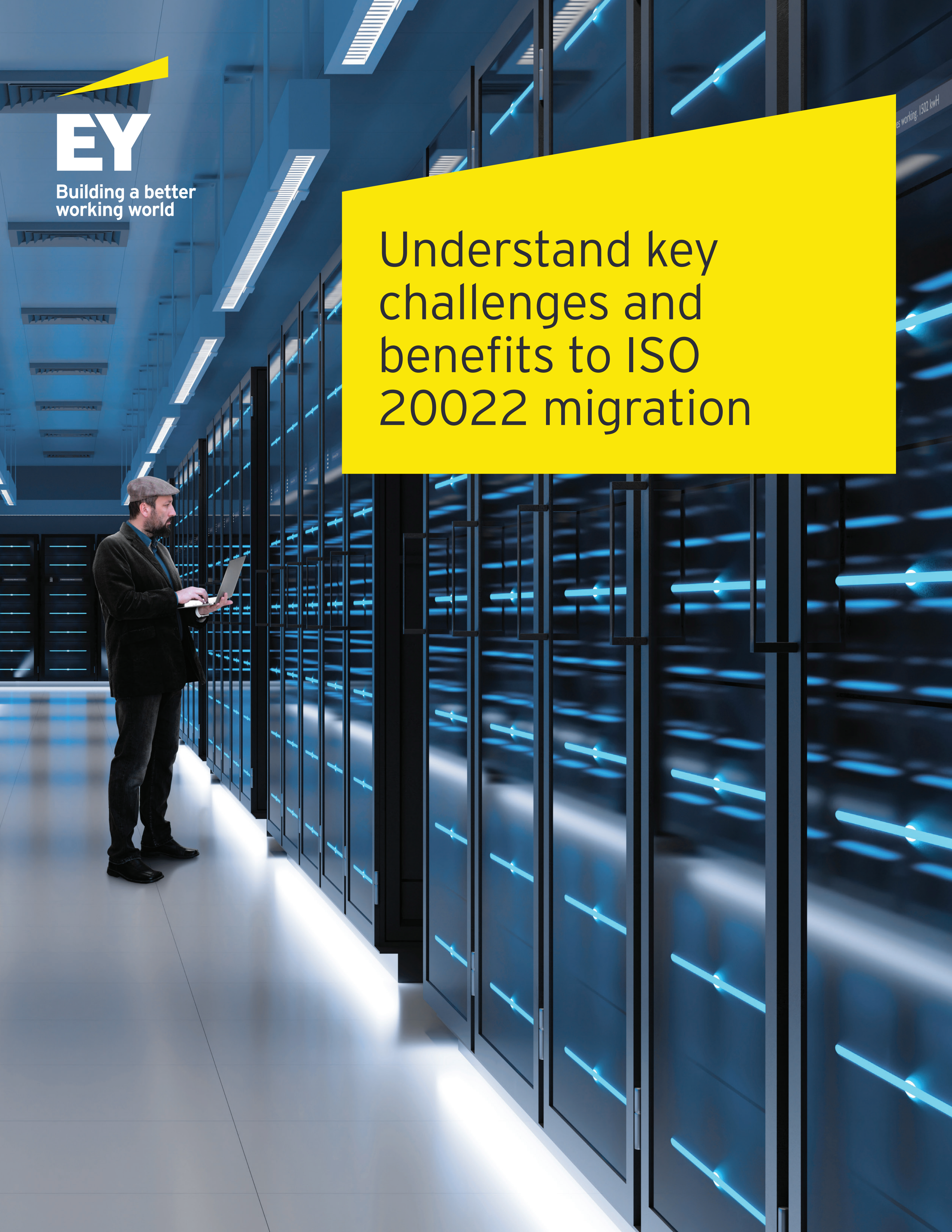
Building a better working world

Understand key challenges and benefits to ISO 20022 migration



Getting started

The new ISO 20022 messaging standard will bring order to a disjointed payments landscape, but banks need to be prepared. Here's what to consider.

