

Unfinished Business
 Article Published in March 2012 AFP Exchange
 Debra Hjortland
 Federal Reserve Bank of Minneapolis

Businesses recognize the benefits of electronic payments¹ – lower costs, lower fraud risk, improved cash reporting and fewer errors to name a few. So why aren't U.S. businesses adopting electronic payments faster for business-to-business (B2B) payment transactions? According to the 2010 Federal Reserve Payment Study, between 2006 and 2009, checks written by consumers to businesses declined by ten percent annually while checks written by businesses to businesses declined at two percent annually. Looked at another way, consumers abandoned checks five times faster than businesses did.

A number of recent studies have investigated the reasons for the slower adoption of B2B electronic payments. For example, a Paystream Advisors survey found that a lack of integration between electronic payments and A/P systems and the inability to exchange automated information (i.e., remittance information) were barriers to B2B electronic payment adoption.

Barrier to Adoption	Percent of Companies Citing Barrier
Suppliers not willing to adopt electronic payments	40%
Shortage of IT resources	35%
Lack of integration between electronic payment & A/P systems	33%
Inability to exchange automated information with electronic payments	26%
Loss of check float	26%

SOURCE: 2011 Electronic Supplier Payments, Paystream Advisors

A study by U.S. Bank, the International Accounts Payable Professionals (IAPP), and the American Productivity and Quality Center (APQC) found that the inability of trading partners to send or receive automated remittance with an electronic payment was a barrier to the adoption of B2B electronic payments.

Barrier to Adoption	Percent of Companies Citing Barrier
Difficult to persuade suppliers to accept electronic payments	84%
Trading partners can not send or receive automated remittance with electronic payment	72%
Shortage of IT resources for implementation	65%
Cost to implement electronic payment projects	62%
Concern about payment fraud	44%
Check systems work well	42%

SOURCE: 2010 Electronic Payment – Trends in Accounts Payable, U.S. Bank, IAPP, and APQC

¹ See 2010 AFP Electronic Payment Survey Results, page 12

The 2007 and 2010 AFP Electronic Payments Survey also asked members about barriers to electronic payment adoption and found similar results. Key barriers included the inability of trading partners to send and receive automated remittance information with an electronic payment and a lack of standard remittance formats.

In June 2011, the Federal Reserve Bank of Minneapolis and the standards organization X9² hosted a meeting of standards organizations and others involved in payments (banks, corporate treasurers, payment processors, vendors, and others) to better understand the barriers and options for improving remittance data exchange and automated reconciliation of payments.

Meeting attendees agreed that the major problem was more than a lack of remittance standards (if anything, there are too many remittance standards). For a number of reasons, reconciliation of electronic payments with remittance information is difficult. Remittance information received to identify the invoices, goods, or services being paid or the reasons for a cost adjustment may be insufficient. The large number of alternatives for remittance exchange results in the need to support too many remittance alternatives, many of which require significant manual intervention. Bottom line: accepting a check payment is simpler.

Having agreed on the main problems, several meeting attendees decided to form the Remittance Coalition. The Coalition's objective is to increase the efficiency with which business-to-business (B2B) payments are made and reconciled by all types and sizes of businesses. The Coalition plans to accomplish this objective by promoting more unified standards and processes and common automated tools that support: (1) Using more electronic payments for B2B transactions, and (2) Originating and delivering electronic remittance information that can be associated easily with the payment and business transaction.

The Coalition has no dues and membership is open to any individual or organization interested in working to address remittance issues. Membership has grown since the June 2011 meeting, and there are currently about 60 members representing almost 40 different organizations. Members represent banks such as U.S. Bank, JP Morgan Chase, and University Bank; corporate treasury and accounting practitioners and industry associations including the Institute of Financial Operations (IFO), Credit Research Foundation, and AFP; standards organizations including X9, IFX, and GS1; and payment services providers including BancTec, NACHA, and The Clearing House.

The Coalition is working on a number of initiatives to address and bring clarity to the problem. These include:

- Develop a glossary of remittance-related terminology to promote common understanding
- Develop a catalog of existing and planned remittance-related industry initiatives and an inventory of existing remittance standards & their uses
- Reach out to other key stakeholders, particularly small businesses, about remittance and electronic payment reconciliation, to include their views in the work of the Coalition and to educate them where needed
- Conduct a survey of business practitioners on remittance processing problems & their views on potential solutions to address those problems

² X9 is the U.S. ANSI accredited standards development organization for the financial services industry.

- Collaborate on development of an ISO 20022 standalone extended remittance standard
- Investigate developing a directory/repository to provide information needed for electronic payments and remittance processing
- Address problems that sometimes result when a check routing number is used for an electronic payment

Some of these efforts are being worked through the X9 Corporate Payments Subcommittee, for example, developing a glossary of remittance-related terminology and an inventory of remittance standards, and developing a recommendation for addressing the issue that sometimes occurs when check routing numbers are used for electronic payments.

Led by IFX³, the Coalition is supporting work to develop a new ISO 20022 message to exchange extended remittance information in XML. The Coalition stays current on progress and provides a forum for sharing information with Coalition members and providing feedback and views of the Coalition to IFX.

This spring the Coalition will conduct a survey to gain clarity on the pain points associated with remittance information exchange and payment reconciliation and to assess corporate views about potential remittance solutions, from more education about existing standards and services to new solutions. The AFP, IFO, CRF have agreed to distribute the survey to their members. The Coalition is also working with the Association of Small Business Development Centers (ASBDC) to include the views of small businesses. Survey results will be available this fall.

A number of outreach events have occurred since the formation of the Coalition. Last October, Claudia Swendseid, Senior VP at the Minneapolis Federal Reserve, spoke to the Credit Research Foundation on the topic Simplifying Electronic Payments & Remittance Processing. The CRF is now very involved in the work of the Coalition. At the November AFP conference, a well-attended Sunday morning workshop about the Coalition and remittance issues was offered to conference participants. Attendees shared their frustrations and issues with remittance exchange and reconciliation and their views have been incorporated into the work of the Coalition. Presentations are planned for the annual conference of the ASBDC state directors this March to engage small businesses in the work of the Coalition. The full Coalition met during the November AFP Conference and is planning another meeting in late April during the NACHA Payments Conference. In addition, conference calls are held quarterly to discuss progress.

Clearly, addressing the issues related to the exchange of remittance information is resonating with corporate practitioners and industry stakeholders. There is much work to do to address the many facets of such a complex problem, but the Coalition is well poised with the right set of participants to be successful.

General information about the Coalition can be found on the Federal Reserve Bank of Minneapolis public website. Anyone interested in joining the Coalition can contact Debra Hjortland at the Federal Reserve Bank of Minneapolis (deb.hjortland@mpls.frb.org).

³ IFX is a standards development organization that develops open standards used in the financial services industry.