Bank of Israel
Payment and Settlement Systems Department

The **Bank of Israel** Payment and Settlement Systems Department's Response to the **CPMI's Consultative Report** on ISO 20022 Harmonisation Requirements for Enhancing Cross-Border Payments

May 2023

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We appreciate the opportunity to submit our comments on the Consultative Report—ISO 20022 Harmonisation Requirements for Enhancing Cross-Border Payments, and to contribute from our knowledge and experience to the formulation of a uniform infrastructure for promoting cross-border payments.

If there are any questions or clarifications we would be happy to respond and clarify.

General Feedback

We applaud the publication of this important report on the harmonisation requirements for enhancing cross-border payments based on the ISO 20022 standard, which is in line with the goals and road map published by the G20. Adoption of the ISO 20022 standard constitutes a significant opportunity for advancing and increasing the efficiency of cross-border payments by enabling disparate payment systems to "speak the same language".

Broadly, we have attempted in our responses to highlight two main areas of focus. First, we have a central focus on the need to enable global standardization and digitization of data fields required for compliance with international requirements for ensuring anti-money laundering (AML) and countering the financing of terrorism (CFT) in cross-border transactions. SWIFT has noted that on average, nearly 80% of SWIFT gpi payments are credited to beneficiaries within six hours and almost 100% within 24 hours. And yet, compliance issues relating to AML/CFT often delay the transactions significantly. The ISO 20022 standard potentially can go beyond expediting the payment flow, by also expediting the AML/CFT compliance process. Full detailed alignment between the CPMI and the FATF on this topic could greatly enhance clarity and certainty on this topic worldwide. Second, we seek to provide explanations and examples that are unique to the Israel market and where appropriate, we have noted cases where we believe other markets have similar predicaments.

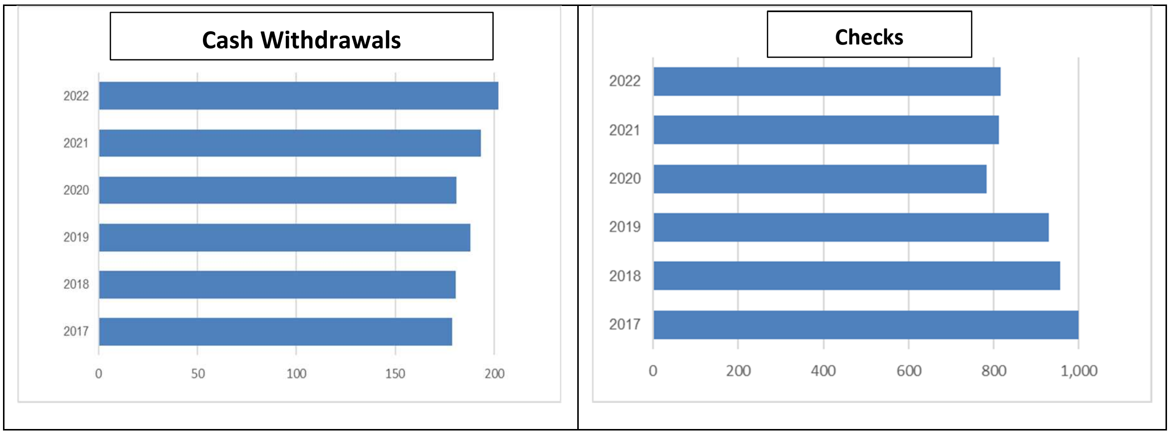
Our Domestic Context: Payments Landscape in Israel[1]

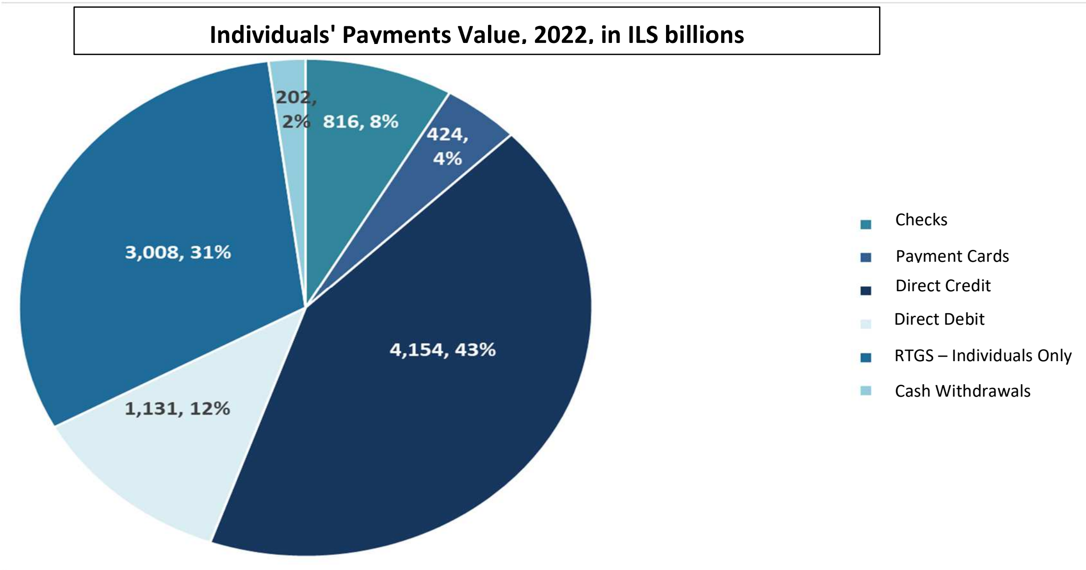
With a small population of 9.5 million people, Israel was the 28th largest economy in the world in 2022, in terms of nominal GDP. A renewed focus by the current Governor of the Bank of Israel (BOI) on the payments arena in the last few years has expanded regulatory ambitions to target the addition of new market entrants, including specifically in cross-border payments, mainly multinational Fintechs based in Israel but which do not yet operate locally, as well as global Fintechs now exploring the Israel market. This focus has increased our emphasis and leadership towards increased implementation of global standards locally, removal of regulatory and technical barriers to entry, as well as proactive ongoing regulatory engagement with the domestic and global Fintech ecosystem.

