

ISO 20022

AN IMPLEMENTATION PLAN





CONTENTS

INTRODUCTION

SOME TECHNICAL DETAILS

MAIN BENEFITS

IMPLEMENTATION

CLOSING REMARKS



INTRODUCTION

International Standards Organization (ISO)
2002 represents the next generation of
financial messaging standard

Ever since the financial crash, there has been a slow but notable retreat of truly global banks that provided a one-stop shop for multinational corporations. This retreat has led to many businesses requiring multiple banking partners, increasing charges and creating additional operational risks, particularly around electronic cash flows and payments.

Further, managing multiple bank interfaces can be a challenge, particularly if different protocols, different formats, and different data requirements need to be factored into daily treasury processes.

Designed to address some of these issues is ISO 2002, a universal financial industry message scheme first introduced in 2004. It has come to prominence in recent years principally because of the efforts by the Common Global Implementation Group, or CGI. In particular, SWIFT began its adoption only recently in March 2023 and plans to migrate all customer and inter-bank payments, as well as related advice and statement messages, to the new standard thus replacing their MT message standard. There is a coexistence phase until November 2025.

Further, for CHAPS and RTGS, The Bank of England migrated to ISO 2002 in June 2023, and the Federal Reserve Banks, specifically Fedwire, will adopt ISO 2002 in March 2025.



TECHNICAL DETAILS

If payments aren't compliant with the new standard, they'll fail!

- The most common syntax format expected to be utilised will be extensible mark-up language, or XML.
- SWIFT MT, such as MT101 for CHAPs, along with other message formats e.g. TARGET2 for RTGS in Europe, have been or shortly will be replaced by a new payment format called pain.001 (an unfortunate acronym for PAYments INitiation) in XML file format. For bank statements, CAMT (CASH Management) messaging is now used to exchange information between banks and customers. It utilises the ISO 20022 standard in XML, replacing MT940 and MT942.
- The big six implementation templates are:
 - Customer Credit Transfer Initiation (pain.001.001.03)
 - Customer Direct Debit (pain.008.001.02)
 - Customer Payment Status Report (pain.002.001.03)
 - Bank To Customer Account Report (camt.052.001.02)
 - Bank To Customer Statement (camt.053.001.02)
 - Bank To Customer Debit Credit Notification (camt.054.001.02)

These templates also serve as a blueprint for enterprise resource planning (ERP) and Treasury management system (TMS) vendors to incorporate these as part of their solution offerings.



MAIN BENEFITS

ISO 20022 covers the entire end-to-end payments chain, covering the corporate-to-bank payment initiation, bank-to-bank payment clearing and settlement, and bank-to-corporate account and status reporting

- The concept of straight-through processing (STP) depends on the automated exchange of precise and unambiguous data and information. The ISO 20022 standards goes a long way towards making this possible and practical, by allowing for richer and more structured data via STP, thus reducing friction, accelerating payments through the financial system, improving reconciliation and improving the overall payment experience for customers and suppliers.
- Pain.001 provides several benefits, principally bulk file support (which can be cheaper), richer data making reconciliation easier, and a return message which indicates payment status at both file and transaction level, commonly referred to as PSRs (payment status reports). This last feature offers significant value as it serves as an early warning signal of failed payments.
- The ISO 20022 payments messages have, for example, enabled the ability to capture remittance information and pertinent commercial data along with payment information, the use of multi-byte characters, enhanced references, and reporting of interest and charges.



IMPLEMENTATION

WITH PRACTICAL INSIGHTS

IMPLEMENTATION ADVICE

Achieving true multi-bank integration depends on a common template for information exchange. The concept of data overpopulation and data quality forms an important part of the implementation

