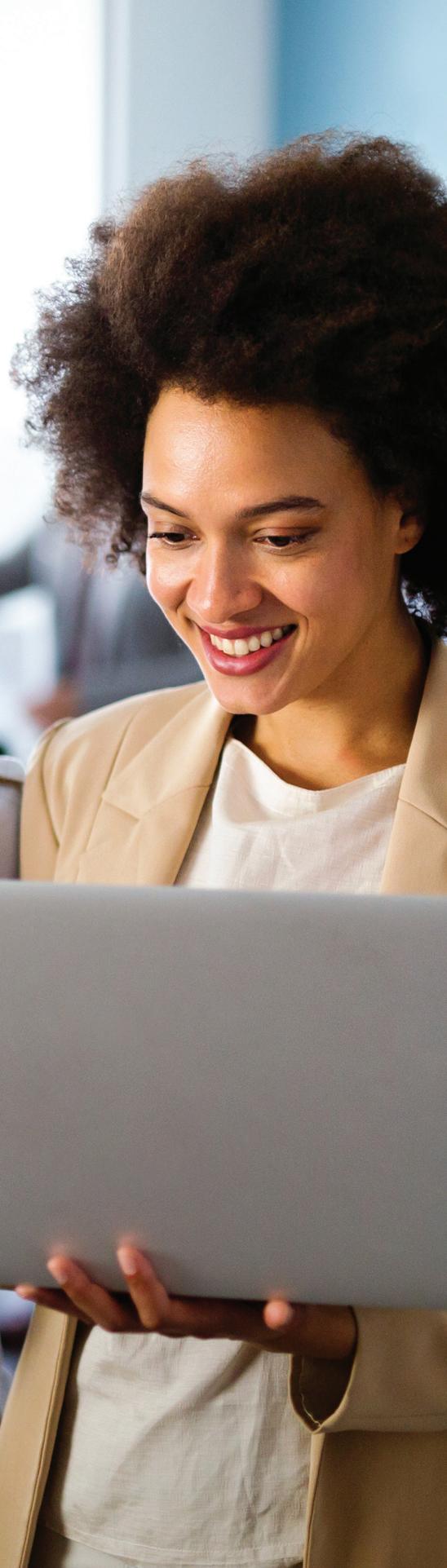




Building a better
working world

Nine considerations for ISO 20022 migration





Migration considerations

The ISO 20022 standard can help drive bottom-line results. Explore these considerations as you migrate to ISO 20022.

ISO 20022 migration presents unique challenges for banks due to the complexity and scale of the transition. Planning for migration milestones requires detailed planning and coordination across your organization. Here, we offer a playbook for how different institutions can prepare for the mandated migration milestones, while also taking advantage of the strategic opportunities of ISO 20022 beyond compliance. Institutions will approach migration based on their position and goals within their respective markets. Below, we break down how different institutions will look at ISO 20022 migration:

- ▶ **Global banks** are highly impacted by the drive toward the new ISO standards and leverage the opportunity to overhaul their systems to take advantage of the opportunities generated by the enriched data and capture customer insights. With strategic investments in capabilities, institutions can scale their transition to ISO 20022 globally to help them meet complex compliance requirements and offer competitive services for corporate customers.
- ▶ **Mid-tier banks** are impacted by updated ISO standards, but not to the extent of their global counterparts. These banks directly participate in the payments system but are more likely to embrace minimum compliance to avoid driving up costs in the short term. Alternatively, they may be more inclined to team with FinTechs and third-party service providers to avoid the costs associated with a complete overhaul of their systems or reliance on translators.
- ▶ **Regional and local banks** do not directly participate in the payments system and are minimally impacted by the updated ISO standards in the medium term; therefore, these banks, like mid-tier banks, are mindful of short-term costs. Consequently, they will take more of a wait-and-see approach on introducing new products and will only pivot once they see the full impact of ISO 20022.



