

# Two Sides to Every Story: Best practices for sending and receiving electronic payments

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# Today's objectives

- Highlight day to day challenges facing AP / AR
- Increase awareness on AP/AR collaboration and outline the common ground
- Accepting ACH B2B: A business case

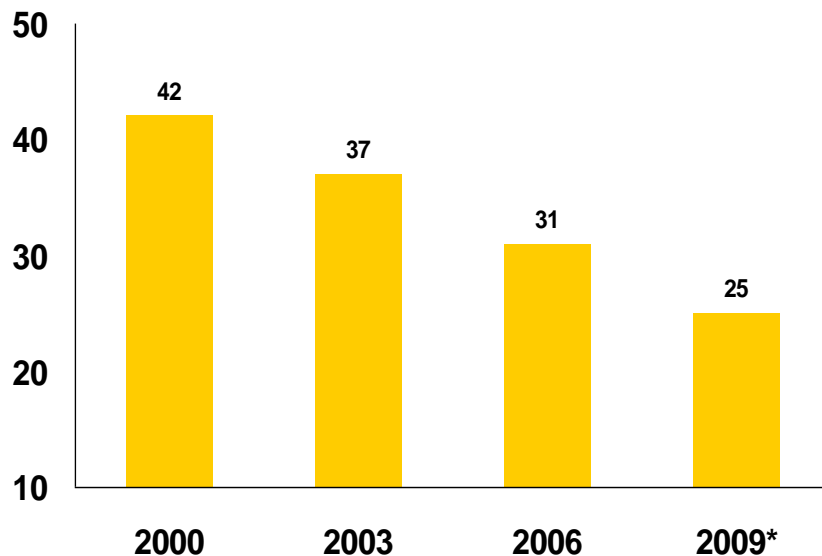
# The Basics

- Corporate Credit or Debit (CCD/CCD+)
  - Consolidate or disburse inter- or intra - company funds
  - Optional - 1 line of addenda
- Corporate to Corporate (CTX)
  - Vendor payments for goods & services
  - Up to 9,999 lines of addenda
  - ANSI or EDIFACT formats used

Authorization should be documented in vendor agreements.

# Check volume continues to decline – continually declining share of non-cash payments as electronic payments continue to grow

## Checks Paid 2000 – 2009



\*Estimate

Billions of checks

Source: Wells Fargo and the Federal Reserve

## Paid Check Facts

- From 2003 – 2009, paid check volume declined over 6% annually
- Checks account for only 33% of all non-cash payments (as of 2006) – expected to decline to 25% in 2009
- 51% of checks written are from consumers to businesses; 24% are from businesses to consumers (as of 2006)

# ACH growth trends – by payment type

	2007 Growth (v 2006)	2008 Growth (v 2007)	2009 Growth (v 2008)	2010 Growth (v 2009) 1Q-3Q
Total ACH Network	13.7%	7.2%	2.0%	2.4%
Check Conversion (ARC, BOC, POP)	29.7%	3.3%	(5.7%)	(4.4%)
Internet Payments (WEB)	27.2%	19.6%	9.7%	7.2%
Telephone Payments (TEL)	13.9%	3.8%	(1.0%)	3.0%
Direct Deposit	6.7%	7.7%	4.9%	3.7%
Direct Payment	4.6%	5.0%	1.0%	2.1%
Total B2B (CCD/CTX)	9.5%	5.3%	3.2%	3.8%
B2B (CTX Only)	16.3%	16.1%	9.2%	10.6%

