Remittance Information for B2B Payments in Practice: How to Improve Cash Application

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Remittance Information for B2B Payments in Practice: How to Improve Cash Application

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Why Do We Care About Remittance Information Content?

Missing or incorrect remittance information creates exceptions, delaying cash application and reconciliation.

A new guide focuses on how to use ISO 20022 remittance data to help automate cash application.
The Remittance Content Market Guide
Remittance information for B2B payments

Focus:
Information a payee needs for cash application

- Promotes consistent information for all payment types
- Enables automation and straight-through processing (STP)
- Helps plan ISO 20022 implementations
- Helps those without in-depth ISO 20022 expertise

https://x9.org/iso-20022-remittance-market-practices-guide/
## The Remittance Content Market Guide

### How does it help?
- Understand structured remittance information
- Remittance data needed for all payment types
- Implementation guidance
- Wide variety of businesses

### Who does it help?
- Payers, payees, software and service providers, banks
- Varied accounting systems
- For providers
  - ISO 20022 standard enables interoperability and consistency
  - Guidance for design of products and services
  - Easier implementations

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Poll: ISO 20022 Remittance Data

Are you aware of the ISO 20022 remittance data that is available for payments?

a) I’m very familiar with it
b) I’ve heard of it, but I don’t know details
c) I’m not aware of it
Complete Data, Understood by All Parties
What “common data” means and why it’s important

- Complete remittance information avoids exceptions, contributes to STP
- ISO 20022 = common language
- Varied B2B payment needs
- Facilitates mapping
- Common data definitions across disparate systems
- Proper usage of data to promote consistency

<table>
<thead>
<tr>
<th>Data Element</th>
<th>Guidance and Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Referred Document Amount</td>
<td>Provides details on the amounts of the referred document. Best practice: the total of the amounts in the referred document amount group should add up to the total amount remitted.</td>
</tr>
<tr>
<td>Due Payable Amount</td>
<td>Amount due as stated on referred document.</td>
</tr>
<tr>
<td>Discount Applied Amount</td>
<td>Discount amount applied against the document amount.</td>
</tr>
<tr>
<td>Type</td>
<td>Type of discount</td>
</tr>
<tr>
<td>Amount</td>
<td>Amount of discount</td>
</tr>
<tr>
<td>Adjustment Amount and Reason</td>
<td>Specifies detailed information on the amount and reason for an adjustment to the amount paid for the referred document. Can be used for deductions, with a related 4-character reason (code) and/or explanation.</td>
</tr>
<tr>
<td>Amount</td>
<td>Amount of the adjustment</td>
</tr>
<tr>
<td>Reason</td>
<td>Specifies the reason for the adjustment. Four characters that are understood between the parties.</td>
</tr>
<tr>
<td>Additional Information</td>
<td>Provides further details on the document adjustment. Include as relevant to the adjustment, and always include if a Reason is not provided.</td>
</tr>
<tr>
<td>Remitted Amount</td>
<td>Amount being paid on referred document. Other amounts in the “Referred Document Amount” group should support the remitted amount.</td>
</tr>
</tbody>
</table>
Data Categories
Making sense of 350 data elements

• More than 350 remittance data elements
• Categories help understand data available
  • 18 data categories vs. 350 data elements
• Categories include multiple individual data elements

<table>
<thead>
<tr>
<th>Category</th>
<th>Example Details Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment-level data</td>
<td>E.g., Debtor/creditor, ultimate debtor/creditor</td>
</tr>
<tr>
<td>Document type</td>
<td>Code for type and issuer. E.g., invoice</td>
</tr>
<tr>
<td>Document number</td>
<td>E.g., invoice number</td>
</tr>
<tr>
<td>Document date</td>
<td>E.g., invoice date</td>
</tr>
<tr>
<td>Amount due</td>
<td></td>
</tr>
<tr>
<td>Discount</td>
<td>Type and amount</td>
</tr>
<tr>
<td>Credit note</td>
<td>Amount</td>
</tr>
<tr>
<td>Tax amount</td>
<td>Type and amount</td>
</tr>
<tr>
<td>Adjustment</td>
<td>Amount, reason, additional information</td>
</tr>
<tr>
<td>Remitted amount</td>
<td></td>
</tr>
<tr>
<td>Creditor reference</td>
<td>Type and reference. E.g., purchase order</td>
</tr>
<tr>
<td>Invoicer name</td>
<td></td>
</tr>
<tr>
<td>Invoicer organization ID</td>
<td>E.g., LEI, DUNS number or other ID</td>
</tr>
<tr>
<td>Invoicee name</td>
<td></td>
</tr>
<tr>
<td>Invoicee organization ID</td>
<td>E.g., LEI, DUNS number or other ID</td>
</tr>
<tr>
<td>Document line-item details</td>
<td>Type, number, description, amount, discount, adjustment, credit note, tax, reasons, etc.</td>
</tr>
<tr>
<td>Additional remittance info</td>
<td>Unstructured, 140 characters</td>
</tr>
<tr>
<td>Remittance identifier</td>
<td>For linking separate remt.001 message to a payment</td>
</tr>
</tbody>
</table>
Remittance Data Tiers
Predefined tiers of data for consistency

