



ISO 20022 Introduction POV

2022



As businesses have become more global and economies more intertwined, the volume of digital global payments has significantly increased and the requirements for payment processing have changed. To address the inefficiencies and limitations with current messaging standards, and to standardize payment message exchange across the world, the payments industry has introduced ISO 20022 – an enhanced global payments messaging standard. Although ISO 20022 has been around for a while now, key regulatory and industry drivers are accelerating the implementation internationally across market infrastructures and payments systems.

ISO 20022 is an internationally recognized standard, developed and maintained by the International Organization for Standards (ISO), for financial industry messaging in payments, securities, trader services, cards and foreign exchange domains. The standard offers more than just a set of messaging formats - it provides a common language and model for payments data, thereby improving data quality across the payments landscape.



Who will be using ISO 20022?

Everyone! There are industry and regulatory-driven initiatives underway across the whole of the payments industry. Follow-on changes are underway in Securities, Treasury, Trade Services, Cards and FX.



Why ISO 20022?

- ISO 20022 is global
- Open standard for payments messaging
- Used in payment systems in over 70 countries
- Rich, structured Data Model
- Improves Compliance screening
- Enables new kinds of business

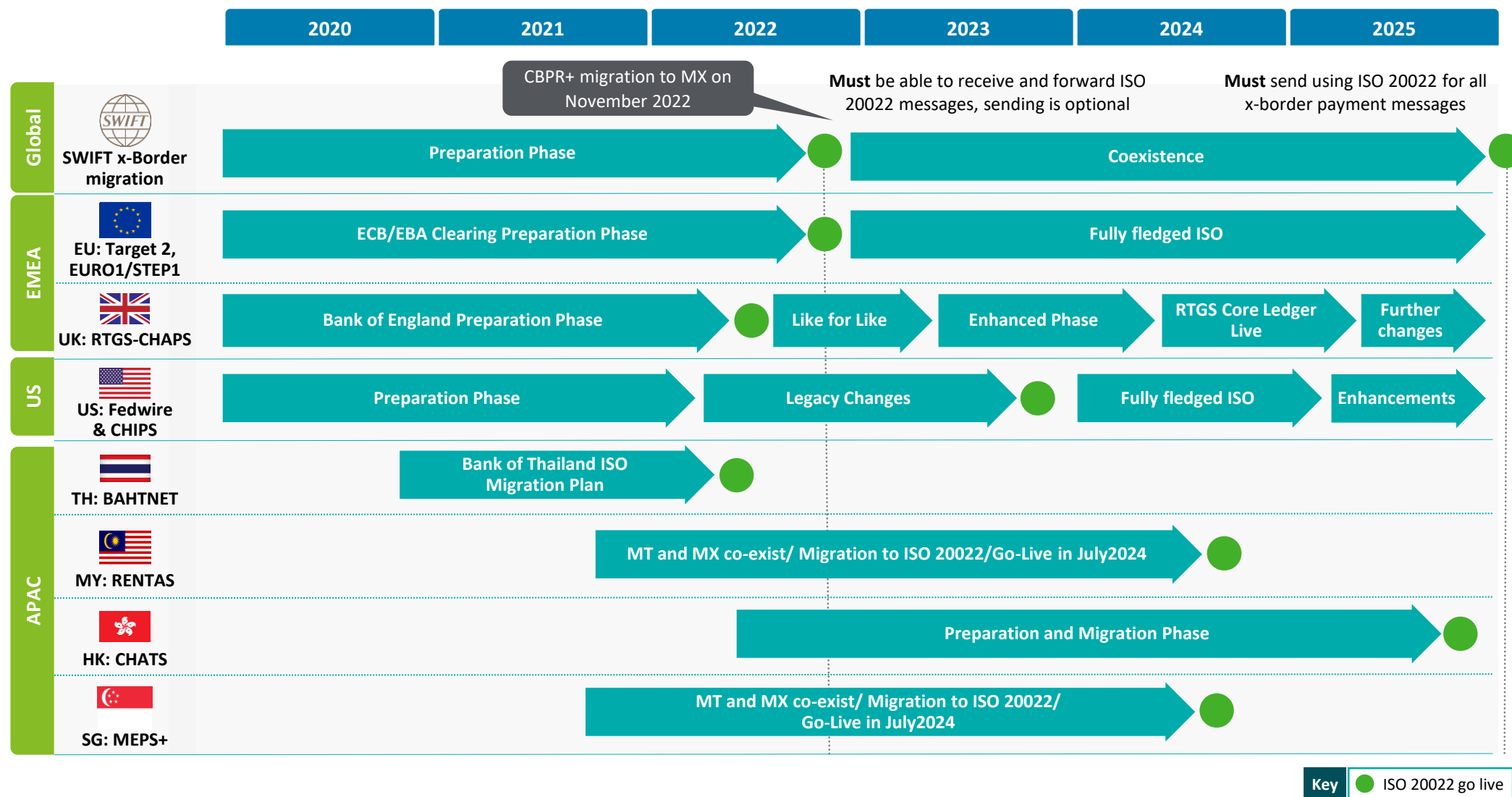


What will be impacted by ISO 20022?

