

Remittance Workshop

Hosted by ASC X9 & Federal Reserve Bank of Minneapolis
June 28-29, 2011

Tuesday June 28, 2011

Welcoming Remarks – Claudia Swendseid & Roy DeCicco

Claudia Swendseid, Senior Vice President at the Federal Reserve Bank of Minneapolis, and Roy DeCicco, Managing Director at JP Morgan Chase and X9 Chairperson, welcomed workshop attendees and explained the background, format, and objectives of the workshop.

The workshop was organized to bring together banks, corporate end users, standards developers, and vendors, to discuss issues and opportunities in the current payment and remittance reconciliation environment and to develop possible next steps as a way forward to help to address these challenges.

The Problem with Remittance & the Role of Remittance Standards – Debra Hjortland

Debra Hjortland, FRB Minneapolis, reviewed recent statistics that show that while business-to-business (B2B) checks are declining, they are not doing so as rapidly as are consumer checks, despite the benefits businesses perceive in using electronic payments. The 2010 AFP Payments Survey found that a lack of simple, easily adopted standards that automate the reconciliation of payments and remittance data is a key barrier to higher adoption of electronic B2B payments.

Debra contrasted the flow of check payments and remittance information to electronic payments and remittance information, noting that there is a lack of consensus on whether remittance data should flow with an electronic payment or separately. When remittance data flows with a payment, it may not be forwarded to the receiver. When it flows separately, the receiver may have challenges in reconciling it to the payment. Too many alternatives for remittance exchange and too many remittance data standards results in difficulty in adopting electronic payments and the inability to achieve straight through processing.

Panel Discussion – Corporate Practitioners View of the Current State of Remittance Data Exchange – Anita Patterson, Don Davis, Sandra Roth

Anita Patterson, Cox Enterprises; Don Davis, Intel; and Sandra Roth, Johnson & Johnson, formed a panel that discussed the challenges and problems that corporates face with their existing remittance data exchange and payment reconciliation processes. Key points included:

- The goal is to process payments as quickly as possible so that there is an accurate understanding of the financial position. Automated remittance data is needed to quickly process payments.
- A single remittance standard would be optimal.
- Smaller business partners have difficulty supporting electronic payments and electronic remittance data and resort to checks or prevent use of electronic services.
- Although all banks can accept ACH payments, many banks cannot or do not forward remittance data attached to the payment. In addition, corporate trading partners may be unable to exchange electronic remittance data directly.

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- There is no common directory to obtain payment information so that an electronic payment can be exchanged, making infrequent payments less likely to be electrified.
- EDI standards, even streamlined versions are too large and too complex an expense for some businesses to process. Some of the standard formats being used (e.g., STP 820) have significant limitations in the amount of data that is carried.
- ERP and accounting software, even some of the larger products, do not always handle electronic remittance formats. Larger companies, such as Intel and Johnson & Johnson have written custom code in their ERP software to handle remittance.
- Many companies do not have internally integrated systems. Additionally, there may be multiple A/P and A/R departments and systems with different software packages that are not well integrated.
- Only the very largest companies have the influence to mandate that their customers and suppliers use electronic payments and electronic remittance information. For other companies, using incentives to encourage electronic payments has led to greater use of electronic payments and remittance. Making remittance data exchange simple is helpful.
- Unique processing needs affect remittance requirements. The use of blanket purchase orders makes matching remittance data to payment more difficult. Lockbox processors handling remittance data are often able to reformat data to the preferred format.
- There are too many remittance solutions and products. A smaller number of options are needed, and they need to be supported by software vendors. There is no U.S. entity to mandate a limited number of solutions.
- Some flexibility in data requirements must be supported because business practices are reflected in the remittance data exchanged. As standards become adopted, business practices may also become more standardized.
- Applications to massage data and correct errors are needed, as are data format translators to convert between different formats.

The Current Remittance Standard Landscape

X12 820 Remittance Standard and Its Content – John Shaffer

John Shaffer, ASC X12, reviewed the background and use of the X12 standards. X12 is the accredited standards development organization for electronic data interchange standards (EDI). John said there is widespread adoption of the X12 EDI standards. X12 has developed different remittance data structures for a variety of payments. The primary standard for remittance data exchange and payment instruction is the X12 820-transaction set. The X12 820 messages may flow directly between trading partners, or may be attached to an ACH transaction. The CCD+ can include remittance information for a single invoice; the CTX can include remittance information for multiple invoices

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per payment. In 2010, there were about 70 million CTX transactions, averaging about 15 invoices per payment.

The meeting participants discussed recent plans for using the ACH to exchange healthcare related information, using X12 standards. There are a number of data privacy issues that need to be resolved because of the sensitivity of the information carried and HIPAA requirements.