Consumer Payment Types

Growth rates apply to Network volume only and do not include on-us transactions

Source: Wells Fargo and NACHA

# ACH Return Rates

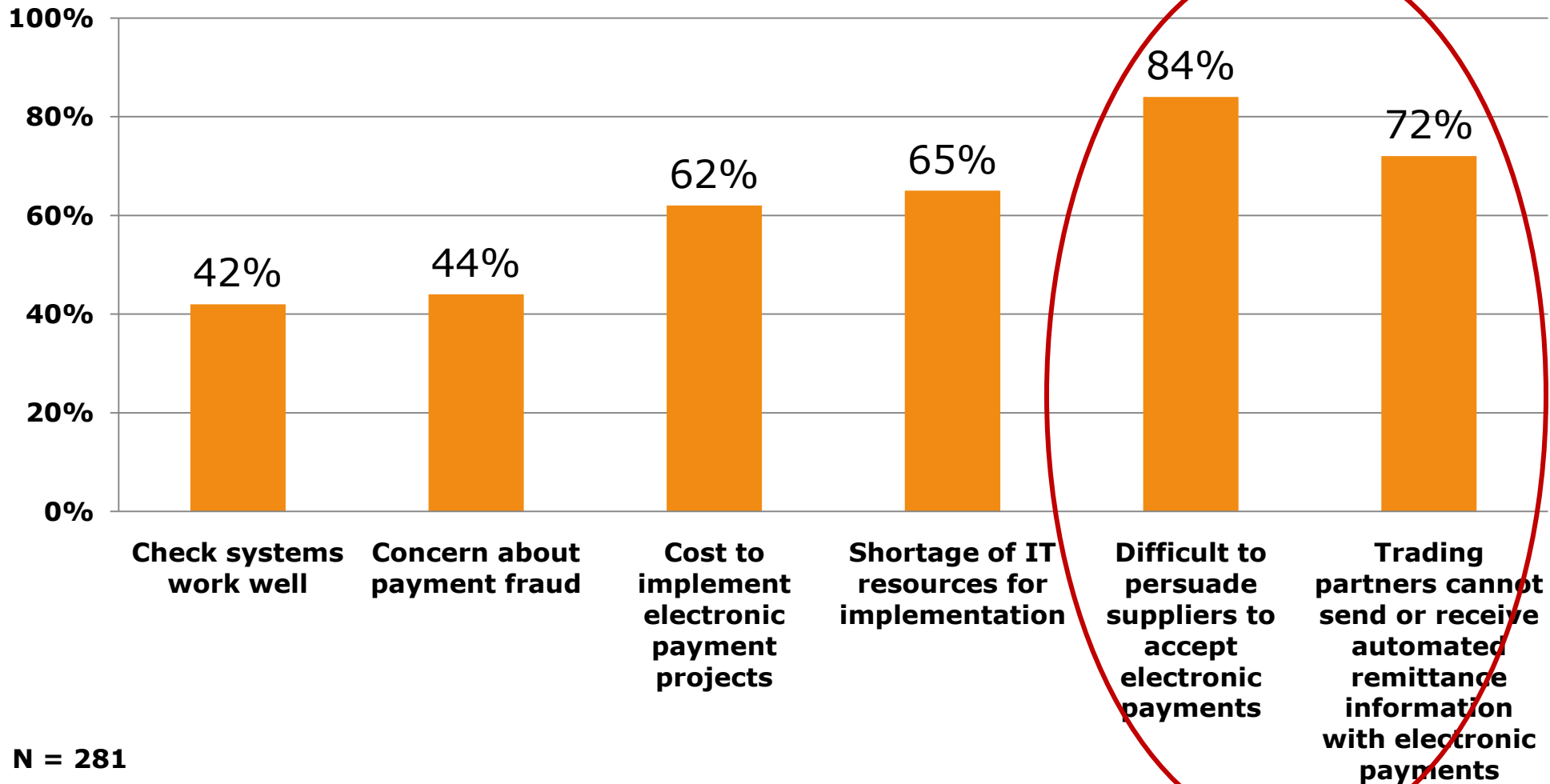
	Total	NSF			Administrative			Unauthorized				
		R01	R09	Total	R03	R04	Total	R05	R07	R10	R29	Total
<b>ACH Network</b>	1.09%	0.70%	0.01%	0.71%	0.13%	0.05%	0.18%	0.00%	0.00%	0.01%	0.00%	0.02%
<b>All Debits</b>	1.68%	1.16%	0.02%	1.18%	0.17%	0.06%	0.23%	0.00%	0.01%	0.02%	0.00%	0.03%
<b>ARC</b>	<b>0.34%</b>	0.22%	0.01%	<b>0.22%</b>	0.06%	0.03%	<b>0.08%</b>	0.00%	0.00%	0.00%	0.00%	<b>0.00%</b>
<b>PPD Debits</b>	<b>2.45%</b>	1.75%	0.02%	<b>1.78%</b>	0.16%	0.06%	<b>0.22%</b>	0.00%	0.02%	0.03%	0.00%	<b>0.05%</b>
<b>TEL</b>	<b>6.25%</b>	4.29%	0.05%	<b>4.35%</b>	0.91%	0.34%	<b>1.25%</b>	0.00%	0.00%	0.11%	0.01%	<b>0.12%</b>
<b>WEB</b>	<b>1.41%</b>	0.94%	0.02%	<b>0.96%</b>	0.17%	0.06%	<b>0.23%</b>	0.00%	0.00%	0.03%	0.00%	<b>0.03%</b>

