Simplifying Electronic Payments & Remittance Processing

CREDIT & ACCOUNTS RECEIVABLE
OPEN FORUM
October 17, 2011

Topics

- Introduction of Panel
- B2B Electronic Payments & Remittance
- Problems in Remittance Processing
- Select Initiatives to Address Remittance Problem
- Panel Discussion

Disclaimer: *The views expressed here are those of the speaker and do not necessarily reflect the views of the Federal Reserve Bank of Minneapolis*

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Introduction of Panel

- **Claudia Swendseid**; Senior Vice President; Federal Reserve Bank of Minneapolis & Panel Moderator
- **David Bonneau**; President; C/LECT Consulting
- **Tammie Calys;** President; Transformation Management Consulting
- **Sandra Roth**; Manager, Trade Financial Management; Johnson & Johnson
- **Sandra Schirmang**; Senior Director of Credit, Kraft Foods
- **Scott Tillesen**; Director of Credit, SMB Accounts, Tech Data
- **Robert Unger**; Senior Director Electronic Billing & Payment; NACHA

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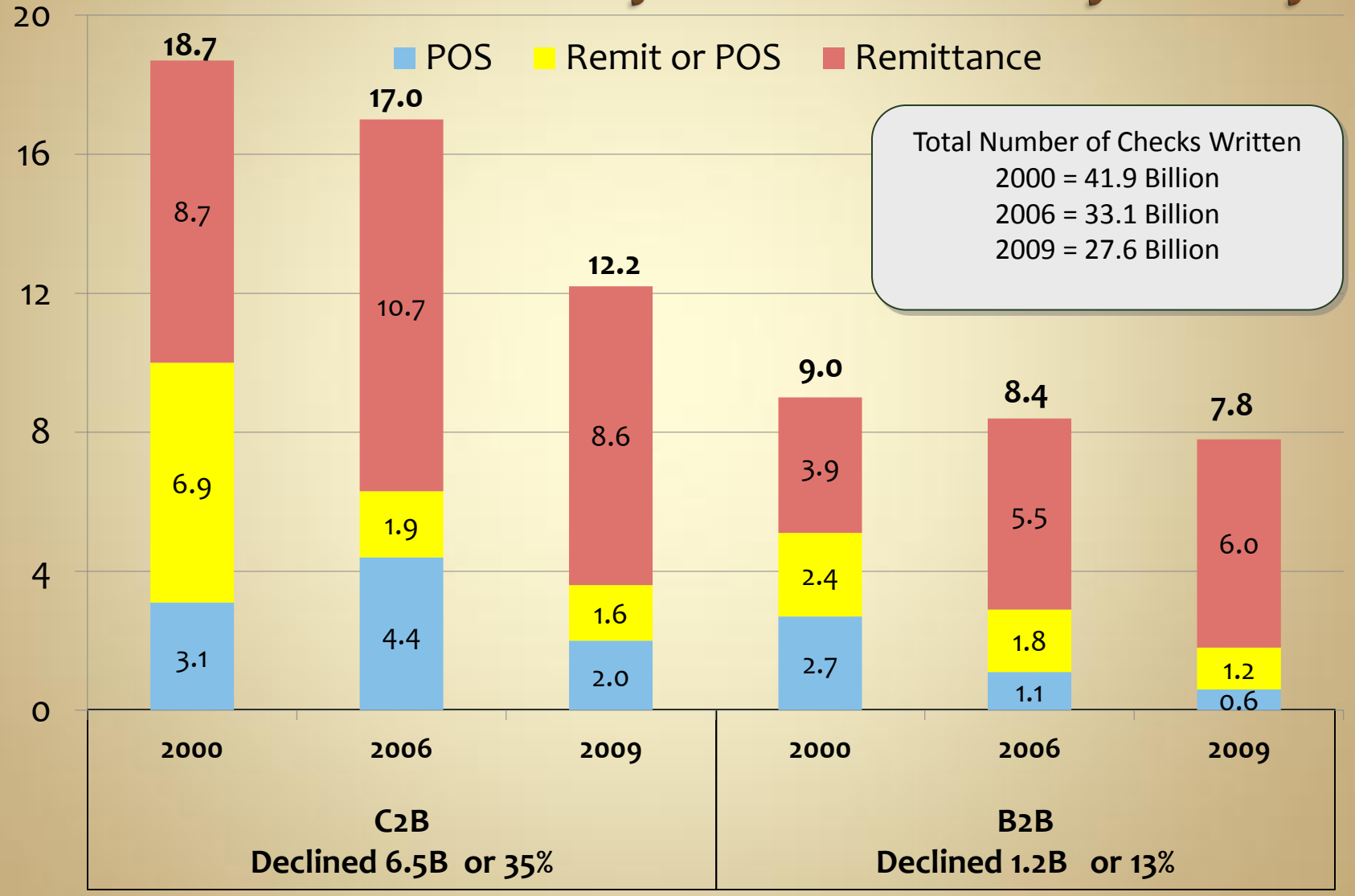
Business-to-Business Payments Are Moving From Checks to Electronic Payments Relatively Slowly



