

ISO 20022 Adoption

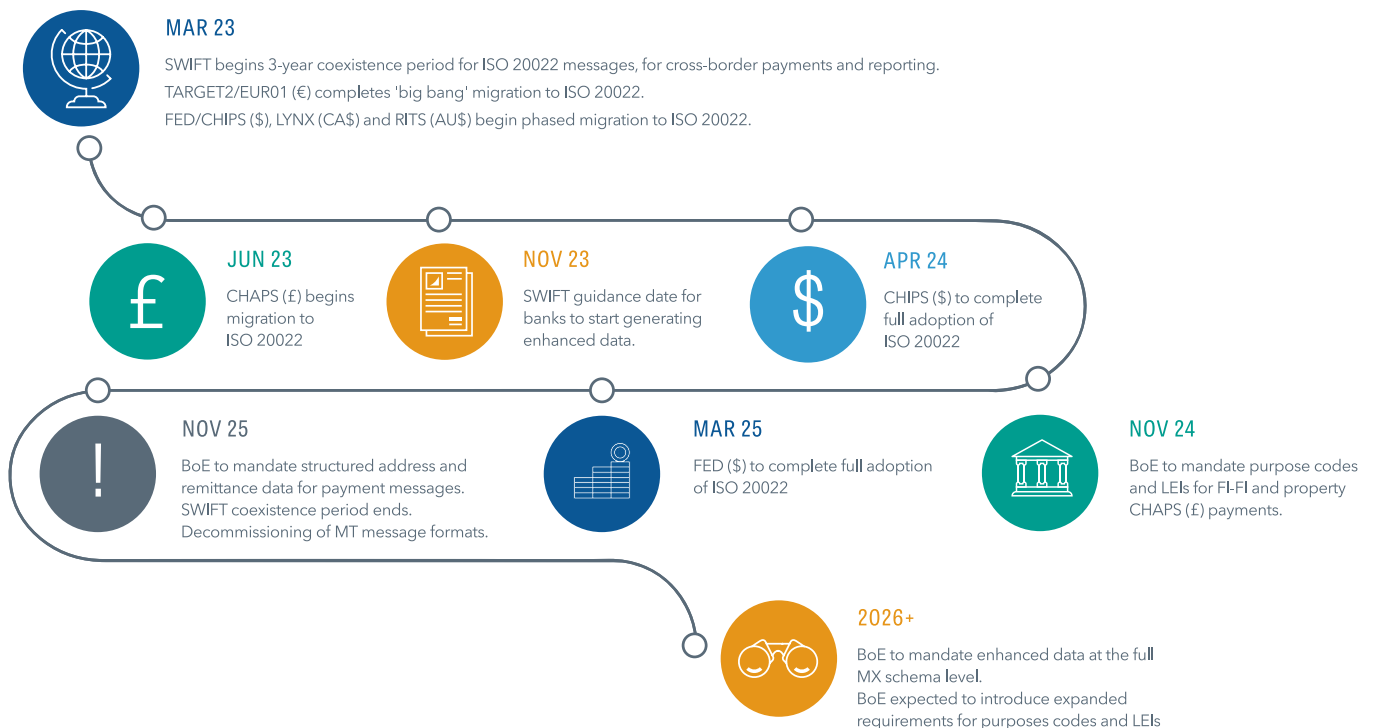
INTRODUCTION

For corporates these days executing a holistic payments strategy can feel like a never ending project in itself. Beyond the considerations of strategic banking partners, introduction of new API functionality, execution of fraud and sanction screening, it seems nothing remains the same for long. Perhaps the most significant of all recent developments is the ongoing adoption of a (some would say long awaited...) global standard for exchanging financial information – referred to as ISO 20022.

For users of the SWIFT network, the ISO 20022 standard will become mandatory in a little over two years, with many other banks and financial institutions working on their own adoption timelines. The proposed transition will require fundamental changes to the way in which most organizations operate, including to master data management, cash and payment processes, and configuration of treasury management and ERP systems. Successfully navigating these changes will require careful planning, collaboration across multiple stakeholders and potentially a significant commitment of time and resources.

In this paper, we present the key milestones along the adoption timeline and review some of the major implications of the ISO 20022 message formats. We also explore how organizations will be impacted, what you can do to best prepare and how to realize the benefits associated with ISO 20022.

TIMELINE



“ISO” doesn’t want to hear about more regulation! Does this even apply to my organization?

- › It most certainly does. ISO 20022 (or MX) is likely to become the global standard for data exchange between financial institutions. Within 5 years, SWIFT estimates that 80% of high value payments by volume and 90% by value will use the new standard.