4Q, 2009

Source: NACHA

# B2B Payment landscape

## Actual or perceived barriers to implementing electronic payments

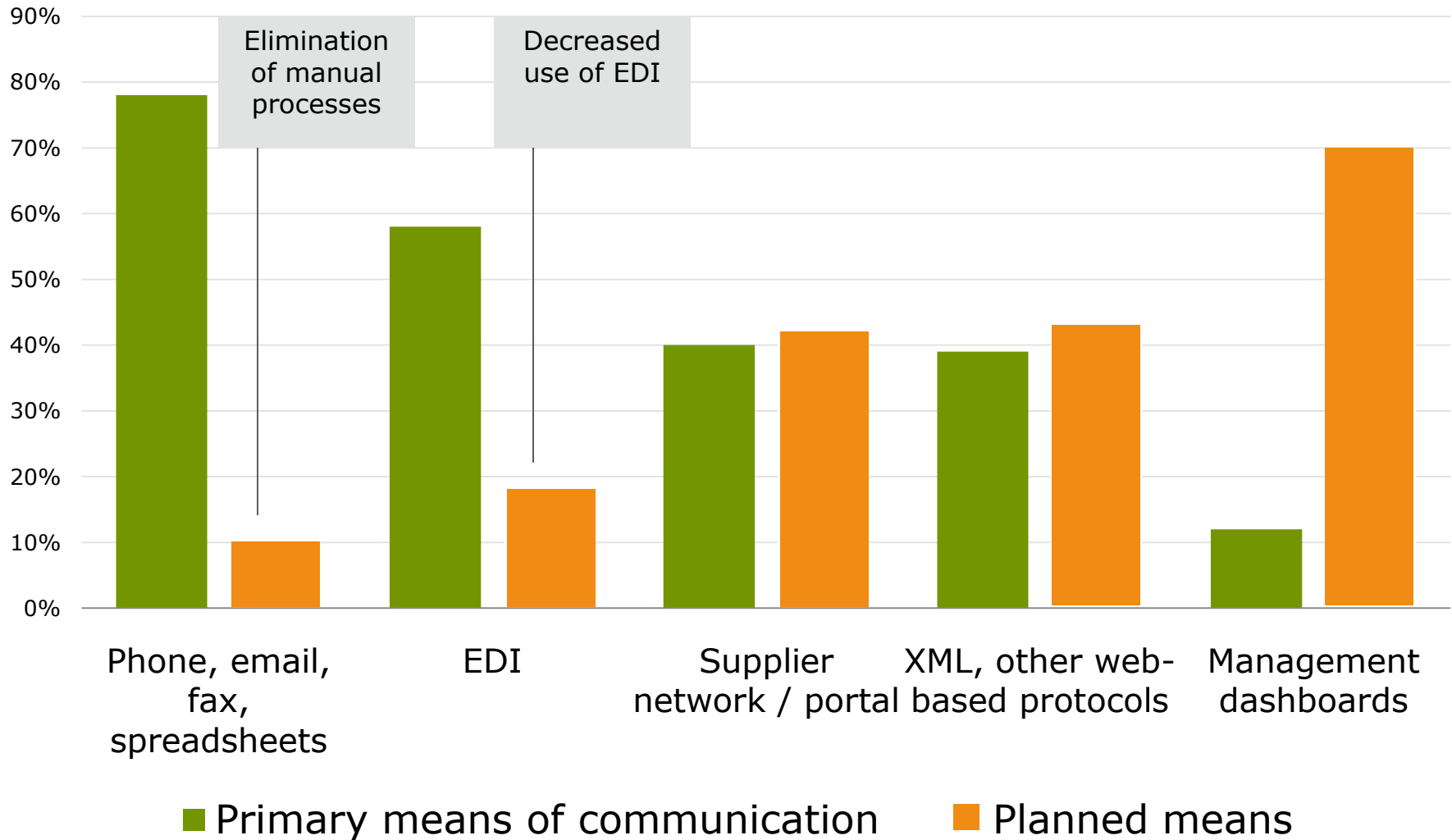


Source: **Electronic Payments** – Trends in Accounts Payable, U.S. Bank, IAPP and APQC, Winter 2010

