

Vendor Forum In-Person Meeting

CRF Forum, Seattle, WA

August 11, 2015

Summary

Participants:

Doug Airulla, JP Morgan Chase	Ernie Martin, Receivable Savvy
Brad Boe, Performance Food Group	Tom Materasso, Carixa/Smyth
David Bonneau, C/LECT Consulting	Dave McIntyre, Cforia Software
Tammie Calys (Facilitator), Transformation Management Consulting	Dean Middleton, United TranzActions LLC
Chris Caparon, Cforia Software	Brad Palmer, Cforia Software
Magnus Carlsson, AFP	Carlos Rodriguez, United TranzActions LLC
Sherry Caslin, PepsiCo	John Sargent, Credit & Management Systems, Inc.
Spencer Davis, Commerce Bank	Virginia Soderman, Ventura Foods
Nicole Dwyer, Billtrust	Brad Stewart, Wells Fargo
Nick Foley, Bectran	Rob Unger, NACHA
Katy Jacob (host), Federal Reserve Bank of Minneapolis	Lyle Wallis (host), Credit Research Foundation
Larry Krummel, All My Papers	Bill Zayas, Dade Systems

Introduction

Lyle Wallis provided a brief introduction of the purpose of the forum by stating that EMEA had made great progress in electronic payments by mandating it from a governmental standpoint, but from the US perspective we were lagging behind. He noted that the only way the US was going to be able to move forward was to develop standards that allow for more interoperability. He continued by saying moving the money is one facet of this equation, but the other key factor is making sure the remittance information is consistent to meet the

businesses' needs without multiple formats being required and that's why this group has been called together.

Using ISO 20022 in the ACH Network

Lyle then turned it over to Rob Unger to discuss the current standards being deployed. Rob pointed out that there are a lot of efficiencies to be gained by leveraging a common format. As a result, proprietary formats are being eliminated in some areas in exchange for the ISO standard PAIN message. In support of this effort, NACHA has made mapping spreadsheets available on their website that provide guidance on how to map from some of the more commonly used formats to the new ISO standard.

David Bonneau from C/LECT Consulting asked whether this standard was being utilized primarily by organizations that were converting for international transactions. Rob responded the PAIN was country agnostic and was for utilization domestically as well as internationally. For those adopting it, they were using it for both...not just international. Brad Stewart from Wells Fargo denoted that if a corporation already has a well-defined and robust EDI platform that they would be unlikely to convert over to the new standard. Tom Medaraso added that there would have to be a proven economic benefit to the organization to do so.

Lyle said that small businesses do not have the resources to implement EDI; this is one benefit of ISO 20022. Larry Krummel from All My Papers noted that small businesses would benefit if check images could be sent electronically instead of mailed, as he feels that small businesses are not going to use EDI. The problem is that these companies write checks because they have clerks who understand how checks work.

Carlos Rodriguez from United Transactions explained that most businesses have little to no information about standards and their benefits. The check is easy to use, but expensive to process, and the EDI standard is robust. On the other hand, ISO solves a problem that is lacking in previous formats: EDI enables the movement of large amounts of information, but ISO helps companies actually get paid. But in order for Banks to utilize it they would have to do regulatory analysis of SBs in the ACH network—credit analysis. This is because of restrictions in the networks. Standards are benefiting large banks and large companies.

Rob acknowledged that there might not be one answer at the moment and this was a new vehicle that was being offered to assist in interactions.

Voice of the Customer Panel

Tammie Calys introduced the panel of corporate practitioners and explained that they were there to provide information to the solution providers about their experiences with and needs for remittance information and standards. The panel included:

Sherry Caslin, PepsiCo

Brad Boe, Performance Food Group

Virginia Soderman, Ventura Foods

Larry asked each company what percentage of transactions they receive via ACH. Virginia responded that her company is unable or unwilling to accept ACH without an 820; 40% of their transactions come in as ACH. The rest are checks and wires. She said that her company is smaller and is not in a position to tell suppliers how they can be paid; they are trying to be all things to all people.

Brad said that his company takes all sources of payments: cash, cards, ach, wires. Of their total transactions, 20% are PFG initiated ACH debits. Their customers don't even know it's a push pull relationship; PFG simply explains that they are going to pull the payment out. Over 50% of their payments come in via check, while the fastest growing payment method is credit cards at 6%.

Sherry said that 75% of PepsiCo's transactions are electronic, including EFT, preauthorized debit, and online payments. Of big box stores, 85-90% pay electronically, while 40% of smaller customers pay electronically.

Tammie noted that receiving a payment is one thing. Getting the detail to know how to apply it is another. How do corporates receive that information?

