



# CHIPS NEWS BRIEFS

FOR THE CLEARING HOUSE INTERBANK PAYMENTS SYSTEM

11th EDITION, MARCH 2006

## CHIPS Launches Study on B2B Wire Transfers

### *Federal Reserve to Participate*

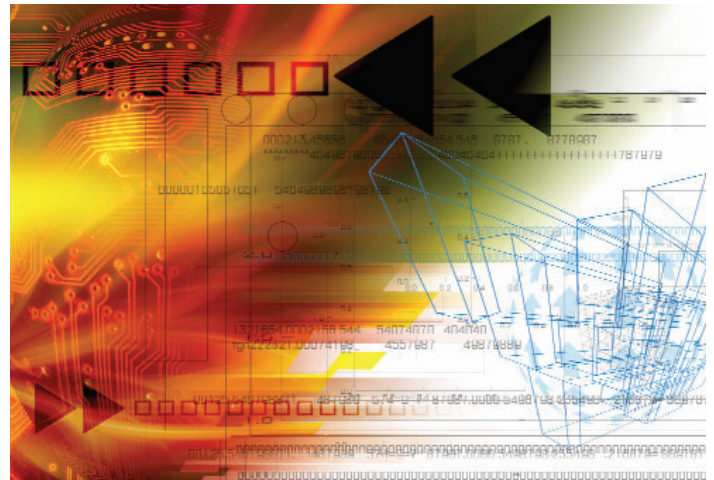
CHIPS is leading a corporate research project to gain a better understanding of the current and future use of wire transfers for B2B payments.

"Previous studies by The Clearing House, The Federal Reserve and AFP all document the barriers to B2B electronic payments," said Peter Hohenstein, Vice President, Bank of America. "This study takes us to the next level of detail by providing specific information to help us overcome those barriers."

The research project is exploring what drives corporations to choose various payment types — wire, ACH, check, card. The study focuses on wire transfers, including assessing the value of having remittance information delivered with real-time payments, a capability CHIPS has in place today.

"We hear informally from corporations and know from industry research that corporations want remittance information with payments," said Hank Farrar, Senior Vice President of The Clearing House, responsible for CHIPS. "This study will help us quantify the demand across corporations of various sizes, learn where it has the most value and how much a corporation would be willing to spend to get it."

The first phase of the research includes a written survey and a follow-up interview by phone. Once the quantitative



results are analyzed, a series of focus groups across the country will be conducted to validate the results and further explore the findings. Interviews targeting senior financial managers from corporations ranging from \$5 million to over \$1 billion in revenue are currently being conducted. The published results of the complete study are expected to be available mid-year.

The Federal Reserve's Wholesale Product Office, which was contemplating a similar study, joined the CHIPS project in December. The CHIPS Product Management Advisory Group has also been involved to help define the scope and the objectives of the project, identify research resources and design survey questions.

"We'll be able to use this information when making product and marketing decisions about CHIPS, and the remittance capability in particular," said Maddy Fiorillo, Vice President of The Clearing House and CHIPS Business Manager, responsible for the project. "We're looking forward to seeing the results."

### **What CHIPS and the Fed want to know:**

- Preferences for specific payments types (wire, ACH, check, card)
- Factors that influence decisions to choose one payment type over another
- Factors that would increase the use of wire payments
- How companies reconcile payments today
- Specific remittance information companies need
- Preferred method of receiving remittance information
- The value of receiving remittance information with the payment

### **CHIPS Announces Incentive Pricing**

CHIPS has incentive pricing for existing and new CHIPS participants. Call us and see how using CHIPS can help your business and save you money!

Contact **Maddy Fiorillo**, Vice President, 212-613-0104, [Maddy.Fiorillo@CHIPS.org](mailto:Maddy.Fiorillo@CHIPS.org).



## Q&A With George Thomas

### A Look Ahead:

# Banks and the Opportunity for Wire Transfer Systems

#### **What does the future hold for wire transfer systems?**

The U.S. wire transfer systems, CHIPS and Fedwire, have great potential to serve both consumers and small businesses, but are currently under utilized. The high cost and inconvenience of initiating a wire transfer prevents many from using these systems to move money. A lower price and easier access to the wire transfer systems would generate significant new volume and revenue.

#### **How much cheaper and easier?**

The price of a wire transfer has to come down significantly to become an alternative payment option for the consumer and small business markets. Today, it costs a consumer \$25 to initiate a wire transfer and \$15-\$20 to receive one. And usually consumers need to go to a branch to initiate the payment. With the ACH, it's possible for consumers to send electronic payments using the Internet for only a few dollars. Currently, it's too costly and too time-consuming to call a bank or walk into a branch to initiate a wire. In the future, wire systems will be forced to compete based on convenience and price. Until the wire systems do, they won't realize their full potential.

#### **What's the Business-to-Business payments opportunity for wire transfer systems?**

Business customers want straight-through-processing for their electronic payments. CHIPS has the ability to carry remittance information to facilitate STP, but since there has been little demonstrated need in the wire systems, banks are not offering that capability. In fact, there is a very real demand for such capability. That's based on the latest AFP research showing that companies want to get remittance information with the payment and the growing adoption of the EPN STP 820, a simplified EDI standard pioneered by EPN. Remittance information with payments will enable companies to make time-critical payments that get immediately posted, allow paying companies to reduce pressure on credit lines and expedite the shipment of goods and raw materials. Potentially, this is a very big opportunity for banks, but it can't happen until they build the infrastructure to support it.



#### **What kind of infrastructure is needed?**

Banks need to provide customers with the ability to originate wire transfers with the remittance information and to receive payments with that information. The information highway to carry the remittance data — CHIPS — is already there, but banks must build the easy and cost-effective on-ramps to the

system. If banks don't create the infrastructure, the vast majority of the potential B2B wire volume eventually will go to the ACH. If banks do create the infrastructure, they will keep the volume. It's that simple.

