

Standards Advisory Board

EIPP PROCESS Specification

PAYMENT ADVICE PROCESS

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1 Introduction

This document describes the Payment Advice Process where a payer pays or instructs his bank or any other third party to pay one or more invoices and sends an electronic Remittance Advice¹ to the collector to inform him that payment will be made or has been made at a certain date.

The Remittance Advice will contain all relevant information for the collector to identify which invoices are being paid and which credit notes have been deducted from the total invoiced amount. This will be described in detail later in this document.

The collector and the payer will agree on the sending of an electronic Remittance Advice when the payer arranges payment (e.g. when sending payment instructions to his bank) or after the payer has arranged payment.

The Payment Advice Process of invoices starts when the review and approval are finalized and ends when the collector has received payment in full of all the outstanding amounts during the agreed accounting period and according to the agreed payment terms and credit period respectively as per Standard Operating Procedures (SOP). The SOP also stipulate the means of payment, banking connections and other required payment details from a procedural point of view.

The collector can use the Remittance Advice messages to reconcile payment information with the invoice or invoices being paid and credit notes deducted.

The Payment Advice Process cannot be used as a dispute resolution process.

If there is a mismatch between the amount reported as paid in the Remittance Advice and the actual total due amount in the invoice or invoices, the collector should raise a Short Payment Notice or Over Payment Notice² to the payer by electronic or manual process as per SOP.

The Payment Advice Process does not cover the physical payment itself, being transfer of funds, payment by cheque or by any other means. These payment procedures are bilaterally agreed between the collector and the payer and are part of the SOP.

Payment by cash is out of scope.

¹ See Remittance Advice definition in the Glossary section of the Master Process Document [MPD]

² See Short Payment Notice or Over Payment Notice definition in the Glossary section of the Master Process Document [MPD]



1.1 Terminology

The keywords MUST, MUST NOT, REQUIRED, SHALL, SHALL NOT, SHOULD, SHOULD NOT, RECOMMENDED, MAY and OPTIONAL, when they appear in this document, are to be interpreted as described in RFC2119.

1.2 General Terms and Definitions

All general Terms and Definitions (Glossary) are included in the separate Master Process Document [MPD].



2 Business Context

2.1 Objectives

Organizations implementing this Payment Advice Process should acknowledge the following objectives:

1. Trading partners – collector and payer – should use this Payment Advice Process specification to establish a common understanding on how the messages that are exchanged have to be used.
2. Payer's IT systems should be able to automate:
 - Payment processes and creation and sending of Remittance Advice information to the collector
3. Collector's IT systems should be able to process Remittance Advice information from payer to support the automation of
 - Payment verification
 - Payment application
 - Optionally, sending of Short Payment and Over Payment Notices

2.2 Scope

This Payment Advice Process covers the preparation for the payment of the invoice or invoices to the collector under deduction of related credit notes when applicable, the sending of an electronic Remittance Advice from a payer to a collector, the receipt of payments by and the sending of a short payment and over payment notices by the collector when there is a verification mismatch.

The structure and data constraints of electronic documents exchanged are defined in the Payment Advice Message Model [PAMM].

In order to enable further processing both on the payer and the collector side, this Payment Advice Process identifies requirements and business rules.

The scope for the Payment Advice Process includes:

- B2B submission of Remittance Advice information from payer to collector

The intended users of this Payment Advice Process specification are business managers and IT designers and developers of the invoicing application systems used by billers and payers of electronic invoices.



3 General Requirements

3.1 Definitions

See Glossary in the Master Process Document [MPD].

3.2 Process Requirements

The Payment Advice Process defines the process for sending electronic Remittance Advice information from a payer to a collector. Upon receipt of the Remittance Advice, the collector verifies whether the amount or amounts specified in the Remittance Advice matches the amount to be collected or received based on the invoice and credit note information.

Cash payments are excluded from the above process.

If this matching process identifies discrepancies, the collector issues a Short Payment Notice or Over Payment Notice to the payer by electronic or manual process to inform him about the identified mismatch.