In the rapidly evolving payments industry, the move to ISO 20022 data standards is accelerating the push toward greater digitization in a global economy, in turn supporting trends around interoperability, data and analytics — and ultimately driving a better understanding of customers and how to service them.

Today, a world of varying messaging types has led to a disjointed landscape across different countries and financial institutions sending and receiving payments, presenting an obstacle for seamless straight-through processing (STP). The manual intervention required has led to considerably longer processing times and increased costs.

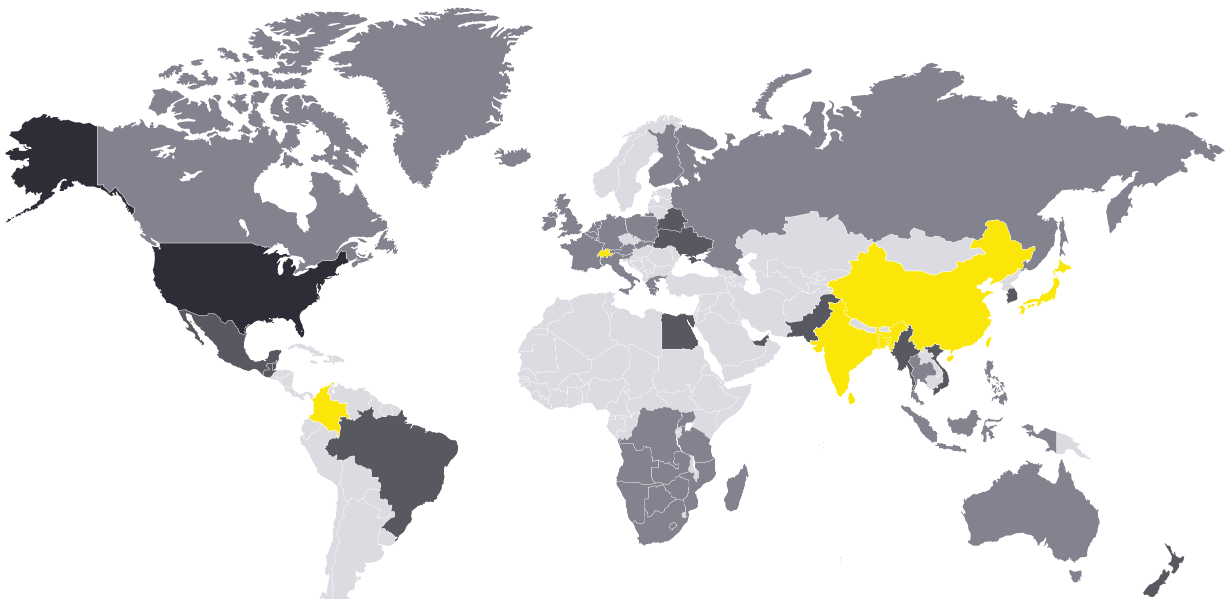
ISO 20022 is being implemented across markets globally as the new benchmark standard in payments messaging. By 2023, it is expected that ISO 20022-enabled systems will represent 79% of the total volume and 87% of the total value of high-value payments worldwide; for low-value payments, those figures are set to be 65% and 53%, respectively.[1]

The key value drivers of ISO 20022 are rich formatting options and the ability to capture structured and unstructured information, which seamlessly gives way to efficient processing and time savings from reduced manual intervention. Although migrating infrastructure to be compliant is a major change that can present challenges, banks can use this opportunity to ultimately offer better services and maintain client centricity, while corporations and clients can benefit from the data-rich messages.

In this first article of a three-part ISO exploration series, we assess the considerations and benefits in the transition.

[1] "SWIFT ISO 20022 Migration Study," SWIFT, 23 April 2018, SWIFT SRCL.

Global ISO 20022 Migration Map



Source: A global view of financial markets migration to ISO 20022

As of September 2022

While most financial markets are in the nascent stages of ISO 20022 migration, the clock is ticking for banks to be compliant with market-mandated timelines in jurisdictions where they plan to conduct business. Banks need to balance an array of timelines and custom requirements across each market. This is especially challenging, as there is no one-size-fits-all approach to managing system upgrades across the ecosystem to be compliant.