The local payments landscape enjoys high levels of digital payment penetration – nearly 90 percent of volumes in 2022:

Payment Systems Activity by Value, 2017-2022, ILS billions:

[1] Extensive information on the payment system array in Israel can be found at: https://www.boi.org.il/media/bdiapxpt/payment-systems-review-2021.pdf





Still, an increased number of players could lead to greater competition, innovation that results from it, increased offerings and lower costs to consumers and businesses that send and receive cross-border payments.

Payment Service Providers (PSPs) in Israel include banking corporations[2], the Israel Postal Bank, and entities known as "credit card companies[3]" which act as standalone payment card issuers, issuer

[2] The banking system in Israel is made up mostly of 5 banking groups: **"Leumi", "Hapoalim"**, **"Mizrahi-Tefahot"**, **"Discount"**, and **"First International"**. There are also 2 independent banks—**"Bank of Jerusalem"** and **"One Zero"**. The latter is a digital bank that began operations in the past year. In addition, there are 4 branches of foreign banks—**"State Bank of India"**, **"Barclays"**, **"HSBC"**, and **"Citibank"** (they have a small scope of activity in the domestic credit market) that account for most of their activity in Israel. The banking groups include commercial banks in Israel and subsidiaries abroad. In addition, at the end of 2022 a license was granted to **"Esh"** Israel bank, as well as to another **digital bank**, which is expected to begin activity in the coming years.

[3] There are 3 credit card companies. Two of them are independent—**Isracard** and **Max**, while the third—**Cal**—is part of a banking group.

processors and merchant acquirers. We also expect a number of new market entrants as PSPs, with the passing of a new "Israeli PSD2" law this month (May 2023), which creates a regulatory framework for non-bank PSPs to participate in our domestic payment systems[4]. In addition, the same law creates a framework for payment initiation under open banking, which will further increase the number of local players, as payment initiators. The Israel payments landscape also includes a number of digital wallets operated by global BigTech companies[5] and a small handful of Fintech companies that have already begun to operate with small volumes, largely enabling remittances for foreign workers. In addition, two bank-owned payment applications focused on providing P2P payment services dominate that space[6]. Finally, the approximately five million residents of the West Bank and Gaza Strip territories transact mostly in Israel's currency, the New Israeli Shekel (ILS), with significant volumes (significant for their economy) effectively acting as cross-border payments using Israeli and Palestinian payment systems and payment service providers.

All local supervised payment systems in Israel enjoy nearly nearly 100 percent availability, as follows:

Year/System	ATM	ZAHAV (RTGS)	Masav (ACH & Fast Payments)	Shva (Payment Cards Switch)
2020	99.99%	99.98%	100%	%99.99
2021	100%	99.98%	99.99%	%99.99
2022	99.99%	99.98%	%99.99	%100

[4] The financial infrastructure in Israel is made up of interbank payment and settlement systems, which are used for transferring payments and clearing them. The main ones are (a) **Zahav** (Real Time Credits and Debits—an RTGS system), which is operated by the Bank of Israel. Zahav is an advanced system for efficient and reliable clearing of shekel payments in the economy, in real time and with finality, and it serves as a final clearer for all the payment systems in Israel; (b) the **Paper-based (Checks) Clearing House**, also operated by the Bank of Israel. This clearing house handles checks and manual vouchers; (c) the **"Credits, Debits, and Payment Transfers"** system, operated by Masav (the banking clearing house). This is an electronic system that transfers interbank flows in ILS that are not final, such as authorizations to debit an account, wage payments, taxes, and more; (d) the **"Payment Card Services"** system operated by the Shva (Automated Banking Services) company. This system deals with the authorization, collection, and processing of transactions executed in Israel via a payment card; (e) the **"ATM" system**, also operated by Shva. This system deals with the switch for the networks of ATM devices; (f) **the TASE clearing houses (Securities clearing house and the Maof clearing house)**. These settle the results of stock exchange trading; and (g) the **CLS (Continuous Linked Settlement) clearing house**. This system provides multicurrency clearing services in a mechanism that ensures payment in a single currency as opposed to payment in another currency. The ILS joined it in 2008.

