The Drive to Electronic Remittance Exchange in Business-to-Business Payment Automation

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Today’s end in mind…

> Models of Remittance Exchange
> Global Trends in Key Markets
> U.S.
> European Landscape – Spotlight on Economies:
  > U.K.
  > Germany
  > Finland
  > Sweden
> Convergence and Standardization
> Questions
Who is CGI?

World's 5th largest independent IT and BPS firm

- High-end business and IT consulting
- 68,000 professionals, 85% shareholders*
- 10,000 clients across the globe
- System integration, IT and business process outsourcing
- 400 offices, 40 countries around the world
- Client satisfaction: 9.1/10
- 100+ mission-critical IP-based solutions
- $10+B annualized revenue

* Before Logica
What is payments optimization?

“Payments optimization is the combination of electronic payments and automation of remittance information.”
Two Models of B2B Payments & Remittance Exchange

Payment with data

Payment and remittance information exchange model

Data provided separately from the payment
The United States

Payments and Remittance Origination Process

Large Corporate Originator

- Large corporate use accounting software (e.g., SAP, Oracle) create file in EDI or other specified format (e.g., iDoc format with each customer having a different iDoc configuration). Large corporate could also send a fully formatted CTX.

Smaller Corporate Originator

- Smaller business may use an ACH Web Service (provided by the bank or other payment company) or other business package with module (e.g., S1) — could have direct connection (e.g., online banking) or an HTTP upload.

Payment and Remittance Data

- Customer Account Number
- Customer Name
- Invoice Gross Amount
- Amount Paid
- Invoice Number
- Invoice Date
- PO Number
- Discount
- Adjustment Amount
- Adjustment Code

Repository Services Warehouse

- Repository Warehouse provides services such as Positive Pay, origination reporting, research, etc.

ODFI Translator

- ODFI Translator (e.g., homegrown, Sterling GentTran, GXS, Clear2Pay, Software AG WebMethods, Jack Henry, etc.) creates ACH/EDI file as necessary — or — according to originator/receiver profile — may also create check or wire. Also determines if remittance is included in a CTX, or is available for re-association using the Individual ID field as the re-association key.

ODFI ACH Processing

- ODFI Translator validates addenda record count (but not content or addenda data format). On us transactions stripped and processed in-house. Non on-us transaction sent to ACH Operator.

ACH Operator

- The Clearing House / The Federal Reserve

Non on-us transaction sent to ACH Operator.

U.S. Payments/Remittance Lifecycle is complex and lack standardization
Payments and Remittance Receipt Process

The United States

RDFI Receiver Services
- RDFI Receiver Services
  - Information reporting (e.g., intra-day and previous day for receiver to track posted transactions) – (format depends on posting application)

RDFI ACH Processing
- RDFI ACH Processing
  - RDFI ACH Processing
  - RDFI ACH History Warehouse
  - Archived transactions for research

Receiver DDA
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  - Limited information – no addenda (format depends on posting application)

RDFI Translator
- RDFI Translator
  - Addenda translated – options provided to Receiver for viewing/downloading

ACH Operator
- ACH Operator
  - The Clearing House / The Federal Reserve
  - RDFI ACH History Warehouse

Small corporate options for receiving addenda: web view, fax, mail

Large Corporate Originator
- Large Corporate Originator
  - Large corporate options for receiving addenda: direct transmission (raw data), translated file, custom formats – parameter driven per customer profile

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Smaller Corporate Originator
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  - RDFI ACH History Warehouse
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RDFI ACH History Warehouse
- RDFI ACH History Warehouse
  - RDFI Receiver Services
  - RDFI ACH History Warehouse
  - RDFI ACH History Warehouse

A CH Processor
- A CH Processor
  - e.g., PEP+, Fundtech
  - receives and validates file/addenda record count (but not content or addenda data format)
New message implemented to support remittance information up to 9,000 characters

1. **Unstructured** - block of data formatted according to another standard (e.g., EDI, ISO 20022)

2. **Related** - used to identify a reference number and location of remittance information if exchanged outside of wire payment

3. **Structured** - specific “tags” edited by Fedwire and CHIPS to carry invoice details

