

# *New Remittance Information Format for Wire Payments By: David Bonneau*

## **Abstract**

*On November 21, 2011, Fedwire and CHIPS are instituting a new structure in their wire formats so that your customers can provide an additional 9,000 characters of remittance information embedded in the actual financial transaction. SWIFT already has this capability but it is not being utilized. This additional remittance information potentially can be passed on to you in various formats, most notably ANSI X-12 EDI 820, that could be processed with your daily ACH 820 payments. The goal is to provide you with Straight Through Processing (STP) applying the wire payments without any manual intervention. The banking systems estimate the 9,000 character area can contain around 30 invoices.*

*If your customer will provide you with this additional remittance information, it will be beneficial to you in applying the payments manually. If you receive enough wire payments, you may find automating the process cost beneficial; however, achieving STP is not guaranteed.*

*Three notes:*

- 1) The word "Potential" is used often in this article. The November installation date is to force member banks to internally handle the additional 9,000 characters. The process for your customer to provide the additional remittance information with their wire, and the process of your receiving bank to provide you the information is on a bank by bank basis. Additionally, banks are not actively telling the networks what their plans are because of the competitive nature of their services, so much of this article is speculating what the banks will or can offer in helping to achieve STP.*
- 2) I had asked the three networks this edit the article but have received limited response. Any misstatement is unintentional.*
- 3) The purpose of the article is to give you, credit and cash application, notice of the new network requirement. It would seem that receiving wire payments with remittance data in standard 820 format for STP would be easily cost justifiable, given the current manual wire application processes. However, your receiving bank needs to hear your demands to potentially push them to provide you the needed services.*

### ***What are Fedwire, CHIPS and SWIFT?***

From a credit managers' point of view:

- A) Fedwire (Federal Reserve Funds Service) is operated by the Federal Reserve banks. Through FedLine Advantage over 6,000 US banks (including many smaller banks) can send and receive the new remittance information.
  
- B) CHIPS (Clearinghouse Interbank Payments System) is a private network that also handles wire transfers and is both a customer and competitor to Fedwire. While CHIPS is in US dollars only, they estimate that they handle 95% of the US dollars moving between countries as over 30 of their 50 members are foreign banks. Most of the major US lockbox operations are member banks.
  
- C) SWIFT (Society for Worldwide Interbank Financial Telecommunications) is an international bank messaging system. The SWIFT network provides the information for wire transfers though the actual payment flows from the originating central bank to the Federal Reserve, CHIPS or potentially your own SWIFT recipient bank.

Any other wire systems or banks outside of the Fedwire, CHIPS and SWIFT systems are not impacted by this change. Nor are there similar changes being made at this time to NACHA's ACH processes (their current CTX transaction allows for 999,999 80 character addenda records which can contain 820 data or any ANSI ASC X-12 approved segments). This article is dedicated to wire transfers only, both domestic and foreign, but within the three networks.

Fedwire and CHIPS are making the accommodation for the 9,000 character remittance area within their systems. However, it is up to each individual bank to institute the interface of the data to their customers. There is no requirement on how the initiating bank allows their customer (your buyer) to provide you the information or file. Nor is there any requirement on your receiving bank to provide you the information. The data will be in the FedLine or CHIPS systems, but you will not have direct access to it. You must work with your bank to have them provide you remittance data, either through their web portal, an outbound interface file (hopefully EDI 820), or an email of the data. Adoption from both the initiating and receiving banks may be slow, driven by your demand.

For SWIFT members to access their 9,000 character area, the originating bank connected to the SWIFT network must be a member of the MT 103 Remit Closed User Group. SWIFT adoption may be even slower.

### ***Why are the networks making these changes?***

In 2005 and 2009 the Association of Financial Professionals (AFP) conducted surveys in which US corporations reportedly wanted a higher rate of Straight Through Processing (STP) for wire payments and that 17% of incoming wires require manual research (Until recently, C/LECT's experience has been that 100% of wires require manual application of the payments, often with additional research).

The AFP study also reported that if remittance information was attached to a payment, it would not need to be reassociated to the payment and would lead to the following benefits:

- A) Reduced costs associated with existing wire volume;
- B) Opportunity to “electronify” urgent/high-dollar payments;
- C) Inclusion of remittance details in wire payments will expedite processing/posting.

In response Fedwire and CHIPS are adding a 9,000 character area to hold remittance detail or the computer address of remittance information and will go into effect on November, 2011.

***What could the additional 9,000 character mean to me in credit and A/R?***

The additional 9,000 characters area is where the sender can place remittance information that can be passed at the initiation of the wire and forwarded to the receiving bank. As a credit or accounts receivable manager, this area can contain information required to apply this wire against your invoices or make adjustments. It is up to you to work with your customer to decide what information they will place in this area and the format of the information. There are no requirements regarding this data. It may be completed; it may be left empty.