X12 STP 820 – Sharon Jablon

Sharon Jablon, The Clearing House, reviewed the development and adoption of the X12 Straight through Processing 820 (STP 820) standard. Although EDI is extremely flexible, it is also more complex than many smaller companies need. The Clearing House developed an “EDI lite” message, the STP 820, to address the needs of small and medium size companies for an easy to use EDI remittance message. It is useful when line item remittance information or multiple adjustments are not needed. As a subset of the 820, the STP 820 includes 10 key remittance data elements common to selected Accounts Payable/Accounts Receivable packages. The STP 820 remittance data fields are also carried in ISO 20022 payment messages and very soon, in Fedwire and CHIPS messages.

Any organization that can process an X12 820 can process an STP 820. In addition, a number of software packages support the STP 820 without full EDI support, allowing smaller companies the ability to send and receive STP 820 remittance information. There is also an XML version of the STP 820. The number of STP 820 transactions exchanged is not known, because the X12 version that supports tracking has not been implemented by all STP 820 originators. Sharon, and subsequent presenters, highlighted the long timeline for moving any standard through the standards development process – often years.

Fedwire Extended Remittance – Gina Russo

Gina Russo, Federal Reserve Bank of New York, said that the Wholesale Product Office collaborated with The Clearing House to address a need for wire transfer payments to carry remittance information. On November 19, 2011, Fedwire and CHIPS will be updated to include extended remittance information. Three options are supported: structured remittance consisting of the 10 remittance fields carried in the STP 820 and ISO 20022 messages, unstructured remittance data up to 9,000 characters, or an identifier that points to remittance data located elsewhere.

Gina described the implementation hurdles to achieve these changes. Although the new formats must be able to be received by a bank, there is no mandate to send remittance data or to forward remittance data received to corporate customers. However, to facilitate the exchange of remittance data, the Balance and Transaction Reporting formats (formerly called Banking Administration Institute (BAI) file formats) are also being updated to carry the Fedwire remittance information. Cross-border wires present an issue because the SWIFT MT 103 messages do not support extended remittance data.

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Remittance Data Carried Over SWIFT – James Wills & David Dobbing

David Dobbing, SWIFT, described the recently approved ISO 20022 message for electronic invoices, based on the work of UN/CEFACT. He said that understanding the entire chain of information, starting with the invoice, is necessary to understanding remittance data requirements. David then described the structure of the e-invoice and the role of invoices and remittance advices in the payment reconciliation process.

Jim Wills, SWIFT, then led a discussion of the SWIFT messages that carry remittance information. He said that there is a gradual shift underway from SWIFT MT messages to MX messages, but this transition will take many years. Most MT messages (e.g., SWIFT MT 101 and MT 103) carry a limited amount of remittance data, 140 characters. The MT 103 Remit message can carry much more remittance data (9,000 characters) but its use is restricted to trading partners having bilateral agreements in place. The MX messages can carry an unlimited number of occurrences of 140 character remittance data blocks, but market practices (e.g., SEPA) limits the number of occurrences to one.

OAGi and Remittance – David Connolly

David Connolly, OAGi, described how OAGi develops standards for the business-to-business supply chain, primarily in the automotive, chemical, and aerospace and defense industries. A key focus of OAGi is integration with Enterprise Resource Planning (ERP) software. OAGi was a member of the ISTH group, which produced the first ISO 20022-payment message.

OAGi's remittance advice standard was released in 2009, with most usage in the high tech industry. David shared a number of key insights about standards development, including

- The need to include software vendors to ensure software packages can support the standard. Unless software vendors support a standard, businesses are unable to achieve end-to-end connectivity. However, software vendors argue that it is not cost effective to support a standard unless there is already a sufficient level of adoption, a chicken-and-egg problem.
- The data model should be the primary concern rather than the technology. Technologies change; for example, EDI is the most used technology for remittance data but is being replaced by XML, and other technologies are already replacing XML.

IFX and Remittance – Rich Urban

Rich Urban, IFX, described how IFX collaborates with other standards development organizations to solve problems in the banking industry. IFX is very active in ISO 20022 development and has recently begun work on developing an ISO 20022 standalone extended remittance message. Rich highlighted the complexity of remittance data, as data varies significantly by industry and context, and individual corporate remittance requirements also vary. Over 170 data fields are being considered for inclusion in the ISO 20022 remittance message.