- Inbound & Outbound messaging over InterAct/FinPlus
- Compliance Screening & Payment Reconciliation Processes
- Liquidity Management changes and processes
- Accounting platforms/Intermediary applications
- Downstream systems currently consuming underlying SWIFT MTs
- Downstream processes and teams who directly access CHAPS, T2 or SWIFT MT messages today in BAU

Why do you need to act now?

The migration of the SWIFT cross-border payments scheme from the current SWIFT MT standards to the new ISO 20022 MX standards will accommodate a three-year co-existence phase, starting in November 2022 and completing in November 2025. At this point all participating market infrastructures and banks will be using the new standards. The adoption timelines and completion dates for other regional schemes differ by country and scheme but will still be seeking compliance by November 2025 at the latest.



What will ISO 20022 offer?

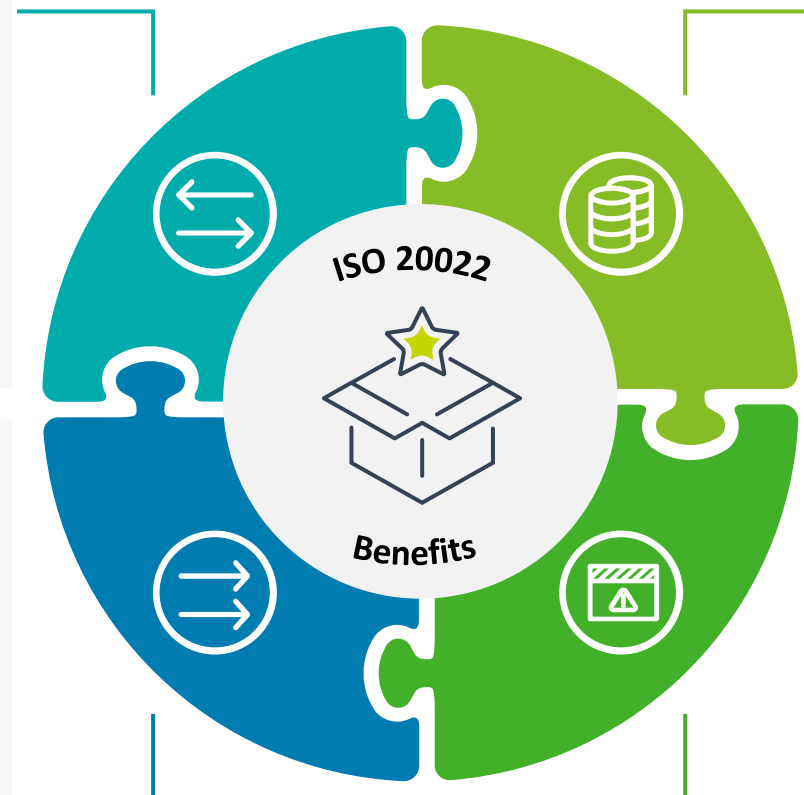
The new messaging standard will enable a range of potential benefits across the bank which will help to improve operational efficiency and bring down the costs associated with payment processing. Some of the key benefits that banks will experience are highlighted below.

Globally interoperable and resilient

- Interoperable between domestic and cross border payments, as well as different payment rails, resulting in standardisation of processing and smoother hand-offs between payment processors

Higher STP & Lower OpEx

- Standardised schema that enables greater levels of automation and reduced human intervention between the client and bank, as well as within the bank's internal payments architecture



Limited data restraints









- Enhanced data attributes and robustness support innovation including: advanced data analytics for prospecting new business opportunities

Improved AML/CTF Compliance

- Richer, structured, consistent data will improve accuracy of AML/CTF and sanctions screening
- Reduce false positives allowing teams to focus on red flags/high-risk alerts

Who will be impacted by the change?

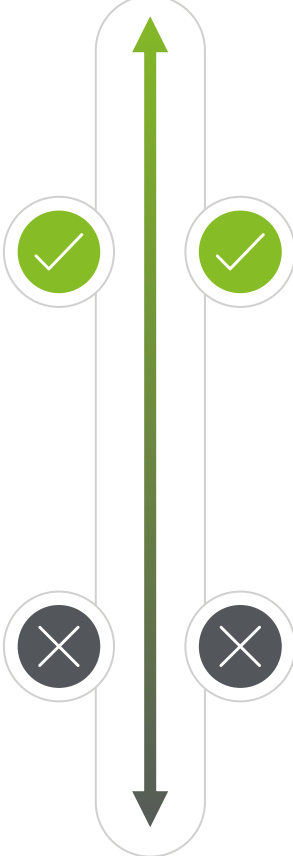
The impact of ISO 20022 adoption is wide reaching and although market infrastructures and financial institutions will bear the brunt of change through the mandated adoption, a wider range of stakeholders will be able to benefit from the changes.

