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Volanté

Five success factors for an ideal ISO 20022 migration

A guide for banks and financial institutions

Introduction

The payments migration by SWIFT to ISO 20022 has been rightly hailed as a defining moment for the financial services community. The new standard promises not only greater interoperability between disparate settlement networks but also easier global communication, simpler straight-through processing (STP), and more efficient compliance processes in conjunction with emerging instant payment systems.

Such is its potential impact that banks and financial institutions cannot afford to think of their implementation of the new standards as just another IT project, or a box-ticking exercise they are being strong-armed into by industry movements from SWIFT and payments market infrastructures (PMIs). ISO 20022 represents an opportunity for banks to reinvent the way they operate and prepare for a digital future.

The opportunities ISO 20022 provides means that a bank can deploy a series of robust and future-ready strategies. The ability to deliver new data components and exchange richer information creates a transparency in the payment chain which makes compliance a simpler task. The enhancement of payments data will also lead to improved customer service, greater usage of digital straight-through processing (STP), a reduction in operational costs, increased innovation, and a boost to the entire payments value chain.

Significant changes are on the horizon for banks and financial institutions whether or not they acknowledge the opportunity presented to them. There are a multitude of operational, infrastructural, and technical considerations and rising to meet them will be key to success not just in the movement towards ISO 20022.

The ISO 20022 Migration Checklist

The five key elements to a successful ISO 20022 migration for financial services

1. Understanding and Handling Migration Timelines

2. Assess and Evolve Legacy Infrastructure

3. Expect and Mitigate the Effects of Data Truncation

4. Anticipate Standards Co-Existence

5. Prepare for an Interoperable Future

> “Common standards stand to make it easier for banks to comply with regulations as well, enabling them to run automated analytics based on structured information as part of sanctions screening processes, for example. Harmonisation based on ISO 20022 represents a much more efficient and economical way of doing things. Not only does it reduce complexity, it also promises to generate major cost savings.

Andreas Hauser, senior product manager, Deutsche Bank

The Five Success Factors

Understanding and Handling Migration Timelines

As could be expected from an ambitious global market change like ISO 20022, the involvement of so many market participants has led to timelines and implementation rulebooks diverging as time moves on. SWIFT and PMIs across the globe have adopted similar strategies, which can be broadly defined as the following:

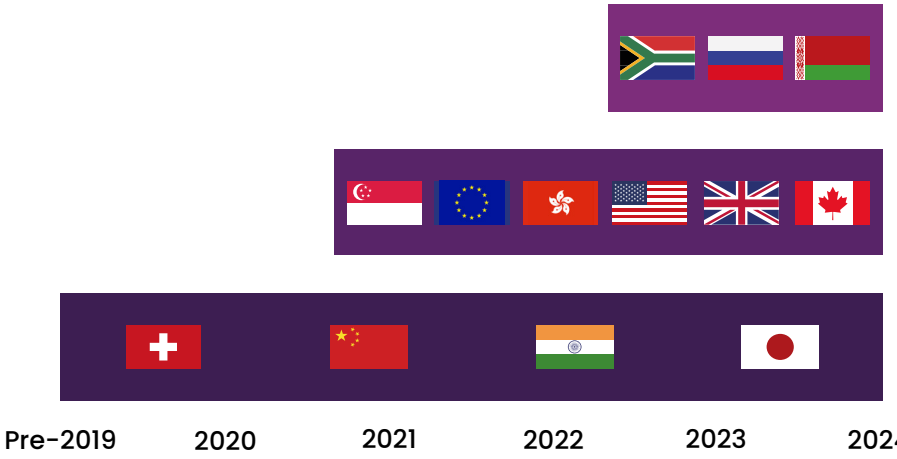
- A one-step big bang migration for the entire network
- Multiple-step phased approach where new standards and messages are gradually adopted
- Participant-led projects in which market members move separately

Yet if we focus on three crucial currency types – the euro, the US dollar and the pound sterling – we can see that even in these three crucial geographies timelines are broken apart and disjointed due to delays, industry discussions and changing priorities. The eurozone plans to kick off a full migration for TARGET 2 and EBA Clearing in November 2022, having postponed the date from November 2021[1]. In the US, where payments are cleared by Fedwire or CHIPS, a migration phase 1 deadline was set for November 2020, and then delayed to November 2021[2]. A second announcement in May 2020 Indicated that it would not implement Phase 1 of the Fedwire Funds Services migration to ISO 20022 during 2020 or 2021 and that no other format changes were planned in 2021[3].