Virginia responded that her company developed a cash pre-processor that goes through one bank system to turn information into an 820 file. However, banks still key information in order for them to accept ACH transactions when manual remittance information is needed. Virginia finds it problematic that cost of conversion is pushed to another part of the supply chain rather than being eliminated. Her company employs 1.5 cash appliers.

Brad responded that his company's straight through processing comes from the PFG-initiated ACH debits as well as credit cards. Decoupled receipts and checks have to be processed manually. They are a long way from automation. They have 150 cash appliers and support multiple legacy ERP systems.

Sherry said that for her company, banks send images of every payment received. They also use OCR and manual processing. They have around 30 in their cash app group.

Tammie asked if companies are contemplating adopting ISO 20022 remittance standards. None of the companies on the panel are contemplating it. They have heard about this because they are part of the Coalition. Of solution providers, only a handful in the room have heard of ISO and it is because they also are Coalition members. There is no information about it in the market.

Tammie asked the corporations for their perspective on the reality of ever getting to a common standard. If we can get there, what would need to happen? We can agree that if we can get to a standard, it would be beneficial.

Brad responded that there is zero likelihood of getting to a common standard. There is such a diverse customer base, that any standard would need to be segmented. He suggested that this Forum should target mid-market companies for standardization, as small companies have challenges related to the availability of technology, investment, and resources. But that doesn't mean they need less information related to remittances such as invoice number, date and dollar amount. On the other hand, large customers force others to conform to their formats. Virginia and Sherry agreed. Ernie Martin from Receivable Savvy stated that suppliers will process payments however customers prefer—as long as they don't have to pay for it. All participants agreed that within that mid-market space, the group would need to choose a market vertical as well to target for further discovery and research.

Following a break, this conversation continued. The group continued to discuss barriers that small businesses have in moving to standard remittance formats. Brad noted that data received from the suppliers is very inconsistent. Mom and pops will use a PO number instead of invoice number, for example. Larry stated that it is onerous for small businesses to have to support both ACH and check processes. Lyle argued that ISO 20022 solves that problem. Brad Stewart of Wells Fargo noted that if a company has the tools to send remittance information with ACH transactions, that problem is resolved. While ACH itself is not the problem, having access to such a tool is more challenging.

Following a discussion of acceptance of credit card payments, Tammie noted that the Forum should be aware of the fact that credit cards are in demand and companies are being forced to accept them to remain marketable. However, there is no opportunity to attach an ISO message to a credit card transaction. Brad Boe said that is why his company forces payers to go through a portal in order to make a credit card payment. Their portal is set up to automatically include remittance information. Dean Middleton of United Tranzactions added that merchants must have formatting that allows them to receive this information. But what is the merchant's incentive to convert to ISO? He asked if a specific channel or network, such as MasterCard or Visa, could be encouraged to promote this.

Tammie agreed that we need to focus on who we want to target. The group agreed that middle market corporations were the right place to start. Virginia noted that this market understands the financial incentives. Brad agreed, saying that these companies have more IT resources and capabilities and are easier to target. They already process EDI EFT transactions in that market. Sherry added that midmarket companies are open to new ways to use technology, while huge companies such as Walmart have no incentive to change.

Dean suggested that we develop a document that shows the value of standards for corporations. Tammie asked if there is there some type of template we could develop that shows value to both sides of the house and help people understand it reduces back office inefficiencies and costs.

Larry asked about return processing. Virginia responded that she has never had an ACH return. Brad said that check returns are much more expensive and take a long time. Overall, he sees return rates of 1/10th of 1%. Virginia sees return rates of 0.6%. Sherry said that PepsiCo sees similar figures. Tammie said that a benefit of ACH over checks is that there is a limitation in risk exposure given the fact that notification of an ACH being returned is within 24 hours or less vs. a check which can take several days if not weeks.

Action Items:

Ideas for an industry vertical to target in the mid-market range included: food service (though remittance is very complicated in this space); education (this is complex due to the differences among higher education and other areas); insurance; transportation, electrical distribution and construction. Health care was ruled out for being too complex. The group tentatively decided to target electrical suppliers or building/construction. A subcommittee will be formed to develop questions to bring to the target market in order to discover more information about their standardization needs.

Moreover, the group decided to provide a listing of benefits of automation for those across the supply chain: for ERP providers, customers accepting payments, and customers making payments.

Virginia suggested that we talk to exchanges: translators like itrade or other legacy EDI translators to determine if they have any plans for developing a translation tool that could be leveraged by companies to convert remittance data received to remittance data required

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