

Unlocking the value of ISO 20022

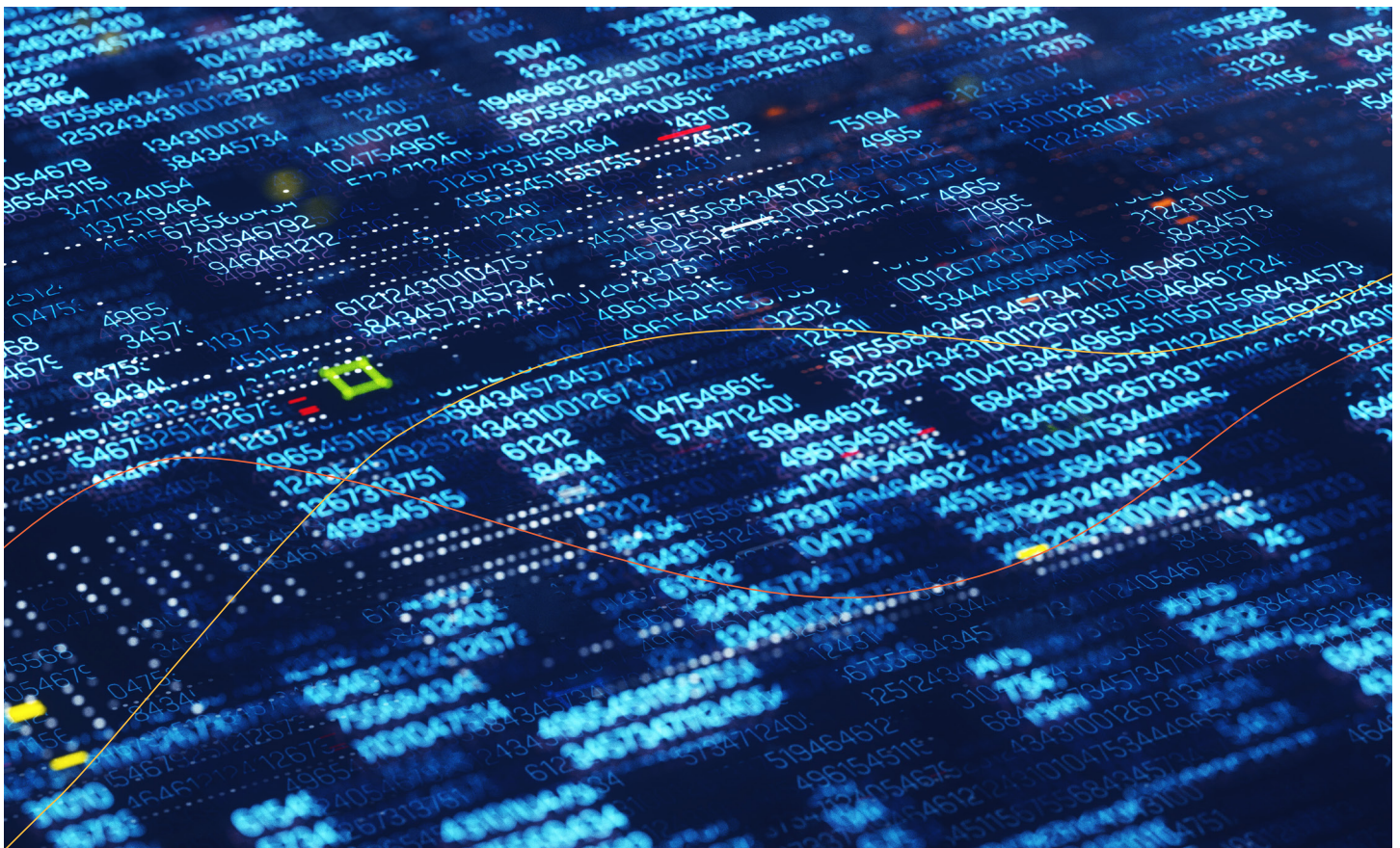
Background and introduction

ISO 2022 has been a hot topic in the banking and payments industry for years now, but the mandatory migration for Swift payments has confronted many banks with the reality that they do not know how to best utilize ISO 2022's capabilities. Banks around the world stand to benefit from ISO 2022's potential for new products and services in the cross-border and high-value payments space.