What is driving such a significant change?

- › Although we live in a world that has developed global standards and communication protocols for a variety of purposes, this has not to date extended to financial transactions.
- › The lack of standardization for payment messages poses significant challenges and inefficiencies for multi-national corporations and financial institutions. ISO 20022 aims to solve this problem.

Will the new standard only apply to payment messages?

- › No, the ISO 20022 transition also includes new formats for bank statement, notification, and reporting messages.

Can’t I just continue to use the existing MT message formats?

- › Yes, but only for a time. Major banks and financial institutions are already defining their own adoption timelines and will eventually set migration deadlines. For users of the SWIFT network, a two-year coexistence period began in March 2023, during which existing formats can continue to be used alongside the ISO 20022 (MX) formats.

Ok, so when is the final transition date?

- › If your organization uses the SWIFT network, the key date to keep in mind is November 2025. Your organization will need to be able to fully migrate to ISO 20022 by the same date.
- › The payment market infrastructures (PMIs) of the world’s major currencies are also aiming to fully adopt ISO 20022 by this date.

What’s all this about ‘enhanced’ data?

- › One aspect of the new standard is the ability to include richer and more structured data in statement and payment messages, relative to existing formats.
- › This ‘enhanced’ data has the potential to deliver significant benefits for both corporates and financial institutions.

I don’t know what an LEI or PoP is, do we really need more abbreviations?

- › LEI refers to a legal entity identifier, a 20-character alphanumeric code used globally to identify organizations involved in financial transactions.
- › PoP refers to a purpose of payment code, typically included on a payment message to indicate the nature of a transaction.
- › The inclusion of LEIs and PoPs will, in time, become mandatory for ISO 20022 payment messages. This has implications for the content and management of your master data.

We only need to involve the treasury team in migration planning, right?

- No - to fully realize the benefits of ISO 20022 it is vital to engage other stakeholders, including your banks, finance teams, suppliers and customers.
- As well as sending enhanced data, your organization will also be receiving it. You therefore need to understand how this data will be provided to you.

Is early adoption really worth the effort?

- Absolutely! Early adoption will allow you to realize the benefits of the new standard ahead of other organizations in your industry, providing a source of competitive advantage. If your organization uses the SWIFT network, early adoption will also allow for transition ahead of the November 2025 deadline, avoiding any late rush for budget or resources to complete related activities.

Won't this result in higher costs for my organization?

- No - in fact, early adoption can help to directly reduce costs by avoiding the need to pay for bank translation services during the coexistence period.
- Standardization provided by ISO 20022 will further reduce costs, with greater straight-through-processing and fewer rejections and exceptions for payment messages.

So, how else can I benefit from the migration to ISO 20022?

- The ability to include richer, more meaningful data in messages will support better decision making.
- Enhanced data will provide for greater operational flexibility, resulting in supply chain and working capital efficiencies.
- Additional information in ISO 20022 statement messages will aid automatic reconciliation and improve liquidity visibility.
- The structured nature of ISO 20022 payment messages will aid in fraud prevention and detection.
- ISO 20022 will enable simpler onboarding of or migration between connectivity and technology solutions.

What if my existing treasury systems can't support the new standard?

- Treasury system and ERP vendors are already adapting their solutions to support the migration to ISO 20022.
- It is important to engage with your provider(s) as soon as possible, to better understand what changes will be needed to prepare for the transition.

What should my organization's migration plan include?

- Refinement of (e.g., structured addresses) or additions to (e.g., LEIs, remittance information) master data.
- Identification of country-specific payment message content and validation rules.
- Consultation with suppliers regarding changes to invoice information.
- Adaption of treasury workflows and controls for ISO 20022.
- Updates to existing KPIs and performance benchmarks.
- Upgrade and/or re-configuration of your TMS or ERP systems to support ISO 20022.

NEED MORE SUPPORT?

We'd love to have a conversation to see how we can help.

Our in-house team of experts stand ready to assist with all aspects of the ISO 20022 migration, including:

- Conducting a readiness assessment, to help you clearly identify what your organization needs to do to prepare for the migration.
- Building a clear roadmap to achieve compliance and fully realize the benefits of ISO 20022.
- Defining and supporting you with executing technology changes associated with the migration.

For more information, please get in touch via our website.

→ <https://www.actualizeconsulting.com/contact-us.html>

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Our team is composed of seasoned consultants with experience in Banking, Capital Markets, Treasury Operations, Technology and Audit.