



Payments in the banking industry

ISO 20022 and Instant Payments represent watershed moments in payments



October 2023





Introduction

ISO 2022 and Instant Payments represent watershed moments in payments and serve as catalysts for change with the opportunity for banks to provide a better payment experience and value-added solutions for corporates.

All banks worldwide must comply with the ISO 2022 standard for high-value messaging. This single common global business language for financial messaging is a global mandate for all jurisdictions, including financial institutions in the US. ISO 2022 is a major development in banking, expansive in scope as it impacts the entire payments ecosystem. It serves as the new global business language for payments, utilizing a new XML format. The new ISO 2022 standard also includes 30 percent to 40 percent incremental data that travels with the payment.

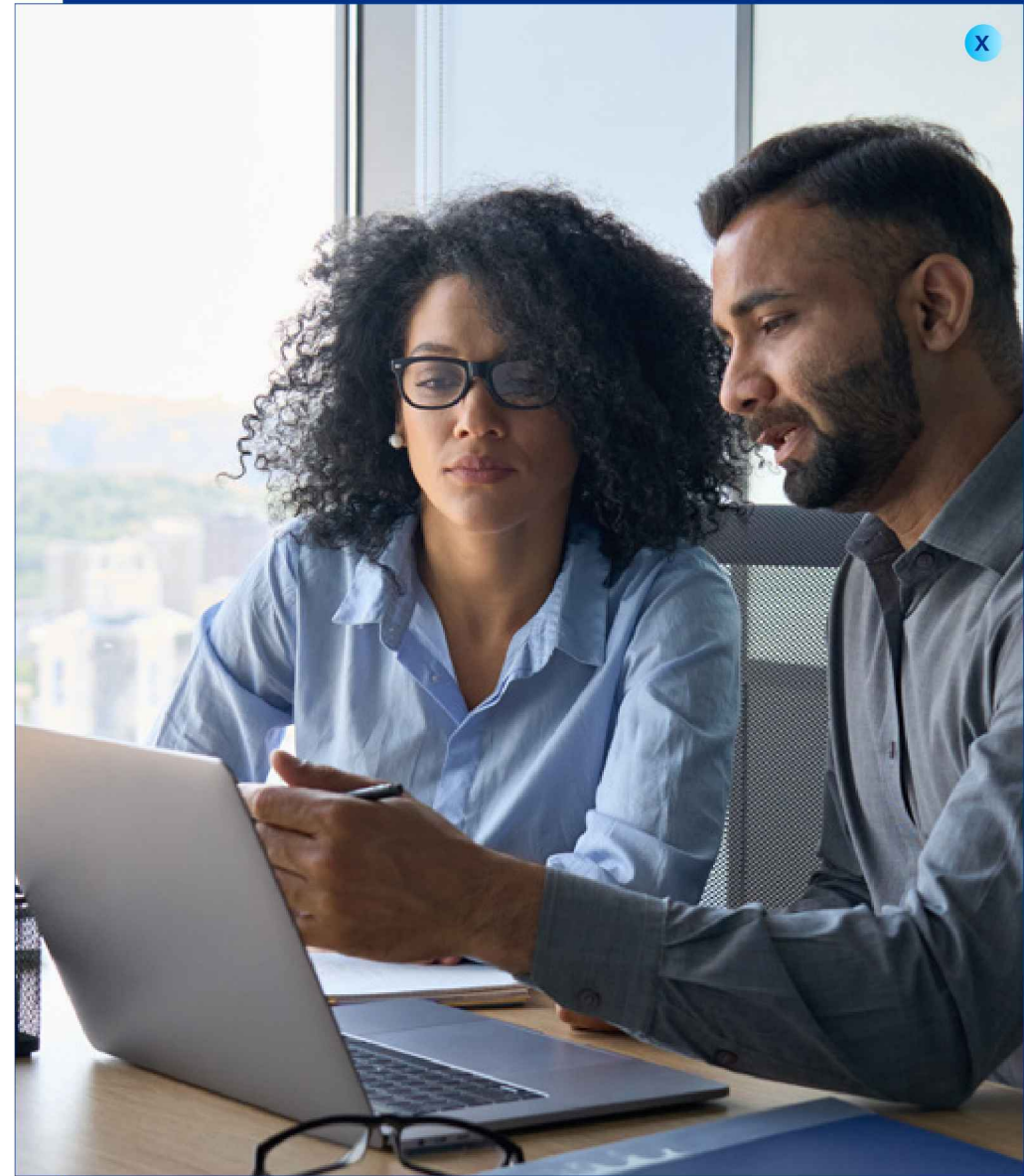
Furthermore, many US banks are also adopting Instant Payments, with TCH having already gone live with RealTime Payments (RTP) in 2017 and the Federal Reserve recently launching FedNow in July 2023. The launch of FedNow is intended to bring ubiquity in the market for US Instant Payments.

