Understanding Trends in the Provision of Remittance Standards

Among Accounts Payable Solution Providers

By Katy Jacob, Larry Buettner, and Tammie Calys, representing the Remittance Coalition[1]

May 2015[2]

Overview of the Remittance Coalition and its Vendor Forum

The Remittance Coalition is a voluntary association of banks, retailers, consultants, solution providers, payments associations and other interested parties who work together to foster electronic business-to-business (B2B) payments and remittance of payments information and straight through processing (STP) of B2B transactions. The Coalition is staffed by the Federal Reserve Bank of Minneapolis and includes more than 350 members.

In 2013, the Coalition formed a subgroup called the Vendor Forum that includes approximately 50 members. The Vendor Forum was created because solution providers and vendors are crucial to achieving STP through interoperability of their services as well as adoption and implementation of open standards for remittance information.

Through its work in 2014, the Forum identified a specific need to engage vendors from both sides of the financial supply chain – including those that support automation of accounts payable (AP) in addition to those supporting accounts receivable (AR). In early 2015, a subcommittee was formed to look into AP solution providers' experience with

---

[1] The Remittance Coalition is chaired by Claudia Swendseid and staffed by Katy Jacob, both of the Payments Information and Outreach Office of the Federal Reserve Bank of Minneapolis. The Vendor Forum of the Coalition is chaired by Tammie Calys, Transformation Management Consulting, with Lyle Wallis of the Credit Research Foundation serving as co-chair. Larry Buettner of WAUSAU Financial Systems chaired the Forum's subcommittee focused on AP/AR providers.

[2] **Disclaimer:** These materials have been created by the Remittance Coalition and are intended to be used as resources. Views expressed here are not necessarily those of, and should not be attributed to, any particular Remittance Coalition participant or organization. They are not intended to provide business or legal advice, nor are they intended to promote or advocate a specific action, payment strategy, or product. Readers should consult with their own business and legal advisors.

remittance standards. The subcommittee developed a questionnaire and completed in-depth interviews with nine vendors during the first and second quarters of 2015.[3]

The interviews focused on the following:

- AP solution provider customers' use of standardized remittance data formats;
- Preferences for including remittance data with a payment or sending it separately;
- Standard formats supported by the company's platform;
- Strategies for learning about new remittance data formats and standards;
- How new remittance formats are adopted by the company;
- Customer demand and expectations for new remittance data formats;
- Commonly requested standards by customers;
- Barriers to standards adoption, both for the company and its customers; and
- The level of detail supported by the company's supported remittance formats.

Major lessons learned and findings are described in the following paragraphs. Findings are broken up into three major categories:

1. Customer demand and expectations for remittance formats;
2. Barriers to standards adoption; and
3. Future opportunities.

Customer Demand and Expectations for Remittance Formats

In general, the ERP[4] and A/P solution providers interviewed cited modest to low demand for new remittance standards from their customers. One company said they receive very few requests from buyers to include remittance data with payments at all. Most providers agree that customers (i.e., buyers or payment remitters) leverage the data formats that are supported by their ERPs, which might be a proprietary format for that ERP. In many cases, for larger customers, the solution provider will support ACH CTX messages, EDI 820, or legacy BAI2 formats[5]. Providers also noted that remittance

---

[3] Companies interviewed include: ADP; AOC; Ariba; BottomLine; iPayables; MineralTree; Microsoft; Taulia; and Tradeshift. Commentary in this report is reflective of general trends discerned through the interview process and should not be attributed to any single company represented.

[4] ERP refers to Enterprise Resource Planning systems. ERP describes the set of software applications that organize, define and standardize a company's business processes.

[5] ANSI EDI 820 and the Bank Administration Institute BAI2 format are commonly used file formats for the exchange of remittance data between buyers and sellers. BAI2 is the most common format used by banks to provide lockbox remittance details to their customers for posting to their A/R or ERP system. In 2008, the Bank Administration

information is often provided through CSV (comma separated value) or PDF files either as a supplement to the ERP remittance detail or, in some cases, in lieu of it when customers' and their respective AP platforms cannot support the information. According to our interview subjects, the primary expectation of customers is for the solution provider to be able to map to the standard set by the ERP platform.