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RosettaNet & GS/1 and Remittance – Steve Rosenberg

Steve Rosenberg, GS1 US, said that GS1 is best known as the developer of the UPC bar code. Identity management standards are a key area for GS1, including standards for company, location, and product numbering. GS1 issues guidelines and standards, and supports X12, EDIFACT, RosettaNet, and GS1 XML messages. GS1 standards are used in over 20 major industry sectors including consumer goods, foodservice, healthcare and retail industries. RosettaNet, a GS1 US partner, develops supply chain standards for the high-tech industry, including a standard for remittance advices.

Steve reviewed some of the problems that inhibit standardization, such as the various ways in which standards are adopted, due in part to a multitude of options and capabilities. He also said that the fee structure for exchanging remittance data with payments might encourage remittance data flow separate from dollars. He concluded by suggesting a number of solutions to improve remittance exchange, including developing a consistent identifier for matching payments to remittance, developing a common data dictionary, consideration of the needs of small, medium, and large enterprises, and developing enhanced guidelines for passing remittance through various payment channels.

Wednesday

The day began with a review of some of the key observations from Tuesday. Points made include:

- There are too many standards: “Even standards are not standard.” There are too many proprietary solutions. Adoption is complex.
- Corporates need flexibility & interoperability, yet exception processing is costly. For example, adjustments need to be taken at the invoice and non-invoice level.
- Needs of small businesses & smaller financial institutions are not well met; they need to be included in developing solutions.
- Some banks are not able to exchange EDI remittance data attached to a payment; some corporates are not able to accept EDI data. XML is used by even small vendors and companies.
- Software packages must support remittance standards. Some packages have limitations on the format and amount of remittance data they can handle.
- To exchange electronic payments, bank account information is necessary but is not always easily obtained. A biller directory is needed.
- Translators to convert data between different standards would help address the multiple remittance standard problems.
- The roles of regulators vary by country; for example, regulators are willing to mandate standardization in Europe more so than in the U.S.

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- It is necessary to engage practitioners earlier rather than later. Corporate practitioners have a large and diverse community with different business objectives. Large and small corporates need to be involved, as well as those in a variety of industries.
- Legacy standards need to remain in place while remittance standard development proceeds.
- It is difficult to foresee future use clearly, so parties need to be open to unforeseen solutions.

Remittance Initiatives Underway or Being Considered

SWIFT Online Remittance Service – Jim Wills and Stacy Rosenthal

Jim Wills and Stacy Rosenthal, SWIFT, presented information on a SWIFT solution under development to address the problem of remittance exchange: the inability of payment clearing systems to support the extensive remittance information needed by corporations. SWIFT has begun to explore the development of a remittance information utility in which banks could store remittance information in a central repository for forwarding or retrieval by corporates.

SWIFT is currently working with the industry to obtain feedback on this SWIFT Online Remittance Service, and a pilot may begin later this year. This service would be a holistic, global service supporting remittance data exceeding the 9,000-character maximum of some standards. Multiple payment types would be supported as well. The service needs to align with country standards and integrate with existing EDI solutions. Issues of privacy and security need to be addressed. Meeting participants provided feedback on the proposal and asked a number of questions, including how this service differed from existing supplier/buyer directories.

X12 XML Remittance – John Shaffer

John Shaffer, X12, reviewed the work underway within the Finance Subcommittee of X12 to develop XML standards using Context Inspired Component Architecture (CICA). CICA gives developers easy access to reusable components. X12 EDI messages, while extensively used, can be expensive for smaller startup companies to implement. XML makes messages much easier to adopt. Any entity could bring data requirements to X12 for development into an XML message using CICA.

John described the credit and debit payment messages under development using CICA to support a broad range of financial applications. In addition to standards for purchasing card data exchange, X12F is developing XML messages based on the master payment (X12 820) template. So far, an XML CCD message has been developed that could be used by a corporation to notify their bank to initiate an ACH transaction. Other 820 messages that carry remittance data are currently under development. X12F holds weekly conference calls on this development.

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NACHA Remittance Development Plans – Michael Herd

Michael Herd, NACHA, described how NACHA carries remittance data in the addenda for B2B ACH transactions. In 2009, about 1.2 billion remittance records were processed, and the number of B2B and remittance advice messages continues to increase. In addition, NACHA expects that as healthcare mandates are implemented, there will be an increase in the number of ACH transactions carrying healthcare information, primarily through messages carrying pointers to remittance data for subsequent reassociation.

Michael described some of the B2B initiatives underway at NACHA. NACHA is exploring whether their rules should allow carrying XML remittance data, and if so, which XML standard, NACHA is considering whether RDFIs should be required to deliver remittance data, and if so, the format and deadlines. NACHA is also exploring development of a national business payment directory that would allow businesses to specify the delivery method, format, and data requirements of remittance information. The national business payment directory would provide a centralized enrollment process and support a range of industry remittance needs.

