

Moving forward with B2B wire transfers: How banks can create value for their corporate clients

Hank Farrar* and Lauren Hargraves**

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*The Clearing House, 450 West 33rd St, New York, NY 10001, USA.
E-mail: Hank.Farrar@theclearinghouse.org. **Federal Reserve Bank of New York,
33 Liberty Street, New York, NY 10045, USA. Tel: +1 212 720 5000;
e-mail: lauren.hargraves@ny.frb.org



Hank Farrar is responsible for CHIPS, the large value payment system (wire) that processes more than US\$2.1tn in payments worldwide each day. Since joining The Clearing House in 1990, he has led strategic planning initiatives, launched and managed several payments businesses, and directed key projects for the company. Mr Farrar is a leader in the payments industry with an extensive payments background, including being at the forefront of helping financial institutions manage the migration of paper cheques to electronic payments.



Lauren A. Hargraves is Senior Vice President and manager of the Wholesale Product Office at the Federal Reserve Bank of New York. The Wholesale Product Office is responsible for strategic planning, product development, and oversight of the Federal Reserve System's Fedwire funds service, Fedwire securities service and the national settlement service, which together process approximately US\$5tn transactions per day. Ms Hargraves has over twenty years of banking experience focused on payments, credit risk and liquidity management.

ABSTRACT

Near the end of 2010, the Fedwire Funds service and CHIPS will introduce new message formats that pave the way for corporations to achieve straight-through processing for US\$ wire transfers. Compatible with both the ISO

20022 and ANSI 820 STP business remittance data elements, the new formats will include sufficient structured remittance information so that the information can flow efficiently from payments origination to posting in a corporation's accounts receivable system. Statistical research demonstrates that corporations strongly support this new message format. This new format provides an opportunity for corporations, banks and their technology partners to work together to reap the benefits of this valuable change.

Keywords: payments, B2B, wire transfer, business remittance, ISO 20022, Fedwire, CHIPS

INTRODUCTION

The nation's major wire transfer systems, the Fedwire Funds Service and the Clearing House Inter-bank Payment System (CHIPS), are moving forward with their plans to implement new message formats that will streamline the wire transfer process for corporations.

In less than two years, the Fedwire Funds Service and CHIPS will introduce enhancements that will allow invoice and other business remittance information to flow along with wire transfer payments, a major improvement that will provide corporate customers with the ability to

reconcile their payments with much greater efficiency. Corporations report that this will save them time and money by eliminating the confusion about how to apply a wire payment.

WHAT EXACTLY IS THE BUSINESS PROBLEM?

Currently, when corporations receive a wire transfer message, the space available to explain the purpose of the payment is not structured and is often limited to no more than 140 characters. To get around this limitation, some corporations send the explanatory details via another method, such as e-mail or fax. This means the receiving corporation must reconcile the incoming payment with the incoming e-mail or fax. While some corporations do attempt to use the limited free-text field in the existing wire transfer message format to provide an explanation, these explanations are heavily abbreviated and do not adhere to any single standard, reducing their readability and making automation nearly impossible. This process often leads to a phone call from the recipient of the wire transfer payment to their bank or to the originator of the payment. This can be a costly and time-consuming process, especially if the sender has not included contact information. For corporations that receive wire transfers, the ability to receive a payment that explains why it was sent is a very valuable service.

THE BUSINESS CHALLENGE

The inability to apply wire payments to appropriate accounts and/or invoices has been a major source of frustration for payments professionals at US corporations. The challenge for those managing accounts receivable is that wire payments arrive with limited remittance informa-

tion. For corporations, there is simply not sufficient space or structure in a wire transfer message to carry the information needed to post these payments to the correct accounts. At the prompting of these professionals, the Federal Reserve Banks and The Clearing House worked with financial institutions, global payments systems operators, corporations and software companies. This work spanned two years and resulted in an innovative solution that is well supported by both banks and their corporate clients.

Throughout the research and development process, the Association for Financial Professionals (AFP), a leading trade association for treasury management professionals, worked diligently with the Federal Reserve Banks and The Clearing House to validate and clarify the demand for an expanded wire transfer message that could carry standard business remittance information, such as invoice numbers.