The Bank of England has set out four phases for the migration of Bacs, Faster Payments and CHAPS, with a preparation stage completed in early 2022. A final "enhancement" phase is due for completion in Q1 2024[4].

SWIFT itself has received considerable support for its decision, while also drawing concerns from some players. The European Central Bank (ECB)[5] initially expressed concern about translations between MT and ISO 20022, which it is working with SWIFT to solve.

Adoption of ISO 20022 by Market Infrastructures by 2024



Source: SWIFT data

1. https://www.ecb.europa.eu/paym/intro/news/html/ecb.mipnews200622.en.html
2. https://frbservices.org/resources/financial-services/wires/iso-20022-implementation-center.html
3. https://www.finextra.com/newsarticle/35940/federal-reserve-kicks-fedwires-iso-20022-can-down-the-road
4. https://www.bankofengland.co.uk/payment-and-settlement/rtgs-renewal-programme
5. https://www.finextra.com/newsarticle/35764/ecb-steps-in-over-swifts-iso-20022-migration-delay

> "The ISO 20022 migration landscape is constantly changing, with new dates and schedules being announced frequently. Local communities are concerned as projects have been structured to meet previously announced timelines. This creates big challenges with co-existence between different standards.

Michael Knorr, head of payments & liquidity management, global payments at Wells Fargo Corporate & Investment Banking

Assess and Evolve Legacy Infrastructure

Although the backend payments engine(s) will be crucial to the proper adoption of ISO 20022 standards, banks do not operate on just one application, and their infrastructure could be comprised of an amalgamation of legacy systems built up over time through mergers, acquisitions, and the launch of new products.

An industry survey found that 43% of market participants feel that integration with their legacy technology applications remains their largest concern when it comes to the migration towards ISO 20022, compared with 28% for interoperability challenges, 18% for the co-existence of standards, and 11% for mixed migration timelines[6].

For larger transaction banks that operate in multiple jurisdictions and market infrastructures, there are greater considerations. A payments message has a footprint throughout an organisation. It is routed through a variety of systems and platforms, including sanctions and AML applications, as well as cash management and reconciliation, AML, billing, validation, audit, and liquidity. Not all of these applications will be ISO 20022 compliant – at least not without extensive costs in both manpower and capital.

> "[Banks] should look at this as an opportunity to improve their service offering overall rather than an onerous compliance exercise, and they should assess their legacy systems carefully: some of them might be able to be insulated from the ISO 20022 changes, but others will need to be replaced.

Michael Knorr, Wells Fargo

6. Volante Technologies, "Why it's time to start your ISO 20022 payments migration now", June 2020

The conversion of an entire infrastructure stack to ISO 20022 compliant solutions would be a herculean task for even the largest and well-capitalised banks. Therefore, it remains crucial for institutions aiming to transition to ISO 20022 to identify where the footprint of an ISO 20022 message lands within their organisation and ensure that the proper tools have been put in place to assure that each area touched is capable of handling the message.

Yet there remains an opportunity. Although no C-level executive wants to look at their infrastructure and realise that it must be pulled up root and stem, there is no better time to analyse the interlocking systems in the back end. Where can improvements be made? Where can complementary tools and systems be integrated to lighten the load for mission critical software not yet ready to be replaced? Developing a roadmap that accounts for modernising some legacy systems while insulating others along the ISO 20022 roadmap but sets an institution on firm footing for the future.

Expect and Mitigate the Effects of Data Truncation

Translation between message types will be a challenge for banks to overcome on the road to ISO 20022 success. ISO 20022 is a data rich message format, with many versions and variants, and allows for greater information availability. Transactions carried out between two ISO compliant end points will include all relevant and needed information but that can change when moving a message between ISO 20022 and previous SWIFT message types (MTs).

MT includes fewer fields and less room for data than an ISO 20022 message. In practice this can mean that relevant and important data included in the ISO 20022 message may become lost, obfuscated, or cut off when converted into the older format.

