

# **Simplifying Electronic Payments & Remittance Processing**

**Claudia Swendseid  
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# INTRODUCTION



## **Claudia Swendseid**

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- Member of the Bank's Management Committee & provides executive oversight to FedACH Support Services, Electronic Access Customer Contact Center (CCC), Federal Reserve Consumer Help, FedLine Channel Products, Information Technology Department, National IT Service Desk, Enterprise Program Management Support Office, & Payments Information & Outreach Office
- Conducts industry relations on behalf of the Federal Reserve System, serving as a liaison to selected national banking associations & business associations interested in payments
- Represents the Federal Reserve to the Accredited Standards Committee (ASC) X9 & serves as the vice chair of the X9 Board of Directors



# Federal Reserve In Payment Services

- Fed's payments mission is to foster integrity, efficiency, & accessibility of U.S. dollar payments & settlement systems, issue uniform currency, & act as fiscal agent & depository for U.S. government.
- FRBs provide payment services to U.S. government & over 15,000 FIs.
- BOG promulgates regulations that govern payments

For FIs	For U.S. Government
<ul style="list-style-type: none"><li>• Check Clearing</li><li>• Currency &amp; Coin</li><li>• Automated Clearing House (ACH),</li><li>• Wholesale Services: Wire &amp; Securities Transfers &amp; National Settlement Services</li></ul>	<p>Collects, disburses, borrows, invests, &amp; accounts for government funds:</p> <ul style="list-style-type: none"><li>• Processes U.S. Savings Bonds,</li><li>• Supports Treasury auctions,</li><li>• Provides Internet payment platform for federal agencies &amp; business suppliers</li></ul>



# Topics

- **The Issue**
- **Remittance Data & B2B E-Payments**
- **The Opportunity**
- **Working Together**
- **Putting It All Together**

Disclaimer: The views expressed here are those of the speaker & do not necessarily reflect the views of the Federal Reserve System or the Federal Reserve Bank of Minneapolis



# The Issue

**B2B payments are becoming electronic more slowly than all other payments in the U.S., so the payments system is less efficient & more costly than possible**

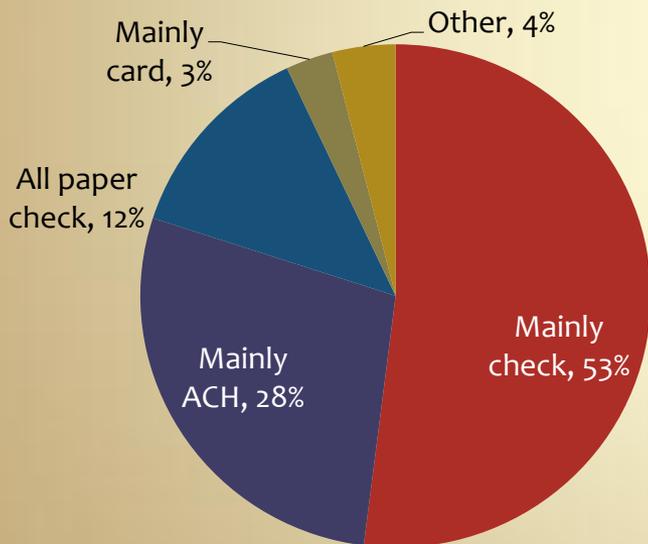


# B2B Payments Still Mainly Check

Over half of U.S. businesses surveyed mainly pay & are paid by check

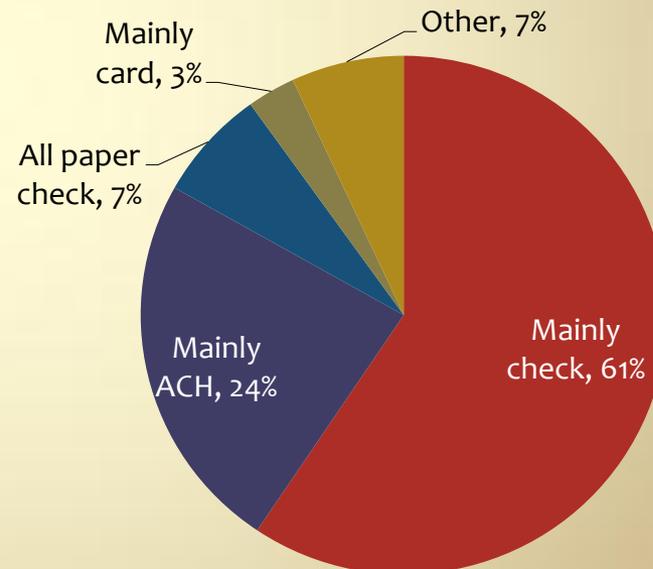
### Making Payments

(n=601)



### Receiving Payments

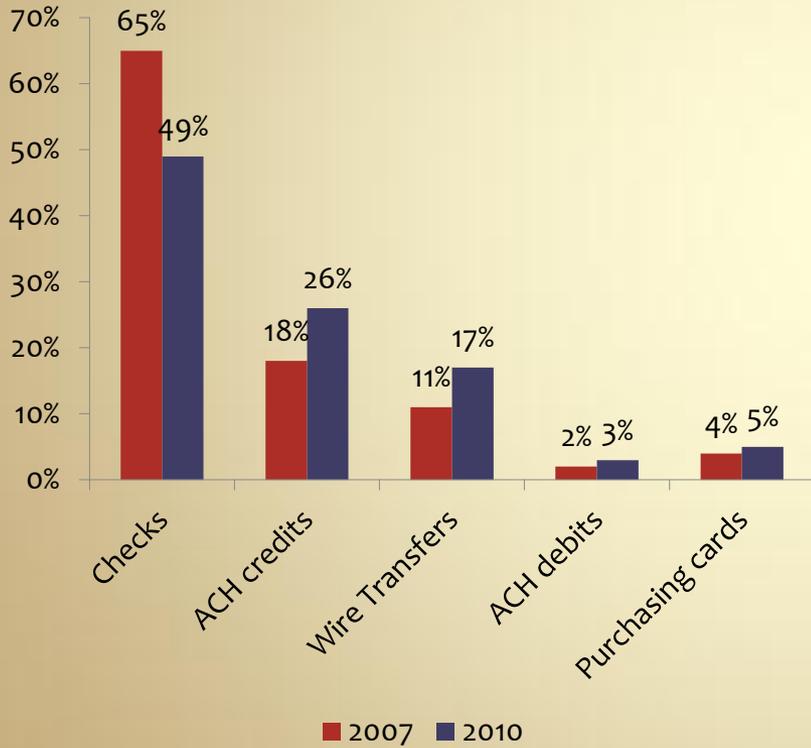
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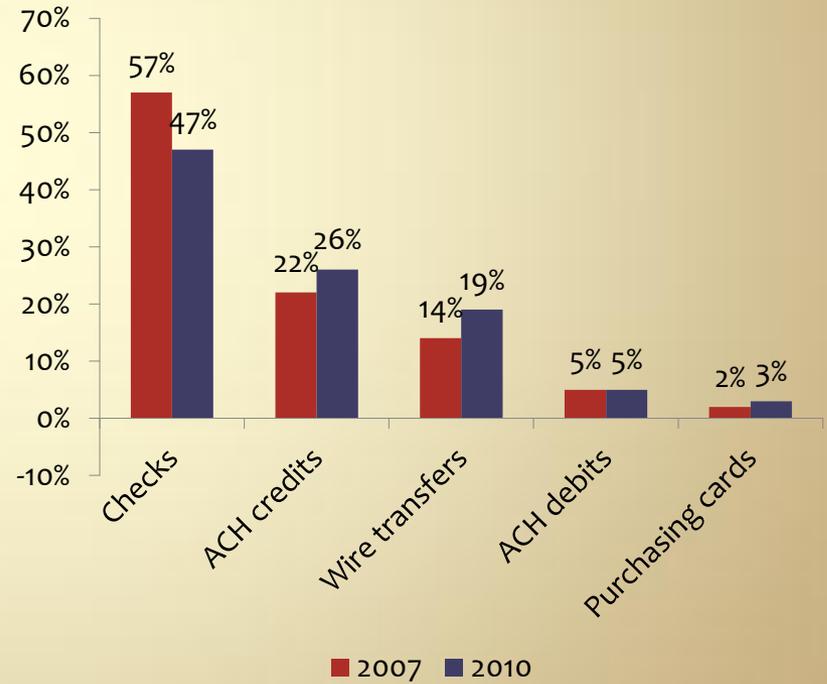
SOURCE: 2012 Remittance Coalition Survey

