

## Summary of Remittance Coalition Meeting

NACHA 2013 Payments Conference, Sunday, April 21, 2013

### Welcome and Introductions

Roy DeCicco, a managing director at JPMorgan Chase, welcomed participants and noted Claudia Swendseid's absence due to travel delays. He reviewed the agenda and said the meeting would feature break-out sessions, a new approach intended to encourage in-depth discussion of Coalition's initiatives, progress, and next steps. He solicited feedback for designing future in-person meetings. Almost 40 people attended; each participant introduced themselves.

### Current Trends in B2B Payments

Roy reviewed recent industry studies on B2B payments. Despite the perceived benefits of electronic payments, data continues to show that businesses still rely heavily on paper checks even as electronic B2B payments use increases. Studies highlighted include:

- NACHA's recently published numbers show that the automated clearing house (ACH) handled more than 2.4 billion B2B payment transactions in 2012, a 4.2 percent increase over 2011, and 25.2 percent higher than in 2007. The growth outpaced ACH's overall gains of 19.9 percent since 2007. The B2B transaction known as CTX, which supports multiple invoices/remittances carried in the ACH addenda, grew 12.7 percent in 2012 from 2011.
- Wire B2B payments are growing, according to the Federal Reserve Board and CHIPS volume data. The volume of B2B wire payments increased 43 percent in 2011 over 2010.
- Businesses have specific preferences for electronic payments, according to a PayStream Advisor's report. Wires are favored for international payments, while cards are preferred for convenience. ACH is favored for all other attributes such as ease of integration with accounts payable, data security, supplier acceptance and ability to support better and more complete remittance information.
- Purchasing cards and other corporate cards play a role in B2B payments. Their use, however, appears to have stabilized as many companies have already adopted corporate or p-cards to take advantage of efficiencies and rebates (when paid by card).
- 84 percent of respondents to the *2013 AFP Payments Fraud and Control Survey*, express interest in increasing electronic payments and decreasing paper payments to reduce fraud risk.
- Despite the increase in ACH and other electronic payments, businesses still rely heavily on checks. Although there was an overall 33 percent decline in checks usage from 2000-2009, it was much smaller (13 percent) for B2B transactions, according to a 2010 Fed payments study.

Roy noted that the RC's overriding goal is to find practical ways to reduce the (approximately) 7 billion B2B checks written annually in the U.S. by increasing the efficiency with which B2B transactions are undertaken and reconciled. RC initiatives that promote more common and unified standards and tools will help facilitate greater adoption of B2B electronic payments.

Finally, he pointed out that 93 percent of members polled by the Minneapolis Fed earlier this year said that the Coalition's mission remains relevant, about half said that the Coalition is making progress toward fulfilling its mission and 80 percent said they have been offered opportunities to participate.

**Has the RC made good progress towards fulfilling this mission?** A total of 46 percent of members agree or mainly agree that the RC has made progress. Roy noted the continual need to collaboratively work to fulfill Coalition initiatives and that no one initiative is a silver bullet that would eliminate all pain points associated with switching to electronic payments. He also noted that the survey showed that education and outreach are keys to the RC achieving its mission.

Although the results from these studies and surveys are positive and suggest, electronic B2B is moving in the right direction, Roy warned they don't tell the whole story. He noted that it is difficult to get a good quantitative metric to measure RC progress, since there are many other changes in the industry and in the economy that affect payments data, including B2B trends. Nonetheless, the RC will continue keeping track of surveys and other industry statistics to evaluate developments in business use of electronic payment options and remittance information.

BC Krishna, MineralTree Inc., suggested looking at data on a more granular level and segmenting surveys and results to better evaluate progress reaching small businesses whose data trends larger corporations often obscure. Roy agreed and will explore this further with Claudia, the Minneapolis team, and follow up with participants in subsequent meetings. He encouraged suggestions regarding other metrics that quantify adoption and use of electronic payments and remittance.

The meeting broke out into three sessions. Summaries of each follow.

