ISO 20022
Market Guidance

Guide for the corporate market sector

January 2022

1. Background

The migration to the ISO 20022 messaging standard for CHAPS payments forms one part of the Bank of England's (the Bank's) Real-Time Gross Settlement (RTGS) Renewal Programme. The RTGS service is the infrastructure that holds accounts for banks, building societies and other institutions. In order to help all parties navigate this change process and realise benefits as effectively as possible, the Bank has commissioned a series of Market Guidance publications that will define how a standardised approach can help all parties maximise the return from this major change. The first guide, covering the property sector, was published in April 2021. This guide describes the initial findings for corporate payments.

2. Corporate market engagement

Structure of the sector

The structure of the UK business population is summarised in the Department for Business, Energy and Industrial Strategy (BEIS) Business Population Estimates summarised in Annex A. There are 5.6 million businesses in the UK, but of these only 7,655 are classified as large corporates employing 250 or more people. These large corporates represent around 47% of employment and 54% of turnover in the business sector. Research for this guide has focused on large corporates. It is recognised that there are similarities in payment requirements across different sizes of businesses so many of the findings will be relevant for the wider business community. For example, some small and medium sized businesses (SMEs – defined as those with less than 250 employees) may have complex supply chains requiring high value and cross-border payments that would lead them to use CHAPS payments.

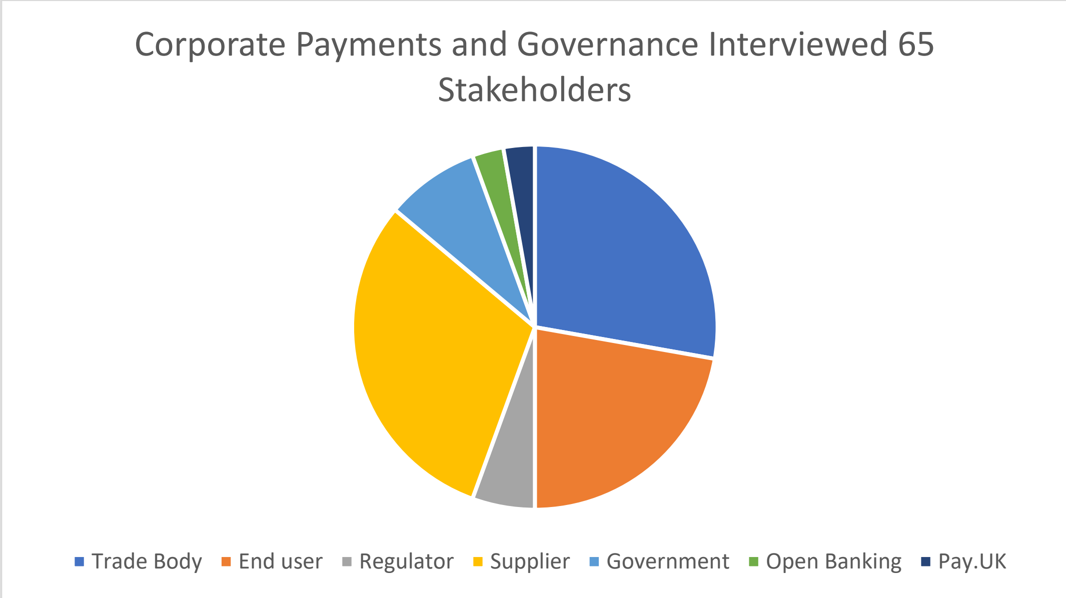
Corporate payments can be grouped into five main purposes:

- Supplier payments
- Employee salary and benefits
- Tax
- Customer payments e.g. refunds
- Dividends

A summary analysis of business payments including payment scheme use and mix of payment purposes is contained in Annex B.

Corporate sector engagement

Initial information gathering was through interviews with a mix of end users, payment service providers, and representative organisations such as the Confederation of British Industry (CBI) and Association of Corporate Treasurers (ACT). A breakdown of the mix of interviews is shown below.



Although not corporates, Government Banking Service (GBS) and HMRC have similar payment requirements and are payees for many corporate payments. As such, engagement included a workshop with GBS at which a range of government departments and agencies were represented. The engagement of financial and Enterprise Resource Planning (ERP) system providers such as Oracle, Sage and SAP was considered, however, it was decided not to progress at this stage. Similarly, representative organisations for SMEs such as the Federation of Small Businesses (FSB) and British Chambers of Commerce (BCC) were considered out of scope.

