



Remittance Information for U.S. Wire Transfers: A Costly Endeavor with Limited Benefits

Today, U.S. wire transfers provide limited remittance information along with a payment. The information is provided free-form, meaning that it is not machine-readable and, therefore, cannot be automatically applied to recipients' receivables, credit management, and treasury systems. Payments that flow from payers' accounts payables systems through the banking systems to recipients' accounts receivables systems without manual intervention are considered Straight Through Processing (STP). All companies strive to achieve STP because it reduces processing costs, improves accuracy of posting, and speeds funds collection.

Especially, for business-to-business transactions, remittance data is as important as receiving funds owed in response to invoices. Cash on-hand is always important for companies, and today's economy elevates its importance. Knowing invoice details, the amount paid, and the details regarding any discounts or concessions taken, is necessary for updating the receiving company's accounts receivables and credit management systems. Even the treasury staff relies on remittance details to forecast cash flows. As a result, Aite Group believes that the provision of standardized remittance data along with the payment is, in theory, generally a good thing. Adding remittance information is made mandatory for banks, however, Aite Group thinks that the costs to add remittance information to wire transfers should be weighed against the benefits of adding

that information for that particular payments method.

In October 2006, the Fed and The Clearing House published the results of a jointly sponsored survey of 381 U.S. corporations to determine their desire for the inclusion of structured remittance data in wire transfers. The Association of Financial Professionals (AFP) conducted a survey of 331 business members in May 2009 to ask organizations about the value of receiving remittance information with wire transfers, and, the systems and software they currently use to send and receive wires. While the findings are useful, each survey must be viewed as having a particular agenda and benefit to the conducting organizations. In April 2010, the Fed and The Clearing House announced the addition of structured remittance data to Fedwire and CHIPS payments, effective November 2011.

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Aite Group has reviewed the findings from both the surveys, as well as Aite Group findings from qualitative discussions with several banks and technology vendors that support wire transfers. Aite Group has considered the

potential benefits from introducing structured remittance information to wire transfers, evaluated the expected market adoption, and considered the challenges for banks and vendors seeking to implement the solution.

Fed/Clearing House Survey

Results from the Fed and The Clearing House's 2006 survey indicate that corporations desire remittance information in a structured format for wire transfers. Wire transfers currently provide a free-form field of limited characters, in which, any additional information that fits may be inserted. The free-form nature of the field means that it is nearly impossible to create programs that pull specific data from the field to pass to other systems, such as companies' accounts receivables. Ninety-four percent of respondents to this survey said it is "valuable" for wire transfer payments to include remittance information with the payment, and 58% of the respondents said they are willing to pay an additional amount for wires that include remittance information. On an average, respondents indicated that they would be willing to pay an additional US\$1.67 per payment for wire payments that include remittance information; 32% of these respondents would be willing to pay at least an additional US\$3.00 per payment.

One motivation for the Fed and The Clearing House to add structured remittance information to wire transfers is their desire to increase wire transfer volumes in order to ensure each



organization's continued business viability. In the 2006 survey report, the sponsors (the Fed and The Clearing House) hypothesized that moving just 2% of existing check payments to wire transfers would lead to a 47% increase in wire transfer volumes. This volume increase would translate to an additional US\$1.9 billion in wire transfer revenue for U.S. banks as a whole, based on Aite Group's estimate of an average charge of US\$20 per wire.

AFP Survey

Overall, findings from the AFP survey were encouraging for the Fed and The Clearing House. Of the total survey population, 47% said that remittance information would be "extremely valuable" to their organizations if it were made available in the wire transfer message, while 48% of respondents said it would be "valuable" to their organizations. Ninety-one percent of wire recipients said they will use the data for posting their receivables if it is provided, and 61% said that their organizations will send the data with wire transfers that they initiate.

The AFP is using these findings by encouraging their business members to increase pressure on banks and vendors in order to add structured remittance information to wire transfers. As reported to Aite Group by several bankers, the pressure is being felt by banks because of its inclusion in requests for proposals (RFPs), mostly from very large corporations. These companies are key clients for banks; they're companies with which banks want to maintain and build relationships.

Aite Group Perspective

Although these statistics appear to strongly support commercial client demand for remittance information

with wire transfers, Aite Group remains somewhat skeptical. As described by one banker, the way the survey questions were framed, they "couldn't have been more Pollyanna-ish if they tried." Basically, survey respondents were asked these questions with no reference to fees or other charges from banks or their vendors in order to support such offerings. Almost every company would like to receive formatted remittance information with a payment — especially lacking consequences such as cost.

