

WHITE PAPER

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

INTRODUCTION—THE DRIVING FORCES FOR TRANSFORMATION

Payments optimization—the combination of electronic payments and the automation of remittance information—can help companies reduce costs and gain better visibility and control over cash. Yet, today many U.S. businesses continue to make the bulk of their disbursements by paper checks. In contrast, most European countries have embraced electronic payment instruments, with Germany, the Netherlands, Switzerland, and Sweden achieving over 95 percent penetration rate.

However, the efficient reconciliation of business-to-business (B2B) payments with remittance information—i.e., the reason for the payment—remains a major hurdle in all parts of the globe including those with high electronic payments adoption. This is due in part to the complexity of remittance data that varies significantly by industry and context. In some cases, individual corporate remittance requirements also differ. Combined with the multiple standards and different technologies for transmitting payment related information, compound the issues in accurately identifying incoming payments and posting them to the correct accounts without manual intervention.

There are two traditional models for reconciling payment related information with payment transactions. In the first model, remittances are sent simultaneously with the payment. However, historically, there has been an absence of sufficient data on the associated invoices and deduction details accompanying electronic transactions. In the second model, additional information resides outside of the standardized payments message. The remittance advice is delivered to the beneficiary via a different channel, and businesses must re-associate the remittance data with the payment. The risk of separate delivery is that it requires time-consuming and error prone re-keying and manual intervention, which can cause confusion and potential loss of information. Although variations of both models exist worldwide, the general consensus is that businesses prefer to receive remittance information with the payment to more efficiently manage their payables and receivables processes.

It is within this context that we present comparisons in B2B remittance exchange processes in the U.S. and Europe, spotlight certain economies, and highlight recent developments with respect to extended remittance information and its future implications for stakeholders in the financial value chain.

GLOBAL TRENDS IN KEY MARKETS

The United States—Catalyst for change

The pace of adoption of electronic payment methods has been slow in the U.S., encumbered by manual processes, legacy systems, and proprietary formats. One of the biggest impediments to electronic B2B payments is the need to enrich the transaction data accompanying payments. Accounting and auditing processes have been built around the paper check, which provides the remittance detail companies want and that electronic payments in the U.S. have lacked.

While large corporations have realized the benefits of straight-through processing (STP) in using electronic data interchange (EDI ANSI X12 formats) to provide remittance information, even EDI has its limitations. EDI has excessive data requirements, a fact that is further complicated by unique specifications customized to each industry vertical and implemented between a few large trading partners on proprietary networks.

Meanwhile, most small and medium enterprises have yet to realize similar efficiencies. Robert Unger, senior director, product management and corporate strategic alliances at NACHA—The Electronic Payments Association, comments:

Corporate payment remittance processes in 2014 are still being driven by 1990's technology. It's hard to believe, but faxing and emailing PDF files are still the most widely used options for exchanging remittance information between trading partners, which contributes to the extremely low percent of straight-through processing in the U.S. All that remittance information traveling over the phone lines and Internet could actually be included with the payment in an ACH transaction.

To that end, the Federal Reserve Banks and NACHA—the governing bodies for U.S. wires and the Automated Clearing House (ACH) network respectively—took steps to advance the electronic processing of payments and remittance information. In November 2011, the Federal Reserve Banks and The Clearing House, the operators of U.S. wires, implemented the new Fedwire Funds Service and the Clearing House Interbank Payments System (CHIPS) extended remittance information (ERI) messages.

The purpose of the new ERI messages was to allow corporate originators of U.S. wire transfer payments to include about 9,000 characters of additional remittance information within a wire transfer payment order. The U.S. wire messages offer three different options for extended remittance information with multiple format choices: 1) *unstructured addenda information* in seven different formats¹ that are specified by the originator; 2) *structured fields* that are compatible with ISO 20022 and STP 820 formats; and 3) *related remittance information* that allows an originator to include information in the ERI message (e.g., URL address and reference number) to inform the beneficiary where it can obtain the remittance information when it does not travel with the payment.