[5] In Israel there are two digital platforms for carrying out payments—**"Apple Pay"** and **"Google Pay"**.

[6] Payment applications—**bit, PayBox**—allow payment from a person to a person—P2P, and payment from a person to a business—P2B. The three credit card companies added digital wallets to the applications provided to their customers, and **2 international companies** launched their own wallet. At the end of 2020, **five public transportation payment apps** were launched, with 3 of them operated by private companies. The entry of these applications signals the new reform in means of payment in Israel, and mainly the accessibility of the new payment apps to the public. **In addition, there are several retail payment applications as well as a parking payment application.**

One unique aspect of the Israel market is the global high tech hub that has grown locally, with a focus on PayTech (Payment Technologies), including global research and development centers and hundreds of early stage to mature PayTech business initiatives that create multinational impact. As of July 2022, approximately 550 Fintech companies located in Israel, many of them holding financial licenses in other countries, employed 20,000 professionals locally, comprising an estimated 0.5% of all employees in the local economy. Unfortunately most of the innovations created locally are not offered to domestic consumers or businesses. The Bank of Israel's Payment and Settlement Systems Department has begun to act not only as a bridge for this local Fintech ecosystem to operations in the local market, but also as a catalyst for understanding and implementing global standards such as ISO 20022 in cross-border payments, engendering impact not only in Israel but also on PSP activity in other markets.

The Bank of Israel's Role in Implementing ISO 20022 in Domestic Payment Systems

As an operator and supervisor of payment systems, as well as policymaker in the payments space, the Bank of Israel (BOI) is facilitating the rollout of ISO 20022 in a number of ways:

- **RTGS** (known locally as ZAHAV) : operated by BOI, completed full upgrade and replacement of legacy system in July 2022, delivering readiness for ISO 20022 implementation, multi-currency settlement including for cross-border payments, addition of new non-bank participants, as well as increased operational resilience ; last month (April 2023) launched a national project for implementing ISO 20022 in RTGS, in collaboration with market-wide Participants Committee and in ongoing consultation with SWIFT while reviewing international best cases
- National **Check Clearinghouse** : operated by BOI, developing national scheme for fully digital checks, including standards for the transaction messages, expected to adopt ISO 20022, in collaboration with market-wide Participants Committee and in ongoing consultaton with external technical payments consultants
- **Fast Payments System :** supervised by BOI, operated by Masav (a bank-owned company) ; BOI issued a guidance requiring implementation of ISO 20022 by the end of this year, 2023, including a series of new features – Request to Pay (R2P), Request to Respond (prevalidation), and account proxy/alias ; BOI is promoting and Masav is engaged with interlinking of this system with Fast Payments systems in other markets for cross-border payments
- **National ACH Clearinghouse :** supervised by BOI, operated by Masav ; implementation of ISO 20022 soon to be under discussion
- **National Payment Cards Switch :** supervised by BOI, operated by Shva (a listed company, partly owned by banks, Visa and MasterCard); implementation of ISO 20022 under discussion, not likely
- **Central Bank Digital Currency, « Digital Shekel » :** under active exploration and experimentation, including transaction message data standards that would apply

- **Fintechs :** active ongoing engagement with global PayTech companies that are based locally but licensed in other countries, with a view to encouraging their participation in local payment systems, yielding particular business focus on the local Fast Payments system and its ISO 20022 implementation this year, which generates focus and discussion around harmonisation of the standard internationally among payment systems, since streamlined harmonisation will enable Fintechs to replicate technology integration across multiple countries, even with small market size, thus significantly impacting their business plans
- **Palestinians :** significant trade and transactions, including salary payment, between Israel and the West Bank/Gaza Strip territories, create focus at BOI and at the Palestine Monetary Authority, on the need to streamline the transaction message standard for such payments, which effectively behave as cross-border payments using different payment systems and PSPs
- **National ID :** BOI and several other regulators and government authorities are collaborating to create a national digital identity platform, including for purposes of KYC/AML compliance and customer authentication at the time of a transaction. As ISO 20022 can simplify the AML process required on a per-transaction basis by populating AML compliance-driven data fields in a standardized mannner, BOI may be able to guide the design specs of the national digital ID initiative to be able to automatically feed the required AML data fields into ISO 20022 messages in a consistent manner
- **ISO 20022 National Harmonisation Effort among all local payment systems :** under discussion at BOI, expected engagement on this initiative with all domestic payment systems and PSPs