The resolution process when the collector raises a Short Payment Notice or Over Payment Notice is out-of-scope of this process.

Collector and payer have agreed on detailed Standard Operating Procedures (SOP) with a Payment Advice Process section outlining how to handle procedural issues from sending the Remittance Advice to settling short or over payments to closing the invoices and credit notes on the collector's side.

3.2.1 Supported Business Activities

The Payment Advice Process supports a set of internal business activities at both ends of the collaboration.

In this section, the major business activities supported by the payer and the collector when using this Payment Advice Process are described:

3.2.1.1 Remittance Advice Issuing, Content and Information

The Remittance Advice will contain minimum information as below considering the fact that various invoices are paid with the same remittance and credit note(s) deducted when applicable:

On **header level** per Remittance Advice:

- Invoiced party (e.g. shipper or consignee) resp. debtor's and/or biller's customer number



- Paying party's name when paid by a service provider on behalf of the debtor
- Remittance advice number
- Payment date
- Payment means
- Payment identifier (bank transfer number or cheque number)
- Total amount and currency

When a service provider is involved Remittance Advice information and procedures are part of the SOP.

On **line item level** per invoice and credit note respectively:

- Invoice / credit note number
- Invoice / credit note issue date
- Advised total amount and currency of invoice paid
- Advised total amount and currency of credit note deducted

The complete data fields with definition and application of the Remittance Advice are listed in [PAMM].

3.2.1.2 Remittance Advice Transmission

The payer sends the Remittance Advice immediately upon payment instructions to his bank and upon the confirmation of transfer of the funds by his bank respectively.

3.2.1.3 Payment Verification

When a collector receives a Remittance Advice, a verification process starts to ensure the advice matches the referred invoices and credit notes.

There are four steps in this process:

- Link the received Remittance Advice information to the referred invoices and credit notes.
- Match the details of the two data sources, the received Remittance Advice information and the invoice(s) and credit note(s) total due amount.
- Receive payment information from the invoice issuer's bank or other collecting agencies, e.g. for wire transfers or from internal records for the receipt of cheques.



- Match the received Remittance Advice information with the funds received from the payer.

To support payment verification, a Remittance Advice should provide enough information to match its contents with information already existing in the collector's Accounts Receivable systems. In order to support the verification activity, the Remittance Advice should carry the information as described in section 3.2.1.1 Remittance Advice Issuing, Content and Information.

The payment verification has the following business rules:

1. Currency and total amount owed per each invoice stated in the Remittance Advice must match the total due amount registered in the collectors' accounts receivable system.
2. Currency and total amount deducted per each credit note must match the total deducted amount registered in the collector's account system.
3. The total amount to be paid or paid must equal the sum of total amounts due for the set of invoices and e.g. credit notes and other possible deductions referred in the Remittance Advice.
4. Each amount paid must indicate a payment identifier (such as the bank transfer number) when available.
5. The total amount paid matches the total amount received identified with the payment identifier.

3.2.1.4 Payment Application

Once the payment is verified and confirmed as received, the collector can apply it to the open invoices and credit notes changing their status. In order to change the invoice status, the collector has to locate the correct invoice and credit note in his system.

3.2.1.5 Short Payment and Over Payment Notice

When there is a short payment, the payer must use the Remittance Advice reason code to submit information on the reason for the short payment. In this case, a Short Payment Notice should not be sent by the collector.

When an error is detected when checking the payment received and there is a mismatch with the Remittance Advice, the collector can submit a Short Payment Notice or an Over Payment Notice to the payer and resolve the issue manually as per procedures covered in the SOP.

The Short Payment or Over Payment Notice are not structured documents.

