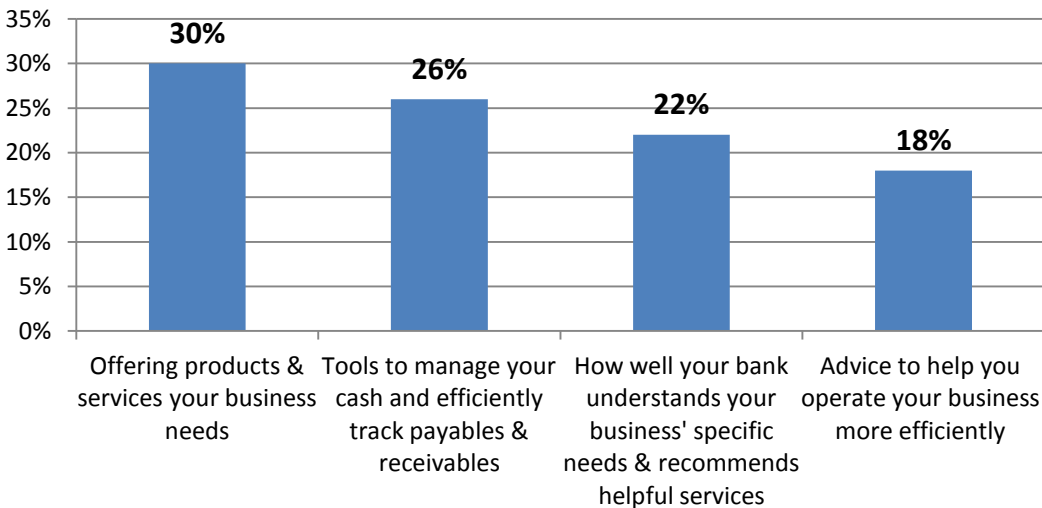


Small businesses represent over 99 percent of the approximately 6 million U.S. firms¹ and are a party to almost 70% of all U.S. payments². Understanding and meeting the needs of small businesses is fundamental to making payments efficient, speedy, and at low-cost. Small businesses, like businesses of all sizes, understand that collecting payments is strategically important. Many banks, though, have failed to recognize that their small business customers are increasingly computer savvy and seek automated tools and electronic payment options, similar to those readily available to larger businesses.

According to a recent Aite study, large banks believe that they have a good understanding of small business customers, a belief that is not shared by small businesses.

Small Businesses Extremely Satisfied with Bank Product/Service Delivery



Small businesses, like large and medium businesses, receive and make more payments by check than they would prefer, understanding that electronic payments means that they are paid faster with less risk of fraud and fewer errors. Large and small businesses primarily make business-to-business payments via check, while consumer-to-business payments are increasingly becoming electronic.

A number of recent studies focusing have investigated the reasons for the slower adoption of electronic payments for business-to-business payments. A study by U.S. Bank, the International

¹ According to the U.S. Department of Commerce in 2008, there were 18,469 medium to large businesses and 5,911,663 small businesses (as defined by the Small Business Administration) that employed at least one worker. There were also 21,351,320 businesses that had no employees, primarily sole proprietorships.

² BAI Small Business Payments reported at TransPay Conference May 2006.

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Accounts Payable Professionals (IAPP), and the American Productivity and Quality Center (APQC) found that the inability of trading partners to send or receive automated remittance with an electronic payment was a barrier to the adoption of B2B electronic payments.

Barrier to Adoption	Percent of Companies Citing Barrier
Difficult to persuade suppliers to accept electronic payments	84%
Trading partners can not send or receive automated remittance with electronic payment	72%
Shortage of IT resources for implementation	65%
Cost to implement electronic payment projects	62%
Concern about payment fraud	44%
Check systems work well	42%

SOURCE: 2010 Electronic Payment – Trends in Accounts Payable, U.S. Bank, IAPP, and APQC

In June 2011, the Federal Reserve Bank of Minneapolis and the standards organization X9³ hosted a meeting of standards organizations and others involved in payments (banks, corporate treasurers, payment processors, vendors, and others) to better understand the barriers and options for improving remittance data exchange and automated reconciliation of payments.

Meeting attendees agreed that the major problem was more than a lack of remittance standards (if anything, there are too many remittance standards). For a number of reasons, reconciliation of electronic payments with remittance information is difficult. Remittance information received to identify the invoices, goods, or services being paid or the reasons for a cost adjustment may be insufficient. The large number of alternatives for remittance exchange results in the need to support too many remittance alternatives, many of which require significant manual intervention. Bottom line: accepting a check payment is simpler.

Having agreed on the main problems, several meeting attendees decided to form the Remittance Coalition. The Coalition's objective is to increase the efficiency with which business-to-business (B2B) payments are made and reconciled by all types and sizes of businesses. The Coalition plans to accomplish this objective by promoting more unified standards and processes and common automated tools that support: (1) Using more electronic payments for B2B transactions, and (2) Originating and delivering electronic remittance information that can be associated easily with the payment and business transaction.

³ X9 is the U.S. ANSI accredited standards development organization for the financial services industry.

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The Coalition has no dues and membership is open to any individual or organization interested in working to address remittance issues. Membership has grown since the June 2011 meeting, and there are currently about 100 members representing over 50 different organizations.

The Coalition is working on a number of initiatives to address and bring clarity to the problem. These include:

- Develop a glossary of remittance-related terminology to promote common understanding
- Reach out to other key stakeholders, particularly small businesses, about remittance and electronic payment reconciliation, to include their views in the work of the Coalition and to educate them where needed
- Conduct a survey of business practitioners on remittance processing problems & their views on potential solutions to address those problems
- Collaborate on development of new standards, where needed, to support extended remittance information exchange
- Investigate developing a directory/repository to provide information needed for electronic payments and remittance processing

This spring the Coalition will conduct a survey to gain clarity on the pain points associated with remittance information exchange and payment reconciliation and to assess corporate views about potential remittance solutions, from more education about existing standards and services to new solutions. The AFP, IFO, CRF have agreed to distribute the survey to their members. The Coalition is also working with the Association of Small Business Development Centers (ASBDC) to include the views of small businesses. Survey results will be available this fall.

Clearly, addressing the issues related to the exchange of remittance information is resonating with corporate practitioners and industry stakeholders. There is much work to do to address the many facets of such a complex problem, but the Coalition is well poised with the right set of participants to be successful.

General information about the Coalition can be found on the Federal Reserve Bank of Minneapolis public website. Anyone interested in joining the Coalition can contact Debra Hjortland at the Federal Reserve Bank of Minneapolis (deb.hjortland@mpls.frb.org).