

Pegasystems' new Smart Adjust 4.1 automates exception processing for retail payments and enables compliance with 'Check 21' regulations

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'Smart' cross-payment platform delivers substitute check and ACH return handling; helps banks handle exceptions and disputes across the enterprise

CAMBRIDGE, Mass., September 15, 2004 – Pegasystems Inc. (NASDAQ: PEGA) today released PegaBANKING Smart Adjust™ 4.1, the retail banking industry's leading cross-payment platform for automating payment exception handling. Addressing exceptions in check, ACH, debit card, ATM and other areas, Smart Adjust 4.1 allows customers to manage payment exceptions with a single solution, dramatically lowering the cost of handling non-standard transactions of any payment type. New features include the ability to process substitute checks and automate handling of ACH disputes.

Smart Adjust 4.1 has been built to help banks comply with the new Check Clearing for the 21st Century Act (or 'Check 21') regulations, by providing the capabilities necessary to handle substitute checks – as well as paper checks, check images, ACH and other electronic payment types. By handling disputes, errors, and issues across all types of payments, Smart Adjust helps financial institutions and service bureaus streamline their operations and deploy a single solution to address payment issues.

Built on Pegasystems' newest version of its industry-leading, Java-based BPM platform, Smart Adjust is built for change and can be easily adapted to suit evolving business needs and industry practices. Smart Adjust 4.1 is Pegasystems' latest version of its retail payment exception solution and utilises Pegasystems' proven success in automating exceptions handling for leading banks for the past 15 years.

Smart Adjust 4.1's new functionality includes:

- Support for substitute checks in all research and adjustment processes. Smart Adjust allows retail banks to seamlessly manage paper checks, images and substitute checks for customer inquiry, customer dispute and inter-bank adjustment purposes.
- ACH return automation, a new capability that eases the costs and risks of exponentially escalating ACH volumes by intelligently researching and responding to customer disputes of ACH transactions. Smart Adjust provides end-to-end automation of case initiation, accounting, correspondence, document management, regulatory compliance management and inter-bank communication for such disputes.
- Pre-packaged integration with Pegasystems' enterprise exception monitoring application, for proactive monitoring and reporting capabilities across multiple departments. This complements the pre-existing integration that Smart Adjust offers with Pegasystems' components for image retrieval and

viewing, and transaction data storage and research.

“Banks today face enormous change in responding to Check 21, preparing for image exchange and supporting the escalating volumes of electronic payments,” said Robert Hunt, a Retail and Wholesale Banking analyst at leading advisory and consulting firm TowerGroup. “The real challenges lie in the disputes, exceptions and customer issues that arise with these changes. Banks need a single solution that manages exceptions for checks and electronic payments that is flexible enough to adapt to changing business needs, and which provides cross-department processing capability for effective management of all payment types.”

Check 21's arrival and the growth of electronic payments are driving up exception management costs significantly. ACH network volume grew 21 percent year over year in the second quarter of 2004, and ACH debit returns are projected to grow 18 percent from 2004 to 2005, according to NACHA – The Electronic Payments Association. Smart Adjust keeps exception management costs under control, replacing costly manual work with automated processing that researches transactions, manages images and correspondence, performs intelligent decisioning and resolves cases without human intervention. In addition to increasing operational efficiency, the application dramatically reduces write-off expenses by resolving cases faster, and improves customer service by delivering information and images to the front office in real-time.

“The transaction exceptions that impose high operational costs and risks on financial institutions can often be quickly resolved when automated solutions are properly applied to the problem,” said Pegasystems CEO Alan Treffer. “We've added greater intelligence to Smart Adjust with each release, so that banks and service bureaus can handle a greater proportion of payment exceptions automatically and profit from the growing volume of electronic transactions.”

Pegasystems' smart BPM applications utilise 20 years of experience with some of the world's largest financial institutions, including Bank of America, Bank of New York, Citigroup and JPMorgan Chase. Ten of the top 30 U.S. banks use its retail payment exception solutions, and the company also counts eight of the top 15 U.S. credit card issuers, as well as all 12 U.S. Federal Reserve Banks, among its customers.

About Pegasystems

Pegasystems Inc. (NASDAQ: PEGA) provides rules-based, smart business process management (BPM) software to large organisations, helping to deliver significant ROI and providing them with the flexibility and agility to respond to changing business needs. The company offers applications for the financial services, healthcare, insurance and government markets, as well as a cross-industry BPM application. Pegasystems is headquartered in Cambridge, Mass., and has regional offices in North America, Europe and the Pacific Rim. For more information, visit www.pegasystems.com.

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Forward-Looking Statements

Certain statements contained in this press release may be construed as “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995 including, without limitation, our financial guidance with respect to 2004 revenue, profit before tax, tax rate, earnings per share and cash from operating activities. The words “believe,” “expect,” “hope,” “anticipate,” “plan” and similar expressions, among others, identify forward-looking statements, which speak only as of the date the statement was made. The Company does not undertake and specifically disclaims any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are based on current expectations and assumptions and involve various risks and uncertainties, which could cause the Company's actual results to differ from those expressed in such forward-looking statements. These risks and uncertainties include volatility of our quarterly operating results, difficulty in predicting the completion of product implementations and consequently the timing of our license revenue recognition, the timing of term software license renewals, customer acceptance of our new PegaRULES Process Commander technology, our ability to develop new products and evolve existing ones, the impact on our business of the ongoing consolidation in the financial services market, historically our core market, our ability to attract and retain key employees, reliance on certain key third-party relationships, and other risks and uncertainties. Further information regarding these and other factors, which could cause the Company's actual results to differ materially from any forward-looking statements contained in this press release, is contained in the Company's most recent report on form 10-K and other recent filings on file with the Securities and Exchange Commission. The forward-looking statements contained in this press release represent the Company's views as of September 15, 2004. Investors are cautioned not to place undue reliance on such forward-looking statements and there are no assurances that the matters contained in such statements will be achieved. Although subsequent events may cause the Company's view to change, the Company does not undertake and specifically disclaims any obligation to publicly update or revise these forward-looking statements, whether as the result of new information, future events or otherwise. The statements should therefore not be relied upon as representing the Company's view as of any date subsequent to the date of this release.

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