3.2.2 Consolidated Information Requirements

Based on the business processes that have to be supported when sending an electronic Remittance Advice as described in the previous sections, the following information requirements are summarized as follows:

| <i>Information Requirement ID</i> | <i>Description</i> | <i>Support for process</i> |
|-----------------------------------|--|----------------------------|
| PayRqID-001 | Every Remittance Advice must be identified using a unique identifier. | General |
| PayRqID-002 | Every Remittance Advice must specify its issue date. | General |
| PayRqID-003 | Every Remittance Advice must refer to one or more freight invoices being paid and credit note being deducted, by using the invoice and credit note identifier, date, currency and total due amount. | General |
| PayRqID-004 | A foreign currency payment must be agreed prior to payment by both parties as per SOP. For the payment sent in a currency other than the invoice total due amount, the exchange rate and the exchange calculation date must be provided. | Verification |
| PayRqID-005 | The Remittance Advice must specify the payment date: The date when the bank executes the payment | Verification |
| PayRqID-006 | The Remittance Advice has to inform about the payer of the invoice | Application |

4 Detailed Description

4.1 Business Process in Scope

This EIPP Payment Advice Process is part of the general EIPP Reference Model. The following diagram describes how it fits into the overall Reference Model.

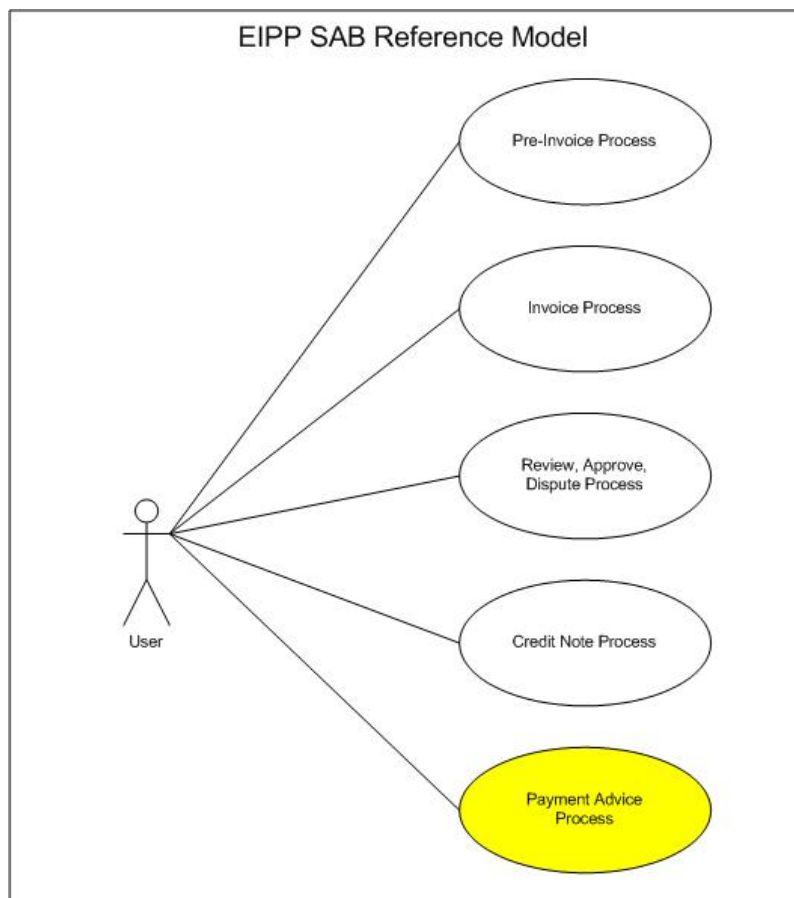


Figure 1 EIPP Reference Model

4.2 Actors and Roles involved

Main actors involved in this process are:

| Actor | Description |
|------------------------|---|
| Carrier | A carrier is the party that provides liner services and in whose names B/L are issued. The carrier is responsible for the carriage of the goods from place of receipt to place of delivery. |
| Carrier's Agent | A Carrier's Agent is the party that is acting on behalf of the carrier, receives bookings, issues and signs B/L and also |

| | |
|--------------------------|---|
| | issues the invoices covering the carriage of the goods and all other auxiliary charges. |
| Freight Forwarder | A freight forwarder is the party arranging the carriage of goods on behalf of his customer, including connected and/or additional services and/or associated formalities, as agreed with his customer as the original shipper or consignee of the cargo. |
| Shipper | A shipper is the party named in the B/L as the party responsible for initiating a shipment. A Freight Forwarder and NVOCC (Non- Vessel-Operating Common Carrier) can also be a shipper in relationship to a VOCC (Vessel-Operating Common Carrier). |
| NVOCC | A NVOCC (Non- Vessel-Operating Common Carrier) is a container and cargo consolidator in ocean trades for FCL and LCL shipments. The NVOCC buys space from a carrier and re-sells it to shippers. The NVOCC issues their own B/L, publishes tariffs where requested and otherwise conducts itself like an ocean carrier, except that it will not operate or charter ocean vessels. |

