



## Results of New Payments Study Published: Study Finds New Growth Potential in Wire Transfer Volume

The Clearing House Payments Company and the Federal Reserve Banks have published a study of corporate payments practices that indicates wire transfer volume has the potential to grow significantly if parties involved in the wire transfer process work together to overcome current inefficiencies.

But without these changes, the report cautions that customers would be less likely to adopt wire as a replacement for checks, even for payments that would benefit from wire's immediacy and finality.

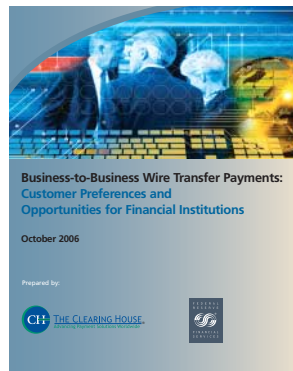
The report, *Business-to-Business Wire Transfer Payments: Customer Preferences and Opportunities for Financial Institutions*, found that both small and large companies want a more streamlined process for making wire transfer payments and favor a single remittance information standard. The survey also found that institutions are willing to pay more for payments that include remittance information, since this information will streamline their accounts payable and receivable operations.

"This research breaks new ground by identifying what corporations would like to see in their wire payments to make their internal processes more efficient and less costly, and confirms that corporations are willing to pay more to have remittance information included with wire payments," said Hank Farrar, Senior Vice President, responsible for CHIPS. "The research shows that wire transfer volume can grow significantly, but only if all parties in the wire transfer process work together now."

### Statistical Highlights

- Respondents say that more than 80% of their payments (by volume) are still made by check.
- Most accounting and bank-provided cash management

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## CHIPS Continues to Demonstrate Record Growth

In 2006, CHIPS has consistently set and passed new volume records. Daily transaction volume through the first three quarters of 2006 grew 9.1% compared to the first three quarters of 2005, and September volume averaged a record 326,803 a day.

"CHIPS momentum continues to build," said Hank Farrar, Senior Vice President of The Clearing House Payments Company, responsible for CHIPS. "The increase in transaction volume, the addition of BB&T, the expansion of our Network Partners program, and the completion of several strategic projects are key reasons CHIPS is having a banner year in 2006."

CHIPS Network Partners program provides new financial institutions with increased access to CHIPS by providing cost-effective turnkey interface solutions that significantly improve the economics and simplify implementation. BB&T was the first new participant to take advantage of this program, going live on CHIPS earlier this year. CHIPS recently added Keystone to its Network Partners Program, joining ACI, Dovetail, Fundtech, GIFTS, Hewlett-Packard, Logica, Misys, and Montran.

BB&T was also the first bank to use CHIPS new private IP network. The combination of CHIPS' proprietary network and SWIFTNet provides two state-of-the-art CHIPS connectivity options, and offers customers the flexibility to implement the network solution that best suits their operating environment.

Additional banks are actively testing and implementing the new CHIPS network. "Having both CHIPS and SWIFTNet options available gives banks the network resiliency they need, and the ability to manage their network expenses," said Al Wood, Executive Vice President of The Clearing House, responsible for Technology and Operations. "We're confident all CHIPS participants will convert to one or both of the new protocols by next April."

## CHIPS Continues Incentive Pricing

New and existing CHIPS participants can still participate in CHIPS' incentive pricing program. Many CHIPS participants have already taken advantage of the reduced prices by adding volume to CHIPS. Find out how to save money for your business! Contact **Maddy Fiorillo, 212.613.0104**, or **Maddy.Fiorillo@CHIPS.org**.



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systems do not work together, making process automation and straight-through-processing of wire transfer payments difficult to achieve today.

- A consensus exists among users of wire payments that there is a need to create a common standard for sending and receiving remittance information with the payment.
- 94% of respondents say it is "valuable" to include remittance information with the wire payment; 65% say it is "very valuable."
- 58% of the respondents say they are willing to pay an additional amount for wires that include remittance information. On average, respondents indicated that they'd be willing to pay \$1.67 additional for payments that include remittance information. 32% of these respondents are willing to pay at least an additional \$3.00.

Importantly, the report concluded that if financial institutions do not take an active role in making improvements to the wire transfer system, payments that could benefit from the immediacy and finality of wire might default to the Automated Clearing House (ACH) instead. Steps that

should be considered include:

- Enhancing payment system operator, bank and software vendor capabilities to include remittance information with wire transfer payments.
- Supporting a common industry remittance standard, such as EPN STP 820 and ISO 20022 (see sidebar) that can be used by companies worldwide to move remittance information with the payment.
- Enabling bank cash management systems to integrate more effectively with accounts payable and accounts receivable systems to facilitate straight-through processing.

"We believe that there is a unique opportunity for the payments industry to work together now to create value for the corporate end-users of Fedwire and CHIPS," said Lauren Hargraves, Senior Vice President at the Federal Reserve Bank of New York, responsible for the Fedwire services. "We are excited by the prospect of working with CHIPS, the banks and the software vendors to create a more efficient payments process."

The research was conducted from February through August 2006 by The Clearing House and the Federal

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### Common Standards for Remittance Information

*During focus group discussions, the most commonly cited suggestion for improving the wire transfer process was to implement a common standard for sending and receiving remittance information with wire transfer payments.*

*For example, the EPN STP 820 minimum remittance standard is being adopted in ACH. Another emerging standard is the new ISO 20022 that will be used initially in the European market and will include standard remittance information for domestic and international payments. To promote efficiencies related to sending or receiving international payments, it would be desirable for the U.S. wire transfer format and emerging international standards to be compatible.*

#### EPN STP 820

The EPN STP 820 standard defines the minimum remittance information to be included in an electronic payment. It defines common information that most companies need to reconcile and post electronic payments. These fields are: customer account number (mandatory), customer name (mandatory), and for each invoice being paid: invoice number, invoice date, invoice gross amount, amount paid, purchase order or other reference number, adjustment amount, adjustment code, adjustment description notes. The EPN STP 820 is supported by the Association of Financial Professionals and NACHA and has been adopted by providers of accounts payable, accounts receivable and cash management systems as well as other technology providers.