For US banks, many of them with legacy payment infrastructures, ramping up to meet ISO 2022 mandate and implementing Instant Payments will require modernizing their payment platforms.

A KPMG survey of 200 US bank executives conducted in January indicates that over 60 percent of US banks have made significant steps toward modernizing their payment infrastructures.

This and other findings show where the US banking industry is headed with a specific focus on payments.

Survey methodology and respondent demographics 

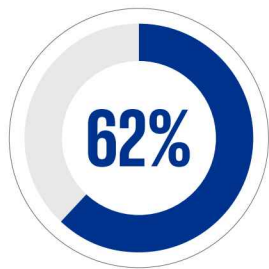


Progress toward modernization

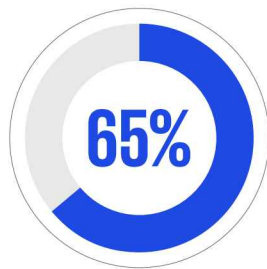
Progress toward ISO 2022 compliance and payment modernization

Compliance with ISO 2022 is mandatory for all jurisdictions. In the US, which was where our survey participants were based, financial institutions must comply with the ISO 2022 industry mandate by March 2025. There is still time to act, but time is of the essence. The survey asked participants to respond on their bank's status with modernizing their payment infrastructure.

Q. How strongly do you agree or disagree with the following statement regarding your bank's payment infrastructure?



You have significantly modernized your payment infrastructure



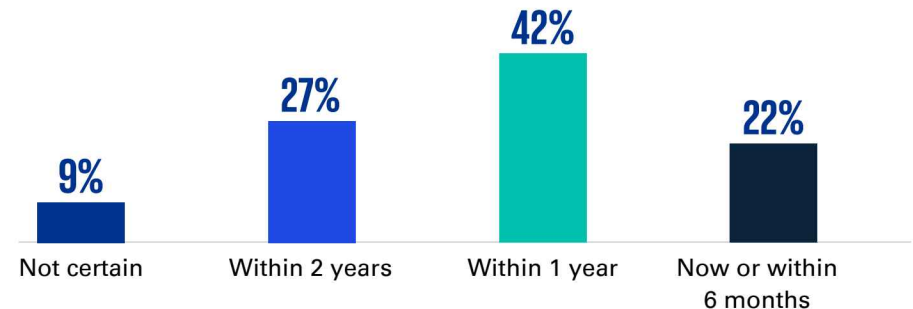
The global payments environment is evolving rapidly

Key insight

The majority of US banks are taking major steps toward modernizing their payment infrastructure with an awareness that payments are rapidly changing.

The Board of Governors of the Federal Reserve System has mandated March 2025 for US bank compliance with ISO 2022. The survey conducted in January 2023 sought to understand where banks are in the implementation process.

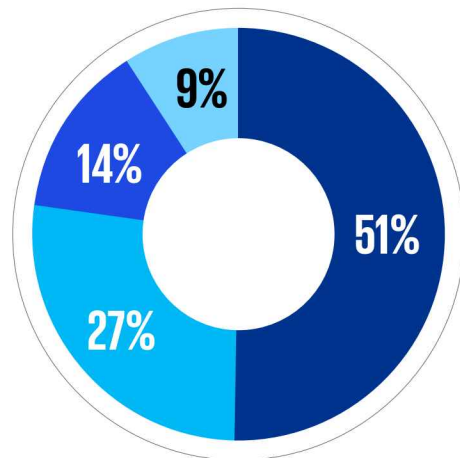
Q: Under what timeframe will you likely be implementing ISO 2022?