#### **How will you convince banks to make the investment to develop the proper infrastructure?**

The CHIPS team is working with the Federal Reserve on a corporate research project to better understand how companies use wire transfers for B2B payments via the wire transfer system. The goal is to get a clearer picture of the marketplace and potentially show a compelling business case for the use of wire transfer for B2B payments.

#### **Will UPIC be adopted by wire transfer systems?**

Corporate customers are already asking why the UPIC — the Universal Payments Identification Code pioneered by EPN — can't be used for wire payments as it is in the ACH. The UPIC ([www.upic.com](http://www.upic.com)) is being adopted at an accelerating rate because corporate customers recognize the value in using a secure bank account identifier to facilitate electronic payments. Wire transfer systems will need to adopt the UPIC because corporate customers are increasingly demanding it — or risk an erosion of volume to the ACH Network.

*George Thomas is Executive Vice President of The Clearing House Payments Company.*



## CHIPS Network Partners Program: Making CHIPS More Accessible

CHIPS Network Partners Program makes it easy to access the world's premier, real-time final payments system. The program provides financial institutions with increased access to CHIPS by providing cost-effective, turnkey solutions from leading software companies that specialize in building the CHIPS interface. CHIPS, working with the Network Partner and the financial institution, develops a business case for banks that identifies the strategic, operational and financial benefits of using CHIPS. The implementation is then managed by CHIPS and the Network Partner, which has significant experience implementing CHIPS in the U.S. and around the world. For additional information, visit [www.chips.org](http://www.chips.org) or contact Vincent DeSantis, 212.613.0105 or [Vincent.Desantis@chips.org](mailto:Vincent.Desantis@chips.org).

With CHIPS Network Partners Program, banks can obtain cost-effective, turnkey interface solutions. CHIPS interface software is available through the following partners:



## CHIPS to Present at IFSA

Vinnie DeSantis, Vice President of CHIPS, will be among the participating speakers at a panel discussion at the upcoming IFSA show in New York. The session, "CHIPS, Fed and SWIFT Industry Updates and Other Initiatives," will be held on Friday, March 10th at 10:45 a.m.

The session will outline the significant changes that the three payments service providers have undergone in the past year. The panel will focus on what has changed, what the impact has been on Financial Institutions and what's in store for the future.

## Trade Show Schedule 2006

CHIPS is "Charting Your True Course" from coast-to-coast and around the world this year. The trade show season starts in New York with a speaking engagement at the IFSA Conference in March, continues to California, Florida and Sydney, Australia before concluding in Las Vegas at the AFP Annual Conference in October.



Trade shows represent an excellent opportunity to meet with clients and prospects, get your feedback and determine how we can serve you better.

For more information about our participation in any of these events or others, contact [Chip.Savidge@theclearinghouse.org](mailto:Chip.Savidge@theclearinghouse.org).

Event	Location	Month
IFSA	New York, NY	March 8-10
NACHA — Payments	San Diego, CA	May 7-10
IFSA	Hollywood, FL	September 10-13
SIBOS	Sydney, Australia	October 9-13
AFP	Las Vegas, NV	October 15-18



## CHIPS Continues To Set Volume Records

CHIPS continues to set and break records.

For 2005, CHIPS broke the volume record set in 2004. In December 2005, CHIPS also experienced the largest, single monthly volume increase in the past several years.

The daily average volume for 2005 was up 5.05 percent to 284,787 compared to 271,098 in 2004. The daily average volume for December was up 11.96 percent over December 2004, averaging 303,255 payments per day. This was a new record for the highest average daily transactions processed during a single month.

**On January 17, 2006, CHIPS recorded its highest volume day ever with 522,225 payments.**

CHIPS expects this growth to continue in 2006 as new participants begin moving volume through the system.

## BB&T is Testing CHIPS

BB&T, one of the nation's largest financial institutions, is testing CHIPS and is expected to go live on the system by the beginning of the second quarter of 2006.

Hank Farrar, Senior Vice President of The Clearing House Payments Company responsible for CHIPS, said one of the reasons BB&T chose to add CHIPS for processing wire payments is because of the system's ability to make efficient use of funds. In addition, Farrar said that BB&T will now be able to leverage CHIPS' full suite of B-to-B features and online management tools, and will have more options to manage large dollar volume payments securely and reliably.

"CHIPS is pleased to be adding BB&T as a participant in the world's premier, wire-transfer system," he said.

## SWIFTNet Interface Available in April

Work continues on the SWIFTNet interface to CHIPS. This new communications service will be available to financial institutions in April. Both the private network (already available) and SWIFTNet connections will give CHIPS' participants better performance, better value and higher resilience than their current X.25 connections.

There's only a year left until the sunset date for X.25 in April 2007. You must choose either the TCP/IP Private Network, SWIFTNet or both of the new communications interfaces for CHIPS. Don't wait to get started and avoid the last-minute testing crush.

For more information, contact Kevin Ransom at 212-613-0169 or [kevin.ransom@chips.org](mailto:kevin.ransom@chips.org).

## SECOND QUARTER TELESEMINAR SCHEDULE

Don't miss out on the opportunity to participate in The Payments University's teleseminars for the Second Quarter of 2006.

For a complete list of majors and courses for CHIPS and other payments topics, see [www.paymentsuniversity.com](http://www.paymentsuniversity.com).



THE PAYMENTS UNIVERSITY

Course	Date
Global Payments: Moving USD	April 7
Global Payments for USD: Mapping & Messages	May 17
Global Retail Remittance Processing	May 19
Sarbanes-Oxley Act	June 13

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