



The Road Ahead for Remittance Information Standards How the Federal Reserve Banks and The Clearing House Are Streamlining Wire Transfer Payments – And Why They Need You

Small and large companies want a more streamlined process for making wire transfer payments. The Clearing House Payments Company and the Federal Reserve Banks are working to make it happen.

It may be hard to believe, but quite a few corporate treasurers are smiling these days. Why? Because a new era of streamlined payments is on the horizon. By 2010, the inefficiency in wire transfer payments that most corporations faced in the past will have given way to a much more efficient payments process as growing numbers of banks, companies and vendors continue to support a messaging format for wire transfer payments championed by the Federal Reserve Banks and The Clearing House.

Two years in the making, the joint effort by the operators of the two major U.S. dollar wire transfer systems, the Fedwire® Funds Service and CHIPS® (the Clearing House Interbank Payments System) has resulted in an initiative to usher in one of the biggest improvements to the wire transfer process in many years.¹ This new standard will, for the first time, enable corporations to send and receive wire payments containing all of the pertinent remittance and invoice information needed to automate and efficiently process payments they receive.

No longer will corporations incur the time and expense of follow-up phone calls and e-mails to match invoice and other key information with wire payments. For corporations, that means a significant cost reduction in managing wire transfers. For banks, it means one of their most essential payments products will be even more valuable to their best corporate clients.

“These enhancements respond to the needs of both banks and corporations to improve efficiency in wire transfer payments,” said Lauren Hargraves, senior vice president of the Federal Reserve Banks’ Wholesale Product Office and one of the leaders of the initiative. “The changes will make it possible to carry information to identify underlying invoices and other pertinent business remittance information. The continued partnership among banks, corporations, vendors and operators will result in a new day for all parties involved in a wire transfer.”

¹ “Fedwire” is a registered service mark of the Federal Reserve Banks. “CHIPS” is a registered service mark of The Clearing House Service Company L.L.C.

This paper outlines the process in which the Federal Reserve Banks and The Clearing House worked together with industry participants to agree upon a new messaging format. It also highlights the steps needed for all participants in the wire transfer process – banks, corporations and technology providers – to ensure that the messaging format realizes its full potential.

How It All Started

For many years, payments professionals have understood the inherent inefficiency in sending wire payments without full remittance information. Working together with the Association for Financial Professionals (AFP), the leading trade association for treasury management professionals, the Federal Reserve Banks and The Clearing House clarified the need for a standardized process that would serve both payments systems, which serve as the only two high value payments systems in the United States.

“The AFP played a critical role in helping us assess how important this was to corporations and businesses,” said Hank Farrar, senior vice president of The Clearing House responsible for CHIPS. “The AFP took a leadership role and was a terrific partner in helping us identify the need and business case for incorporating remittance information in payments flowing through both wire transfer systems.”

Research Study Clarifies Need

Because system changes affect many in the payments value chain, the Federal Reserve Banks and The Clearing House decided to conduct research to delve further into the issue. Together, they retained Granite Research Consulting and conducted a nationwide study from February to August 2006.

A total of 381 questionnaires were completed by respondents who were either the sole or joint decision makers responsible for wire transfer payments. Those respondents worked for companies that sent and/or received at least 10 payments in 12 months and had annual revenues of at least \$5 million. As a follow-up, eight focus groups were held in Dallas, San Francisco, Chicago and New York City to solicit further comment and insight from corporations.

The findings, contained in the October 2006 report *Business-to-Business Wire Transfer Payments: Customer Preferences and Opportunities for Financial Institutions*, included the following:

- 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 wire payment.
- 94% of corporate respondents said it is “valuable” to include remittance information with the wire payment; 65% said it is “very valuable” and they are willing to pay for capabilities that streamline their operations.

- Corporations say that more than 80% of their payments (by volume) are still made by check.
- Most accounting and bank-provided cash management systems do not work together, making process automation and straight-through processing of wire transfer payments difficult to achieve today.

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 transfer may default to the Automated Clearing House (ACH) instead. The Federal Reserve Banks and The Clearing House identified three important steps that could help address this challenge:

- Enhancing payment system operator, bank and software vendor capabilities to include remittance information with wire transfer payments.
- Supporting common data elements, consistent with popular industry standards, such as EPN STP 820 or ISO 20022, 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.

Building Consensus

The Federal Reserve Banks and The Clearing House set out to work with banks, corporations and vendors to build support for the message format change. The challenge was creating a technical solution that met the needs of all constituents and was interoperable with global payments systems.

“Any time there’s change in the wire transfer system, a lot of discussion needs to take place to ensure that the needs of all participants are satisfied,” Farrar said. “We put forth a solution, worked tirelessly with all the constituencies, and proposed a workable solution for all.”

The Federal Reserve Banks and The Clearing House engaged large-value payment system and real-time gross settlement system operators from around the globe to discuss interoperability and global compatibility. This group helped identify the differences in current and emerging global practices.

Following those discussions, the Federal Reserve Banks and The Clearing House completed a detailed mapping exercise of the Fedwire and CHIPS messages to the ISO 20022 standard for credit transfer messages. That work helped the Federal Reserve Banks and The Clearing House understand how banks that may adopt ISO 20022 messages over time could continue to maintain compatibility with the Fedwire and CHIPS wire transfer systems.

Cover Payments, Remittance Information Initiatives Converge

In spring 2008, as both systems were pressing ahead, another strategic initiative spurred this initiative to a decision point – the need to ensure full transparency in cover payments. The Federal Reserve Banks conducted their own research of customers and found strong support for both initiatives.

In May, the Federal Reserve Banks and The Clearing House announced plans to implement enhanced message formats to accommodate both cover payments and payments containing business remittance information on their respective U.S. dollar wire transfer systems, the Fedwire Funds Service and CHIPS. The changes are designed to ensure transparency of cover payments by November 2009, consistent with the transparency principles articulated by the Wolfsberg Group and The Clearing House in 2007.

Next Steps: What You Can Do to Help

To facilitate adoption, the Federal Reserve Banks and The Clearing House are enlisting the support of banks, corporations and technology providers to adapt their processes for the new message format. By the fourth quarter of 2010, the U.S. dollar wire transfer messaging formats will be enhanced to provide structured fields to carry business remittance information.

Banks need to engage with their corporate clients to understand better how customers intend to use these messages. Banks also need to review their IT systems – ranging from back-end payments processing engines to customer portals – so that they can plan for and implement these changes.

Corporations need to work with their enterprise resource planning (ERP) vendors and banks to identify, plan for and implement the IT changes that will support this initiative. In addition, corporations should reach out to their trading partners and encourage them to take steps so that they too can send payments using the new standard.

Technology providers need to work with their bank and corporate clients so that the required functionality is delivered on time.

Let's Work Together

The Federal Reserve Banks and The Clearing House are committed to collaborating with corporations, technology providers and industry groups to take the necessary steps to adopt the new messaging format for wire transfer payments. With your support, the Federal Reserve Banks and The Clearing House can create a more efficient wire transfer system for the benefit of all.

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