Information Paper

Overcoming data quality challenges in payments

Industry standards and collaboration provide key to greater transparency

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In the world of payments, top quality data is essential for a variety of reasons. Data contained in payments messages needs to be accurate and complete to achieve both operational efficiency and straight-through processing (STP). The quality of payment transaction data is also critical for effective sanctions screening and AML monitoring controls. And with regulators introducing increasingly stringent data requirements, banks are keen to ensure their payments data is up to scratch.

Data quality challenges

Tougher approach

As governments seek to curtail terrorist financing, money laundering and other forms of criminal activity, regulators are putting measures in place to improve payments transparency and traceability. Regulators expect banks to look at data quality in the messages they send and increasingly in the messages they receive.

Previous guidelines primarily focused on the need for financial messages to include information about payment originators. However, FATF Recommendation 16 – one of the recommendations issued by the Financial Action Task Force in 2012 – also stipulates the need to include detailed beneficiary information in certain types of transactions. Under Recommendation 16, banks must monitor the quality of originator and beneficiary data in the transactions they receive and take steps to resolve recurrent issues.

FATF Recommendation 16 has been implemented in the EU Funds Transfer Regulation 2015 (EU FTR 2015), which is part of the EU Fourth Anti-Money Laundering Directive, and in Singapore via 2015 MAS Notice 626. Similar regulation is expected to follow in other jurisdictions.

Meanwhile, the US Bank Secrecy Act (BSA) rule [31 CFR 103.33(g)], commonly known as the 'Travel Rule', already requires financial institutions to pass on certain types of originator and beneficiary data – such as names, addresses and account numbers – if they receive that data from the sender.

Compliance conundrum

While regulators are increasing their requirements for originator and beneficiary data, the new rules do not always specify exactly what information needs to be included.

For example, the rules do not define:
- the data elements that constitute a complete address
- which country codes to use
- how to deal with customer information that does not fit the relevant field of a payment message

Poor data quality also has implications on sanctions screening. Governments – and thus regulators – want to know when terrorists, money launderers and sanctioned individuals or entities attempt to move money via the global financial system. They also want to prevent the movement of money to and from sanctioned countries and territories.

So banks need to screen the originator and beneficiary of a payment, and the country or countries involved in the transaction. If this information is not present and accurate, sanctions screening and AML monitoring may not be effective – potentially resulting in heavy fines and other regulatory consequences.

Complying with the relevant regulations can be challenging, but with growing regulatory focus on this area, banks need to take the necessary steps to ensure compliance.

Operational efficiency

Poor quality data can also have a negative impact on a bank's operational efficiency. Ideally, screening would allow straight-through processing of legitimate payment messages while blocking illicit transactions. In practice, many legitimate transactions generate 'false positive' alerts and require manual intervention, which is costly, hinders STP and can negatively affect customer satisfaction. Poorly formatted messages may not raise an alert, but might still need manual intervention, further impacting operational efficiency and STP rates.

While some false positives are inevitable, improving data quality can help to mitigate this issue. As Carolina Garces-Monterrubio, Global Head of FCC CMB and Product at HSBC, explains: "Having structured and complete payment data increases a bank's ability to manage financial crime risk. Where sanctions screening is concerned, being able to rely on clear data that is always in the same place will cut down on false positives and improve the effectiveness of the process."

FATF Recommendation 16

The FATF 2012 recommendations aim to provide a consistent framework for combatting money laundering and terrorist financing. Recommendation 16 focuses on improving the traceability of transactions in both cross-border and domestic wire transfers. Building on previous guidance, it states that financial institutions should include not only the originator's name and address, but also the beneficiary's details. Banks must also monitor the quality of data in the transactions they receive and take action if data is missing.

The requirements of FATF Recommendation 16 have already been adopted in some markets. In the EU, the Funds Transfer Regulation 2015 ('EU FTR 2015') came into effect in June 2015. Singapore recently implemented the new rules within MAS Notice 626, and other FATF members are expected to follow.

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'Bad' data

So what is poor quality data? When a customer makes a payment, the bank must include information about the originator and beneficiary in the payment message. The bank will typically source the originator information from its internal systems, since the person or business requesting the payment is the bank's customer. Beneficiary information may be harder to obtain. It can be captured in different ways depending on whether the customer fills in an online form, speaks to a teller or, in the case of corporate payments, creates batches of payments via a back-office system.

