Electronic Payments and Remittance Data: Impossible Dream or Practical Possibility?

Roy DeCicco
Sandra Roth
Claudia Swendseid
James Wills
TODAY’S DISCUSSION

❖ The Issue
❖ The Question
❖ The Potential
❖ The Opportunity
❖ The Need

Disclaimer: The views expressed here are those of the speakers & do not necessarily reflect the views of the companies for which they work
Royal DeCicco is a Managing Director for the Treasury & Securities Services (TSS) Global Markets Infrastructure team at JPMorgan Chase. He is responsible for managing staff engagements with industry associations, public policy authorities, market infrastructures, & other global financial institutions that impact the payments business.

Mr. DeCicco is Chairman of the ASC X9 Board, co-chair of the SWIFT Payments Market Practice Group and vice-chair of the ABA Payment Systems Committee.

**JP Morgan Chase**
- Global financial services firm in investment banking, financial services for consumers, small business & commercial banking, financial transaction processing, asset management & private equity
- Assets of $2 trillion
- Operates in more than 60 countries with over 200,000 employees
Sandra Roth
Sandra Roth is Manager of the Trade Financial Management team at Johnson & Johnson Sales and Logistics Company (JJSLC) – which represents the Johnson & Johnson Consumer companies in the United States and Caribbean. Ms. Roth manages supply chain activities related to risk management, collections, and accounts receivable and is the Business and IT expert in this functional space for JJSLC.

Johnson & Johnson
- Is the world’s sixth-largest consumer health company
- The world’s largest medical devices and diagnostics company
- The world’s eight-largest pharmaceuticals company & sixth largest bio-tech company
- Johnson & Johnson has more than 250 operating companies in 60 countries employing approximately 129,000 people
Claudia Swendseid is a Senior Vice President at the Federal Reserve Bank of Minneapolis. She serves on the Bank’s Management Committee and has responsibility for FedACH operations & application development, Information Technology, Customer Contact Center, & the Payments Information & Outreach Office.

Ms Swendseid conducts industry relations on behalf of Federal Reserve Financial Services, serving as a liaison to various industry associations & corporate end user organizations.

Federal Reserve System:
- Establishes & executes U.S. monetary policy
- Promotes a stable financial system
- Supervises & regulates financial institutions (FIs)
- Provides financial services to FIs & U.S. Government
James Wills is a senior business manager with the Banking Initiatives Team for SWIFT Americas. Mr. Wills works closely with a variety of standards-setting bodies, trade associations, and member communities on standardization issues in financial market areas including compliance, payments, cash management, and trade finance.

SWIFT:

- Is a member-owned cooperative headquartered in Belgium, providing proprietary communications platform, products & services for over 9,000 FIs, securities institutions & corporate customers in 209 countries to connect & exchange financial information securely & reliably.
- SWIFT serves a catalyst to bring the financial community together to work collaboratively shaping market practices, defining standards & considering solutions to issues of mutual interest.
B2B payments & associated remittance data still rely on paper checks, paper documents & manual processes. So, the purchase-to-pay process is less efficient & more costly.
CHECKS STILL MAJORITY OF B2B PAYMENTS IN U.S. – SENT & RECEIVED

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

SOURCE: 2012 Remittance Coalition Survey
**E-PAYMENTS MORE COMMON AMONG MAJOR TRADING PARTNERS**

Payments to major suppliers & payments by major buyers are more likely to be electronic, but for both, checks are still the primary payment method.

<table>
<thead>
<tr>
<th>Primary Payment Method Buyer Uses to Pay</th>
<th>Major Suppliers</th>
<th>Other Suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checks</td>
<td>49%</td>
<td>64%</td>
</tr>
<tr>
<td>ACH Credits</td>
<td>26%</td>
<td>23%</td>
</tr>
<tr>
<td>Wire Transfers</td>
<td>17%</td>
<td>10%</td>
</tr>
<tr>
<td>Purchasing Cards</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>ACH Debits</td>
<td>3%</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary Payment Method Supplier is Paid</th>
<th>Major Buyers</th>
<th>Other Buyers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checks</td>
<td>47%</td>
<td>71%</td>
</tr>
<tr>
<td>ACH Credits</td>
<td>26%</td>
<td>14%</td>
</tr>
<tr>
<td>Wire Transfers</td>
<td>19%</td>
<td>12%</td>
</tr>
<tr>
<td>Purchasing Cards</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>ACH Debits</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>