Findings

Although payment services are a vital supporting function for corporates they are not a subject that receives much attention. While some large organisations already use ISO 20022 internally for tasks such as receiving bank statements, few saw the move to ISO 20022 for CHAPS as a significant development for them at this stage so have not considered in any depth the possible benefits it might bring. The diverse nature of the sector means there are few overarching themes to drive focus on and interest in the migration, although opportunities to enhance payments to address a range of cash management and liquidity issues are evident. Corporates would look to their banks and other payment and business service providers to help them understand the opportunities and to provide guidance on what would be required and when.

Corporates are largely scheme agnostic, looking to their banks and payment service providers to offer the most appropriate mix of cost and timeliness to meet their business needs. However, given that many corporates are multi-banked and frequently re-tender for banking and payment services, consistency of implementation of ISO 20022 across schemes and their participants would be a priority. Such consistency would support competition for supply of payment services and simplify internal processes, reducing the need for customised interfaces.

Two areas were identified where additional information in the payment message could provide benefits across different sizes of businesses:

- **Reconciliation** – including remittance reference data seamlessly linked to a payment, such as purchase order or invoice details. By doing so problems of reconciling payments in complex cases, for example where one payment covers a number of invoices or a payment against a part delivery, could be simplified if internal systems could be adapted to access and use the information.
- **Fraud and financial crime** – linking Know Your Customer and end beneficiary details to a payment is becoming increasingly important in combating a range of financial crimes. In the corporate environment money laundering and fraud enabled through invoice redirection are critical issues. However there is a need to be cognisant that the inclusion of additional information could provide additional opportunities for fraud, depending on how the information is 'linked'.

Reconciliation was a particular concern for HMRC. They have already successfully used open banking facilities to automatically populate payments with the necessary reference information, achieving a significant reduction in reconciliation issues. Fraud detection was also highlighted as a potential use case. The Confirmation of Payee service was seen as helpful in that context, but would need to be supported by all payment schemes and participants to maximise its impact. Real time payment data analytics was also seen as an opportunity that additional information in the payment message would support.

Direct scheme participants are seen as a key source of information on developments in payment services, including standards. For large corporates, who are frequently multi-banked and consider switching providers as a means to ensure value for money, consistency of implementation of standards is important as a means both of simplifying operations and ensuring an effective market for banking services. Common standards across payment schemes and products would also be beneficial, reducing the need for payment messages to be tailored for individual payment schemes.

The need for consistency becomes more complex for businesses trading internationally. Different jurisdictions can have different requirements for information associated with payments, such as payer and payee identity. Anything that can be done to align and simplify requirements would be useful, although it is recognised that these issues are not directly related to the adoption of ISO 20022. These issues are of concern to largely domestic corporates with international supply chains but become still more pressing for those with multi-national operations. Such businesses can have many currency accounts and have real challenges managing intra-day liquidity against overdraft limits. Pre-advice and improved access to statement information could help reduce complications in corporate liquidity management and make real time payments less of a challenge.

Our study indicated that a number of organisations already used various elements of ISO 20022 internally, and with some banking providers, for account management. Although additional information might be included with payments, there was an indication of internal challenges that might limit its usefulness. Many large corporates have complex legacy systems, one citing over 30 different ERP systems interfacing with their payments processing engine. Consequently, engagement with suppliers of financial and ERP systems could be critical in realising benefits from ISO 20022 implementation. It would fall to these suppliers to enhance their products to allow additional information to be populated, accessed, and used effectively within their products, not just for payments but for a range of financial and account management functions as well.

Initiatives such as open banking are creating further complexity in payments processing, albeit complexity that could deliver benefits. Increasingly, services are emerging that exploit wider connectivity to allow added value services to be overlaid on core payment systems. Such open access tools may allow simpler means to populate payment messages with additional information. However, they may equally support the integration of payment information with other information exchange platforms, thus obviating the need for additional information to be carried in the payment system. These services raise the question as to where developments may best be undertaken, specifically whether they are best provided through the central payments infrastructure or via competition in the market. Examples of both types of solution were cited, although few strong views over which approach would be preferable. Concerns were expressed, however, as to whether the level of benefits could justify the costs of central development.