The roles played by these actors in this process are as follows:

| <i>Role</i> | <i>Description</i> |
|------------------|---|
| Collector | A collector is the party receiving the payment. |
| Debtor | A debtor is the party responsible for the payment of the invoice toward the biller. |
| Payer | A payer is the party responsible for paying the invoice. |

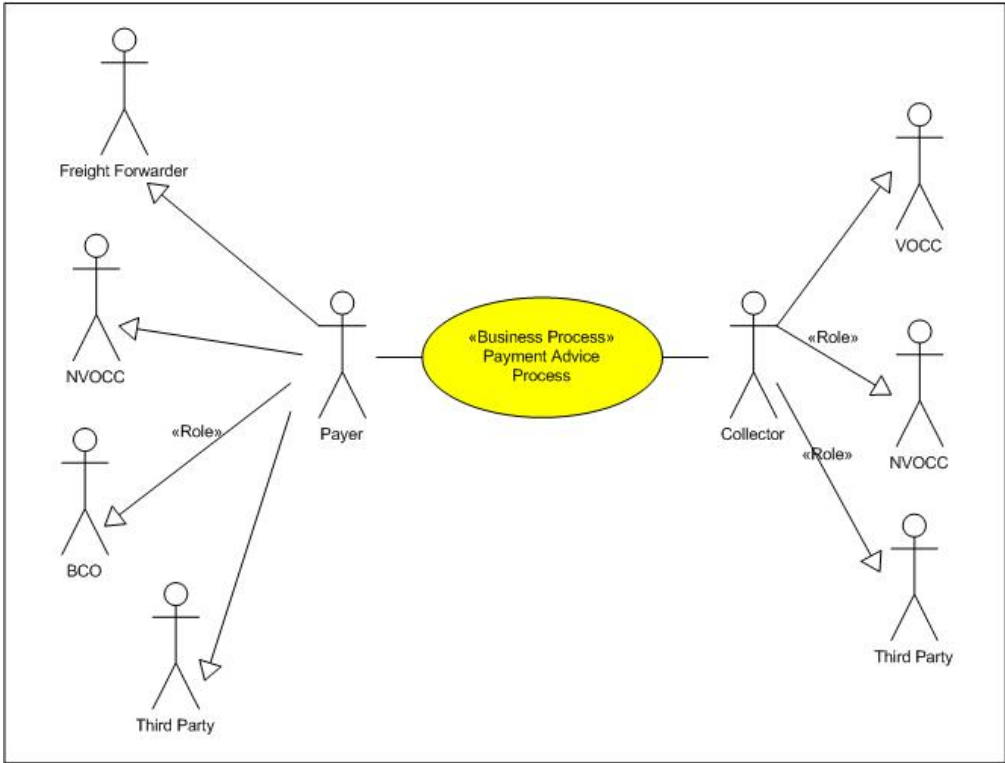


Figure 2 Actors and Roles

4.3 Payment Advice Process Details

Figure below depicts the Payment Advice Process.