RESEARCH STUDIES CLARIFY NEED

The Federal Reserve Banks and The Clearing House together conducted joint research to gain a better understanding of corporate demand for this enhancement. They retained Granite Research Consulting and conducted a nationwide study from February to August 2006. A total of 381 questionnaires were completed by corporations with annual revenues of at least US\$5m and which send and/or receive wire payments. In addition, eight focus groups were held in Dallas, San Francisco, Chicago and New York to gain a deeper understanding about the reasons why corporations are interested in this improvement.

The Federal Reserve Banks and The Clearing House published the findings of this research in the October 2006 report 'Business-to-Business Wire Transfer Payments: Customer Preferences and Oppor-

tunities for Financial Institutions'. The conclusions included the following:

- Corporations believe that wire payments would be more valuable if they included business remittance information that is based on a common standard.
- Of corporate respondents, 94 per cent said it is 'valuable' to include remittance information with the wire payment. Sixty-five per cent said it is 'very valuable', and they are willing to pay for capabilities that will create efficiencies in their wire transfer process.
- Corporations say that more than 80 per cent of their payments (by volume) are still made by cheque, in large part owing to the availability of remittance information on the cheque stub.
- Many corporations report that their accounting systems are not well integrated with bank-provided cash management systems, making process automation and straight-through processing of wire transfer payments difficult to achieve today.

To gain a better understanding of the banks' perspective on these issues, the Federal Reserve Banks sought additional feedback in February 2008 through a web-based survey sent to thousands of banks that use the Fedwire Funds Service. The Federal Reserve Banks received 366 responses from a variety of users, in a wide range of user categories, including high-volume users, low-volume users, domestically focused users, internationally focused users, browser-connected users and computer interface-connected users.

The results of the survey were clear: a wide variety of banks understand and support the need for this enhancement. By a substantial margin, the number of respondents who were 'very interested' or 'somewhat interested' in adding business

remittance information to wire transfer messages outnumbered those who were 'not interested'. This was consistent across every user category that the Federal Reserve Banks analysed.¹

Support for this enhancement was validated again recently through a survey conducted by the Association for Financial Professionals in May 2009. Over 95 per cent of the 331 respondents reported that including business remittance information with a wire transfer would be valuable to them. The survey results also suggest that this enhancement may prevent corporations from migrating wire transfers to other payment vehicles and may even provide the opportunity to grow wire transfer volumes.²

THE SOLUTION

The new wire transfer formats that will be introduced at year-end 2010 have been structured to address the needs of two groups of institutions involved in the wire transfer process. The first set of data in a given wire transfer message is primarily for the banks that process the payment. This set of data contains all the information that is required to complete the payment — the originator, the beneficiary, the amount, etc. The second set of data is for the businesses that are using the payment to complete a commercial transaction. This set of data contains structured information about why the payment was sent — the invoice number, the gross amount of the invoice, discount and adjustment information, etc. This section of the payment message will be quite large — 9,000 characters. As a result, corporations can include detailed information on about 30 invoices with each wire transfer they send.

The new message format has content that supports pre-existing structured standards for remittance information, yet does

not preclude a more flexible approach for banks and corporations that currently use different standards for remittance data. The new message format contains invoice information that is compatible with both the EDI-based ANSI STP 820 standard and the XML-based ISO 20022 standard. And for those corporations that want to keep it simple, the new format is easily decipherable — the ‘tags’ used for each data element describe what that data element represents, such as ‘invoice’ for the invoice number.

NEW PROCESS WILL BRING SUBSTANTIAL BENEFITS

Corporations are looking forward to these changes with enthusiasm. Many corporations report that including business remittance information with wire transfer payments is a significant improvement. This is because corporations will save time and money by reducing or eliminating the need to research incoming wire transfer payments. A 2005 AFP survey found that corporations typically need to research 17 per cent of incoming wire transfers at an average research cost of US\$35 and approximately 30 minutes of staff time per wire.²

The enhancement planned for the Fed-wire Funds Service and CHIPS at year-end 2010 will provide the groundwork for corporations to reduce or eliminate the need to research wire transfers, because these payments will have all the information that a corporation needs to apply them to their accounts receivables systems. Small and large firms alike will benefit from this change, but information technology (IT)-savvy corporations have the potential to benefit the most. They will be able to automate the entire wire transfer process, if they so desire.

