

Legal Entity Identifier India Limited (LEIL) on the Power of the LEI in Account-to-Account Validation (Confirmation of Payee)

Introducing [LEIL](#) and the working group

[Legal Entity Identifier India Limited](#) (LEIL) is a GLEIF accredited LEI Issuer in the Global LEI System. LEIL is recognised by the Reserve Bank of India (RBI) as an issuer of Legal Entity Identifiers under the Payment and Settlement Systems Act 2007.

The RBI has implemented a mandate for all banks to use the LEI for domestic and cross border transactions above ₹50 crore or six million USD¹.

Following the FSB’s recommendation to integrate the LEI in cross-border payment messaging, LEIL launched a pilot project designed to demonstrate the LEI’s value in cross-border payments. The pilot focused specifically on investigating the utility of the LEI for for account-to-account (A2A) validation (Confirmation of Payee). LEIL requested five Indian banks to form a working group and take part in the pilot process, selecting the largest banks with elaborate payment processes, to ensure as many scenarios were covered as possible. The next sections introduce the challenges these five banks face when conducting A2A validation and how the LEI can help.

Indian Banks taking part in the pilot:

Entity Name	LEI Code
STATE BANK OF INDIA (SBI)	5493001JZ37UBBZF6L49
HDFC BANK LTD.	335800ZQ6I4E2JXENC50
KOTAK MAHINDRA BANK LTD.	335800E6GTTXKHXE2I75
AXIS BANK LTD	549300HVNWMJPOFVNI41
CANARA BANK LTD.	335800E4RH82Z8XC3C30

The Challenge

Providing cross-border account validation services, on both a regional and global basis, is a huge challenge due to the varying country-level regulations, standards, identifiers, currencies and payment schemes. The inability of banks to verify account information prior to payment processing results in a high number of payment delays and returned payments. This results in increased risk and additional fees.

There are two main challenges which have been identified by the working group, the first being domestic transactions within India. Currently, the account number is

¹ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12206&Mode=0>
https://www.rbi.org.in/Scripts/BS_CircularIndexDisplay.aspx?Id=12010

validated only by the beneficiary bank while making a payment. At present, all account numbers must be manually input, meaning any error with this process can result in the mistransfer of funds.

The second key challenge is the processing of incoming cross-border payments. The working group estimates that a small but significant percentage of all cross-border payments are delayed due to information mismatches. If a mismatch is recorded, the validation process must then be carried out manually. By default, the introduction of manual processing increases the chances of human error. In the worst case scenario, transactions are returned to the Nostro account team for correction. The requirement of these additional manual processes causes significant delays. A single, consistent universal identifier is needed.

The Power of the LEI

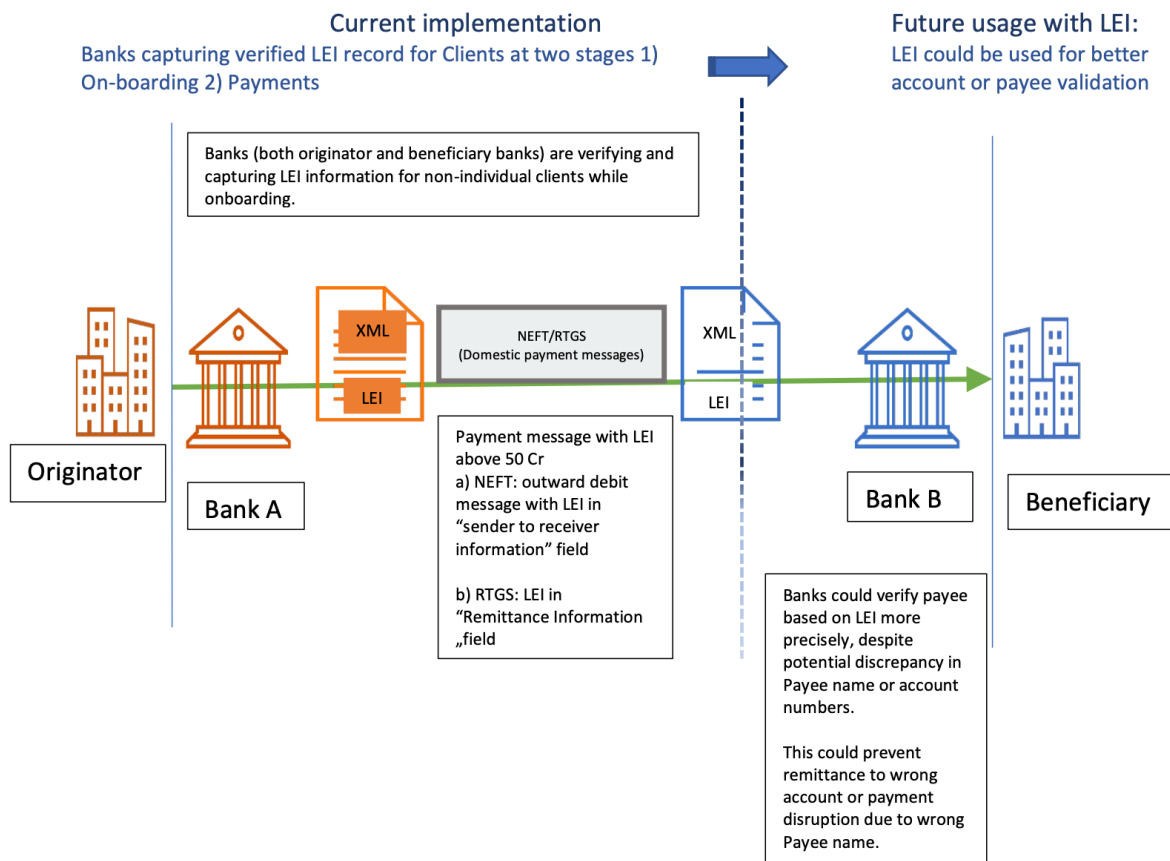
The adoption of a single global identifier standard would be invaluable for account validation in cross-border payments. The LEI can play this role. The Global LEI System is the only open and standardized legal entity identification system that has already been widely endorsed and mandated by financial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

The LEI will be most effective when acting as a settlement mechanism when both the LEI and account number match. The power of the LEI is best demonstrated through the use of an API which has been custom created by LEIL. This API allows banks to automatically check and validate LEIs, vastly increasing accuracy and saving time when compared to traditional manual checks. The LEIL API is currently being used by 19 Indian banks.

