

Viewpoint: STP 820's the Best Format for B2B Wire Transfer

American Banker | Friday, February 1, 2008

By George Thomas

Over 15 months ago the [Federal Reserve Bank of New York](#) and [The Clearing House Payments Co. LLC](#) released the results of their research on wire transfer business-to-business payments. Their study, "Business to Business Payments: Customer Preferences and the Opportunities for Financial Institutions," clearly indicated that automation and payment information capability (invoice data) for business payments was needed on the Fedwire and Chips payments systems.

In the first half of 2007, the New York Fed and The Clearing House took a leadership position. Their goal was to get the industry to coalesce around the need for enhancing this critical payments infrastructure.

At first, both organizations believed that the main hurdle to overcome was deciding what technical format to use for the invoice data. The debate centered on the simplified American National Standards Institute's Electronic Data Interchange (EDI) X12 STP 820 or the brand-new ISO 20022 format developed in Europe for use in the Single Euro Payments Area.

The STP 820 should be the format of choice, because of a number of compelling benefits.

- Speed to market — large corporations are able to process the STP 820 into their enterprise resource planning packages without any upgrades or changes.
- Cash management software vendors are already implementing the STP 820 for their ACH cash management offerings, adding it for wire transfers, according to several of them, will not be extremely complicated. This will enable the small and midsize business market as well.
- Banks already have EDI delivery platforms that can be used to deliver the STP 820 to their business customers today. Though there is cost initially to bridge this internally at financial institutions, in the long term this will streamline infrastructure and maintenance costs.
- This is the first step in streamlining front-end applications for business customers. One interface should enable a company to send a wire or ACH payment with the same type of remittance information to their trading partners, regardless of the settlement needs — real-time or next day.
- The Association for Financial Professionals Payments Advisory Group supported the STP 820 over the ISO 20022.

- The ISO 20022 would have required the Clearing House and the New York Fed to implement completely new payment formats, which would have taken at least seven years to complete.

The major hurdle is the amount of data that the New York Fed is willing to supply to carry the invoice data. Rather than agreeing to add 9,000 characters available in the Chips and Swift formats to carry this data, they looked at a number of alternatives that would have allowed only three invoices to flow with the payment, a choice in my opinion that will defeat the purpose of the entire effort.

Representatives from the New York Fed and Chips promised to announce a decision on the direction that they would take by the end of June 2007, but there was no announcement, and no one is sure when or if the direction will be announced.

To ensure the continued viability of this critical payments infrastructure for business payments, the banking industry must continue to pursue the vision and leadership in the electronic payments environment or watch business opportunities pass them by.

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