Should the operators of payment schemes decide to mandate participants to support inclusion of additional information in payment messages two non-functional questions arise. First, does the central payments infrastructure have the functionality and capacity to process the additional data? Secondly, is there any impact on transaction processing times? Satisfying both of these requirements would be central to the operators' role. A payment scheme operator may also consider providing added value services beyond the core transaction processing activities, exploiting additional information linked to payments. For example, these could include real time data analytics to support fraud detection, or process management support services such as account switching. Additionally, as always with the use of data, the benefits accruing will be limited by the quality of data provided.

3. Conclusions

Clear opportunities exist for the corporate sector to exploit additional information included with payment messages. As with the property market, payment reconciliation and fraud detection and management are obvious areas where integration with internal business processes offer significant potential business benefits. However, market feedback indicates that these are not seen as significant enough to warrant engagement at this stage. It was telling that there was a limited response when the trade associations had engaged with their members on this issue. Given this level of engagement it was decided not to conduct a market survey similar to that used in the development of the Property Sector Market Guidance.

The problem in identifying specific additional information is exacerbated by the size and complexity of the sector, and individual corporates. Different industry sectors have their own standards for information exchange, and individual large corporates have challenges effectively aligning their internal systems and processes. Consequently, involvement in what is seen as an issue for banks is seen as low priority.

There is support for the belief that benefits could be achieved through easier reconciliation and enhanced ways to combat fraud and financial crime. However, the question arises as to whether these benefits can best be achieved through the development of added value overlay services rather than through central payment scheme infrastructure developments. Also, for most corporates payments are a necessary support function rather than an added value activity. As such it is rarely an area for investment. Conversely, it is central to the business of ERP and financial management providers. Therefore, questions about how best additional information could be used, and whether transmitted via payment scheme infrastructure or overlay services, might best be answered through engagement with financial and ERP product providers and overlay service developers, rather than directly with corporates at this stage.

Such engagement could also help inform the best role that payment scheme operators might take. The question arises as to whether services might best be driven by competition in the market, leaving it to product and service providers to shape developments, or through competition for the market, with the payment scheme operators incorporating functionality into their infrastructure. As outlined in the Governance work stream paper, these questions sit within the policy development layer suggesting that further conversations with Pay.UK, UK Finance and others would be necessary.

4. Next steps

The overall conclusion from the research is that although there are potential benefits for corporates by including additional information with payment messages two considerations make pursuing Guidance at this stage inappropriate.

First, although reconciliation and fraud appear as areas where benefits could be had, the diverse nature of corporates mean that they cannot easily be treated as a single market. Consequently, further segmentation of the market might provide a clearer path to engagement. Secondly, since payment services do not appear as a priority for most corporates it would be more appropriate to engage through key suppliers such as financial, enterprise management, and payment service providers.

Based on research in both the property and corporate sectors it appears that market guidance is not best aligned to market sectors. Rather a wider range of factors need to be considered before identifying opportunities where market guidance might be appropriate. These factors include, amongst others:

- Use case – taking account of the size, frequency, variability and time constraints on payments
- Market structure – regulatory framework; recognised trade associations and other collaborative structures that exist
- Market stratification – different requirements between large, medium and small enterprises
- Supply chain considerations – the impact of dominant providers and wider process on market conditions

Our study indicates that for both the corporate and property sectors there is a need for consistency in implementation of ISO 20022 messaging both across payment schemes and scheme participants. To help achieve this outcome the Bank of England will continue to work collaboratively with Pay.UK, UK Finance and other groups to define potential market opportunities for market guidance.