All three networks allow for three types of data that can be stored in the expanded remittance area: Structured, Unstructured and Related.

The Fedwire and CHIPS “Structured” layout can accommodate approximately 30 payments within the 9,000 character allotment in their new CTP message with the following information:

Tags that can only occur once in a single CTP message

- {8300} Remittance Originator
- {8350} Remittance Beneficiary

Repeatable tags for each item being paid

- {8400} Primary Remittance Document Info
- {8450} Actual Amount Paid
- {8500} Gross Amount of Remittance Document
- {8550} Amount of Negotiated Discount
- {8600} Adjustment Information
- {8650} Date of Remittance Document
- {8700} Secondary Remittance Document Info
- {8750} Remittance Free Text

SWIFT is using their current MT 103 data area to handle the 9,000 character area. However, as mentioned earlier, the initiating bank must join a closed user group to have access to the data area.

The second format, “Unstructured”, can be considered structured, just not in the networks’ predefined format (CTP or MT 103). The 9,000 character area (actually reduced to 8,994 characters) may include remittance information in other formats (ANSI X-12 EDI 820, General XML, ISO 20022 XML, STP 820, SWIFT field 70 format, UN-EDIFACT or narrative free text).

This area can be anything from a very structured EDI 820 or ISO XML format to someone pasting in the A/P payment page, to just keying the information as freeform text as they do now. The third “Related” format can contain a linking address to the remittance information, causing you to either access the remittance data manually or adding another layer of processing to retrieve and extrapolate the data. In this “Related” format, your customer could give you a web address that contains a PDF of their remittance information. Or it could be link to a file in any format, currency or language.

These three wire networks want their member banks to convert their “Structured” format to a format that the receiving party’s A/R system can use; most notably ANSI X-12 EDI 820. The networks have also mapped how their “Structured” data would be reformatted in ISO 2002 XML.

Potentially, you could have a customer in Europe make a SWIFT payment with the remittance detail defined in their MT 103 data area, pass through CHIPS (and converted to CTP format) and be delivered to you by your Fedwire bank in 820 format for STP (Straight Through Processing). Another scenario is to have your customer provide you EDI 820 data in the “Unstructured” format to be used in applying the payment.

Again though, the banks within the networks are only required to pass the information to other banks in their networks, not from your customer or to you. You will need to work with your bank to receive the expanded remittance information, just as your customer will need to work with their bank to initially enter or upload the payment details.

***How does your customer insert the remittance information with the wire?***

This is based on the originator’s bank and will probably start as a manual process. Initially your customer may need to provide a document to their bank for manual entry (by a bank employee) of the remittance information into the networks’ wire system. Member banks may provide access for your customer to enter this information themselves through their bank’s wire portal. Additionally, your customer’s bank may allow for an upload of either the “Structured” or “Unstructured” format to their wire portal. Whatever file format is uploaded though must be made available from your customer’s A/P system (or equivalent payment system) and placed on a customer’s server that can be accessed via the bank’s wire portal. It is improbable that your customer would ever send wire information and remittance directly to their bank (as is normal for ACH 820 payments).

The manual process would be the most error prone, since your customer’s bank or your customer would transcribe the remittance data from a paper report or image. Additionally, will the customer’s bank have balancing routines to insure that the remittance amounts they enter balance back to the payment amount? Transpose one character or amount and the payment will not apply correctly on your end.

If your customer’s bank allows for sending “Unstructured” remittance data from their wire portal, your customer would probably cut and paste the data. However, great care must be taken to insure special unseen PC data is not also sent with the data. As we have all experienced, a paste often contains unseen font information, causing much angst in the receiving

document/spreadsheet/slide, etc. If a few unseen characters get inserted with your XML, one cannot predict the outcome with the banks. If the data is EDI 820, somehow your customer must receive the raw data from their EDI translator in order for them to cut and paste it in the web page.

For all data formats though, care must be taken to insure all characters fall within the banks' automated translation processes. That is, if your Greek customer sent you XML with some Cyrillic characters, the received data may be confusing.

Manually entering the remittance data in the "Structured" format will most likely be the more common initial process. As adoption of extended remittance services by the banks increase, uploading of an agreed upon format as "Unstructured" should be possible by your customer on their banks web site.

### ***How is this information moved from bank to bank?***

As expected, only banks associated with the Fedwire, CHIPS and SWIFT networks are required to receive and forward the additional 9,000 character remittance information. So for foreign wires especially, you must insure that all intermediary institutions are network members or accept the newer formats. Otherwise, the data may never get to you. The same is true for your receiving bank. It either needs to be within this wire network or able to receive the new format.

