Advancing B2B Electronification Through Standards

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Chicago Payments Symposium
September 25, 2014
Agenda

1. B2B Payment Trends
   — Current patterns
   — Moving to e-payments

2. Remittance Coalition
   — About the Remittance Coalition
   — Successes & priorities

Disclaimer: Opinions expressed are those of the presenter, & not those of the Federal Reserve System or any Federal Reserve Bank.
Who I Am

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- Serves on the Minneapolis Bank’s senior management committee
- Provides executive oversight to operations, customer service, & payments functions at the Bank
- Leads the Support Office for the Financial Services Policy Committee, an executive body of the Federal Reserve Banks’ overseeing Federal Reserve Financial Services
- Conducts industry relations on behalf of the Federal Reserve System, serving as a liaison to selected national banking & business associations

Federal Reserve Banks

- Provide financial services to depository institutions & U.S. gov’t
- Establish & execute U.S. monetary policy
- Supervise & regulate financial institutions
- Maintain a stable financial system & contain systemic risk

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B2B Payment Trends
% of All B2B Transactions, by Payment Type

- Check, 64.6%
- ACH, 20.4%
- Wire, 8.1%
- Cards, 6.6%
- Other, 0.3%

% of Payment Transactions Made by Corporations, by Payment Type

Source: Phoenix-Hecht, Treasury Management Monitor, 2013
E-Payments Increasingly Used for B2B Payments

Change in Use, by Payment Type

- **ACH**: 78% Increased, 21% Stayed the Same, 1% Decreased
- **P-Cards**: 51% Increased, 48% Stayed the Same, 1% Decreased
- **Checks**: 68% Increased, 26% Stayed the Same, 6% Decreased

B2C and C2B Checks Declined the Fastest

Outlook for Migrating B2B to Electronic Payments

Likelihood of Converting Major Suppliers to B2B e-Payments, 2004 to 2013

Almost half of respondents think a switch from checks to e-payments for major suppliers is likely

**Biz Card Transactions Grew Faster than Consumer**

Total number of credit & debit transactions, in billions

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<thead>
<tr>
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<th>2009</th>
<th>2012</th>
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<tbody>
<tr>
<td><strong>Credit</strong></td>
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<td>Consumer</td>
<td>17.2</td>
<td>20.4</td>
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<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2012</th>
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<tbody>
<tr>
<td><strong>Debit</strong></td>
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<td></td>
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<tr>
<td>Business</td>
<td>37.5</td>
<td>47.0</td>
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<tr>
<td>Consumer</td>
<td>36.3</td>
<td>45.4</td>
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<th><strong>CAGR</strong></th>
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<tbody>
<tr>
<td><strong>Credit</strong></td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>12.9%</td>
</tr>
<tr>
<td>Consumer</td>
<td>5.9%</td>
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<tr>
<td><strong>Debit</strong></td>
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<tr>
<td>Business</td>
<td>8.6%</td>
</tr>
<tr>
<td>Consumer</td>
<td>7.7%</td>
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*CAGR is compound annual growth rate.


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Use of Purchasing Card Programs

• Improved efficiency over checks
  — Estimated savings of 55% to 80% of check processing costs
• Originally targeted low value purchases; now used for some higher value purchases
• Larger organizations (over $500 million) are about 3X more likely to have p-card programs than smaller ones*


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Top Factors Driving E-Payments Usage by Biz

- Less costly
- Better data security
- Ease of integration with AP
- Supplier acceptance
- Better working capital mgmt.
- Better/complete remittance info.
- Convenience/ease of use
- Better fraud protection ability

Source: 2012 PayStream Advisors Electronic Supplier Payments – Pushing Forward with Buyer Initiated Payments

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Implications for B2B Payments

• Electronification of payments continues to be strong in the U.S.
  — Check writing is in decline, including for B2B
  — Remote deposit of check images by biz is popular
  — Biz usage of cards is growing
  — Biz outlook on e-payments adoption is bullish
Remittance Coalition
Remittance Coalition

- **Participation** National group of associations, small & large businesses, financial institutions, technology & software vendors, standards development organizations & others
  - Formed in 2011
  - 336 members & growing
  - No dues or criteria for joining, other than agreement with mission & willingness to work together

- **Mission** Work together to solve problems related to processing remittance information associated with B2B payments in order to promote use of electronic payments & straight through processing (STP)
How RC Operates

• Full Remittance Coalition meets 4 times a year — 2 conference calls & 2 in-person meetings (Have been held at NACHA Payments & AFP annual conferences.)