Yet, Fedwire and CHIPS ERI have had limited uptake due to the challenges of supporting a variety of options and formats, as well as the need to change the various interfaces—from the bank systems and solution providers to those of corporations'—that must be changed in order for the end-to-end process to work. Today, the few originating banks that use the service are using the unstructured option to transmit free text.

Prior to the U.S. wire changes, the 140 character length of the U.S. wire format was a constraint to banks. Although the addition of the 9,000 character block is providing somewhat more flexibility, the delivery of the remittance information to corporate partners may not happen when banks are not required to send these along based on U.S. wire rules.

¹ Industry formats supported include ANSI X-12, General XML, ISO 20022 XML, Narrative free text, STP 820, SWIFT field 70 structure (Remittance Information), and UN-EDIFACT. For more information, visit the Federal Reserve Banks at <http://frbervices.org/campaigns/remittance/index.html> and The Clearing House at <https://www.chips.org>.

In contrast, NACHA rules mandate that financial institutions provide payment related information carried in the ACH payment to their corporate customers. Taking lessons from the U.S. wires experience, NACHA also took a more focused and definitive approach to minimize complexity and mitigate similar challenges.

CGI's interviews conducted as part of a payments remittance lifecycle study with different stakeholders—principally, financial institutions, solution providers, and corporations—revealed there is universal agreement in the marketplace that harmonization of U.S. wire ERI and ACH would be beneficial. Indeed, corporate receivers of incoming payments desire consistent remittance data across all payment channels, whether wires, ACH, credit cards, or checks.

NACHA worked with the Interactive Financial eXchange (IFX) Forum to develop the official ISO 20022 remittance specifications which would be ultimately referenced in the NACHA Rulebook as an international standard. Anticipating a lengthy development and approval process, NACHA engaged CGI to develop an interim ISO 20022-based data dictionary. The data dictionary leveraged remittance information within ISO 20022 pain messages,² while mapping to the U.S. wire system ISO 20022 remittance format option, NACHA banking conventions, STP 820,³ and the ISO remittance messages that were in development by IFX.

NACHA launched its opt-in program in August 2013.⁴ Says NACHA's Robert Unger:

The goal of NACHA's XML-ACH remittance program, backed by the *NACHA Operating Rules*, is to incorporate ISO 20022 remittance messaging standards to provide consistency for using XML in ACH addenda records, improving payment remittance automation and processing efficiencies for domestic and international payments.

This step by NACHA will enable the expansion of B2B electronic payments and further the industry's effort to develop a uniform global standard.

² pain, or Payments Initiation messages, are XML messages that are used between customers and banks and are defined in the ISO 20022 standard.

³ STP 820 was designed by The Clearing House for small and midsize enterprises (SME) with a simplified data remittance specification of 10 fields to transfer minimum remittance information in the ACH network. Considered a "lighter" version of EDI, it has had relatively low adoption by SMEs.

⁴ Further information on the NACHA XML-ACH Remittance Opt-In program is available here: <<https://www.nacha.org/programs/xml-ach-remittance-xml-ach>>.

SHIFTING DYNAMICS OF THE EUROPEAN LANDSCAPE

In contrast to the U.S., many in the European Union⁵ have realized efficiency and cost gains with B2B electronic payments, but the ability for treasury and accounting systems to automatically reconcile incoming payments continues to be a challenge in general. Before the introduction of the Single Euro Payments Area (SEPA),⁶ remittance reconciliation was hampered by the following factors:⁷

- Lack of standard remittance formats;
- Limited space within payment messages;
- Fact that the original remittance information could be modified by clearing and settlement mechanisms (CSMs) or 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.

In response, the European Payments Council (EPC), the decision-making and coordination body of the European banking industry, introduced a standard length of remittance information to facilitate account reconciliation. The SEPA Credit Transfer (SCT) Scheme permits 140 characters of remittance information data on a structured or unstructured (free text) basis across 32 SEPA countries. All parties in the payment processing chain are obligated to carry the remittance information unaltered from customer (originator) to customer (beneficiary). Further, the EPC recommends that beneficiaries adopt the ISO Standard (ISO 11649) for a structured creditor reference to the remittance information as the preferred remittance data convention for identifying payments referring to a single invoice.

