

Streamlining Payments Through Improving Remittance



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Claudia Swendseid



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Federal Reserve Bank of Minneapolis
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- Member of the Bank's Management Committee & provides executive oversight to payments processing, customer service, & outreach functions.
- Conducts industry relations on behalf of the Federal Reserve System, serving as a liaison to selected national banking associations & corporate payments groups. Provides leadership to the cross-industry Remittance Coalition.
- Represents the Federal Reserve System to the Accredited Standards Committee (ASC) X9 & serves as the vice chair of the X9 Board of Directors.

Lyle Wallis



Lyle Wallis

Vice President for Research
Credit Research Foundation



- Has 40 years in the business credit field; joined CRF in 1998 after prior work with several businesses including London Fog, Euler Hermes ACI, & General Electric Capital Corp.
- Responsible at CRF for project development & education; serves as executive editor of CRF's quarterly trade journal, *The Credit & Financial Management Review*.
- Holds a Bachelor of Science degree in Business Administration from Towson University; graduated from the Graduate School of Credit & Financial Management at Dartmouth College.
- Awarded the Certified Credit Executive designation in 1987.

Jessica Butler



Jessica Butler

Principal

Attain Consulting Group



- Founder of Attain Consulting Group, a deduction & chargeback management advisory firm providing practical, experience-based solutions to help companies “Take Control of Deductions”
- Known throughout the industry as an expert & thought leader in the area of deduction management as well as negotiation, Jessica is a frequent speaker at conferences & seminars & leads a prestigious group of companies in the development of deduction best practices through her Compliance Advisory Board.
- A former partner with the International Accounting & Management Advisory firm of Grant Thornton, LLP, Jessica is a CPA & received an MBA in Finance from New York University.

Discussion Outline

- **The Problem**
- **Remittance Data & B2B Payments**
- **Working Together**
- **Putting It All Together**
- **How You Can Join**
- **Contact Information & Appendix**

Disclaimer: The views expressed here are those of the speakers & do not necessarily reflect the views of the Federal Reserve System, the Credit Research Foundation or Attain Consulting Group

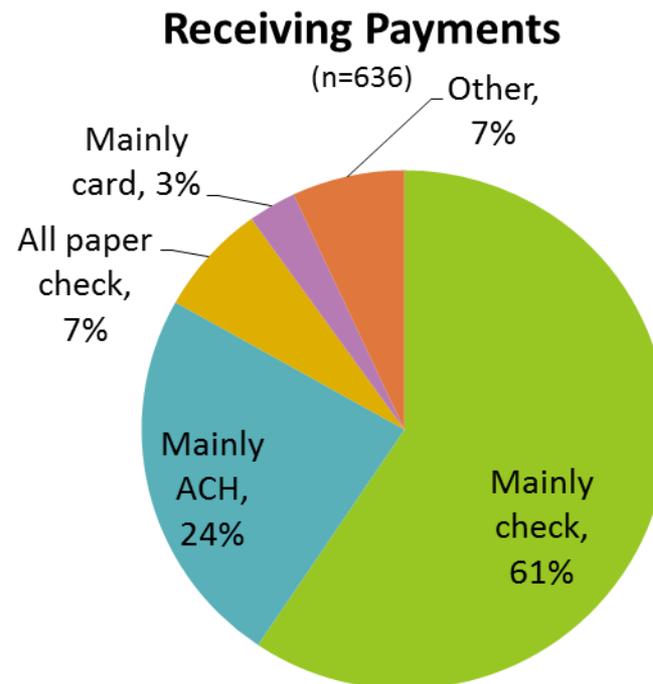
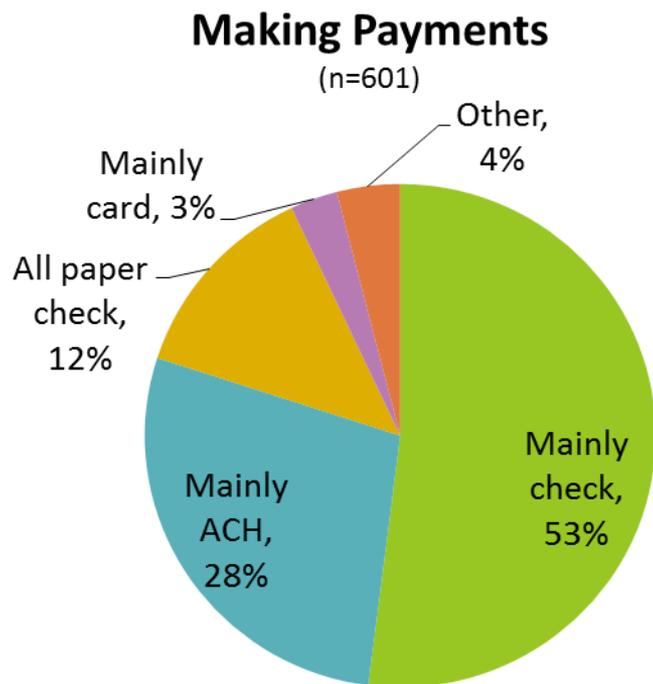
The Problem

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 it could be



B2B Payments Still Mainly Check

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



SOURCE: 2012 Remittance Coalition Survey

E-Payment Use is Higher Among “Major” Trading Partners

| Primary Payment Method Buyer Uses to Pay | Major Suppliers | Other Suppliers | Primary Payment Method Supplier is Paid | Major Buyers | Other Buyers |
|--|-----------------|-----------------|---|--------------|--------------|
| Checks | 49% | 64% | Checks | 47% | 71% |
| ACH Credits | 26% | 23% | ACH Credits | 26% | 14% |
| Wire Transfers | 17% | 10% | Wire Transfers | 19% | 12% |
| Purchasing Cards | 5% | 3% | Purchasing Cards | 3% | 1% |
| ACH Debits | 3% | - | ACH Debits | 5% | 2% |

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

SOURCE: 2010 AFP Payments Survey

Paper is More Costly Throughout the Purchase-to-Pay Cycle

- The cost of manually producing an invoice & sending it via traditional mail typically costs anywhere from \$0.95 to \$1.25
- The average cost of generating & delivering an electronic invoice is between \$0.25 & \$0.30
- The cost of paying an invoice electronically drops from an estimated \$1.50 per paper-based transaction to \$0.10 per electronic transaction

