

Full Remittance Coalition Quarterly Meeting

September 15, 2014

Call Summary

Participation: 57 individuals participated via webinar. 97 individuals RSVP'd affirmatively for the conference call.

Claudia Swendseid, Federal Reserve Bank of Minneapolis, opened the call and reviewed the agenda. The first agenda item was a presentation (attached) by BC Krishna, MineralTree, and Patti Ritter, Republic Services, describing the work of the B2B Directory subcommittee.

I. B2B Directory

BC Krishna acknowledged the individuals who have worked on the B2B Directory subcommittee as well as those who played an active role in writing the white paper. He explained that the paper includes much more detail than the presentation and said that in the next phases of the project, details related to risk and business models will be included. The subcommittee is looking for participation in the next phase of the project, which is a proof of concept phase. BC described at a high level the problem that led to development of the Directory project: the large number of business payments still made via paper check, especially by small businesses, and discussed barriers to electronic payment adoption for businesses.

BC explained that electronic payments require specific information for processing, and different types of payment require different types of information. Thus, the goal of this Directory is to provide ubiquity, regardless of payment method or the type of information required. The Directory concept is "payment-type agnostic" and provides mechanisms for validation of related business information.

Patti Ritter provided an example of how the Directory could support a complex business environment. She explained that Republic Services operates under a variety of legal entities; using this Directory, their directory identification (DID) could include subsidiaries. Many companies have multiple payment setups done by lines of business or legal identities and would need to set up different DIDs. Thus, the Directory allows for centralization or decentralization based on need.

Moreover, using the Directory, payers can receive updated information. Payees are able to send manual or automated updates. Directory updates would most likely be scheduled on a daily basis, similar to ATM balance file updates. Requests arriving during the update window would be held until after the update completes. In the case of real time updates, the system would capture a snapshot at the time of the request, so there is a possibility that changes could happen after a request has "gone by." This is a detailed design issue that will need to be addressed.

The Directory white paper also describes various administrative functions that are available in the Directory, such as the ability to upload and download entries and manage multiple entries. It is

envisioned that the Directory would be a centralized process with trusted nodes that are managed by individual directory hosts. Hosts can be banks, merchants, payment processors, or others.

BC reviewed how governance would be managed for the Directory. The idea is that a Directory Association (a nonprofit entity) would be created. The Association would authorize trusted directory hosts to participate. Each directory host would be expected to vouch for the accuracy of the information that they include in the Directory And would assign a DID to their customer payees. Each host would have a contract with the association that states that payments they make are valid and can be settled appropriately. Information in the Directory is owned by the payee and is mobile and transferable. While the Directory allows for different types of remittance information to be included, it does not endorse or require specific remittance information formats. However, the Directory would encourage the use of standards-based remittance information.

During the presentation, meeting participants asked questions through the LiveMeeting webinar tool. There was insufficient time to answer all of these questions during the call, so Directory workgroup members collaborated afterwards to answer them, as shown below:

1. Can the Directory enable payees to view remittance detail?

As currently envisioned, the Directory itself would not have a function to view remittance detail. This would be deferred to the AP or AR system.

2. You said the Directory can include checks, but also that checks don't need the Directory. Please reconcile.

The Directory can include information to allow for payment by check. Normally, the invoice would have the mailing address, but having this information in the Directory could help to facilitate more automated processing, even if the end result is a paper check.

3. Will the Directory include the lockbox remittance address?

Yes, the Directory would support multiple instances of address information, one of which could be a lockbox address. The Directory would need a way to identify them so that an automated solution could select the right address. Inclusion of the lockbox remit address in the search string(s) will enable an additional validation item to assure the correct payee is selected.

4. Who would manage and monitor the Directory and how would that be paid for?

The quality of the data in the Directory is the responsibility of the owner of the data—i.e., the payee and/or the directory host. Operational management of the Directory can have several solutions, depending on the implementation model. This is not yet determined.