On the other hand, some solution providers have heard customers (i.e., sellers or suppliers) cite the lack of adequate provision of remittance data as a barrier to moving away from legacy payments like checks—e.g., "Reconciliation of remittance data back into their systems is cited by some of our seller customers as one of the primary challenges of going electronic." Another interviewee said, "Suppliers' adoption of ACH is slow because there is no easy way to get automated remittance information into their system." Instead, sellers must manually ingest the remittance data when the buyer sends email messages with CSV and PDF formatted data. Many of the companies interviewed claimed that a high percentage of their customers still rely on check payments. The usage of payment types depended in part on the industry vertical represented. For example, the travel and healthcare sectors are heavy users of card payments, according to our interviews.

Solution providers that serve multinational corporations or have a presence in global markets are much more likely to have already adopted new standards (such as ISO 20022)[6] or have plans to do so in the future. If a vendor has a presence in global markets or strategic plans to expand globally, that seems to influence their decision to move to new internationally recognized standards. In absence of such a strategic direction, solution providers look to explicit customer demand before making the move to a new standard.

One interviewee that supports ISO remittance standards found that buyers or payment remitters are not as highly motivated to send remittance details with a payment to the seller or supplier. Sellers, conversely, strongly want the remittance detail in order to improve the straight-through posting of remittance data to their ERP system.

Institute transferred copyright ownership of the BAI file format to the Accredited Standards Committee X9, Inc. - Financial Industry Standards (ASC X9). The BAI2 format was revised and replaced by the BTR3 standard.

[6] ISO 20022 is an international standard for common payment messages supporting cash account management, payments initiation, clearing and settlement, cash management, and others. For more information, see http://www.iso20022.org/faq.page

Also, according to our interviews, large banks have been moving to the ISO standard more so than smaller banks, which have been constrained by costs and do not typically serve multi-national corporations. Large corporations that seek to aggregate multiple bank account deposits and payment details through a vendor's application are also demanding the move to ISO standards, whereas many smaller corporations see no need for additional remittance information outside of supporting the existing ERP system.

While many customers might not demand additional remittance data, some are looking to solution providers to help make existing remittance information more efficacious. Some vendors provide explicit labels in data fields so that sellers can understand what information is contained in that field and what it means. Another interviewee explained that free form text information is becoming more important to customers, so they provide that capability. Sellers, more than buyers, are often most concerned about how easy it is to integrate information into their A/R system. For smaller corporations that do not have direct pathways to supplier systems, suppliers are offering partner services to make this process work more smoothly. According to our interviews, many customers prioritize the most basic remittance information such as invoice number, payment amount, and information related to exceptions. Few customers are currently demanding more robust information such as deduction codes, though solution providers maintain that they are willing and able to incorporate such information into their platforms.

Barriers to Standards Adoption

Most interviewees cited the lack of a mandate in the U.S. as a barrier to standards adoption. Absent a mandate such as the requirements outlined in SEPA in Europe,[7] there is inertia in the industry related to payment and remittance standards. One company representative stated that "it's going to take the government driving this, as they have internationally, in order for (new standards adoption) to gain real traction."

All interviewees mentioned cost and resources as a barrier to new, open standards implementation. Who is going to absorb the cost of implementing the new standard? Do companies have the staff expertise and resources available to prioritize standards adoption? Further, several companies interviewed cited the long lead time for a standard to be implemented as a barrier to adoption. A few described the standards adoption process as "slow and painful." If the implementation of a standard is

---

[7] The Single Euro Payments Area (SEPA) is an initiative of the European Union to provide payment-integration for simplification of bank transfers denominated in euro. SEPA mandates that users adopt common standards, such as ISO 20022. For more information, see http://www.europeanpaymentscouncil.eu/index.cfm/sepa-direct-debit/iso-20022-message-standards/

considered too cumbersome, some customers might feel that they are "better off handling exceptions" than adopting a new standard according to one interviewee.

