EPA ASIA

ROUNDTABLE
THE REAL VALUE OF ISO 20022
KNOWLEDGE THAT IS MISSING FROM THE INDUSTRY

In collaboration with FINASTRA

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The real value of ISO 20022. What all banks need to know but don't know when implementing.

ISO 20022 was introduced in 2004 as a harmonized set of Extensible Markup Language (XML) messaging standards intended to enable Banks/FIs internationally to exchange information in areas such as cash, securities, trade and foreign exchange based on a unified language and pre-agreed business process model.

It saw its first major adoption in the pan-European SEPA scheme shortly after. In APAC, it became prominent through its adoption in China's RMB cross-border payment scheme (CIPS) in 2015.

So where does the recent hype come from though? In simple terms, by the convergence of events as both Swift as well as the world's major Financial Market Infrastructures (FMIs) in the US, EU, UK have each embarked on a 'IT Upgrade' journey abandoning its previous legacy formats (e.g. SWIFT: from MT to MX, Fedwire transfer standards) – some of them over 40 years old - and substitute it with ISO20022 standards backed formats. And all at the same time, with transitioning timelines scheduled between the end of 2022 to 2025.

ISO standards promises richer, better and structured data – let's break it down.

Undoubtedly messages have become much more richer using the XML format as compared to current standards or even local proprietary message types. XML is a globally accepted standard, here to stay, designed to be both human and machine-readable and therefore become one of the most common use languages.

It is easily adoptable and carry significantly more data sets whilst clearly setting out rules where to populate which information. From a specific cross-border payment perspective, for instance, Purpose Codes , that are required in some jurisdictions now have a dedicated place.

There is an option to add phone numbers and email addresses of payment beneficiaries or an option to explain why the amount transferred actually differs from the underlying invoice. For all of the above there may have not been sufficient space to put into one message (MT) and may have led to payment enquiries previously that can now be applied through richer data sets in a very structured format.

The move from 'MT to MX' is highly anticipated given that for years, both corporates and FIs have been asking for more information to be delivered with the payment. The tricky part is when the content of MX messages needs to be condensed into legacy MT messages, for example due to banking systems not being upgraded yet. Dealing with the so-called data truncation risk is a concern for all banks, possibly requiring operational work-around solutions to manage this exposure.

But is richer and more structured always better?

In many ways it is, particularly with regards to so-called false positive payment stops in which payment processing banks enquire about more information from sender(s) in order to ensure no fraud or even sanctions breach is at risk before payment release. Less payment enquiries (MTx99 messages or even emails, phone calls) leads to less friction in payments which in turn improves payment processing times, more efficiencies, drives down cost/ resources and consequently ups client satisfaction.

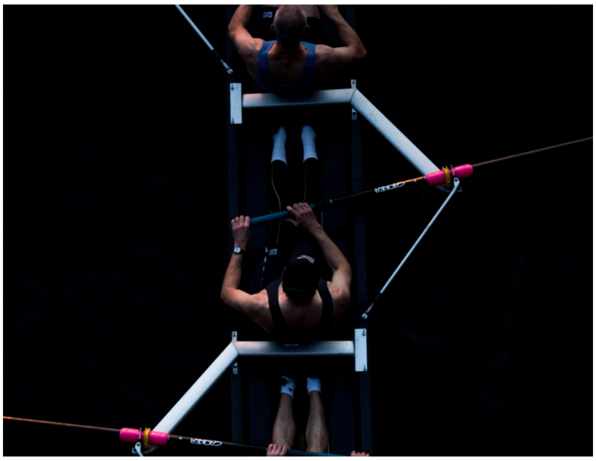
Hence a win-win for both banks and clients alike at first sight. For banks though, more data fields and more data sets increase the screening requirements from an AML/CTF perspective. Banks must ensure that their systems as well as operational processes cater to dealing with more data volume without compromising on efficiency, payment speed and therefore customer satisfaction.

More and better structured data flows also improves the reconciliation process. Clearly, this is far more important to corporates than to consumers. Many large corporations with a high volume of (cross-border) payment flows spend tremendous manual efforts and cost to reconcile payments at end of day / end of week. Sometimes even running Treasury centers (TC) or Shared Service Centers (SSC) in lower cost locations (eg Philippines) that predominantly perform this very task.

What all banks need to know but don't, when implementing .

"Transformation isn't a project, it's going to be a journey"

In APAC it often appears to start off as a regulatory compliance project – and therefore funding provided derives from that budget bucket. The other benefits (such as efficiencies gains and automation opportunities creating the new revenue stream through data enhanced products) cannot be unlocked at this stage.



In the meantime, many market players have come to realization that the ISO Migration is more than jut a compliance project or an IT update project as it touches the entire bank and its processes and IT landscape. From Treasury to business divisions to COO functions, from front to back office. Therefore, it must be tackled strategically with top-of-the house support – which in turn requires their understanding and subsequent buy-in.

As the scope grows banks in APAC may come to realize that they have underestimated how 'big & ugly' the challenges are. Not only from a planning perspective – especially with concurrent projects with tight deadlines already in full swing - but also to find the right skill set within a bank's organization to understand and drive the implementation.

Therefore it is key that all stakeholders in the bank are involved and ultimately work together and ensure everyone is 'on the bus'. Months long preparation lead times (10-12 weeks) are required prior to embarking on the project and clear accountabilities and testing and roll-out strategies need to be applied (eg MVP, sprints vs Big Bangs), especially to avoid finger pointing and blame games during more challenging project times.