Remittance Data & B2B Payments

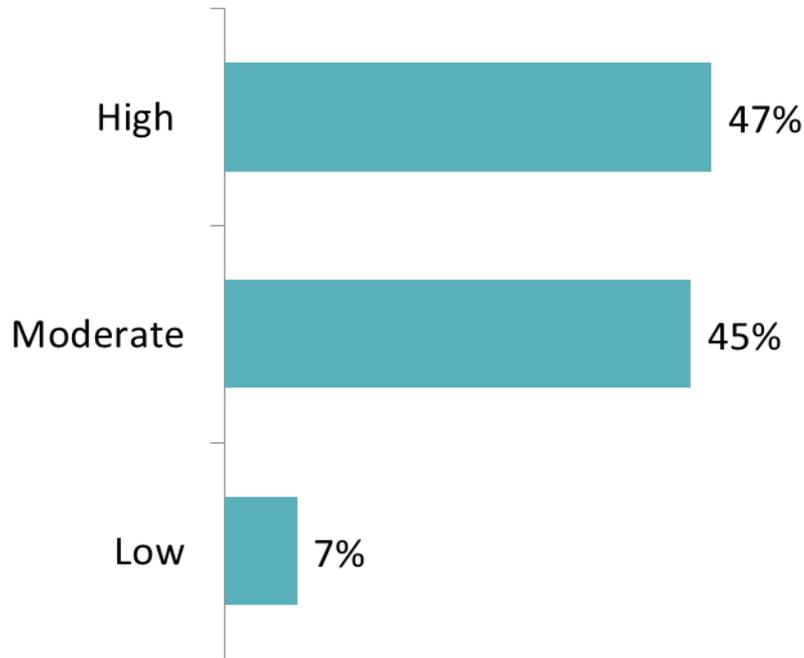
**Lack of easy integration
& automated
reconciliation between
payment & remittance
information affects
adoption of all types of
electronic payments**



Businesses Want More E-Payments & E-Remittance

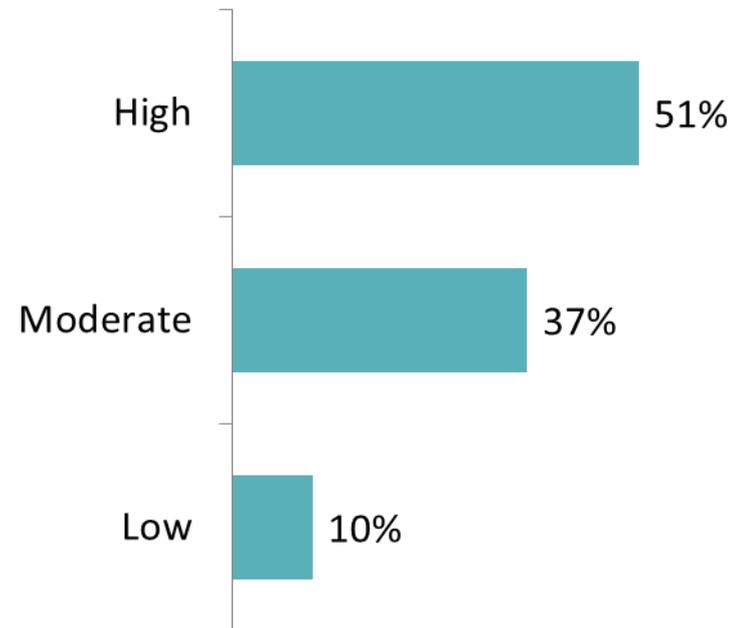
Interest in Using More Electronic Payments

(n=635)



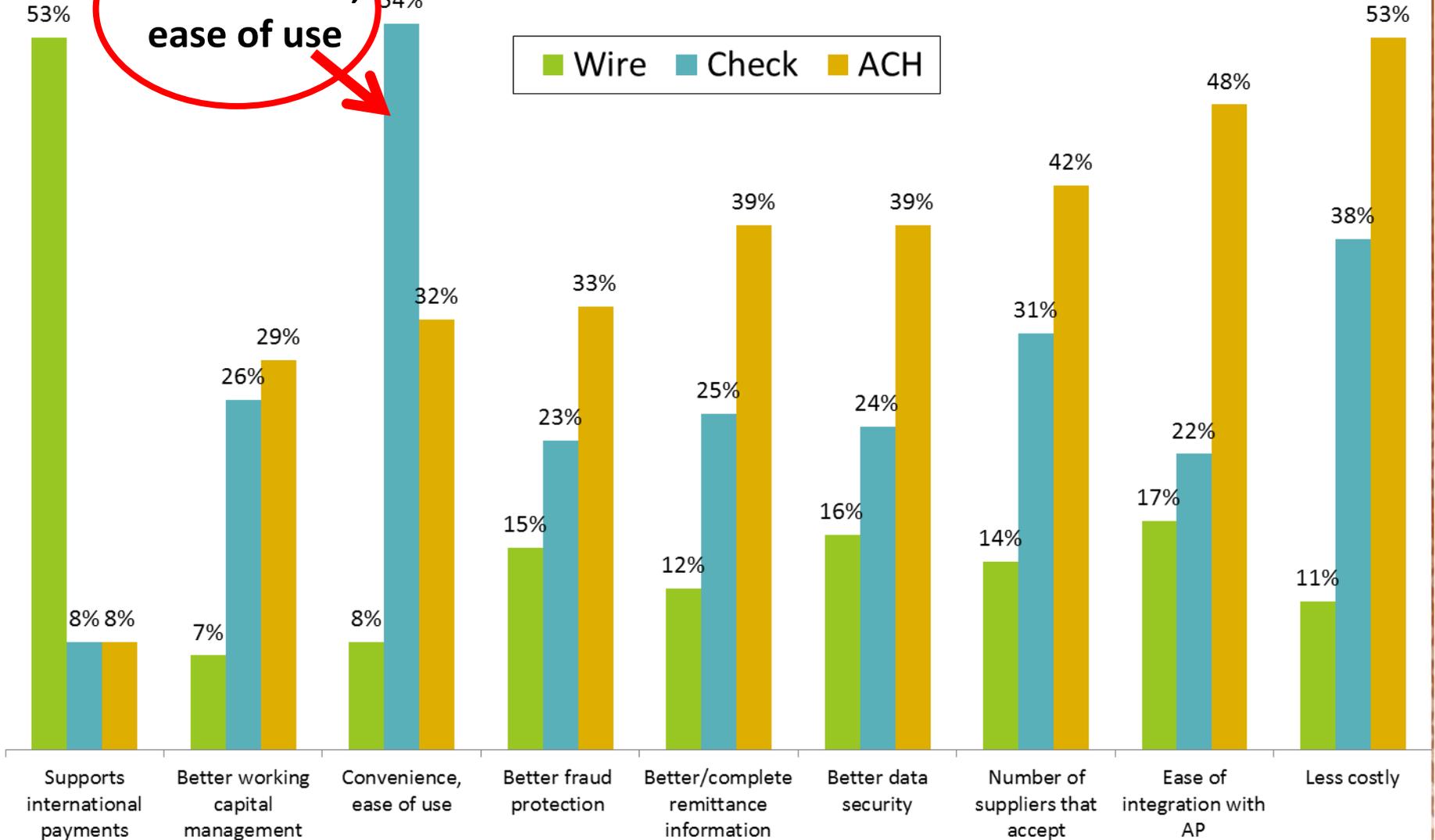
Interest in Using More Electronic Remittance