Key insight

Almost two thirds (64 percent) of banks surveyed are on track to comply with the ISO 2022 mandate within a year and 27 percent within two years. That leaves just under 10 percent outside of the timeframe as of January 2023 when the research was conducted.

Survey participants were also asked about their US bank's timeframe for adopting the FedNow service. Responses by percentages:

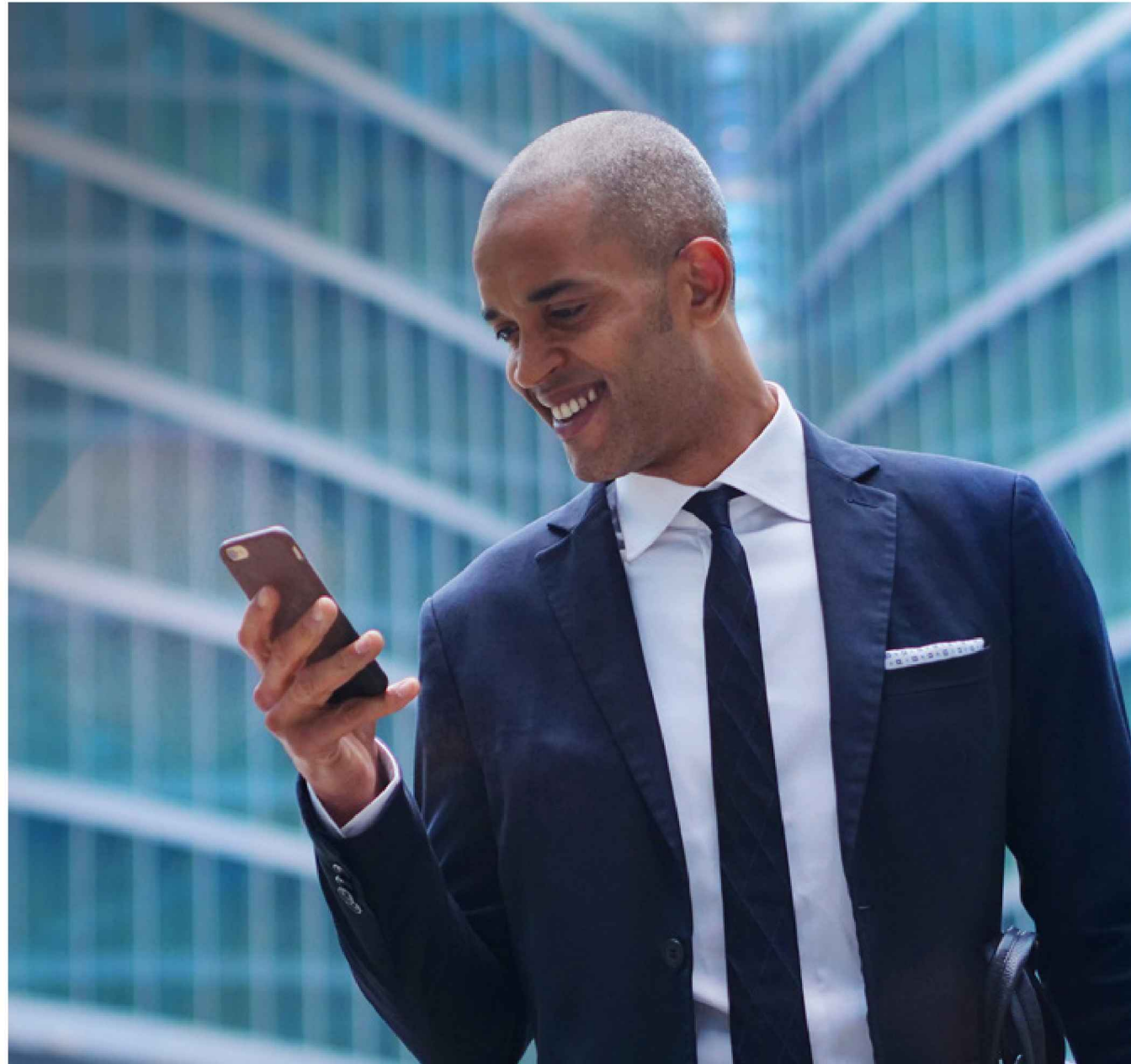


- Not certain
- Within 1 year
- Now or within 6 months
- Within 2 years

Key insight



Sixty-five percent of banks surveyed are on the fast track to adopting the instant payments service, FedNow. Roughly a third surveyed have a longer timeframe or uncertainty around their plans.