Annex A – Corporate Sector Structure

Source: [Business population estimates 2021, Department for Business, Energy & Industrial Strategy]

TABLE 1 **UK Private Sector**

Number of businesses in the private sector and their associated employment and turnover, by number of employees, UK, start 2021

	Number					*Percent*				
	Businesses	Employment *thousands*	Employees *thousands*	Working Proprietors [3] *thousands*	Turnover [1,4] *£ millions*	*Businesses*	*Employment*	*Employees*	*Working Proprietors* [3]	*Turnover* [1,4]
All businesses	5,590,900	26,972	22,899	4,072	4,449,170	*100.0*	*100.0*	*100.0*	*100.0*	*100.0*
All employers	1,415,980	22,433	21,960	473	4,146,651	*25.3*	*83.2*	*95.9*	*11.6*	*93.2*
With no employees (unregistered)[2]	2,930,850	3,208	0	3,208	110,640	*52.4*	*11.9*	*0.0*	*78.8*	*2.5*
With no employees (registered)[2,5]	1,244,070	1,331	940	391	191,880	*22.3*	*4.9*	*4.1*	*9.6*	*4.3*
1	134,340	298	134	164	25,121	*2.4*	*1.1*	*0.6*	*4.0*	*0.6*
2-4	764,955	2,135	1,976	159	350,546	*13.7*	*7.9*	*8.6*	*3.9*	*7.9*
5-9	262,860	1,776	1,716	60	261,226	*4.7*	*6.6*	*7.5*	*1.5*	*5.9*
10-19	136,880	1,875	1,843	32	248,919	*2.4*	*7.0*	*8.0*	*0.8*	*5.6*
20-49	73,670	2,236	2,211	25	400,964	*1.3*	*8.3*	*9.7*	*0.6*	*9.0*
50-99	23,515	1,625	1,617	8	297,465	*0.4*	*6.0*	*7.1*	*0.2*	*6.7*
100-199	10,090	1,399	1,393	6	324,645	*0.2*	*5.2*	*6.1*	*0.1*	*7.3*
200-249	2,015	450	448	1	98,430	*0.0*	*1.7*	*2.0*	*0.0*	*2.2*
250-499	3,890	1,344	1,340	4	280,648	*0.1*	*5.0*	*5.9*	*0.1*	*6.3*
500 or more	3,765	9,295	9,282	14	1,858,687	*0.1*	*34.5*	*40.5*	*0.3*	*41.8*

1. Total turnover figures exclude SIC 2007 Section K (financial and insurance activities) where turnover is not available on a comparable basis.
2. Businesses with no employees can either be 'registered' for either VAT and/or PAYE or are 'unregistered'. For more details on businesses with no employees, refer to the Methodology Section of the BPE Methodology and Quality Note.
3. "Working Proprietors" can be distinguished from employees here by being defined as owners(s) of the business and not working under a contract of employment in return for a wage or a salary.
4. BEIS impute the turnover of unregistered businesses based on the turnover for zero-employee VAT/PAYE registered businesses at industrial sector level.
5. Companies with only one PAYE employee on the IDBR (registered businesses) are counted in the "with no employees" category, rather than the "1 employee" category, as the employee is treated as being equivalent to
This is done to ensure that incorporations by individuals operating alone do not distort the overall numbers of businesses with employees. In businesses run as sole proprietorships or ordinary partnerships, working owners
through self-assessment not PAYE, whereas in companies they will usually draw a salary through PAYE.

Numbers of businesses are rounded, in order to avoid disclosure. Consequently, the "All businesses" and "All employers" totals may not exactly match the sum of their parts.

Annex B – Business Payments Analysis

Source UK Payment Markets 2020, UK Finance June 2020

Total volume of business payments		4.694 bn
Of which:	Business to individual	2.438 bn
	Business to business	2.257 bn

Mix of business payments by method

Bacs Direct Credit	43%
Faster Payments and other remote banking	31%
Direct Debit	9%
Debit card	7%
Credit/charge card	4%
Cash	3%
Cheque	3%
Standing order	2%

Annex C – Organisations consulted

Association of Corporate Treasurers (ACT)

Blue Chain

Bottomline Technologies

British Independent Retailers

British Retail Consortium (BRC)

Confederation of British Industry (CBI)

Crown Agents Bank

Department for Education

Department of Justice

Department of Work & Pensions (DWP)

Driver & Vehicle Licencing Agency (DVLA)

FSCOM

Go Cardless

Government Banking Service (GBS)

HM Revenue & Customs

HM Treasury

Infinity International Foreign Exchange (IIFX)

Lending Standards Board

Merck

Ministry of Defence

Open Banking Limited

Pay.UK

Shell

The Access Group

The Payments Association (PA) (formally the Emerging Payments Association (EPA))

UK Finance

Vendorcom