(n=627)



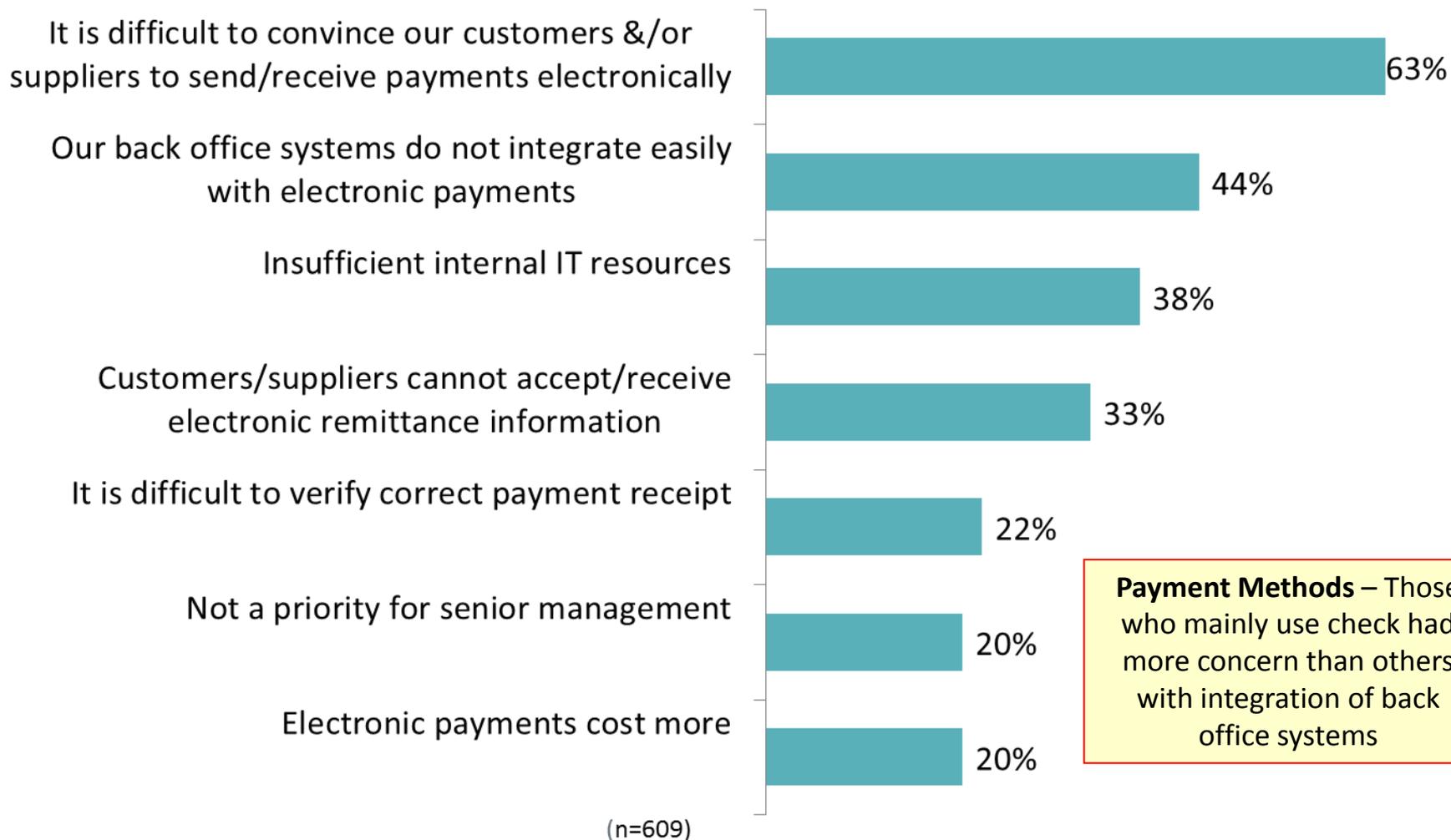
SOURCE: 2012 Remittance Coalition Survey Results

Given e-Payments Benefits, Why Do Checks Persist?