Challenges and opportunities

Challenges and opportunities with ISO 2022 and Instant Payments

Banks may be unaware of the impacts of ISO 2022. The standard uses an entirely new language (XML) and carries 30 percent to 40 percent additional data traveling with the payment. This new single global language for payments results in organization-wide impacts across a bank's payments ecosystem inclusive of payments platform/processing, upstream and downstream interfaces, and integration and infrastructure components.

Financial institutions must act now if they have not already to determine the level of impacts to their organizations and implement the required changes to their payments ecosystem ahead of the March 2025 Mandate. In addition, when looking at ISO 2022 adoption, organizations should consider market infrastructure compliance together with longer-term strategic payment priorities.

Although there are challenges across business, operations, and technology that need to be addressed by the enhancements introduced by this new global messaging standard, there are many

benefits to adoption of the new standard, including but not limited to revenue growth and new product innovation utilizing the new, modern XML format and leveraging the incremental data traveling with the payment as well as efficiency through improved STP rates and improved reconciliation.

Likewise, banks must determine the impacts to their payments infrastructure when adopting Instant Payments. Implications to moving to a 24x7/365 high-availability environment must be assessed and solved across a bank's broader payments ecosystem, including but not limited to bank channels, risk and compliance, payments processing, deposits and limits management, and payments support functions. Opportunities resulting from both the speed and incremental data traveling with the payment exist across customer segments; however, benefits and revenue opportunities specific to each bank should be explored based on a financial institution's priority industries and client/corporate mix



ISO 20022 action steps



Perform an impact/gap assessment and develop a strategic execution roadmap

An impact/gap assessment analyzing the bank's current payments ecosystem against the new ISO 20022 standard and execution roadmap to address the changes required to meet the industry mandate.



ISO 20022 implementation and enablement

Implementation of the required ISO 20022 across the payments ecosystem, including payments platform/processing, upstream and downstream interfaces, and integration and infrastructure components.



ISO 20022 value-added services

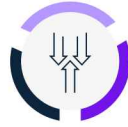
Determining how to leverage the incremental 30 percent to 40 percent data that ISO 20022 provides to generate new revenue opportunities for banks and new value-added services for corporates.

FedNow action steps



Instant Payments readiness – strategy and enablement

How ready is your bank to move to a 24x7/365 high-availability environment? Getting to that answer requires a top-to-bottom review of a bank's broader payments ecosystem, including but not limited to bank channels, risk and compliance, payments processing, deposits and limits management, and payments support functions.



Payments platform Instant Payments modernization/implementation

The implementation of Instant Payments includes a robust evaluation of vendor providers and thoughtful implementation of the new payments rail, inclusive of implementation planning, front to back technology implementation, and the bank's move to a 24x7/365 operations environment to go-live with this new payment type.



Product design and corporate readiness

The benefits of Instant Payments will only be as successful as the adoption that banks realize from the new payment rail. Success centers on industry-specific value propositions and the readiness of clients to gain market traction.



ISO 20022 represents the biggest overarching change that we have ever seen in payments. The impact will be felt throughout the bank.

Courtney Trimble

Principal, Advisory, Financial Services Solutions and Global Payments Leader, KPMG LLP

How KPMG can help

If your movement to ISO 20022 and Instant Payments and modernizing your bank's payment infrastructure needs a review or our experience, KPMG can help. We specialize in helping our clients maximize opportunity and minimize risk through the transformation of their payments ecosystems. Accelerate your bank's payment modernization with KPMG.





Contact us



Courtney Trimble
Principal Advisory,
Financial Services Solutions and
Global Payments Leader, KPMG LLP



Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2023 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. All rights reserved. USCS002210-1A