# E-Payment Use Is Higher Between Major Trading Partners

## Payment Method Used to Pay Major Suppliers



## Payment Method Received from Major Business Customers



SOURCE: 2007 & 2010 AFP Electronic Payment Survey

# But Checks Are Used Most Between Non-Major Trading Partners

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

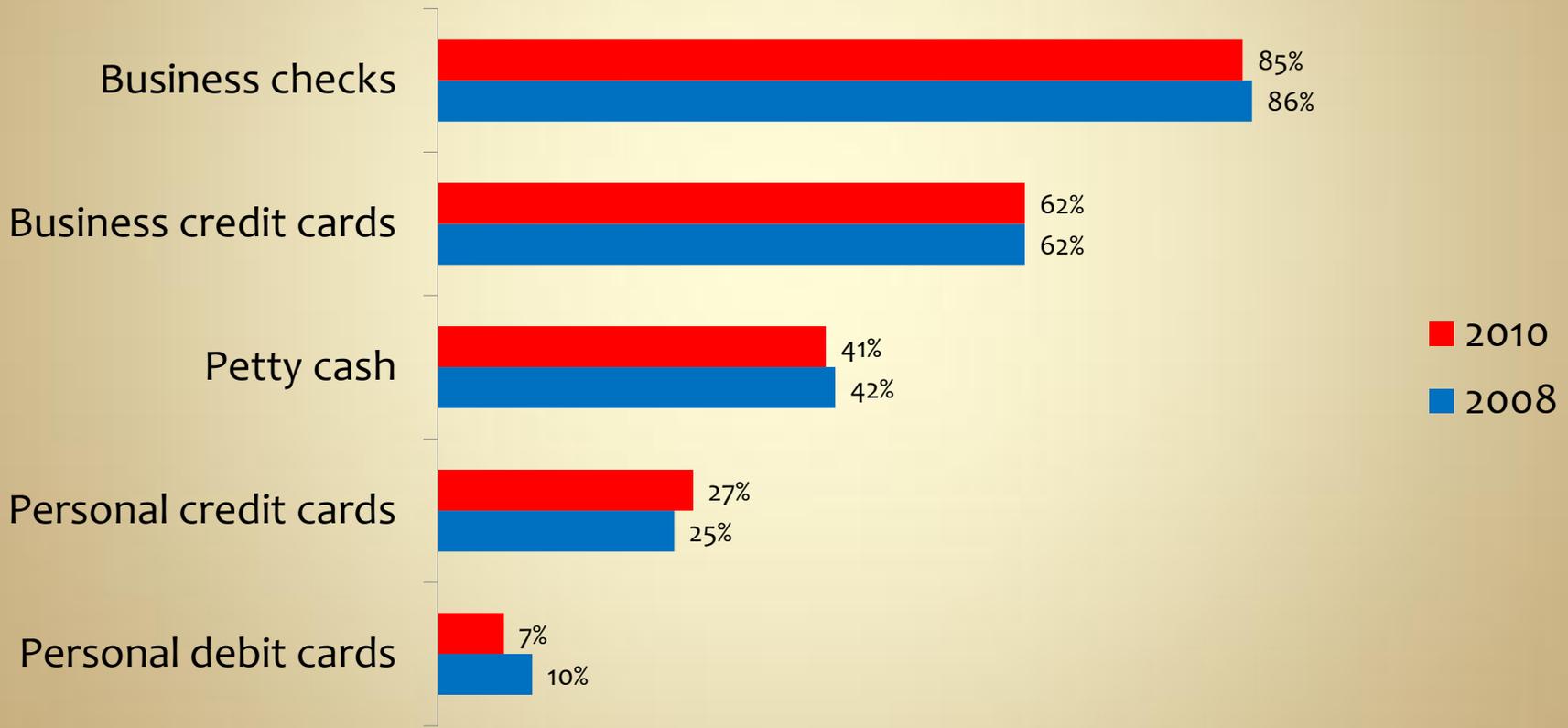
Primary Payment Method Supplier is Paid	Major Buyers	Other Buyers
Checks	47%	71%
ACH Credits	26%	14%
Wire Transfers	19%	12%
Purchasing Cards	3%	1%
ACH Debits	5%	2%

Figures reflect percentage of annual transactions with major suppliers/buyers compared with “other” suppliers/buyers

SOURCE: 2010 AFP Payments Survey

# Small Businesses Especially Rely on B2B Checks

## Payment Tools Used By Small Businesses



SOURCE: 2010 VISA North American Small Business Cash Management Survey

# Paper is More Costly throughout the Purchase-to-Pay Cycle

Costs to Seller	Print & Mail Invoice	Send Payment Reminder	Remittance & Cash Mgmt.	Archive	Total
Paper	\$5.66	\$0.73	\$6.53	\$3.19	\$16.11
Electronic	\$0	\$0.58	\$4.35	\$1.45	\$6.38

Costs to Buyer	Receive Invoice	Codify	Validate & Match	Dispute Mgmt.	Make Payment	Archive	Total
Paper	\$1.59	\$4.35	\$5.80	\$3.63	\$6.96	\$3.19	\$25.52
Electronic	\$0	\$0.58	\$1.74	\$2.90	\$4.21	\$1.16	\$10.59

Source: Billentis, 2009 cited in *Customer Self-Service in B2B Order to Cash*, Genpact, 2012

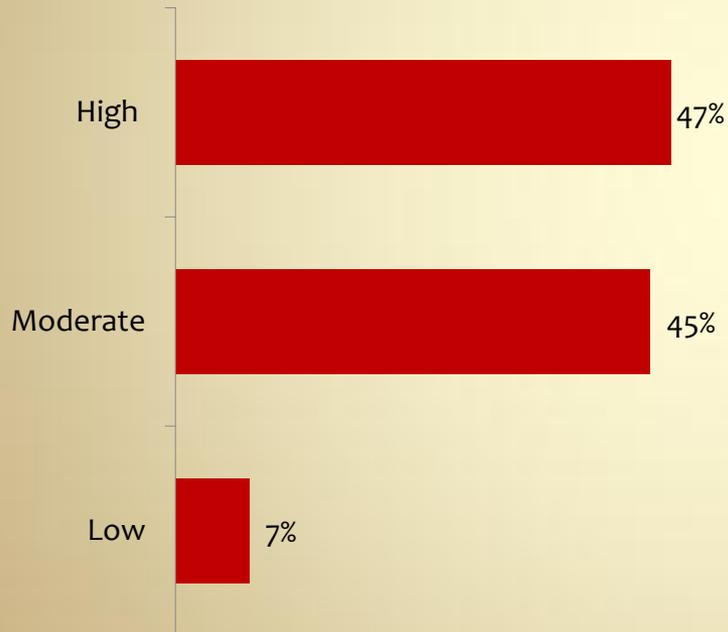
# Interplay Between Remittance Data & B2B E-Payments

**Lack of easy integration & automated reconciliation between payment & remittance information affects adoption of all types of electronic payments**

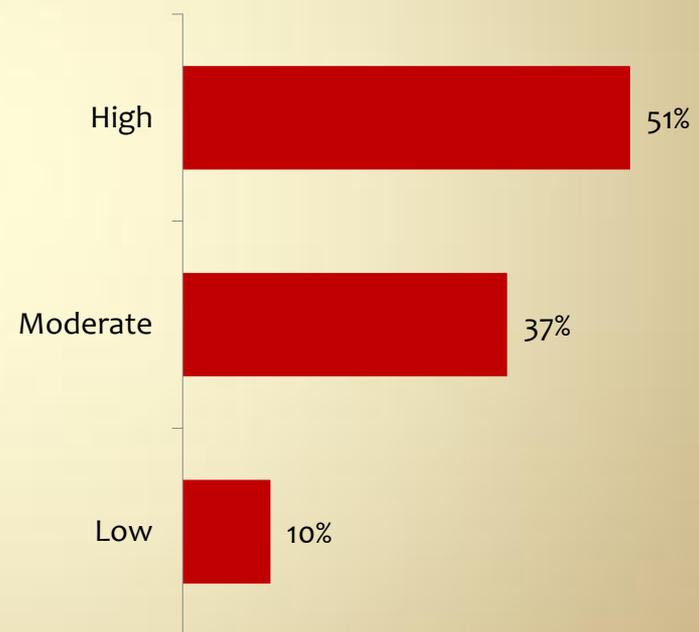


# Businesses Want More E-Payments & E-Remittance

Interest in Using More Electronic Payments  
(n=635)