In theory, all this data should be accurate, complete and up-to-date. But in practice various errors can occur, such as missing, transposed or additional characters, as well as information that is simply incorrect.

Unstructured and incomplete data

Data can also be unstructured, incomplete – or both. And this creates other problems.

When data is unstructured, it can take longer for banks' systems to detect specific elements within that data. For example, a bank may need to identify the country name within a payment message. If the data is structured, identifying an unambiguous two-character ISO country code in the correct field is a straightforward task. However, finding the same information in a free-format message can be more challenging: country information may be written in different forms and/or using local languages – and it may be difficult to identify amongst other address details.

Issues can also arise when data is incomplete. For example, institutional policy may stipulate the need to carry out additional checks for any payments originating from high-risk jurisdictions. If the country name is absent from the message – a common scenario – the necessary checks will not be triggered, potentially leading to policy breaches, or even sanctions violations.

Data truncation

With increasing regulatory focus on transparency, incomplete data is now a real issue. In the past, banks may simply have needed to include the originator's account number, name and address, without the country name. But regulators now expect banks to provide more information in their messages, regardless of the size restrictions of some data fields.

In certain situations this is a problem, explains Brigitte De Wilde, Head of Financial Crime Intelligence and Services at SWIFT. "Transaction message fields are limited in terms of length, which is creating new challenges as banks are required to include additional data about who is sending and receiving payments," she says. "If you have multiple account holders, in theory you should include the names of all the parties who share that account in the payment message. But if you do so, there may not be enough space to include the full address, meaning that some information has to be left out, or 'truncated.'"

Further complicating matters is the lack of regulatory guidance or international standards specifying the information to prioritise or omit. Some banks might choose to include all account holders' names and truncate the address information, while others might opt to include a single account holder and leave the address intact. Either way, banks handling such transactions risk missing important details about the people or organisations on whose behalf the money is being moved.

A global view of data quality

To help banks address these challenges, SWIFT is working with the industry to develop appropriate data quality standards. As part of this exercise, SWIFT has developed a new Payments Data Quality service that supports strong compliance and operational performance on three levels:

1. **Supports regulatory compliance** with the originator and beneficiary data requirements of FATF Recommendation 16, the EU FTR 2015 and the US 'Travel Rule.'
2. **Supports more effective transaction screening and AML monitoring** by helping banks improve data quality in payments messages.
3. **Enhances operational efficiency and straight-through processing** by identifying areas where poorly formatted messages may be blocked or delayed so that the situation can be remedied.

Incoming and outgoing messages

Developed in line with SWIFT's community-based approach, Payments Data Quality provides a global overview of the quality of originator and beneficiary details in a bank's incoming and outgoing payment messages. Subscribers to the service use quality verification rules to assess whether information such as name, account number and address is included in MT 103, MT 202COV and MT 205COV payment messages. While the identity of originator and beneficiary is not visible, the tool provides a unique transaction reference number so that banks can investigate specific messages in their own systems.

"For outbound payments, Payments Data Quality lets you understand whether an issue is a problem in your own system or a problem that you are passing on from someone else," says SWIFT's De Wilde. "When looking at inbound payments, the tool enables you to provide a diagnostic to your correspondent – for example, informing them that a certain percentage of the payments they sent last month triggered an issue in your systems."

Correspondents can be informed about issues, such as cases of missing account numbers or consecutive repetitive characters that have been used to avoid stating a name. As De Wilde explains, "Payments Data Quality not only helps you fix your own data quality issues – it also enables you to work with your counterparties to address data quality issues in the messages they send to you."

Banks are increasingly expected to inform regulators about counterparties that systematically provide inadequate or inaccurate information about the parties involved in financial transactions. Again, Payments Data Quality can support banks in fulfilling this obligation. "The tool provides information that you can use for regulatory reporting purposes," explains De Wilde.

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> Head of Financial Crime Intelligence and Services
> SWIFT

Industry initiatives

The industry is working to provide greater clarity on data quality issues and tackle any areas where inconsistencies arise. The Wolfsberg Group is currently working on guidelines to clarify where and how information should be prioritised in payment messages.

SWIFT is also working to promote the use of structured fields for originator and beneficiary information. Structured fields help to ensure that this data is captured in a systematic way, for example by specifying the need for a country code and tagging the address with different elements, such as city and street.