With more opportunity to automate for some and better information for all, cor-

porations will be able to eliminate the time and expense of follow-up phone calls and e-mails to match invoice and other key information with wire payments. Banks will be able to enhance the value of one of their most essential payments products for their best corporate clients.

In an effort to make this change as smooth as possible, 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. In addition, the Federal Reserve Banks and The Clearing House are engaging high-value payment system operators from around the globe to discuss interoperability and global compatibility.

MAXIMISING THE OPPORTUNITY

Banks

To take advantage of the opportunity to send remittance information with wire transfer payments, banks should work with their corporate clients to understand better how customers intend to use the new message format. Banks can make this transition smoother — and perhaps get an edge on their competition — by increasing staff awareness and understanding of this enhancement. The following are among the steps banks should consider.

- *Hold training sessions.* Banks can prepare their sales and customer service staff to educate clients about how this new enhancement can lower their total wire costs by improving straight-through rates and efficiency.
- *Identify and partner with early adopters.* Banks can identify supportive customers and partners to develop innovative solutions that can be leveraged for other customers.
- *Work with the wire transfer systems.* Take

advantage of training opportunities and materials from the Federal Reserve Banks and The Clearing House. Both organisations offer online workshops and information at their respective websites.

- *Work with customers' vendors.* Some IT-savvy corporations have expressed an interest in integrating incoming wires with their enterprise resource planning (ERP), accounts receivable and/or treasury workstation systems. Software vendors report that they need to understand the details of how banks will provide that information before they can build an appropriate interface. The sooner banks make the details of this process clear, the sooner vendors can begin work on necessary changes.
- *Review and plan for changes to IT systems.* Banks need to inventory the customer portals that need to be changed, their interfaces with market infrastructures, and the core payment-processing engines they use for wire transfers.
- *Prioritise the demands and capabilities of clients.* Banks need to look closely at their clients' capabilities. For example, are clients looking mainly for XML-based ISO 20022 information? EDI-based ANSI 820 STP information? Other formats compatible with the new approach? Or a simple, human-readable report?
- *Review statements and statement delivery channels.* Banks need to determine whether their existing customer statements can be leveraged to transport this information to corporate clients.
- *Talk to correspondents/respondents.* Banks should reach out to their correspondents and respondents to ensure that they are aware of this change. Correspondents and respondents — especially banks that are not direct participants in the Fedwire Funds Service or CHIPS — will need to ensure that they can transport the additional information contained in the enhanced message format so that their

clients can benefit from the change.

- *Do not ignore the cross-border challenges.* Banks involved in cross-border payments may want to talk to their messaging network providers, such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT), about different ways in which they can transmit the additional remittance information to banks and/or corporations located outside the US.

Corporations

For their part, corporations need to engage with their banks to get ready for these changes.

- *Determine requirements.* Corporations need to understand the type of interfaces that they need to be supported — XML, EDI and SWIFT, among others. Corporations should review how they use their treasury workstations, cash management software and ERP software for these types of wire transfer messages.
- *Review and plan for IT system changes.* Corporations should also work with their IT providers to identify, plan for and implement the required changes that will support this initiative.
- *Review bank statements.* Many corporations report that they receive information about wire transfers in their electronic bank statements, such as BAI-based statements. If so, corporations should verify that their banks will change those statements to pass along remittance information.
- *Help trading partners get ready.* Corporations should also reach out to their trading partners to educate them about the advantages of this enhancement and encourage them to take steps so that they, too, can accommodate messages using the new, enhanced formats.

Table 1: Range of systems initially identified as potentially affected by structured remittance information at nine corporations

<i>Wire origination</i>	<i>Wire receipt</i>
Accounts payable	Bank cash management system
ERP	Bank balance reporting system
General ledger	BAI reports
Treasury workstation	Bank lockbox system
Bank cash management system	Accounts receivable
EDI	ERP
	Treasury workstation
	General ledger
	Manual forms
	EDI

- *Evaluate cheque and lockbox operations for opportunities.* Corporations looking for ways to ease the transition from paper-based to electronic payments should evaluate the role that new wire transfer capabilities could play in that transition. From prior research, it is known that there are a small percentage of cheques that are relatively high value, important or time sensitive that continue to be written, in part because of the availability of remittance information on the cheque stub. With upcoming enhancements to the major US dollar wire transfer systems, there may be opportunities to improve the efficiency of some paper-based payments.