BOI's high level of motivation for promoting global standardization locally, including in implementing ISO 20022, rests on its success in spurring the market to implement the EMV and NFC standards in the payment cards space. Since highly effective anti-fraud algorithms and processes in the then-fully-magnetic stripe cards market in Israel were able to keep fraud levels lower than those of fully compliant EMV markets, the original fraud-driven business case for implementing EMV was not relevant locally. Cognizant of EMV and NFC becoming a basis for innovation in mobile payments, enabling "tap to pay", digitization, new financial products and increased efficiencies for the economy, BOI published a roadmap with defined time-boxed milestones and enacted a series of directives requiring full migration to the new standard. As a result, the Israel market achieved 99% Point of Sale terminal compliance, massive migration to contactless and mobile proximity payments, the early launch of nine digital wallets including two by global BigTechs, and in recent months, the expansion of the mobile payments feature to other wallet features such as health fund ID, mass transit card top-up, and more expected soon.

BOI seeks to replicate this success and resulting benefit to the Israel economy, with the local rollout of ISO 20022.

Responses to Questions in the Report

<u>Question 1.</u> Do you agree with the guiding principles followed for setting the requirements, including the platform or network agnostic approach, the level of ambition and the future state orientation?

Answer: Yes. A neutral approach is correct and it appears that it will support competition and the implementation of requirements for promoting harmonisation in cross-border payments by payment service providers. With regard to the timeframe set, it appears that some more time should be given for preparation by the payment service providers to implement the requirements, and it is important to verify the effective implementation process by periodic checks/followups and to examine if additional principles are required to increase the efficiency of the clearing processes of cross-border payments.

The Bank of Israel sees great importance in implementing uniform principles to carry out cross-border payments. Accordingly, there is importance in adopting the outline set by the G20 by a large number of countries, which will enhance the possibility of carrying out cross-border payments in an inexpensive, rapid, transparent, accessible manner and will lead to many advantages for citizens and economies worldwide.

<u>Question 2.</u> Do you agree that the inconsistent use of messages can be adequately addressed through this requirement?

Answer: Yes. Currently, there isn't a complete uniformity in defining the fields in the payment message structure. There are countries that require the mandatory use of certain fields, while other countries see these fields as only optional. This gap can lead to slowness in carrying out cross-border payments.

In addition, at times we receive feedback from the ecosystem that there is a lack of alignment or misunderstanding of the information that passes through in cross-border payments, which impair the desired process of transferring a payment from end to end. We are of the view that use of a uniform message structure among countries that maintain payment relations will lead to an improvement in the quality and speed of the payment.

Importantly, consistent population of data fields for purposes of AML/CFT compliance will increase speed of time for payment to the final beneficiary, likely more than the increased time of travel for the transaction message. Compliance officers and their teams stand to gain greater efficiencies than other operational streamlining of the payment flow.

<u>Question 3.</u> How could the risk of inconsistent use of messages or deviation from the business functions defined by ISO 20022 be mitigated? Would the proposed solution contribute to mitigating such risks and lead to improved efficiency of cross-border payments processing? Please explain.

Answer: We see importance in the use of core messages as defined by the ISO 20022 standard alone. Compliance with this principle will lead to a unified and shared international language that will lead to rapid and efficient processes of executing payments and will improve the user experience. That said, to mitigate the risk of inconsistent use of messages or deviation from the defined business function, a significant education effort will be required vis-à-vis participating institutions. It may be advisable to create online education and refresher courses that will be required for PSP employees tasked with initiating payments, as well as periodic audits and possibly incentives for compliance with core message usage.

Question 4. How do you assess the level of effort that will be required to adopt the appropriate message as defined by the ISO 20022 standard?

Answer: The Bank of Israel sees the ISO 20022 standard as an opportunity for business innovation in the world of domestic and international payments. There is a considerable technological complexity that needs to be carried out in challenging time frames. We assess the level of the effort as **High**. We understand that the process of implementing the ISO 20022 standard in the RTGS system and in other payment systems in Israel should be executed in close collaboration with the entire payment sphere in Israel, a time-consuming process.

We intend to carry out the process in a manner that is as collaborative as possible. In addition, we will be helped by close accompaniment of ISO experts from SWIFT who will be involved in the entire process, beginning with the stage of specification through going live. This is in order to carry out the migration to the ISO 20022 standard in as optimal and as smooth a manner as possible.

Question 5. Would requiring the use of ISO 20022 externalised codes facilitate faster, cheaper and more transparent cross-border payments? How do you assess the implementation effort?

Answer: Yes, we believe ISO 20022 externalized codes will increase efficiencies, given the dynamic and flexible nature of externalized codes and their ability to adapt to the fast-changing and dynamic payments environment. That said, similar to the challenges posed by deviations from business functions in core messages, the flexible nature of externalized codes will require ongoing educational efforts and it may be advisable to provide and require ongoing periodic training as well as audits. In addition, to ensure the externalized codes are fit for purpose and meet market needs, it would be sensible to take measures to ensure that the ISO 20022 Standard Evaluation Groups (SEGs) composed of industry experts that review lists on a quarterly basis, reflect the broad eco system, including both banks and non-banks, and that they implement broad market engagement, including for example multi-country surveys, including in small markets, as they go about defining the codes.