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

SOURCE: 2010 AFP Payments Survey
B2B Checks Most Dominant Among Small Business

Payment Tools Used by Small Businesses

- **Business checks**: 85% (2010), 86% (2008)
- **Business credit cards**: 62% (2010), 62% (2008)
- **Petty cash**: 41% (2010), 42% (2008)
- **Personal credit cards**: 27% (2010), 25% (2008)
- **Personal debit cards**: 85% (2010), 86% (2008)

Note: includes U.S. and Canada

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

<table>
<thead>
<tr>
<th>Costs to Seller</th>
<th>Print &amp; Mail Invoice</th>
<th>Send Payment Reminder</th>
<th>Remittance &amp; Cash Mgmt.</th>
<th>Archive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper</td>
<td>$5.66</td>
<td>$0.73</td>
<td>$6.53</td>
<td>$3.19</td>
<td>$16.11</td>
</tr>
<tr>
<td>Electronic</td>
<td>$0</td>
<td>$0.58</td>
<td>$4.35</td>
<td>$1.45</td>
<td>$6.38</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Costs to Buyer</th>
<th>Receive Invoice</th>
<th>Codify</th>
<th>Validate &amp; Match</th>
<th>Dispute Mgmt.</th>
<th>Make Payment</th>
<th>Archive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper</td>
<td>$1.59</td>
<td>$4.35</td>
<td>$5.80</td>
<td>$3.63</td>
<td>$6.96</td>
<td>$3.19</td>
<td>$25.52</td>
</tr>
<tr>
<td>Electronic</td>
<td>$0</td>
<td>$0.58</td>
<td>$1.74</td>
<td>$2.90</td>
<td>$4.21</td>
<td>$1.16</td>
<td>$10.59</td>
</tr>
</tbody>
</table>

The Question

Do businesses see benefits to adopting more e-payments & electronic remittance data?
If yes, what’s stopping them?
BUSINESS SEES BENEFITS OF ELECTRONIC PAYMENTS

BUSINESSES WANT MORE E-PAYMENTS & E-REMITTANCE

Interest in Using More Electronic Payments

- High: 47%
- Moderate: 45%
- Low: 6%

Interest in Using More Electronic Remittance

- High: 52%
- Moderate: 39%
- Low: 8%

Survey asked degree of interest in greater use of e-payments & e-remittance

SOURCE: 2012 Remittance Coalition Survey
But Checks Are More Convenient & Easier to Use Than E-Payments

- Supports international payments: 53% Wire, 8% Check, 8% ACH
- Better working capital management: 29% Wire, 26% Check, 7% ACH
- Convenience, ease of use: 32% Wire, 33% Check, 54% ACH
- Better fraud protection: 23% Wire, 25% Check, 33% ACH
- Better/complete remittance information: 15% Wire, 12% Check, 39% ACH
- Better data security: 12% Wire, 16% Check, 39% ACH
- Number of suppliers that accept: 14% Wire, 17% Check, 42% ACH
- Ease of integration with AP: 48% Wire, 22% Check, 11% ACH
- Less costly: 53% Wire, 38% Check, 8% ACH

COMMON BARRIERS TO ADOPTING MORE B2B E-PAYMENTS & REMITTANCE

- Checks work well: 42%
- Concern about payment fraud: 44%
- Cost to implement electronic payment projects: 62%
- Shortage of IT resources to implement: 65%
- Difficult to persuade suppliers to accept electronic payments: 84%
- Trading partners cannot send or receive automated remittance with electronic payments: 72%

Despite barriers, e-payments are growing, especially in ACH & cards.
ACH B2B Growing Faster Than Total ACH

ACH Growth by Select Category: 2009 - 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>CCD Credits</th>
<th>CCD Debits</th>
<th>CCD Addenda</th>
<th>CTX Addenda</th>
<th>Overall ACH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>2.8%</td>
<td>3.1%</td>
<td>9.2%</td>
<td>3.9%</td>
<td>11.8%</td>
</tr>
<tr>
<td>2010</td>
<td>3.9%</td>
<td>2.2%</td>
<td>2.0%</td>
<td>11.1%</td>
<td>11.9%</td>
</tr>
<tr>
<td>2011</td>
<td>2.4%</td>
<td>2.4%</td>
<td>3.5%</td>
<td>8.1%</td>
<td>12.7%</td>
</tr>
</tbody>
</table>

