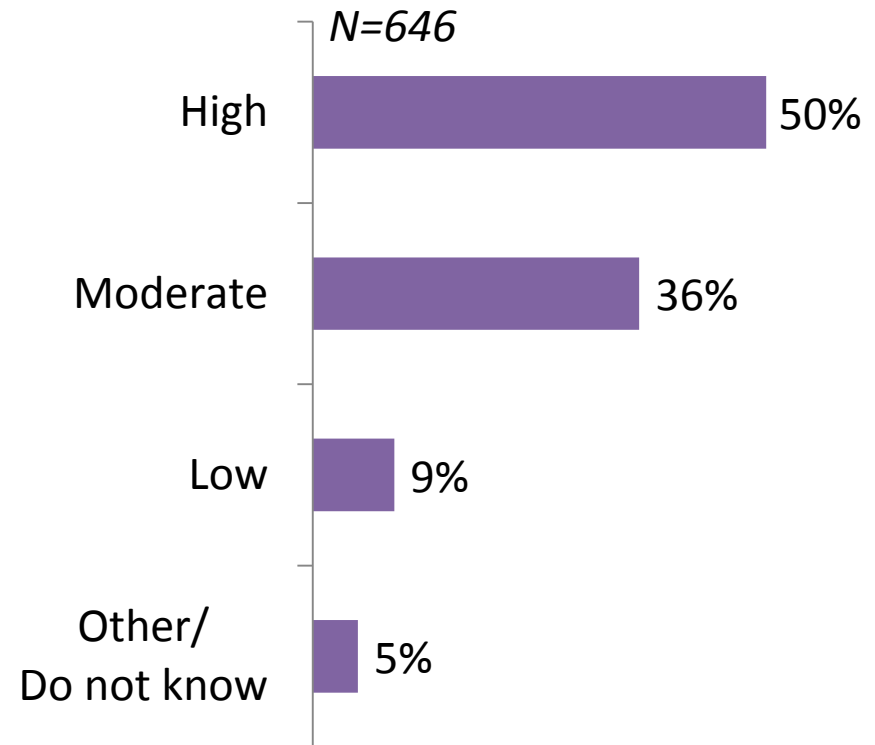


Remittance Exchange Methods Vs. Preferences

Methods of Receiving Remittance Data Directly from Trading Partner



Interest in Exchange & Reconciliation of More E-Remittance Data



Source: 2012 Remittance Coalition Survey

Audience Discussion

1. Which of these “pain points” do you face?
2. Do remittance problems decrease your use of electronic payments?
3. Do you encourage your customers or suppliers to send e-remittance?

Case Study: Lowe's Vendor Onboarding



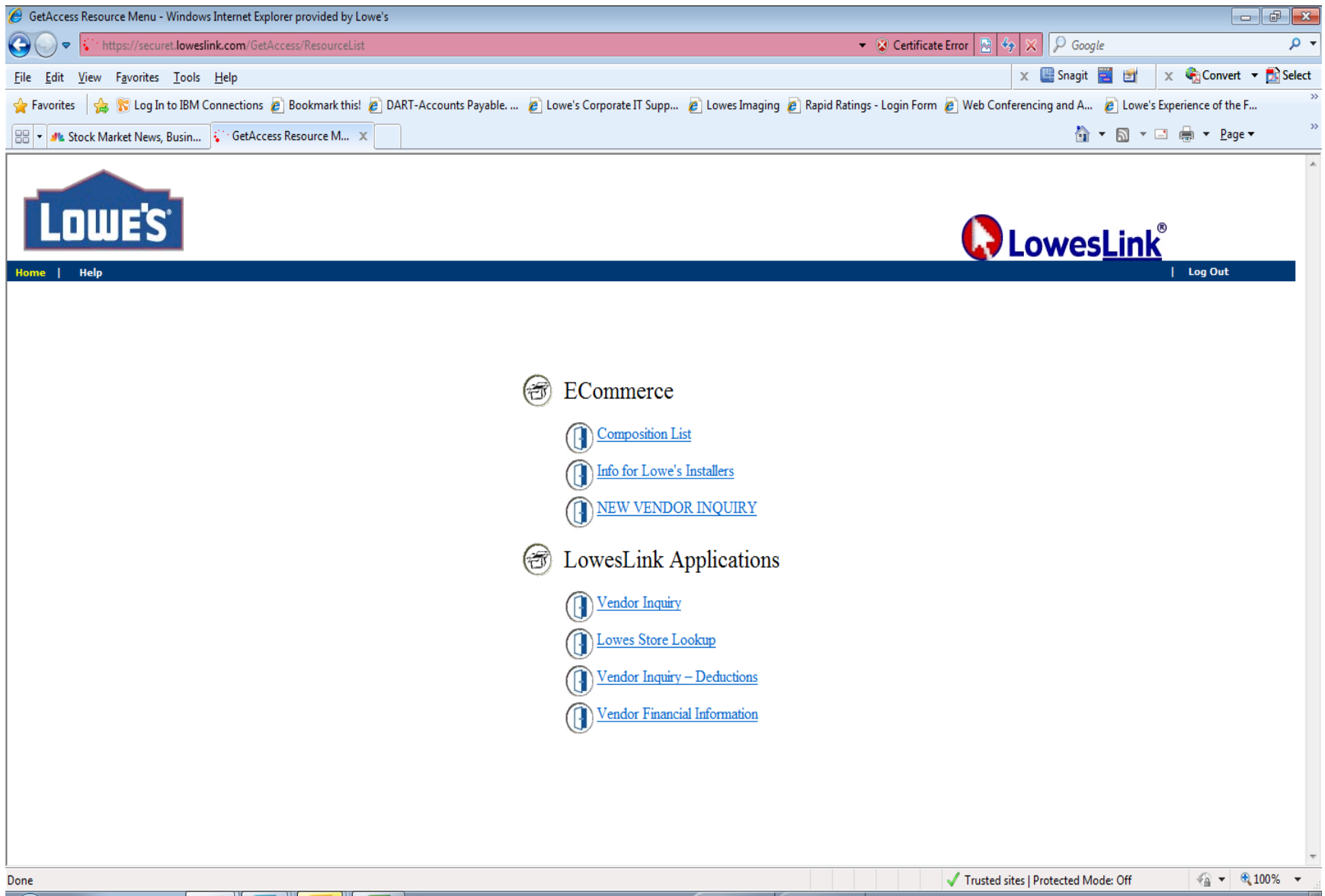
	1 %	
	Dollar %	Pay Co.
1	93.0%	62.5%
2	92.9%	62.4%
3	93.9%	62.5%
4	94.1%	62.2%
5	93.4%	61.9%
6	94.3%	62.9%
7	94.8%	62.2%
8	94.7%	62.5%
9	94.0%	63.0%
10	94.3%	61.7%
11	94.7%	62.9%
12	94.5%	61.4%
1	95.1%	61.6%
4	94.8%	62.5%
	95.3%	6.7
	95.0%	