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

Other Barriers to Increased Use of e-Payments



SOURCE: 2012 Remittance Coalition Survey Results

Much 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

Even with B2B ACH, Most Remittance Sent Via Email

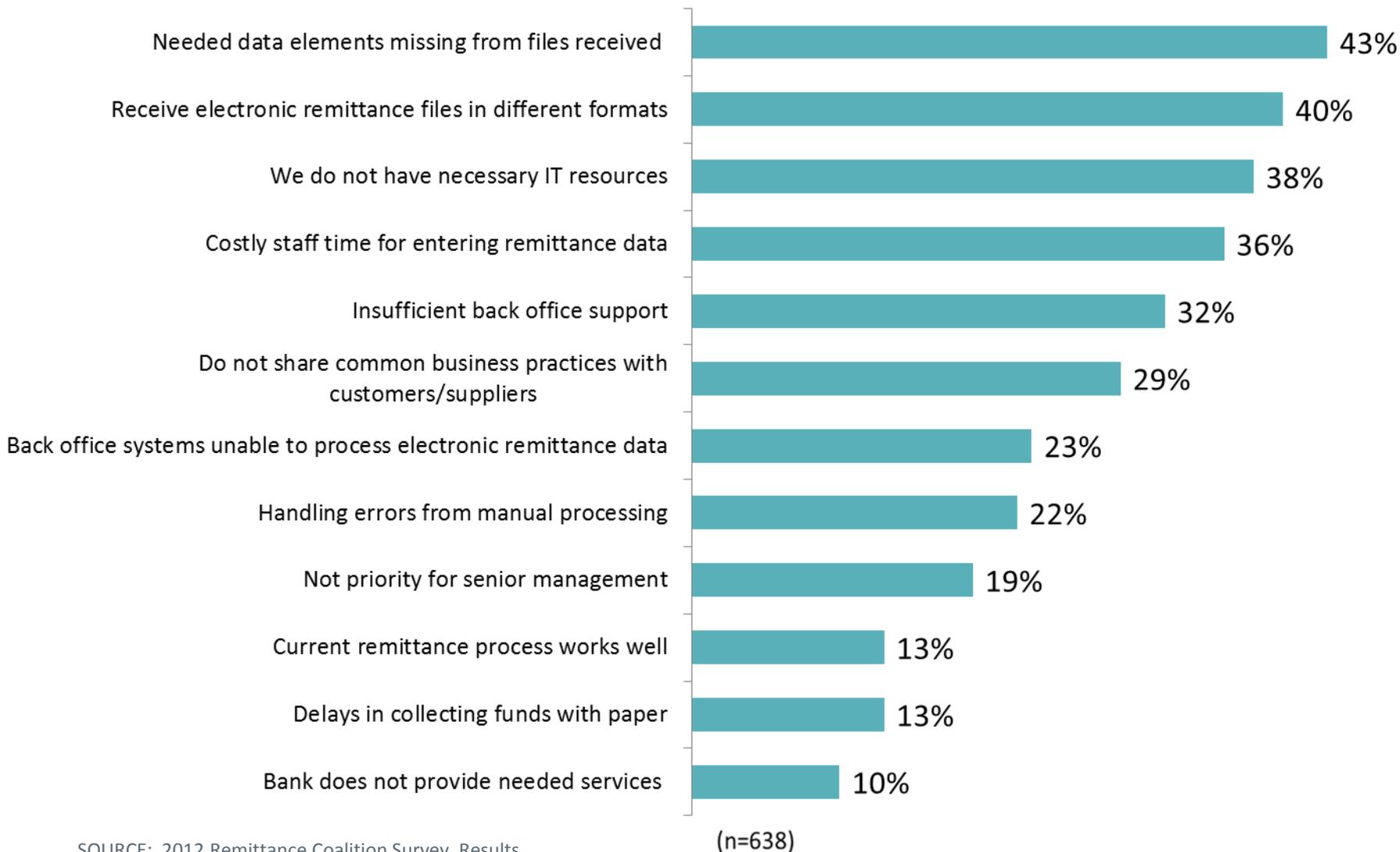
ACH payment can carry standard remittance data, but a lot of remittance information is still exchanged via email

| 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 rd 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

Common Pain Points with Remittance Processing



SOURCE: 2012 Remittance Coalition Survey Results

Working Together

By working together, we can make it easier to integrate payments processing & remittance exchange & advance adoption of e-payments, improve efficiency & lower costs of the purchase to pay process



Remittance Coalition (RC) 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
- 125 members & growing

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

RC Focus

Is NOT on:



Larger companies primarily using EDI 820 & 812 transaction sets to communicate remittance information

IS on:



Smaller companies primarily using paper based remittance processing & documentation

RC: Business Practitioner Input

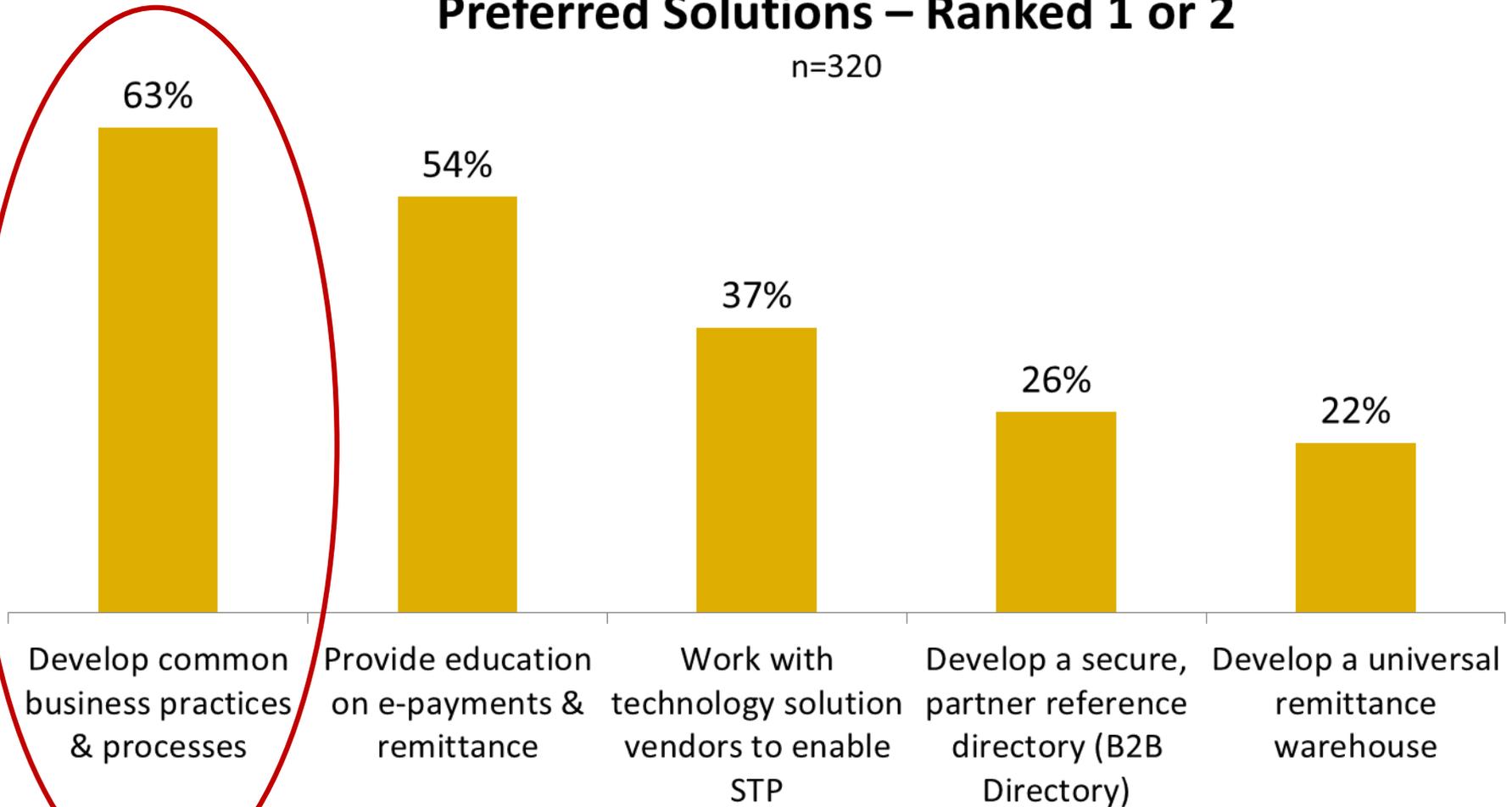
1. Conducted web-based survey of business practitioners to identify main pain points & preferred solutions to improve payments & remittance processing
2. Surveyed & interviewed business practitioners to assess views on simplifying deduction codes standards



