

The Remittance Coalition: Addressing B2B Payment Problems

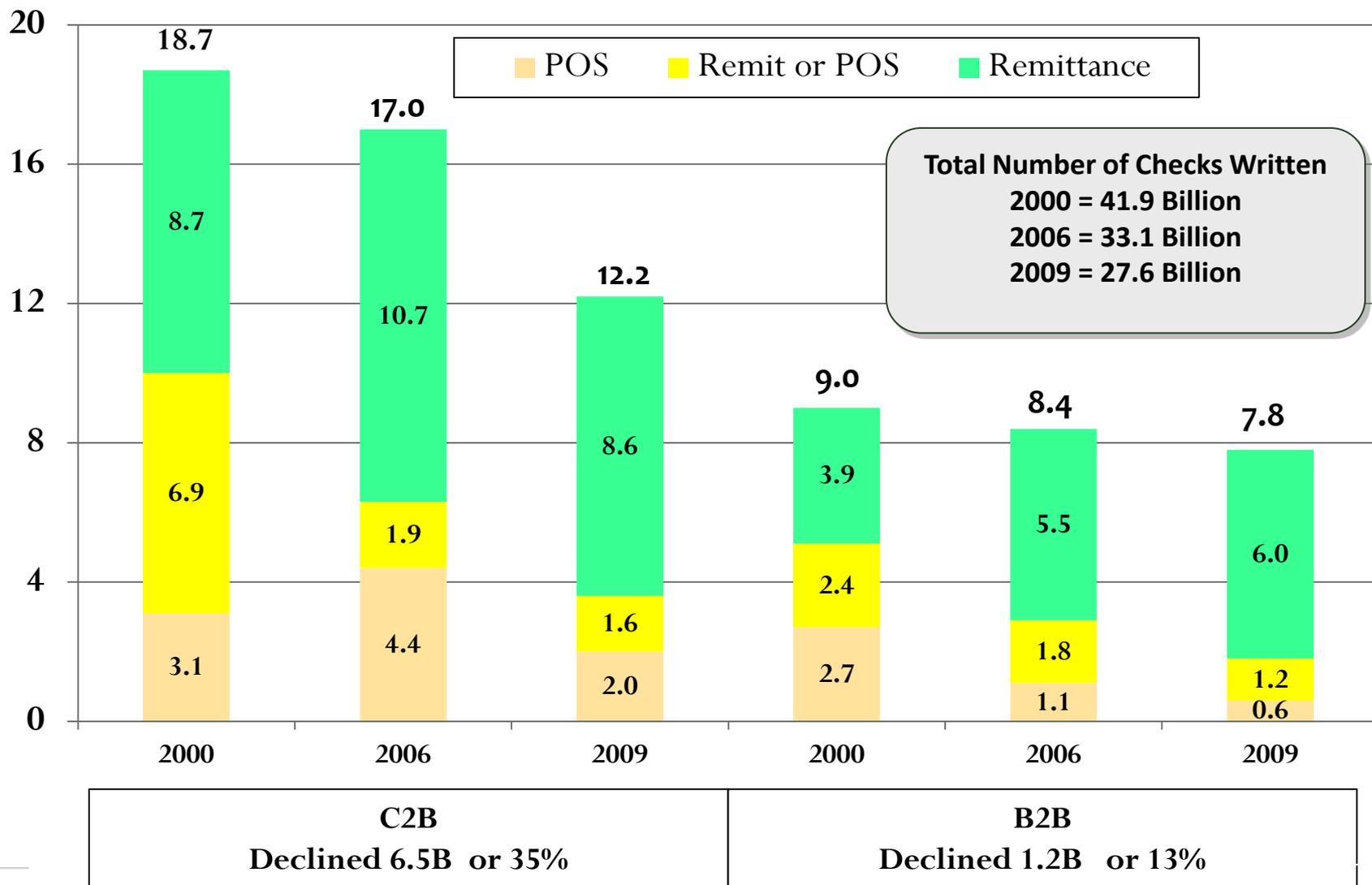
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Business-to-Business Payments Are Moving From Checks to Electronic Payments Relatively Slowly



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



Businesses See Benefits to Using More Electronic Payments

Benefit	Revenues < \$1 B	Revenues > \$1 B	< 1,000 B2B / mo	> 5,000 B2B / mo
	% indicating benefit as one of top three reported			
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



Why B2B Electronic Payments Adoption Rates Are Low

Multiple industry surveys cite following reasons for low rate of B2B electronic payments adoption:

- Lack of internal focus on/support for change
- Insufficient strategies & plans to promote customer adoption
- Lack of or incomplete remittance detail
- Complexity of matching receivables data & posting to A/R platforms



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



Remittance Exchange Method Doesn't Always Support STP

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%
3 rd 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

Source: 2010 AFP Payments Survey



Common Problems with Payments & Remittance Reconciliation

- Too many solutions in marketplace complicates business decisions about what to adopt
 - But, existing solutions don't address small business needs adequately
- Remittance formats used may vary by trading partner
- Use of existing format standards is too flexible, open to different “interpretations” by users
- Parties in payment chain may truncate remittance data or drop it entirely
- Amount & type of remittance data may be restricted
- Depending on exchange method, recipient 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
- Education for businesses about existing solutions & new initiatives is insufficient
- Collecting input from businesses & using it to develop future solutions is inadequate



Examples of Industry Remittance Initiatives

ACH – 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 (ISO 20022 standalone ERI) to facilitate next generation remittance data exchanges within the ACH
- Assessing market demand for open source B2B directory to address fragmentation of payee ACH payment information & remittance requirements

Wires – Fedwire & CHIPS:

- New wire format to be implemented on 11/19/2011 to support extended remittance information (ERI)
- BAI2 format (bank-to-corporate cash management file) will be replaced by X9 Balance Transaction Reporting Specification (BTRS) standard & include new ERI fields



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 more easily reconcile electronic remittance data with payments & benefit from straight through processing
- Form a “Remittance Coalition” of interested parties to continue to understand & address remittance problems
- Develop a list of specific action items that address issues identified
- Ensure ongoing input from businesses to understand problems & develop effective solutions



Remittance Coalition Action Items

Action Item	Lead	Participating Organizations
Develop a glossary of remittance-related terminology to promote common understanding	X9C	Trust Company of America; FRB Minneapolis; CRSO; GS1; IFX; X9; PPL; Piracle; Wells Fargo
Develop a catalog of existing remittance-related industry initiatives	X9C	Wincor Nixdorf; FRB Minneapolis; X9; CRSO; GS1; IFX; PPL; US Bank; Piracle; Wells Fargo; SWIFT
Develop an inventory of existing remittance standards & their uses	X9C	Wincor Nixdorf; FRB Minneapolis; RPO; GS1; WPO; Piracle; Wells Fargo; IFX; SWIFT
Conduct a survey of business practitioners on remittance processing problems & solutions needed; ensure small businesses are included	FRB Minneapolis	FRB Minneapolis; X9; AFP (lead); CRSO; GS1; Citigroup; NACHA; IFX; CRF; SWIFT; IFO
Reach out to key stakeholders, including business practitioners, about the work of the Remittance Coalition & encourage participation	Leadership Steering Group	Wincor Nixdorf; AFP (lead); X9; CRSO; University Bank; GS1; NACHA; Wells Fargo (if time permits); IFX; CRF; SWIFT; IFO
Collaborate on development of an ISO 20022 standalone extended remittance standard	IFX; NACHA	Trust Company of America; FRB Minneapolis; X9; Wells Fargo; University Bank; GS1; WPO; Citigroup; Piracle; CRF; SWIFT
Leverage X9's Corporate Payments subcommittee to investigate revisions/extensions to existing remittance standards & formats	X9C	Trust Company of America; RPO; FRB Minneapolis; X9; University Bank; GS1; WPO; Citigroup; Piracle; NACHA; IFX; PPL; SWIFT
Follow-up with Routing & Transit Number Board on problems caused by using routing numbers to segregate payments delivery	FRB Minneapolis & X9C	AFP; FRB Minneapolis; X9; University Bank (lead); IFX; SWIFT
Investigate developing a directory to provide corporate bank information needed for electronic payments processing	NACHA	AFP; RPO; FRB Minneapolis; X9; CRSO; WPO; CRF; University Bank (lead); US Bank; Piracle; Wells Fargo;



Remittance Coalition Next Steps

1. About 40 organizations have confirmed interest in Remittance Coalition (RC) participation &/or 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



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APPENDIX



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



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



For More Information

- For more information about Remittance Coalition go to www.minneapolisfed.org/about/whatwedo/payments/information.cfm
- For more information about wire transfer extended remittance initiative go to www.frbservices.org/campaigns/remittance
- For more information about NACHA's remittance initiatives go to cebp.nacha.org