Interest in Using More Electronic Remittance  
(n=627)



SOURCE: 2012 Remittance Coalition Survey

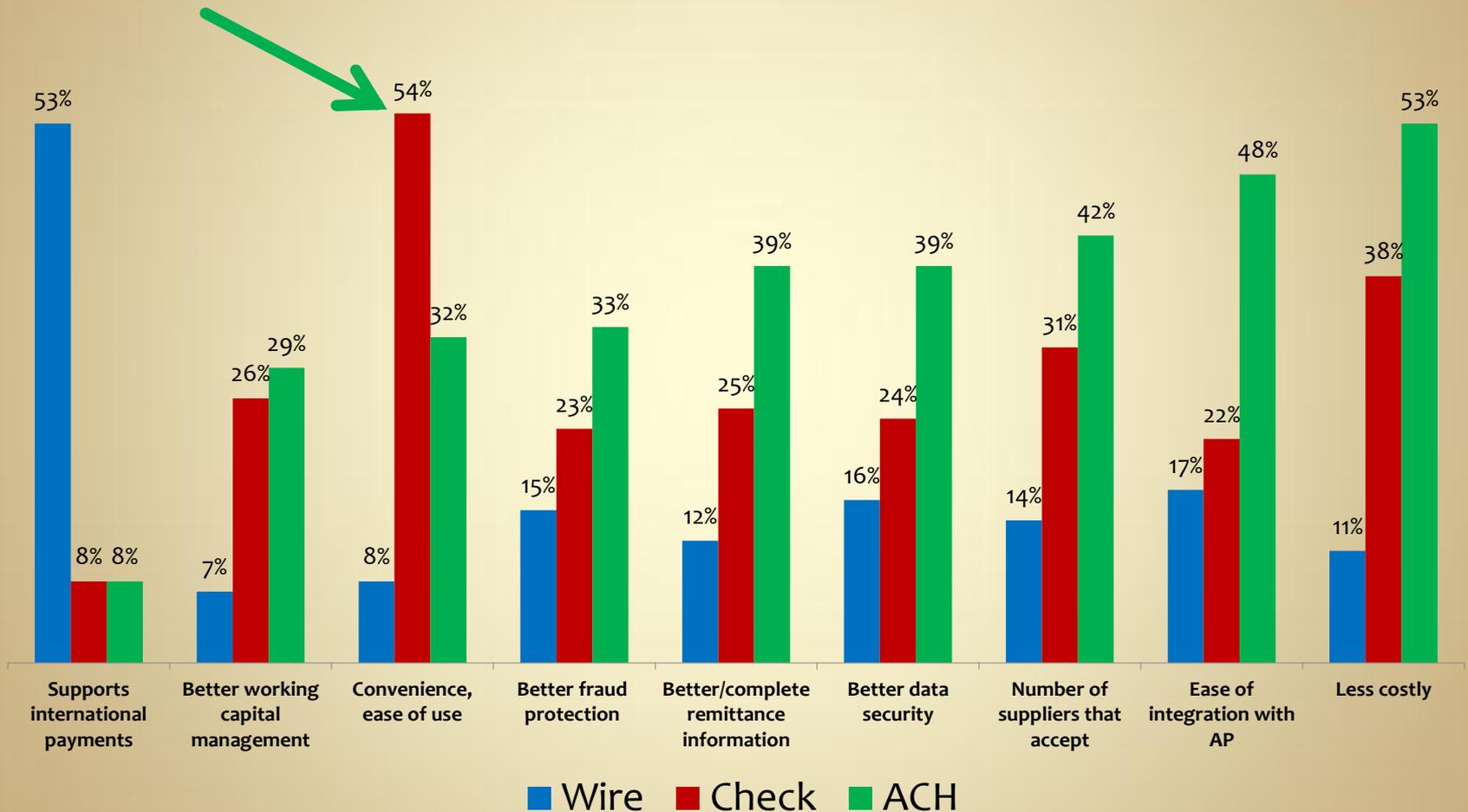
# Given E-Payment Benefits, Why Not Faster Adoption?

Benefits of Electronic Payments	Revenues < \$1 B	Revenues > \$1 B	< 1,000 B2B / mo	> 5,000 B2B / mo
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	30	38	32	39
Better supplier/customer relations	24	20	27	20
Reduction in day's sales outstanding	26	18	27	18
Ability to take early payment discounts	16	20	17	16