We also note the importance of ensuring the externalized codes also account for any changes to AML/CFT requirements implemented by the FATF, on an ongoing basis.

Question 6. Are there any limitations/challenges resulting from increased reliance on ISO 20022 codes? How difficult would it be to overcome these limitations/challenges ?

Answer: In a broad sense, even in places with standardization and a uniform language, many times there is a need for local adaptation, whether for technological, legal, or business reasons. In order to allow flexibility alongside international coordination, it is important to allow as well places that will have local flavors and adaptation. However, it is important to ensure that these do not become the essence, and to the extent that there is coordination that is required in a broad sense, make it part of the international message.

In Israel, for example, there is an Income Tax Ordinance that is enforced by the Israel Tax Authority (ITA), which requires withholding tax at source on cross-border payments. Its goal is to reduce cases such as non-reporting of income by the payee, to the ITA, as well as combating unreported gains. This ordinance imposes a requirement on a payment service provider to check every payment to see if it must withhold Israeli tax, and if there is an obligation, then the tax is to be paid to the ITA. When the payee has no local presence, withholding tax need not be withheld, but the PSP needs to verify the payee's status prior to moving funds abroad.

This requirement significantly slows outgoing cross-border payments from Israel, especially in the business context. To the extent the ISO 20022 externalized codes could integrate information on the existence or non-existence of a payee locally, or alternatively define optional fields to populate this information using a domestic database, that could increase the efficiency of outbound cross-border payment execution and its transparency to all parties to the transaction.

To demonstrate the extent of this challenge, we'd like to share a brief case study on this subject, which is still a work in progress. After significant effort, BOI and other local financial regulators were able to attract a major fully digital multinational PSP to the local market. This PSP obtained a license locally and would like to begin offering cross-border payments and foreign currency exchange to Israeli customers; however, its technology is not able to digitally identify the existence or non-existence of a foreign payee locally, and therefore not able to comply with the above requirement digitally. As a result, this PSP's time to market has been impacted significantly, and still no solution is in sight. Implementation of ISO 20022 as described above could have helped resolve this challenge.

We are aware of another country, in South America, that similarly imposes transaction-specific taxes, but applied on various types of financial transactions – therefore not a tax withholding per se. It may be possible to digitize compliance with that requirement too through ISO 20022 externalized codes or optional fields.

Question 7. Do you agree that identifying a payment as a cross-border payment should be required to enhance the processing efficiency of cross-border payments? Would such a flag facilitate compliance procedures including financial crime screening? Please explain.

Answer: Yes. Cross-border transactions give rise to greater concern and focus on increased risk of financial crime, therefore identifying a payment as being cross-border will increase facilitate compliance procedures for financial crime benefit.

An added benefit: in some cases there is a need for local adjustments to work flows, and the domestic vs cross-border flag would help enable such localization for domestic payments.

In addition, marking cross-border payments with a special flag could also help enhance competition in that market, as it could yield scenarios in which various FX liquidity providers compete on the exchange rate proposed for particular transaction – similar to automated bidding processes that currently take place for lenders targeting specific transactions in the BNPL space. Such competition can lead to reduced transaction costs for the end customer.

In addition, in a September 2021 document[7] the World Bank noted that the level of AML/CFT risk in remittances is not necessarily high and therefore it was proposed to mark remittances with a special flag in order to ease the AML/CFT directives and to assist in rapid and inexpensive completion of the transaction. In the context of this question, it may be sensible to include two cross-border flags: one for cross-border remittances and one for cross-border transactions that are not remittance. While this info may already appear in the core message, promoting it to a higher level of domestic vs. cross-border transactions could increase the likelihood of streamlining AML processes for remittances.

Question 8. Do you agree that the use of an ISO 20022 external code (eg a Category Purpose) would be the most effective way to flag a payment as cross-border? Are there alternative approaches you would suggest?

Answer: We do not have a view on the best way to flag a cross-border payment in an ISO 20022 transaction message.

Question 9. How do you assess the level of cost and effort required for the implementation effort?

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Answer: Local banks know how to identify whether a payment originates as a cross-border payment or as a domestic payment. Therefore, we do not expect a major effort will be required for implementing a cross-border flag.

<u>Question 10.</u> Do you agree with the restricted character set for cross-border payments as described above? If not, which alternative character sets or additional characters should be included?

Answer: In a broad sense, it is agreed upon and correct to use characters noted particularly for executing the transaction when transferring the message. However, it is also important to allow the use of local characters when the message recipient must receive information in the domestic language, for example: in a free text field that doesn't impact the transfer transaction itself, but supports additional information transferred with the message. Moreover, it would be helpful if the document could provide more specificity and possibly example of how the local mapping should work.