SWIFT writes as much in a migration consultation study: “Because ISO 20022 provides additional and more granular data than MT some data may be dropped or truncated in translation”. It adds that the ISO 20022 message signed and sent by the sender will represent “the definitive instruction. ”

Losing these latter fields of data could mean the difference in categorisation for a transaction. An address which has been flagged by sanctions screening as a source of money laundering could be cut from data or the full name of a recipient organisation blacklisted by the Financial Action Taskforce (FATF).

Data loss through truncation between MT and ISO 20022

There are two key examples of data truncation causing issues at a financial institution. A truncated message may result in a payment failing to be processed correctly. A payment moving to one "Diego Francisco de Paula Juan Maria y Ruiz" will be correct in ISO 20022, but cut off when converted to MT. The result may be recorded as a payment sent to "Diego Francisco de Paula" and emerged as a compliance issue.

The opposite side of the coin to this is, in the case where a payment that should be rejected or flagged by sanctions, is made due to lack of data. For example, the company "Steelware Security Solutions" is sent a payment. The MT message, translated from ISO, cuts off the contact email and address of the company, which has been blacklisted by FATF as a known recipient of money laundering. The payment is made, the breach discovered, and the bank is in trouble.

> "[There is] a big challenge with data truncation – a loss of data when transforming between legacy and new standards – and the consequent impact not just on core payments processing but peripheral workflow steps like sanctions, AML, and liquidity.
>
> Michael Knorr, Wells Fargo

Using tools and software that enable easy classification and storage of this extra information is crucial to the regulatory operation of a financial institution and can prevent what may seem a simple issue with STP turning into a greater one of legal compliance. Solutions that can solve data truncation and transaction data management will aid not just in the management of ISO 20022 migration but also help banks to use the data for digital innovations.

Moreover, a key element of any such solution must be an ISO 20022 fluent canonical data model that preserves all truncated data and allows transactions to be reassembled for audit and reconciliation purposes, with zero data loss.

Anticipate Standards Co-Existence

In a perfect world, when a new industry-wide standard is introduced all participants are ready for the switch-over and a homogenous network is prepared to run on day one. In reality, diversity and variation do not disappear once the go-live date passes.

There will be a period of co-existence necessary as the transition between ISO 20022 and MT formats occurs, which has been tabled to extend over a three year period between 2022 and November 2025.

Forward-looking financial institutions must also realise that regional variations will persist long past the go-live date for ISO 20022. SWIFT has announced new transaction management services that will provide translation services and allow participants to adopt ISO 20022 for correspondent banking at what it says will be their own pace.

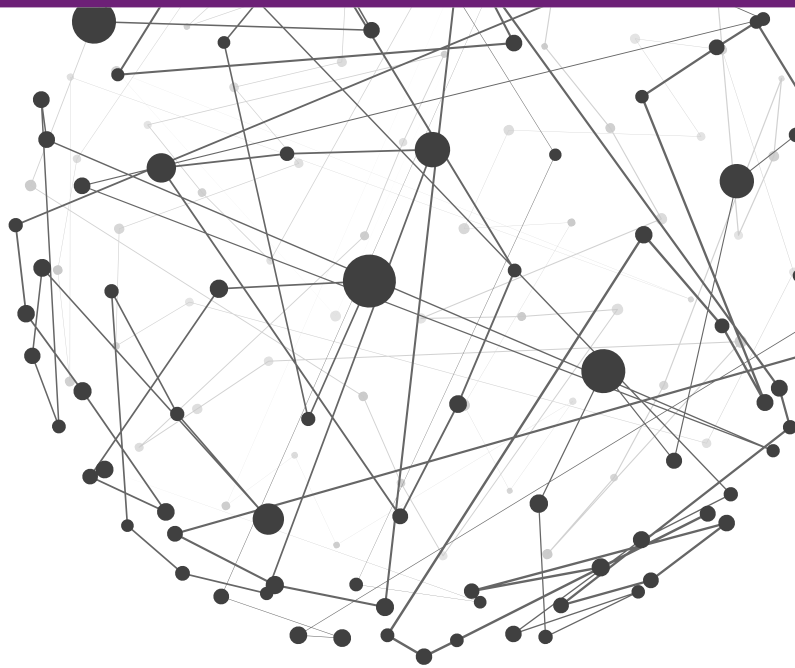
Connecting the right tools and software to the technology stack will become a key part of mitigating the wrinkles of standards co-existence. An ability to easily handle a client's payment sent as ISO and convert it to MT (or vice versa), without losing extended data, will set a successful bank apart from its competitors in a post go-live world.