% indicates response as one of top three reported benefits

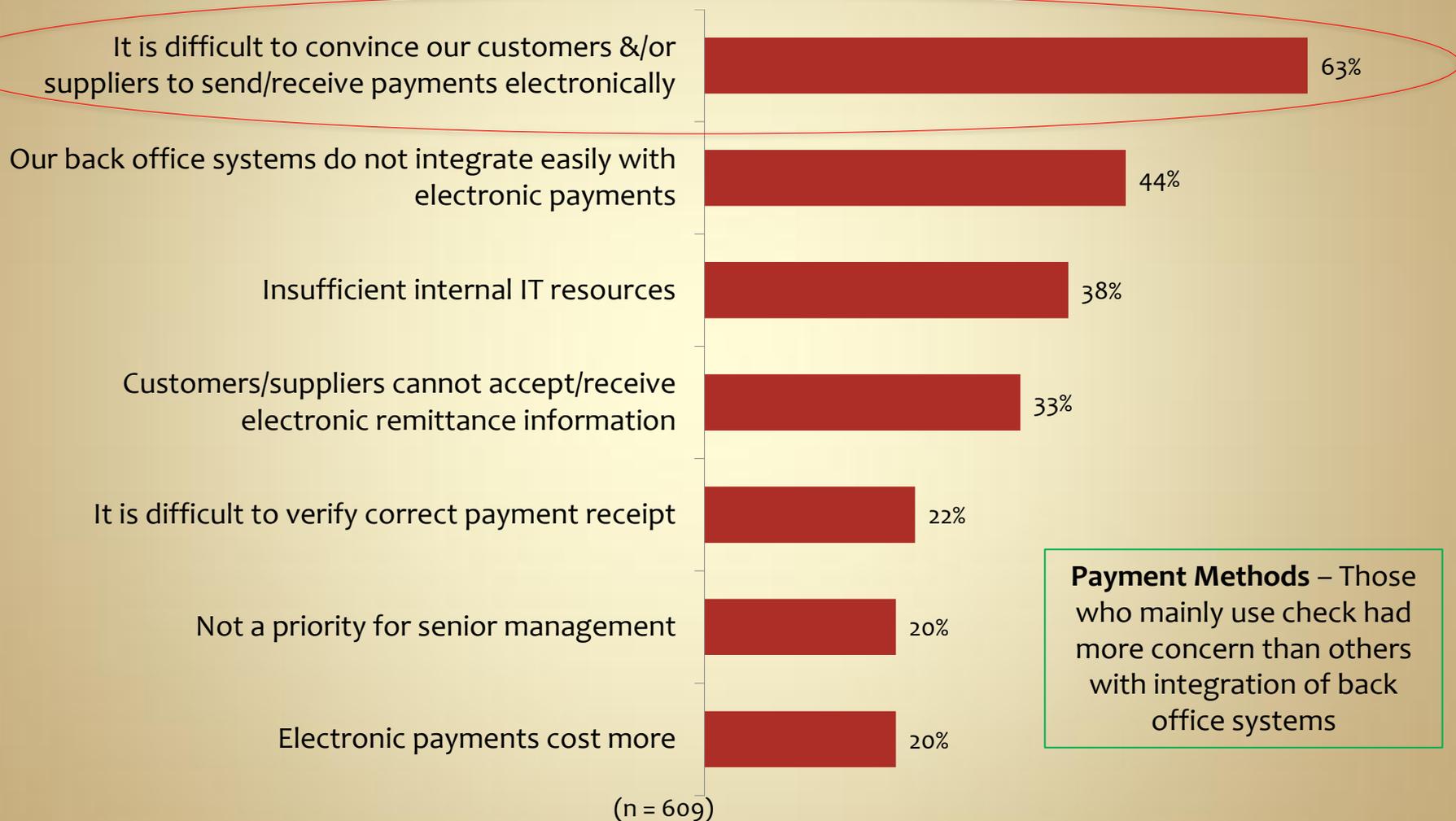
SOURCE: 2010 AFP Payments Survey

# Checks Are Still Convenient & Easy to Use



SOURCE: Payment Advisors Report, "Electronic Supplier Payments," 2011

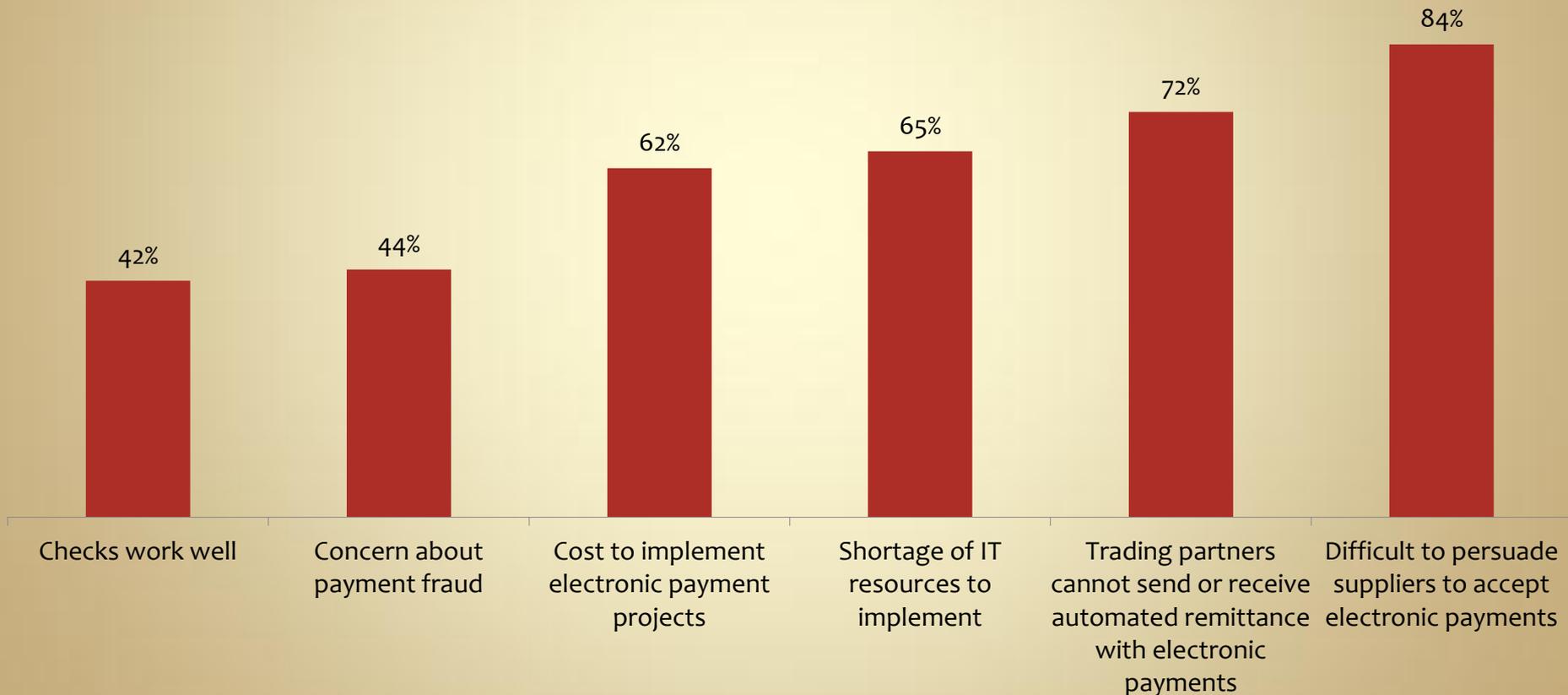
# Barriers to Increased Use of Electronic Payments



SOURCE: 2012 Remittance Coalition Survey

# Plus, Businesses Report Barriers to Implementing E-Payments

Common Barriers to Implementing B2B Electronic Payments



SOURCE: Electronic Payments – Trends in Accounts Payable, US Bank Winter 2010

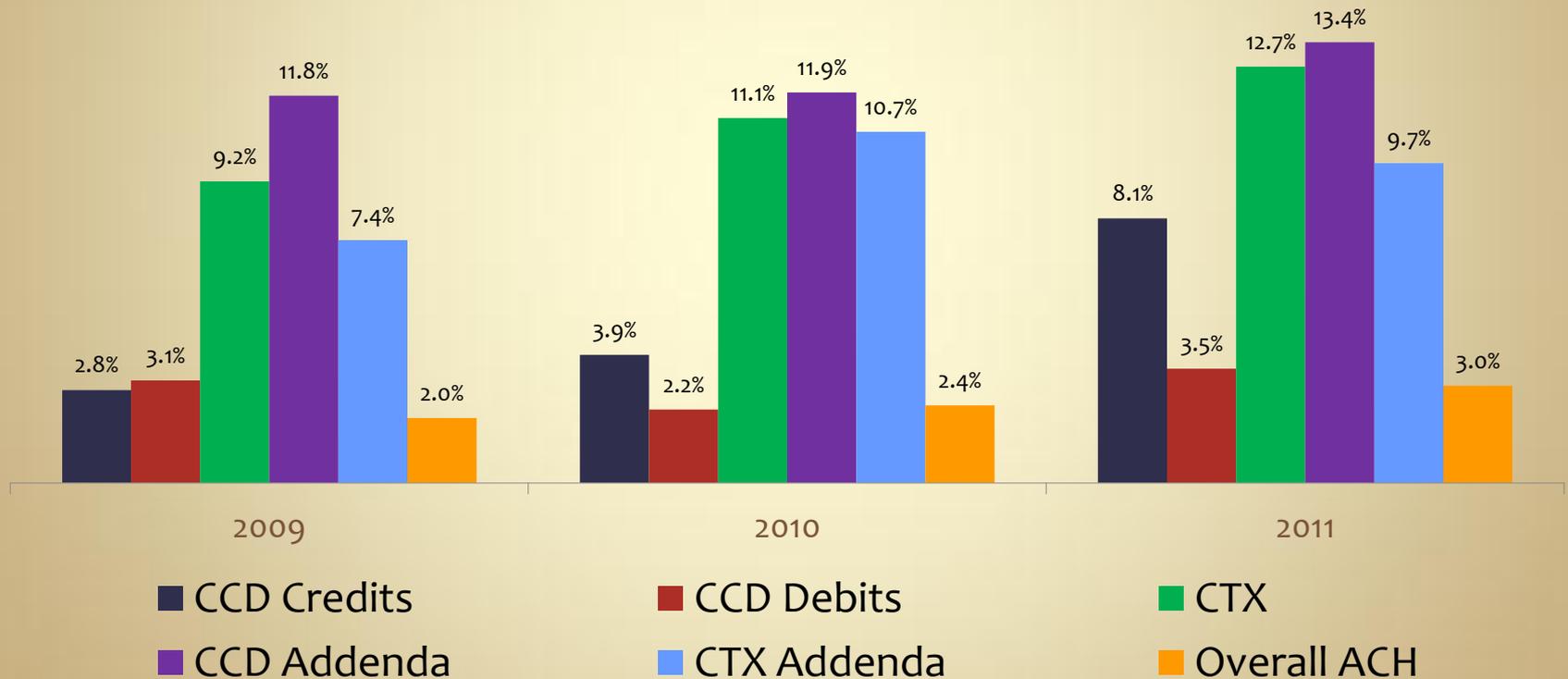
# The Opportunity

**Making it easier to integrate the processing of payments & remittance information will advance adoption of electronic payments, improve efficiency & lower costs of the purchase to pay process**



# ACH B2B Growing Faster Than Total ACH

## ACH Growth by Select Category: 2009 - 2011



SOURCE: NACHA Statistics

# But Remittance Sent With Only About 40% Of B2B ACH Payments

ACH payment can carry standard remittance data, but a lot of remittance information is still exchanged via email

Method for Exchanging Remittance	% Remittance Volume for ACH Sent	% Remittance Volume for ACH Received
Email	63%	62%
EDI/CTX transmission*	39%	42%
Mail	18%	22%
Fax	16%	22%
Customer website	6%	14%
3 <sup>rd</sup> Party website	6%	10%
Own Organization's website	6%	7%