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# Business as usual is no longer an option

## How enterprises plan to communicate with suppliers



# A financial quandary

**"I want to  
pay as  
late as  
possible."**



**AP**

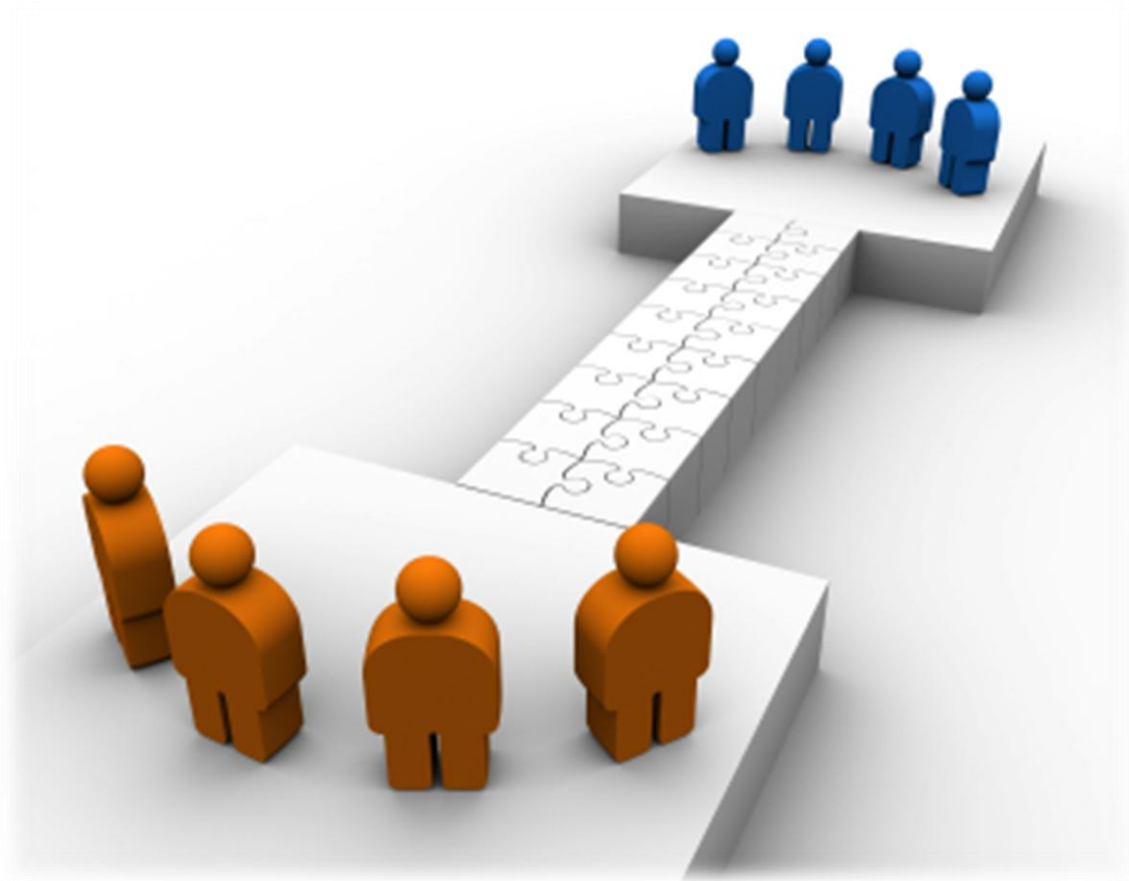
**"I want to  
get paid  
faster."**



**AR**

# There is common ground – Paper to Electronic (P2E)

- Both AP and AR actively seeking ways to implement larger overall paper to electronic (P2E) initiatives
- Format conversation
  - *Correct Party*
  - *ACH Type*
  - *Remittance*
  - *Addenda*