- **It is critical that you talk** with your banking partners, other financial service providers, and system vendors to understand their adoption timelines, migration plans and switch-over deadlines.
- You should inform your **customers and suppliers** about the changes. The new messaging format will only work when both the sender and recipient can fully interpret and understand the message contents.
 - **Practical Tip #1:** as part of your testing, ask a few suppliers (including debt investors) if they are willing to do a 'penny test' using the new messaging format to ensure: a. that the message is received in its full glory and as intended; and b. that the message contains all the necessary information in the correct format to enable them to perform their reconciliations, forecasts etc.
- **Evaluate the impact:** Consider how the changes will impact your current systems and processes, including your TMS, payment platforms, and ERP systems. Which of your systems are ISO-ready? For those that are not, when can they be ready, and how? IT teams are critical.
- **DATA!:** ISO 20022 is all about getting the right data in the right place, as the standard introduces new data fields and structures. Check your existing data sources, such as your master vendor list, and map the fields to the new standard. Also, find out about the new codes and legal entity identifiers (LEIs).
 - **Practical Tip #2:** I cannot emphasise this enough. Having implemented systems using this standard several times, the main reasons that failures occurred during testing was due to data quality: bad formatting, incorrect mapping, and missing fields. Putting in significant time and labour up-front to clean your data and improve its integrity will be time well spent. Include in your plan.

IMPLEMENTATION STEPS

Practical Tip #3: A solid and experienced project manager is vital to ensure the success of the implementation. There will be many planning discussions, key relationships may need to be built, and resilience required to push through those difficult moments, and to ensure the outcomes and benefits deliver the promises of ISO20022 migration.

1. Project Plan and Team Build

- I. First, build **knowledge** by talking to banking providers and system vendors, and then identify and discuss with internal teams and subsidiaries affected. IT teams are key. Use this information to build a flexible yet detailed and robust project plan, including timelines, responsibilities, and risks.

Practical tip #4: At this early stage, identify all payment types, currencies, and destination countries, made in the last 12 months. Your bank(s) may be able to provide this. These will be used to inform your plan.

- II. Consider the **skills required** when selecting your team. For further advice, see the presentation on project management on the TreasurySense website in the Leadership and Project Management category.

Practical tip #5: set up a steering committee, including a governance process, with members who can both help and challenge the implementation plan and its progress, especially the IT teams.

IMPLEMENTATION STEPS

Practical Tip #6: The It team in your organisation are critical to the success of this migration. Get them on board from the very start.

2. Data

- I. Understand the data required, including its format and structure. There are 4 main sets of data required for ISO20022: Purpose of Payment (POP); Legal Entity Identifier (LEI); Structured Name and Addresses; Structured Remittance Information. Address these concurrently.
- II. Clean up your data, complete any missing fields, and ensure it is in the correct format.
- III. Ongoing maintenance: is there a need for a centralised process to capture, validate, and enrich payment data to ensure ISO20022 compliance? Do you need to archive the ISO payments data in compliance with your country regulations?

3. **Policies and procedural changes:** Are any changes required to your current payment and statement-related policies and procedures, including process maps and reconciliation procedures? What are the governance procedures required to authorise any changes?

IMPLEMENTATION STEPS

Many hurdles can crop up that impede any of these implementation steps. But with adequate and simple but intelligent thought and execution, the benefits of migration will far outweigh the cost

4. **Training:** train your organisation's staff on the new formatting language and teach them about the new standards, including their business benefits.
5. **Testing:** Implementation will require thorough testing to ensure seamless integration with your financial partners and to identify any issues.
 - I. Establish a comprehensive testing plan that covers both internal and external systems, and payments and statements
 - II. Work with your bank(s) and system vendor(s) to agree on the final joint testing plan, setting up of testing environments, timelines and responsibilities.

Practical Tip #7: Test every type of payment and message you send and receive, bulk and single transactions, in all currencies. Contact at least one supplier for each payment type to perform a real-life penny test. Also include negative testing, i.e. try to break it by setting up strange payment information to see how it responds.

Practical Tip #8: Testing is the most important phase. Ensure every issue is thoroughly investigated. All scenarios tested must be 'right and tight' before go live.



CLOSING REMARKS

PLANNING AND PREPARATION ARE KEY

The ISO20022 migration will be difficult and time consuming for many companies. Failing to prepare may result in payment failures and compliance issues.

However, with the right strategy in place, you can plan how and when your organisation is able to take advantage of the new capabilities on offer. Get on the front foot and get started today!