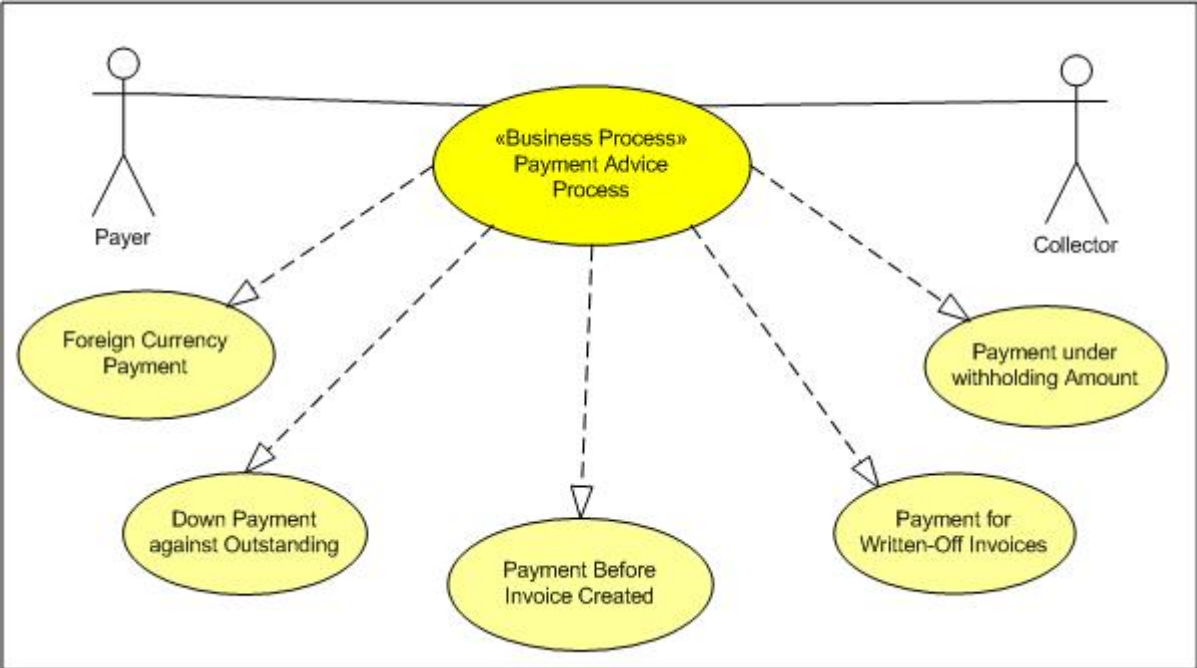


Figure 3 Payment Advice Process detail



The payer must use the agreed currency and payment means (that can be specified in a SOP or in the invoice and credit note) to pay the total due amount specified in the invoice. Amounts of credit notes are to be deducted. The balance between invoices and e.g. credit notes and other possible deductions is the payment to be effected. The payment means can be funds transfer, cheque or any other means agreed between both parties.

| <i>Business Process</i> | |
|--------------------------|---|
| Pre-conditions | The payer has approved one or more invoices for payment and credit notes for deduction. |
| Starts when | When the payer arranged payment for the payment due date as stated in the approved invoice or when the payment date defined by the payer, prior to the invoice payment due date has arrived respectively. |
| Definitions | <p>The payer creates the accounts payable entry.</p> <p>The payer issues the payment instructions to his bank or another third party using a bank payment identifier when available and the Remittance Advice number including remittance date, or sends the cheque to the collector.</p> <p>The payer or a party instructed by the payer creates a Remittance Advice containing details about the invoices being paid and e.g. credit notes and other possible deductions deducted, the bank payment identifier when available, the Remittance Advice number and the payment means.</p> <p>The payer submits the Remittance Advice to the collector.</p> <p>The collector receives the Remittance Advice.</p> <p>The collector receives or checks for information from his bank on the received payments or internally for receipt of cheques.</p> <p>The collector verifies that the invoices have been properly paid and credit notes deducted against the Remittance Advice.</p> <p>The collector applies the payment and closes the Remittance Advice and the paid invoices and deducted credit notes if not done already.</p> |
| Ends | The invoice and credit note are closed with a payment. |
| Special Scenarios | <p>Foreign Currency Payment</p> <p>Down Payment against outstanding amounts</p> |

| | |
|------------------------|---|
| | Down Payment Before Invoice Created |
| | Payment for Written-Off Invoices |
| | Payment under withholding amount(s) due to open disputes |
| Exceptions | The payment does not match the expected due amount. A Short Payment Notice or an Over Payment Notice is issued for manual resolution. |
| Post-conditions | The invoice has been paid and credit note deducted and closed. |