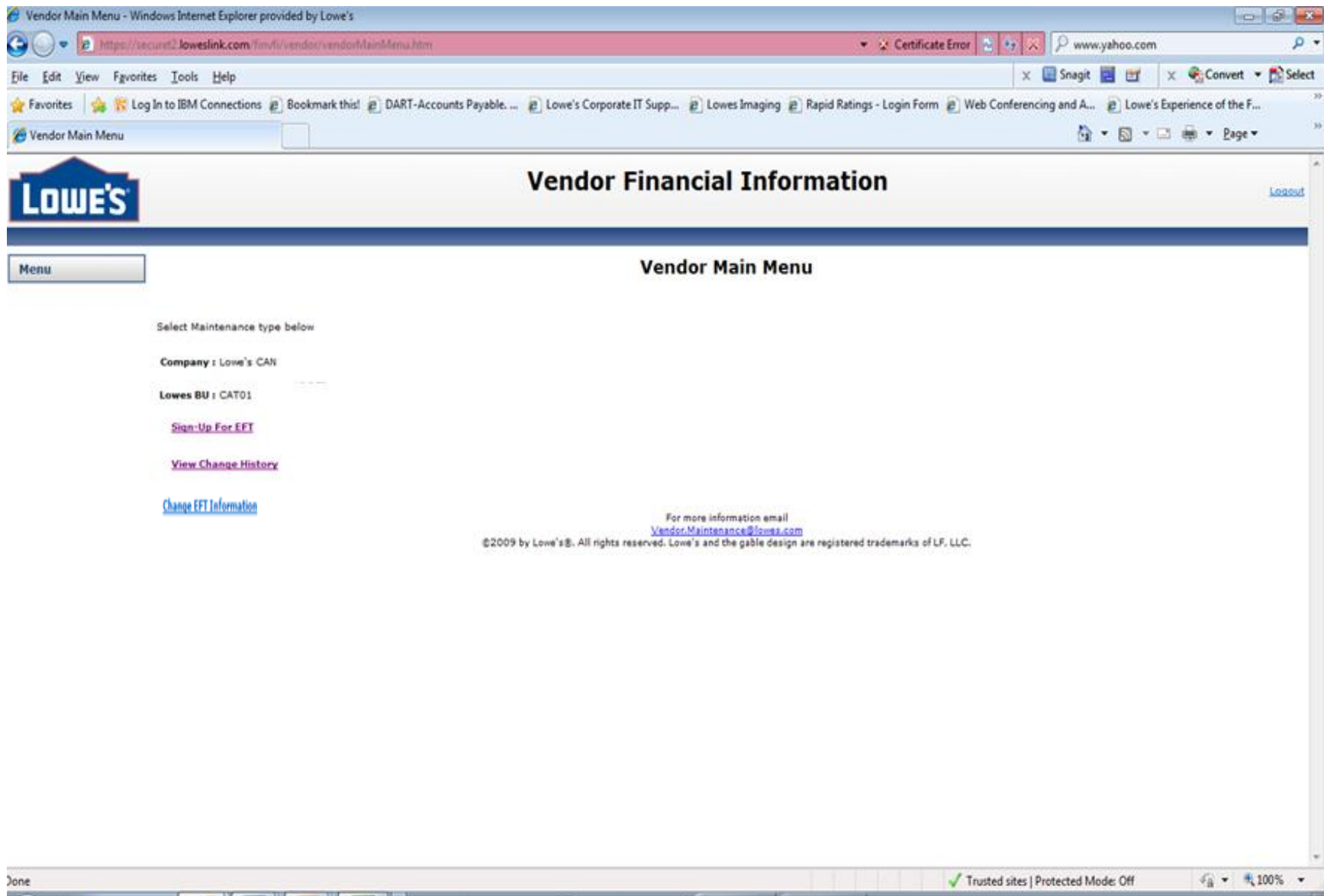


CONFIDENTIAL

MASTER STANDARD
BUYING AGREEMENT

ETS version





Change EFT - Windows Internet Explorer provided by Lowe's

https://secure2.loweslink.com/finvfi/vendor/vendorChangeEft.html

Certificate Error

www.yahoo.com

File Edit View Favorites Tools Help

Snagit Convert Select

Favorites Log In to IBM Connections Bookmark this! DART-Accounts Payable... Lowe's Corporate IT Supp... Lowes Imaging Rapid Ratings - Login Form Web Conferencing and A... Lowe's Experience of the F...