This report highlights the new capabilities enabled by ISO 2022 and the benefits that banks see from migration. The report also outlines several strategies utilizing ISO 2022's capabilities to help banks create value for themselves and their customers. Lipis Advisors spoke with various banks to understand how they are utilizing ISO 2022, including

banks with high cross-border payments activity, banks providing correspondent banking services, banks involved in payment system interlinkages, and other innovative banks leveraging ISO 2022's capabilities.

Each identified capability and benefit is accompanied by a description of the use case or service, how these fit into wider bank strategies, and the benefits that bank customers could see if or when the service becomes available. Nonetheless, many interviewees highlighted the relevance of standardizing market practices and the need to further support them and noted that the speed of adoption across geographies plays a crucial role.



Executive summary

Lipis Advisors interviewed various banks in different markets to understand how they are leveraging the benefits of ISO 20022 to provide value to their clients and to develop new products and services. One of the key mindsets that these banks have in common is that they view ISO 20022 as an opportunity rather than a pure regulatory and compliance issue. These benefits can be categorized into six groups:

1. Cost savings and processing efficiency
2. Data-related benefits
3. Fraud, anti-money laundering (AML), and compliance
4. Interoperability across geographies
5. User experience
6. Innovation benefits

When it comes to cost savings and processing efficiency, many banks highlighted improvements in STP rates; others highlighted that automation and efficiencies are not only gained in bank processes but also by banks' corporate clients. Some banks are working together with their clients to identify further potential points of automation within the payments value chain. While ISO 20022 migration comes with many challenges and benefits, banks around the world view ISO 20022 as enabling a fully digitalized end-to-end payments process and therefore as a net positive.

Some banks are helping their clients improve cash management and liquidity by providing the necessary information to make more sophisticated liquidity management decisions. Other banks expect that the automation enabled by ISO 20022 can help corporate customers unlock liquidity when reconciliation is done instantly.

Data-related benefits include cases in which banks leverage insights brought about by ISO 20022-based messages to offer new or enhanced services to their clients, such as short-term credit. ISO 20022 has thus helped banks strengthen their existing relationships with services outside the payments space.

One of the key benefits that banks have pointed to is improvements in compliance processes. The use of structured addresses, purpose codes, and legal entity identifiers (LEIs) helps banks implement more secure and reliable compliance processes, especially where correspondent banking relationships are concerned.

There is no doubt that ISO 20022 is a key component for international interoperability. Both international corporate clients and banks are benefitting from the usage of the same international payments "alphabet." Banks can provide their clients with simplified initiation methods for multiple systems and locations, and many are implementing smart routing. ISO 20022 is also seen as enabling cross-border payments, regardless of the underlying payments infrastructure.

Another aspect that banks have highlighted is the fact that as adoption increases, the possibilities for developing new and innovative products on top of existing infrastructures also increase. The more ISO 20022-based messages are utilized, the more benefits banks and corporates will perceive. Nonetheless, many interviewees highlighted the relevance of standardizing market practices and the need to further support them and noted that the speed of adoption across geographies plays a crucial role.



Identifying ISO 20022's benefits

ISO 20022 is quickly becoming the de facto payments industry standard and an enabler of global interoperability — big benefits of migration. For banks, this means cost savings from utilizing the same standard in multiple markets, modernizing and upgrading their systems, improving speed and transparency for their clients, and keeping up with client expectations in a changing payments ecosystem. There are several other potential benefits that ISO 20022 can bring: based on the insights gathered from industry interviews, Lipis Advisors has identified several benefits mentioned by banks beyond the widely touted benefits of extended remittance information for invoicing and reconciliation.