What Business Practitioners Want

Preferred Solutions – Ranked 1 or 2

n=320



SOURCE: 2012 Remittance Coalition Survey Results

Top Ranked Solution is for Standard Business Practices

- Majority said their customers & suppliers do not use X12 EDI remittance formats in a standard way
- Majority said their customers do not use a standard set of deduction codes (adjustment & discount)



RC: Business Process Enhancements

1. Develop simpler, standard practices for using discount & adjustment codes, based on existing X12 EDI codes; promote adoption
2. Work with software vendors to adapt systems to support business process changes
3. Facilitate discussions with practitioners to identify other business process improvements needed



Addressing Deduction Code Business Processes

- Over 600 codes defined in X12 standard “426 adjustment reason code”
 - Used in various EDI transactions (e.g., 820 Payment & Remittance Advice, 812 Credit/Debit Adjustment)
 - Used in other remittance exchange (e.g., e-mail remittance)
- Unclear definitions & descriptions lead to:
 - Inconsistent usage across business entities
 - The need to manually process remittance data to ensure compatibility

Addressing Deduction Code Business Processes

Multiple codes for similar definitions can create confusion, for example:

- At least 6 codes relate to advertising allowance – which one should be used? Are all 6 codes needed?

Current 426 Codes Related to Advertising

56 Advertising Allowance Taken
71 Advertising Allowance
79 Cooperative Advertising
AV Advertising Contribution
M1 Advertising Unidentified
MA Marketing Allowance

Is there a way to consolidate these into one advertising code, thereby simplifying the process?

Developing Common Standards

- Remittance Coalition subcommittee identified about 70 codes as essential for deduction processing
 - Developed a “short list” of these codes along with higher level categories for roll up
 - Includes the 12 codes allowed in X12 STP 820
- Mapped to “best fit” codes from 426 code list to minimize need to convert – *426 codes can still be used with no impact*
- Codes may be carried in X12 messages or other electronic formats OR may be included in other remittance information exchanges (*e.g., spreadsheet, e-mail*)

Developing Common Standards

Draft Short List codes

| Category | Proposed Short List Reasons | Short List Code |
|---------------------|--|-----------------|
| Allowance | Advertising Allowance | 71 |
| | Billback Allowance Deduction | GH |
| | Competitive Allowance | 77 |
| | Coupon Related | GB |
| | Defective Allowance | 82 |
| | Floor Stock Protection | 95 |
| | Margin Contribution | RW |
| | Mark Down Allowance | RX |
| | Market Development Fund Deduction | GC |
| | New Store Allowance | A3 |
| | Promotional Allowance | A8 |
| | Slotting Charge | GE |
| | Testing Charge | C6 |
| | Truckload Allowance | MJ |
| | Unsalable Merchandise | GG |
| Warehouse Allowance | MK | |
| Billing | Credit as Agreed | 81 |
| | Discount The dollar value of the discount | L2 |
| | Duplicate Billing | 19 |
| | Evaluated Receipt Settlement (ERS) Discrepancy | 83 |
| | Invoice Amount Does Not Match Account | IA |
| | Total Order Not Received | 75 |
| | Covered by Credit Memo | CM |
| | Covered by Debit Memo | E2 |
| | Duplicate Payment | 86 |
| | Early Payment Allowance | 90 |
| Payment | PT | |
| Freight | Pickup Allowance | MB |
| | Shipping and Freight Charge | SF |
| Miscellaneous | Miscellaneous Deductions | L7 |

| Category | Proposed Short List Reasons | Short List Code |
|-----------------------------|--|-----------------|
| Non Compliance | Advanced Ship Notice Not Received | 70 |
| | Bill of Lading Does Not Match 856 Ad | O1 |
| | Handling Charge | 97 |
| | Hanger Charge | BI |
| | Incorrect Product | 7 |
| | Item not received | 59 |
| | Label Placement | RV |
| | Logistics Label - Incorrect Label Form | FY |
| | Logistics Label - Label Does Not Scar | GP |
| | Not Shipped on Date Authorized | S3 |
| | Overage | A5 |
| | Packing - Problem with Pack List | GX |
| | Packing Violations | A6 |
| | Pallet/Container Charge Error | 10 |
| | Paper Bill of Lading Non Standard VI | KE |
| | Purchase Order Number Incorrect on | MG |
| | Quantity Contested | 6 |
| | Required Documents Missing | 44 |
| | Routing Violation | B8 |
| | Ship Notice - Carton Content does no | EU |
| Ship Notice - Received Late | F2 | |
| Ticketing Error | C8 | |
| Transportation Issue | TI | |
| Post Audit | Audit An itemized charge has been a | L1 |
| Pricing | Contract Price Error | Q6 |
| | Extension Error | 3 |
| | Invoice Price Protection | E5 |
| | Pricing Error | 1 |
| | Volume Discount | Q9 |
| Rebates | Rebate | B2 |
| Returns/Refused | Returns - Recall | 15 |
| | Freight Inbound Return Merchandise | K8 |
| | Freight Outbound Return Merchandise | K9 |
| | Difference On Returns | RG |
| | Item Not Accepted - Damaged | 4 |
| | Item Not Accepted - Quality | 5 |
| | Return Merchandise Charge | K4 |
| | Returned Material | RM |
| | Returns - Damage | 11 |
| | Returns - Promotion | 14 |
| | Returns - Quality | 12 |
| | Stock Balance | C4 |

