SNAPSHOT

ISO 20022:
Financial messaging
for this generation

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What is ISO20022 and why is it important?

Payments data is processed by thousands of systems, every second of every day. From a customer perspective, this is usually seamless and works well. However, numerous conventions exist for how payments data is processed between and within organisations, adding complexity and hindering interoperability. An efficient, modern, standardised approach has been lacking, but for good reason – it would be extremely complex and costly to implement. The time for this complex implementation, however, has arrived in the form of ISO20022.

ISO20022 is a globally developed standard for payments messaging with the aim of creating a common language and consistent structure for transmitting data between organisations. This isn't a new concept - ISO20022 has been around for 15 years - but adoption has now reached critical mass from payment schemes across the world. The move to ISO20022 promises significant benefits, such as richer data driving new products and services, an improved client experience, and increased STP rates driving more efficiency.

But to unlock these benefits, banks and payment service providers need to know how they will manage and deliver this considerable change. Imminent deadlines are looming. Whilst we have seen SWIFT extend their implementation date for ISO20022 by one year to November 2022 (retaining the 2025 deadline), T2 and CHAPS are continuing against original timelines for late 2021, and early 2022 respectively. This needs to be watched closely as the effects of COVID-19 ripple through the financial industry.

Of course, the benefits and challenges of ISO20022 are important to understand, and are well documented [1,2]. However, payment schemes are setting timelines for adoption, and with original timelines still in place for T2 and CHAPS, it is important that organisations act now.

Implementation considerations of ISO20022

Regardless of an organisation's size, the business and customer context must be factored into implementation planning and stakeholder support obtained from across the or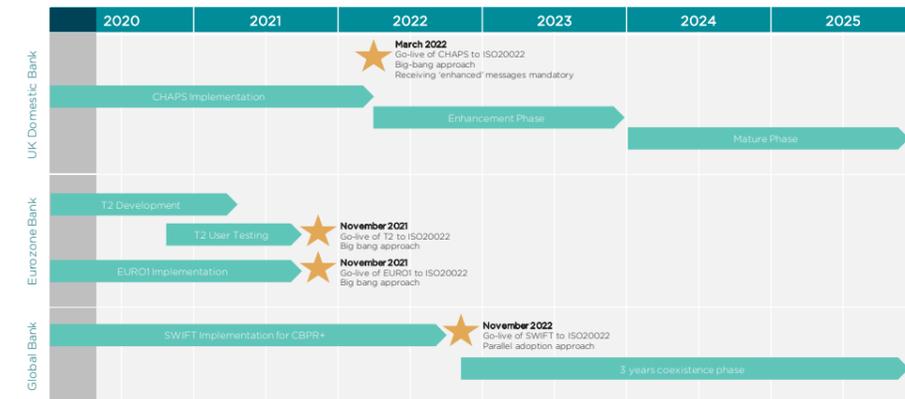ganisation. The approach taken will need to be tailored to each organisation, considering the type of business, the schemes that are used, and the operating model (e.g. is the organisation a direct or indirect participant). Crucially, considerations also need to be given to the customers who are impacted by this change to ensure readiness, minimise disruption and to maximise the benefits.

Organisations need to work with customers to ensure that customers understand the impact to them. This will include the preparedness for the transfer of inbound messages (e.g. how customers can read payment messages in the new format - MX) and outbound messages (e.g. how customers provide beneficiary information in the MX format). Effective communication to customers must be high on the agenda to avoid the risk of customers being negatively impacted by this transformation.

