

A Case Study of the Remittance Coalition

This case study is being presented to elicit suggestions from the financial service community on how to make using the ACH system easier and more valuable for small businesses.

A Small Business Owner's Experience with ACH Payments

Justin Smith, owner of Elegant Catering Inc. (name and company information changed to protect confidentiality), expressed frustration in working with his bank when he tried to obtain "remittance information" that one of his customers sends with its payments.

Elegant Catering Inc. is a small business in the food service industry that has six employees (three full time/three part-time). It generates approximately \$0.5M annually in revenue and produces about 200 invoices per month.

Mr. Smith prefers to be paid by credit card or check and does not like what he refers to as "house accounts" which he then must subsequently bill. They currently receive ACH payments from two customers. One customer sends its payments in the STP820 remittance format that includes details of each invoice being paid and any deductions being taken. This customer had the expectation that the remittance information would be forwarded to Elegant Catering by its bank; however, this remittance data is not forwarded. Mr. Smith must call his customer each time he gets a payment to determine what the payment is for, as each payment normally covers several invoices.

Elegant Catering's experience with its bank

Mr. Smith contacted his bank in an attempt to obtain his remittance information. He was told they do not get any more information than what is provided on his statement.

It was ultimately determined that Mr. Smith's customer does, in fact, send payments with remittance information to its bank. This remittance data flows through the ACH payment system and is delivered to Elegant Catering's bank. The data is embedded in the transaction, in the format of STP 820, in the addenda records. However, Mr. Smith is not signed up for remittance delivery, so the information is not made available to him or for viewing by bank personnel.

After a discussion with Mr. Smith, it is clear that he is not interested in paying for any additional service to receive his remittance information. He prefers to receive a check where the invoice information is included on the stub, or receive credit card payments up front for each individual service. He is not willing to pay even \$5.00/month to receive remittance data on his incoming ACH payments.

What can banks do?

- Bank branch personnel need to be knowledgeable of remittance services and able to articulate to small business customers the benefits of ACH and what is required to receive remittance detail associated with ACH payments.
- Some small business customers do not see an ACH reconciliation service as a value-added service (preferring check or card), and are unwilling to pay extra for it.
- Banks should determine how to demonstrate the value of ACH remittance delivery services to customers. One solution may be to consider bundling services into the base price rather than charging a separate fee for remittance delivery.