> "Technology solutions that facilitate these outcomes are a key part of this picture. This way, financial institutions will be ready for co-existence across multiple timelines as well as for a future in which all messaging is based on ISO 20022 and interoperability reached.

Michael Knorr, Wells Fargo

> "Common standards stand to make it easier for banks to comply with regulations as well, enabling them to run automated analytics based on structured information as part of sanctions screening processes, for example. Reconciliation – one of the biggest pain points for corporates - will be made much easier by consistent use of common data fields – ensuring businesses can quickly see who has paid them and what for.

Andreas Hauser, Deutsche Bank



Prepare for an Interoperable Future

> "Adopting the standard that is now the de-facto messaging standard used by faster/instant payment schemes will help to seamlessly integrate cross border payments into domestic schemes in the future. Investing in a change of this magnitude will create economic benefits to the payments value chain: it will facilitate the adoption of Open Banking APIs, which are built on ISO message formats and which will drive end-to-end consistencies.

Thomas Halpin, global head of payment products, HSBC

The movement towards ISO 20022 goes beyond just compliance with a SWIFT or market infrastructure mandate. The payments processing ecosystem is a diverse and ever-changing one. While there are major changes in how payments are going to be made occurring now, there are new entrants, ideas, and innovations that will shape the industry landscape for years to come. A lot can happen in five years, after all.

Sitting at the heart of that change will be ISO 20022. The standard will bring together disparate systems, standards, and methods from across the globe and tie them together. No greater example of this can be found than in that of Ripple. The perennial SWIFT competitor announced In May 2020 that it would join the ISO 20022 standards body[7] as its first member based on distributed ledger technology.

7. https://ripple.com/lp/iso-overview/

There are plenty more real-time systems on the way, too. Western Union has been steadily expanding its network of real-time cross-border payments and now covers 550,000 locations in 200 countries[8]. Visa has developed its B2B Connect service, which activates payments between counterparties among client banks, cutting out the correspondent banking network[9]. In the Nordics Mastercard has been working in tandem with P27 to develop a region-wide real-time and batch domestic and cross-border payments platform.

> "Adoption of the ISO 20022 messaging standard will allow greater interoperability between domestic and international payment systems. It will ensure the banking infrastructure is fully ready for the digital future of payments as well as enabling banks to reassess their business model in the new era of open banking.

Philip Benton, senior analyst financial services, Omdia

APIs and open banking are rapidly making the financial industry more open, faster, and always-available, while conventional banking is shifting to a customer-centric approach. With ISO 20022 recognised as the standard of the future, having the ability to provide it as the common business process messaging layer will enable banks to adapt to fintech integration in a ready manner.

On top of real-time payment services being pioneered by technology firms and traditional payments companies are those developed by PMIs. These include Europe's TARGET Instant Payment Settlement (TIPS) system, Real Time Payments (RTP) from The Clearing House, and the Federal Reserve's planned service FedNow, designed to provide competition to privately-run settlement services, expected to launch in 2023.

The interoperable future will see a raft of services and channels available across the payments value chain. It's a safe bet that sitting at the heart of this global real-time network will be ISO 20022, connecting all the dots. Financial institutions need to centre their developmental roadmap on the new standard, and understand that it will be critical and central to future growth and return on investment. Ultimately, an ISO 20022 migration strategy is a payments modernisation strategy.

8. ir.westernunion.com/news/archived-press-releases/press-release-details/2020/Western-Union-Expands-Global-Real-Time-Payments-Network/

