



Research Results Summary

ISO 20022 Business Case Assessment

In alignment with their refreshed strategic direction, the Federal Reserve Banks proposed five desired outcomes to be achieved to address the gaps and opportunities identified in the “Payment System Improvement – Public Consultation Paper.”

In October 2013, a stakeholder group engaged an independent consultant to objectively evaluate the business case for or against adoption of ISO 20022 payments messages by U.S.-based payment clearing and settlement infrastructures, financial institutions and corporate customers. The stakeholder group includes the Federal Reserve Bank of New York, The Clearing House Payments Company L.L.C., NACHA – The Electronic Payments Association and the Accredited Standards Committee X9 – Financial Industry Standards, Inc.



DESIRED OUTCOME

IMPROVEMENTS IN CROSS-BORDER PAYMENTS

U.S. consumers and businesses will have better choices in sending and receiving convenient, cost-effective and timely cross-border payments from and to the U.S.

What is ISO 20022?

ISO 20022 is a harmonized set of XML messaging standards across major financial services domains (Cash, Securities, Trade, Card and Foreign Exchange) based on a shared data dictionary and business process model. It has emerged as an enabler of a single, common “language” for global financial communications that can assist organizations in responding to evolving demands.

Scope of Study

The ISO 20022 Business Case Assessment sought to discover if the U.S. payment markets should adopt ISO 20022 to provide benefit to industry participants and to remain competitive. The assessment considered both domestic and cross-border payments made by U.S.-based financial institutions and their corporate customers using wholesale (wire) and retail (ACH) systems that interface with the following U.S.-based payment clearing and settlement systems:

Wire Systems: Fedwire® Funds Service and Clearing House Interbank Payments System (CHIPS®)

ACH Systems: FedACH® and Electronic Payments Network (EPN®)

The study included the current landscape of U.S. participants, adoption activities in global markets and competitive impact analysis for U.S. participants.

Interviews and surveys in the U.S. market sought to:

- Assess understanding and perspectives
- Assess adoption status

Interviews conducted in global markets assessed:

- Drivers/rationale that led to adoption
- Implementation costs, strategies, timelines and challenges
- Benefits of adoption and lessons learned

The consultant released its report to the stakeholder group in April 2014.

Key Observations in the U.S. Market

Demand driven by global banks and corporations: While demand for adoption exists among large global banks and corporations particularly for cross-border payments, smaller institutions maintain a general satisfaction with the status quo.

Lack of awareness among many U.S. institutions: The majority of organizations do not have a full understanding of ISO 20022.

Costs are difficult to quantify: The key costs to adopt will be related to technology, vendors, implementation and training and will be driven by how intrusive the changes effect core processing for technology and operations.

Unclear interoperability value proposition: Organizations with a global reach may glean more value from interoperability benefits as compared to those with domestic-based operations that may question the benefit of interoperability. In addition, given the number of global variants associated with ISO 20022, there are questions regarding the extent interoperability benefits may be fully realized.

Extended Remittance Information (ERI) experience: Adoption of ERI in the U.S. has been low despite existing ERI capabilities, with some organizations questioning how adoption will differ from the ERI experience.

Lack of regulatory mandate/deadline may impede adoption: The absence of a regulatory mandate or industry deadline may inhibit the sense of urgency needed to proceed forward in a coordinated and timely manner.

Key Observations in Global Markets

Different degrees of adoption exist across the world today, providing the U.S. with learning that can be leveraged. In all cases of adoption, ISO 20022 was completed as part of broader technology projects, regulatory mandates or new system developments.

ISO 20022 Adoption Across the Globe	
Adoption Level	Markets
Mature Adopters ISO 20022 is entrenched in payment infrastructure	Europe
Growing Adopters Clear implementation plans and support among market players	Japan Singapore ¹ South Africa Switzerland
Interested Adopters Commitments to use ISO 20022 for new payment developments or those undergoing assessments	Australia Canada United Kingdom New Zealand

¹ In its report, the consultant had listed Singapore as an interested adopter. But Singapore's Fast and Secure Transfers (FAST) service, which uses ISO 20022, went live in mid-March 2014. Consequently, we have listed Singapore in the category of growing adopters.

The study also identified a number of implementation lessons learned by global markets:

- Communication, education and establishment of an implementation deadline are critical to success
- Simply replacing current message formats with the ISO 20022 version of those messages ("like for like") will not drive full benefits
- Processes should be mapped end to end using ISO 20022 methodology
- Adoption should include both payment and reporting messages and translation and enrichment services for end users
- Use of single message implementation guide among market participants will help reduce costs and risks

Key Conclusion Regarding Existence of Business Case for ISO 20022 in the U.S. Market

The independent consultant concluded there is currently no overarching financial business case for adoption at the industry level. However, there may be strategic reasons to consider adoption in the U.S. payments market.

Strategic Reasons to Consider ISO 20022 Adoption in the U.S. Market

Global Momentum: Large U.S. corporates and banks are actively adopting ISO 20022, and that is expected to continue.

Global Competition: Compatibility enables the U.S. to maintain parity with other global markets and U.S. dollar clearing systems in other jurisdictions that are adopting ISO 20022 messaging, which may help preserve the attractiveness of the U.S. dollar as a global currency.

Cost Savings & Processing Efficiency: Standardizing message formats allows for consolidation of payments platforms at banks and corporations, which could promote straight-through processing and drive down costs.

Consistent & Rich Data: The ISO 20022 format enables all parties to leverage a common set of data dictionary elements and expands capacity to carry rich data in the payment message.

Interoperability: A common format promotes ease of transacting domestically and globally by using a single, open standard rather than multiple proprietary standards.

Agility to Meet Evolving Regulatory Needs: The ISO 20022 format provides for full originator and receiver information (third-party or ultimate beneficiary) allowing for improved regulatory reporting and monitoring.

New, Innovative Products: A common format across systems reduces the amount of change required to bring innovative new products and services to market.

ISO 20022 Recommendations

The independent consultant recommended that the U.S. payment market consider adoption for wire and ACH systems in phases and consider using ISO 20022 as the standard messaging format for new products and services.

Phase	Recommendation
1. Planning & Education	Promote educational efforts and develop a national strategy for adoption
2. Cross-Border Payments	Enable cross-border wire payments, followed by cross-border ACH payments
3. Domestic Payments	Assess value proposition and timing for adoption for domestic wire and ACH payments
Additional Considerations	Consider as the standard messaging format for new products and services

Beyond these recommendations, the stakeholder group intends to conduct an assessment to identify specific pain points or opportunities that could be addressed by ISO 20022.

Federal Reserve Banks Strategic Direction in Payments

The Federal Reserve Banks updated their strategic direction in payments in 2012. Our objective is to improve the speed, efficiency and safety of the U.S. payment system from end to end. The analysis reflected in this document is being used to inform improvement strategies to achieve this vision. To advance industry dialogue and gain further insight and commitment to turn this vision into reality, the Federal Reserve Banks continue to engage with all organizations involved in delivering payment services to end users. We believe industry collaboration will be essential to any enduring strategic improvements.