

Developments in Electronic Remittance Exchange For Business-to-Business Payment Process Automation

Business-to-business electronic payment models that have the potential to open up the interface between payment systems and accounting applications to improved payment security and control, while helping business to increase productivity and reduce administration costs

“Electronic payments are on the radar of every large and mid-market business to facilitate payment process automation, reduce expenses and improve payment security and control.”

Quotes: *“Trends in Business-to-Business Payments”*

Introduction

Companies today recognize that paper-based processes are costly and highly inefficient. They are eager for process improvements, cost savings and the means to unlock management information tied up in inefficient payment and accounting systems that inhibit timely reporting and cash forecasting.

“The preferred way of sending remittance information for large and mid-market businesses is by mail. As a result 56% of remittances must be re-keyed into accounts receivable systems.”

Transitioning from checks to electronic payment processes will benefit every business. However, a noticeable shift to electronic business-to-business (B2B) payments will require comprehensive electronic remittance advice models that can be applied to open up the interface between payment systems and accounting applications to automate critical payment activities and interact electronically with banks and vendors.

In this update we focus on recent developments in electronic remittance exchange for B2B payments that have the potential to allow business to transition away from check payments, automate traditionally manual paper-based processes, unlock management information and deliver secure and auditable payment flows for senior management.

Current Accounts Payable Environment

Although we have experienced of an era of tight credit and more demand for electronic B2B payments with electronic remittance, checks and paper centric processes still dominate accounts payable processes, in many countries, by a significant margin.

“The architectures of existing electronic payment systems were designed with payment message, lodgment or structured creditor reference fields sufficient only to identify the payment originator and/or the transaction type. B2B remittance exchange, as a consequence, takes place electronically or by mail outside of payment system infrastructures. Providing remittance data outside of payment systems requires reconciliation of general ledger accounts to cash management accounts.”

For example, according to recent estimates by the Federal Reserve and NACHA in the United States, a significant portion of the billions of paper checks exchanged between businesses are written simply because it is easier to meet comprehensive remittance advice exchange requirements via the use of paper than in an electronic data¹ format.

Recent Developments in Key Markets

There have been a number of recent developments in key markets which have the potential to improve the efficiency of electronic payments for business customers. Many enable payment process automation by opening up the interface between payment and accounting systems to provide opportunities for automation².

Two electronic remittance models have emerged:

- The first extends individual payment system message fields to include more remittance data.
- The second links remittance data, usually electronic, to another transfer of

¹ Paper may not be the most efficient means of exchanging remittance information, but it is universally and historically accepted “Developments Standardizing Electronic Payment Remittances” | Global Payments Forum –January 2012

² Seamless electronic payments based on ERP/Financial system information

information between the transacting parties.

We provide an overview of these recent developments by market or region. We review Payment Adviser's proprietary data file association model in greater detail because of its suitability for all existing global payment systems including cards.

Extended Remittance Models

A number of bulk electronic payments networks around the world have successfully re-engineered business architectures to provide additional remittance data with payments.

In 2004, the Electronic Payments Network (EPN) in the United States introduced a new message format for credit transfers relating to B2B payments. The new message format STP 820 has tens of fields dedicated to structured remittance information. These include provision for invoice numbers and a field for describing any adjustments made to the invoice amount.

The European Payments Council, in 2012, also introduced a new format for credit transfers within the Single Euro Payments Area (SEPA) which has 60 different fields as well as space for 140 characters of free text.

The data clearing system in Sweden has also extended its credit transfer message format by 50 characters.

"Businesses receiving payments reported that the most significant issue for them with extended remittance was that there was often not enough information to adequately reconcile accounts."

Data File Association Models

In the United States, the Federal Reserve's automated clearing house (FedACH)³ has developed software specifically for this purpose. It allows users to attach a separate electronic data interchange (EDI) remittance message of up to 9,000 characters. It does not provide for immediate remittance exchange, but relies on financial institutions receiving the corporate ACH transactions passing on the additional

³ www.federalreserve.gov

information to their corporate customers on request.

In the United Kingdom both BACS and a new FasterPayments⁴ services provide a remittance field which can be used to associate payments with related accounting, ERP or financial system information.

In Australia, some financial institutions and other third-parties are offering customers a service which associates a payment with a file via an identifier included in the 18 character free text field of the BECS bulk payment system.

The identifying code is included in the free text message field and referenced in the related accounting information, ERP or financial system information which is sent separately to the business receiving the payment.

"While associating data to a payment assists with reconciliation of general ledger accounts to cash management accounts, it will only allow straight-through-processing (STP) if the various business partners have agreed on standard data definitions."

Another highly versatile model developed specifically for the purpose of integrated electronic remittance data exchange by Payment Adviser can be applied to the existing business architectures of all known global payment systems⁵ including cards.

Rather than use an identifying code in the free text message field of payment systems to link electronic remittance data, this model uses an abbreviated web address (a short form URL⁶) to reference and link any amount of remittance data for exchange⁷ with each payment transaction.

Electronic remittance data is referenced in the related accounting, ERP or financial investment system of the payment originator or hosted

⁴ www.fasterpayments.org.uk

⁵ ACH, BACS, CHAPS, BECS, Faster Payments & "Same Day" ACH

⁶ An example URL payadviser.p.vu

⁷ The model opens up the interface between payment systems and accounting applications to facilitate automation of payables and receivables. It will drive AR and AP efficiencies, improve working capital and increase management control over payment operations to reduce fraud exposure, improve accounting/reconciliation and enhance cash forecasting

externally (terrestrial or cloud) for internet access by all participants to a transaction.

