FedPayments Improvement
COMMUNITY FORUM
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Let's Unblock the Chain of Data
Making B2B Payments More Efficient

In late 2018, a diverse group of 300 industry stakeholders came together at the FedPayments Improvement Community Forum to engage in inclusive dialogue focused on improving the U.S. payment system. Through general sessions and topic-specific workshops, Forum attendees provided their candid feedback about the latest payment modernization efforts.

In this interactive workshop, panelists presented their views about trends and opportunities to increase the efficiency of B2B payments. In facilitated small group discussions, attendees explored potential solutions for how to get more electronic remittance data to enable automated B2B payments.

Highlights From the Panel Discussion

In his opening remarks, Guy Berg put into perspective the key challenges of B2B payments efficiency and straight-through-processing. "Accounts payable and accounts receivable each focus on their own payments needs and are like two ships passing in the night," he said. The challenge is how to create greater alignment between them. Straight-through processing begins with electronic invoicing and ends with automated payment application. All points in the end-to-end process require quality electronic data.

The data are there, Berg told attendees, yet it's not being delivered electronically in a standard form. More than half of B2B payments still use checks and only a small fraction of ACH payments include remittance information with the payment.

Industry efforts are underway to address the foundational needs to achieve B2B efficiency. As examples, The Business Payments Coalition (BPC) is assessing successful e-invoicing solutions in other countries for potential use in the United States. The Business Payments Directory Association and NACHA, in partnership with Discover Financial Services, is working on a proof-of-concept for a B2B directory using blockchain technology.

Recalling findings from a recent survey by the Association for Financial Professionals (AFP), Magnus Carlsson of the AFP said, "Checks persist as a prominent B2B payment method because they are familiar and convenient, particularly for small businesses."

Even when businesses send ACH payments it is difficult for them to send remittance information with the payment. More than half of businesses use email to deliver remittance information and many still deliver remittance information by fax or through the postal service.

David Jackson of Marketcy reported that adopting electronic payments is difficult for small to medium businesses compared

Moderator
Guy Berg, Vice President
Federal Reserve Bank of Minneapolis

Panelists
Magnus Carlsson
Manager for Treasury & Payments
Assoc. for Financial Professionals

David Jackson, Managing Director
Marketcy

with the ease of using checks, which they see as efficient and inexpensive. Small businesses use remittance information on the check to record payments.

However, Jackson noted, businesses will use smarter and faster electronic payments when there is a business case. For example, many small businesses manage their cash flow through just-in-time inventory management.

Faster payments are ideal for these businesses to pay cash on delivery (COD) rather than pay for their inventory in advance. These faster payments also can include electronic remittance information.

Tabletop Takeaways

Ideally electronic remittance information should be delivered with the payment. Some attendees believe that it's important to keep the remittance data with the payment because it is effective for many larger businesses and some industry verticals such as health care. Financial institutions can do more to enable electronic remittance information. However, a different approach is needed for smaller businesses, as many find bank fees for delivering remittances

to be cost prohibitive.

Some attendees noted that because banks don't want to get in the middle with the remittance information, delivery outside the payment is preferable.

Data-rich "smart" payments are as important as faster payments. Larger businesses will pay for data-rich payments because they solve the problem of quality remittance information. Offering additional remittance information could be a competitive advantage for financial service providers.

Remittance standards and format are key. Attendees noted that there are many variations of remittance formats and a lack of standards for matching remittance data with payments. Attendees recommended that accounting software providers align with industry efforts to standardize remittance advice formats that enable businesses to integrate payments with their trading partners. A simple, common format would help. The Business Payments Coalition published *Simple Remittance Requirements* to define data needs for simple remittance information that can be easily adopted by small- and

medium-sized businesses.

ACH is difficult for B2B payment users. A barrier to using ACH is its formidable interface and the difficulty using its multiple data entry tools. Many small businesses act more like consumers with payments, so tools for small businesses are designed to look and feel like consumer apps. They are more accessible and easier to use than the ACH system.

New developments in payments may provide options. Cost and convenience are most important for small businesses. ACH payments may not be viable for them due to cost and lack of integration with accounting software. New payment types, such as real-time payments, may be easier if built-in integrations with robust requests for payment (invoice) and standard remittance formats are developed and adopted. Cloud technology and a "network of networks" were also mentioned as options for remittance delivery.

Education and awareness is difficult. One of the biggest challenges noted is, "How do we talk differently about this now?"

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To learn more about the Federal Reserve's work and engage in this collaborative effort to transform the U.S. payments system, join the FedPayments Improvement Community.