ISO 20022: struggling to catch on in the United States

Some signs that standard may gain traction in the future

Frictionless payments have long been a goal of the global payments industry. Everyone wants to push a button and instantaneously complete a transaction and give or get immediate access to the funds. While payments have been moving cross-border electronically for decades, efforts to speed up, enhance or blend payment methods run in to a sort of data communications Tower of Babel. In the United States, while there is sufficient standardisation for the payment card, ACH and wire networks to operate separately, true real-time cross-border, cross-payment type and cross-payment platform communications have many technical barriers requiring intricate product and service design and implementation.

Enter ISO 20022 - the 'universal financial industry message scheme.' This multi-part standard contains messaging standards that work across most major financial services sectors - cash, securities, trade, payments and foreign exchange. The standard facilitates a global common language for financial communications using, *inter alia*, a shared 'data dictionary' and business process model[1]. It covers end-to-end transaction messaging from the originator to the beneficiary and includes rich payment data that can improve transaction processing and facilitate domestic and cross-border interoperability. Unlike SWIFT and other interbank communications means, ISO 20022 covers consumer transaction communications as well. Adoption of the standard, however, is not catching on in the United States as quickly as in other parts of the world[2].

Will this trend of non-adoption in the US continue? In 2013, the Federal Reserve released a Payment System Improvement - Public Consultation Paper to obtain feedback from the financial services industry on means to improve the payments systems and related challenges[3]. In this context, the Federal Reserve, NACHA - The Electronic Payments Association - The Clearing House Payments Company LLC, and the Accredited Standards Committee X9, Inc. (the 'stakeholders') also engaged a consultant to evaluate the business case for ISO 20022. The resulting 2015 Federal Reserve report, Strategies for Improving the U.S. Payment Systems[4], addressed an ISO 20022 implementation strategy designed to achieve payment transaction efficiencies for both domestic and cross-border transactions and reached some interesting conclusions:

- Until ISO 20022 adopters obtain greater benefits from ISO 20022, which have been primarily qualitative (rather than economic), adoption may continue to lag.
- Although larger global banks and corporations want adoption, there is a widespread lack of understanding of the standard and satisfaction with the status quo.
- The cost benefit analysis is difficult, weakening the business case for ISO 20022 adoption.
- Adoption may help the US dollar remain an attractive global currency to US dollar markets and clearing systems around the world.
- The standardised messaging that the standard provides could allow banks to consolidate platforms resulting in cost savings and efficiencies.
- The common messaging format promotes domestic and global transactions and enables participants to leverage the common data set elements in order to send and receive data-rich payment messages.

Report recommendations included providing further education and research on ISO 20022, adopting ISO 20022 for cross-border wire and ACH transactions, and looking into adoption for domestic wires and ACH transactions.

So have these efforts resulted in the standard getting significant traction in the United States? Aside from the efforts of the Fed group stakeholders, global banks appear to be actively evaluating their need for standard compliance and the impact of non-compliance on their competitive positions in the global marketplace. They may also be working on becoming compliant on the international sides of their houses. However, until real economic drivers are recognised, such as true compatibility or ability to tackle competitiveness issues, adoption is likely to remain slow in the near term.

The adoption of the standard by SWIFT, VISA and other major players, and the Federal Reserve's move toward the standard for wires and ACH, may be sufficient drivers for at least some industry participants. It will be unthinkable for a bank or other financial services entity to be unable to communicate with a key partner. Once compliance with the standard becomes necessary for US entities to execute transactions, there will likely be a ripple effect that will ultimately require widespread adoption.

Interested parties can monitor the US progress in adopting the standard for wires and ACH by visiting the Federal Reserve's website for this purpose[5]. For a list of companies who have adopted or are in the process of adopting ISO 20022, please see The ISO 20022 Adoption Initiatives Report online[6].

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1. https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system
2. https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf at p. 47, Appendix 7.
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