SOURCE: NACHA Statistics
**But Remittance Sent With Only ~40% Of B2B ACH Payments**

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

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

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

**SOURCE:** 2010 AFP Payments Survey
**P-Card Spend Continues to Grow**

North America Purchasing Card Volume

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume</th>
<th>Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$137</td>
<td>12.3%</td>
</tr>
<tr>
<td>2008</td>
<td>$149</td>
<td>8.8%</td>
</tr>
<tr>
<td>2009</td>
<td>$161</td>
<td>8.1%</td>
</tr>
<tr>
<td>2010</td>
<td>$176</td>
<td>9.3%</td>
</tr>
<tr>
<td>e2011</td>
<td>$194</td>
<td>10.2%</td>
</tr>
<tr>
<td>e2012</td>
<td>$213</td>
<td>9.8%</td>
</tr>
</tbody>
</table>

Most P-card transactions bypass e-payables processing, eliminating invoice generation & remittance processing.

SOURCE: RPMG Purchasing Card Benchmark Survey 2010

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But reconciliation is difficult for invoiced B2B card payments

- For invoiced B2B card payments, only 7% of suppliers can close invoice upon receipt of card payment & achieve straight through processing (STP)
- Level II & III data (provided by seller) can be used to facilitate STP as it includes remittance-type data, e.g., customer code, sales tax amount, item description, item quantity, product code, freight amount, etc.
  - Sellers that supply Level II & III data also qualify for interchange discounts

Recent B2B usage of wires has increased

Overall & B2B Wire Volume Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Wire Growth</th>
<th>% Wire B2B</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>2.8%</td>
<td>31%</td>
</tr>
<tr>
<td>2003</td>
<td>5.3%</td>
<td>28%</td>
</tr>
<tr>
<td>2005</td>
<td>5.3%</td>
<td>23%</td>
</tr>
<tr>
<td>2007</td>
<td>5.0%</td>
<td>28%</td>
</tr>
<tr>
<td>2009</td>
<td>-6.2%</td>
<td>29%</td>
</tr>
<tr>
<td>2011</td>
<td>2.8%</td>
<td>43%</td>
</tr>
</tbody>
</table>

SOURCE: Federal Reserve Board of Governors & CHIPS volume data
In late 2011, CHIPS & Fedwire Funds implemented format changes to carry extended remittance information (ERI).

To carry ERI, Balance & Transaction Reporting Standard (BTRS) created (replaces BAI2 format), which enables banks to provide remittance data to their corporate customers (adoption of BTRS has just begun).

ERI volume is small: 1st quarter 2012, Fedwire & CHIPS reported 8,808 ERI messages (out of ~55 million wire messages).
## Corporates Want Remittance Detail in Wires

<table>
<thead>
<tr>
<th>Planned Wire Remittance Usage</th>
<th>Middle Market</th>
<th>Large Corporate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent rated 4 or 5 (1=low, 5=high)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Likelihood of using remittance capability in wire origination</td>
<td>59.1%</td>
<td>61.0%</td>
</tr>
<tr>
<td>Likelihood of requesting customers to include remittance with wire</td>
<td>59.6%</td>
<td>64.8%</td>
</tr>
<tr>
<td>Percent responding “yes”</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Would remittance information capability cause you to move payment to wire system?</td>
<td>14.4%</td>
<td>8.5%</td>
</tr>
<tr>
<td>If yes, would you move at least 5% of electronic payment to wire?</td>
<td>77.5%</td>
<td>66.4%</td>
</tr>
</tbody>
</table>

**SOURCE:** 2011 Phoenix-Hecht Treasury Management Report: After the Financial Crisis: Resetting Your Bank Relations
Making it easier to integrate processing of payments & remittance data should promote adoption of e-payments, improve efficiency & lower costs
PAYMENTS ARE ONLY ONE PART OF A COMPLEX END TO END PROCESS