How to structure your overall program: two approaches

- ▶ **A “big bang” approach**, sponsored by the enterprise data office, helps drive accountability with federated responsibility across key benefactors. As part of this approach, a ready-made solution is implemented in one go – a streamlined approach that may come with unforeseen risks due to lack of subsequent phasing.
- ▶ **A “phased” approach**, in which a new system/product is introduced piecemeal and caters to all local requirements. Modules emerge in a planned sequence, and the old and new systems must co-exist and exchange/sync data. While this is the more careful option, operating two systems at once can be costly. A phased approach helps mitigate operational risks and potential issues related to reduced straight-through processing in production environment.

Regardless of the size or approach of your institution, the below considerations must be addressed as you migrate across systems and geographies:

- ▶ **Readiness of payments infrastructure.** The migration to ISO 2022 is a complex program impacting the functionality of banks’ systems and downstream operations. Compared to legacy standards, ISO 2022 is much more granular and leaves little room for free text fields, which presents a challenge for banks when performing mapping exercises from legacy standards to ISO 2022. In addition to mapping complexities, the richness of ISO data creates much larger data volumes. The immediate task for banks is to develop a concrete program plan and robust project management structure, while considering the intricacies of applicable legacy standards to ISO 2022 mapping exercises, the capacity of legacy systems to process higher data volumes and interoperability with updated network infrastructure. This will involve identifying impacted stakeholders, third parties and downstream workstreams, and creating tailored roadmaps to prepare all systems for migration. Such roadmaps must include multiple levels of testing to validate that in-house platforms and systems are interconnected.
- ▶ **Alignment of internal applications.** To help smooth an integration of ISO 2022 compliant payments systems with internal applications across the enterprise, banks should establish a migration approach early on with ancillary systems involved in the payment process (e.g., ERP/TMS providers). These efforts will involve collaborating with third-party providers, such as software companies and system vendors, to develop a mapping of legacy systems to the new standard, establish effective communication between internal workstreams and develop iterative testing efforts throughout each stage of the payments transformation. Additionally, as systems are upgraded to the ISO standard, banks should consider how ISO 2022 may positively impact other initiatives once systems are speaking a common language. The newly enriched data can improve the monetization opportunity of other banking initiatives (like core banking enhancements and cloud transformations) and could enhance the business case for the promotion of these programs against other priorities.



► **Program governance and support.** The ISO 2022 migration requires significant commitment and coordination across multiple teams, and banking leadership must be willing to prioritize ISO activities amid competing priorities for payments initiatives. To fully invest in ISO 2022 beyond a compliance exercise, banks should establish program governance at the inception of the initiative and obtain sponsorship from executive committees. Designated program leads should drive outcomes across a wide array of groups within an institution, as they will need to host initial workshops with impacted teams to understand the application landscape and perform requirements planning. Given the complexity and wide use of payments messaging, banks need to scope and review their payments architecture so that all necessary changes are documented and the program goes live on time. For banks with cross-border footprints, this becomes even more complex given the various deadlines across main markets and implementation guidelines for different payment schemes. When developing a finalized implementation plan, it is essential that all payments scheme considerations are documented, and milestones are established that are achievable with implementation feasibility and timelines.

► **Straight-through processing (STP).** Currently, banks have numerous manual touch points when handling payments data (for example, when trying to reconcile missing or incorrect data). The enriched data that ISO 2022 standardizes will improve automated processing of payments data by providing a succinct messaging structure that is more easily readable by payments systems. As more banks commit to updating their payments architecture to ISO 2022, data-rich information will have the ability to flow from bank-to-bank faster than ever. Additionally, because ISO 2022 holds more data within the message itself, it will be easier for systems to find the appropriate payment-related instructional data. To improve the likelihood of straight-through processing, institutions should implement and test their payments technology and infrastructure to provide smooth processing prior to go-live. Successful data processing will be a key measure of success, as it will bring notable cost savings by lowering processing costs and the need for frequent manual touchpoints.