Change EFT

Page

Vendor Financial Information

Logout

Menu

Main Menu

*Check Number 1 : 1234567890

*Check Number 2 : 9876543210

(Please enter Tax ID without any hyphens)

*Tax ID : 551234567

*Current Routing Number : 123456789

*New Routing Number : 123456777

*New Account Number : 45777881234

*Bank Account Owner Name : Enter Account Owner

(Check the box if the account is owned by a different company)

Account Owned By Third Party : ☐

Remittance Capability type : CCD+/DZC(Separate)

EDI Qualifier : 01 EDI ID : AB1CD1D2EEEE

*Contact Name : Enter Your Name

*Contact Job Title : Enter Your Title

*Contact Email : Enter Your Email

*Contact Phone : Enter Phone (999-999-9999)

Extension :

*Reason For Change : Other

Change Reason Comments : Enter reason for change/commnets

*Check Amount 1 : 12345678.00

*Check Amount 2 : 100.01

*Current Account Number : 12345678901234567

*Retype Routing Number : 123456777

*Retype Account Number : 45777881234

*Bank Name : Enter Bank Name

Add Attachment

EFT Change Form

Cancel

Submit

Trusted sites | Protected Mode: Off

100%

Accounts Payable Lookup - Vendor Inquiry: Check Summary - Windows Internet Explorer provided by Lowe's

https://secure.loweslink.com/aplweb/lin?action=checkSearch

File Edit View Favorites Tools Help

Accounts Payable Lookup - Vendor Inquiry: Check Su...

Menu

- Invoice Search
- Check Summary
- Manual Inquiry

Results Information

Invoice Total: \$175,647,848.90
Check Total: \$175,647,848.90

Check Summary

There are new processing requirements for electronic vendor payments that are being sent to a financial institution outside of the United States. If our payments to you are being forwarded from a U.S. financial institution to a financial institution in another country, please advise via the IAT Compliance Mailbox, IATCompliance@lowes.com

Complete the form below and click Search to display a list of all checks that matched the criteria.
* Indicates required fields

* Company: Lowe's-US
* Vendor:
* Time Span (days): 30

Search Download

Company: Lowe's-US

Showing 1 - 15 of 20
Page 1 of 2
Jump to page: 1

Remit To Vendor	Currency	Check Number	Check Date	Paid Amount	Invoice Amount	Invoice Count
	USD		Oct 30, 2012	\$3,163,941.48	\$3,163,941.48	444
	USD		Oct 31, 2012	\$199,598.40	\$199,598.40	80
	USD		Nov 1, 2012	\$6,773,474.93	\$6,773,474.93	1,724
	USD		Nov 4, 2012	\$5,550,595.87	\$5,550,595.87	1,418
	USD		Nov 5, 2012	\$11,197,171.10	\$11,197,171.10	1,083
	USD		Nov 6, 2012	\$10,385,678.28	\$10,385,678.28	1,472
	USD		Nov 7, 2012	\$459,683.15	\$459,683.15	588
	USD		Nov 11, 2012	\$11,117,505.24	\$11,117,505.24	2,621
	USD		Nov 12, 2012	\$12,150,662.97	\$12,150,662.97	2,698
	USD		Nov 13, 2012	\$6,723,502.39	\$6,723,502.39	607
	USD		Nov 14, 2012	\$292,359.44	\$292,359.44	1,527
	USD		Nov 15, 2012	\$18,443,127.43	\$18,443,127.43	2,334
	USD		Nov 18, 2012	\$8,266,139.24	\$8,266,139.24	1,424
	USD		Nov 19, 2012	\$9,321,582.73	\$9,321,582.73	1,216
14331	USD		Nov 20, 2012	\$14,120,897.64	\$14,120,897.64	1,463