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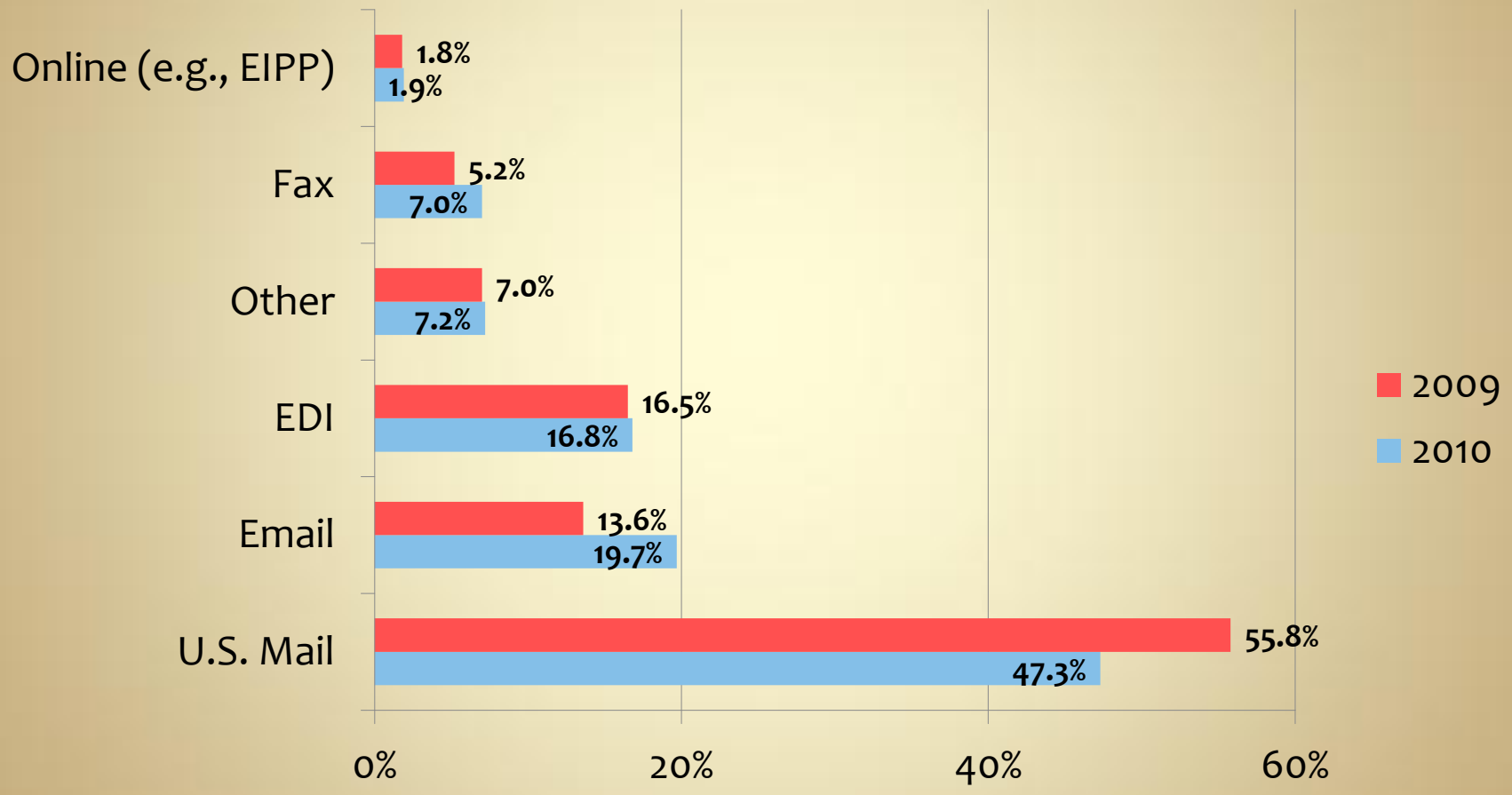
Paper Invoices Frequently Begin the Order to Cash Process