Monitoring would be the responsibility of the Directory manager. Automated tools are also envisioned to filter for possible fraudulent, or “out of bounds”, transactions—i.e., over balance and similar

conditions. The Directory Association would likely include a “management group” responsible for operational rules and governance of the entire directory network.

Financial support models for the Directory are still being formulated, but most likely models envision various combinations of payer/payee contributions for usage and support. The Directory is also expected to be an industry utility that covers its costs only, and not a for-profit business.

5. How will the Directory be accessed? Will API or web services be made available?

The Directory would be accessed using a secure interface designed for maximum throughput. The design for this could include an API, a web service, or both, potentially.

II. Software Vendor Forums

The Remittance Coalition recognizes a major enabler of more electronic and efficient remittance processing is adoption of selected, interoperable remittance standards by A/R and A/P software solution providers. For this reason, the Vendor Forum was developed in 2013 in order to connect Coalition member and software vendors to explore barriers to more rapid adoption of remittance standards that promote interoperability and straight through processing of payments and remittance detail. Claudia described the recent in-person meeting that was held in August in conjunction with the Credit Research Foundation’s annual conference and expo. The meeting facilitated a good exchange of information, but follow-up action steps were not defined. There is one final call scheduled for the group on December 2, 2014; the hope is that this call will identify next steps that can advance the Coalition’s objectives. Following the meeting in August, it became apparent that the right decision makers need to be involved in future discussions. Rich Urban, IFX, added that strategies that seem optimal for accounts receivable departments in organizations often work counter to the interests of accounts payable departments, suggesting that the Forum should involve representatives from both areas. Lyle Wallis, CRF, noted that the Forum has focused on working through the A/R side, but it seems the A/P side is more influential in driving standards adoption compared to A/R. CRF has begun to work to identify key providers on the A/P side to include in future forums.

Small Business Education:

Dian Curtis, PNC Bank, and Sandy Jensen, Empire Bank, provided an update on toolkits that are being developed to provide education on electronic payments for small businesses and the banks that serve them. Dian explained that the committee is focusing on developing one overall tool, but will have different aspects that will seek to reach banks versus vendors. The committee plans to use information that is already available so as not to reinvent the wheel. The content development team has met and owners have been assigned to different tasks. Dian provided an overview of content areas that will be included in the toolkit. More information can be found in the attached document outlining the work of the small business toolkit committee. While a specific timeline has not been developed for the entire project, segments of the toolkits should be complete within a few months. The content development team is meeting again in three weeks to review initial drafts. Once the toolkits are published on the Remittance Coalition website, they will be available for public use. This information will not be

copyrighted. Federal Reserve and Remittance Coalition representatives will also offer webinars or other informational sessions to describe how to use this type of tool.

Federal Reserve Payment System Improvement Roadmap:

Claudia provided an update on the Federal Reserve's payment system improvement strategy. Remittance Coalition members are encouraged to seek more information on the public website: <http://fedpaymentsimprovement.org>. She explained that a few years ago, the Federal Reserve released a new strategic plan with increased emphasis on end users of the U.S. payment system, such as consumers and businesses, receiving the benefits of safety, speed, and efficiency. The Federal Reserve then issued a public consultation paper in September 2013 outlining various payment strategies and ways to achieve them and sought comments from the public about these ideas. The Fed has considered all of this input and will be issuing a response (i.e., "roadmap") for how we think we can continue to work with all parties that are interested in making the U.S. payment system better, including safer, faster and more efficient. In relation to the Remittance Coalition, this roadmap will likely include information on how the Fed might promote strategies and tactics to accelerate adoption of electronic B2B payments and associated remittance information. When the roadmap is available, we will send the Remittance Coalition a link to the final report. Those who have comments on the roadmap can feel free to share them via the fedpaymentsimprovement public website or through Federal Reserve contacts via the Remittance Coalition.