### **Core Adjustment Reason Code**

Sharon Jablon, The Clearing House, reported on progress with the core adjustment reason code initiative. She said that the X12 electronic data interchange (EDI) standard for adjustment code values, the "426 Adjustment Reason Codes," include over 650 codes used by buyers to explain why they are taking a discount, deduction, or other payment adjustment. Because there are so many codes and little descriptive information on how to use them, there is a need for a more standard and simpler business process to resolve the many conflicts.

The Coalition's Core Adjustment Reason Code team has gone through all the adjustments codes, selected about 70 that are most important and widely used and created a document defining each of these codes and how to use them. The document has been vetted throughout the RC and with expert organizations such as the Credit Research Foundation (CRF) and the Retail Value Chain Federation (RVCF). Now the team is working with the standards organizations X9 and X12 to develop a technical report that will contain the simplified code list and explain how to use it. X9 has already submitted a work item for this purpose, and X12 will do the same.

Once the technical reports are available, the RC will work through Coalition member organizations such as CRF, RVCF, Association of Financial Professionals (AFP) and Institute of Financial Operations (IFO) to publicize the list, and to work with vendors to encourage list adoption.

## **Update on Remittance Glossary**

Paula Rowe, PNC, noted that a remittance glossary draft has been created and has been submitted to X9 for publication as a technical report. Rich Urban and other members requested to review for comments. It will be distributed to all Coalition members once it is completed.

## **ISO 20022 Extended Remittance Information Message Standard**

Rich Urban, president of IFX, said that the new ISO 20022 extended remittance message has been formally submitted to the ISO 20022 registration authority. The message is being referred to as a “standalone remittance message” instead of “extended remittance message.” The message supports extensive remittance data and can be exchanged on a standalone basis or with another payment message. The “remittance advice location message” allows the message’s originator to identify where the remittance advice is located for a related payment, and the “remittance advice message” allows the originator to provide remittance details that can be associated with a payment.

The submission process involves multiple steps. The submitted message formats will be forwarded to the Payments Standards Evaluation Group (Payments SEG), which has 90 days to evaluate, provide feedback and correct errors. Once approved, the registration authority will publish it in the ISO 20022 data dictionary, and it would become part of the ISO 20022 message standard. Rich expects that the new message would be part of the ISO 20022 message standard set sometime this summer.

As identified in the RC corporate survey, improved end-to-end automated processing requires adoption of common remittance formats and standards. Rich noted that once the message format is adopted with the standalone capability, it would increase adoption because it would not require participation of financial institutions. Additionally, as a global standard, adoption of the ISO 20022 remittance format provides benefits to cross-border trade.

## **B2B Directory**

BC Krishna led the break-out discussion about the B2B directory. He said the proposed directory would allow payers to gather information about the entity they are seeking to pay by serving as an information lookup utility. Group participants agreed that as a first step, the concept of the directory needs refinement. Among outstanding questions are: What would it contain—payment information only or additional details such as discount information? To whom is it targeted and what value would it deliver— to small businesses, large businesses or all business sizes? What are the privacy issues, risks and different industry perspectives? What are the architectures to consider?

Among the proposals discussed, Larry Matteson, Huntington Bank, suggested the approach of evaluating the business need and leveraging existing and universally accepted infrastructure to build a directory that allows additions from different businesses. Connie Theien suggested developing a blue print of how the directory addresses different use cases.

The group asked what would the deliverable for the Coalition be—an abstract document highlighting the framework for the directory, or a blueprint for something we can build and pilot? Participants of the break-out session set the goal of coming up with a product specification for the directory in six months

(by Thanksgiving). The plan is to create a table of contents and assign sections to smaller study groups. BC agreed to take leadership on this and encouraged participation of the team and other members. The break-out session was attended by: BC Krishna, Rob Unger, Chris Huppert, Jeff Sesar, David Walker, Larry Matteson, Bethanne Hastings and Connie Theien.

### **Remittance Standards Inventory**

George Throckmorton, NACHA, reported that a Coalition work group is underway to develop an education publication that contains an inventory of the current standards for electronic remittance delivery. The current draft inventory contains 16 remittance standards with a brief description and definition of each standard. The meeting participants suggested the work group include some cases and examples illustrating the use of the standards described. George said the work group is working on a second draft of the inventory. Alternatives for publication will be explored further at their next meeting.