Note: Other includes Courier, hand delivery, invoices sent with shipment

Source: Credit Today Benchmarking Survey on Electronic Billing & Payment Trends: Part I , September 2011

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B2B Payment Methods Used

Larger companies report greater use of electronic payments with their major trading partners

Primary Payment Method Buyer Uses to Pay	Major Suppliers	Other Suppliers
	% of trans volume	
Checks	49%	64%
ACH Credits	26%	23%
Wire Transfers	17%	10%
Purchasing Cards	5%	3%
ACH Debits	3%	-

Primary Payment Method Supplier is Paid	Major Buyers	Other Buyers
	% of trans volume	
Checks	47%	71%
ACH Credits	26%	14%
Wire Transfers	19%	12%
Purchasing Cards	3%	1%
ACH Debits	5%	2%

Source: 2010 AFP Payments Survey

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Businesses See Benefits to Using More Electronic Payments

	Revenues < $1 B	Revenues > $1 B	< 1,000 B2B / mo	> 5,000 B2B / mo
	% indicates response as one of top three reported benefits			
Cost savings	53%	55%	48%	56%
Improved Cash Forecasting	41	42	43	41
Fraud control	38	37	36	34
More efficient reconciliation	30	36	28	35
Working capital improvement	31	26	28	28
Straight-through processing to A/P or A/R	30	38	32	39
Better supplier/customer relations	24	20	27	20
Reduction in days sales outstanding	26	18	27	18
Ability to take early payment discounts	16	20	17	16
Other	2	3	3	6

Source: 2010 AFP Payments Survey

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Remittance Problems Reduce Adoption of Electronic Payments

Barrier Description	Major Barrier	Minor Barrier	Not a Barrier
Difficult to convince customers to pay electronically	**32%**	**51%**	**17%**
Trading partners can't send or receive automated remittance information with electronic payments	**28%**	**49%**	**23%**
Difficult to convince suppliers to accept electronic payments	**23%**	**51%**	**26%**
No standard format for remittance information	**28%**	**44%**	**28%**
Shortage of IT resources for implementation	33%	37%	30%
Lack of integration between electronic payment & accounting systems	34%	33%	33%
Check systems work well	20%	37%	43%
Privacy/security of bank account information	11%	44%	45%
Loss of check float	10%	37%	53%
Own organization cannot send or receive automated remittance information with electronic payments	12%	24%	63%

Source: 2010 AFP Payments Survey

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Remittance Data Defined

Remittance Data Definition: Information shared between a seller & buyer that provides a detailed accounting regarding the provisioning of goods &/or services relative to a payment.

- Remittance data is initiated by a buyer to notify seller of a payment.
- Seller uses data to:
  - Close an open A/R entry
  - Acknowledge that payment was received in G/L
  - Determine other liabilities (e.g., adjustments, rebates, promotional efforts, special pricing, etc.)
- Benefits of automating processing of payments & remittance information include:
  - Automatic reconciliation & STP is possible
  - Discrepancies can be identified & cleared more quickly
  - Cost savings can be achieved

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Remittance Data Definitions

STRUCTURED REMITTANCE

- Each remittance data field is defined in a "standard" format (e.g., X12 820)
- Facilitates automated processing
  - May be sent to seller directly, embedded in or attached to payment, or extracted by intermediary & forwarded
- Data Fields typically include
  - Buyer/Originator information (Customer name, address, vendor or account number)
  - Seller/Beneficiary information (Name, address, account number)
  - Details of trade document settled by payment (invoice, bill of lading, EOB)
  - Reference to document type, number, date
  - Amount of payment
  - Document amount
  - Discount information
  - Adjustment amount & reason
  - Additional information (Location, contact)