The activity diagram for the Payment Advice Process is depicted below:

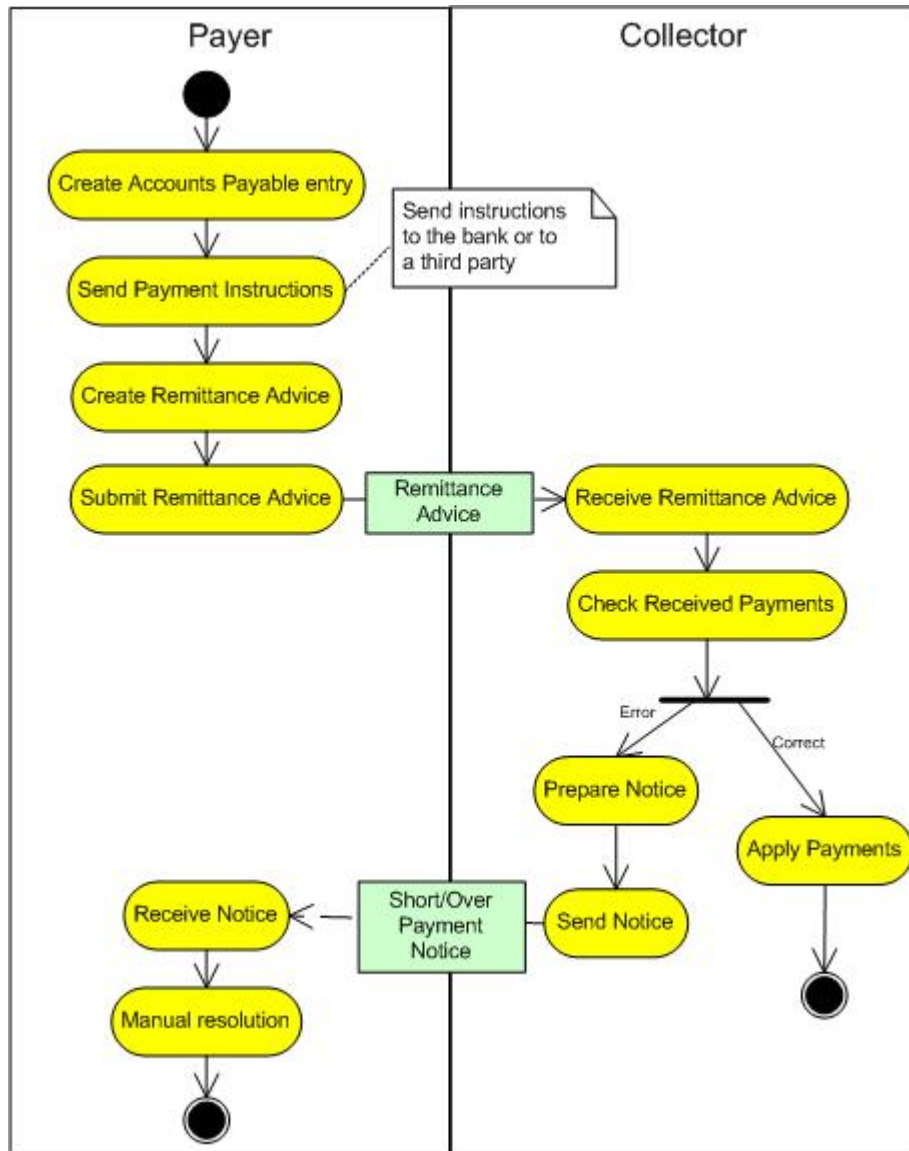


Figure 4 Payment Advice Process Activity Diagram

4.4 Special Scenarios

This section further describes the special scenarios where this Payment Advice Process can be applied.