### **Industry Outreach**

Roy noted that the one of the Coalition's initiatives is industry outreach and survey respondents agreed the outreach is beneficial. Industry outreach exists in three areas – conferences and articles, small business education, and vendor outreach. On the conference side, Claudia and the Minneapolis team coordinate presentations including participation at recent or upcoming events:

- The New England chapter conference of the National Association of Credit Managers (April)
- IFO's national conference, Fusion (May)
- National Association of Purchasing Card Professionals (NAPCP) annual conference (April)
- Credit Research Foundation Expo (August)
- The national conference of the Association of Small Business Development Centers (September)
- Retail Value Chain Federation (formerly the Vendor Compliance Federation) conference (November)

Roy noted that he, Claudia and Carole Hunt would present results of the RC survey at the NACHA conference session *2012 Remittance Coalition Survey: Is STP an Impossible Dream?* at 1:30 p.m. on April 23. He thanked the Claudia and the team for leading outreach efforts through conferences and presentations, and invited Coalition members interested in speaking at conferences to let Claudia know.

### *Small Business Education and Outreach*

On small business education outreach efforts, Sharon Jablon said that four documents have been developed and distributed or are planned for development to improve small business understanding and use of electronic payments and remittance data. The two that have been completed are:

- “ACH Payments and Remittance Information Solutions for Businesses.” This publication targets small businesses with advice on how to obtain remittance information from their banks to aid in account reconciliation of incoming ACH payments.
- “Payment Types Explained,” provides useful information on the various types of payment, how they look and the parties involved in the payment process. This is currently being updated.

Forthcoming documents include:

- How to begin using ACH recurring payments
- How to begin receiving ACH
- Fedwire and CHIPS extended remittance information

Sharon asked the participants to share suggestions regarding how to get documents and resource material to small businesses and to the “right people” for dissemination. The documents are not copyrighted and may be copied, shared, and posted freely, she said.

#### *Vendor Outreach*

On vendor outreach, Roy shared takeaways from a session breakout that included how to best engage and reach out to technology and software vendors. He noted that vendors do not view themselves as being in the payments field, and a strategic approach needs to be developed for outreach. The group explored the possibility of a framework for potential dialogue with software vendors and technology providers to increase support for electronic remittance and reconciliation as well as determine where there are gaps and what needs to be done to close them. Other suggestions include framing the dialogue with a problem statement— vendor solutions should provide including ways to promote greater interoperability between vendor packages using common remittance formats and standards.

Roy indicated that there are opportunities to educate business practitioners on how to effectively use software capabilities in their current software packages and how to better interface with other back-office products. He cautioned against use of technical terms in outreach and communication with practitioners.

Roy concluded the meeting by thanking all for attending and encouraged participation in future meetings.

Action Items:

1. Look at B2B transaction and information data on a more granular level. For example, consider segmenting survey data to better evaluate progress in reaching small businesses, as these trends are obscured when combined with data from larger businesses. *[Swendseid and Fed Minneapolis staff to follow-up]*
2. Publish the core adjustment reason code technical reports through the X9/X12 process. Then promote through relevant Coalition member organizations such as CRF, RVCF, Association of

Financial Professionals (AFP) and Institute of Financial Operations (IFO). *[Core Adjustment Reason Code work group]*

3. Solicit comments from interested Coalition members on Remittance Glossary. Complete and publish Glossary through X9 process. *[Remittance Glossary Work Group]*
4. Complete and publish Remittance Inventory Catalog. *[Remittance Inventory Catalog Work Group]*
5. Continue work on the B2B directory. Prepare a table of contents and assign sections to smaller study groups. Complete draft of document by about Thanksgiving. *[BC Krishna and other interested Coalition members]*
6. Continue outreach and education efforts. If interested in speaking/participating, let Claudia Swendseid know via email at [claudia.swendseid@mpls.frb.org](mailto:claudia.swendseid@mpls.frb.org) *[Swendseid and FRB Minneapolis staff to coordinate]*
7. Continue vendor outreach work group to further develop action plans. (Roy to coordinate)

The next Remittance Coalition meeting will be a conference call; it has not been scheduled yet.

#