Standards: ISO 20022:

Roy DiCicco, JP Morgan Chase, provided an update on the KPMG-authored business case assessment of adoption of ISO 20022 payment message standards in the U.S. He explained that when this project began, team members were investigating major markets around the world that were looking to adopt these ISO 20022 message formats. An industry stakeholder group consisting of X9, the Federal Reserve, NACHA, and The Clearing House was formed to explore how the U.S. should proceed and hired KPMG to conduct an assessment. KPMG's report was issued this past April. The scope of KPMG's analysis included both global and U.S. industry scans and considered the negative business case—i.e., what is the potential negative impact of not adopting ISO payment message standards? Roy outlined key observations from the global scan: main drivers for adoption around the world include regulatory mandates, technology upgrades, and system consolidation. In the U.S., KPMG found inconsistent demand for ISO 20022 and a general lack of awareness and understanding of the standard. Thus, it was difficult to identify clearly costs and benefits of adoption.

The assessment concluded that potential impacts of non-adoption could be: stifled innovation; lack of global interoperability; lost competitive edge compared to adopting markets; negative impacts on the dollar as a global currency in the long run; and increased costs to U.S. banks and international companies due to the necessity of maintaining multiple formats and systems. However, the assessment did not identify solid benefits of adoption. Consequently, the report recommended a phased approach to adoption. The first phase includes planning and education; the second includes a focus on implementing ISO 20022 payment message standards for cross border payments (specifically, wires);

and the third phase would assess the timing and adoption of ISO 20022 for domestic wire and ACH payments. The group believes it is feasible to advance domestic adoption of ISO 20022 by 2020.

Rich Urban from IFX described an ongoing effort to develop two stand-alone remittance messages that allow for rich data fields to be exchanged through the ISO 20022 format. In less than 2.5 months, there have been 1,000 downloads of a white paper that IFX wrote on this topic. The paper has been previously distributed to the Remittance Coalition distribution list. These messages allow companies to use their existing business practice to exchange remittance information, which should help drive adoption of the new messages. In the next six months, a best practice report will be published describing how to adopt and use these messages. Rich explained that NACHA participated actively in the development of the content of the messages to ensure compatibility with the ACH network.

Rob Unger, NACHA, then provided an update on NACHA's efforts to include ISO formats for remittance data. He explained that, unlike other ACH networks around the world, the U.S. network can handle a lot of remittance data. Currently, NACHA requires that the data be in EDI format, which is older and is not used by many small and midsize corporations. Through its recent efforts, NACHA can now support EDI and ISO formats for B2B remittance data. NACHA is seeking to provide leadership in moving towards international standards. Please see [http:// www.nacha.org/xml-ach-remittance](http://www.nacha.org/xml-ach-remittance) for more information.

Adoption of RC-Supported X9 Technical Reports:

Jessica Butler, Attain Consulting, provided an update on a technical report that the Remittance Coalition authored that was published by X9 on Core Adjustment Reason Codes. She explained that there are more than 600 codes on the full EDI 425 code list, used to identify adjustments for remittance information. Code definitions are unclear and inconsistent, and this leads to the necessity of manual processing. A workgroup of the Remittance Coalition identified 70 core codes and recommended ways to summarize and group the codes for use. The report also offers cross reference mapping to help identify which old codes map to new codes. These simplified codes provide a variety of benefits to suppliers, retailers (i.e., buyers) software vendors and other service providers. The next step is to disseminate information more widely on using the streamlined codes so that they are adopted. Steve Stevens from X9 reported that the Core Adjustment Reason Code technical report (available at <http://x9.org/wp-content/uploads/2014/02/TR-42-2014-Core-Adjustment-Reason-Codes.pdf>) has been downloaded 490 times.

Building Momentum

Claudia closed the call by reminding the group to encourage colleagues to join the Remittance Coalition. "Stock" slides on Remittance Coalition work are un-copyrighted and available for use in relevant presentations. The next meeting of the full Remittance Coalition will be held in person in conjunction with the AFP annual conference. It will be held on Sunday, November 2, 2014, from 10-11:30 AM EST at:

Walter E. Washington Convention Center, 801 Mt Vernon Place NW, Washington, DC, 20001, Room: Salon F. Those interested in attending should RSVP to Katy Jacob at: remittance.coalition.smb@mpls.frb.org.