

Preparing for ISO 20022 Adoption and Migration

INTRODUCTION

ISO 20022 is an XML-based framework designed for the exchange of financial information. Within corporate treasury, it is poised to become the global standard for bank statements, payments, and payment reporting messages. Within 5 years, SWIFT estimates that 80% of high-value payments by volume and 90% by value will use the new standard. As banks and payment market infrastructures continue migrating to ISO 20022, financial institutions and corporations must understand the transition's implications and opportunities. This white paper explores the key elements of ISO 20022 adoption, including its implementation timeline, benefits, and actionable strategies. Additionally, it highlights how partnering with Actualize Consulting can help organizations prepare for a seamless and efficient transition to this new global standard.



WHAT IS ISO 20022, AND WHY IS IT IMPORTANT?

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 poses significant challenges and inefficiencies for multinational organizations and financial institutions.

ISO 20022 seeks to overcome these challenges by replacing many fragmented legacy formats, such as SWIFT MT, with a unified format emphasizing structured, data-rich messaging. Key elements of the new format include:

- > **Legal Entity Identifiers (LEIs):** a unique, 20-character alphanumeric code used to identify legal entities involved in financial transactions. The code provides essential information about an entity's structure and ownership, ensuring that transactions are traceable and reducing the risk of fraud or errors. ISO 20022 provides the framework to integrate LEIs into payment messages, with their inclusion becoming increasingly mandated where legal entity identification is crucial, such as for cross-border transactions, trade reporting, and specific financial instruments.

- **Purpose of Payment (PoP) codes:** a standardized identifier used to specify the reason or intent behind a payment. It helps classify the nature of the transaction, providing valuable context for the sender, recipient, intermediaries, and regulatory bodies. ISO 20022 encourages the use of PoP codes to enhance transparency, support compliance with financial regulations (such as anti-money laundering and sanctions screening), and improve automation in payment processing. While not universally required for every payment message, PoP codes are gaining traction as a requirement in certain jurisdictions.
- **Structured addresses and remittance information:** ISO 20022 enables the capture of address and remittance information through dedicated fields within its XML message structure. These fields are specifically designed to ensure transparent, standardized, and machine-readable data, facilitating seamless processing by financial institutions. The structured address field organizes essential details in a consistent, predefined format, such as the payer's and payee's names, addresses, and other contact information. Similarly, remittance information is captured in separate fields, allowing the sender to include specific details about the payment's purpose, such as invoice numbers, payment references, or contract identifiers. By leveraging these dedicated fields, ISO 20022 enhances the accuracy and clarity of data exchanges between parties, reducing errors, streamlining reconciliation processes, and improving overall transparency.

By providing a global framework and enhanced data capabilities, ISO 20022 addresses long-standing inefficiencies in financial transactions, as demonstrated by its ability to capture and organize key information. This approach paves the way for improved global interoperability across payment systems.

THE ADOPTION TIMELINE

The adoption timeline for ISO 20022 has been a phased approach, with a significant milestone set for November 2025. By this date, banks and financial institutions exchanging cross-border payment messages via SWIFT must fully transition to ISO 20022, replacing legacy MT formats. Although the November 2025 deadline does not directly apply to corporations, it is expected to impact the broader industry transition timeline significantly. Banks transitioning to ISO 20022 may begin to phase out support for legacy MT formats, effectively creating pressure on businesses to adapt to avoid disruptions in payment processing.

Due to variations in readiness and implementation strategies among banking partners, corporations are expected to face differing transition timelines with each financial institution. Some banks may prioritize early adoption and encourage clients to migrate ahead of the November 2025 SWIFT deadline to align with their internal systems and processes. Others may implement transitional solutions, such as mapping ISO 20022 messages to legacy MT formats. While this could enable businesses to delay full adoption, it may also introduce additional costs.

As regulatory deadlines approach, organizations may encounter reduced support for legacy formats, narrower testing windows, and heightened competition for consulting and IT resources. Therefore, beginning the migration process early is advisable to align with banks' timelines and minimize the risks associated with last-minute transitions.

KEY CHANGES AND BENEFITS OF ISO 20022

In addition to mitigating the risks associated with delayed migration, corporations should be motivated to transition to ISO 20022 to unlock its numerous benefits. These include:

- 1. Enhanced Data:** ISO 20022 provides a richer, more structured data format compared to legacy messaging standards. It allows for the inclusion of detailed information such as remittance advice, invoice details, and beneficiary data, improving the quality of information available for both payers and payees, leading to more accurate and efficient processing.
- 2. Better Fraud Prevention and Detection:** With its standardized data fields, ISO 20022 enhances the ability to detect discrepancies or unusual patterns that may indicate fraudulent activity. The inclusion of richer transaction details, such as complete payer and payee information, helps improve security measures and supports better monitoring of suspicious activities.
- 3. Improved Reconciliation:** The detailed and structured nature of ISO 20022 messages simplifies reconciliation processes. By embedding more comprehensive remittance data within payment instructions, organizations can more easily match payments with invoices, reducing manual intervention and improving the accuracy and speed of reconciliation efforts.
- 4. Streamlined Payment Processing:** ISO 20022 enables straight-through processing by providing consistent and standardized messaging formats across global payment systems. This reduces the need for manual intervention, speeds up transaction flows, and helps prevent errors, ultimately leading to faster and more reliable payment processing.
- 5. Operational Flexibility:** As global adoption of ISO 20022 progresses, the standardization of message formats will make it easier for companies to switch between systems or adopt new technologies, future-proofing their operations and enabling smoother transitions as their infrastructure evolves.