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

SOURCE: 2010 AFP Payments Survey

# P-Card Volume Continues to Grow



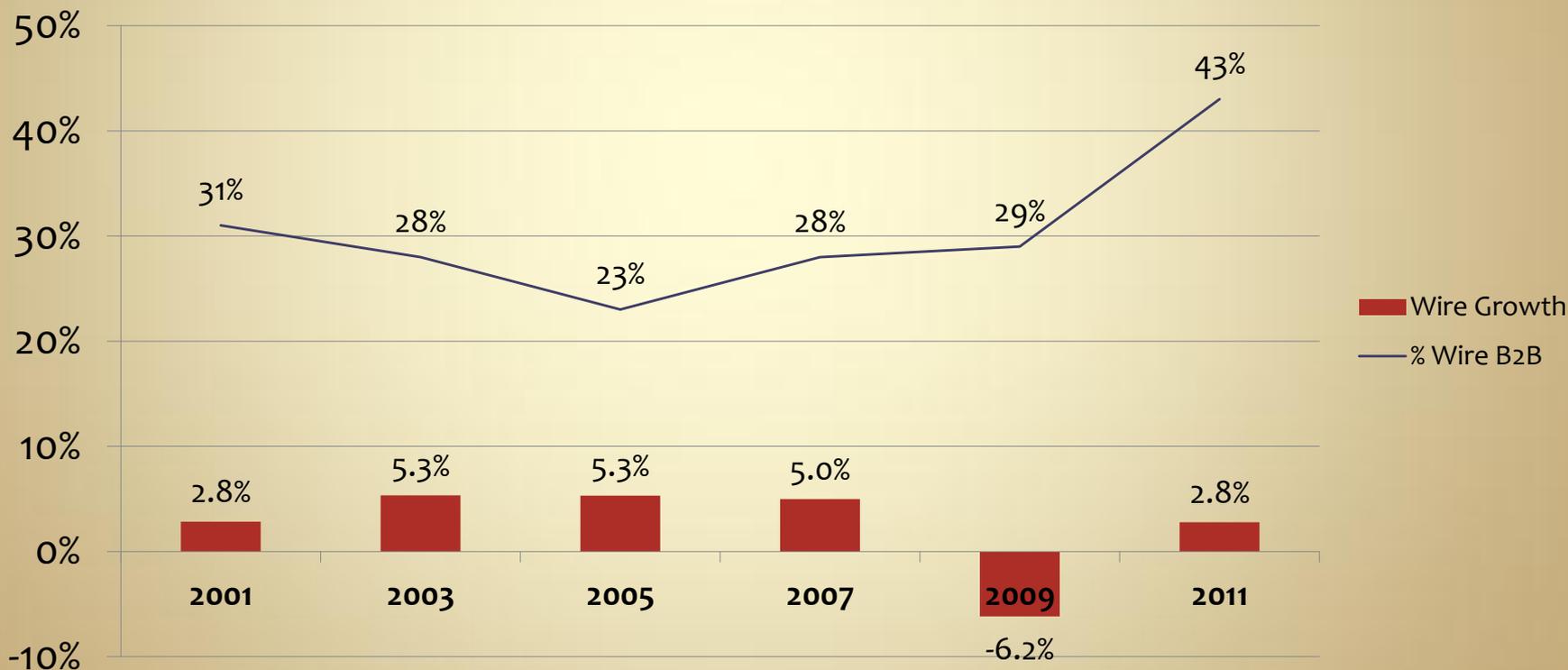
- Most p-card transactions bypass invoice & remittance detail
- But, when card payments are made to invoices, only 7% can close invoice upon payment

SOURCE: RPMG Purchasing Card Benchmark Survey 2010

# Wire B2B Payments Are Also Growing

Total wire transfer growth slowed following the financial crisis, but use of wires for B2B transactions has increased

## Overall & B2B Wire Volume Growth



SOURCE: Federal Reserve Board of Governors & CHIPS volume data

# Will ERI Implementation Increase Wire B2B Volume?

- In late 2011, CHIPS & Fedwire Funds implemented format changes to carry extended remittance information (ERI)
  - Unstructured: A block of 8,994 characters, unedited, in free form or a standard (e.g., X12 820, X12 STP 820, ISO 20022, proprietary)
  - Related: A reference number & location for remittance information exchanged separately
  - Structured: Remittance data identified by tags carrying invoice details for up to 30 invoices; interoperable with X12 STP 820 & ISO 20022; edited by Fedwire & CHIPS
- To carry ERI, Balance & Transaction Reporting Standard (BTRS) created (replaces BAL2 format), which enables banks to provide remittance data to their corporate customers (*adoption of BTRS has just begun*)
- ERI volume is small: 1<sup>st</sup> half 2012 CHIPS & Fedwire ERI volume totaled 17,793 messages while total CHIPS & Fedwire volume exceeded 130 million during the same period



# A Lot Of Remittance Still Exchanged Via Paper

Channel/Method For Providing Remittance Details of 15.5 Billion Monthly Remittances Exchanged in the U.S.	# of Mthly Remittances
Sent by mail	2.6 billion
Provided through bank or third party lockbox resource	2.4 billion
Included with payment in an unstructured or free form format	1.7 billion
Provided at location such as online banking site or remitter's website that is accessed with a code or key	1.6 billion
Included with payment in a format supported by a standards group	1.5 billion
Sent by email	1.5 billion
Provided in EDI format directly to your company from your trading partner	1.2 billion
Provided through a value-added network in EDI format	1.1 billion
Provided by SWIFT	0.8 billion
Provided by telephone	0.5 billion
Sent by fax	0.4 billion
Provided by trading partner network that is supported by third party vendor	0.4 billion

SOURCE: 2012 NACHA Remittance Survey conducted by Aite

# Common Pain Points with Remittance Processing

(n=638)



SOURCE: 2012 Remittance Coalition Survey

# WORKING TOGETHER

**Improving the efficiency of  
payments & remittance  
information processing requires  
industry-wide engagement &  
consensus solutions**



# Remittance Coalition Defined

**What it is** Diverse group of experts from an array of organizations all committed to promoting practical actions to help achieve straight-through-processing & electronification of B2B payments & remittance information

- Formed in 2011
- 120 members & growing – *many of your organizations*

**Mission** Work together to solve problems related to processing remittance information associated with B2B payments in order to promote use of e-payments & straight through processing



# Remittance Coalition Activities

## 1. Business Practitioner Input

a) Coalition conducted web-based survey of practitioner pain points & views on proposed solutions to remittance-related problems – CRF participated



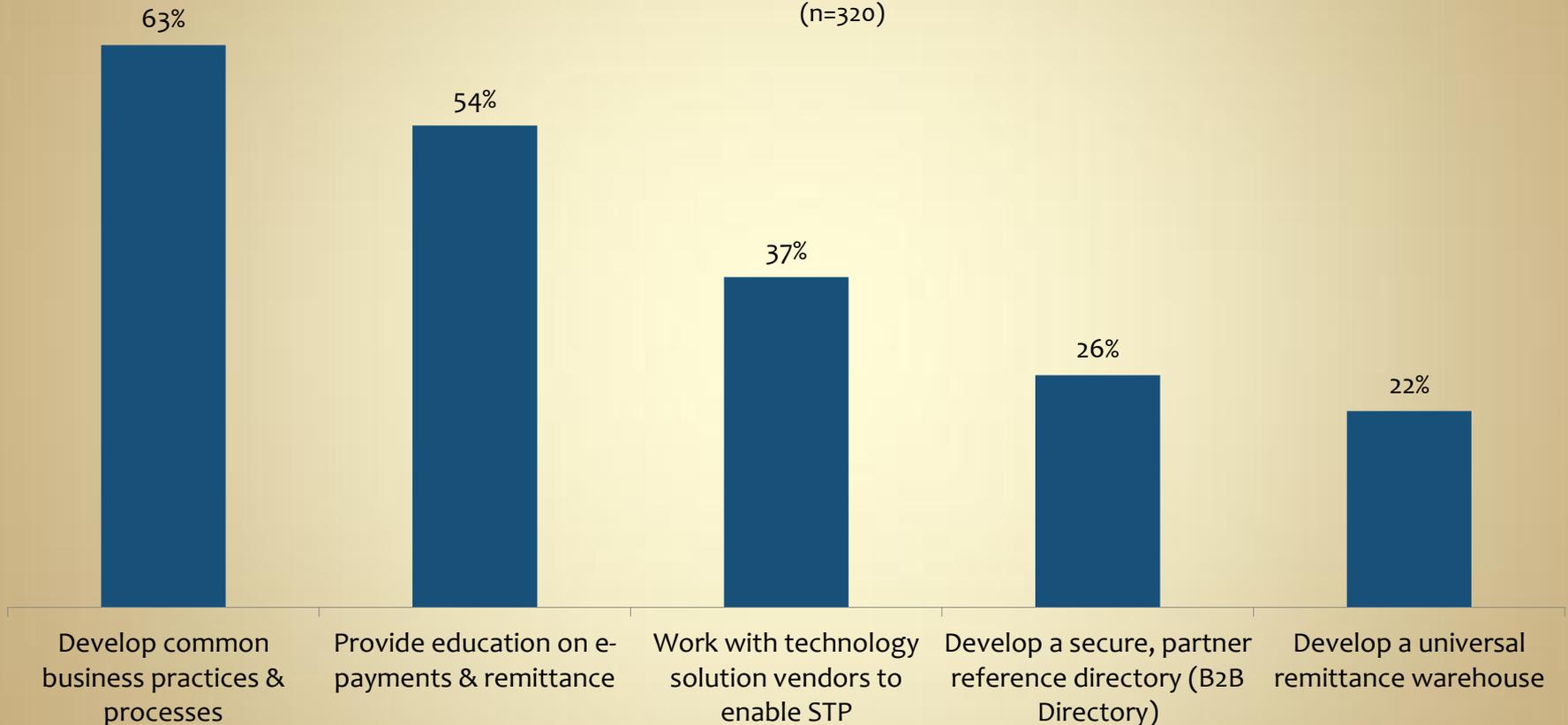
b) CRF conducted various surveys regarding discount codes leading to development of new standard