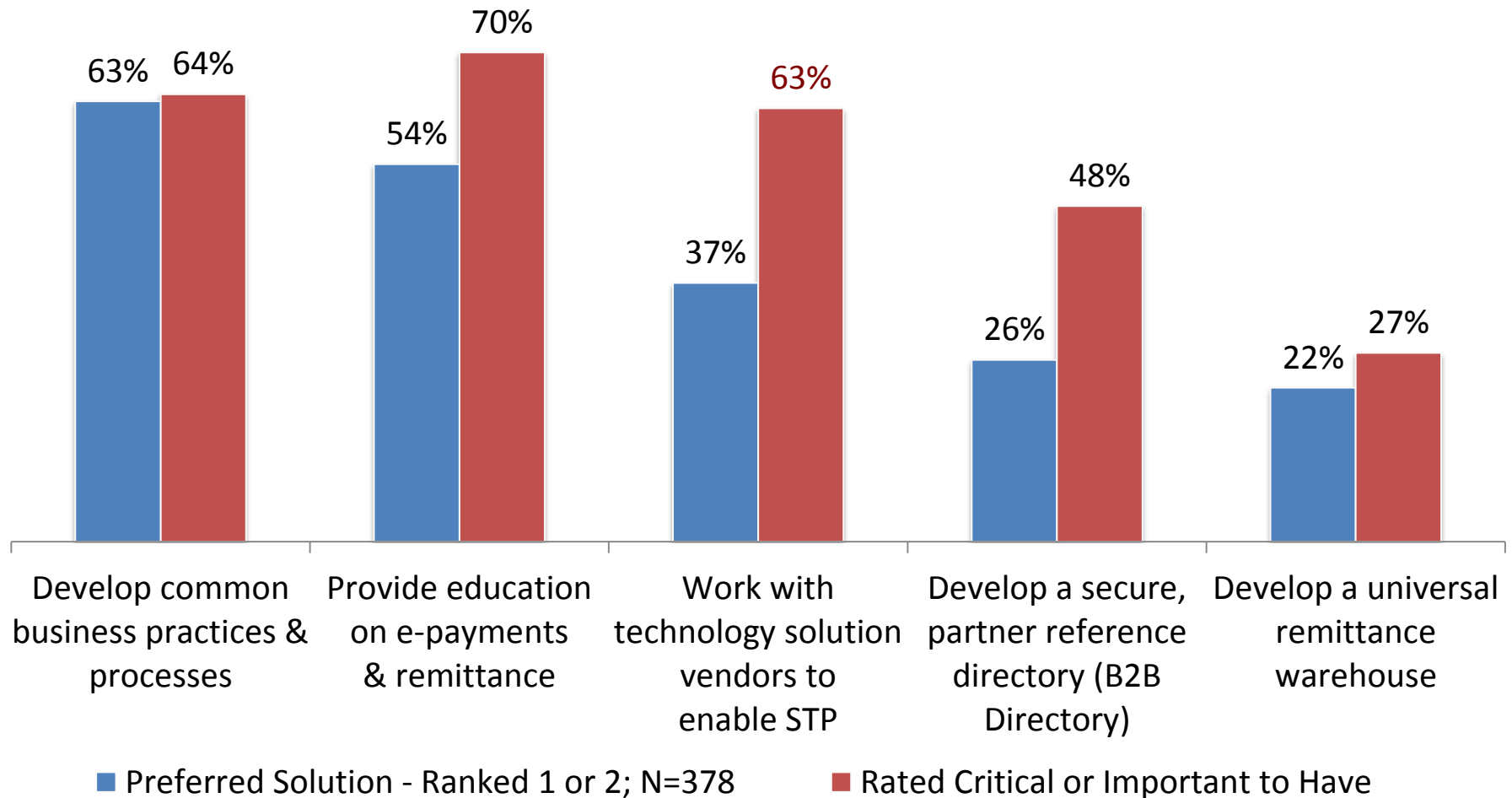
Audience Discussion

1. Do you have a formal onboarding process; is it manual or automated?
2. What has proven to work?
3. What are the biggest challenges?

Topic 3

Remittance Coalition Initiatives To Advance Positive Change

Solutions Practitioners Want



Source: 2012 Remittance Coalition Survey

Topic 3 A

More Standard Business Practices & Processes – Adjustment Codes

Addressing Deduction Code Problem


- Over 600 codes defined in X12 standard “426 adjustment reason code”
 - Used in various EDI transactions (e.g., 820 Payment & Remittance Advice, 812 Credit/Debit Adjustment)
 - Used in other remittance exchange (e.g., email remittance)
- Unclear definitions & descriptions lead to:
 - Inconsistent usage across business entities
 - Must manually process remittance data or customize software to ensure compatibility with trading partners



Case in Point: Advertising Codes

- Multiple codes with similar definitions are confusing & increase errors:
 - At least 6 adjustment reason codes concern advertising allowance – which one should be used? Are all 6 codes needed?

Current 426 Codes Related to Advertising	
56	Advertising Allowance Taken
71	Advertising Allowance
79	Cooperative Advertising
AV	Advertising Contribution
M1	Advertising Unidentified
MA	Marketing Allowance



**Can we
consolidate
these into one
advertising
code, &
simplify the
process?**

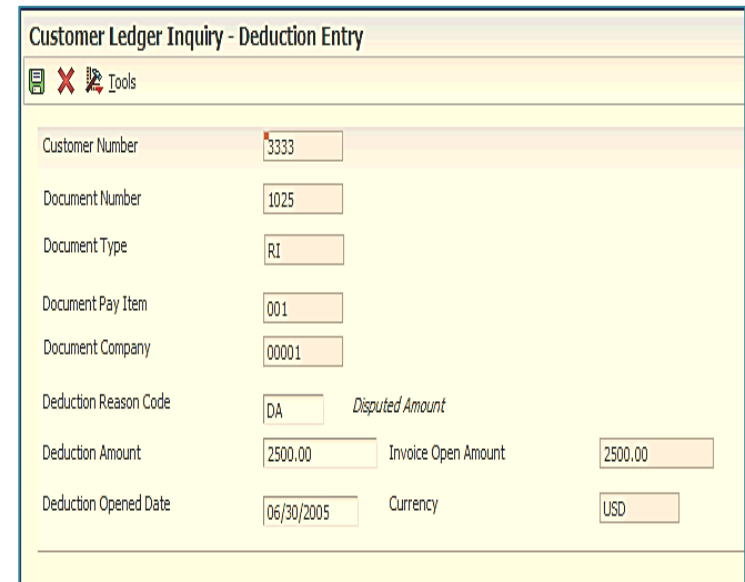
Remittance Coalition Adjustment Code Project

- Work group developed subset of EDI adjustment codes to meet needs of “most” businesses
- Identified ~70 codes as most essential
 - Proposed codes based on existing X12 EDI “426” codes & included codes in X12 STP 820
 - Defined all of the “short list” codes along with higher level categories for roll up
- Subset of ~70 co-exists with & maps to full X12 EDI “426” codes
- Codes may be carried in X12 messages, other e-formats or included in other remittance information exchanges



Remittance Coalition Adjustment Code Project: Next Steps

1. Subset of codes is final
2. Publish jointly as technical report by X12, the ANSI accredited standards organization for electronic data interchange (EDI), & X9, the ANSI accredited standards organization for financial services (underway)
3. Encourage software vendors to support simplified code list
4. Educate business practitioners about the simplified code list & encourage adoption



Customer Ledger Inquiry - Deduction Entry			
Customer Number	3333		
Document Number	1025		
Document Type	RI		
Document Pay Item	001		
Document Company	00001		
Deduction Reason Code	DA	Disputed Amount	
Deduction Amount	2500.00	Invoice Open Amount	2500.00
Deduction Opened Date	06/30/2005	Currency	USD

Audience Discussion

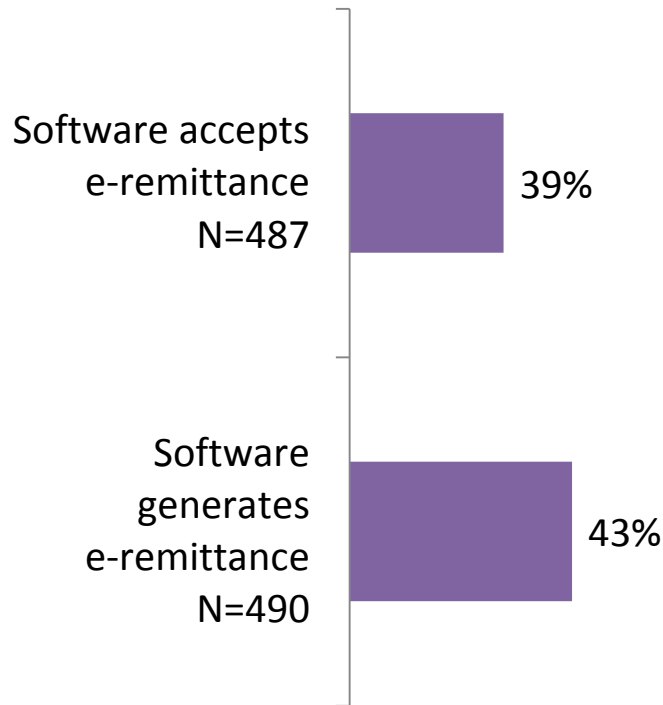
1. Will fewer & more standard adjustment codes improve your processing of remittance?
2. What other areas related to B2B payments & remittance processing need more standard practices & processes?

