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May 31, 2023

Submitted via electronic submission

CPMI Secretariat
Committee on Payments and Market Infrastructures
Bank for International Settlements
Centralbahnplatz 2
4501 Basel, Switzerland

RE: Consultative Report on ISO 20022 Harmonization Requirements for Enhancing Cross-Border Payments

Dear CPMI Secretariat:

The Independent Community Bankers of America (ICBA)¹ welcomes the opportunity to provide feedback on the Committee on Payments and Market Infrastructures' ("CPMI") Consultative Report for ISO 20022 Harmonization Requirements for Enhancing Cross-Border Payments ("Consultative Report"). As the only trade association exclusively representing thousands of community banks in the United States, we recognize the critical role of cross-border payments to support global commerce and allow consumers to send remittances to their families in other countries. We also acknowledge that cross-border payments experience several inefficiencies that contribute to a lack of transparency and slow processing times. International coordination is essential to examine the root causes of these inefficiencies and take steps to implement successful remedies.

However, advancing effective solutions to these long-standing issues necessitates the development of technical standards or recommendations that can gain broad support and be successfully implemented by banks large and small. ICBA and its members carefully deliberated over the proposed requirements, and our members expressed a variety of opinions about the

¹ The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than \$5.8 trillion in assets, over \$4.8 trillion in deposits, and more than \$3.8 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org.

The Nation's Voice for Community Banks.®

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

866-843-4222
www.icba.org

possible positive and negative consequences. Although these discussions shed light on several significant concerns, we believe we could uncover more if provided with ample time to educate members about the proposal and evaluate the impacts. To that end, we strongly encourage the CPMI to consider issuing a second Consultative Report or similar industry outreach to permit community banks more opportunities to assess the benefits and risks of the proposed requirements. We caution against a rush to judgment on a plan to improve cross-border payments that may result in more complexities for community banks, thus harming their ability to support faster and more transparent cross-border transactions for their customers.

In our comments that follow, we will elaborate on a few key concerns related to select requirements outlined in the Consultative Report.

Executive Summary

ICBA surveyed its members, including correspondent banks and bankers' banks, to determine the potential effects of all the proposed requirements. Bankers were challenged to fully evaluate the potential consequences of the proposal within the limited comment period.

Some members expressed strong support for the proposed requirements, whereas others voiced concerns about the use of a Swift Business Identifier Code ("BIC") and questioned whether the Federal Reserve and key technology partners could meet the implementation timeline. Supporters of the Consultative Report indicated that requirements to harmonize ISO 20022 across the world is the preferable approach over the issuance of recommendations. Some ICBA members argued that recommendations may not be uniformly adopted, thereby compounding inefficiencies in cross-border payments.

Others asserted the Committee should simply provide recommendations and allow the private sector to respond to market demands within those guidelines. Some community bankers expressed strong opposition to any set of requirements proposed by an international organization. Given the diversity of perspectives, the path forward remains uncertain, so ICBA encourages the Committee to recognize this mixture of opinions as a sign that the industry requires more time to study the potential impacts to community banks and the payments industry. To that end, ICBA urges the CPMI to incorporate the concerns of community banks into a new approach based on recommended practices, rather than requirements, and then release this proposal for a second round of feedback.

Background

In 2004, the International Organization for Standardization ("ISO") created ISO 20022 as a messaging standard to facilitate information exchange between financial institutions around the world. In the years since its release, numerous payment systems have adopted ISO 20022,

including The Clearing House's RTP Network and the Federal Reserve's FedNow instant payment system. The use of ISO 20022 allows for parties around the world to share a "universal language" for transactions, thereby helping to alleviate conflicts and inefficiencies stemming from competing standards.

However, global adoption of ISO 20022 is far from uniform, leading to differences that increase frictions and prevent financial institutions and their customers from achieving the full range of potential benefits.² These frictions are especially evident in cross-border payments.

