A Faster, Safer, or More Efficient Payment System: What Do Credit Managers Want?

Brad Boe & Claudia Swendseid
Monday, June 13
2:00 – 3:15 p.m.
Session Number 25025
Agenda

1. Introductions
2. Definition of “straight through processing”
3. Trends in B2B payments
4. Current U.S. payment improvement efforts & what they may mean to credit managers:
   - Making payments more efficient
   - Making payments faster
   - Making payments safer

Disclaimer: Opinions expressed are those of the individual presenters & not of their respective organizations.
Brad Boe  
Director of Credit  
Performance Food Group, Inc.  
Centennial, Colorado  
Website: www.pfgc.com

PFG is the third largest foodservice distribution company in the United States with 2015 annual revenues of $15.3 billion

- In the food manufacturing & foodservice distribution business for over 20 years
- Past Chairman, Board of Trustees of the Credit Research Foundation
- Past Chairman, National Foodservice Distributors Credit Group
- Board member, Credit Research Foundation
- Remittance Coalition member

Payment types used by PFG:
- Checks
- ACH (pulls & pushes)
- Wires
- Credit cards (credit card, debit card)
- P-Card, virtual card
- Mobile cash contra (offsets)
• Serves on the Minneapolis Bank’s senior management committee

• Provides executive oversight to operations, customer service, technology & payments functions at the Bank

• Conducts industry relations on behalf of the Federal Reserve System, serving as a liaison to selected national banking & business associations
Who has the following challenges in their work?

1. Inefficient processes & not enough straight-through-processing (STP)

2. Don’t always get the remittance information needed to apply a payment

3. Still have to handle too many paper checks

4. It’s challenging to handle deductions & adjustments efficiently
Why STP Is The Ultimate Goal

Straight-through-processing (STP)

• Ability to receive & process B2B financial transactions from start to finish using an electronic system without manual intervention of any sort
  – Purchase-to-pay (accounts payable)
  – Order-to-cash (accounts receivable)

• Needed business information is easily & quickly transferred between buyers and suppliers

• Fewer delays caused by slow, inaccurate, or inefficient communication of payment-related data
Trends in B2B Payments
Comparing Payment Attributes

**Which payment method best represents each attribute?**

- **Highest supplier acceptance**: Check 60%, ACH 28%, Wires 4%, Cards 9%
- **Most complete remittance info.**: Check 55%, ACH 29%, Wires 9%, Cards 8%
- **Easiest to integrate with AP system**: Check 53%, ACH 35%, Wires 7%, Cards 6%
- **Best for avoiding duplicate payments**: Check 41%, ACH 38%, Wires 11%, Cards 10%
- **Best data accuracy**: Check 37%, ACH 38%, Wires 8%, Cards 17%
- **Best for working capital mgmt.**: Check 23%, ACH 33%, Wires 10%, Cards 35%
- **Most convenient**: Check 19%, ACH 38%, Wires 5%, Cards 38%
- **Best fraud protection**: Check 19%, ACH 37%, Wires 21%, Cards 23%
- **Least costly**: Check 8%, ACH 57%, Wires 9%, Cards 27%
- **Best for international payments**: Check 4%, ACH 11%, Wires 79%, Cards 7%


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B2B Check Usage is Stagnant

Number of Checks Written by Counterparty


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Trend: Increased Use of E-Payments for B2B Payments

Changes in Use, by Payment Type

- **ACH**
  - Have tried to increase: 52%
  - Have not addressed either way: 46%
  - Have tried to decrease: 2%

- **Cards**
  - Have tried to increase: 45%
  - Have not addressed either way: 46%
  - Have tried to decrease: 9%

- **Wires**
  - Have tried to increase: 17%
  - Have not addressed either way: 66%
  - Have tried to decrease: 16%

- **Checks**
  - Have tried to increase: 3%
  - Have not addressed either way: 34%
  - Have tried to decrease: 63%