PREPARING FOR THE ISO 20022 MIGRATION

With a greater understanding of the transition timelines and the benefits that ISO 20022 offers, corporations are now at a critical juncture where planning for migration is essential. This section will outline the key steps firms can take to ensure they are ready for the transition and positioned to capitalize on the opportunities ISO 20022 presents fully.

- 1. Understand the Scope of the Transition:** Treasurers should start by evaluating the current messaging formats for bank statements and payments to understand how the transition to ISO 20022 will impact their organization in practice. Engaging with banking partners early is crucial to understanding their timelines and milestones, enabling a collaborative approach for a smooth and efficient transition.
- 2. Assess system readiness:** Organizations must ensure that their Treasury Management System (TMS) and other financial systems are compatible with the new messaging formats. This should involve conducting a thorough review of current systems to verify their readiness for ISO 20022 adoption. Engaging with system vendors is essential to understand any required upgrades, timelines for implementation, and the availability of necessary updates or patches. Early collaboration with vendors will help identify potential system gaps, allowing companies to address them proactively and ensure that their infrastructure can support the transition smoothly without disrupting operations.
- 3. Data Management:** Implementing robust data management practices to support ISO 20022 is essential. Begin by identifying and reviewing all master data related to bank statements and payments to ensure accuracy and completeness. A key step is to separate address details into the necessary components to align with the structured format required by ISO 20022. Additionally, organizations must gather and record any new data elements needed for the transition, such as Purpose of Payment (PoP) codes and Legal Entity Identifiers (LEIs). By ensuring that all data is appropriately structured and up to date, corporations can facilitate seamless integration with the ISO 20022 messaging standard and avoid potential issues during implementation.
- 4. Testing and Validation:** Developing a comprehensive testing and validation plan is recommended. This plan should outline clear testing objectives, scope, and methodologies to thoroughly assess the migration process. Identifying and documenting specific scenarios and use cases to be tested is essential, ensuring that all critical aspects of the migration - such as data integrity, system compatibility, and transaction processing - are covered. By simulating a variety of real-world scenarios, organizations can uncover potential issues early in the process. Additionally, developing contingency plans to address any challenges identified during testing will help mitigate risks and ensure the transition is seamless and efficient.
- 5. Training and Awareness:** Identify the changes to processes and workflows that will result from the adoption of the new messaging standard. It is essential to plan for the provision of targeted training and support for staff to ensure they are equipped with the necessary skills and knowledge to handle the updated systems and processes effectively. Additionally, staying informed about the ISO 20022 transition and any future updates or modifications to the standard is critical for maintaining ongoing compliance and operational efficiency.
- 6. Communication with Stakeholders:** Effective communication with stakeholders is crucial to ensuring a successful ISO 20022 transition. Treasurers should secure the necessary budgets and resources from both internal teams and banking partners to support the migration process and ensure its successful execution. Regular updates and transparent communication with all stakeholders - including treasury staff, IT teams, and banking partners - are essential to keep everyone aligned and informed of the transition's progress.

HOW ACTUALIZE CONSULTING CAN HELP

At Actualize Consulting, we recognize the complexities involved in ISO 20022 migration and adoption. With extensive experience guiding organizations through the transition, our team is equipped to support every step of the process. We offer a comprehensive suite of services designed to ensure a seamless migration, including:



READINESS ASSESSMENTS

We can assess your existing systems, processes, and data models to evaluate your preparedness for the ISO 20022 transition. Based on this analysis, we will develop a tailored roadmap to guide your migration, ensuring a smooth and efficient process.



SYSTEM INTEGRATION AND SUPPORT

Our experts will support you throughout the integration process, helping you adapt your existing systems to accommodate ISO 20022 fully. We ensure seamless communication between your systems, providing the guidance needed to achieve a smooth and effective transition.



CONSULTING AND ADVISORY SERVICES

Whether it's data management, workflow optimization, or team training, our advisory services are ready and available to ensure your organization is fully prepared to leverage the benefits of ISO 20022 and optimize the transition process.

CONCLUSION

In conclusion, the transition to ISO 20022 is a critical step for corporations seeking to stay competitive and compliant in a rapidly evolving financial landscape. By understanding the implications, benefits, and timeline of adoption, organizations can strategically prepare for a smooth migration. Key steps such as assessing system readiness, implementing robust data management practices, and investing in testing, training, and stakeholder communication are essential to ensure a successful transition. As the deadline approaches, early preparation will help mitigate risks and unlock the advantages of ISO 20022, including enhanced data quality, improved payment processing, and greater operational efficiency.