SWIFT has already updated its MT 103 payments messages to make the use of structured fields optional for fields 50 (originator information) and 59 (beneficiary information). The widespread adoption of structured data is vital for the industry to benefit fully. So, in consultation with its community, SWIFT has announced that the free format options will be removed from fields 50 and 59 in the November 2020 standards release.

Migrating to structured data

While the use of structured fields will not be mandatory until 2020, banks can already use these fields – and SWIFT is recommending that the community migrates to the new formats as soon as possible.

Adopting the new structured formats means banks must ensure that their payment data is complete, accurate and up-to-date. Payment systems will need to be updated so that the required information can be captured and transmitted properly. During the transition, Payments Data Quality can be used to track the proportion of a bank's total traffic that has migrated to the new MT format, helping banks to track their progress and identify any weak points in their programmes.

Wolfsberg Group guidelines

These industry guidelines will foster consistency on points such as when and how information should be prioritised. "While the principles published by the Wolfsberg Group in 2007 remain valid, the Group is drafting expanded Payment Transparency Principles in an effort to drive consistency on how banks populate payment data," explains HSBC's Garces-Monterrubio. "The paper will provide industry guidelines on the preferred name and address to use for the originator of the payment. It will also recommend an approach to prioritise certain elements of a complete address if the full address will not fit in the payment message."

Garces-Monterrubio notes that the Wolfsberg Group hopes these guidelines will highlight the challenges banks face in interpreting payment transparency regulations and recommend best practices to drive standards and achieve consistency. A further goal is to drive payment and channel infrastructures to make changes that address space limitations and non-structured data.

Overcoming data quality
challenges in payments

What next?

By introducing some structure to payment messages, and creating guidelines on how to prioritise payment information, initiatives such as SWIFT's 2020 release and the Wolfsberg Group guidelines can ease some of the challenges currently faced by compliance teams. But these solutions are only a temporary fix, pending a longer-term solution.

As Garces-Monterrubio points out, the limitations of the existing MT103 and MT 202COV messages continue to be an obstacle. "Unless the messages are changed to carry more data and more party fields, banks will continue to struggle with prioritising payment data," she says, noting that recommendations have been made to the SWIFT community to address the problem and help banks use the data to fight financial crime.

Garces-Monterrubio adds that "progress in introducing these changes has been limited as it needs support from the whole industry." She also says that alignment will be needed between each bank's operations, business and compliance areas if the industry is to move forward.

> **Our goal is to make sure that future standards updates address the data requirements of compliance teams. The sooner banks adopt the new standards, the sooner they can start improving their own compliance and that of their counterparties.**
>
> **Stephen Lindsay**
> Head of Standards
> SWIFT

A sustainable solution

Banks can already take steps to improve their payments data, as the industry works towards a more sustainable solution. Garces-Monterrubio encourages banks "to review their customer data and payment systems and push for the implementation of ISO 20022 messages." She adds that banks can work with industry groups to drive consistency in the definitions of required payment data and message standards.

SWIFT is also working to promote collaboration between the relevant parties on this topic. "We are facilitating a number of discussions among compliance, standards and payments operations experts," explains Stephen Lindsay, Head of Standards at SWIFT. "Our goal is to make sure that future standards updates address the data requirements of compliance teams."

Although the new MT structured message formats are not mandatory until 2020, banks can already adopt them. "There's no reason to wait," observes Lindsay. "The sooner banks adopt the new standards, the sooner they can start improving their own compliance and that of their counterparties."

What can banks do today?

- Review your customer data and payment systems
- Begin adopting the new MT structured message formats – there's no need to wait until 2020
- Use solutions such as Payments Data Quality to assess the quality of your own data and that of your correspondents
- Work with industry groups to help drive consistency

For more information, visit www.swift.com/paymentsdataquality or contact your SWIFT account manager.

About SWIFT

SWIFT is a global member-owned cooperative and the world's leading provider of secure financial messaging services.

We provide our community with a platform for messaging, standards for communicating and we offer products and services to facilitate access and integration; identification, analysis and financial crime compliance.

Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories, enabling them to communicate securely and exchange standardised financial messages in a reliable way. As their trusted provider, we facilitate global and local financial flows, support trade and commerce all around the world; we relentlessly pursue operational excellence and continually seek ways to lower costs, reduce risks and eliminate operational inefficiencies.

Headquartered in Belgium, SWIFT's international governance and oversight reinforces the neutral, global character of its cooperative structure. SWIFT's global office network ensures an active presence in all the major financial centres.

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