ASC X9 ISO 20022 Market Practices Forum Remittance Content Group

Using ISO 20022 Remittance Information to Improve B2B Payment Processes

June 30, 2022
Using ISO 20022 Remittance Information to Improve B2B Payment Processes

Rich Dooley, CTP, MBA
Vice President, Senior Treasury Management Relationship Manager
Regions Bank

Steven Wasserman
Founder/Architect
Vments Inc

Carolyn Kroll
Business Strategy Manager
Federal Reserve Bank of Chicago

Disclaimer: Opinions expressed are those of the presenters and not those of the Federal Reserve System, any Federal Reserve Bank, Regions Bank, or Vments. Any mention of businesses or products does not imply endorsement.
Why Do We Care About Remittance Information Content?

Missing or incorrect remittance information in a payment creates exceptions, delaying cash application and reconciliation.

A new guide focuses on how to use ISO 20022 remittance data to help automate cash application.
What Problems Are We Solving?

Common problems

- A payer may send incomplete remittance information that doesn’t fully explain the amount paid, such as deductions taken or credits pre-applied
- A payer may send the wrong information, such as their own internal invoice number versus the supplier’s invoice number

<table>
<thead>
<tr>
<th>Structured data helps</th>
<th>Service providers help</th>
</tr>
</thead>
</table>
| Correct and complete remittance information contributes to straight-through processing (STP) for greater efficiency | • Many businesses use service providers to process payments and remittance information – for both sending and receiving  
• Service providers that implement ISO 20022 remittance data can:  
  • Translate and map to their client’s systems so that businesses don’t have to make changes  
  • Help clients send and receive good data consistently |

STP is defined as end-to-end automated processing by the payee with no manual intervention
Focus:
Information a payee needs for cash application

- Promotes consistent information for all payment types
- Enables automation and straight-through processing (STP)
- Helps plan ISO 20022 implementations
- Helps those without in-depth ISO 20022 expertise

https://x9.org/iso-20022-remittance-market-practices-guide/
The Remittance Content Market Guide

How does it help?

• Promotes common understanding of structured remittance information
• Enumerates remittance data needed for all payment types
• Gives implementation guidance for ISO 20022 remittance messages, within or separate from a payment
• Applies to a wide variety of businesses

Who does it help?

• Payers, payees, software and service providers, banks
• Applicable to many accounting systems, from QuickBooks to high-end ERPs*
• For providers
  • ISO 20022 standard enables interoperability and consistency
  • Gives guidance for design of products and services
  • Enables easier implementations

* ERP = Enterprise Resource Planning system
Complete Data, Understood by All Parties
What “common data” means and why its important

- Complete remittance information avoids exceptions and contributes to STP
- ISO 20022 = common language
  - Data for varied B2B payment needs
  - Facilitates mapping to/from source systems
  - Common remittance data definitions across disparate systems
- Guide includes proper usage of data elements to promote consistency

<table>
<thead>
<tr>
<th>Data Element</th>
<th>Guidance and Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Referred Document Amount</td>
<td>Provides details on the amounts of the referred document. Best practice: the total of the amounts in the referred document amount group should add up to the total amount remitted.</td>
</tr>
<tr>
<td>Due Payable Amount</td>
<td>Amount due as stated on referred document.</td>
</tr>
<tr>
<td>Discount Applied Amount</td>
<td>Discount amount applied against the document amount.</td>
</tr>
<tr>
<td>Type</td>
<td>Type of discount</td>
</tr>
<tr>
<td>Amount</td>
<td>Amount of discount</td>
</tr>
<tr>
<td>Adjustment Amount and Reason</td>
<td>Specifies detailed information on the amount and reason for an adjustment to the amount paid for the referred document. Can be used for deductions, with a related 4-character reason (code) and/or explanation.</td>
</tr>
<tr>
<td>Amount</td>
<td>Amount of the adjustment</td>
</tr>
<tr>
<td>Reason</td>
<td>Specifies the reason for the adjustment. Four characters that are understood between the parties.</td>
</tr>
<tr>
<td>Additional Information</td>
<td>Provides further details on the document adjustment. Include as relevant to the adjustment, and always include if a Reason is not provided.</td>
</tr>
<tr>
<td>Remitted Amount</td>
<td>Amount being paid on referred document. Other amounts in the “Referred Document Amount” group should support the remitted amount.</td>
</tr>
</tbody>
</table>
Data Categories
Making sense of 350 data elements

- ISO 20022 has more than 350 remittance data elements
- Data categories help understand the data available
  - Easier to talk about 18 data categories than 350 elements
- Most categories include multiple individual data elements
  - For example, payment adjustments have data elements to explain the type and amount of adjustment

<table>
<thead>
<tr>
<th>ISO 20022 Remittance Data Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td>Payment-level data</td>
</tr>
<tr>
<td>Document type</td>
</tr>
<tr>
<td>Document number</td>
</tr>
<tr>
<td>Document date</td>
</tr>
<tr>
<td>Amount due</td>
</tr>
<tr>
<td>Discount</td>
</tr>
<tr>
<td>Credit note</td>
</tr>
<tr>
<td>Tax amount</td>
</tr>
<tr>
<td>Adjustment</td>
</tr>
<tr>
<td>Remitted amount</td>
</tr>
<tr>
<td>Creditor reference</td>
</tr>
<tr>
<td>Invoicer name</td>
</tr>
<tr>
<td>Invoicer organization ID</td>
</tr>
<tr>
<td>Invoicee name</td>
</tr>
<tr>
<td>Invoicee organization ID</td>
</tr>
<tr>
<td>Additional remittance info</td>
</tr>
<tr>
<td>Remittance identifier</td>
</tr>
</tbody>
</table>
Remittance Data Tiers
Predefined tiers of data for consistency