<u>Question 11.</u> Do you agree that requiring times in ISO 20022 messages to be stated either in UTC or in local time with UTC offset will enhance the transparency and efficiency of cross-border payments? If not, please explain.

Answer: We agree this approach could enhance transparency but not efficiency of cross-border payments. Depending on a PSP's legacy system, the requirement to implement UTC exclusively can make it difficult or impossible for the PSP's systems and processes to identify the time of the transaction properly, including but not only because of the date difference that could be triggered between time zones. We would propose an approach whereby there would be fields for both the UTC and the payer's local time zone, the PSP could populate either of them, and the other would be automatically populated by default.

<u>Question 12.</u> Do you agree that requiring the use of UETR[8] for all cross-border payments will have a positive impact on the transparency, speed and cost of cross-border payments? If not, please explain.

Answer: We agree that using a string of unique characters appearing in all cross-border payment instruction notifications will have a positive impact on the transparency, speed and cost of cross-border payments, however, we do not have a clear view on whether that string should be the UETR. We note the dominance of SWIFT and their adoption of UETRs, which could make adoption easier and more likely, but we are not aware of whether it could also strengthen their price negotiation power, and we note that so far, reductions in price and time for cross-border transactions have largely come from SWIFT competitors. We have not investigated the potential impact of requiring

[8] Unique End-to-End Transaction Reference

UETRs on SWIFT competitors. And we have not investigated alternative transaction identification methods.

Question 13. How do you assess the effort required to implement this requirement?

Answer: The Bank of Israel, as the RTGS system operator, doesn't see a great effort in requiring the use of UETR, as almost all RTGS participants connect using SWIFT (except one, which will migrate in November 2023), and SWIFT requires EUTRs, so in that sense the proposed solution is already deployed. However, as noted in our response to the previous question, we have not investigated the impact of requiring UETR of SWIFT competitors, nor the impact of requiring it of PSPs that do not connect to SWIFT. For example, as supervisor of Masav, the operator of Israel's Fast Payments system, we are working with them on promoting interlinking with a non-Israeli Fast Payments system. Since the participants in Israel do not connect via SWIFT and the interlinking also would not necessarily be implemented using SWIFT, we would need to investigate the impact of requiring UETR adoption in that scenario, and the extent of the impact. We would expect some impact.

Question 14. Do you believe that the requirement for inclusion of the time of debit of the debtor will increase transparency on the time it takes to complete the processing of cross-border payments? What improvements would the requirement bring to the end user experience?

Answer: Our answer is yes. In our view, the requirement to implement time stamps will necessarily enhance the transparency, efficiency, and speed of carrying out cross-border payments.

We clarify, however, that the time the payer is debited is not necessarily the time of the transfer of the request to execute the transaction, and can be carried out at various times in accordance with the agreements between the payment account manager and the payer. These gaps can lead to the time gaps not reflecting the true length of time of the transaction being executed.

In order to measure the length of time of the transaction execution, it may be more correct to mark the time of the transaction request being transferred, and not the time it is carried out.

Question 15. How do you assess the difficulty of adopting usage of the Acceptance Date Time data element as a requirement for cross-border payments? Would the implementation effort and impact on the transparency needs of end users differ by message type?

Answer: We see value in adding data on the date and receipt of the payment, in order to provide better service to the customer. We are of the opinion that the transparency will lead to the customer being aware of the abilities of the competing service providers and will be able to decide more easily about switching between the service providers, which will enhance the competition. We do not have a view on the extent of effort required to add such data.

Question 16. What are the implications of requiring all those involved in cross-border payments to provide complete information on amount, conversions and charges?

Answer: In our view the requirement to include information on the amount of transaction fees including currency conversion rates is correct. However, from a technology point of view, reference should be made to the technological complexity of the requirement to present data on the amount of fees charged to the customer, in terms of the number of payment service providers that will be involved in the transaction. On the business side, account should be taken of the end to end transaction execution chain, as at times in cross-border payment transactions, several payment service providers are involved. Every payment service provider charges a fee for the service it provides, meaning there could be a situation in which the total fee will be made up of several payment service provider fees. In such a case, who will be responsible for reflecting the final fee amount to the customer? Will the customer be presented with a breakdown of the fees by all the payment service providers that were involved in the transaction? Will this information be useful to the customer or not?

In addition, during the process there may be participants involved that are not PSPs and are not subject to oversight, that charge a fee for their part in the transaction execution chain. This issue raises the question of how enforcement will be carried out.

It appears that in order to be transparent and to simplify the process, it is important to present the data as percentages as well, not only the value of the transaction.

Question 17. Are there any technical, legal or other hurdles that could impede the inclusion of complete information on amount, conversions and charges in cross-border payments?

Answer: Broadly speaking, it is important to present the full costs to the customer throughout the transaction, and to the extent possible to present them in advance, before the execution of the transaction. To the extent that it is not possible to present the final amount in advance, the parameters and processes that will determine the final cost, such as: the exchange rate that will be set in the future, should be presented.