► **Strategic benefits of ISO 2022.** Banks are investing significant resources and want to avoid writing them off as the cost of compliance. Instead, market-leading banks should look at how they can monetize the opportunities offered by the new standard. These opportunities, elaborated upon in [the first article in this series](#), include providing customers with value-added insights and leveraging data to better understand expansion opportunities across markets and geographies. Financial institutions will compete based on who can best utilize these new resources, and the most successful institutions will be those that identify how newly enriched data can drive other prioritized business opportunities. A strategy should be defined in the very beginning of an ISO 2022 migration and be led by a dedicated team member so that strategic benefits are factored into planning and objective setting.



► **Refresh of source channels.** Source systems that facilitate the acceptance of client instructions for payment initiations will undergo the transition to ISO 20022. Channels such as net banking, mobile banking, file-based initiation (single or bulk), payment initiation application programming interfaces (APIs), integration with mobile wallets and third-party vendors need to be compliant with the new messaging standard. Banks will need to evaluate all in-scope channels/sources and add specific ISO 20022 fields to their electronic banking platforms, which should cater to receiving and accepting payment initiation requests in the new format. Additionally, institutions will need to change the information they capture through each channel to provide organized instructions and information to clients and other counterparties.

► **Training and preparing talent.** Existing resources will need to be up-to-speed with the complexity of implementation requirements across many jurisdictions. So far, we have observed limited talent with knowledge of the new standard, which will become a greater problem as banks juggle competing transformation initiatives pushed by the market. Retaining and recruiting talent with a skill set to manage ISO 20022 data will make a material difference on how successful a bank's migration to the new standard will be. Training programs should be developed and incorporate feedback from teams on challenges they face during the ISO 20022 migration. Lessons learned from teams such as compliance, IT, operations and data can enhance trainings to be better suited to manage common challenges on the ground.

► **Client education.** Banks should understand the impact ISO 20022 will have on their individual and corporate clients. To meet ISO data field requirements, customers may need to include more transaction details, such as the sender's building number or street address. Because customers will be providing more information with the new standard, banks should take time to educate their clients about ISO 20022 and stress the importance of accurate information for straight-through processing. Additionally, banks should emphasize all the benefits of ISO 20022, such as the richer data formats that will create new benefits for customers (like better visibility into payment details and improved fraud detection) to minimize potential change aversion.



- ▶ **Management of new data and data fields.** Data models within banks will change significantly with the move to the new standard, particularly in transitioning from the legacy format to ISO 20022's new XML-based messages (referred to as MX format). While this poses a major opportunity for banks to enrich their analytics around this new data (e.g., creating new analytical models and designing personalized customer offers), it will need to be aligned with the bank's existing global data strategy. Consider whether the existing legacy system can handle these changes:
 - ▶ **Truncation of transaction data.** Conversion to a standard comes with the risk of data truncation or loss at the price of operational efficiency, customer satisfaction and transparency. Several MX fields do not have an equivalent field when being translated to the legacy format in a like-to-like translation. While mapping, data flowing in from the legacy format should be captured in placeholders, used for any reporting requirements and exposed for reporting, reconciliation and invoice preparation to avoid truncation issues down the road.
 - ▶ **Structured remittance information.** ISO 20022 messages include tags and fields to capture rich remittance information for end-to-end payment processing details. In the SWIFT network's legacy MT format, there is a field that accommodates just 70 characters for this purpose. The ISO 20022 standard, on the other hand, has a set of fields to hold remittance information in an organized and structured manner without such limitations, thereby simplifying the flow of data processing.
 - ▶ **ISO addresses.** The new standard offers the flexibility to capture structured addresses of each party involved in the payment chain. Having properly populated and structured addresses helps identify the parties as well as eases the processing of sanctions screening, embargo checks and more.
 - ▶ **Introduction of ultimate debtor and ultimate creditor.** Acknowledging the ultimate parties in a payment transaction is always required. The ISO 20022 standard has well-defined fields and tags to facilitate this information in a transaction. However, legacy standards do not cater to this capability or provide these provisions in a typical payment message. Having this information available in pain.001 and camt.053 messages will ease compliance mandates and provide additional insights on transactions and customers for banks.

Summary

Banks should prepare for ISO 20022 now to avoid rushing to complete the complex transition. By acting on these execution steps, banks can be ready for mandatory compliance dates and be the forerunners in this migration journey.

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