Technology providers

Finally, technology providers need to identify their bank and corporate clients that will be affected by these changes, so that the required functionality is delivered on time.

What software applications or internal processes at corporations may need to change to handle the new wire transfer remittance information message format?

The Federal Reserve Banks and The Clear-

ing House recognise that making structured and standardised remittance information available in payment messages sent through the nation's major US dollar wire transfer systems is a critical step, but the larger goal of improving end-to-end straight-through processing rates cannot be reached with this step alone. Achieving end-to-end efficiency is a shared objective that will require the collective preparedness of the industry. The Fedwire Funds Service and CHIPS will make this possible on the bank-to-bank leg of a wire transfer. It will, however, also be the responsibility of banks and corporations to ensure that they can transmit and receive this information to and from other parties in the funds transfer chain. To this end, the AFP assembled a group of nine corporations to hold discussions with each other, with the wire transfer system operators, and with other industry participants on the steps corporations can and should take to prepare for this upcoming change.

Initially, this group identified a diverse range of paths that wire transfer remittance information may need to travel between corporations and banks. The objective of this exercise was to evaluate which systems, if any, a corporation or its bank may need to change to send or receive structured wire

transfer remittance information according to the new standard that will be available in the bank-to-bank message. Listed in Table 1 is range of systems that were initially identified as potentially affected by structured remittance information at just these nine corporations.

A key conclusion from this effort is that there is a wide range of practices among corporations with respect to the wire transfer flow process between corporations and their banks. Whether a particular system needs to be enhanced to carry the new structured remittance information depends on how each corporation sends or receives wire transfer remittance payments. Some corporations centralise this activity in their treasury function, while others assign this responsibility to their accounts payable/accounts receivable areas. Some corporate treasury functions use a treasury workstation solution, others use an ERP solution, and still others use a bank-provided browser-based cash management application. Some corporations have an automated link between treasury applications and other internal applications that require the transmission of remittance details, some have automated links that do not require remittance details, and still others have a manual process to transmit this information between internal systems that would not require any system changes to pass on remittance details.

For bank-to-corporation cash management services, some corporations receive wire transfer details in BAI-formatted reports, others in EDI-formatted reports, and still others use bank lockbox services to help post and reconcile incoming wire transfers. Regardless of which report format is used today, it is clear that corporations are achieving much lower straight-through processing rates for incoming wire transfers than they desire.

Corporations seeking to prepare for the new wire transfer remittance infor-

mation message format are advised to evaluate their internal processes to identify individual systems that carry structured remittance information and to ask these key questions: Will those systems need to transmit the structured remittance information on the origination side? If so, do they have critical dependencies on other internal systems to carry this information in the new format? On the receipt side, will specific systems need to receive structured remittance information in the new format to facilitate posting and reconciliation? If so, the appropriate software vendors or banking partners should be engaged to discuss readiness, to understand how this new functionality will be incorporated into the provider's product, and to evaluate what specific steps the corporation must take to be ready to use the product for structured wire transfer remittance information.

CONCLUSION

After years of discussion and planning, a new era of efficiency is arriving for wire transfer payments. By continuing to work in the spirit of cooperation, banks, corporations and technology providers can realise even more value from the nation's two major wire transfer systems.

NOTES AND REFERENCES

- (1) For additional information about the Federal Reserve Banks' survey, please refer to <http://www.frb services.org/communications/fedwire/021508.html>
- (2) Association for Financial Professionals (2009) 'Providing Information with Wire Transfers', available at: http://www.afponline.org/pub/pdf/Wire_Remittance_Survey_2009.pdf
- (3) Association for Financial Professionals (2005) 'AFP Wire Transfer Survey: Receipt of Remittance Information', October, AFP, Bethesda, MD.