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Further, although the largest companies are beginning to include the provision of remittance information with their wire transfers as a requirement in their bank RFPs, medium-sized companies are mostly unsure of what the new wire formats mean; most of the banks with whom Aite Group spoke have received a few questions from clients generally asking what adding remittance information to wires is about. Regardless, banks will at least need to be able to receive the wire transfer data — that capability will be a Fed requirement.

Benefits for Companies Receiving/Making Payments

The benefits for recipient companies are quite clear: Receiving standardized remittance data removes the remaining hurdle for automating the posting of wire transfers. So long as banks' wire systems communicate the remittance data to their reporting systems and enterprise resource planning (ERP) systems, and provided those systems deliver an automated feed to companies' accounts receivables, credit management and treasury systems, wire recipients will be able to accept such payments as straight-through processing almost for the first time. As a result, receiving companies will be able to save some processing and research time, leading to cost savings. Given the relatively small number of wires received today, the cost savings will be negligible.

Paying companies have a slightly increased burden due to a previously non-existent need to add data to wire transfers. Still, the inclusion of that remittance data can help the recipient more quickly close open invoices for the payer, thereby freeing up more credit for greater purchasing power and a potentially faster shipment of goods. Further, more accurate posting will prevent multiple communications between the buyer and seller regarding discrepancies, lessening research time for both parties.

Requirements of Banks, Technology Vendors, and Companies

The new Fedwire and CHIPS message format can support details from as many invoices as will fit in 9,000 characters of space. The exact number of invoices that can be supported will depend upon the length of text entered



into each of the structured data elements, but the Fed and The Clearing House expect it to cover 30 invoices or more.

The structured wire transfer remittance information format will be compatible with both the EDI-based STP 820 standard and the XML-based ISO 20022 remittance information data elements. STP 820 supports only 10 critical data elements, so contains less information than ISO 20022-formatted messages. A challenge for vendors is to decide what to do with the extra data elements if a system to which they pass information supports STP 820.

Most banks of all sizes are relying on their wire transfer system vendor to make the necessary changes to the wire transfer system itself. Making these changes to wire transfer systems is just the beginning; other systems than the wire transfer system need to be altered as well. The effort to ensure that any relevant system can interface with wire transfers (both customer-facing and back-end clearing, settlement, and bank accounting) is the bigger challenge.

At the receiving end of the wire, banks need to ensure that their reporting systems, such as online cash management/banking, Bank Administration Institute (BAI)-formatted consolidated receivables, and electronic data interchange (EDI) files all have the capability to capture the additional remittance information and pass it along to the recipient, preferably, in an automated interface. Finally, companies receiving wire transfers with remittance details need to update their accounts receivables, general ledger, credit management, and treasury systems to accept and utilize the data.

Costs and Benefits

For many banks, project plans are underway, but costs have only been determined for their wire transfer system changes. Estimates of costs for these changes range from several hundred thousand dollars to multiple millions of dollars per bank. Aite Group estimates that the total cost to the U.S. payments industry (banks, software vendors, core system providers, industry utilities, and companies) will be about US\$3 billion to implement the full complement of wire transfers with remittance information.

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The general consensus of banks and vendors is that the introduction of structured wire remittance information will prove moderately beneficial for the industry as a whole. This assessment is in comparison to two other choices: a great benefit, and a waste of time and money. Players in the industry expect little positive impact on wire transfer volumes as a direct result of the addition of structured remittance data, however. Those companies that receive the data with the wire will be able to apply the funds automatically and experience timing and accuracy benefits as a result.

Banks perceive a revenue opportunity from their reporting capabilities, but not directly from wire transfers. Adding

the ability to capture remittance information with wire transfers and pass it through to the recipient is mainly considered client relationship building by banks.

Aite Group's Conclusion

The transmission of remittance information along with a payment is usually considered a virtue in the United States. In other parts of the world, notably Europe, the combination is less valued; remittance information is critical, but may be provided through a different and parallel channel. In the United States, wire transfers are the major payments type that does not support the provision of B2B remittance information along with the movement of funds; a circumstance being remedied by the Fed and The Clearing House's initiative to add structured remittance data to wire transfers. Unfortunately, while there are benefits to the industry, the cost and effort associated with meeting requirements will be high in relationship to those benefits for the relatively low volumes of wire transfers processed.



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