Developing Common Standards

Mapping from Short List codes to 426 Adjustment codes

| Category | Proposed Short List Reasons | Short List Code | DEFINITION & EXPLANATION | CODE |
|------------------------|------------------------------|-----------------|--|------|
| Allowance | Advertising Allowance | 71 | Advertising - Unidentified | M1 |
| | | | Advertising Allowance | 71 |
| | | | Advertising Allowance Taken | 56 |
| | | | Advertising Contribution | AV |
| | | | Cooperative Advertising | 79 |
| | | | Marketing Allowance | MA |
| | Billback Allowance Deduction | GH | Billback Allowance Deduction | GH |
| | | | Manufacturer to Distributor Billback Allowance | QF |
| | | | Manufacturer to Retail Bill-Back Allowance | MR |
| | Competitive Allowance | 77 | Allowance Error | Q2 |
| Allowance/Charge Error | | | 2 | |
| Competitive Allowance | | | 77 | |

Developing Common Standards

Mapping from 426 Adjustment codes to Short List codes

| CODE | DEFINITION & EXPLANATION | Short List Code | Proposed Short List Reasons |
|------|---|-----------------|--------------------------------------|
| 1 | Pricing Error | 1 | Pricing Error |
| 2 | Allowance/Charge Error  | 77 | Competitive Allowance |
| 3 | Extension Error | 3 | Extension Error |
| 4 | Item Not Accepted - Damaged | 4 | Item Not Accepted - Damaged |
| 5 | Item Not Accepted - Quality | 5 | Item Not Accepted - Quality |
| 6 | Quantity Contested | 6 | Quantity Contested |
| 7 | Incorrect Product  | 7 | Incorrect Product |
| 8 | Substitute Product  | 7 | Incorrect Product |
| 9 | Terms of Sale Error | L2 | Discount The dollar value of the dis |
| 10 | Pallet/Container Charge Error | 10 | Pallet/Container Charge Error |
| 11 | Returns - Damage | 11 | Returns - Damage |
| 12 | Returns - Quality | 12 | Returns - Quality |
| 13 | Returns - Dating | RM | Returned Material |
| 14 | Returns - Promotion | 14 | Returns - Promotion |
| 15 | Returns - Recall | 15 | Returns - Recall |
| 16 | Non-Invoice Related Allowance/C  | 77 | Competitive Allowance |

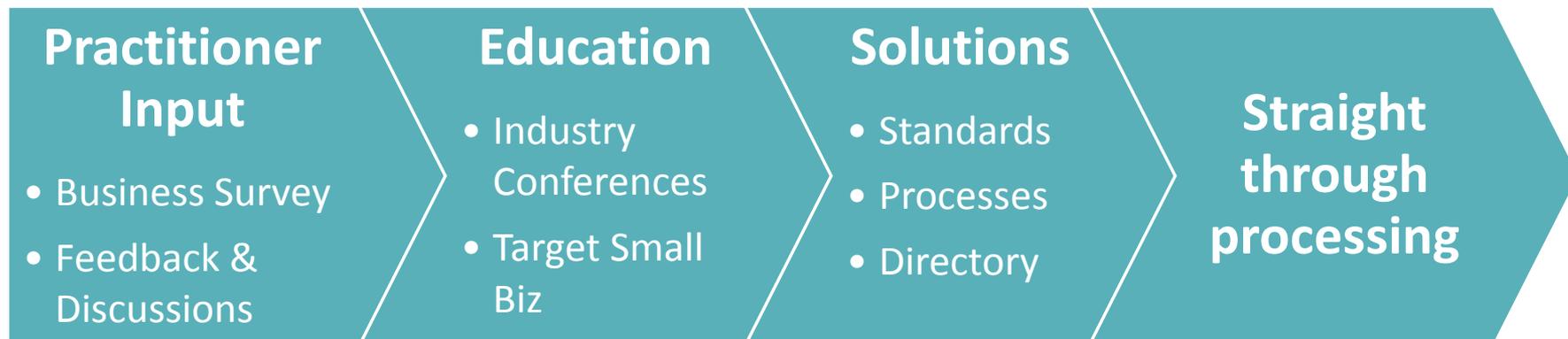
Developing Common Standards

- Once the list has been finalized, **X12**, the ANSI accredited standards organization for electronic data interchange (EDI), & **X9**, the ANSI accredited standards organization for the financial services industry plan to collaborate & jointly publish a guide to using the streamlined subset of deduction codes

Next Steps

- Communication of streamlined list to ensure it meets the needs of buyers & sellers in various industries
- Through Coalition's educational efforts & work with industry associations, practitioners can learn about the list that they can use in their remittance exchange
- Through Coalition's work with software vendors, software can be modified, where needed, to support streamlined list

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

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/paymentinformation.cfm>
- Join LinkedIn group
- Regular telephone conference calls
- Occasional in-person meetings held at conferences

Questions?



