

Vendor Forum Meeting December 2, 2015

Participants (moderators in bold):

Katy Jacob, Federal Reserve Bank of Minneapolis
Claudia Swendseid, Federal Reserve Bank of Minneapolis
Tammie Calys, Transformation Management Consulting
George Throckmorton, NACHA
Rob Unger, NACHA
Ted Means, Sungard
Mike Shelton, Commerce Bank
Larry Buettner, WAUSAU
Roger Bass, Traxiant
Sandy Roth, Johnson & Johnson
Brad Boe, Performance Food Group
Rich Urban, IFX Forum
Patti Ritter, Republic Services
Gina Russo, Federal Reserve Bank of New York
Sherry Caslin, Pepsico
Austin Winters, ACI Worldwide
John McCoy, ACI Worldwide
Dennis Weissing, AOC Solutions
Kristi Weekley, Microsoft
Nick Foley, Bectran
Meagan Musgrave, Federal Reserve Bank of Chicago
Virginia Soderman, Ventura Foods
Brian Duncan, Federal Reserve Bank of Minneapolis
Mary Hughes, Federal Reserve Bank of Minneapolis

Claudia Swendseid, Federal Reserve Bank of Minneapolis, welcomed the group and provided an overview of the agenda. Tammie Calys, Transformation Management Consulting, introduced the first speaker.

Gina Russo, Federal Reserve Bank of New York, gave a presentation on ISO 20022 standards for wire payments in the U.S. The ISO 20022 stakeholder group consists of the Federal Reserve, The ClearingHouse, X9, and NACHA. Its work is being updated on: www.fedpaymentsimprovement.org. The Stakeholder Group has announced a two-phased approach to ISO adoption that includes mandated sunset date for legacy formats. Step 1 will require all banks to *receive* ISO 20022; (and Fedwire Funds Service & CHIPS will translate legacy formats to ISO 20022 during conversion period). Step 2 will require all banks to *send* ISO 20022; (and legacy format will sunset at end of this phase).

Detailed Planning Activities for the future of ISO adoption in the U.S. include:

- Define detailed project plan & timeline
- Ensure ISO 20022 can accommodate what is needed for Fedwire Funds Service & CHIPS
- Define the specific ISO 20022 messages and fields that will be needed for Fedwire Funds Service & CHIPS
- Collaborate with the industry to identify, prioritize, & design enhancements that will be included in implementation
- Define format specifications/message implementation guide & validate with industry

Rob Unger, NACHA, discussed using ISO 20022 in the ACH Network. NACHA released an ISO 20022 mapping guide in April to support the use of ISO 20022 payment initiation messages (pain.001) with the ACH Network. The pain.001 message is sent by a business to its financial institution. It provides payment instructions to the bank, and pain.001 does support a limited amount of remittance data (the ISO 20022 remt.001 includes more extensive remittance information – see details below). The ACH network will continue to support current formats, such as EDI 820 and STP 820. In 2014, financial institutions approached NACHA for guidance on how to map ISO 20022 pain.001 payment instructions originated by their corporate customers to corresponding ACH B2B payments. NACHA then developed its mapping tool, which is available at: <https://www.nacha.org/content/iso-20022-mapping-guide-tool>. The tool offers ISO 20022 payment instruction (pain.001) mappings to U.S. ACH Standard Entry Class Codes: CCD, CTX, and IAT. Guidance on specific remittance information offered includes mappings to STP 820 (abbreviated 820), and NACHA Banking Conventions (DED, TPP, and TXP).

Mary Hughes gave an update on the Retail Debit Balance Standard work group. Accounts payable accounts at retailers usually have credit balances. However, sometimes suppliers owe retailers money. This is a debit balance and is often a temporary problem. However, such balances can take a long time to resolve and be very onerous. The Coalition held a focus group of retail practitioners and learned of this problem at the end of 2013. Starting in mid-2014, a group of 28 practitioners formed a workgroup to develop a new standard to address this problem. The group did an extensive survey on this topic and is developing a technical report, which will be available free of charge, to be published by X9 through subcommittee X9C in 2016. The technical report focuses on best practices for domestic retail debit balances.

Patti Ritter gave an overview of the B2B Directory project. The Directory serves as a “phone book” of electronic payment identity information in order to facilitate electronic payments between payers and payees. It is not a payment system. The Directory work group has been in place since late 2013 and has completed the foundational phase of the directory project. The group has developed a distributed topology structure as well as an electronic payment identity (EPI) data dictionary and a comprehensive set of use cases. The group has also delved

extensively into business and governance models and has developed draft categories for operating rules. The Chicago Fed will host a technical proof of concept in Q1 2016. Finally, the work group will begin the process of incorporating a nonprofit Directory Association to manage the Directory and bring it to market in 2016.