According to the European Association of Corporate Treasurers (EACT), the provisions of the SCT Scheme on remittance information fall short of corporate expectations. Using the 140 characters in a structured form limits the inclusion of one invoice with remittance information. It does not allow for the possibility of settling multiple invoices at one time, a common practice among payers. The current provisions on remittance information in the SCT Scheme mean that corporates have to continue the existing general practice in Europe of sending the remittance advice separate from the payment.

⁵ The European Union (EU) is comprised of the 28 member states: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

⁶ The Single Euro Payments Area (SEPA) is a payment-integration initiative driven by the European Union to simplify euro-dominated bank transfers denominated in euro. As of May 2014, SEPA consists of the 28 EU member states, the four members of the EFTA (Iceland, Liechtenstein, Norway and Switzerland), Monaco and San Marino.

⁷ Tabasso, Gianfranco. "Join the Debate: European Association of Corporate Treasurers' Proposals Regarding Remittance Information." EPC Newsletter. Issue 15, July 2012. <http://www.europeanpaymentscouncil.eu/index.cfm/newsletter/article/?articles_uid=7256A89A-5056-B741-DB0E5AF6224B62E9>.

With the introduction of the SEPA ISO 20022 payment message standards, European corporates had hoped to combine both the remittance advice and the payment to simplify the reconciliation process and to achieve a frictionless, end-to-end, straight-through processing. However, the current standard has led to the emergence of variants of extended remittance information within the European Union. Some of these practices include the following:⁸

- Use of the unstructured or free text to establish bilaterally agreed structured information;
- Use of the structured field for such information as the new ISO 11649 creditor reference (RF) or legacy national creditor reference codes (e.g., KID in Norway or Acceptgiro in the Netherlands);
- Use of the full ISO 20022 for unlimited remittance information with those banks and customers that are able to process it; these additional optional services (AOS) are agreed between a closed user group of SEPA participants, usually a national community, that are not covered by the European Payment Council Rulebooks; currently, this is available to any bank that operates in Finland;
- Use of the structured or unstructured fields to send remittance advice or a “cross-reference” link separate from the payment stream.

Some of these differing mechanisms for delivering remittance information to the beneficiary are highlighted and explored further in the practices of the following geographies—from the more fragmented approaches of Germany and the U.K. to the advanced technological environment in Finland and Sweden.

Germany—Gaps in automated reconciliation

Germany is a trade intensive economy with more than 50 percent of goods exported to other European countries.⁹ Notably, Germany accounts for one of the largest share of cashless transactions in Europe. Its B2B payment market has been dominated by direct debits or bulk domestic payments processed in the legacy file format (i.e., DTAUS supporting *Abbuchungsauftrag*).¹⁰ Its use of direct debits is the highest in all of the European Union.

Comparatively, the implementation of extended remittance information is far from automated and not uniform across industries within Germany. In the automotive space, which is highly connected due to its just-in-time supply chain model, it has a more structured exchange of remittance information. For corporations in this sector, it is common to use separate communication standards like EDIFACT,¹¹ a standard that is widely used in Europe for the electronic interchange of structured data between trading partners. Like the U.S. ANSI EDI, its use is prevalent among large corporations.

⁸ EACT. “Remittance Information for Reconciliation in SEPA.” <http://www.eact.eu/docs/wg8/Introduction_to_the_EACT_Standard.pdf>.

⁹ 2013 UHY International Ltd. “Doing Business in Germany.” <<http://www.uhy.com/wp-content/uploads/Doing-Business-in-Germany.pdf>>.

¹⁰ By August 1, 2014, the use of SDD ISO 20022 XML files will be required for DTAUS, the local national format for German domestic non-urgent euro transactions and DTAZV, the local national format for cross-border non-urgent euro transactions within the SEPA zone.

¹¹ EDIFACT is the acronym for Electronic Data Interchange for Administration, Commerce and Transport that was developed by the United Nations. EDIFACT is the product of the evolution in bringing the proprietary standards of the U.S. (ANSI X12) and Europe together to form a single EDI standard.