Turning on the ISO switch

Globally, market-mandated migrations are advancing on different timelines. The Asia-Pacific region is at the forefront of the change, with markets such as India, China Mainland and Japan already live with the standard. In Europe, the Bank of England has set a deadline of April 2023 for all CHAPS direct participants to be able to send and receive ISO 20022 payment messages, and the European Central Bank has announced a go-live date of March 2023. SWIFT switch will also go live in March 2023, but from then until November 2025, a "coexistence period" begins where the system will accept and support both the old message type (MT) format and new XML-based messages used in ISO 20022, referred to as MX.

Varying deadlines and coexistence periods will require banks to be strategic in their migration approach. For example, banks working to be compliant with SWIFT's ISO 20022 migration will enable a message translation layer in their back-office systems to convert MT messages to MX to manage operations during the coexistence period. Some will want to consider building translation layers across their payments ecosystem to effectively manage migrations across numerous different legacy formats to ISO 20022. Others may not be able to afford developing a translation service, but a vendor translation utility/service can be used to facilitate MT to MX mapping in the meantime.

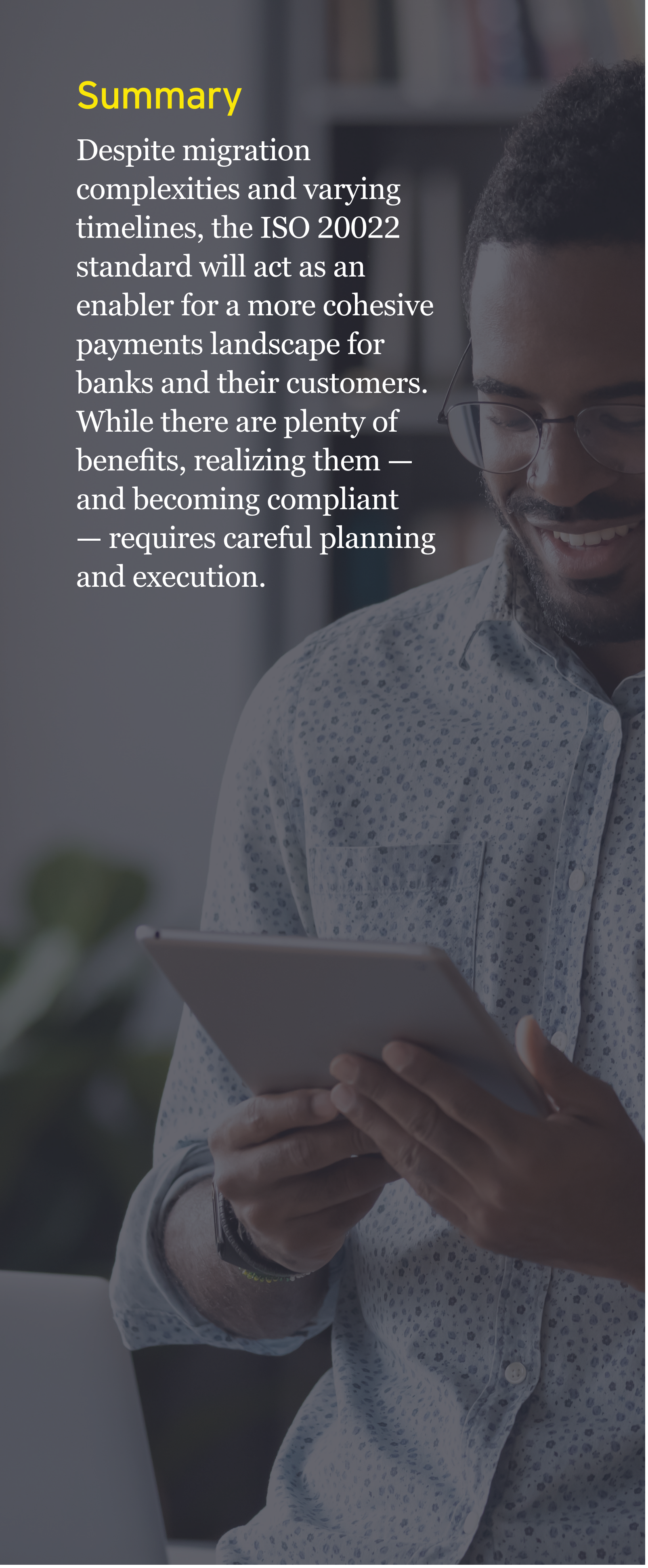
Timing and translation approaches are just initial considerations that banks will need to address as their transition moves forward. Broadly, EY teams have observed clients facing four groups of challenges during migration to ISO 20022:

- **Global prioritization and resourcing.** Banks will be required to invest heavily in their global migration to ISO 20022. Prioritizing which jurisdictions, products and services should be migrated first will create a competition for global funds and resources to manage the project. Because ISO 20022 return on investment (ROI) tends to be long term due to migration effort complexities, banks will need to evaluate their business case to determine when cost savings will take effect and strategically communicate the benefits to program sponsors.
- **Consistent interpretations of data.** Aligning with partner financial institutions is required to understand and agree on a consistent interpretation of the ISO 20022 standard, especially across jurisdictions. This is important so that data standardization is achieved across multiple payment systems and an approach to data governance, quality, harmonization, migration and ownership is defined.
- **Length of time before benefits are realized.** Message conversion will impact payment initiation, client information, payment channels and payment processing, and will require careful consideration and time to reflect the new standard. This lead time will require internal rework and delay the benefits related to customer journeys. Although it may take time to recognize the benefits, significant improvements to STP and newly added insights from ISO 20022 enriched data will provide notable monetization opportunities for banks.
- **Understanding operational impacts.** Organizations need to factor in the impact to internal systems that do not share the same migration priorities as their core processing applications (such as those used for accounting, reconciliation and liquidity management) and that may require legacy tech to be retrofitted. To establish a seamless transition to ISO 20022, banks should focus on building interim solutions that support business continuity, while simultaneously focusing on updating legacy systems.

Key benefits to banks

ISO 20022 is often referred to solely as a compliance initiative; however, banks can seize the opportunity to migrate and bring payments innovation to their organizations. While challenges must be considered thoughtfully, migrating to ISO 20022 and setting up a common platform for payments offers banks profound enhancements in the payments ecosystem. Overall, enriched data and payments can flow consistently and transparently, driving productivity across the front and back office. Specifically:

- **Greater efficiencies.** ISO 20022's enriched data-carrying capacity enables operational efficiencies and better management of transactions and customer information with global interoperability.
- **Enhanced communications.** By driving structured data and formalized content, ISO 20022 has well-formatted and dedicated messages for both bank-to-bank and bank-to-customer experiences. Standard message types cater to the pain and pacs formats.



Summary

Despite migration complexities and varying timelines, the ISO 20022 standard will act as an enabler for a more cohesive payments landscape for banks and their customers. While there are plenty of benefits, realizing them — and becoming compliant — requires careful planning and execution.

- **Faster and more accurate compliance.** The standardized messages across flows help improve fraud prevention capabilities and regulatory reporting activities.
- **Improved customer experiences.** Payments are processed and settled more quickly through STP, thanks to reduced errors/failures and investigations throughout the payment lifecycle.
- **Additional customer insights.** Robust data provided by ISO 20022 standards enables banks and nonbanks to better identify customer trends and provide improved services to their clients.
- **More opportunities for innovation.** Improved infrastructure provides banks the opportunity to implement leading-class technology solutions and capitalize on operational efficiencies, resulting in faster time to market and reduced infrastructure cost.

Ernst & Young LLP contacts

Jennifer Lucas
Partner, Banking and Payments Consulting
jennifer.m.lucas@ey.com

Alla Gancz
Partner, Banking and Payments Consulting
alla.gancz@uk.ey.com

Joanna Forman
Senior Manager, Banking and Payments Consulting
joanna.forman@ey.com

Zareen Taj
Manager, Banking and Payments Consulting
zareen.taj@gds.ey.com

Contributors: Kasif Wadiwala, Andrew Lim, Kushali Marwaha, Alexis Sisko

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