Katy Jacob provided an update on the Small Business Payments Toolkit project, which seeks to promote electronic payment adoption among small businesses by providing detailed information on the benefits of various types of electronic payments and how to implement them. The toolkit, published in April, is a free set of resources for use by small businesses and those who serve them: <https://fedpaymentsimprovement.org/wp-content/uploads/small-business-toolkit.pdf>. It has received over 11,000 downloads. Covered topics include: Payment Types Explained; What Small Businesses Should Know about ACH; Consumer versus Corporate Accounts in ACH; ACH Payments and Remittance Solutions; an ACH Infographic; General Banking Terms; How to Talk to Your Banker about Payments; What Kind of Checking Account Should I Have for My Small Business? How Bankers Can Make ACH Adoption Easier for Small Businesses; and Best Practices to Avoid Payments Fraud. Coalition members marketed the toolkit through webinars, conference presentations, and industry articles. The next phase of content will be released in 2016 and will include a variety of topics including fraud reduction, EMV migration, mobile payments, and case studies of small businesses that have successfully migrated to electronic payments.

Tammie then gave an overview of the market segmentation white paper that Tammie and Katy authored under the auspices of the Vendor Forum in November. We often hear from corporates that the various types of information needed in different industries is a roadblock to developing standards. We conducted interviews with a group of food distributors to learn more about their needs regarding remittance information. This was the first step in conducting a series of market segmentation analyses to uncover differences in needs related to remittance. During this process, we learned that remittance data is coming into companies in a variety of ways. A common framework to get into the AR format is needed, according to interview subjects, and remittance standards would help. However, there are caveats that make standardization difficult to achieve. Brad Boe, Performance Food Group, noted that from an auto cash standpoint, he's at a 65 or 70% electronic hit rate, but given the millions of invoices they generate each year, the manual invoices are still a big portion of their back office operations. He has explored a lot of different service provider options. The key question is, what will it cost to bring in a new system? A business justification would need to be developed to move forward. Sherry Caslin, Pepsico, said that they are in the 90% electronic payment range, but the smaller customers drive a lot of manual work.

Tammie also provided an overview of the white paper that she, Larry Buettner of WAUSAU and Katy Jacob co-authored in May of 2015. The Vendor Forum interviewed nine AP solution providers in the first quarter of 2015 and asked them about their experience with and customer demand for remittance standards for payments. Among other findings, the interview subjects suggested that we create a single source of information on remittance standards. This leads to the idea behind a new proposed work group for the Vendor Forum, described below. Larry reiterated that short of a mandate for standards in the U.S., we need to find another reason to move in this direction. The inability to post cash simply in an automated fashion is costing businesses millions of dollars a year.

The Coalition has developed a proposed ISO 20022 Education and Promotion workgroup. Claudia noted that we would really like the perspective of this group on whether we should focus on education, identifying gaps or developing new tools to address problems with standards adoption/awareness.

Sandy Roth, Johnson & Johnson, said that we need to document the business case to show how easy it is to use mapping tools to move to ISO 20022 from EDI for ACH transactions. Rich Urban, IFX Forum, noted that we have learned that converting from EDI, where that infrastructure exists, is a much more difficult business case to make than adopting a standard where no infrastructure already exists.

Tammie agreed that we need to be able to start somewhere and show forward progress. In order to do this, we need to have a sense of what resources are out there about standards, what gaps exist in education, and how we can best target industry segments in the future. Rich said that if there are industry segments that vendors are serving that are the best targets for this work, it would be great to receive that perspective and market intelligence.

ACTION ITEMS

Resource Library Development

- Identify the organizations/standards bodies that have/may have developed materials relative to the new standard and how it supports all payment types
- Request copies from those organizations/standard bodies of all materials that have been developed to date
- Categorize the documentation that has been developed into topical area
- Determine approaches for making existing “collateral” more readily available in the market

- Analyze existing collateral and determine where gaps exist relative to information available and market demand/need for information

Industry Vertical Assessment

- Work with solution providers to determine which industry segments are currently actively engaged in automating receipt of payments and associated remittance data
- Gain an understanding of what the specific remittance data requirements are for these industry verticals and how that varies based on size of company
- Determine approach for introducing utilization of standards into these industries as they begin their migration from paper to electronic

Identification of Value Contributors

- Begin to identify the benefits to be achieved by migration to electronic payment (both ACH and credit card) to organizations
- Define the requirements relative to associated remittance data that are necessary in order for those benefits to be fully realized
- Assess the cost elements to be considered when moving from current payment/remittance processes to electronic
- Frame the components of an initial value assessment for utilization by businesses in assessing the ROI of moving toward standards