Topic 3 B

Technology & Standards

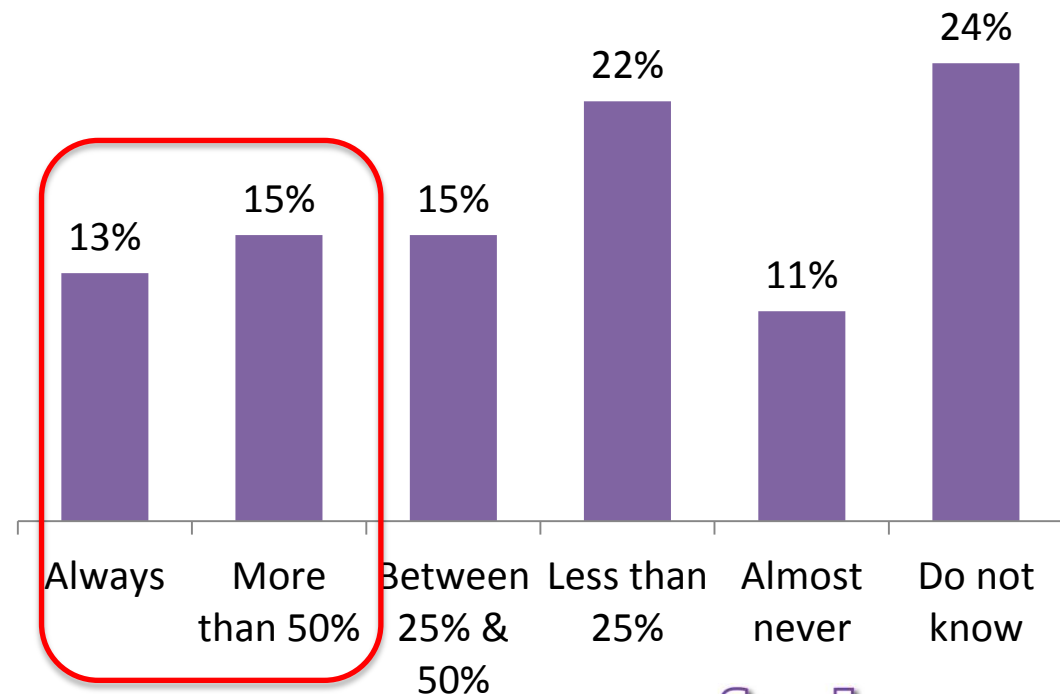
Current Technology Solutions Do Not Meet Business Needs

Current Software Capability



How Often Is Manual Intervention Required to Correct E-Remittance Data Received?

N=486



The Institute of
Financial Operations

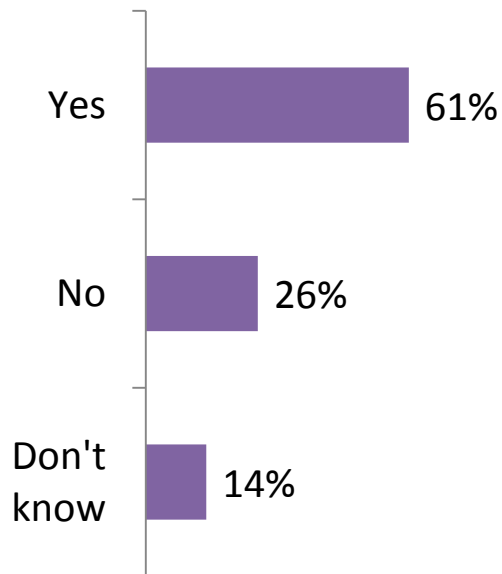
fusion
el Caribe 2013

Technology Solutions Are Needed

Does Lack of Automated Solutions Make it Harder to Use More E-Payments &

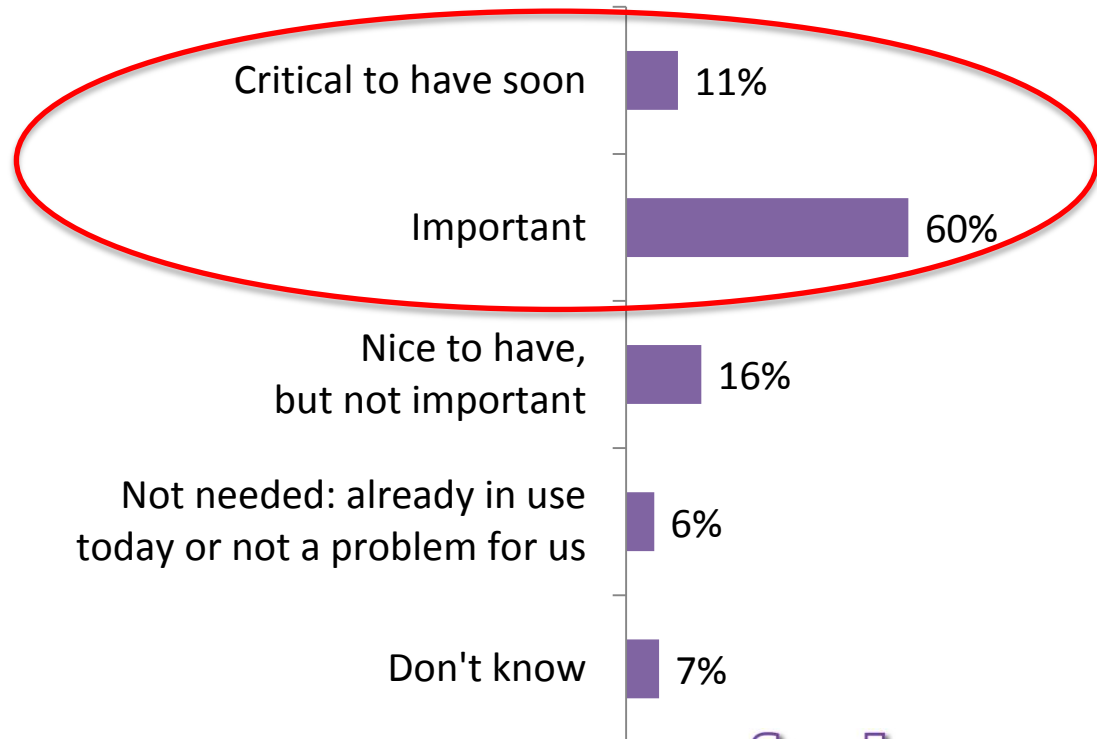
E-Remittances?