• Members volunteer for work groups based on interests & expertise; work groups meet as needed

• All members can stay informed via meetings, calls, email & website
RC Successes & Priorities

2013 Successes
• Simplified Deduction Code Project
• Remittance Standards Inventory
• Remittance Glossary
• Educational Publications
• Outreach, including to key vendors

2014 Priorities
• Targeted education & outreach
• B2B Directory Project
• Promote adoption of key standards (e.g., simplified deduction codes, ISO Stand-Alone Remittance Message, & others)
• Vendor Forum
Goal: Develop Common Standards

- Identified about 70 codes as essential for deduction processing
  - Developed a short list of “core” codes along with higher level categories for roll up
- Mapped to “best fit” codes from X12 EDI 426 code list to minimize need to convert (Full set of 426 codes can still be used)
- Codes may be carried in X12 messages or other electronic formats OR may be included in other remittance information exchanges (e.g., spreadsheet, e-mail)
- Encourage software & technology vendors to support simplified “core” code list & educate business practitioners about core code list & encourage adoption
Remittance Standards Inventory

- Reference guide describing 16 remittance standards
  - Defines each standard
  - Types of payments supported
  - How remittance may be sent
  - Information about the issuing organization
- Published as TR-44-2013 by ASC X9:
Remittance Glossary

• Reference guide offering a vocabulary & terminology
  — Defines 169 terms about payables & receivables processing, B2B payments, & remittances


<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td>BIC - Business</td>
<td>An international standard for identification of institutions within the financial services industry used in automated processing to unambiguously identify a financial institution or a non-financial institution. The ISO 9362 standard specifies the elements and the structure of a BIC, which consists of an institution code, country code, location code, and branch code. The International Organization for Standardization (ISO) has designated SWIFT as the BIC registration authority, sometimes called a SWIFT BIC.</td>
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<tr>
<td>Identifier Code</td>
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<tr>
<td>Bill of Lading</td>
<td>A document evidencing the receipt of goods for shipment, typically prepared by the party shipping the goods and signed by the party engaged in the business of transporting or forwarding the goods.</td>
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<td>Bill of Sale</td>
<td>Written evidence that the title to property has been transferred from one entity to another.</td>
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<tr>
<td>Bill Summary</td>
<td>A summary of a customer's invoices to assist a customer to understand what is owed. Typical information may include amount owed, date due, biller, and biller's account number.</td>
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<tr>
<td>Billing Cycle</td>
<td>A period of time between one Statement of Account (statement) to the next, usually one month.</td>
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<tr>
<td>Billing Document</td>
<td>The portion of a billing statement provided to a customer. In an electronic billing platform, a seller may make the information available via a web portal or via e-mail. It is often returned with a check payment. It may be called a coupon, payment voucher, remit, remittance document, skirt, statement, stub, or invoice.</td>
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<tr>
<td>Cancelled Check</td>
<td>A check that has been paid by the buyer's bank, which has been marked physically, usually with &quot;paid&quot; to help prevent it from being presented again.</td>
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• Remittance Coalition B2B Directory work group completed first phase of work: detailed concept paper

• Next steps:
  — Plan & implement Proof of Concept
  — Recruit participating volunteers for next steps

• B2B Directory registers & facilitates payee electronic identity; is not a payment system

• Promotes a simple, standard format to handle remittance data

• Considers data security protection as paramount
Small Biz Toolkits in Development

• RC work group is developing two practical, plain-language “toolkits” that provide step-by-step information to help small biz adopt more e-payments & remittance information—e.g., sample “form” letters, illustrative terms & conditions, etc.

  — One geared to bankers to help them promote ACH or other e-payments to small biz clients; addresses pricing, packaging, customer support, & other issues to sell e-payments successfully

  — One geared to small biz directly &/or trusted advisors
Promoting Standards Adoption

• Work with software & technology vendors to promote standards adoption
  — Make business case for implementing standards in upcoming releases
    o Define “win-win” for both billers & payers
  — Identify ways to improve interoperability among existing services & systems
  — Continue dialogue through Vendors Forum by holding meetings/calls in 2014 & beyond
Promoting Standards Adoption: Example: ISO 20022

• NACHA collaborated with IFX to help develop the ISO 20022 Standalone Remittance messages

• NACHA’s XML-ACH Remittance Information Opt-in (XML-ACH) program specifically supports the use of these messages in the ACH Network today

• IFX released white paper explaining the messages: http://www.ifxforum.org/action/casestudy/Understanding_the_ISO_20022_Stand-Alone_Remittance_Messages.pdf

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Remittance Coalition Information

- The Federal Reserve Bank of Minneapolis posts information about the Remittance Coalition on its public website:
  
  http://www.minneapolismanfed.org/about/whatwedo/paymentsinformation.cfm

Visit the website to:
- Join the Remittance Coalition
- Volunteer on a project
- Learn about activities
Questions?
Contact Information

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