***You can't always get what you want...but if you try sometime...you find, you get what you need."***

*-Jagger and Richards*

# P2E initiative – ACH payment migration

## Pros:

- Secure and low cost
- Systemically efficient
- Predicable float
- Environmentally responsible

## Considerations:

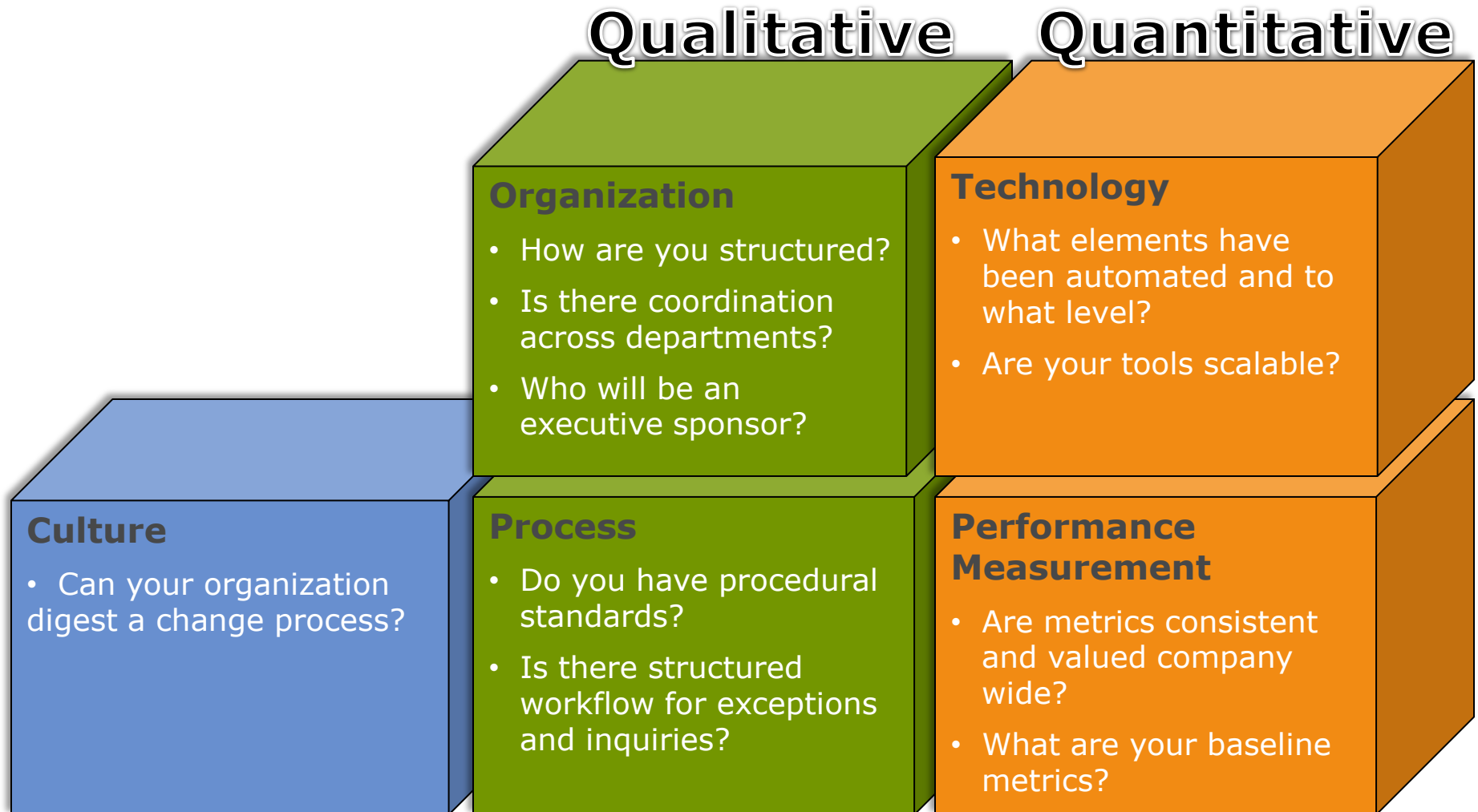
- ERP system capability
- Format – CTX, CCD+
- Bank data services
- Data costs



## Ideal Relationship Profile:

- Both buyer and seller capability to generate/accept ACH information.
- Sufficient percentage of buyer/seller relationships to make bank fees cost effective.