N=148



Importance of Technology to Exchange More E-Payments & E-Remittances

N=485



Working to Improve Technology

- Developed glossary of remittance terms to promote education & common understanding
- Developing inventory of existing e-remittance standards & their uses
- Tracking standards development efforts—e.g., development of ISO 20022 extended remittance standard for compatibility with ISO 20022 payment messages



Technology Vendor Outreach

- Engage vendors in Coalition initiatives
- Meet with vendors to promote adoption of new solutions—e.g., 2013 CRF Conference
- Work with vendors (e.g., Intuit) to encourage adoption of common current & new remittance formats



Investigating a B2B Directory

- Formed a discussion group to understand requirements of a B2B directory & assess demand
 - Continuing to gather ideas/input for B2B directory requirements
 - Determining level of interest to develop a detailed “Proof of Concept” approach



Audience Discussion

1. Are improved technology solutions needed to address your remittance processing pain points?
2. What solution improvements are your highest priority?

Case Study: E-Payments Security

Gone in 60 Seconds

ACH Security: Controls and Prevention



NACHA defines Account Validation Service :

A service to validate various elements of the account information received from a consumer or business, and the ability of that account to receive electronic payments.

Five primary methods to validate account information:

Micro-deposit or Trial-deposit Method (Penny Test)

Test Account by making a low value payment

Instant Account Validation Method: The customer provides online banking credentials and the organization uses these credentials to log into the account and validate the customer's ownership of the bank account.

Check Verification Services: Using a service or other proprietary solutions to validate the accuracy of the account information on check

ACH Prenote: A Prenotification Entry is defined in the NACHA Operating Rules as a non-monetary Entry initiated by an Originator to a Receiving Depository Financial Institution (RDFI) prior to the initiation of the first credit or debit entry to a Receiver's account with the RDFI.

Debit Card Authorization Method: A debit card "authorization only" request is sent using the card number provided by the consumer to confirm that the Demand Deposit Accounts (DDA) account number provided by the consumer is attached to the card.

PATCO CONSTRUCTION
COMPANY, INC., vs.
PEOPLE'S UNITED BANK,
d/b/a Ocean Bank

- Have you talked to your bank?
- What controls do you utilize during setup, changes, payment?
- Are you relying on your bank?

<http://www.ca1.uscourts.gov/pdf/opinions/11-2031P-01A.pdf>
http://www.ffiec.gov/pdf/authentication_guidance.pdf

Federal Financial Institutions Examination Council ("FFIEC"),

Authentication methodologies involve three basic "factors":

1. Something the user **knows** (e.g., password, personal identification number)
2. Something the user **has** (e.g., ATM card, smart card)
3. Something the user **is** (e.g., biometric characteristic, such as a finger print).

Jack Henry & Associates –"Premium Package"

1. User IDs and Passwords:
2. Invisible Device Authentication (cookie)
3. Risk Profiling: Location/IP, time & frequency of activity, typical activity-size, type, frequency of payment orders
4. Challenge Questions:
5. Dollar Amount Rule: Subscription to the eFraud Network- FI's report IP addresses or other discrete identifying characteristics identified with instances of fraud
6. Security Measures Bank Chose Not to Implement
Out-of-Band Authentication:- Voice, Email
User-Selected Picture
Tokens

Monitoring of Risk-Scoring Reports-bank employees did not review

Potential Payor Safeguards

Paper Based

1. Something the user **knows** - Payment Amount, Tax ID, PO#, Item #, Insurance Policy#?
2. Something the user **has** – email address at vendors domain, Physical Mailing Address?
3. Physical Check Copy/Bank Letter?
4. Risk Profiling: Avg Payment amount, Annual Payment amount, Type of vendor, frequency of payments
5. Challenge Questions
6. Physical Addresses – Check it on Google maps?
7. Out-of-Band Authentication:- Voice, Email Confirm/Notify using vendor Master Data instead of requestor supplied information
8. HIFCA profile - High Intensity Financial Crime Area <http://www.fincen.gov/>
9. Dual reviews

On-line Process

1. User IDs and Passwords:
2. Invisible Device Authentication (cookie)
3. Risk Profiling: Location/IP, time & frequency of activity,
4. Challenge Questions
5. Dollar Amount Rule: Subscription to the eFraud Network- FI to report IP addresses or other discrete identifying characteristics identified with instances of fraud
6. Out-of-Band Authentication:- Voice, Email
User-Selected Picture
Tokens
7. Internal reporting – ABA in same location area as vendor?
8. System Access & activity reviews
9. ACH Blocks/Filters, Encryption
10. UPIC: Unique bank account identifier issued by financial institutions that allows organizations to receive electronic payments without divulging confidential banking information

Topic 4

***Last But Not Least:
Getting Involved!***

Why Get Involved with the RC?