4.4.1 Foreign Currency Payment

| <i>Definition</i> | |
|-----------------------|--|
| Pre-conditions | Payment is made in a different currency than the one on the invoice(s) |
| Starts when | Payer arranges payment via cheque or bank transfer |
| Ends | When collector receives cheque / funds and reconciles payment |



| | |
|------------------------|---------------------------|
| Exceptions | |
| Post-conditions | Invoices are paid in full |

4.4.2 Down Payment against outstanding Amounts

| <i>Definition</i> | |
|------------------------|---|
| Pre-conditions | Outstanding amounts exist. Credit limit will be exceeded with new additional invoices. Collector does not allow excess credit |
| Starts when | Collector advises shipper of the request for a down payment before shipment |
| Ends | Payment has been received and invoice(s) issued and possible balance paid |
| Exceptions | Collector issues an invoice |
| Post-conditions | Reconciliation between payment and issued invoices. |

4.4.3 Payment Before Invoice Created

| <i>Definition</i> | |
|------------------------|--|
| Pre-conditions | Collector requires a down payment (e.g. credit limit is exceeded) before executing the shipment(s) |
| Starts when | Collector advises shipper of the request for a down payment before shipment |
| Ends | Payment has been received and invoice(s) issued and possible balance paid |
| Exceptions | Collector issues an invoice |
| Post-conditions | Reconciliation between payment and issued invoices |

4.4.4 Payment for Written-Off Invoices

| <i>Definition</i> | |
|-----------------------|---|
| Pre-conditions | Collector has written off invoices |
| Starts when | Collector receives payment for written off invoices |

| | |
|------------------------|---|
| Ends | Collector has re-activated the written off invoice and reconciled the A/R |
| Post-conditions | The written off invoice is fully paid |

4.4.5 Payment under withholding Amount(s) due to open Disputes

| <i>Definition</i> | |
|------------------------|---|
| Pre-conditions | Invoice dispute(s) have been ongoing without solution for considerable time |
| Starts when | Payer advises collector of withholding payment against referred invoice(s) due to open dispute(s) |
| Ends | Payment has been received and possible balance(s) paid. Or Collector issues a credit note covering the withheld amount(s) |
| Post-conditions | Reconciliation between payment and issued invoices and credit notes |

5 Best Practices and Recommendations

Below the best practices and recommendations are quoted for adoption.

| Rec# | Short Form | Best Practice | Rationale |
|------|---|---|---|
| 1 | Time of submission of the Remittance Advice | Upon actual payment transfer with bank transfer number and other relevant information. | Payer can add bank transfer number and / or cheque number to the Remittance Advice. |
| 2 | Payment Identifier | Use the bank transfer number or cheque number | For reconciliation of payment and payment tracing by the collector with his bank. For cheques identifier for received cheques by mail |
| 3 | Short and Over Payments | Submit a Short Payment or Over Payment Notice in case of mismatch of Payment result. The resolution process must be carried out manually. | Since the Review, Approve and Dispute Process has already ended there cannot be any deductions from payments by payer. Mismatch of payment can only be a technical or human error and it results in the submission of a Short Payment Notice or Over Payment Notice |
| 4 | Bank fees | Normally for payer's account. Collector must receive exact amount as invoiced and credited | Banking charges on payments to be treated bilaterally as per the SOP |
| 5 | Offsetting invoices | Separate payment of invoices by each party is the recommendation. Offsetting only when described in the SOP bilaterally. | Fixed in the SOP how to offset invoices when collector is a creditor and a debtor and payer has one A/P and one A/R account |
| 6 | Use of statements | Only when extra-ordinary outstanding occur | Fixed in the SOP how and when to submit Accounting Statements (from the collector to the payer) |



6 References

- [MPD] Master Process Document
(<http://eippstandardsadvisoryboard.ning.com/group/invoicingprocessworkgroup/page/master-document-process>)
- [PAMM] Payment Advice Message Model
(http://api.ning.com/files/7eIMwlcCAXQPY9HpEpW2qXAh0h9w93WaZeD62LoVjv7fCktBJJI4se*9RM-ZKWzpSkCS4orty8X99f4SGFintnydnNKPI2YE/OFIEIPPSAB5PaymentAdviceMessageModelMODDraft1.xlsx)