# What Business Practitioners Want

## Preferred Solutions – Ranked 1 or 2

(n=320)



SOURCE: 2012 Remittance Coalition Survey

# Top Ranked Solution is for Standard Business Practices

- Majority responded that their customers & suppliers do not use EDI remittance formats in a standard way
- Majority responded that their customers do not use the same set of discount & adjustment codes



SOURCE: 2012 Remittance Coalition Survey

# Remittance Coalition Activities

## 2. Business Process Enhancements

- a) Develop simpler, standard practices for using discount & adjustment codes (EDI 820) & promote adoption
- b) Work with software vendors to adapt systems to enable more automated reconciliation of e-payments & e-remittance
- c) Facilitate discussions with practitioners to identify other business process improvements needed

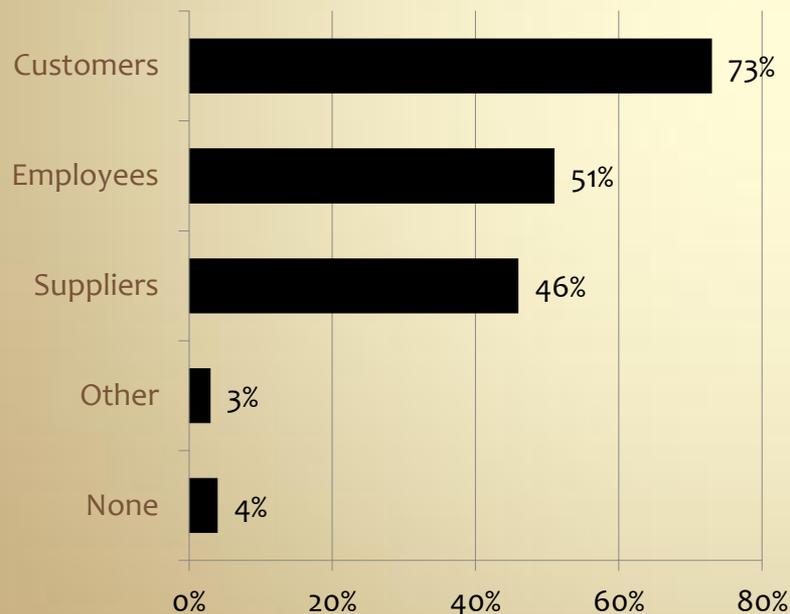


# Education Is #2 Ranked Solution by Practitioners

Respondents said that education was needed equally on electronic payments & remittance data & their customers needed education more than their own employees or their suppliers

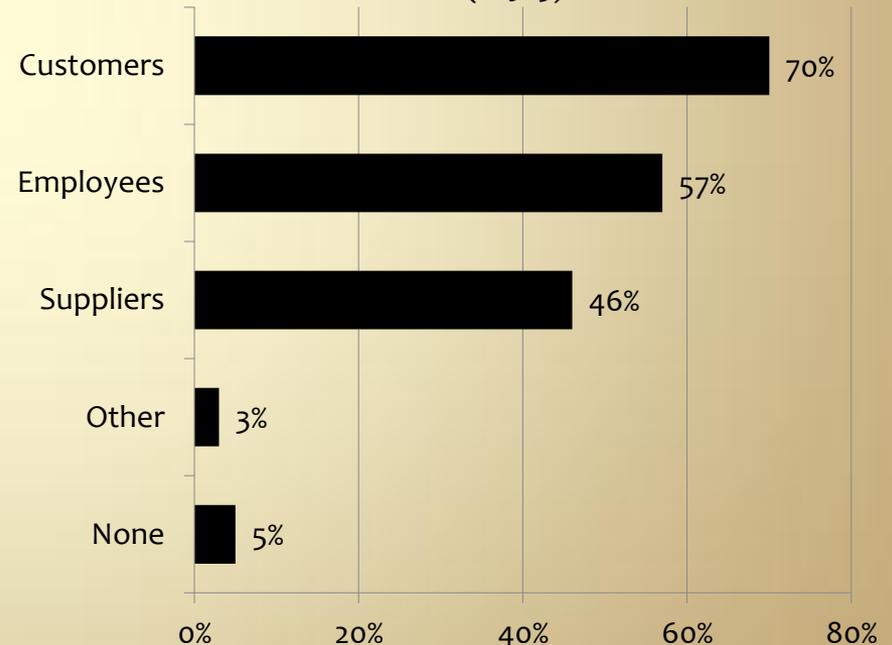
### Education on Electronic Payments

(n= 564)