Remittance linking and referencing takes place during the payment initiation process to facilitate failsafe auto reconciliation and a full reconciled audit trail for all transaction participants.

The abbreviated web address (static or unique) is included in the electronic payment file provided to the bank by the payment originator. It travels in the free text payment description field of the payment system so that it can be used as the means for remittance data download by the receiving business.

Data download takes place in a secure environment. Any fixed or mobile internet enabled device can be used for this purpose.

Web services are applied for straight through processing (EDI-to-EDI exchange⁸).

This process-based model, with its variable value add workflows, is capable of meeting the “efficiency” needs of business and the “convenience” needs of consumers around the world in this digital age.

Integration with this model opens up opportunities for bill presentment and payment and it can be introduced to simplify e-invoice exchange processes (currently complex and costly) opening up the added economic benefits that arise from auto reconciliation and full process automation of payment and payment receipt processes.

The model is the subject of global patent applications in key markets including, China, Japan and the United States.

The model⁹ will be presented at Payments 2013 and the Australian Pension Payments case study outlined on page 6 will be explained in detail.

Planned Initiatives Allied to Real-Time Settlement

⁸ Workflow models are available for a range of business, Government and card payment types

⁹ Based on Payment for Australia’s 1.4 A\$ trillion pension scheme

Both the United Kingdom and Australia are preparing for real-time payments and these countries are looking to develop business architectures that promote competition and diversity in payment services offered to businesses and consumers.

A key role of the Payment Council in the UK is to ensure that the national payments infrastructure meets customer needs.

The UK Government believes that the digital online world has opened up opportunities to offer innovative ways of delivering traditional services to meet the needs of business, consumers and the economy as a whole.

To this end The UK Payments Council is working closely with the UK Government and is putting Government¹⁰ payments and business payments at the heart of its plan.

A Real-Time Payments Committee (RTPC) was formed in Australia in late 2012 to develop a clear way forward for real-time low value payments.

A clearing utility will connect all financial institutions, link to the Reserve Bank of Australia settlement facilities to enable real-time value transfer and permit automated processing of detailed information along with a payment. It will also include a payment addressing service so that payments can be initiated without specifying full destination account details.

The clearing utility business architecture proposed in February 2013 by the RTPC will be able to support multiple “overlay services” - separate payment services that use the basic infrastructure, but are tailored for particular payment needs.

An initial, consumer oriented “convenience” overlay service is proposed. It will be available as soon as the new clearing architecture comes on line.

For more information: www.apca.com.au or www.apca.au/about-payments/future-of-payments/real-time-payments

¹⁰ The U.K. Government is the single largest volume user of UK’s payment systems. It made more than 1 billion tax credit, state pension and state benefit payments to individuals through the UK’s payment schemes in 2011

About Payment Adviser

Payment Adviser is a privately owned company based in Sydney Australia. It was established in 2008 to market integrated electronic payment remittance models for business and government.

The process of bringing Payment Adviser's integrated electronic payment remittance models to market began in 2004 - from concept stage, through research and development to launch phase in late 2008.

In 2010 two different integrated remittance exchange models were applied to different market verticals in Australia: The first for superannuation (pension) payments, payroll and other deductions, benefit payments and general payables (www.clicksuper.com.au), while a second was applied to bill presentment and payment (EBPP) in property (www.billexchange.com.au).

Typical Account Statement View for Caltoxix Limited

Date	Transaction Details	Debit	Credit	Balance
23 April 2013	SinclairP.p.vu		28,605.60	7,028,705.60
	Caltoxix.p.vu	450,450.00		6,578,255.60

International Markets

Integrated electronic payment remittance models are available for all known payment systems and infrastructures including cards.

Process patents have been granted in South Africa and New Zealand and patent approval is imminent in key markets including, the U.S.A., Canada, North Asia, China, Japan and Europe.

Website: www.paymentadviser.com Contact: brad.rosenthal@paymentadviser.com
 Register for Demonstration: www.paymentadviser.com/demonstration

Payments 2013 San Diego April 21-24 2013

Payment Adviser will be at Payments 2013 in April to discuss this paper, present its electronic remittance payment models, meet with exhibitors and potential international partners.



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Australian Case Study

An integrated electronic payment remittance model was introduced in late 2009 by Payment Adviser for Australia's AUD \$1.4 trillion superannuation (pension) industry.

The objective was to transition payments away from traditional cheque (check) and paper remittance to an integrated electronic remittance payment model that would drastically reduce time to investment for regular superannuation contributions due to efficient, lean remittance administration processing.

At the time, payment of regular compulsory superannuation payments for employers to individual employee member accounts ahead of investment was taking an average of 21 days.

Respected actuaries Rich Warner Actuaries, head quartered in Sydney were asked to review the model and estimated at the time that:

- The model would automate payment processing for employers and reduce time to account allocation ready for investment to less than 5 days.
- The model would reduce superannuation fund administration costs by AUD\$ 4.6 billion over ten years if automatic contribution processing based on the model were introduced.

In 2014 the Australian Federal Government will introduce legislation that mandates the use of remittance linked electronic payments for contribution and fund rollovers (to more than 450 superannuation funds). The legislation will be based on the integrated electronic remittance model introduced by Payment Adviser in 2009.

Website: www.clicksuper.com.au

This case study including, workflows introduced to meet the needs of employers and payroll service providers, will be outlined in detail at Payments 2013



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