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

Buyer

Purchase Order

Goods

Invoice

Make Payment & Provide Remittance Info

Supplier

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

Buyer’s Bank

Processor

Notify of Payment

Supplier’s Bank

Initiate Payment Clearing

Initiate Payment

Supplier

Buyer

ERP

PO initiation

Invoice matching

A/P
AUTOMATING PAYMENT & REMITTANCE RECONCILIATION IMPROVES EFFICIENCY

- Remittance data is information shared between a seller & buyer that explains what a B2B payment is for
- Buyers send remittance data to sellers so they have a detailed accounting of the items / services paid, any deductions taken & discrepancies noted
- Sellers use remittance data to reconcile a payment against an accounts receivable entry
**But A Lot Of Remittance Data Is Still Exchanged Via Paper**

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

SOURCE: 2012 NACHA Remittance Survey conducted by Aite

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COMMON PAIN POINTS WITH REMITTANCE PROCESSING

- Needed data elements missing from files received: 44%
- Receive electronic remittance files in different formats: 41%
- We do not have necessary IT resources: 38%
- Costly staff time for entering remittance data: 36%
- Insufficient back office support: 33%
- Do not share common business practices with customers/suppliers: 29%
- Back office systems unable to process electronic remittance data: 23%
- Handling errors from manual processing: 23%
- Not priority for senior management: 19%
- Current remittance process works well: 13%
- Delays in collecting funds with paper: 12%
- Bank does not provide needed services: 11%

SOURCE: 2012 Remittance Coalition Survey
Many Options for Exchanging Remittance

- Paper remittance information may be mailed, faxed, or emailed
- Remittance information in desktop software formats may be attached to an e-mail or sent electronically, e.g., Excel & PDF
- Remittance data may be exchanged electronically using a variety of formats:
  - EDI, EDIFACT, RosettaNet, BAI2/BTRS, OAGIS, proprietary
- Remittance data may be carried in or with an electronic payment
  - ACH addenda, wire remittance fields, ISO 20022 remittance fields, SWIFT message formats
- Remittance data may be stored & accessed via a website or in a repository managed by a buyer, seller, or 3rd party
- And, when remittance data is not provide or is incomplete, it may be obtained through a phone call
THE NEED

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 that help achieve straight-through-processing & electronification of B2B payments & information

- Formed in 2011
- 100 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 DEFINED

How? Promote more unified standards, processes, & automated tools that support:

- B2B e-payments for all sizes & types of businesses
- Originating & delivering e-remittance information that can be associated easily with the payment
1. Business Practitioner Input
   a) Coalition conducted web-based survey of practitioner pain points & views on proposed solutions to remittance-related problems
   b) CRF conducted various surveys regarding discount codes, working with VCF to address large retailer use of discount codes
   c) Discussions in work groups & Coalition meetings & calls
WHAT BUSINESS PRACTITIONERS WANT

Preferred Solutions – Ranked 1 or 2

- Develop common business practices & processes: 64%
- Provide education on e-payments & remittance: 54%
- Work with technology solution vendors to enable STP: 37%
- Develop a secure partner reference directory (B2B Directory): 25%
- Develop a universal remittance warehouse: 23%

SOURCE: 2012 Remittance Coalition Survey
REMITTANCE COALITION ACTIVITIES

2. Education & Outreach
   a) Present at industry conferences & publish articles in industry press to promote Coalition mission, vision & actions
   b) Share information among Coalition members about member-led initiatives
   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)
   d) Target education to small businesses – working with ASBDC
REMITTANCE COALITION ACTIVITIES

3. Standards-Related Activities

a) Develop glossary of remittance terms to promote education & common understanding - Led by X9

b) Develop inventory existing e-remittance standards & their use – Led by X9

c) Develop ISO 20022 extended remittance standard in XML for compatibility with ISO 20022 payment messages – Led by IFX & NACHA
4. 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 & potential development of open source, interoperable B2B biller directory to facilitate e-payments & e-remittance processing
Working together, the Remittance Coalition is bringing together the right set of stakeholders to address barriers to electronic payments & remittance exchange & reconciliation.
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](http://www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm)
- Join LinkedIn group
- Regular telephone conference calls
- Occasional in-person meetings held at conferences
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.
QUESTIONS?
CONTACT INFORMATION

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For More Information

• For information about the Remittance Coalition
  – http://www.minneapolisfed.org/about/whatwedo/paymentsinformation.cfm

• For information about standards initiatives relevant to integrating electronic payments and remittance data
  – https://www.x9.org/btrs
  – http://www.frbservices.org/eventseducation/education/fedwire_chips_swift_format_info.html