UNSTRUCTURED REMITTANCE

- Freeform remittance field – may be handwritten OR automated, but lacks specified format
- To enable automatic processing, buyer & seller must agree on format
- May be sent to seller directly, embedded in or attached to payment, or extracted by intermediary & forwarded
- Often, larger amount of remittance data may be carried

EXTERNAL REMITTANCE DATA

- Payment includes information on how & where to find remittance data
  - Transaction ID, DB key, URL, physical address
- Seller may need to access buyer's website to retrieve remittance information; may need to manually input

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Remittance Exchange with Checks

Back office:
–ERP
–PO initiation
–Invoice matching
–A/P

Step 1: Purchase Order

Step 2: Goods

Step 3: Invoice

Step 4: Mail Check & Remittance Info

Back office:
–ERP
–PO Receipt
–A/R
–Payment matching

Step 5: Check Clearing Initiated

BOFD
Supplier's Bank

Inter-Bank Clearing

Step 6: Check Settled

Buyer's Bank

Step 7: Check Risk Services Used, e.g., Positive Pay

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Remittance Exchange with Electronic Payment

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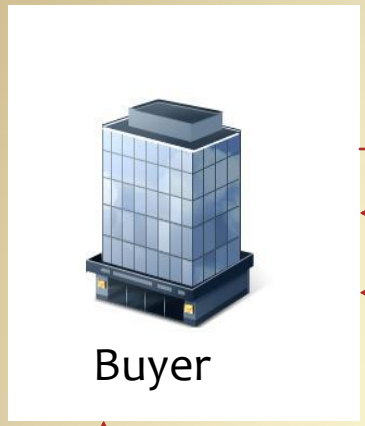
–A/P



Step 1: Purchase Order

Step 2: Goods

Step 3: Invoice

Back office:
–ERP
–PO Receipt
–A/R
–Payment matching

Step 4: Initiate Payment

1. **Buyer may send remittance with payment**
2. **Buyer may send remittance directly to supplier, separate from payment**
   - **Mail, e-mail, electronic, update supplier repository**

Step 6: Notification of Payment

Buyer's Bank

Inter-Bank Clearing

Step 5: Settle Payment

BOFD
Supplier's Bank

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Common Problems Reconciling Payments & Remittance Data Efficiently

- Parties in payment chain may truncate remittance data or drop it entirely
- Remittance formats may vary by trading partner
- Amount & type of remittance data may be restricted
- Discrepancies may be difficult to resolve
- May need to re-key data if not able to automatically process, introducing errors, delays & costs
- When payment is sent separately from remittance, automatically matching payment to remittance may be more difficult, especially if payment has been posted as open cash or remittance format isn't common (i.e., not 820)

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Key Contributors to Remittance Reconciliation Problems

1. Existing solutions don't address small business needs adequately
   - Smaller businesses may have more limitations for sending/receiving electronic payments & remittance data
2. Information & education for businesses about existing solutions & new initiatives is insufficient
   - Businesses may not have sufficient information to make good choices
   - Banks do not consistently educate business customers
3. Collecting input from businesses & using it to develop future solutions is inadequate
   - New industry initiatives may not meet business needs & be adopted
4. Too many solutions in marketplace complicates business decisions about which to adopt
   - Plus, existing standards aren't standard enough - allow too much flexibility in implementation, which impeded STP

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Remittance & ACH Payments

Method for Exchanging Remittance	When Sending ACH	When Receiving ACH
	% indicates transaction volume	
Email	63%	62%
EDI/CTX transmission*	39%	42%
Mail	18%	22%
Fax	16%	22%
Customer website	6%	14%
3rd Party website	6%	10%
Own Organization's website	6%	7%
Other	9%	9%

*EDI remittance data may flow with ACH CTX transmission or via private network

- EDI parser or translation software is needed, which smaller companies may view as too complex & costly
- Trading partners must agree on EDI standard (e.g., X12 820, X12 STP 820, EDIFACT) & version to use; typically EDI mapping guide is needed for specific requirements & values

Source: 2010 AFP Payments Survey

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Remittance & ACH Payments

NACHA Is considering several new initiatives:

- Benchmarking & analyzing remittance "market" to better understand opportunities for increasing electronic remittance volume in ACH & other channels.
- Developing XML formatted remittance specifications to facilitate next generation remittance data exchanges within the ACH
- Assessing market demand for an open source B2B directory to address fragmentation of payee ACH payment information & remittance requirements.