B2B Fraud Trends

• Business email compromise schemes
  o Invoice schemes
  o Executive schemes - “Fake CFO request”
  o Personal email hacks

• Extortion/ransomware schemes

If your company is hacked...
What have you done to protect sensitive information?
Where does sensitive information reside?
Corporate Experience
Attempted Payments Fraud &/or Losses

Fraud Experience by Payment Type

<table>
<thead>
<tr>
<th>Payment Types</th>
<th>Check</th>
<th>ACH</th>
<th>Cards</th>
<th>Wire</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject to fraud attacks</td>
<td>71%</td>
<td>25% Debits</td>
<td>39%</td>
<td>48%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11% Credits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial loss from fraud</td>
<td>20%</td>
<td>11%</td>
<td>13%</td>
<td>Not Available</td>
</tr>
<tr>
<td>Responsible for greatest financial loss to company</td>
<td>43%</td>
<td>10% Debits</td>
<td>20%</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>5% Credits</td>
<td></td>
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</tbody>
</table>

Source: 2016 AFP Payments Fraud & Control Survey, Association for Financial Professionals

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Making Payments More Efficient
Remittance Coalition

- **Participation**: National group of associations, businesses, financial institutions, technology & software providers, standards development organizations & others
  - Formed in 2011
  - 477 members & growing
  - No dues or criteria for joining, other than a 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)
Remittance Coalition Accomplishments

*B2B Payments/STP Initiatives*

Small Business Payments Toolkit

B2B Directory

B2B Standards

E-Invoicing

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# Remittance Coalition Project:
## Small Business Payments Toolkit

- FREE resource you can use with your small business partners & others
  - Not copyrighted
  - OK to modify using Adobe Professional
- Encourages adoption of electronic B2B payments plus payment / remittance information exchanges

## Contents (Partial)
- Payment Types Explained
- Understanding ACH
- Working with Your Banker
  - Tips on Getting Started Using ACH
  - ACH Returns & Notifications of Change
  - Sample Trading Partner Agreement
- Fraud Prevention & Mitigation Tips
- What Small Businesses Should Know about Chip Cards
- Business Continuity Planning for Small Businesses
- Extensive Resource Section
  - Glossaries of Payment Terms
  - Credit & Debit Card Resources
  - ACH Resources
    - ACH Checklists and Forms
  - General Small Business Resources
  - Fraud & Data Security Resources
  - Bank Holidays
  - Regional Payment Associations

[Link to Toolkit](https://fedpaymentsimprovement.org/payments-efficiency/remittance-coalition/small-business-payments/)

**Created by the Remittance Coalition**

Over 13,000 downloads to date

- B2B directory is like a public phone book containing the payment identities of payees that accept electronic payments.
- Business payers have access to an array of electronic payment options—e.g., ACH credit push, wires, MasterCard InControl, VISA Payables Automation, PayPal, PayMode-X, etc., but they still struggle to:
  - Know who accepts electronic payments among payees.
  - Manage the information associated with each payment option.
  - Validate the information is accurate & trustworthy.
  - Keep up with emerging payment options.
- B2B directory goal: enable business payers – small & large – to make more electronic payments & provide related business information electronically to supplier & other payees.
- Key characteristics:
  - Information service, not a payment system.
  - Open, industry utility, will be governed by non-profit organization.
  - Contains Electronic Payment Identity (EPI), which identifies payee, including payments accepted, preferred remittance format, & more.
  - Enables payers to “look-up” & retrieve EPIs to facilitate electronic payments & remittance data.
  - Supports multiple payment types.
  - Supports related business information in multiple formats, e.g., preferred remittance format.
  - Trustworthy & secure.

Created by the Remittance Coalition.
1. Would your organization benefit from using the Small Biz Payments Toolkit?