Further, clear communication remains inevitable from start to finish – all need to support it from an investment /budget perspective but they do so for different reasons. Compliance expects a safer & sounder bank, Risk Management more control, Operations expects efficiency gains, Business division better products to offer to clients. The latter are key to ensure this will never be perceived as a back-end story but does indeed has its front-office benefits for client-centric organizations.

From a client/customer perspective, how I'm going to use this data for a better services, how I'm going to use this data to offer new services and how I'm going to use this data for doing the other operational tasks which I was not able to do beforehand? Would that finally allow me to create a data lake and tap on it for my analytics and enrich my product and service suite?

Whilst its importance is undoubted, the ISO 20022 Migration project is still 'only' a part of the wider Jigsaw puzzle. It touches on decisions such as 'shall I plan my core banking platform upgrade before or after the ISO migration?' Are we embarking on a blockchain project as well and how does it correlate or interfere? 'Do we still have resources to also partake in a market wide digital currency project?' ' We have just put our data lake on the cloud – does the ISO Migration help me in making the same move with my payments platform ' ?

Reduced cost through ISO 20022?

"Don't look at it from a ROI perspective especially not in short-term. [...] rather ask ' where are we as a bank in 5 years if we don't do it?'"

Indeed, the question begs to understand who stands to gain from reduced cost, when, and in what shape or form. Banks in APAC have the mindset that one 'has to spend money to make money' if serious about digital transformation. However, for Banks, the upfront investment amounts are tremendous, and the bigger and more universal the banks are , the bigger the impact and cost of the migration.

Let alone the opportunity cost of not deploying that budget elsewhere. Therefore such perceived cost reductions or ROI business cases are deferred to later years down the road – a message that must be clearly conveyed to Senior Executives.

Efficiency gains within the banks are key to unlocking cost savings. Interoperability is the buzz word tagged as the all-encompassing solution in this matter. Take the payment flow for instance: From payment initiation at the client's end to bridging that instruction into the bank's system to validation , qualification and routing, integrating into AML/CTF screenings to the different layers of the processing of the message to clearing, settlement billing/charging and client and regulatory reporting. In this one example multiple systems and stakeholders of a bank are involved. Imagine they all 'speak the same technology language' without format translations! The ISO Migration is the best chance to enable that.

But Interoperability has an external component as well. Depending on reach and business models, Banks are directly or indirectly connected to several FMIs and access to these infrastructures are expensive. With more and more of them speaking the same (XML) language system convergence increases and ultimately cost reduction can be realized.

However, whilst the largest FMI/PMIs are migrating to ISO 20022 standards and new innovative schemes, such as Australia's NPP being compatible with it, the truth is that most of them [FMI/PMI] migrate at different paces and, especially many national schemes appear to continue running on propriety formats. And may do so for the foreseeable future. So unless strategic business altering decisions are made, banks must always cater to running on multiple rails anyway.

Therefore, scalable and multi-faceted IT platforms at the back of a long-term digital transformation strategy are required to keep overburdening cost (e.g. in format translations or maintenance cost for legacy systems) and absorb resources at bay.

Another point to factor in are other ongoing initiatives. Currently, many convergence projects are mushrooming in the region (e.g on ASEAN level supported by Central Banks or consortia including the private sector such as Partior apart from various CBDC projects). Participating in them needs to be strongly considered when allocating budget and resources for banks but also daily liquidity and settlement capabilities and operational prudence when partaking in many of the above.

Hence the impact of 'Interoperability' goes beyond connecting withing the bank or directly with currently established clearing systems.

Corporates, on the other spectrum, naturally tend to be rather on the 'receiving end' of the ISO Migration being a FMI and Banks/FI related project as they stand to benefit with enhanced services and products from their banks and equally their ERP /TMS providers mostly being able to read and work with XML formats already.

Therefore, they overall take a wait-and-see approach, observe the evolving landscape and welcome advisory by their lead banks. Having said that, in order to fully grasp the entire set of benefits, some changes and investments are indeed required. A fact Corporate treasuries may dislike given their reluctance to change something that isn't broken and in times of tight budgets allocated by CFOs.

For instance, static data in the customer and vendor profiles and payment templates need to be amended to reflect the structured address requirements and thus comply with the respective reference fields in MX messages. Same applies for invoicing in order to perform POBO/COBO facilitated through a potential payment factory structure – a topic high on MNC's agendas.

Deadlines matter!

The ISO 20022 Migration has been on the radar for some years now. And with any project to be successful deadlines must be communicated and ultimately complied with! There have been quite some ‘shifting posts’ in the various FMI projects globally, with e.g. Bank of England delaying their full migration live date for another year and in the US, Fedwire and Chips contemplating a postponement despite strong headwinds by the American Bankers Association (ABA).

SWIFT has been clear that by this year’s standard release in November all banks globally must be reachable at least with the MX standard (whilst still be able to issue MTs).

Looking into APAC, the Philippine Central Bank or the BSP is actually rolling out their digital transformation and a part of that is ISO 20022. There is a push coming from the government to make sure to include the smaller banks into this type of ecosystem.

Looking back into history, SEPA didn’t materialize until the ECB communicated a hard deadline. FMIs and banks alike sticking to the goal post over the next few years will determine the success of what many believe is the biggest transformation in global FMI in the last 20 years.

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