Cross-border payments are vital to help businesses engage in a global marketplace and allow consumers to send and receive funds to friends and families. A report by the Bank of England estimates that the total value of cross-border payments will reach \$250 trillion by 2027.³ The United States plays the leading role in cross-border payments, including serving as a primary source of remittance payments. The World Bank and the Global Knowledge Partnership on Migration and Development ("KNOMAD") predict that global remittances will reach \$842 billion this year, with India, Mexico, and China serving as the top three recipient countries.⁴ American financial institutions, including community banks, are key participants for remittance transfers. According to a 2017 study, money service businesses ("MSB") accounted for the majority of transfers; however, the same study found the average transfer initiated via a bank totaled \$6,500, a sum far higher than the MSB average of \$381.⁵ Due to the higher value payments initiated by bank customers, the study determined that banks are responsible for 43% of the total dollar value of remittances.⁶ This data underscores the vital role of community banks in the cross-border payment market and underlines why the CPMI should give serious consideration to community bankers' concerns about the proposed ISO 20022 harmonization framework.

In 2020, the G20 endorsed a plan to address inefficiencies in cross-border payments, which includes a focus on enhancing data quality through the promotion of common message formats.⁷ With that objective in mind, the CPMI now seeks input from industry stakeholders on a proposed

² Committee on Payments and Market Infrastructures, Bank for International Settlements, *ISO 20022 Harmonization Requirements for Enhancing Cross-Border Payments*, March 2023, <https://www.bis.org/cpmi/publ/d215.pdf>.

³ Bank of England, *Cross-border Payments*, January 31, 2023, <https://www.bankofengland.co.uk/payment-and-settlement/cross-border-payments#:~:text=The%20value%20of%20cross%2Dborder,trillion%20in%20just%2010%20years>.

⁴ World Bank Group and the Global Knowledge Partnership on Migration and Development (KNOMAD), *A War In A Pandemic: Implications of the Ukraine crisis and COVID-19 on global governance of migration and remittance flows*, Migration and Development Brief 36, May 2022, https://www.knomad.org/sites/default/files/2022-07/migration_and_development_brief_36_may_2022_0.pdf, 2.

⁵ CFPB Remittance Transfers Final Rule, https://files.consumerfinance.gov/f/documents/cfpb_remittance-transfers_final-rule_2020-05.pdf

⁶ Ibid.

⁷ Financial Stability Board, "Enhancing Cross-border Payments: Stage 3 Roadmap." October 13, 2020, <https://www.fsb.org/wp-content/uploads/P131020-1.pdf>.

set of requirements to address variations in the adoption of ISO 20022 and increase the speed and transparency of cross-border payments processing.

ICBA Comments

ICBA appreciates the CPMI extending the original May 10, 2023 deadline to May 31, 2023; however, we believe additional time is required to permit a more thorough analysis of the proposed requirements and their potential impacts to community banks. In the sections below, we will focus our comments on the concepts that appear to have the greatest impact on community banks. ICBA and its members implore the CPMI to weigh the potential impacts on their operations to ensure that they will be able to continue to deliver the payment products and services to meet their customers' needs to interact in an increasingly globalized financial system. We also strongly encourage the CPMI to consider releasing a revised harmonization framework centered around recommendations for a second round of industry feedback.

Requirement #2 – To use ISO 20022 externalized codes for payments and payment-related processes

In conversations with correspondent banks and bankers' banks, the use of a set of externalized codes elicited mixed reactions. One large correspondent bank agreed with the Committee's position that a detailed list of codes and descriptions will help all parties in a cross-border transaction understand the purpose of the payment, thus, improving end-to-end processing and transparency. The use of standardized codes may also help community banks fulfill reporting requirements and easily identify the purpose of a payment.

However, others disagreed with a mandated approach, instead preferring a set of guidelines or best practices for the private sector to adopt in response to market demands. They also stated that the success or failure of the proposed requirement is dependent upon key technology partners, notably core providers. Members expressed concern about how quickly core providers will be able to update their systems, and thus, how quickly they will be able to realize any potential efficiencies from a common set of codes.

Requirement #3 – To indicate that a payment is a cross-border payment

Community bankers are generally supportive of the CPMI's proposal to create a unique code to clearly identify all cross-border payments, thereby improving processing speed and efficiency. Several community bankers described the challenges of current processes, which force employees to review each payment individually to determine whether it involves parties in another country.