From the technological aspect—there may be difficulties in integration across all the participants in the transaction execution. The shorter the chain is, and the more it includes payment service providers that are subject to oversight, the simpler the process will be—although it doesn’t mean that the technological process will be easy to the identical extent for everyone.

Taking a broad look, the implementation here will be slightly more complicated than the implementation of the standard itself, and will require supporting systems to update fees, interest rates, exchange rates, etc.

Question 18. Would the introduction of a CPMI service level code in ISO 20022 to track adherence to the CPMI guidance and harmonisation requirements facilitate improvements to cross-border payments processing?

Answer: The idea to add an indication of whether the PSP adopted the CPMI guidance on its service levels is interesting and innovative. In this regard, however, it is not clear what entity will be responsible for validating the PSP's indication about itself.

Question 19. How would the availability of a CPMI service level code in ISO 20022 messages impact the business models/strategies of financial institutions providing cross-border payment services?

Answer: The idea of adding an indication of whether the PSP adopted the CPMI guidance on its service levels will have impact on the strategy and business models of the payment service providers in that from one perspective, the budget and resources that were intended to be allocated to development of innovations and value offers to customers will be allocated to technological developments for implementing the requirement to add a service level rating. Yet at the same time, rating the service level can lead to the payment service providers having to increase efficiency of work processes, including implementation of automated processes.

Question 20. How do you assess the difficulty of adopting a CPMI service level code?

Answer: It appears that the difficulty is in measuring and following the compliance with the service level code.

Question 21. Do you agree that the use of account identifiers (or account proxies), to the extent possible, would have a positive impact on the speed and cost of cross-border payments? Please explain.

Answer: Yes, we agree that the implementation of unique account identifiers or account proxies can markedly increase the efficiency of cross-border payments. The implementation of unique account identifiers or account proxies raises various questions, such as: who manages the proxy database in order to transfer the payment to the beneficiary's payment service provider? What happens if there is a need to check where to send the payment instruction? Will there be one central place that can be contacted to find this information (such as SEPA Proxy Lookup)?

Our view is that thought should be given to sharing data on customer identity (such as Know Your Customer), and to connecting to global information sources for examining the beneficiary/initiator of the instruction ("blacklists") via ISO 20022 messages, information that will assist in AML/CFT examinations and will speed up the transaction.

We also note in this regard that Masav, operator of the ACH payment system in Israel, is prepared to implement a proxy on the ISO 20022 standard.

Question 22. Do you agree that uniquely identifying all financial institutions involved in cross-border payments in an internationally recognised and standardised way would enhance cross-border payments? Please explain.

Answer: Certainly. A uniform standard and unique identifier of the payment institutions will improve and increase the efficiency of the speed of carrying out the payment end to end, mainly because there will be the option to automate the execution of the payment instruction, and manual examinations will be reduced.

Question 23. Do you agree with the proposed solution of requiring the use of the BIC to identify all financial institutions? Why or why not?

Answer: We do not agree with the proposed solution, as there are domestic payment systems and therefore PSPs that do not require a BIC in order to connect to them (such as Masav in Israel, and similarly in other countries as well). Accordingly, it is possible to act in the payment system via another identifier. The requirement for an identification solution via BIC enhances the dependence on SWIFT as an entity that allocates the unique identifier and that manages the list.

Similar to the CPMI, the FATF has noted the importance of identifying the payer and payee using a unique identifier. In contrast to the CPMI, however, the FATF does not recommend use of a BIC, but rather recommends the LEI, which in the CPMI report is proposed as a complement to the BIC. It may be advisable for the CPMI and the FATF to engage in joint thinking on this subject and come to agreement. We also believe it highly advisable to conduct a global survey to identify the identifier that is currently used by various payment systems and PSPs; the recommended identifier from an operational point of view, and the expected time and cost of implementation. In any case, it is important, whichever identifier is chosen, that there will be a wide consent among the relevant organizations regarding the identifier.

Question 24. What would you assess to be the level of effort required by your jurisdiction: (a) to only use the BIC to identify financial institutions in ISO 20022 messages; and (b) for all financial institutions that currently do not have a BIC to register for one?

Answer: For existing financial institutions that already have a BIC code, our view is that it takes a low effort to apply an identification requirement using the BIC code. For new participants, our view is that it will take a big effort and a long time until receiving a BIC code from SWIFT. In Israel all banks have BICs, however, non-bank PSPs do not have BICs.

Question 25. Do you agree that requiring participants to identify all entities involved in a cross-border payment in a standardized and structured way would enhance the processing efficiency of cross-border payments? Please explain.

Answer: Certainly. The suggestion to establish minimum and structured information requirements for transferring the payment is correct and will increase the efficiency and speed of executing the end to end payment, mainly as there will be the option to automate the execution of the payment instruction and manual examinations will be reduced. Entering data that is not structured and in various data fields by the payment service providers causes complication in handling the payment instruction and leads to manual examination processes, which markedly increases the length of time for transferring the payment.