1. You can work with other practitioners & stakeholders on practical projects that will lead to improvements in the processing & reconciling of B2B payments & remittance information.
2. You can help set the Coalition's priorities—i.e., projects that will be most effective to address the key pain points you experience.

Join the Remittance Coalition!

To join the Remittance Coalition, send an email to:

remittance.coalition.smb@mpls.frb.org

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

How You Can Stay in Touch

- Participate in Coalition work groups
- Visit the Federal Reserve Bank of Minneapolis website on the Coalition
www.minneapolisfed.org/about/whatwedo/remittancecoalition.cfm
- Attend quarterly RC telephone calls & RC project calls
- Attend occasional in-person meetings held at conferences
- Receive email updates
- Join LinkedIn group

DISCUSSION



Contact Information

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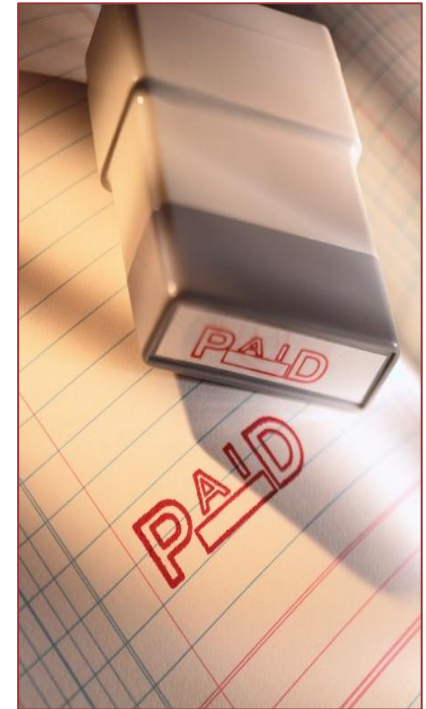
Appendix

Remittance Data Defined

Remittance Data Definition:

Information shared between a buyer & seller to provide detailed accounting of what the payment is for

- Buyer initiates remittance data to:
 - Inform seller of payment details
 - Justify amount being paid (e.g., explain deductions)
- Seller uses remittance data to:
 - Close an open accounts receivable entry
 - Acknowledge that payment was received
 - Determine other liabilities (e.g., adjustments, rebates, promotional efforts, special pricing, etc.)



Comments on Remittance Pain Points

“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 and/or located in remote areas & do not accept or receive electronic remittance information.”



