

# The Road Ahead for Cover Payments, Remittance Information

The Federal Reserve Banks and The Clearing House are Streamlining Wire Transfer Payments

By Hank Farrar & Lauren Hargaves

In the next two years, significant system enhancements are going to deliver a new level of efficiency and transparency to the nation's major wire transfer systems, the Fedwire® funds service and CHIPS®.

By November 2009, the international banking community, including the Fedwire and CHIPS wire transfer systems, will begin using new message formats to process cover payments and allow for greater transparency. Frequently used in international correspondent banking, cover payments pass through a chain of banks, while the underlying credit transfer message, containing details related to the commercial transaction, travels a separate route to the ultimate beneficiary's bank.

By the end of 2010, U.S. dollar wire transfer systems will be upgraded to allow business remittance information to flow along with wire transfer payments. The significant improvement will enable corporate customers to reconcile their payments with much greater efficiency. The Federal Reserve banks and The Clearing House have been working with financial institutions, global payments systems operators, corporations, and software companies over the past two years to create this long-awaited process improvement.

## Cover Payments Deadline Approaches

In October, the Federal Reserve Banks and The Clearing House completed and distributed cover payments specifications that will enable banks to maintain compatibility with the upcoming SWIFT cover payment message format.

Current market practices for cover payments use messaging standards that do not ensure full transparency of the parties to the underlying commercial transaction. As a result, today's cover payments process could expose intermediary banks involved in the transaction to increased risk of unknowingly facilitating illicit activities.

The new efforts to support greater transparency are part of a broad industry initiative. In April 2007, the Wolfsberg Group and The Clearing House Association LLC published four payments message standards aimed at enhancing transparency and reducing vulnerabilities in certain payments processes, such as the cover payments process. Banks are expected to start testing the new format in the spring of 2009 in anticipation of the November 2009 implementation deadline.

Information related to upcoming cover payment message format changes is available at [www.FRBservice.org](http://www.FRBservice.org) for the Fedwire Funds Service and at [www.chips.org](http://www.chips.org) for CHIPS' participants.

## Remittance Information with Wire Payments

By the end of 2010, corporations and banks will realize one of the most significant improvements to the wire transfer system in many years: The inclusion of business remittance information *with* wire transfer payments.

Two years in the making, the joint standard championed by the participants of the Fedwire Funds Service and CHIPS will enable corporations to eliminate the inefficiency of sending payment and business remittance information separately. Instead, companies will be able to send and receive wire payments containing pertinent remittance and invoice information needed to automate and process wire payments.

The process improvements will result in substantial benefits. 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.

To facilitate adoption of the standard, 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. As part of the initiative, 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.

To take advantage of the opportunity to send remittance information with wire transfer payments, 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.

For their part, corporations need to work with their treasury workstation, cash management software, and enterprise resource planning (ERP) software providers 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 accommodate payments using the new standard.

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

By continuing to work in the spirit of cooperation, banks, corporations, and technology providers can help usher in a safer, more efficient era of wire transfer payments.

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