Of key importance, the German economy is predominantly characterized by small and medium-sized firms (85 percent) known as *Mittelstand*.¹² This group of small and medium businesses lacks a common standard for remittance exchange. Payment related information is sent via email, fax, or other forms of communication. This fragmented flow of remittance information is reflective of practices across much of Europe where implementations vary by country and the exchange of remittance information is dictated by legacy payment infrastructures and formats. To drive implementation of an automated reconciliation process, a mandate on a remittance standard would be needed.

Finland—Innovator and early adopter

The degree of automation in Finland is possibly the highest in the world. Finland has been ahead of the curve since the 1980s, having a highly developed electronic payment infrastructure. The Finnish electronic banking has long been standardized with common file formats, which eased the migration to SEPA in 2011 in advance of the 2014 deadline. It became the second country in the Eurozone to implement SEPA.

Finland is also considered one of the pioneering countries in electronic payments and processing. With Finnish banks' playing a significant role in the development and automation of corporate payments transmission and financial management processes, today checks are rarely used; credit transfer transactions based on the ISO 20022 XML format are dominant, and there is wide adoption of automated reconciliation.

Finland also conceived the check digit structured creditor reference (RF) that has become the international standard known as ISO 11649. RF has the potential for wide acceptance beyond SEPA countries. It is an enhanced version of the common national creditors' references. RF enables automated reconciliation of receivables and expands the benefits of the standardized creditor reference currently used in domestic to cross-border invoicing. The use of the same algorithm as in the International Bank Account Number (IBAN)¹³ also ensures the validity of the reference digits.

Having achieved a high level of straight-through processing and efficiencies, the Finnish market recognized the limitations of the basic SEPA Credit Transfer (SCT), which would not maintain its exceptional automation levels. Finland's main industrial sectors,¹⁴ which account for more than 80 percent of total exports, were the driver behind Finland approaching the European Payments Council to enhance the SCT with additional structured references for domestic purposes.

The Finnish banking community designed the additional optional service (AOS2) to bundle several invoices and credit notes into one payment.¹⁵ Specifically, AOS2 extended the 140-character unstructured remittance field and incorporated nine structured messages of 280 characters. The compulsory unstructured remittance information of 140 characters is used for banks that do not support the SEPA extension (i.e., banks that are not AOS2 banks). The structured remittance information, which must be at least two and no more than nine messages, is exchanged between those banks that use the AOS2 service (i.e., banks operating in Finland).¹⁶

¹² 2013 UHY International Ltd. "Doing Business in Germany." <<http://www.uhy.com/wp-content/uploads/Doing-Business-in-Germany.pdf>>.

¹³ The International Bank Account Number (IBAN, ISO 13616) is an international standard for identifying bank accounts across national borders.

¹⁴ The main industrial sectors in Finland are metals and electronics, forestry and chemicals.

¹⁵ FFI| Federation of Finnish Financial Services. "Description of Additional Optional Service 2 (AOS2) Applied in Finland to SEPA Credit Transfer." October 2010. <http://www.fkl.fi/en/themes/sepa/sepa_documents/Dokumentit/Description_of_the_SEPA_Credit_Transfer_AOS2_for_Finland.pdf>.

¹⁶ A list of SEEBACH banks operating in Finland are provided here: <http://www.fkl.fi/en/themes/sepa/sepa_documents/Dokumentit/AOS_Banks_in_Finland.pdf>.

Integration by market financial software applications is a key component for successful adoption. This was observed when solution providers like enterprise resource planning (ERP) vendor, SAP, supported the change by providing a user interface with a field that can toggle between one and nine lines to facilitate remittances sent to AOS2 and non-AOS2 banks.

Automated reconciliation led to a decrease in banking fees and improved cross-border traffic, among other benefits. However, industry practice indicated that nine lines were still not sufficient to carry remittance data from debtor to creditor. SEEBACH,¹⁷ a community that includes the four largest Finnish banks, collaborated to expand AOS2 capability to 999 lines for corporate use within Finland. The financial institutions participating in these intra bank payments have realized competitive advantages from improved liquidity positions and other related benefits.