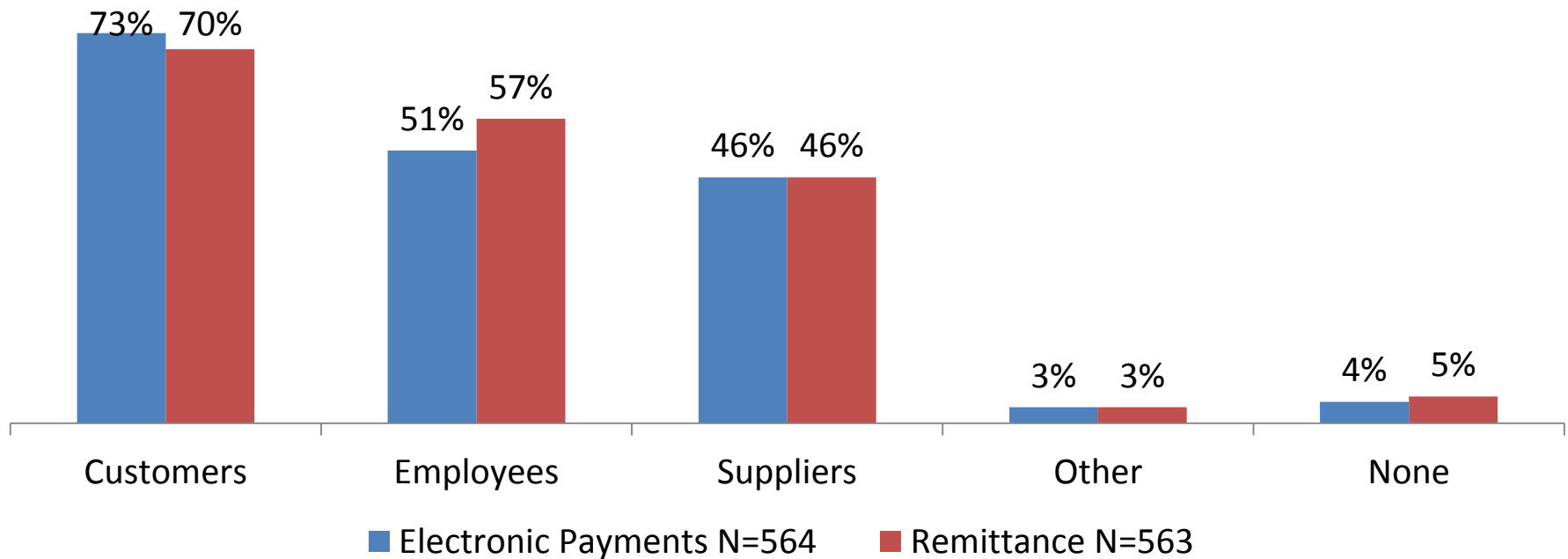
Topic 3 B

Education & Outreach

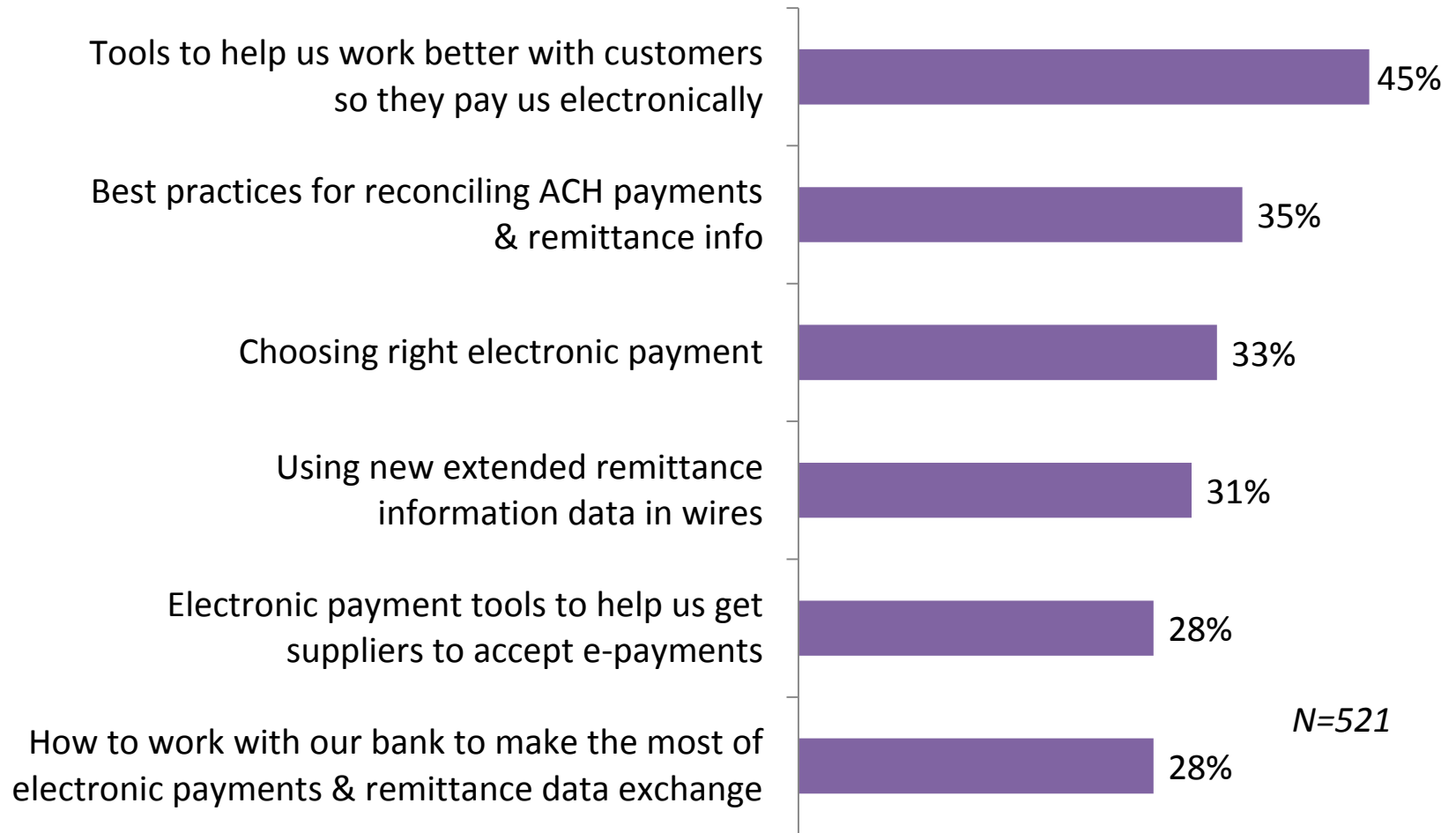
Survey Results: Education & Outreach

Highest percentage of respondents identified education as critical or important – 2nd ranked solution

Regardless of function or industry, respondents consistently cite customer education as a priority



Survey Results: Most Helpful Educational Topics



RC Education & Outreach Activities

- Present at industry conferences & publish articles in industry press to promote Coalition mission, vision & actions
- Share information regularly among Coalition members about member-led initiatives
- 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)
- Target education to small businesses & small financial institutions



Audience Discussion

1. Do you agree that customers need education most?
2. What education topics would be most helpful for your customers?
3. What venues for education would be most successful?

More on the Case Study: E-Payments Security

The Insider



Chris is a temporary employee processing invoices while John is out on paternity leave. Chris notices he can also access vendor remit addresses bank account information. Chris runs a report and prints the information out. Before he leaves, he updates a few vendor accounts with his own deposit information for one night and then reverts them to the old account information. He also sells the information to a East European hacker group specializing in ACH fraud.

What steps are in place to monitor or prevent this?

Plotting Revenge



Safeguard provides nationwide security services to your company and receives ACH payments each week. Cindy, his partner, contacts you . “This is Cindy from Safeguard Security. We opened a new business account and I need to update our deposit account information.”

What is the next event

Pay Method Conversion Risk

Union National Bank
VA1158
Reston Town Center Financial Center
11911 Freedom Drive
Suite 100
Reston, Virginia 20190
703-442-3730

Date: 11/22/99

To whom it may concern:

This letter is to certify that Rahul Gupta of
123 Park Ave, Apt 45, Reston, VA 20191 maintains
the following account(s) with First Union

Account # <u>433479034679</u>	Type of Account <u>Checking</u>
Present Balance \$ <u>\$15,340.45</u>	Avg. Balance \$ <u>\$18,349.54</u>
Date Opened <u>11/17/1998</u>	
Account # _____	Type of Account _____
Present Balance \$ _____	Avg. Balance \$ _____
Date Opened _____	
Account # _____	Type of Account _____
Present Balance \$ _____	Avg. Balance \$ _____
Date Opened _____	

I, John Smith of Union Bank, do Certify that the above
information to the best of my knowledge is true and correct.

STATE OF VIRGINIA/COUNTY OF FAIRFAX
SWORN TO AND SUBSCRIBED BEFORE ME
THIS 22 DAY OF November, 1999
WITNESS MY HAND AND OFFICIAL SEAL
/s/ Robert Johnson Notary Public

You receive an official notarized letter with ACH instructions on it. The request is from ACME Solutions, a current vendor, to pay them via ACH instead of check.

What would happen at your office