Contact Information

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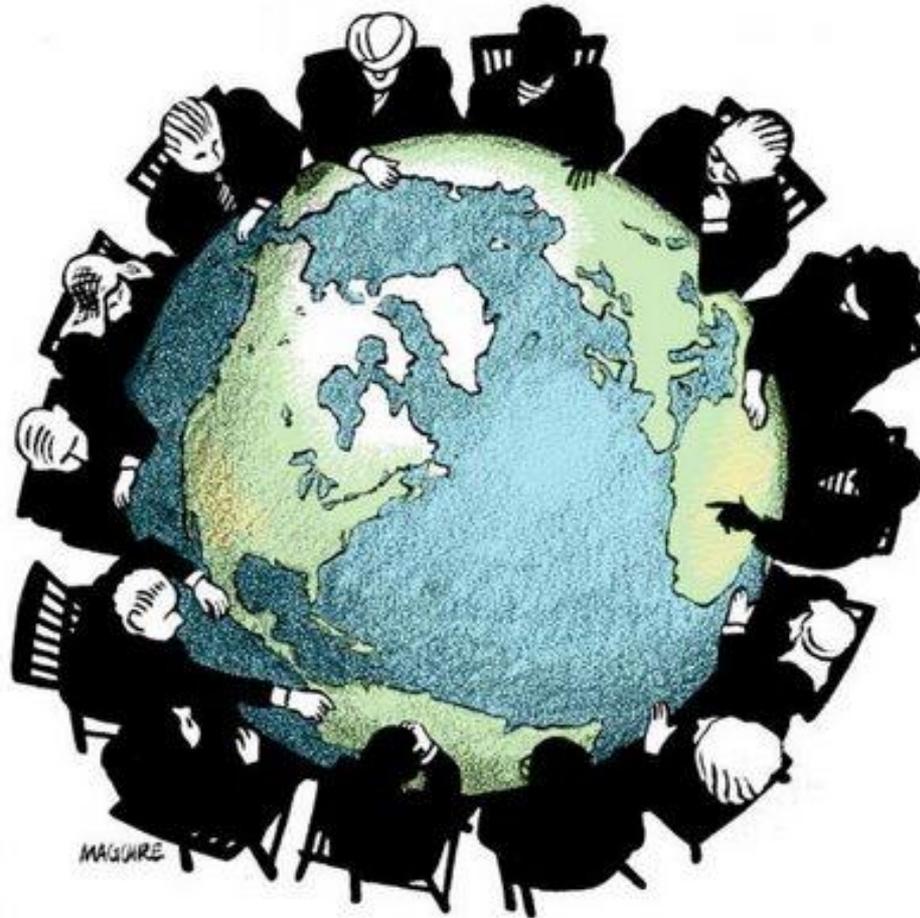


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Appendix

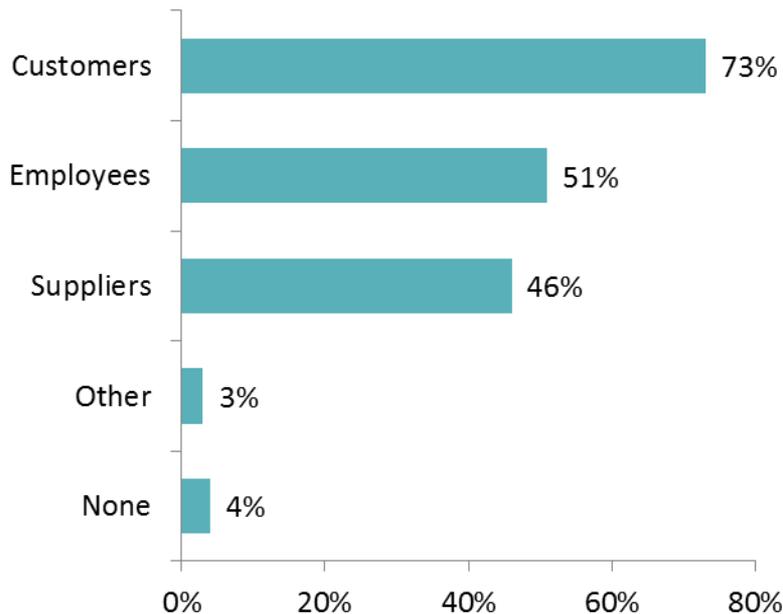


Education Is #2 Ranked Solution by Practitioners

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

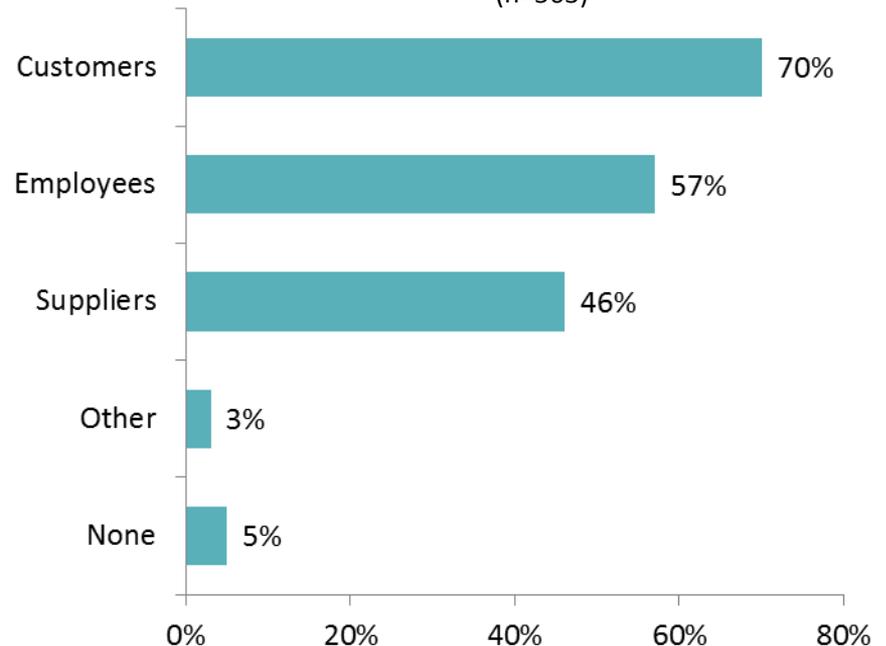
Education on Electronic Payments

(n=564)