The benefits of utilizing the LEI alongside the account number for payment processing is that both the original and beneficiary legal entities can be identified more precisely, reducing the risk of funds transferring to the wrong account. These benefits are experienced even more through use of the API, which allows legal entities to be identified instantly and automatically.

In order to unlock the full potential of LEI for cross border payments, local banking systems and databases must evolve and require LEIs for their current business clients. To support this push, the RBI and regulated banks in India are emphasizing recording the validated LEI against their business clients. In future, the RBI envisages banks verifying a payee more precisely through use of the LEI, in spite of potential discrepancies in the payee name or account number, dramatically reducing the levels of disruption currently experienced.

The image demonstrates the introduction of LEI in a phased manner and how the RBI legislation envisions future usage and relevance in the payments:

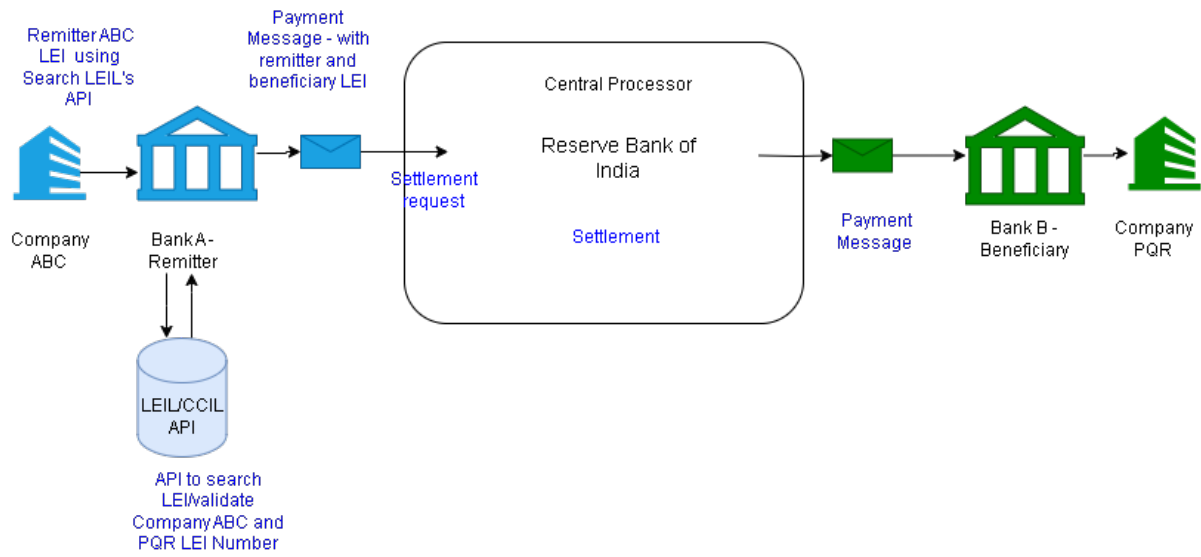


Future value

As a result of this pilot, the working group² strongly recommends the LEI be used for efficient cross-border account-to-account validation. This will enable a number of benefits, most importantly facilitating straight through processing through the utilization of API-based account validation utilizing the LEI.

² Only a section of banks have been taken for the pilot project feedback. The practise may not be uniformly adhered across the entire Indian Banking system.

LEIL, based on the feedback from the banks' working group, has proposed a framework for efficiently and easily validating and recording LEIs in the domestic payment messages for account-to-account validation for the Indian Banks:



Explanation: Company ABC can initiate RTGS/NEFT transaction by inputting its LEI Number. Bank A will ensure that the LEI Number of remitter and beneficiary are captured and validated while processing the payment transaction using API. The payment message with both LEI Number will be sent to RBI for settlement.

Furthermore, the group believes that increased use of the LEI globally will reduce the risk of money laundering and fraudulent payments by strengthening validation of the entire payment flow. The group believes that the robust implementation of the LEI in the domestic payments systems would be a stepping stone to strengthen strong and effective usage of LEI in the cross-border payment validation.

ISO20022 is an important development for the future of payments and is already structuring its data into the appropriate format. The use of the LEI in ISO20022 payments messaging would provide huge benefits to Indian banks as it would ensure the embedding of the LEI of the remitter and beneficiary in payment messages.

We recognize that implementing a single global identifier standard requires broad industry engagement across payments ecosystems. In practice, appetite for such broad change is driven by regulatory obligation. Given the benefits of reduction in misdirected payments, lower number of payment returns, avoidance of additional fees, avoidance of payment delays and reduction in payments risk, the working group supports the FSB cross-border payments recommendations regarding the LEI and encourages FSB member jurisdictions, the FSB, and relevant standard-setting bodies (e.g. BCBS, CPMI, IOSCO, FATF) to advance the LEI recommendations in their work.

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