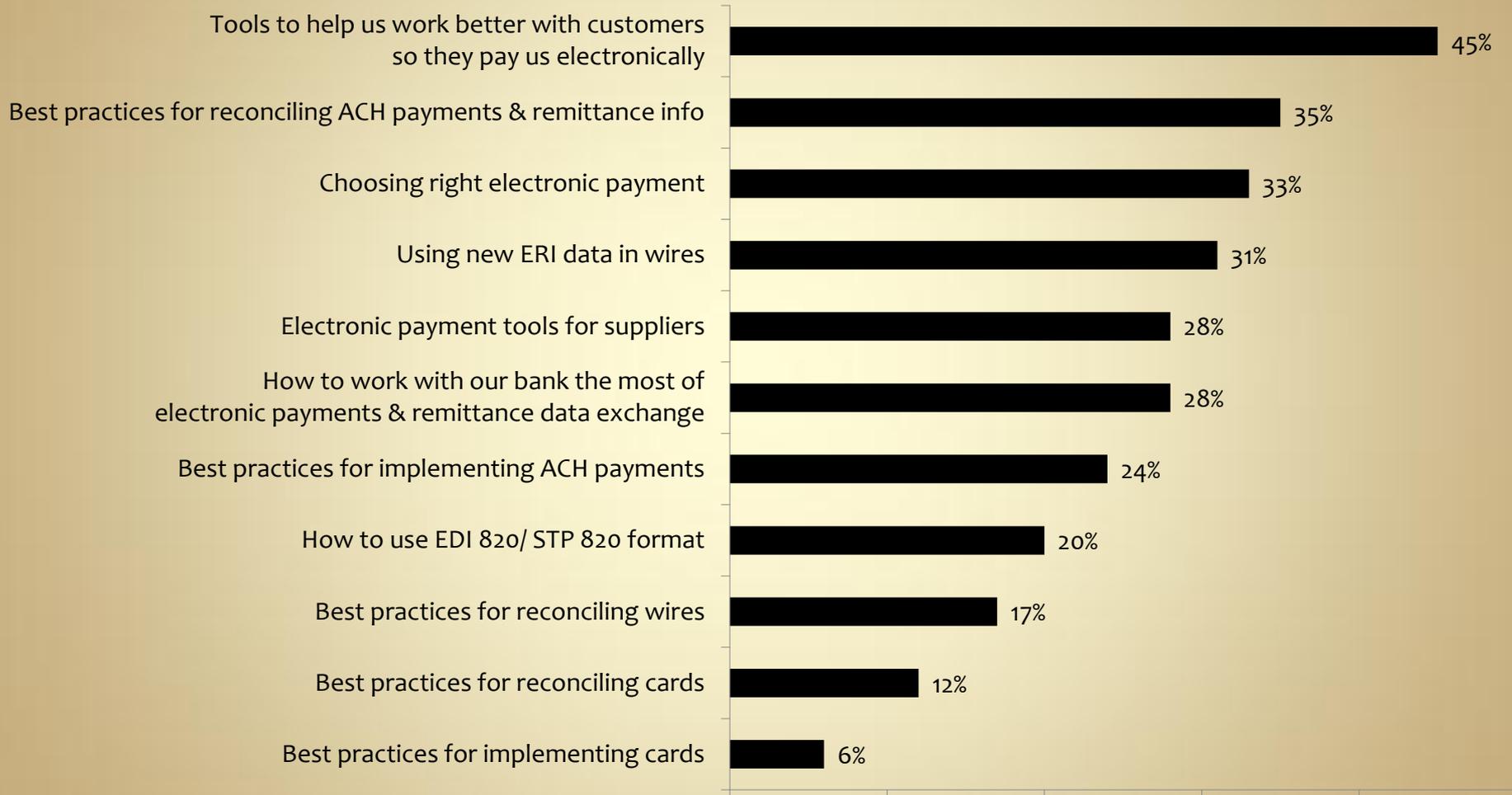
### Education on Remittance Data

(n=563)



SOURCE: 2012 Remittance Coalition Survey Results

# Educational Topics Needed



(n= 521)

SOURCE: 2012 Remittance Coalition Survey

# Remittance Coalition Activities

## 3. Education & Outreach

- a) Present at industry conferences & publish articles in industry press to promote Coalition mission, vision & actions – CRF participating
- b) Share information among Coalition members about member-led initiatives – CRF participating
- c) Promote adoption of new solutions – e.g., extended remittance information in wire transfers (Fedwire & CHIPS); Balance & Transaction Reporting Standard (report by banks to corporate customers) – CRF participating
- d) Target education to small businesses – CRF participating



# Remittance Coalition Activities

## 4. Standards-Related Activities

- a) Develop glossary of remittance terms to promote education & common understanding – CRF members participating
- b) Develop inventory of existing e-remittance standards & their use
- c) Develop ISO 20022 extended remittance standard in XML for compatibility with ISO 20022 payment messages



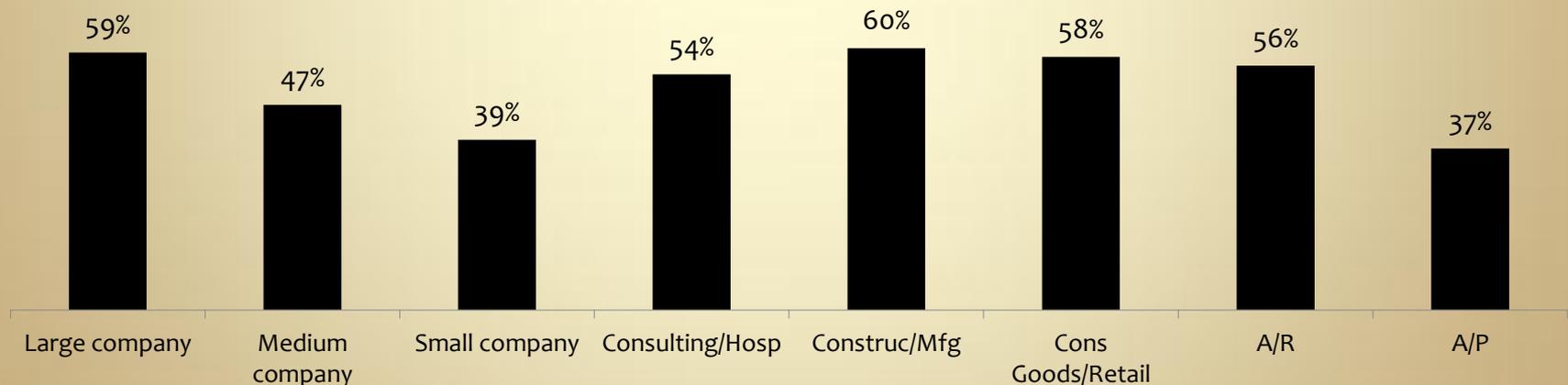
# Practitioners See Need for New Remittance Format

53% of those surveyed thought it was critical or important to have a new remittance data format; Of those that were familiar with ISO 20022, 67% preferred an ISO 20022 format

## How important is it to have a new remittance data format?

% Answering Critical or Important

(n=468)



SOURCE: 2012 Remittance Coalition Survey

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# Putting It All Together



**Working together, the Remittance Coalition is bringing together the right set of stakeholders to address barriers to electronic payments & remittance exchange & reconciliation**



# IF YOU'D LIKE TO JOIN THE COALITION

To join the Remittance Coalition,  
send an email to:

**[Deb.hjortland@mpls.frb.org](mailto:Deb.hjortland@mpls.frb.org)**

You will receive a new  
member welcoming packet  
by email, with information  
on how to get involved in  
RC work



# How Coalition Members Stay in Touch

- Participate in work groups
- View progress on Federal Reserve Bank of Minneapolis website

<http://www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm>

- Join LinkedIn group
- Regular telephone conference calls
- Occasional in-person meetings held at conferences



# Questions?



# Contact Information

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**For more information about the Remittance Coalition, or to join, contact**

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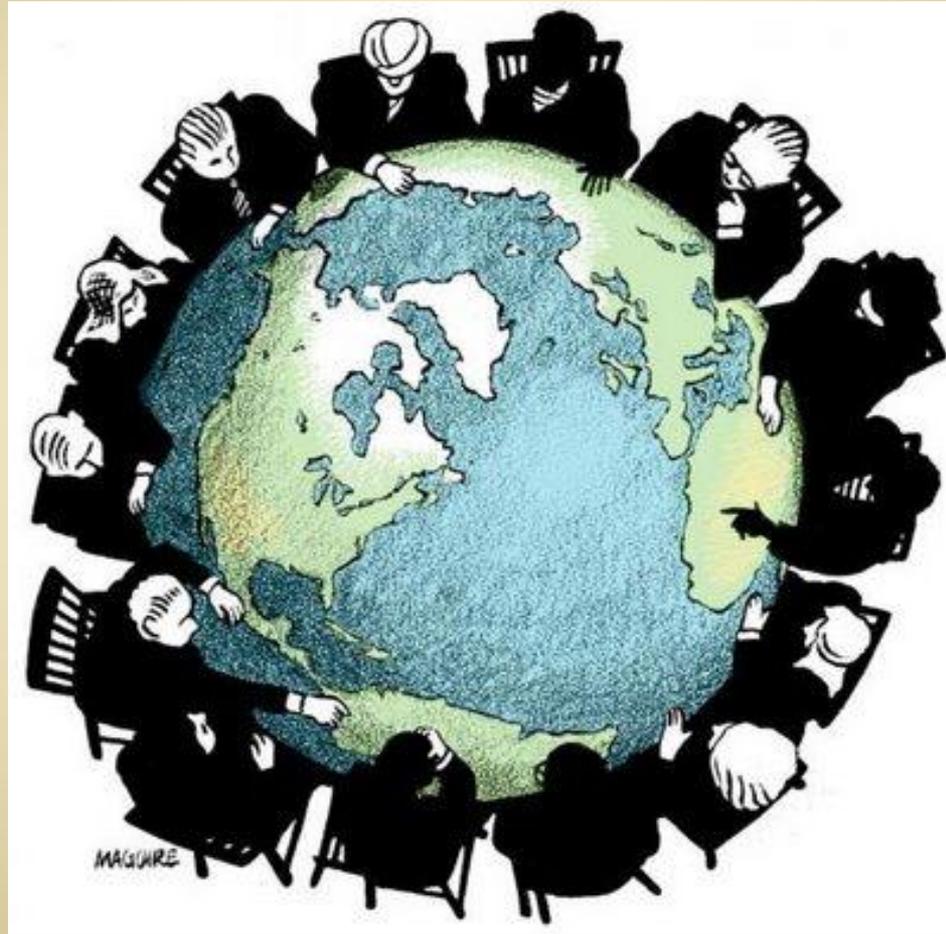
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[www.minneapolisfed.org](http://www.minneapolisfed.org)