Internal Stakeholders		External Stakeholders	
Banking Operations  <ul style="list-style-type: none"> Reduced operational running costs with better Straight Through Processing (STP), greater auto-reconciliation and opportunity to improve operational capabilities by using ISO structured and standardized data. ISO use will improve data granularity which should enhance AML/CTF processing reducing false positives, this in turn will release resource to add greater business value reviewing genuine hits. 	Business  <ul style="list-style-type: none"> The trend towards migration of services to the cloud, coupled with ISO adoption will improve scalability. This will allow rapid deployment of payment solutions and services to support business activity. Adoption of ISO and cloud infrastructure will position the organization ready to embrace the next generation of domestic payment schemes, securities, trade services, cards and FX markets. 	Suppliers/Other Financial Institutions  <ul style="list-style-type: none"> There is a need to ensure migration to the new ISO standard, or investment in translation services to remain on existing/legacy platforms. Full ISO adoption is preferable as this will reduce both data loss and technology stack complexity. 	Customers  <ul style="list-style-type: none"> More data may be required from customers in the post ISO world as the mandatory dataset expands. Changes will be required to contact points impacting front end systems, portals & mobile apps. Education to explain the need for a richer ISO input dataset which will result in a higher quality of returned information.
Technology & Data Management  <ul style="list-style-type: none"> By having an integrated data approach and creating new platforms for maintaining structured and granular ISO 20022 influenced data, data management can be optimized. Transformation of past transaction data is required to create a retrospective ISO payment view. This is particularly relevant where control functions rely on historic data to perform checks for example, fraud screening. 	Innovation  <ul style="list-style-type: none"> Once ISO goes live, future use cases can explore the use of atomic settlement, increasing payment systems integration, reducing settlement cycles – improving liquidity, and projecting ISO 20022 as the internet of payments. Global initiatives like Nexus (linking various countries' Faster Payment systems) and Dunbar (a multi-CBDC arrangement to improve cross border payments) are planned on the back of ISO adoption. 	Regulatory/Industry  <ul style="list-style-type: none"> Given the magnitude of change, there will be a significant risk of payment disruption to all participants. Uniformity of underlying standards allowing regulators/industry to go ahead with further initiatives like CHAPS As a Retail Alternative (CARA) to raising interoperability and enhancing resilience. 	Corporate  <ul style="list-style-type: none"> Positive impact on corporates with improved processing and better AML/CTF tracking. ISO adoption will create a level playing field for both new as well as established players, which in turn should enhance competition and benefit industry and customers alike.

What are the technology design and delivery choices?

The ISO 20022 migration is inherently complex and therefore planning should begin today, if it is not already underway. Payments participants will need to consider whether they want to simply comply with the minimum ISO requirements or unlock the full commercial value of the new standards. Financial institutions will also need to decide on whether they are going to invest in upgrading their core payment architecture end-to-end, or take an interim approach and outsource ISO compliance by using a vendor translation solution.

The Pros and Cons of each approach are summarized in the table below.

Integrate using ISO 20022 translation services		Transform and upgrade core payments architecture	
Pros	<ul style="list-style-type: none">Minimise impact on existing architecture through modular integrationsImprove speed to market with off-the-shelf offeringsPhase exposure of enriched ISO data to downstream systemsSimpler partial adoption of ISO		<ul style="list-style-type: none">Unified payments architectureGain access to latest technology (e.g. cloud or API) with advanced rules and processesMeet future SWIFT/regulatory compliance with vendor package releasesPhase the build by adopting translator options in parallelFull ISO capability ready for benefits exploitation
	<ul style="list-style-type: none">Initial complexity surrounding integration with legacy systemsTechnical debt due to legacy systems operating on outdated technology/schemasDoes not necessarily move towards unified payment system architectureOngoing subscription, licensing and/or transaction fees for vendor provided translation servicesPrevents full ISO benefits realisation from Day 1		

Our perspective:

The majority of organisations will leverage translation services to enable co-existence of existing message standards and ISO 20022 standards, and to de-risk business impact by gradually delivering end to end payments architecture upgrade and fully native ISO 20022 processing in time for November 2025

The ISO 20022 adoption is already in full swing, with countries such as Switzerland and China already mandating the use of the standard. Adoption strategies across financial institutions have varied and the correct strategy usually depends on the size and complexity of the problem at hand. The next 4-5 years are critical for financial institutions, as well as overall industry participants.

What is the right ISO strategy for your organization, will you seek to achieve compliance or will you look to capitalize on the adoption of ISO?

ISO journey to be continued, Part II, will be available shortly.





About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2022 Deloitte Development LLC. All rights reserved.

Designed by CoRe Creative Services. RITM0907590