Additionally, CHIPS is asking their member banks to edit the information. In their "Domestic Best Practices" document (January 7, 2011), they recommend to the originating bank, "Any remittance type supported by an originating financial institution should be validated against the industry standard for compliance. In the case of invalid syntax, you should develop a procedure for repair prior to submission to the next bank in the chain". In other words, the CHIPS initiating bank may edit the 820 data and "repair" it.

You must also take great care to insure that the data does not exceed the 9,000 character limit. If it exceeds the limit (or is modified by a bank and then exceeds the limit), the entire wire transfer may reject!

If your customer is sending "Unstructured" data (which may actually be in a predefined format like EDI 820 or XML), you must check with the senders and your bank that the data will be passed through as sent. In the case of EDI 820 data, the networks want the entire transaction set, from the initial "ISA" to the terminal "IEA" transactions. While the originating bank should not make changes (except for the above "repairs"), each bank that processes the wire has different platforms and character sets, all potentially altering the data as sent into something unexpected. If the sent data is in English, there should be few problems. However, if the data language and character set varies between the originating and receiving banks, there could be translation issues as the data moves from one bank and country to another.

### ***How can I receive this additional information?***

If your customer sends you remittance data in one of the two "Structured" formats (Fedwire or CHIPS CTP format or SWIFTS MT103 format), your receiving bank (if it is within the network), at some point, should be able to format the data into the standard EDI 820 format, send

it to you as a domestic 820 payment that you can map and run it into A/R for Straight Through Processing (STP), with one major exception noted at the end of the article. This is the best expected result.

Potentially, your wire bank could convert this structured data to ISO 20022 XML. However, how would the bank physically provide the XML into your ISO network for STP? Your bank could email it to you but that would require manual intervention on your part to feed the remittance into the production system.

Of course you could add functionality in your organization to receive the Fed Wire or CHIPS CTP or SWIFT MT103 data files directly from your bank in its native structure, format the data into your standard A/R batch interface (820, 823 or BAI) and process it as normal bank payments. But you would probably need significant volume to make this change cost effective and you must get your bank to provide you that data. Again, the 9,000 character area is expected to hold about 30 remittance items, so these wires will not reflect high-volume payments.

If your customer sends the remittance data in “Unstructured” format, your bank may be able to forward the unedited data to you if it follows one of their current formats (FE: EDI 820 or 823 or BAI). You may get your bank to forward you the “Unstructured” data through a proprietary channel (FE: XML or A/P report text). But the cost benefits to add these necessary processes to automatically close 30 invoices for a payment may not be substantiated.

The most probable form of delivery of “Unstructured” data is for you to manually copy and paste the data from your bank’s wire web site, if they offer that capability. Potentially, your bank could have a “download” button to transfer this information from their computer to yours, but you still need a process to load this information into your production A/R stream. Often there are SOX ramifications to manually inserting data into the production stream. Another option is for you to simply copy and paste the “Unstructured” data as a Word document and manually apply from the XML or A/P report file. This does not provide you with STP (Straight Through Processing) but it does provide you same day application of the wire, without contacting your customer for the information.

The third bank option of this remittance data is the “Related” format, where your customer sends a web address or some other external link to a file or document that contains their remittance information. There is no current standard for your bank to send you this computer link in an automated manner. This opens up another entire process to try to achieve STP, since the customer’s information could be in any format, language or currency. Should your bank send you the “Related” address in your normal production process, trying to access a linked page within the A/R process is improbable, as is justifying opening your production system to an external link in order to automatically download the file and process the data.

### ***What are the additional bank charges?***

This is unknown. There are no regulations around the costs each bank can impose on passing the additional 9,000 character remittance data or initially enter the data. It is presumed that each intermediary foreign bank can also impose and extract their costs from the actual payment, like

the current bank charges for foreign wires. Potentially, all the banks handling your payment can charge a per character fee for the additional data.

You will need to discuss the additional processing costs with your customers' bank and your receiving bank, and hopefully they can detail any intermediary costs. It will probably vary based on the origination point. Again, this factors into your cost justification for any changes in A/R processing.

***What are the potential shortcomings?***

I see five major potential shortcomings. This has yet to be discussed within the credit community and there may be other issues or some of mine are overstated.

- A) How do you entice your customer into providing this information, especially if it is the "Structured" format where they need to enter it on their bank's web site? This would be an additional manual process that no one wants to do. For your customer to provide the data in an automated manner to their originating bank, it would take additional IT resources to format their A/P data into either the CTP or MT 103 format, given that your customer is sending the wire payments in an automated manner already (versus just initiating the wire manually).
  