In a promising development that would enable banks from other geographies to realize similar opportunities, EBA CLEARING¹⁸—the dominant clearing and settlement network for the euro, principally in Italy, Germany, Ireland, the Nordic area and the Baltic countries—is currently piloting an AOS2 program emulating the Finnish approach. Following the test phase and lessons learned, EBA CLEARING plans to launch the program to participants in 2015. Discussions are ongoing with global ERP vendors to support “unlimited-999” occurrences of remittance data. Such efforts have the potential to achieve network effects, especially when combined with the benefits banks will realize from the same settlement cycles to speed adoption.

The United Kingdom—Roadblocks in remittance reconciliation

Like many of its global counterparts, a long-standing challenge for the corporate community in the U.K. is incomplete remittance details, which hamper automated payments reconciliation.

While most U.K. businesses have moved away from checks, a small group resistant to change continues to use these paper instruments. The precipitous decline is driven by the uncertainty in the timing of clearing and settlement, and most importantly the economic costs of processing this payment type.

Aside from this small subgroup, more corporates are migrating to the U.K.’s Faster Payments Service (FPS), a same day clearing and settlement system, to accelerate the processing and settlement of low-value payments. For values above £100,000, the payment may flow through alternative channel: the RTGS system, CHAPS, or via the batch-based, three-day clearing system, Bankers’ Automated Clearing Services (its official name is now Bacs).

Having remittance information integrated with payments data remains elusive to the U.K. corporate community. Generally, U.K. businesses need to send their remittance information separately from the payment instruction because the U.K.’s legacy payment schemes lack the ability to carry sufficient remittance information. In the case of the Bacs system, it is not even possible to send reference information to facilitate identification and reconciliation of incoming payments, with the transaction length restricted to 100 bytes, including originator and beneficiary data. Added to this, banks, which are already under immense pressure due to regulatory and customer demands, do not have the appetite to reengineer and update the formats of these mature clearing and settlement systems.

¹⁷ SEEBACH, acronym for SEPA, EBA, PE-ACH, is comprised of payment service banks that operate in Finland and by the major Nordic banks, in cooperation with EBA Clearing. SEEBACH is a project to develop interbank clearing and settlement methods. These banks are part of the EBA STEP2 community.

¹⁸ EBA CLEARING is comprised of 62 shareholder banks and offers both high-value and low-value clearing and settlement services to a wide community of banks in the European Union. More information is available here: <<https://www.ebaclearing.eu>>.

The nature of payment reconciliation is largely dependent on the size of the business. There is a major gap between the large corporations that typically use EDIFACT and can justify the expensive technology, and the medium and small players that continue to be constrained by paper processes. In a positive step, the new Faster Payments Services provides a remittance field of 140 characters, which can be used to associate payments with accounting, ERP, or other financial information systems. However, even this advancement provides limited support for associating multiple remittances with a payment instruction.

Sweden—Advancing automation and efficiency

Today, Sweden enjoys a high degree of automation. B2B paper checks have been virtually phased out, with processing charges hastening the decline. At the beginning of the 1990s, one of the Swedish banks implemented a fee of SEK 15. Other banks followed suit to eventually institute a unilateral policy change. With the availability of other economical substitutes, the paper based payment instrument was reduced to single digits.

The Swedish payment system is dominated by two giro systems: the Bankgiro system, an open payment system owned jointly by the banks; and the Plusgiro system (previously named the Postgiro system), today an in-house credit transfer payment system to Nordea. A unique aspect of the Swedish payments market is the role that Plusgirot plays. While Bankgirot is an automated clearing house, Plusgirot is not a financial infrastructure in the traditional sense as it is designed to process payments between accounts in Nordea.

In the 1950s, corporations in Sweden sought a unique bank account identifier to serve as a proxy to mask sensitive bank account information while facilitating safe, secure B2B payments. This led to the creation of the Bankgiro system and the development of the bankgiro number.¹⁹ The bankgiro number is an organization's permanent electronic payment "address".²⁰ An advantage of the bankgiro number is its portability—it reduces the effort associated with changing banking relationships. In addition, it allows multiple bankgiro numbers to be linked to the same bank account. Mats Wallén, business developer at Bankgirocentralen BGC, notes:

The Swedish market has an extremely efficient end-to-end process in payments in part due to the high level of standardization of structured remittance information and the use of the giro functionality. The specification details and structure allow for automation in both the payables and receivables ledger at the end user.