Launch of XML-ACH Opt-in Program

**Participation**
- Financial institutions must register as both ODFI and RDFI

**Transactions**
- Opt-in rules apply only to CTX
- No operator validation of addenda records
- Only data tags identified in the NACHA data dictionary can be included in remittance files
- No changes required for 5-6-7 header records
European Union...Barriers to Remittance Reconciliation pre-SEPA

- Lack of standard remittance formats

- Limited space within payment messages

- The original remittance information could be modified by clearing and settlement mechanisms (CSMs) or by the receiving payment service provider

- Inability to automatically recognize the sender by a code

- Different methods of payment reporting in the European Union (EU) Member States
Structured or unstructured fields to send Remittance Advice, or “cross-reference” link separate from the payment stream.

Structured field for information such as ISO 11649 creditor reference (RF) or legacy national creditor reference codes (e.g., Nordic KID in or Dutch Acceptgiro).

140 characters of remittance information in structured or unstructured basis.

ISO 11649 structured creditor reference.

Full ISO 20022 for unlimited remittance information within closed user group i.e., additional optional services (AOS) (e.g., banks that operate in Finland).

Unstructured or free text to establish bilaterally agreed structured Information.
United Kingdom

- Small group continues to use paper checks for B2B transactions
- Most transactions shifting to U.K.’s Faster Payments Service (FPS)
- For values above £100,000 payment flows through RTGS system, CHAPS, or 3-day clearing batch system, Bacs
- Legacy payment schemes are unable to support remittance data
- Large corporation use EDIFACT; small and midsized businesses constrained by paper processes
- Positive step - FPS provides a remittance field of 140 characters
Germany

- One of the largest cashless share of transactions in Europe
- B2B payments dominated by direct debits or bulk domestic payments (DTAUS)
- Large corporates e.g., automotive industry use separate communication standards like EDIFACT for remittance exchange
- Small and midsize businesses “Mittelstand” lack a common standard for remittance exchange, which is exchanged via email, fax, and other forms of communication
Finland

- B2B payments are dominated by credit transfers based on ISO 20022
- Conceived the check digit structured creditor reference (RF) now the international standard ISO 11649
- Finnish banking community designed the additional optional services (AOS2) to bundle several invoices and credit notes into one payment
  - 1:140-character unstructured remittance field (for non AOS2 banks)
  - Up to 9: structured messages of 280 characters (Finnish banks that use AOS2 service)
- SEEBACH Community expanded AOS2 capability to 999 lines

EBA CLEARING is currently piloting an AOS2 program emulating the Finnish approach with plans for launch in 2015
Sweden

- Payment system is dominated by two giro systems:
  - Bankgirot, an open payment system
  - Plusgirot, an in-house system to Nordea
- Developed the Bankgiro number in the 1950s, an organization’s permanent electronic “address” that serves as a proxy to mask sensitive bank account information
- Majority of B2B payments are cleared electronically via credit transfers
- Nearly all invoices include the giro number, OCR reference, and amount
- Extended remittance information available of up to 4,500 characters – 90 rows of 50 characters
Complex World of Remittance Standards

EDIFACT  
ANSI EDI X12  
SWIFT MT  
ROSETTANET  
STP 820  
SAP IDOC  
...and MORE!  
ORACLE IDOC  
IFX BMS  
OAGIS REMITTANCE ADVICE  
ISO 20022 PAYMENT MESSAGES

Proliferation of standards vary by industry, context, and even individual corporations
Convergence and Standardization – Global Adoption of ISO 20022*

*Current and planned

High Value
Low Value

Source: SWIFT, CGI

Passage of ISO 20022 standalone remittance messages developed by IFX in collaboration with NACHA, Bank of America Merrill Lynch, and Wells Fargo
Benefits of Standardization to Corporates

- Lower transaction costs
- Improved data quality
- Optimized cash flow from faster business cycles
- Improved forecasting
- Reduced errors and exception handling
- Minimized technical challenges
- Enhanced trading partner relationships from reduced research of inquiries

Promote efficiencies and a foundation for straight-through processing (STP)

Banks and third-party solution providers can also offer value added services to their banking customers
Questions...Let’s Connect

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