This report categorizes benefits into the following categories:

- Cost savings and processing efficiency
- Data-related benefits
- Fraud, AML, and compliance
- Interoperability across geographies
- User experience
- Innovation benefits

Figure 1: Categorizing the benefits of migrating to ISO 20022

Some of the benefits of migrating to ISO 20022	Cost savings and processing efficiency
	Automation and efficiencies
	Centralized processes
	Greater transaction details and traceability
	Improved cash management and liquidity
	Data-related benefits
	Business intelligence, insights, and analytics
	Data-sharing through ISO 20022-based payment messages
	Fraud, AML, and compliance
	Improved compliance and risk management
	Secure and compliant correspondent banking relationships
	Fraud prevention
	Interoperability across geographies
	Ease of transacting domestically and globally
Interlinkage of payment systems	
User experience	
Speed and transparency	
Innovation benefits	
New and innovative products	

The various categories contain multiple specific benefits, which are expanded upon in the following section. These examples demonstrate how banks are leveraging the benefits of ISO 20022 and providing value to their clients.



1. Cost savings and processing efficiency

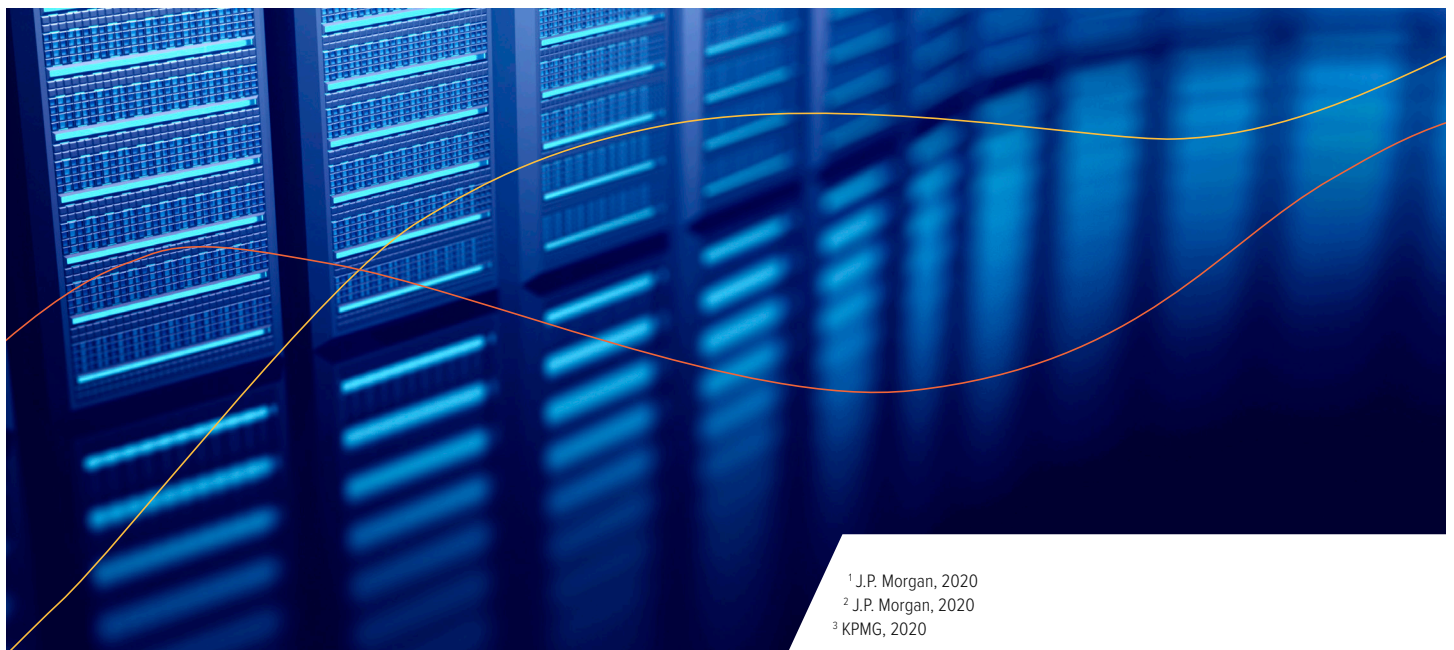
Automation and efficiencies

Managing exceptions and investigations remains a challenge for achieving automation for many banks. Manual intervention is required in many cases and handling exceptions worsens the client's payments experience.¹ Banks are streamlining their efforts and achieving a more consistent resolution of exceptions and investigations through automation utilizing consistent standards and structured message types.²

Investing less time in error processing allows banks to increase the number of transactions they process overall, thus reducing transaction costs.³ Greater automation (i.e., STP) translates into improved service-level agreements. Marijke Guest, group technology divisional executive, enterprise payments at Nedbank, commented, **"With ISO 20022 we have increased our STP to levels well above the benchmark, our process is now much more automated; ISO 20022 helps us eliminate documentation... Our operation(s) cost is most certainly reduced because of how our staff can remediate failed transactions and reduce manual processes and paper."**

Not only do bank processes benefit from increased automation and efficiencies, but corporate clients also gain from these new capabilities. **"Increased information is a benefit for banks as well as for corporate clients and enables [more automation] and more processes in each step of the value chain,"** said Andrea Meier, head of solution management at DZ Bank. She added, **"We will work together with our clients to understand where they have challenges in their current process or value chain so that we can use the ISO 20022 format to deliver information that can enable more process efficiency."**