While the majority of payments clear electronically, supported by high usage of Internet payment initiation (predominantly via credit transfers), electronic bill presentment is another factor driving enhanced automation. The giro number—a Bankgiro number or a Plusgiro account—is included in nearly all invoices in Sweden, combined with the OCR string and the amount of payment. The OCR²¹ reference number is a unique structured remittance data of 25 characters stated on the invoice or notice of payment. The OCR number is used by the beneficiary initiating the invoice to facilitate automatic reconciliation when payment is received. As a result, 99 percent of all payments in Sweden are automatically matched and booked against the accounting ledger with a very small fraction handled manually.

¹⁹ More on the Bankgiro number can be found here: <http://ec.europa.eu/internal_market/finservices-retail/docs/baeg/reply-corp-se-bgc_en.pdf>.

²⁰ The giro is either a seven or eight digit bankgiro number or a two to eight digit Plusgiro number. If payment is made to a bankgiro number or to a Plusgiro account, remittance information may contain 140 characters. Some Plusgiro accounts can only receive remittance information in OCR format.

²¹ Optical Character Recognition or OCR is a computer technology that uses image analysis to convert digital images of text, numbers and symbols into information that is recognizable by other computer software.

It should be noted that extended remittance information is also available in the Bankgiro system with up to 4,500 characters (or 90 rows of 50 characters), particularly for industries that require additional information to be transmitted with the payment instruction. Automation is highly dependent on how these rows are utilized, i.e., whether the rows are comprised of 25 structured characters, or 50 characters of unstructured data. The limitation of the remittance information in Sweden is that it is based on proprietary domestic formats.

Moving forward, the Bankgiro system is building a future path that envisages more standardization and global interoperability based on a foundation of ISO 20022 formats. This, together with establishing additional requirements that are flexible to address the specific needs of the Swedish economy, will continue to foster efficiency and innovation in the market.

CONVERGENCE AND STANDARDIZATION EXTEND POSSIBILITIES

Globally, there are multiple business processes, formats and industry standards in place in the exchange of remittance information.²² Coupled with the myriad competing and proprietary technologies—ERP, treasury management and banking systems—exacerbate the payment and reconciliation process.

Worldwide, EDI is the prevalent technology for remittance information exchange. However, while EDI is fully implemented between a few large trading partners on proprietary networks, newer XML-based technology—which offers flexibility and the ability to be adopted by a broader demographic, particularly smaller players—has the potential to realize similar efficiencies as large businesses using EDI formats. The challenge is that even with XML, no global standard for exchanging financial data previously existed. Take the case of large ERP providers that have supported their own unique XML formats. This has resulted in an increase in the multitude of XML formats in the market, and reducing applicability across a broad base of businesses.

The solution to streamlining the payment and reconciliation process involves the digital transmission of an open, interoperable standard for financial data exchange from the buyer to the supplier, which the XML-based ISO 20022 standard offers. ISO 20022 gained visibility as a global standard for mass euro payment transactions with the introduction of SEPA. Larger financial institutions and corporations in the U.S. have moved to adopt the standard to ensure interoperability. Responding to business demands to improve the ability of payment messages to carry invoice detail, the U.S. wires operators expanded its remittance capabilities to include ISO 20022 along with other formats in 2011. In 2013, NACHA followed by launching its opt-in program to enable XML-based remittance information within the ACH network.

However, it is important to acknowledge that while a common standard is key to doing business across the global supply chain, in practice, variations of ISO 20022 have emerged as countries began to establish their own interpretations. In a significant development to ameliorate this issue, the ISO 20022 Payment Standard Evaluation Group (SEG) approved in April of 2014 standalone remittance messages.²³ IFX took the lead role in the collaborative effort with NACHA, Bank of America Merrill Lynch, and Wells Fargo. CGI was also engaged to review the remittance standard in development prior to submission based on its work on the interim NACHA data dictionary.