Members cautioned, once again, that the potential benefits of this unique identifier could only be realized with the help of their technology partners. If these technology partners cannot upgrade their products in line with the CPMI's target date, then what will happen to cross-border payments that lack a proper identifier? The Committee should consider clarifying what will happen to payments that do not conform to this proposed requirement.

Requirement #6 – To include a unique end-to-end reference for all cross-border payments

Community bankers communicated support for an end-to-end transaction reference to help identify all transactions. Bankers recounted numerous stories of customers who initiated payments to other countries only to learn that incomplete or flawed data slowed, or many cases even prevented, the correct processing of the payments. As a result, community banks and their customers must often navigate a frustrating and time-consuming process to track down seemingly lost funds. Bankers believe that widespread usage of a unique end-to-end reference code will help to dispel such difficulties and improve the speed, efficiency, and transparency of cross-border payments.

However, like the other proposed requirements, the success of this unique code hinges on the ability of technology providers to upgrade their systems to accommodate the field in a timely and cost-effective manner.

Requirement #11 – To uniquely identify all financial institutions (FIs) involved in cross-border payments in an internationally recognized and standardized way

This proposed requirement was the most divisive concept in deliberations with community bankers. Unlike financial institutions in other parts of the world, many community banks do not currently have a Swift Business Identifier Code ("BIC"). Those that do employ a Swift BIC reported divergent views about the ease of gaining access to a Swift BIC and adequate resources to use it appropriately. One large correspondent bank acknowledged that requiring all financial institutions to use a Swift BIC will result in significant costs for community banks; however, the banker believed the benefits will outweigh the costs as more efficient cross-border payments will enable community banks to offer enhanced payment products to their customers. An executive at a bankers' bank also explained how his institution offers products and expertise that aim to streamline cross-border payments for community banks, including the management of their Swift BIC.

Nonetheless, other ICBA members detailed remarkable challenges they experienced in their efforts to integrate with Swift. For example, one community banker described a taxing 18-month journey that started with obtaining a non-connected BIC from Swift. When that non-connected ID proved lacking for addressing the bank's cross-border payment needs, the bank proceeded to pay a substantial fee for a full connection to Swift. The banker said working with Swift was a

“very convoluted process” and employees often struggled to receive clear answers throughout their implementation period. These frustrations ultimately led the bank to partner with a bankers’ bank, which now manages their Swift BIC.

Additionally, community bankers also have concerns that mandating the use of a Swift BIC will result in costly upgrades to their core systems. Since American financial institutions rely on a routing number, requiring all financial institutions to obtain and utilize a BIC will demand extensive upgrades from key technology providers to accommodate the new identifier. Given the fact that community bankers and their technology partners are already involved in complex implementation plans to adopt the FedNow instant payment system and support Fedwire’s transition to ISO 20022 in March 2025, several bankers expressed significant doubts about whether the U.S. payments industry will have the capacity to fulfill this proposal in a timely manner.

Considering this wide range of opinions and potential costs, ICBA and its members urge the committee to extend the adoption deadline at least two years, with an allowance for additional time based on further industry engagement and assessments of industry readiness. In light of the concerns about Swift’s onboarding process, we also encourage the Committee to consider whether Swift is prepared to handle a surge in requests for BICs from community bankers. ICBA and its members also urge the CPMI to reevaluate the proposed framework, incorporate feedback from this first comment period, and then release a revised framework for a new round of industry comments.

Conclusion

Once again, ICBA appreciates the opportunity to comment on the Committee on Payments and Market Infrastructures’ Consultative Report for ISO 20022 Harmonization Requirements for Enhancing Cross-Border Payments. Improvements to cross-border payments bring the promise of increased efficiency and transparency for all participants; however, that promise will only be realized by developing solutions that address the needs of community banks just as well as those of the global systemically important institutions.

Please feel free to contact me at Brian.Laverdure@icba.org if you have any questions about the positions stated in this letter.

Sincerely,

/s/

Brian Laverdure, AAP
Vice President, Payments and Technology Policy

The Nation’s Voice for Community Banks.®

WASHINGTON, DC
1615 L Street NW
Suite 900
Washington, DC 20036

SAUK CENTRE, MN
518 Lincoln Road
P.O. Box 267
Sauk Centre, MN 56378

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