Many in the industry believe that ISO 20022 can make payments fully digitalized from end to end. Ingrid Weißkopf, head cash advisory institutional clients at Commerzbank, comments that **"End-to-end digitalized payments means that all the data, in terms of meaningfulness, completeness, and structure, will be available. This quality of information will not only reduce the number of payments being unnecessarily upheld for compliance reasons, but it will also lead to corporates reconciling automatically."**



¹ J.P. Morgan, 2020
² J.P. Morgan, 2020
³ KPMG, 2020

Centralized processes

Banks and their corporate customers can leverage the common standard to centralize processes across multiple countries, e.g., having one centralized payment processing team instead of having hubs around the world. “Our application costs have been reduced because of the standardization of flows and the high reuse of our applications. We are using our ISO 20022 applications for both high-value payments and real-time payments,” Marijke Guest stated. **“Operational and technical processes are very similar across different payment rails.”**

Greater transaction details and traceability

Besides helping to automate payment exceptions and investigations processes, the consistent use of structured, standardized data reduces the number of payment inquiries from bank staff,⁴ while providing greater capacity to carry information enhances banks’ systems’ ability to interact more broadly with overlay services.⁵ There are initiatives to help banks track payments across the cross-border value chain such as Swift GPI, resulting in enhanced transaction traceability. The benefits that these tools bring about can be fully leveraged by those using ISO 20022.

Improved cash management and liquidity

Many banks, high-value payment systems, and instant payment systems worldwide have already adopted ISO 20022, making it easier for banks to offer multiple processing methods to their corporate clients in which they can choose between time-sensitive and liquidity-efficient processes. Marijke Guest said, **“Using ISO 20022 also means that our clients’ liquidity management decisions are more nuanced and sophisticated.”** When it comes to liquidity efficiency, Dougal Middleton, vice president, enterprise payments at Scotiabank, noted that the automation enabled by ISO 20022 unlocks liquidity because funds can be utilized as soon as they are matched and reconciled. **“With ISO and real-time payments, businesses have the possibility to reconcile instantly and truly reap the rewards of real-time liquidity,”** he continued.