# Automation building blocks



# Things to think about...AP

- Can my ERP / SOR generate an electronic payment?
- What remittance do I need to provide to my supplier?
- Can my suppliers accept electronic remittance?
- What format should I supply remittance (CCD+,CTX)?
- Is paying slower the best option or are there ways to leverage reduced cycle times?

# Practical application – AR best practices

- Monitor the DSO key performance indicators
- Set a goal for a percent of accounts paid on time
- Involve all stakeholders – AR, collections, shared service centers, leasing and property management
- Benchmarking against your own terms
- Benchmarking versus your peers in the industry

# Things to think about...AR

- Can my ERP / SOR accept an electronic payment and remittance?
- Can my customers pay electronically (Card, ACH)?
- What percentage/how many days of my DSO is attributed to disputes/exceptions?

# To wrap-up...

- Analyze your customer/vendor base
- Identify the right contacts and approach for your organization
- Dollars and data (together) is the key to success

# UTILITY BILLER CASE STUDY

Accepting B2B ACH Payments



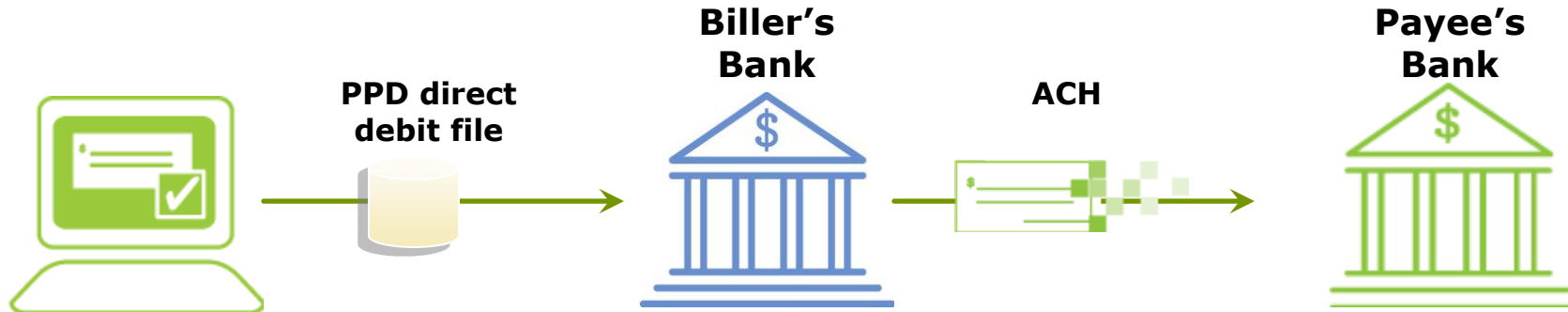
# Utility biller case study

- Everyone likes electronic payments – Right?
- B2B ACH creates back office issues for biller
- Straight through processing: The dream, the reality
- The obstacles and problems
- The tools and solutions
- Can it really work?

# Everyone likes electronic payments – Right?

- Biller Initiated ACH Direct Debit
  - Great for the consumer and biller
  - A “no-no” for the Supply Chain or AP Department