9 https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.16591.html

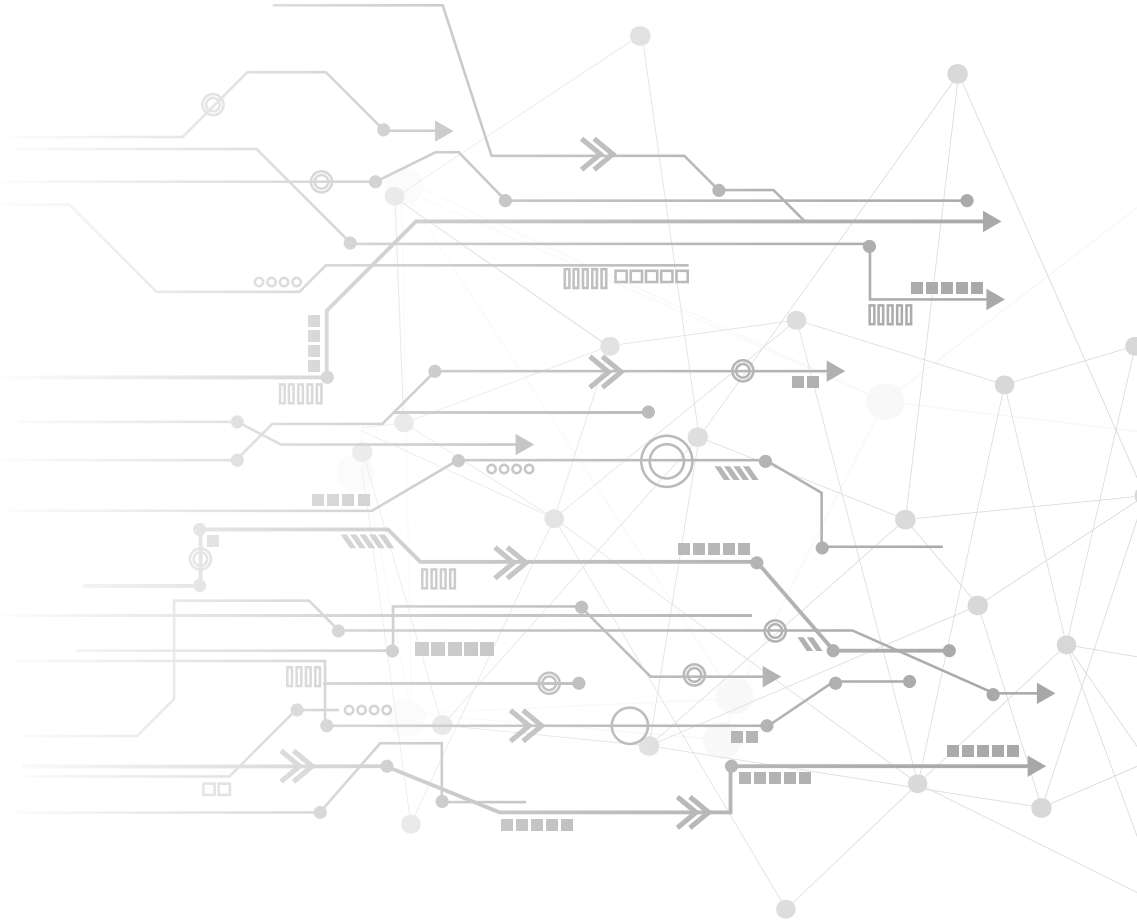
Conclusions

The migration to ISO 20022 provides a great opportunity for financial institutions. It enables them to proactively create a roadmap of where their institutions need to go, assess and evolve critical legacy systems, and activate a future-looking strategy that will enable them to integrate with innovations in the financial services sector as they arrive and impact throughout their organisations from back office processing to front office systems and channels of interaction.

The value-added services that can be enabled by ISO 20022 should be something that all participants in the payments industry engage with. Moreover, lessons learned in the migration phase will provide crucial information when facing new challenges in modernisation and digitalisation of services.

It remains important that financial services firms see the migration to ISO 20022 not merely as a burdensome compliance exercise, where boxes must be ticked, and IT projects delivered on.

The industry is facing a generational change. The payments sector is riding a wave of innovation to 2025 that banks can either catch or be swallowed up by. Yet by embracing the factors listed above banks can ensure they ride that wave to future success.



About Volante Technologies

Volante Technologies is a global provider of payments and financial messaging solutions to accelerate digital transformation, available as a service in the cloud or on premise. Our clients include the world's largest banks, market infrastructures, exchanges, clearing houses, corporate treasuries, and card networks. Founded in Silicon Valley in 2001, Volante today serves as a trusted, strategic business partner to over 100 financial institutions in 35 countries.

To learn more about how Volante helps financial institutions simplify the complexities of ISO 20022 migration:

visit: https://www.volantetech.com/iso-20022-migration

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