In addition, in order to increase the efficiency of the process at the international level, a database should also be built for entities that do not have a BIC, in order to avoid situations of errors and mistaken information for such entities, and the data will be drawn from there, similar to BIC.

It is important to include in the information updated and relevant parameters, for locating and contacting those entities—for example: contact person, phone, and email.

Question 26. Do you agree with the proposed use of structured identifiers such as the LEI, if they exist, to complement the recommended minimum data requirements to identify the legal entities involved in cross-border payments? Are there alternative approaches that you would suggest?

Answer: Yes, it is correct to complement the information with additional identifiers, such as the LEI.

Question 27. Do you agree that requiring participants to identify all persons involved in a cross-border payment in a standardised and structured way would enhance the processing efficiency of cross-border payments? Please explain.

Answer: It is important to implement solutions related to identifying the payment initiator and beneficiary in accordance with the accepted FATF standards regarding AML/CFT. The implementation of various requirements that are not in line with the accepted standards can complicate the payment execution and cause the lengthening of the time for payment. However, it should be verified that the transaction initiation process is not negatively impacted by excess requirements regarding the data that needs to be provided and that the user experience is not negatively impacted. Parameters should be established that are required to be in the message and those that are optional, and if they are in fact necessary for achieving the goal.

In January 2023 the FATF published a draft Concept Note on this topic. To provide the global payments market a high degree of certainty and clarity, we highly recommend full alignment between the CPMI and FATF on this regard, in detail.

Question 28. Do you agree that a requirement not to use unstructured postal address information and to use only structured postal address information can help enhance the processing efficiency of cross-border payments? Please explain.

Answer: Yes. Alongside this it is also important to leave an optional open data field —for cases in which it is important to transfer unstructured data regarding the address.

Question 29. Do you agree with the minimum required postal address information consisting of the Country and Town Name fields? Should any additional fields be required?

Answer: This information is not sufficient—we would recommend adding at least the name of the street and house number.

Question 30. Do you believe that setting minimum end-to-end expectations with respect to the carrying of remittance information can improve the processing efficiency of cross-border payments?

Answer: Yes. We are currently witnessing cases of a delay in executing the end to end payment and crediting the beneficiary due to lack of understanding the information or lack of minimum data, mainly in cross-border payments. We are of the view that using uniform and structured minimum data in the payment instruction, will lead to carrying out the payment rapidly and efficiently.

Question 31. To what extent would the ability to include references to separately sent remittance-related information (e.g. through inclusion of hyperlinks or other references) be helpful to process a cross-border payment? Are there obstacles (e.g. legal, regulatory, supervisory limits) to including reference to separately sent remittance information in your jurisdiction/community?

Answer: BOI does not have a clear view.

Question 32. Is the timing envisaged for the requirements to take effect in line with industry expectations?

Answer: In our view, it appears that the timeframe for implementation has to be toward 2027 (a year after the implementation date of the ISO 20022 standard—November 2025), assuming that the times need to be gradual and aligned with the ISO 20022 implementation processes. The time tables for implementation need to be coordinated with all interested parties , including international regulatory entities that deal with AML/CFT regulation; central banks; financial regulators; payment systems and payment service providers. In addition, there is a need for central banks and financial regulators to adopt the new regulation and impose the obligation to comply with it on payment service providers.

It appears that integrating the criteria described in this paper will contribute to a marked improvement in the efficiency of cross-border payments. However, to the extent that the criteria for integration will be related to changes in legislation or regulation, the times described in this document will be very challenging, as these processes take time. In addition, adopting international standards takes time, as there is considerable variance among the payment service providers' internal systems that operate under various standards, and the implementation of business-related and technological work processes will be complex.

It should be taken into account that imposing an additional standard/regulation on payment service providers can adversely impact local projects being promoted by the various regulators and government ministries.

Question 33. Do the requirements provide clarity on how harmonised implementation of ISO 20022 can contribute to achieving the G20 targets?

Answer: The document presents harmonisation requirements for enhancing cross-border payments, based on the ISO 20022 standard, and it certainly is in line with the goals and road map published by the G20. It appears that adopting the ISO 20022 standard is a significant opportunity to promote and increase the efficiency of the cross-border payments sphere, by connecting payment systems speaking the same language. Accordingly, there is a need for significant implementation of the ISO 20022 standard in many countries. To the extent that many countries will implement the standard in the payment systems and at payment service providers, the opportunity to execute cross-border payments in an inexpensive, fast, and transparent manner will increase.

Accordingly, there is a need for collaboration by countries that are not G20 members, and to establish a broader forum of central banks.

In addition, including standardization and digitization of AML/CFT requirements through the ISO 20022 standard will be a critical and essential element of lowering cost and increasing speed of cross-border payments. This part of the project would best be implemented through full alignment between the CPMI and FATF, to ensure global harmonisation of standards and timelines.