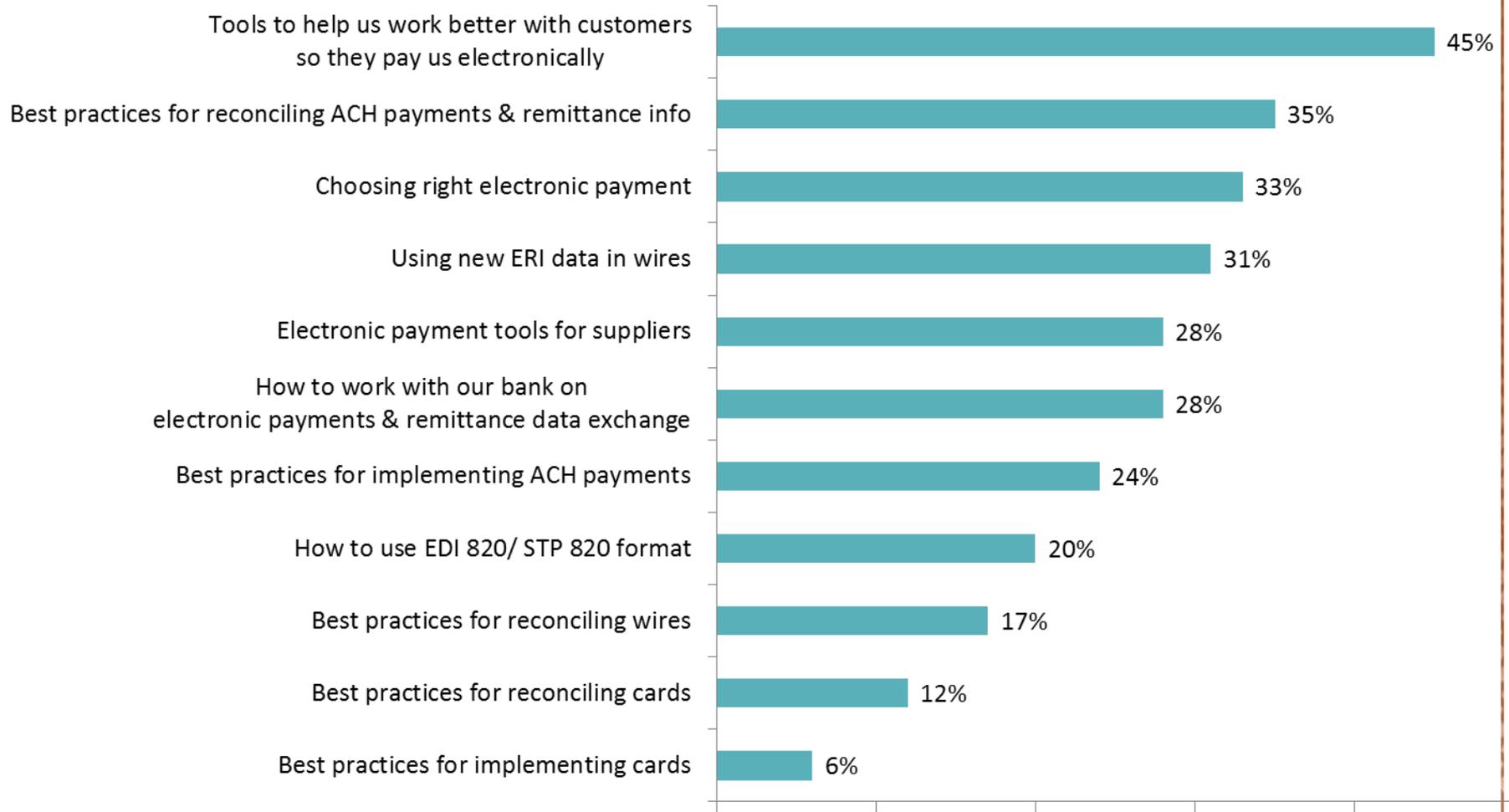
Education on Remittance Data

(n=563)



SOURCE: 2012 Remittance Coalition Survey Results

Educational Topics Needed

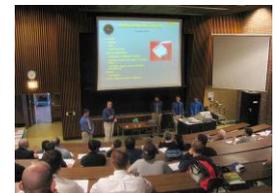


(n=521)

SOURCE: 2012 Remittance Coalition Survey Results

RC: Education & Outreach

1. Present at industry conferences & publish articles in industry press to promote Coalition mission, vision & actions
2. Share information among Coalition members about member-led initiatives
3. Promote adoption of new solutions – e.g., extended remittance information in wire transfers
4. Target education to underserved groups – e.g., small businesses



RC: Standards

1. Develop glossary of remittance terms to promote education & common understanding
2. Develop inventory of existing e-remittance standards & their use
3. Develop ISO 20022 extended remittance standard in XML for compatibility with ISO 20022 payment messages



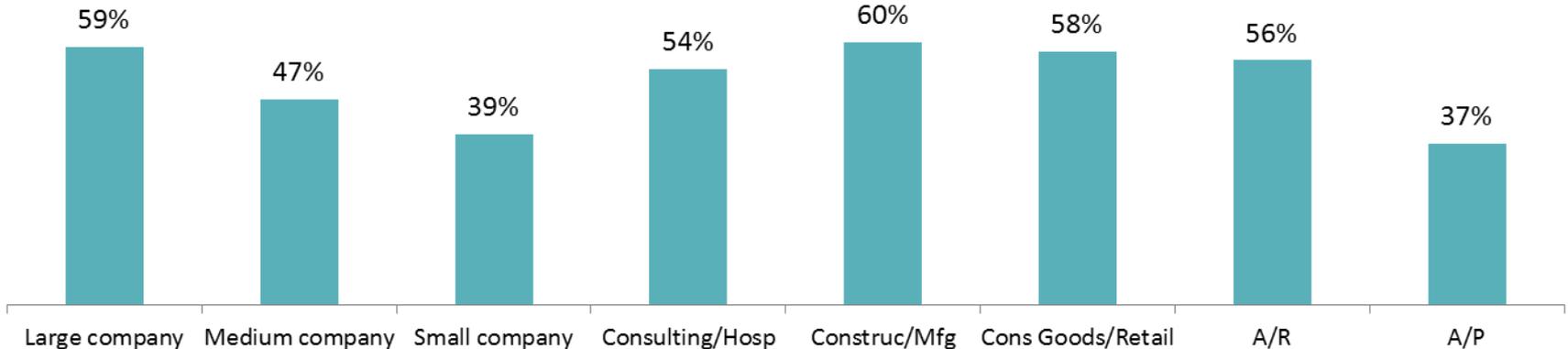
Practitioners See Need for New Remittance Format

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