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Remittance & Wire Payments

- Fedwire & CHIPS will implement a new wire format on 11/19/2011 that supports extended remittance information (ERI)
- ERI introduces new wire message type called Customer Transfer Plus (CTP)
  - Existing "Customer Transfer" (CTR) message will remain as is
- Changes being made to bank-to-corporate cash management file format (BAI2) to include new ERI fields
  - BAI2 will be replaced by X9 Balance Transaction Reporting Specification (BTRS) standard; **publication expected by 11/19/2011**
  - New X9 standard will enable banks to provide corporate customers with wire ERI data in 88 record

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Types of ERI for Wires

Type	CTP Message Remittance Tags
Unstructured 8,994 Characters (about 30 invoices)	{8200} Unstructured Addenda Information ▪ Block to carry remittance information in other formats (i.e., ANSI X12 820 , General XML, ISO 20022 XML, STP 820, SWIFT field 70 format or UN-EDIFACT or in narrative free text); Best practice: STP 820
Related	{8250} Related Remittance Information ▪ Used to identify a reference # & location of where remittance information can be obtained outside of the wire payment.
Structured 9,000 Characters (about 30 invoices)	***Tags that can only occur once in a single CTP message*** {8300} Remittance Originator {8350} Remittance Beneficiary ***Repeatable tags for each item being paid*** {8400} Primary Remittance Document Info {8450} Actual Amount Paid {8500} Gross Amount of Remittance Document {8550} Amount of Negotiated Discount {8600} Adjustment Information {8650} Date of Remittance Document {8700} Secondary Remittance Document Info {8750} Remittance Free Text

Interoperable with XML-based ISO 20022 & EDI-based STP 820 formats. Remittance Mapping Table at: www.frbservices.org

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Corporate Views on Effect of Wire ERI on Payment Methods Used

How will the availability of ERI in wire payment format affect your company's use of wires for domestic payments?	
	% of respondents
Send more wires in place of checks	17%
Receive more wires in place of checks	16%
Send more wires in place of ACH items	2%
Receive more wire in place of ACH items	5%
Send more wire in place of cards	1%
Receive more wires in place of cards	2%
No change	76%

Source: 2010 AFP Payments Survey

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Working Together to Address Remittance Problems

In June 2011, X9 & the Minneapolis Fed hosted a workshop of standards developers, bankers, business representatives, software vendors & others to discuss remittance problems & solutions.

Attendees agreed:

- Enhanced standard processes are needed so businesses of all sizes can easily associate electronic remittance data with payments & benefit from straight through processing
- To form a "Remittance Coalition" of interested parties to continue to understand & address remittance problems
- To develop a list of specific action items that address issues identified
- To ensure ongoing input from businesses to understand problems & develop effective solutions

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Remittance Coalition Action Items

- Develop a glossary of remittance-related terminology to promote common understanding
- Develop a catalog of existing remittance-related industry initiatives
- Develop an inventory of existing remittance standards & their uses
- Reach out to key stakeholders, including business practitioners, about the work of the Remittance Coalition & encourage participation
- Conduct a survey of business practitioners on remittance processing problems & solutions needed; ensure small businesses are included
- Collaborate on development of an ISO 20022 standalone extended remittance standard
- Leverage X9's Corporate Payments subcommittee to investigate revisions/extensions to existing remittance standards & formats
- Investigate developing a directory to provide corporate bank information needed for electronic payments processing
- Follow-up with Routing & Transit Number Board on problems caused by using routing numbers to segregate payments delivery

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Remittance Coalition Next Steps

1. Confirmed about 30 organizations that are interested in Remittance Coalition (RC) participation & action item efforts
   - Established a Leadership Steering Group
2. Assigned action items to RC members; work is getting underway; follow-up calls & meetings will be held as needed
3. Reaching out to business practitioners about RC
   - Presentation at CRF Forum in October
   - Educational workshop at AFP Conference in November
   - Development of survey underway
4. For more information about the Remittance Coalition

www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm

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Panel Discussion Topics

1. Payments Remittance Processing
2. Payments Remittance Processing Problems
3. Payments Remittance Processing Solutions
4. Payments Remittance Processing Education

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