Strategies to overcome friction in B2B payments

Key points

- Businesses struggle to transform their collection and cash application processes to efficiently accommodate electronic payments.

- Business clients say that capturing remittance information through email and fax creates a significant amount of manual work to post and apply cash.

- There are turnkey bank solutions that capture remittance information received by email and fax and reassociate the details with the correct ACH payment to allow businesses to virtually eliminate manual effort and improve cash application.

For decades, companies have relied on checks and physical remittance documents to complete their order-to-cash cycle. Systems, processes and best practices were created and reengineered over time to drive efficiency in a predominately paper-based accounts receivable (A/R) function. Many companies continue to rely on this proven means to accept and apply payments from trading partners.

Why businesses still use checks

For the most part, checks are considered an antiquated means to transfer value, yet billions of checks still exist. Overall check volume has declined during the past 20 years as payment innovation has accelerated. The Internet, advances in mobile technologies and changes in regulation have allowed payers to adopt new forms of payment.

In spite of these changes, many businesses still prefer to receive checks. Why is this the case?

Efforts to eradicate checks

The industry has attempted to eradicate business-to-business (B2B) checks, with modest success. In the 1980s, electronic data interchange (EDI) emerged, but adoption was somewhat limited. Many companies could not justify the up-front expense to adopt EDI. To drive participation, large billers often exerted pressure on their smaller trading partners. This strategy was short-lived as relationships suffered and billers acquiesced. Other initiatives such as electronic invoice presentment and payment (EIPP), biller directories and ACH CTX have failed to crack the code of B2B payments and have languished because they are inherently difficult to implement and support. While all of these options can deliver the information the biller needs to post, why do billers still continue to receive paper checks?

Challenges posed by electronic payments

Although considered to be more efficient, electronic payments can pose challenges to billers for a number of reasons. The remittance information is vital for a biller to determine who, what, where, when and why of a payment. For billers that use an open account posting process, this may not be an issue. But for those who rely on specific data in order to apply cash, a mountain of work can arise when this information is not present, is incomplete or is delivered by another medium such as email or fax. In these cases, funds typically are posted to an exception account, and an accounts receivable clerk is required to contact the payer to gather more information and/or key a significant amount of data, which is manual and time consuming.

U.S. Bank conducted research into receivables management to validate where friction exists in B2B payments. The most significant finding was that billers prefer to receive paper checks. But how can this be?

Electronic payments are supposed to promote greater efficiency, speed and lower cost. While this is true for payers, billers rarely realize these benefits.

Billers continue to rely on legacy systems and processes, as evolution typically requires investment, and dollars and resources are hard to come by.

Indeed, when billers are considering potential corporate investment, A/R reengineering tends to fall behind other priorities such as research and development, debt reduction, stock buyback, etc.

While much of the focus has been on billers' challenges, payers also find it difficult to electronically deliver remittance information. They too have antiquated systems that cannot generate remittance data that complies with industry standards without significant investment.

Payers have adopted a hybrid approach in which funds are sent through the ACH network and remittance information is delivered to the biller, outside of the payment. Often, a PDF of the paper remittance is emailed or faxed to the biller. While this can simplify the process for the payer, a host of issues emerge for the biller.

When an ACH payment posts to a biller's bank account, the biller must determine who paid and for what invoice, whether the amount paid was equal to the amount due, and if it wasn't why not. If an accounts receivable clerk finds no supporting remittance information in the bank reporting, the clerk must scan his email inbox. Once the email is found and printed, the A/R clerk must verify with which payment the emailed remittance data is associated. The clerk must then key all applicable data into the A/R system. This could include hundreds of invoice line items tied to one single ACH payment. The keying process is manual and time consuming.

Remittance reassociation offers a solution

Bank remittance reassociation services can solve these longstanding challenges related to migrating to electronic payments. Billers can direct payers to send the remittance information by email or fax to their bank, where the remittance information is captured. Received ACH transactions that lack remittance detail are fed to the bank's system and are queued awaiting a match. Advanced machine learning capabilities locate a match between the ACH payment and remittance data. The reassociated data is then transmitted to the biller to automate the cash application process.

As a result, staff are freed up from the very manual process of reviewing emailed remittance data, finding the corresponding payments and posting the information. This creates substantial labor savings and improves automated cash application rates, and the reduction in exceptions allows staff to be allocated to other essential activities.

Over time, new solutions will emerge to tackle the B2B payment challenge. Real-time payments soon will be introduced, and while the resulting settlement speed could be intriguing, it remains to be seen if companies will realize opportunities for improved data integration promised with this new payment rail.

Even as new solutions evolve, there will always be payers unwilling or unable to include remittance data with the payment. Until then, remittance reassociation can help bridge the divide.