# Appendix

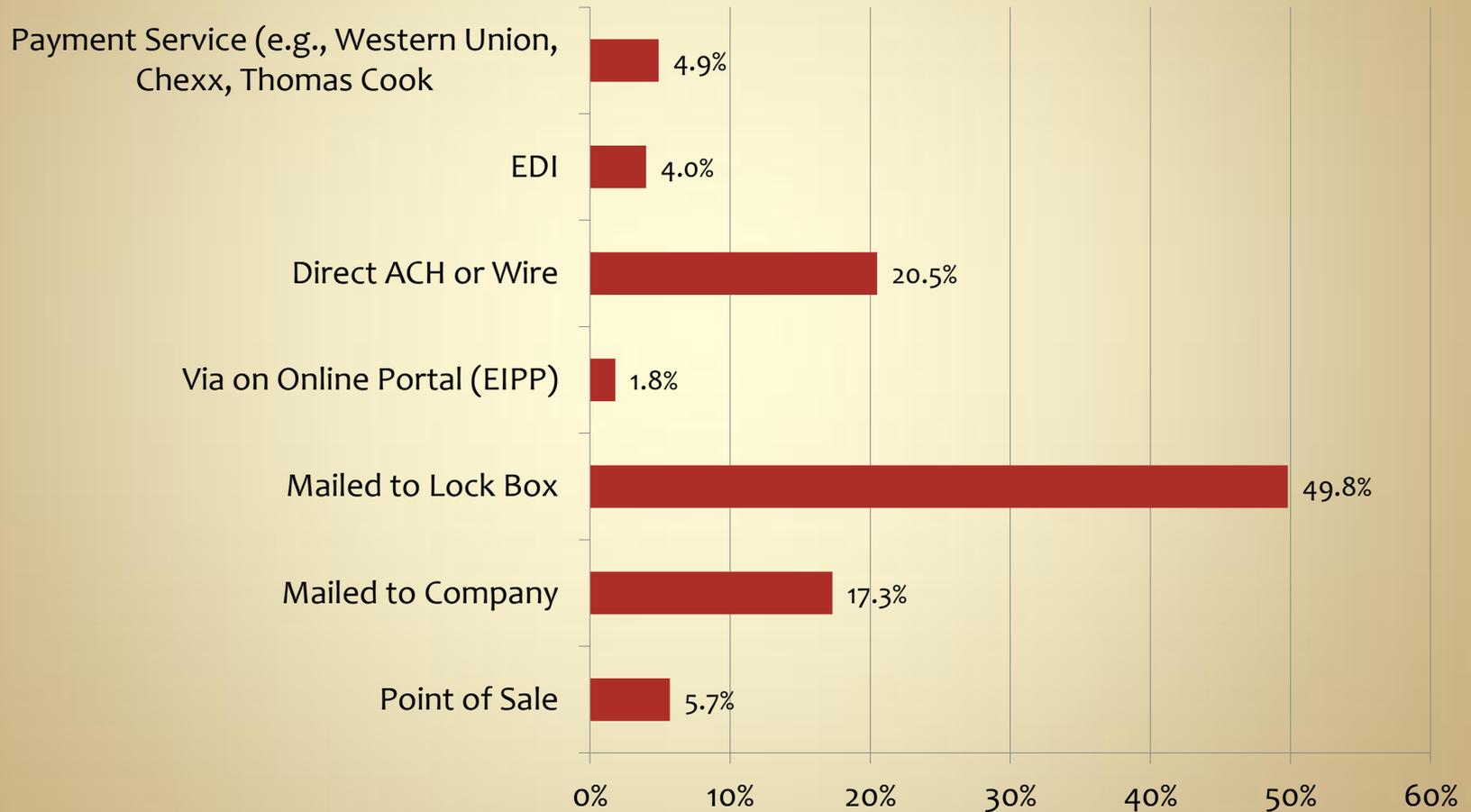


# Federal Mandate: Electronic Payments for Health Care

- Electronic funds transfer required for all **Medicare** reimbursements to healthcare providers by January 1, 2014
- ANSI X12 835 will replace existing formats for “Explanation of Benefits” (EOB) & must be used by providers & payers
- NACHA will implement rule changes for healthcare payments

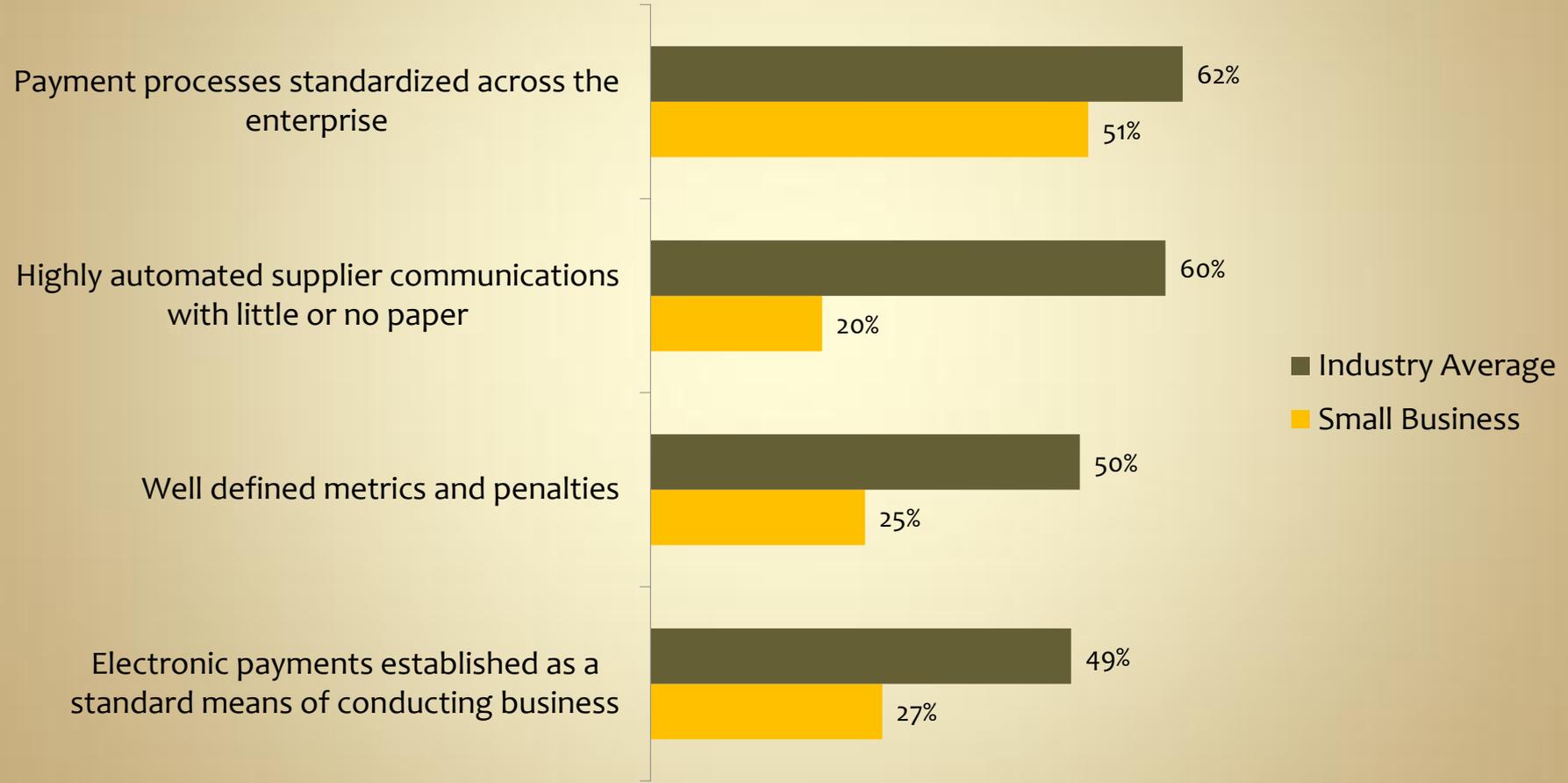


# How Payments Are Delivered



Source: Credit Today's Benchmarking Survey on Electronic Billing & Payment Trends, published September 21, 2011 in Credit Today

# Like E-Payments, Small Biz Lags Others in E-Payable Processes



SOURCE: Aberdeen Group, SMB: High Costs Aren't the Only Problem, September 2008