Tier 1:
Document/invoice number, due date, amount due, amount paid

Tier 2:
Tier 1 + details for discounts, adjustments, etc. to support payment amount

Tier 3:
Tier 2 + details about invoicer and invoicee and tax information

Tier 4:
Tier 3 + line-item detail for document(s)

• Tiers based on complexity of data
  • Higher tiers include richer data
• Tiers promote consistent usage of common data elements
• Easier for
  • Payees to communicate their needs to payers
  • Payers to implement remittance content
Remittance Data Tiers
How to use tiers in practice

How to use tiers in practice
• Payees choose the tier that includes data needed for most of their payments and communicate that tier to payers
• Providers incorporate tiers into their products and map data to tiers

Tiers support varying complexity of remittance information

<table>
<thead>
<tr>
<th>Tier</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>Basic information: document/invoice number, due date, amount due, amount paid</td>
</tr>
<tr>
<td>Tier 2</td>
<td>Tier 1 + details for discounts, adjustments, etc. to support the payment amount</td>
</tr>
<tr>
<td>Tier 3</td>
<td>Tier 2 + details about invoicer and invoicee and tax information</td>
</tr>
<tr>
<td>Tier 4</td>
<td>Tier 3 + line-item detail for documents</td>
</tr>
</tbody>
</table>

• Consistent remittance data within tiers
• Some payments only need a few data elements to explain the payment, for example, invoice number, invoice date, and amount paid
• Other payments need more data to explain discounts, adjustments, and further details

The guide has use case examples for each tier

Tier 2 is appropriate for a wide variety of payments
Examples:
• Payment where discount is taken within terms
• Payment with adjustments or credits – partial payments, credit notes, overpayments, deductions
• Payment for goods/services at multiple locations
• Payment with multiple references, e.g., PO number, sales order number, shipment reference
How Does ISO 20022 Help?
Structured data facilitates STP

Key to automation and STP for the payee: structured remittance data in a prescribed format
How Does ISO 20022 Help?
Data remains intact across end-to-end messages

- Remittance data travels intact from the business sending the payment to the business receiving it
- The guide illustrates several flows of remittance information
Flexibility to Send Remittance Information Within or Separate From a Payment

ISO 20022 supports both

Sent with payment (e.g., ISO 20022 payments, ACH CTX)

Sent separate from payment (any payment type)

- Businesses need flexibility to send remittance within or separate from a payment
- Use separate remittance messages when:
  - Payment system limits the number of characters for remittance within a payment message
  - Payment type does not support remittance data, for example, card payments
  - Payer doesn’t have the capability to send structured remittance data within a payment
  - Payer preference
- ISO 20022 remittance is suitable for all payment types when sent separately

© 2022 Accredited Standards Committee X9, Inc. Materials are not to be used without consent.
Linking Separate Remittance Information to a Payment
How automate linkage with ISO 20022

- Explains how a payment and separate remittance information can be reconnected on the receiving side – without using complex algorithmic tools
- A linking identifier is a single payer-populated identifier that links the payment and remittance information for reconciliation
- Usually, a unique payment number from the sender’s system

The payee uses the linking identifier “RmtID” to link the separate remittance data

How-to
Using Entities in Remittance Information
More information about who a payment is to or from

• Payees must know the party (entity) a payment is from and which party it is intended for to post payments correctly
• In many cases a payment is from the payer/invoicee to the payee/invoicer
• For complex payment structures, various entities can be specified

The guide explains how and when to specify entities and gives examples

For payments initiated or collected on behalf of other entities, such as subsidiaries

For payments that include multiple invoices paid to or from different entities
Data Details and Examples
More “how-to” details for implementers

Detailed ISO 20022 data element definitions, XML tags, data type, description, and guidance on the use of each element

Real-life examples of data element usage for each tier with mapping and XML syntax

<table>
<thead>
<tr>
<th>Supplier Invoice #</th>
<th>Document Date</th>
<th>Payment Date</th>
<th>Invoice Amount</th>
<th>Payment Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>683528</td>
<td>04/10/21</td>
<td>05/10/21</td>
<td>4,129.27</td>
<td>4,129.27</td>
</tr>
<tr>
<td>683529</td>
<td>04/10/21</td>
<td>05/10/21</td>
<td>3,716.34</td>
<td>3,716.34</td>
</tr>
</tbody>
</table>

© 2022 Accredited Standards Committee X9, Inc. Materials are not to be used without consent.
Completing the Picture
For STP, an exchange framework can deliver electronic remittance data

The Guide helps get the right remittance content in structured format to payees
For STP the remittance information must be delivered electronically

The Federal Reserve and Business Payments Coalition assessed an open virtual network for delivering remittance information that has been successfully implemented for e-invoicing

- An exchange framework provides infrastructure to exchange electronic remittance information for businesses of all sizes with minimal changes to end-user systems
- Service providers send and receive remittance information for their clients using ISO 20022
• Remittance content payees need to reduce exceptions
• Consistent structured format for automation and straight-through processing
• Real-life examples

Download the guide:
https://x9.org/iso-20022-remittance-market-practices-guide/