- B) There doesn't seem to be any process to notify you of the banks' wire charges. Suppose your customer enters the remittance information in the "Structured" format and it balances to their payment. However, their bank takes a \$25 wire fee from the amount you receive. Your bank takes the "Structured" data, converts it to EDI 820 and sends it to you for Straight Through Processing (STP) . But now the EDI payment is out of balance by the \$25. Will you allow unbalanced transactions to post to A/R? Can you assume that the variance will always be bank charges? Add in intermediary bank charges or fees based on the number of characters being passed in the 9,000 remittance area and it will be difficult to achieve STP because of the variable charges. While your bank will probably just tack on any additional charges to your monthly bank costs, all other banks in the process would probably reduce the payment amount, and with no process to detail the costs within the "Structured" payment, the remittance data will not match the original payment amount.

The same is true for both the "Unstructured" and "Related" data formats. Your customer's remittance detail may not balance to the payment amount due to bank charges.

In the same vein, currency conversion rates are not detailed either in the "Structured" format for international wires.

Unless each bank that alters the payment amount for their processing costs reflecting their costs in “Structured” format as deductions, STP will be difficult to achieve when the payment amount is reduced for bank charges.

- C) While passing “Unstructured” EDI 820 data seems like a simple concept, I don’t think it is very viable for two reasons. First, ANSI X-12 (EDI 820) is basically North American in nature. Companies outside the US or Canada probably don’t have the software to physically create the 820 file. Secondly, if a company can create 820 data, why not send it directly to your EDI mailbox, like Wal-Mart or Home Depot remits? It doesn’t seem to make sense for a company to create the 820 file and then paste or upload with the wire. They are either EDI capable or not.
  
- D) While XML is an option for “Unstructured” data, it has been my limited XML experience that at least 75% of the data in an XML file are tags (field identifiers) and not actually data. This reduces the actual data area of the 9,000 characters substantially. Plus, outside of SWIFT and ISO, there are no defined formats, potentially making you alter the XML interface for each customer. Another issue is how the XML data will be physically received from your bank. Potentially, your bank will establish an FTP XML process, but it could be an expensive venture for the few wires with XML data they may receive.
  
- E) In C/LECT’s experience with manufacturers, wires normally make up a very small percentage of the cash receipts - even smaller if it is a transaction based percentage. Most wires close one or two invoices, not hundreds per payment that can help to cost justify automating this minimal manual process. Unless wires make up a significant percentage of your transactions, but the remittance data fits within the 9,000 character limit (estimated 30 invoices), the cost justification for changes to achieve STP with wires through your A/R system versus continued manual application would seem difficult, unless it can be included with current bank files.

## **Conclusion**

With the addition of 9,000 characters of remittance data to your wire receipts, you can achieve Straight Through Processing (STP) or totally automated cash application by:

- A) Insuring all banks initiating, forwarding and receiving the wire payment is in the Fedwire, CHIPS or SWIFT networks and allow for inclusion and receipt of the extra remittance data;
  
- B) Having your customer provide the remittance information with the wire, probably manually entering the payment details;



- C) Receiving the remittance data for the wire in a format from your bank that can process into your A/R system without any manual file intervention or manipulation;
- D) Allowing for bank charges in the application, balancing the remittance data to the final wire amount.

Otherwise, you will still need to apply the wires manually, except the remittance information will be more readily available.

*The following chart provided by the Association of Financial Professionals is information gathered recently by the AFP Payments Advisory Group members. It represents the status of top bank support of ERI for wire originators.*

	ERI Receipt	ERI Send	ERI Reporting
Citibank	Yes, from any input source (CHIPS, Fedwire, electronic banking, SWIFT); structured & unstructured	Yes, all existing formats (EDI 820, ISO 20022) will be supported	Plan to support including ISO 20022 & BAI, but details not finalized
PNC	Yes, via PINACLE (structured & unstructured) & e-mail (structured)	Yes, via PINACLE (structured & unstructured) or Batchwire (structured & unstructured)	Yes, via PINACLE
Bank of America	Yes, Fedwire structured & unstructured	Yes in 2012, perhaps as early as Q1	Yes, limited reporting in 2011, more in 2012
Chase	Yes for Fedwire & CHIPS		Yes, via eServe; March 2012 for BAI reporting
SunTrust	Yes, Fedwire structured & unstructured	Currently evaluating business case	Yes, in a variety of ways including pre-formated advices delivered across various delivery methods & BAI2, CSV, & XML formats
Wells Fargo	Yes, both structured & unstructured as of Nov 2011	Yes, both structured & unstructured as of Nov 2011	Yes, both structured & unstructured as of Nov 2011

*Since 1992, David has been President of C/LECT Consulting, providing credit, collection, Accounts Receivable, deduction and claims custom solutions in the B2B environment. Also, Dave has been a CRF member since 1999.*