# Biller direct (auto) debit – Process flow

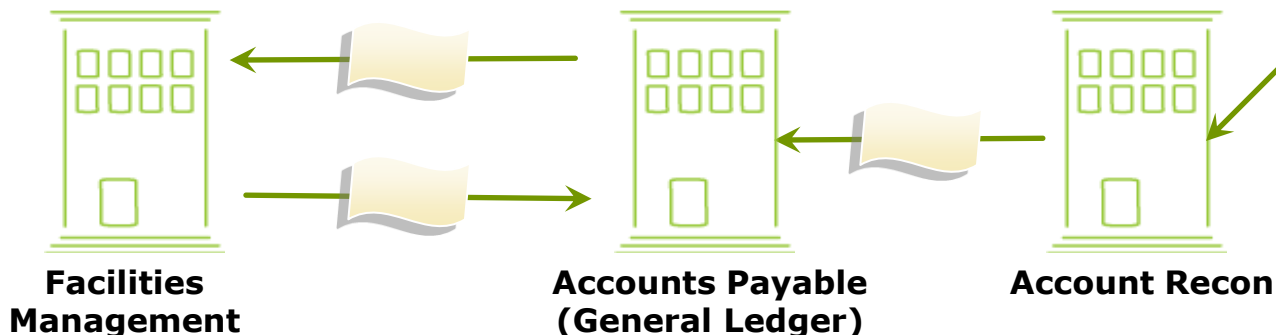


## Biller's Accounts Receivables System

- Payments posted to customer accounts
- ACH Debit File sent to bank for processing

## Payer's Bank Statement

ACH debits  
Biller 520.13



# Everyone likes electronic payments – Right?

- Payer Initiated B2B ACH Credit
  - Remember the Government's EFT99 Program?
  - CCD and an email or fax
  - FEDI 820 the way to go
  - EDI reporting still suffers from GIGO

# Payer B2B ACH credit – Process flow



## Payer's Accounts Payable System

- Invoice paid and posted to GL
- ACH credit file sent to bank for processing

## The Biller's Bank Statement

ACH credits  
??? 520.13



# B2B ACH creates back office issues for biller

- Manual Posting Process
- Billing Statements, not Invoices
- Typical Exceptions
  - **123456789-1234567** account number needed to post
  - “NO DATA” freeform or no addenda record
  - 123456789 052311 incomplete account number
  - PNM052311 AP invoice number
- Limitations Effectively Prohibit B2B ACH Payments
  - Must pass account number in an FEDI compliant addendum
  - Only 2-3 accounts per customer without summary billing

# AR Posting flows

## B2B ACH payments posting process:

- Retrieve reports from online banking system
- Identify which payments have valid account numbers
- Log onto Banner CIS (AR) system
- Manually post payments
- Research payment exceptions, post those identified
- Return non-postable items: R23 or R29

Government &  
Corporate  
Initiated B2B  
ACH Payments

WFB  
System

EDI  
reports

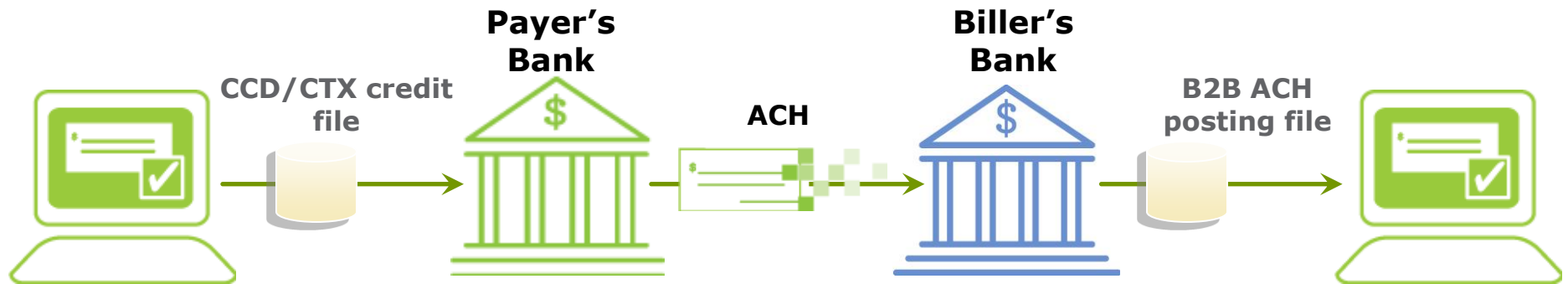
Manual  
posting

B A N N E R C I S S Y S T E M

# Straight through processing ➡ The dream, the reality

- Opportunity Knocks
  - Both utilities already receiving and posting IBP file
- FI Solution – Commerce (Receivables) Manager
  - Project with Financial Institution (ADIR & Test)
- Set B2B ACH Policy & Procedures
  - No exceptions – leads to no exceptions
  - One page biller authorization document
- Customer Outreach
  - Review current B2B Payers for compliance
  - Start with that file full of requests