ISO 20022 Standalone Remittance – Mark Tiggas

Mark Tiggas, Wells Fargo, reviewed the need for standards to address the goal for straight through processing of B2B payments, meeting the requirements of large and small corporations. IFX is experienced in developing XML standards for the international financial services industry and has been a long-time participant in ISO 20022-message development. The IFX process is member driven, open and collaborative, yet streamlined for rapid development.

Mark said that corporates prefer to receive remittance data at the same time as the payment. While limited remittance information, such as carried by existing ISO 20022 payments messages, satisfies the needs for many corporates, for others, a format that carries more extensive remittance data is necessary. IFX has resumed work on the standalone ISO 20022-remittance message that meets these needs. They welcome participation by others in this effort.

Corporate Practitioners View of Standards Reviewed & Remittance Initiatives Underway or Considered

The corporate panel was asked to react to the current standards discussed and the remittance initiatives underway. Their candid feedback is especially helpful to move the industry forward with solutions that meet corporate needs. Some of the key points that they made include:

- Businesses do not want a solution that shifts the processing burden to the payment receiver. Most URL solutions are too time consuming and require manual intervention to access and/or rekey information. A single URL solution that contains all remittance data and could be downloaded to automate processing might be acceptable.
- The EBIDS model of providing summary data with a pointer to detail information might be helpful unless it moves the work to the receiver.
- Many vendors consider an e-mail of an scanned invoice “electronic remittance.” Solutions that require scanning equipment, even with optical character recognition, is a sub-optimal solution and often too expensive for smaller companies to consider.

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- There is probably a need for at least one solution that provides large amount of remittance data, an extended remittance option.
- Frequently, a bank's small business marketing department is not aware of all the features and options the bank has available and known only to the larger customer marketing department.
- Smaller corporate and smaller bank remittance requirements must be recognized and addressed. However, it may be appropriate to encourage and support these segments to adopt automated remittance solutions. Smaller businesses do not need less remittance, just simpler formats and processes. Larger businesses are willing to pay for more features, flexibility, and complexity.

Recap & Next Steps

The group developed a problem statement, identified what a success would look like, and identified possible next steps.

The problem statement is:

“More standard processes are needed to originate and deliver electronic remittance information to all sizes of businesses that can be easily associated with a payment, enabling straight through processing.”

Success in solving the remittance problem would include:

- A limited selection of standards to choose from
- A best practices guide would assist in making the choice
- There would be ongoing communications about remittance exchange
- There would be an appropriate infrastructure in place to support

Participants expressed appreciation for the uniqueness of bringing together a diverse set of participants. There was general agreement of the following next steps:

- Form a Remittance Coalition of organizations and individuals interested in working together to address the remittance-processing problem. The Coalition needs to include representatives from small and large businesses, banks, software vendors, standards developers, and others.
- Hold Coalition conference calls and in-person meetings (approximately every 6 months) to discuss the status of actions items the Coalition has agreed to work on. These meetings could be held during the AFP or NACHA conferences to discuss actions taken and planned and to keep the momentum going.
- Develop a glossary of remittance-related terminology to share with Coalition members and others to promote common language and understanding of remittance processing issues and terms.
- Develop a catalog of existing industry initiatives focused on addressing remittance processing issues to share with Coalition members and others to foster awareness about these efforts.
- Develop an inventory of existing remittance standards and their uses to share with Coalition members and others to promote awareness about existing solutions.
- Conduct a survey of corporate practitioners to gain more understanding about remittance processing problems and the solutions needed to address them. Work through organizations

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such as the AFP, CFR, and IFO. The survey should be coordinated so that all stakeholders respond to the same survey questions.

- Reach out broadly to key stakeholders about the work of the Remittance Coalition to build awareness about remittance processing problems and potential solutions and to encourage participation in the Coalition. This includes banks, software vendors, corporate practitioners, standards developers and others who need to participate in developing and implementing solutions. The Coalition will use “voice of the customer” and focus groups periodically.
- Collaborate on development of an ISO 20022 standalone extended remittance standard.
- Investigate whether revisions/extensions to existing standards and formats for payments and or remittance advice information would assist in addressing the problem.
- Follow-up with the Routing and Transit Number Board on problems caused by banks using routing numbers to segregate payments delivery.
- Investigate the pros and cons of developing an industry utility in the form of a biller directory that provides corporate bank information for electronic payments processing.

Ed Stana, X9, said that he would publish information about this meeting and the remittance coalition. Cindy Fuller, X9, said that she would make a collaborative working space available on the X9 website open to all for sharing documents related to the remittance coalition and will send the link to all meeting participants for this workspace with login information.

Claudia and Roy thanked all the participants and presenters for this most useful workshop.