

Nth Exception on the Power of the LEI in Account-to-Account Validation (Confirmation of Payee)

Introducing Nth Exception

Nth Exception is a boutique payments technology and consulting firm specializing in helping payments players capture opportunities.

The firm's payments-anchored capabilities are designed to assist banks in providing their corporate and financial institution customers with greater efficiency, control, and value from payments. As specialists in Swift messaging, ISO 20022, and alternative payment methods, Nth Exception works with customer organizations worldwide to help them navigate complex messaging standards and meet the intricate requirements of different schemes and market infrastructures.

Nth Exception's Nucleus is a machine learning-powered ISO 20022 data fabric, designed to reduce migration risks for organizations moving to the new structured payments language. Listed under the Swift ISO 20022 Programme as a CBPR+ ready data platform, Nucleus leverages artificial intelligence to help organizations address the complex, and industry-wide issue of structured data. The LEI is a key component of the Nucleus platform.

The Challenge

Providing cross-border account validation services, on both a regional and global basis, is a huge challenge due to the volume and varied nature of country-level regulations, standards, identifiers, currencies, and payment schemes. The inability of banks to verify beneficiary information due to poor onboarding processes results in a high number of payment delays and returned payments, increasing risk, and resulting in additional fees. This lack of consistency also impacts corporate payments more widely, resulting in a large number of fraudulent payments. Failed payments which require manual intervention are costly, time-consuming and have the potential to cause wider reputational damage if deadlines are missed.

This challenge continues to grow. As adoption of real-time and other payment types increases across the globe, payment fraud strategies are evolving to match. In parallel, the regulatory bodies overseeing payments are also evolving their requirements.

One evolution is ISO 20022, which went live on the Swift cross-border network in March 2023. Financial institutions are currently navigating a 32-month 'coexistence phase', with complete industry migration set to complete by November 2025. This transition is driving significant shifts in the financial services sector. Embracing this change as early as possible has the potential to generate significant savings in time, money, and resources for businesses.

Currently, however, there is no single, globally consistent identifier for payees across borders, legal jurisdictions, and payments schemes. This means match rates are low and

the associated manual interventions required to investigate the discrepancies in names continue to cause headaches. Nth Exception’s research indicates that currently 98% of false alerts occur due to poor data quality. As a result, we anticipate in the initial eight months of ISO 20022 migration, data quality will be the primary driving factor of successful transitions to ISO 20022.

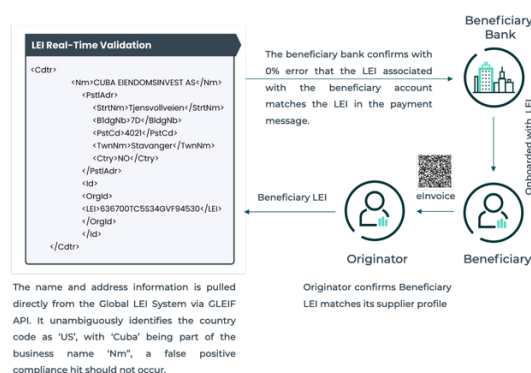
The Power of the LEI

The adoption of a single global identifier standard would be invaluable for account validation in cross-border payments. The LEI can play this role. The Global LEI System is the only open and standardized legal entity identification system that has already been widely endorsed and mandated by financial regulators. Incorporating the LEI into ISO 20022 cross-border account validation messaging would increase match rates, decrease validation responses, and thus reduce the need for manual interventions.

The LEI is a structured and unique identifier, meaning originating and beneficiary entities can be identified with LEI in the payment messages in an unambiguous manner. The LEI contains the structured data of the entity’s legal name (in local language), translated or transliterated name, and address. This information can then be directly extracted from the Global LEI Index or via GLEIF API calls, making it simple for banks to match the beneficiary information on the payment message with the beneficiary’s profile. As a result, errors caused by incorrect/incomplete beneficiary names or addresses can be drastically reduced.

Corporates are often the target of fraudulent payments and must implement systems to reduce their impact. If the LEI is being used between corporates when signing a commercial contract or invoice, the originating entity could easily add the beneficiary entity’s LEI on the payment messages. The beneficiary bank could then validate the beneficiary’s LEI on the payment message against the one they have on file. This ensures that any fraud payment information with a similar beneficiary name or account number information can be easily detected before the payment is credited.

Nth Exception’s Nucleus offers robust capabilities for validating and updating LEIs, ensuring compliance with regulatory requirements, and mitigating the risk of fraud. By automating LEI validation processes, Nucleus helps financial institutions maintain accurate entity information, enhancing risk management in A2A payments (see below an example):



Future Value at Nth Exception

Nth Exception recognizes the need for change to be driven through regulation and, as such, supports the Financial Stability Board's (FSB) cross-border payments recommendations regarding the LEI. Nth Exception also encourages the FSB, FSB member jurisdictions, and relevant standard-setting bodies (such as the Basel Committee on Banking Supervision [BCBS], Committee on Payments and Market Infrastructures [CPMI], International Organization of Securities Commissions [IOSCO], and the Financial Action Task Force [FATF]) to advance LEI recommendations and references in their work.

"In the interconnected world of payments and trade, LEIs stand as the cornerstone, fostering transparency, compliance, and efficiency." – Akhil Rao, Managing Director, Nth Exception.

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