2. Would your organization benefit from using the B2B directory?
   a) Would your trading partners?
Core Adjustment Reason Codes

- Identifies about 70 essential “core” codes from the 650+ EDI 426 Adjustment Reason Codes
- Maps core codes to full code list
- Encourage your software & technology vendors to support simplified “core” code list
- Evaluate the benefits & consider adopting the core code list in your company

TR 42-2014 Core Adjustment Reason Codes Technical Report

Available as free download from X9.org website under Standards, Remittance Coalition

Created by the Remittance Coalition

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### Other Technical Reports from the Remittance Coalition

Available for free; download from [X9.org](http://www.x9.org) website under **Standards, Remittance Coalition**

<table>
<thead>
<tr>
<th>Report ID</th>
<th>Title</th>
<th>Description</th>
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<tbody>
<tr>
<td>TR-45-2016</td>
<td>Retail Debit Balances Best Practices and Procedures Technical Report</td>
<td>Definition of retailer debit balance: Typically occurs when a supplier owes a retailer for goods returned by the retailer (that the retailer has already paid for). Work group of 27 retail industry practitioners identified best ways to handle retail debit balances from perspectives of retailers &amp; suppliers.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Defines each standard</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Types of payments supported</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• How remittance may be sent</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Information about the issuing organization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Defines 169 terms about payables &amp; receivables processing, B2B payments, &amp; remittances</td>
</tr>
</tbody>
</table>

*Created by the Remittance Coalition*

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Promoting E-Invoicing Adoption

- Federal Reserve white paper on *U.S. Adoption of Electronic Invoicing: Challenges and Opportunities* – to be available at: [www.fedpaymentsimprovement.org](http://www.fedpaymentsimprovement.org)

- Covers definitions, facts, benefits, global adoption trends, plus current standards & service providers in U.S.

- Key observations:
  - Globally, countries with the highest adoption rate have mandates in place, either to reduce tax avoidance in B2B transactions or to improve efficiency in B2G procurement processes
  - Domestically, e-invoicing lags; primary drivers for adoption are process efficiency & cost reduction
  - Discusses how to boost U.S. adoption of e-invoicing & gain efficiencies in B2B
1. How would widespread implementation of e-invoicing improve AR efficiency?

2. Do you have the resources to migrate over time to a universal STP solution, if one was developed?

3. How many of you now rely on EDI standards?

4. How can adoption of e-invoicing be encouraged among non-EDI users?
Remittance Coalition: Join Us!

Remittance Coalition website:
https://fedpaymentsimprovement.org/payments-efficiency/remittance-coalition/

- Learn about activities
- Join the Remittance Coalition
- Volunteer on a project
- Listen to recorded webinars
- Download useful, free resources

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Making Payments Faster
U.S. Faster Payments Initiatives

• **NACHA’s same day ACH** – a ubiquitous approach for clearing ACH payments on the day they are initiated

• **W3C web payments standard** – streamlining the online checkout process and making payments easier & more secure on the Web

• **The Clearing House** – multi-year endeavor to build a real time payment system

• **Big banks, Apple** – P2P payments products

• **Federal Reserve System** – Faster Payments Task Force has developed comprehensive “effectiveness criteria” to apply faster payment proposals submitted by industry for consideration
# NACHA’s Same Day ACH

<table>
<thead>
<tr>
<th>Functionality</th>
<th>Phase 1 (Sept. 23, 2016)</th>
<th>Phase 2 (Sept. 15, 2017)</th>
<th>Phase 3 (Mar. 16, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Eligibility ($25,000 limit) (IAT not eligible)</td>
<td>Credits Only</td>
<td>Credit &amp; Debits</td>
<td>Credits &amp; Debits</td>
</tr>
<tr>
<td>New ODFI ACH File Transmission Times</td>
<td>10:30 am ET 2:45 pm ET*</td>
<td>10:30 am ET 2:45 pm ET*</td>
<td>10:30 am ET 2:45 pm ET*</td>
</tr>
<tr>
<td>New Settlement Times</td>
<td>1 pm ET 5 pm ET</td>
<td>1 pm ET 5 pm ET</td>
<td>1 pm ET 5 pm ET</td>
</tr>
<tr>
<td>ACH Credit Funds Availability</td>
<td>End of RDFI’s processing day</td>
<td>End of RDFI’s processing day</td>
<td>5 pm (RDFI local time)</td>
</tr>
</tbody>
</table>