2. Data-related benefits

Business intelligence, insights, and analytics

ISO 20022 means richer data that helps banks extract insights and analytics to understand clients’ behavior and counterparty interactions, leading to customized services. Dougal Middleton, vice president, enterprise payments at Scotiabank, commented, **“When we know more about our clients’ payment relationships, we can provide better advice and financial services that meet their wider needs. Richer data can help us support our clients with short-term credit in cases of cash flow shortfalls.”**

He added, **“We can build on the relationship that we have with that client and use the data available through ISO 20022 to help with the credit risk, and there’s also potential to understand the network of buyers and suppliers in the corporate commercial space.”**

Improved information on payment types and payment purpose as well as more information on senders and receivers enable banks to understand not just the customer’s payments behavior, but also trends across different sectors and geographies.⁶

Data-sharing through ISO 20022-based payment messages

The increased amount of data that can be transmitted through payment messages is being leveraged to increase the speed and transparency of cross-border payments. Examples include indicating that a payment is cross-border, including a unique end-to-end reference, any type of flagging notifier, company identifiers,⁷ and URLs or other types of reference to externally held documents and/or information.⁸

⁴ J.P. Morgan, 2020

⁵ Bank of England, 2018

⁶ The Payments Association, 2023

⁷ Such as legal entity identifiers

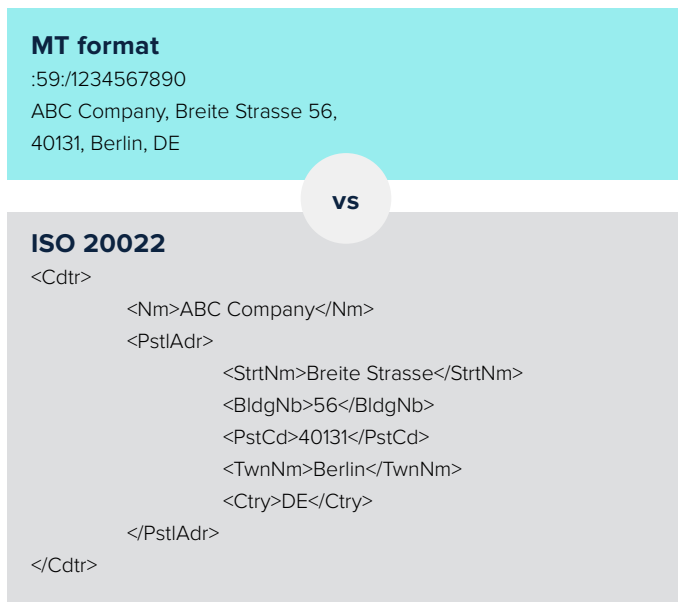
⁸ Bank for International Settlements, 2023

3. Fraud, AML, and compliance

Improved compliance and risk management

Banks can comply with governing regulatory and sanctions screening obligations by converting to ISO 20022. The absence of organized information in older payment message structures makes it challenging to conduct efficient compliance screening, and reviewing an extended sequence of disorganized text may lead to misinterpreting information and false positives, resulting in payment delays.⁹

Figure 2: MT format vs. ISO 20022



Source: Adapted from Mitsubishi UFJ Financial Group (MUFG Bank), 2023

ISO 20022 introduces structure to the name and address, ensuring consistency and machine readability.¹⁰ ISO 20022 messages contain XML tags for each message element, which simplify the compliance process by making it easier to identify elements and accurately screen data.¹¹ This saves time and resources for banks by reducing the need to investigate incorrectly flagged payments and improving the automation of scanning and compliance processes.¹²

In addition, richer and more structured data facilitates extracting and sharing information with regulatory and compliance authorities.¹³ Banks therefore benefit from a more automated and reliable compliance process.

