

The U.S. B2B Electronic Payments Landscape

An interstate highway with limited or no access

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Most people take for granted the importance of the Interstate Highway System that was developed over the last 50 years. The highway system was essential to the economic development of the United States. Well, think about the usefulness of the highway system if there were no on or off ramps or if you had to travel 50 miles to get on or off the highway. The highway system would have been used very sparingly or not at all.

This is the situation that faces businesses when it comes to using the nation's electronic payments systems to make payments to other businesses. Even though the electronic highway for business payments has been in existence for 20 years with the introduction of the Corporate Trade Exchange (CTX) payment type on the ACH in 1988, only a very small portion of business payments are made using the ACH.

The research

The most recent Association for Financial Professionals Electronic Payments Research (October 2007) clearly shows the limited progress over the last several years in moving to an electronic payments environment for B2B payments. The tables below illustrate B2B payment methods and their usage by businesses over the past three years.

The research indicates that very little progress has been made and at the current rate of change, it could take over a century to move away from paper checks and migrate to electronic payments.

The highway

The ACH system is the most powerful payments system in the U.S. The network has extensive reach to almost every financial institution in the United States and therefore provides access to every banked consumer as well as every business customer. No other single electronic network has the reach of the ACH. This is a significant advantage. It is

also the only payment system that handles a wide variety of credit transfer applications (payroll, social security, dividends, retirement, expense reimbursement, bill payment, corporate payments, tax payments) as well as debit transfer applications (dues, loan payments, insurance premiums, bill payments, cash concentration, tax payments).

Today, the ACH is predominantly used by the largest companies that have installed Enterprise Resource Planning (ERP) systems or have developed their own capabilities to generate and receive electronic payments from and to their trading partners. That leaves the millions of small and medium-sized businesses with limited or no access to the electronic payments highway. The prospects for getting on will continue to be very limited unless the financial services, cash management and accounting systems providers start to deploy the on and off ramps required to make electronic payments as easy as writing a check.

The problem

For many years, the major obstacle for creating the on and off ramps needed was the complexity of the standard that the largest businesses used for exchanging payments and payment information. The format of choice was and is the ASC X.12 820 Payment/Remittance Advice commonly referred to as Electronic Data Interchange (EDI). Cash management and accounting systems software vendors were not sure how or if they should implement this standard in their packages. That is why, even today, very few banks and accounting systems providers can offer a true B2B payment solution that includes details of the payment and the necessary remittance information to apply the payment to the accounts receivable system of the receiving business.

The three AFP Electronic Payments Surveys that have been conducted over the last eight years highlighted the lack of standardized remittance data as a major barrier.

B2B Payment Methods to Major Suppliers by Percentage

Payment Type	AFP 2007 Survey	AFP 2004 Survey	Overall Growth
Check	65	64	+1
ACH Credit	18	23	-5
Wire Transfers	11	12	-1
Purchasing Cards	4	1	+3
ACH Debits	2	0	+2

Source AFP 2004 & 2007 Electronic Payment Research

B2B Payment Methods to Other Suppliers by Percentage

Payment Type	AFP 2007 Survey	AFP 2004 Survey	Overall Growth
Check	80	82	-2
ACH Credit	13	7	+6
Wire Transfers	4	5	-1
Purchasing Cards	2	4	-2
ACH Debits	1	1	0

Source AFP 2004 & 2007 Electronic Payment Research

The solution

The STP 820 introduced in 2003 by The Clearing House Payments Company was developed after several years of extensive work and research to determine the appropriate data elements that would be needed to post electronic payments to accounts receivable systems automatically. The STP 820 defines up to 10 required data elements depending on the type of payment to be included with the electronic payment for each invoice being paid. These data elements include customer account number (mandatory), customer name (mandatory), invoice gross amount, amount paid, invoice number, invoice date, discount, purchase order number, adjustment taken and adjustment reason.

Over the last two years, two leading cash management software providers, Fundtech and S1, implemented this standard giving them a considerable competitive advantage. (There are a number of other providers in various stages of development). The banks that are fortunate enough to have these vendors as solution providers are deploying the enhanced capabilities to all of their business customers. For their customers, B2B payments, including all of the remittance data necessary to apply the payments, can now be initiated by companies of all sizes to trading partners of all sizes without any customization. Any large corporation with an ERP accounting package that can accept X.12 820 electronic payments can also post automatically using the STP 820 payment created by these packages.

Two accounting software providers, NexTec Group and Coastal Software, have developed electronic payments modules adhering to the STP 820 for Microsoft's Great Plains

accounting software and Intuit's QuickBooks accounting software respectively. Both packages are used by a large number of medium and small businesses.

Another implementation of the standard was deployed by a leading cash management and electronic payments solution provider – Treasury Software. Its product, ACH Universal, can take output from any accounting package and create ACH CTX payment transactions using the STP 820 standard.

While there has been significant momentum, the other cash management and accounting software providers need to start engineering their solutions to meet the needs of the business community. Paper checks will not be the payment instrument of choice of business forever.

The leadership

The Clearing House Payments Company has provided a significant amount of innovative thought leadership with a solution and a common sense approach to the B2B electronic payment problem. Unfortunately, the other two organizations that should be providing leadership are not. The National Automated Clearing House Association (NACHA) has been juggling a number of potential B2B solutions and strategies for several years. Its strategy has as its foundation consumer prototypes that have not been tested. The Federal Reserve has made a conscious decision to just sit back and let the market forces prevail. Without leadership, the market will never come to a solution because there are too many vested interests involved.

The future

Early in my career, I learned that when someone has a great approach to jump on it and not try to “recreate the wheel.” I am still hopeful that the other payments organizations and the financial industry will show the leadership necessary to drive this elegant solution for a complex problem to the finish line. The STP 820 is the only approach that can be implemented without extensive reengineering by financial institutions, companies and payments systems operators.

Industry stakeholders need to get beyond the “not invented here” syndrome and look at the STP 820 solution for its practicality and most importantly the ability to implement it in the near term. Doing so, will solve a problem that has existed for over 20 years and which will continue to exist unless action is taken.

It is time for the industry to build the on and off ramps for the electronic payments highway so that business customers of all sizes can take advantage of the unique benefits that electronic payments can provide.

The opinion expressed here is that of the author and does not necessarily represent the opinion of the Association of Financial Professionals.