There are then, of course, many technical considerations. The increase in message length and enriched data will lead to increased data storage requirements and may impact processing times. System data models will need to align to the new standard, and data quality metrics will need to be revised with new monitoring processes introduced. The end-to-end payment flow will need to be analysed across channels, core banking systems, payments engine/routing systems and scheme gateways. The transition of this architecture will need to take place at each component (working backwards from the gateway) one at a time. A SWIFT translator service is also available to banks to translate between MT and MX formats for inbound and/or outbound message flows. This does, however, introduce the risk of data truncation given MX formats provide much richer data than MT message equivalents. Constraining MX messages to the data points existing within MT formats can mitigate this but prevents the ability to capitalise on the benefits of ISO20022. Alternatively, as a mitigation, MX and MT messages could be delivered together. For the majority, this is not a sustainable long-term solution.

Each organisation will have strategic decisions to make on what to upgrade or replace, and at what pace. This will be a multi-year, cross-functional programme which works through the technology estate to make impacted systems comply to the ISO20022 standard. Annual planning/budgets will not be conducive to the multi-year transformation. This requires upfront investment which looks across the 4-5-year programme. By implementing a future-proofed and scalable architecture, organisations will be well placed to add additional products and services as these become ISO20022 enabled. Ultimately ISO20022 is going to drive a long-term re-engineering of

Figure 1: ISO20022 migration timeline by region

the technology estate, and organisations will need to be methodical in how they approach this. See below for some of our recommended steps to ensure a successful implementation:

- **Single Initiative** – run the programme under a common umbrella to ensure consistency
- **Be compliant for greenfield technology solutions** – do not exacerbate effort
- **Shorten the migration** – minimise dual running
- **Engage with your community** – achieve greater standardisation across the payment ecosystem

How can BCS help?

With our deep understanding of design and architecture considerations for payment platforms, BCS are well placed to support financial organisations in preparing for, and delivering, ISO20022. We offer three services that will help you to fully realise its benefits.

Readiness Assessment - We can apply our experience of ISO20022 compliance and delivery to provide an assessment of readiness for ISO20022. This BCS tool provides specific recommendations on the following:

- **Technical Readiness** – maturity of your organisation's testing, governance and controls in order to ensure ISO20022 readiness
- **Compliance Readiness** – the ability of your organisation to demonstrate compliance with ISO20022 standards (both internally and externally)
- **Client / Customer Readiness** – communications strategy to ensure all clients are aware of what is required as part of ISO20022
- **Strategic Readiness** – how well defined your organisation's strategy is for ISO20022 in the long term
- **Business Readiness** – communications strategy to ensure all elements of your business are prepared for ISO20022

Payments & Technology Design & Architecture – At BCS we can apply our deep payments expertise and design process experience to define the ISO20022 change roadmap, mobilise design authorities and challenge design and architecture outputs. We can deliver comprehensive standards for documenting and validating solution designs, ensuring end-to-end traceability of interactions and data payloads for each payment flow.

Technical Delivery – We have an impressive track record delivering some of the most complex, large scale payment migrations in UK Banking. We are experts in complex technology programme management ranging from full scale re-platforming and data migrations to proof of concept delivery for innovative technologies. We can ensure effective data management and ISO standards compliance is recognised as a first order concern.

Banks are facing numerous challenges – agile new competitors, historically low interest-rates and ever-increasing regulation. ISO20022 cannot be viewed as just another hurdle on the digital transformation journey. At BCS, we understand the pressures your organisation faces, and we have helped our clients deliver complex digital, and regulatory change, on-time and on-budget. Rather than simply 'ticking the box', BCS can ensure that your ISO20022 programme goes beyond mere compliance and provides you with competitive advantage in an increasingly competitive payments arena.

[1] – SWIFT: How we share the benefits of ISO20022

https://www.swift.com/resource/iso-20022-third-party-toolkit

[2] – Bank of England: ISO20022 Factsheet

https://www.bankofengland.co.uk/-/media/boe/files/payments/rtgs-renewal-programme/iso-20022/iso-20022-factsheet.pdf?la=en&hash=48511E04F4A0DBBF70C09B782482808A7493AC18

Who should you speak to about it?

To find out more about how BCS Consulting can help with your ISO20022 implementation, please get in touch with one of our key contacts listed below.

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