To learn more, visit the **Same Day ACH Resource Centers** available at:
- https://resourcecenter.nacha.org/

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Calling All Faster Payment Innovators

Capability Showcase Underway

- Creates awareness of marketplace solutions that could support faster payments
- Helps prepare industry for proposal work, offering the opportunity for solution providers to collaborate
- Educates the task force

Final Work Product

Faster Payments Task Force will publish results of the faster payments solution assessments & recommendations for next steps in early 2017

View capabilities video submissions at:
https://fedpaymentsimprovement.org/faster-payments/task-force/showcase/

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DISCUSSION

Faster end-to-end payments

1. Is the U.S. payment system fast enough?
2. Do U.S. businesses need a ubiquitous, faster payment system?
   a) What problems would it solve?
3. How would you use a faster payment system?
4. Are you ready for Same Day ACH?
Making Payments Safer
U.S. Safer Payments Initiatives

• Implementing EMV technology in card payments

• Adopting tokenization solutions that replace sensitive information (e.g., account number on a card) with a unique identifier. Protects payments & sensitive data stored in databases. Key benefits of tokenization:
  – Not mathematically reversible (without access to the original “look-up” table that matches token to original value)
  – Can be formatted to maintain same structure & data type (format fits legacy payment card data fields)
  – Completely removes original data from systems where tokens reside
  – Renders payment card data meaningless to hackers
  – Chargebacks & payment reconciliation can take place without handling payment data

• Improving industry coordination & timely adoption of security standards & protocols (via ASC X9, PCI DSS, EMV Migration Forum, etc.)

• Federal Reserve’s Safer Payments Task Force

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Federal Reserve’s Secure Payments Task Force Areas of Focus

- Payment Identity Management
- Law and Regulation Coordination
- Information Sharing for Mitigation of Payment Risk and Fraud
- Data Protection
- Collaborated with Faster Payments Task Force to include Payments Security
Safer payments

1. What payment fraud & security issues are of greatest concern to credit management practitioners?

2. Is your organization strengthening its risk management & internal controls?

3. Is it hard to justify new investments to make payments safer?
To Keep Informed about Payment Improvement Efforts

Join the FedPayments Improvement Community! Receive communications & invitations to live/virtual forums, follow developments, or sign up for our blog

– https://fedpaymentsimprovement.org/
What changes do credit management professionals want to see in the U.S. payment system?

What are your highest priority needs?

• More efficiency from end-to-end?
• Faster payments?
• Safer payments?
Appendix
ISO 20022 Definition

Businesses & financial institutions exchange vast amounts of data & information to move payments domestically & across international borders

• ISO 20022 was established in 2004 as a universal financial industry message scheme

• Is a “standard for standards” that offers a standard approach to building message standards across financial services

• Gives the sender & receiver of the message a common understanding of how to interpret the message
  – Solves communication confusion with a common global dictionary so information can be processed & exchanged worldwide clearly & consistently
  – Is designed to support current technical advances & adapt to future business needs
What’s Next for ISO 20022 Implementation?

ISO 20022 for Wire Transfer
• Develop a detailed plan & timeline for implementation of the ISO 20022 format for wire transfers

ISO 20022 for ACH
• Continue industry education & collaboration on the rationale and benefits of the potential conversion of the ACH network to ISO 20022
1. How many of you transact international payments on a regular basis? — Are you seeking solutions to make cross-border payments more efficient?

2. Who has heard of ISO 20022?

3. Are ISO 20022 messaging standards applicable to your organization?
ISO 20022 Resources

• To learn about ISO 20022
  – Federal Reserve’s Resource Center for Adoption of ISO 20022 for wire transfers and ACH payments: https://fedpaymentsimprovement.org/payments-efficiency/iso-20022/