#### ISO 20022

The customer credit transfer standard adopted by the International Organization for Standardization (ISO) includes structured remittance information that is designed to cater to a broad, international audience who is making payments for a variety of business reasons (e.g. paying an invoice, a contract fee, etc.). It includes the following remittance fields: referred document information (a description of what is being paid such as commercial invoice, commercial contract, etc. and its reference number), referred document date, referred document amount, creditor reference information (additional information that is meaningful to the receiver such as a purchase order and purchase order number), invoicer (payee), invoicee (payor) and additional remittance information (free text). The standard is supported by ISO member countries and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and is beginning to emerge in various financial markets.



## Trade Show Highlights



CHIPS' Hank Farrar (right) and the Fed's Ken Isaacson participated in a panel discussion at IFSA.

In early October, the CHIPS' team exhibited at the annual **SIBOS** conference in Sydney, Australia, where financial institutions and corporations from the around the world gathered to share the latest ideas and solutions for payments and securities clearing.



In mid-October, CHIPS was among the hundreds exhibitors who attended **AFP's** annual conference in Las Vegas, where CHIPS and the Federal Reserve formally announced the results of their ground-breaking research report on wire transfers. The report generated a significant amount of interest from show attendees and the media.

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Reserve Banks. Decision makers from a diverse group of companies that met qualifying criteria responded to a telephone survey. The survey focused on: the perceived value of sending or receiving remittance information with the payment, preferences for specific remittance information and practices surrounding notification of wire transfers sent or received. In addition, focus groups were held across the U.S. with individuals from companies of various sizes, types and industries.

The summary report, including methodology and verbatim comments from focus group participants is available online at [www.chips.org](http://www.chips.org). For more information about the research study, contact **Maddy Fiorillo**, CHIPS Business Development and Product Manager, Vice President, The Clearing House Payments Company, 212-613-0104 or [maddy.fiorillo@chips.org](mailto:maddy.fiorillo@chips.org).

## CHIPS Releases Research Study at Industry Conferences Around the World

CHIPS made the most of its trade show presence at IFSA, Sibos and AFP conferences this Fall with the release of its recently completed wire transfer research.

The new study, published in October together with the Federal Reserve, was previewed in a well-attended "payments update" panel at IFSA in Hollywood, Florida in September.

"Feedback was extremely positive," said Hank Farrar, CHIPS business manager. "The study generated enough questions and comments that the session could have gone on at least another 30 minutes."

At Sibos, the research was again featured, along with a promotion to ensure awareness of CHIPS IP and SWIFTNet communications options. CHIPS also visited with customers, prospects, and business partners at the reception hosted by CHIPS, Omgeo and DTCC on the lawn outside the famed Sydney Opera House.

The research study was officially launched at the **AFP conference**, held in Las Vegas for financial professionals. "We released the study to the media and discussed the findings in sessions, at the booth and even on AFP TV, said Maddy Fiorillo, CHIPS Senior Product Manager. "The study generated a lot of interest and discussion, especially with banks' corporate relationship and product managers." In 2007, CHIPS will again exhibit at IFSA, Sibos and AFP, as well as at NACHA Payments 2007.

## UPCOMING WIRE PAYMENT TELESEMINAR SCHEDULE

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

Course	Date
Global Retail Remittance Processing	December 1
CHIPS Overview	December 5

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



## The Clearing House Operating Center Relocates

The Clearing House Payments Company is relocating one of its operating centers to a new facility in the southeastern United States in 2007. The new operating center, along with its other operating centers, will fully support the activities of The Clearing House's payment services, including CHIPS, EPN and SVPCO. The relocation project is the latest in a series of measures taken by The Clearing House since the terror attacks of 9/11 to strengthen its operational resilience.

Technology and business activities will be operated concurrently from multiple centers. This is known as an "active-active" operating model. All transaction processing will be mirrored in both facilities, which will allow for rapid recovery and business resumption without loss of critical data. Each facility is designed with enough capacity to independently support operations for a prolonged time frame in the event of a catastrophic disaster at another facility.

"As a part of the nation's critical financial infrastructure, it is important for TCH to continue operating even in the most demanding circumstances. The relocation of one of the operating centers to the southeast greatly improves our risk profile and resilience," said Al Wood, Executive Vice President of TCH responsible for Technology Operations.

The Clearing House will relocate personnel as well as computer systems and networks to the new facility. Operations will start in the new center in the third quarter of 2007, and will gradually phase in over the following nine months as systems are installed and fully tested.



*The Clearing House's new facility in the southeast.*

## New Network Update

CHIPS participants are currently in the process of implementing CHIPS' new private IP network and/or SWIFTNet, the two new state-of-the-art CHIPS connectivity options. If you have not yet done so, now is the time to set up your test on TCP/IP Private Network, SWIFTNet or both of these new communication interfaces for CHIPS.

Remember, all CHIPS participants need to implement new network access by April 2007. Don't wait to get started. Avoid the last minute testing crush.

For more information contact: **Kevin Ransom**, 212.613.0169 or [Kevin.Ransom@chips.org](mailto:Kevin.Ransom@chips.org).

## New CHIPS Participant Update

BB&T is now live on CHIPS and is actively sending and receiving CHIPS Payments. If you aren't yet, we encourage you to begin sending payments to and accepting payments from BB&T through CHIPS as soon as possible.

## CHIPS NEWS BRIEFS

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