- Based on **complexity** of data
- Consistent usage of common data elements
- Payees communicate their needs to payers
Remittance Data Tiers
How to use tiers in practice

How to use tiers in practice

- Payees choose the tier appropriate for their needs and communicate that tier to payers
- Providers incorporate tiers into their products

<table>
<thead>
<tr>
<th>Tiers support varying complexity of remittance information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
</tr>
<tr>
<td>Tier 2</td>
</tr>
<tr>
<td>Tier 3</td>
</tr>
<tr>
<td>Tier 4</td>
</tr>
</tbody>
</table>

- Consistent remittance data within tiers
- Some payments only need a few data elements; others need more

The guide has use case examples for each tier

Tier 2 is appropriate for a wide variety of payments

Examples:
- Payment where discount is taken within terms
- Payment with adjustments or credits – partial payments, credit notes, overpayments, deductions
- Payment for goods/services at multiple locations
- Payment with multiple references, e.g., PO number, sales order number, shipment reference

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Poll: Tiers

Based on the information about tiers, which tier would you or your clients use most?

1. Tier 1: Basic information: document/invoice number, due date, amount due, amount paid
2. Tier 2: Tier 1 + details for discounts, adjustments, etc. to support the payment amount
3. Tier 3: Tier 2 + details about invoicer and invoicee and tax information
4. Tier 4: Tier 3 + line-item detail for documents
How Does ISO 20022 Help?
Structured data facilitates STP

Key to automation and STP for the payee: structured remittance data in a prescribed format

Structured Remittance Information

- Invoice number
- Invoice date
- Credit note
- Document amounts and adjustment
- Amount remitted

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How Does ISO 20022 Help?
Data remains intact across end-to-end messages

- Data travels intact from sending to receiving business
- Guide illustrates various remittance information flows

ISO 20022 remittance sent within a payment

ISO 20022 remittance sent outside a payment

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Flexibility to Send Remittance Information Within or Separate From a Payment

ISO 20022 supports both

• Flexibility to send remittance within or separate from a payment
• Why and when to use separate remittance messages
• ISO 20022 remittance suitable for all payment types when sent separately
Linking Separate Remittance Information to a Payment
How automate linkage with ISO 20022

• Receiver reconnects separate remittance information without using complex algorithmic tools
• A linking identifier is a unique payer-populated ID such as a payment number

The payee uses the linking identifier “RmtID” to link the separate remittance data
Using Entities in Remittance Information
More information about who a payment is to or from

- Include entities for payees to post payments correctly
- For complex payment structures, various entities can be specified

The guide explains how and when to specify entities and gives examples

Some payments are initiated or collected on behalf of other entities, such as subsidiaries

A payment may include multiple invoices that are paid to or from different entities
Data Details and Examples
More “how-to” details for implementers

Detailed ISO 20022 data element information and guidance

<table>
<thead>
<tr>
<th>Level</th>
<th>Name</th>
<th>XML Tag and Multiplicity</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
<th>Type or Code</th>
<th>Guidance and comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Referred Document Amount</td>
<td><code>&lt;rfrdDocAmt&gt;</code> / [0..1]</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Tag only</td>
<td>Provides details on the amounts of the referred document. Best practice: the total of the amounts in the referred document amount group should add up to the total amount remitted.</td>
</tr>
<tr>
<td>5</td>
<td>Due Payable Amount</td>
<td><code>&lt;duePayblAmt&gt;</code> / [0..1]</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td>Amount due as stated on referred document.</td>
</tr>
<tr>
<td>5</td>
<td>Discount Applied Amount</td>
<td><code>&lt;discAppldAmt&gt;</code> / [0..*]</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td>Tag only</td>
<td>Discount amount applied against the document amount.</td>
</tr>
</tbody>
</table>

Real-life examples with mapping and XML syntax

<table>
<thead>
<tr>
<th>Supplier Invoice #</th>
<th>Document Date</th>
<th>Payment Date</th>
<th>Invoice Amount</th>
<th>Payment Amount</th>
</tr>
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<tbody>
<tr>
<td>683528</td>
<td>04/10/21</td>
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<td>683529</td>
<td>04/10/21</td>
<td>05/10/21</td>
<td>3,716.34</td>
<td>3,716.34</td>
</tr>
</tbody>
</table>

Paid 7,845.61
Completing the Picture
For STP, an exchange framework can deliver electronic remittance data

The Federal Reserve and BPC assessed an open virtual network for delivering remittance information

- An exchange framework can send remittance information to **businesses of all sizes with minimal changes to end-user systems**
- Service providers send and receive ISO 20022 remittance information for clients
Poll: Plans for Using ISO 20022

What are your company’s plans for using ISO 20022 for payments?

a) We have already implemented it
b) We plan to implement within 2 years
c) We plan to implement after 2 years
d) I don’t know
The *ISO 20022 Remittance Content Market Guide* Provides:

- Remittance content payees need to reduce exceptions
- Consistent structured format for automation and straight-through processing
- Real-life examples

Download the guide: https://x9.org/iso-20022-remittance-market-practices-guide/