# Straight through processing – Process flow



## Payer's Accounts Payable System

- Invoice paid and posted to GL
- ACH credit file sent to bank for processing

## Biller's Accounts Receivables System

- B2B Posting file retrieved from bank
- Payments posted to customer accounts

# The obstacles & problems

- Lack of Knowledge
  - Most AP personnel do not understand ACH or FEDI
  - Most AR personnel do not understand ACH or FEDI
- Poor Communication
  - AP requests to setup EFTs are sent with payment - Lockbox
  - AP's role is to setup payment not answer technical questions
  - AP requests and enrollment forms are all different
  - AR/Customer Service usually has "no clue"
- Other Issues
  - Systems' Limitations
  - Internal process to assign invoice number

# The tools & solutions

- Develop a Knowledgeable Team
  - Assign and develop a subject matter expert
  - Build a team from AP, AR, IT, Treasury and your FI
  - Document experiences with each Payer
- Improve Communication
  - Develop and document B2B ACH Policy & Procedures
  - Develop information sheets for internal and external use
  - Make it easy to contact the subject matter expert
- Know Your Processes and System Capabilities
- Go the Extra Distance To Find a “Win-Win” Solution

# Can it really work?

- The Easy Ones:
  - Government Agencies
    - EFT99 much better in 21<sup>st</sup> century
    - CCR – Cage Code !!
  - Large 3<sup>rd</sup> Party Bill Payment Services
    - High volume of payments, knowledgeable staff
    - Just give them your account information!
    - But, test a small file first just to be safe

# Can it really work?

- The Challenging Ones:
  - State Finance Department
    - First the “circular dance”
    - Can do – test worked fine – turn it on!
    - Whoa, what are all these exceptions – go back to checks!
    - Problem analysis – system constraint & data input issue
    - State implemented internal process check – all is good now!
  - Large Defense Contractor
    - It’s clear they know it inside and out – turn it on!
    - Working seamlessly for months
    - Hey, what’s with all the exceptions this month?
    - Staffing change – training issue

# Can it really work?

- The Real Challenging Ones:
  - Small Community Bank
    - Communication – not so good
    - I sent the addenda – yes but it's not formatted properly
    - Back to checks – wait let's discuss – ok we'll try again
    - 705RMT\*IV\*1234567890123456\*\*133.21\
    - Winning !!!
  - Large National Food Services Company
    - Remittance – “our batch totals are off – a payment is missing”
    - Biller's FI – “could not process, the CTX BPR01 = D ”
    - AP department – “will need to open ticket with IT”
    - Waiting ....



Collaboration. Speed. Increase ROI.

# Thank You!

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Together we'll go far



# Resources

<http://www.nacha.org/>

<http://www.electronicpayments.org/>

<https://www.fedwiredirectory.frb.org/download.cfm>

# Toolkit....

## Content will be available through request

- Vendor Scorecard
- Sample customer letters
- Check production cost analysis
- Invoice Automation ROI calculator
- Sample CTX mapping

# Participant biographies

## **Jeffrey A. Li**

Principal

Alan & Associates, Inc.

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Jeff Li, a consultant and principal of Alan & Associates, Inc. specializes in Treasury Services and Bill Payment Options. He works with large NM utilities in those areas. Jeff works directly with his clients, their current and prospective vendors and banking partners to identify, develop and implement process improvements in the collection and management of cash.

Jeff has worked as a consultant since March of 2008. Prior to that time, he was a Treasury Services Manager at PNM and a Cash Management Officer at First Nat'l Bank in Albuquerque.

Jeff received a B.E. in Computer Science and an MBA in Organizational Development, both from the University of New Mexico.

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Brian Gorney is a Senior Vice President with Wells Fargo's Solutions Sales Group based in Denver, CO. His team is responsible for identifying marketplace trends and delivering leading edge strategies to Wells Fargo customers. Brian works directly with bank customers, vendors, and internal partners to develop process automation and identify working capital improvements.

Brian has worked for Wells Fargo since September of 2006. Prior to joining Wells Fargo, he was an officer at Bank of America focused on Fortune 500 energy customers.

Brian received a B.S. in Finance from Oklahoma State University.