Another barrier to standards adoption cited is that proprietary remittance formats provide market differentiation and competitive advantage for ERP systems. Thus these providers have little incentive to adopt the same, standard format in a competitive market. Major ERP solution providers support their own proprietary remittance file formats or portal services for sellers to access remittance data. Several interview subjects maintain that standards adoption is most likely to happen across the board if all ERPs adopt the standard. However, as one interviewee stated, "a lot of things would have to change in order for that to happen."

Also, interviewees said that inertia is also strong with buyers that are satisfied with their current way of doing business. In many cases, they are not even motivated to move to electronic payments, much less remittance standards. However, some buyers work with suppliers that don't accept checks, and this can lead to change in how payments are provided. But our interview findings highlight that many customers are continuing with the status quo. Solution providers might also be hesitant to push new remittance formats if they find that banks are unable to process the new remittance detail through their automated payment and balance reporting processes.

Another barrier mentioned by most interview subjects involves the significant differentiation in what various industries require for remittance formats. Requirements differ depending on the type of industry, the size of the company, the size of the suppliers the company interfaces with, and many other factors, according to our interviews. The numbers of and differences among standards that currently co-exist make adoption of one particular standard across the board a serious challenge. The breadth of this legacy ERP framework is vast. As one interview subject stated, "There is no such thing as a single standard. There are so many different formats; it's hard to get your hands around them. As formats change, it is hard to keep up."

Another potential barrier to remittance adoption that was uncovered was a general lack of a single source of information about standards trends. One interview subject noted "For payment standards in general, we wouldn't even know where to go to understand what payment standards are expected." While a few interviewees hired consultants, attended trade shows or worked with advisory groups to inform them of upcoming standards, most relied on information and demand from customers. Interview subjects showed great interest in the work of the Remittance Coalition as a way to make relationships with others in the space in an open, non-competitive environment as well as to stay informed of what is happening in the standards world.

Future Opportunities

Because a single source of information about payment standards was seen as an unmet need by several vendors, the Remittance Coalition has an opportunity to serve as that source of information for solution providers through the work of the Vendor Forum in the future. The Forum can work with partners to ascertain what gaps might exist in current standards and what might be done to address those challenges. One possibility might be to focus on a specific market vertical and assess what formats are required for payments to be made more efficiently and effectively. Then, Forum members could work to see if those needs are met by current standards. One interviewee suggested that work be done to assess what format differences exist among different industries; then, those involved could investigate why such differences exist and whether they are necessary conditions or whether there is room for advancing a standard approach.

Further, due to the difficulty in keeping up with rapidly changing formats, it is possible that a technical solution could help solve this problem. According to our interviews, companies might benefit from a service that encapsulated a standard in such a way that it was extremely easy to use and implement. A cloud-based library of information that outlines how companies prefer to receive remittance information is one partial solution, according to our interviews. If suppliers could explain their remittance requirements in a way that was easy to manage, companies would have more of an incentive to move to a standardized approach. The Remittance Coalition is working towards such a solution through its B2B Directory project,[8] which is a directory of payee information (and remittance requirements, if specified) that can be used for B2B payments. The B2B Directory is currently in the Proof of Concept or testing phase. Lesson learned from this phase will be published at the end of 2015. As a result of the learnings gleaned from the interviews summarized above, the next focus of the Vendor Forum will be on activities designed to further explore the opportunities outlined above.

Finally, the Vendor Forum and Remittance Coalition thank the solution providers who participated in these interviews and thereby made these learnings possible. For more information about any of the efforts outlined above, including the Remittance Coalition, the Vendor Forum or the B2B Directory, please direct questions to Katy Jacob, Federal Reserve Bank of Minneapolis, at remittance.coalition.smb@mpls.frb.org.

---

[8] The Remittance Coalition published a concept paper about the B2B Directory in September 2014. That document describes the purpose of the Directory and can be found here:
https://www.minneapolisfed.org/~/media/files/about/what-we-do/remittance%20coalition/remittance_coalition_b2b_directory_paper_distribution_final.pdf?la=en