

Remittance Advice Standards: Is there a lack of standards or too many?

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Report to X9 Board of Directors

The latest Association for Financial Professionals' (AFP) Electronic Payments Survey again reported that most business-to-business (B2B) payments are being made by paper checks, despite businesses recognizing that paying electronically offers many benefits: cost savings, improved cash forecasting, and greater fraud control. While B2B check payments are declining, the 2010 Federal Reserve Payment Study found that the average annual decline from 2006 to 2009 was just 2%. Meanwhile, consumers are abandoning checks at an astonishing rate: during the same period (from 2006 to 2009), consumer-to-business checks declined an average of 11% a year. Why do businesses continue to pay by check while consumers are rapidly adopting electronic payments?

The 2010 AFP Electronic Payments Survey reported that 77% of respondents report the inability of trading partners to send and receive automated remittance information with the payment as a barrier to more use of electronic payments. This is the same rate as was reported in 2007. And again, lack of a standard format for remittance information was cited as a key barrier by 72% of respondents.

Remittance information is data provided by a customer (buyer) to a supplier (seller) that explains the purpose of a payment, and typically includes information about the purchase order and/or invoice, in addition to the payment. The seller uses this information to reconcile with the payment by updating an accounts receivable entry. But B2B payments are more complex than consumer payments; B2B payments may be made to a single, partial, or multiple purchase orders or invoices and may include calculated discounts or adjustments, and reflect seller-financing data. The seller may require complex remittance information to reconcile a payment, and the type of information will differ depending on the industry. These complexities make developing a remittance advice that works for a variety of industries more difficult. But is it true that there is a lack of standards? The problem may be that there are too many standards! For example, some current remittance standards include: Rosetta 3C6, X12 820, X12 STP 820, X12 835, X12 823, EDIFACT/ISO 9735, TWIST Remittance Advice, BAI Remittance, IFX Remittance, OAGi Payment Detail, and GS1 REMADV, each having adoption within certain industries and communities.

The plethora of standards is only part of the problem. Businesses face a variety of choices in processing remittance information, much of it using proprietary formats and processes:

- A wholesale lockbox processor may process B2B payment and remittance information, providing a seller or an outsourced accounts receivable processor with payment and remittance information so that accounts receivable processing and reconciliation may occur.
- Buyers may provide remittance information separate from the payment via an online or Web-based application, or through a proprietary supplier system, third party service provider, or using an Enterprise Resource Planning (ERP) system.
- Remittance data may be carried within a payment message, such as a wire transfer payment, an ACH payment, a SWIFT message or an ISO 20022 message.

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- Remittance information may be formatted using a proprietary format or an industry standard and transmitted with a payment or separately over a virtual private network or the internet.
- Finally, companies continue to mail remittance data along with a paper check for payment and exchange of remittance data.

X9 is well positioned to address the issue of remittance standards and to bring clarity to the industry to develop a vision for coalescence, if needed, or development of a more universal standard for remittance. Planning is underway for hosting an industry conference, possibly in April, to discuss the problem and brainstorm ideas for solving it. The Federal Reserve is assisting in the planning of the conference.