²² The Remittance Coalition, group of organizations and individuals working together to promote greater use of electronic business-to-business payments and electronic remittance data exchanges, compiled an inventory of remittance standards published by X9 and available here: <<http://x9.org/wp-content/uploads/2014/02/X9-TR-44-2013-Final.pdf>>.

²³ Access to and download of the ISO 20022 standalone remittance messages are available here: <http://www.iso20022.org/payments_messages.page>.

Recognizing the two different remittance models in practice today, IFX established standalone messages to enable buying or selling organizations to exchange messages directly; or alternatively, a bank can act as an intermediary to provide the remittance information as a value added service. Of the two types of messages, the first carries the full remittance information, and the second provides information on how or where the remittance is delivered such as via a URL.²⁴

The ISO 20022-based XML remittance information is a promising opportunity to drive efficiencies and facilitate greater information exchange between all businesses, while providing a consistent method of interpretation and adoption of ISO 20022. Magnus Carlsson, manager of treasury and payments at the Association for Financial Professionals (AFP) notes, “Innovation going forward will be in ISO 20022. Older standards will not evolve.”

Given the global activity with ISO 20022 standards, geographies beyond the euro area are more prepared to accept these new remittance message types. Indeed, NACHA’S XML-ACH Remittance Information Opt-in (XML-ACH) program today supports the use of these messages in the ACH Network.

With the new ISO 20022 standalone remittance messages, richer information flows will open up the market for innovation and progress. Olli Kähkönen, manager of payments infrastructure for Nordea Bank Finland notes, “This is excellent progress following what we’re doing in Finland to efficiently and successfully transport a sizeable amount of structured remittance information (namely banks and clearing systems supporting 999 lines) with the necessary details to perform automated reconciliation and achieve efficiency gains.”

Having a remittance string of XML-based data that can be carried consistently through all channels is valuable for all parties across the financial value chain, but especially for trading partners. This will promote efficiencies to provide a foundation for straight-through processing to realize the following:

- 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.

With this, banks and third-party providers can also deliver value added services to their banking customers.

THE WAY FORWARD—THE RICHER PATH

Today, business payments and remittance exchange are at a crossroads. Evidence from economies from around the world illustrates that the process of transferring information from the seller to the buyer in business-to-business transactions remains fragmented and not fully exploited. As ISO 20022 becomes a dominant format, its application in corporate-to-bank interactions to address the considerations of small, medium, and large enterprises and the ability to pass remittance information through various payment channels has the potential to transform the order-to-pay stream.

²⁴ Additional background and technical information on the ISO 20022 standalone remittance messages is provided in the IFX white paper here: <http://www.ifxforum.org/action/casestudy/Understanding_the_ISO_20022_Stand-Alone_Remittance_Messages.pdf>.

A key development is the advent of the ISO 20022 XML-based standalone remittance standard, which has the potential to advance uniformity in the exchange of remittance information among trading partners domestically and across the globe. Forward thinking organizations that leverage this financial messaging tool for electronic payments and process automation will streamline and accelerate finance business processes to reduce operating costs, manage risks drive efficiencies, while improving visibility and control to realize increased profits.

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ABOUT CGI

Founded in 1976, CGI is a global IT and business process services provider delivering high-quality business consulting, systems integration and managed services. With 68,000 professionals in 40 countries, CGI has an industry-leading track record of delivering 95 percent of projects on-time and on-budget, aligning our teams with clients' business strategies to achieve top-to-bottom line results.

CGI offers a comprehensive portfolio of payments products and services, from high-end consulting to solutions for ACH, wires, financial messaging, and automated watch-lists filtering and sanctions scanning. CGI is committed to the advancement of electronic B2B transactions and straight-through processing, working with regulatory bodies and central market infrastructures. We actively collaborate and engage with peers on forums that include the Remittance Coalition co-chaired by the U.S. Federal Reserve Banks and X9, and the standardization efforts of the Common Global Implementation (CGI) initiative.

For more information about CGI, visit www.cgi.com.