Dr. Roland Nehl, programme manager at Commerzbank, commented that **“ISO 20022 supports the evolution of compliance-related processes which is vital for Commerzbank.”** He highlighted that “purpose codes, structured addresses, and the use of legal entity identifiers are definitely improving identification of parties in the payments chain and the underlying business” and that ISO 20022 promises to make **“compliance checks more precise and faster, which we see as a real benefit. However, ISO 20022 must really be interoperable for these benefits to materialize further.”**

Secure and compliant correspondent banking relationships

Correspondent banks depend on AML checks conducted by the customer’s bank, and the information included in the payment message because the correspondent does not have a direct relationship with the sending party.¹⁴ The adoption of ISO 20022 has the potential to lower risks by providing more extensive information, including details about the previous parties involved in the transactions. This enables correspondent banks to conduct due diligence more effectively. Dougal Middleton, vice president, enterprise payments at Scotiabank, noted that **“ISO 20022 has provided better information about who’s really behind the transaction, especially when it’s a user of a correspondent banking flow.”** He continued, **“In addition, the ISO format allows us to be much more precise when it comes to sanctions screening and improve straight-through processing.”**

⁹ J.P. Morgan, 2020

¹⁰ Bank of England, 2018

¹¹ As an example, the use of identifiers, such as date of birth, can reduce the number of “false positives” when undertaking sanctions screening (i.e., where a client is incorrectly identified as being on a sanctions list).

¹² J.P. Morgan, 2020

¹³ Quibria, 2015

¹⁴ Bank of England, 2018

Fraud prevention

Due to the greater amount of information and detail that can be included in payment messages, ISO 20022 supports banks in their efforts to detect and prevent fraud.¹⁵ At the same time, the reduction of unstructured transaction data improves technological efficacy because data is more easily extracted for fraud prevention analysis, enabling banks to determine behavioral patterns and detect and stop fraudulent payments.¹⁶ ISO 20022 is helping banks reduce fraud rates and provide their customers a more secure and efficient payments experience. Marijke Guest stated that **“...we can collect extra data elements that have helped us with [creating a] more optimal decision-making [process] on fraud; we have started adding this in our transaction flow.”**

4. Interoperability across geographies

Ease of transacting domestically and cross-border

ISO 20022 is a key facilitator of interoperability for cross-border payments. ISO 20022 simplifies the process of communicating with other regions and payment methods because it is becoming the de facto global standard. **“With ISO 20022, we have the base to develop our payment systems and value-added services,”** Andrea Meier, head of solution management at DZ Bank, said. **“We provide our customers with interoperability between the international payment systems. Not only internationally**

based corporate clients [benefit] from ISO 20022, but also the banks are benefitting from the usage of the same language all over the world.”

By utilizing a common language,¹⁷ the likelihood of misunderstandings decreases, which ultimately reduces the obstacles and expenses associated with cross-border payments.¹⁸ Moreover, the migration to a global standard reduces translation and other processing costs related to information that gets truncated during conversion.¹⁹ ISO 20022 provides a seamless experience for bank customers because it is channel agnostic, making payments integration and initiation more efficient, reducing the risks of handling multiple bank interfaces and proprietary standards.²⁰

“A primary benefit we’ve leveraged [with] ISO 20022 is as a way to simplify a single format and single connectivity point, through one API or one file integration and using ISO 20022 to converge those,” said Carl Slabicki, co-head of global payments, treasury services at BNY Mellon. **“We’re doing much more smart routing for our clients based off the payment day, the value of a payment, where the receiver’s account is, and so on...,”** adding **“we’ve seen ISO as a singular bridge to help the market, whether it’s our corporate or bank clients, get access to a wider array of payment types and ISO is that bridge to connect with.”**

For banks this also means that the costs of joining multiple payment infrastructures are lower because the barriers of using many different standards are removed.²¹ It also makes the bank’s upgraded systems compatible with newer systems and technologies.



¹⁵ Such as purpose codes and more specific information about the account and account holder

¹⁶ Payments Journal, 2023

¹⁷ Though it is known that separate guidelines exist for ISO 20022 usage for cross-border correspondent banking (CBPR+), for high-value payment systems (HVPS+), for instant payments (IP+) and for customer-to-bank payments initiation (CGI-MP). It is also relevant to note that different markets may use different versions of the ISO 20022 messages or have local country or bank proprietary requirements. Nonetheless, there are ongoing global efforts for standardizing market practices. Bank for International Settlements, 2023

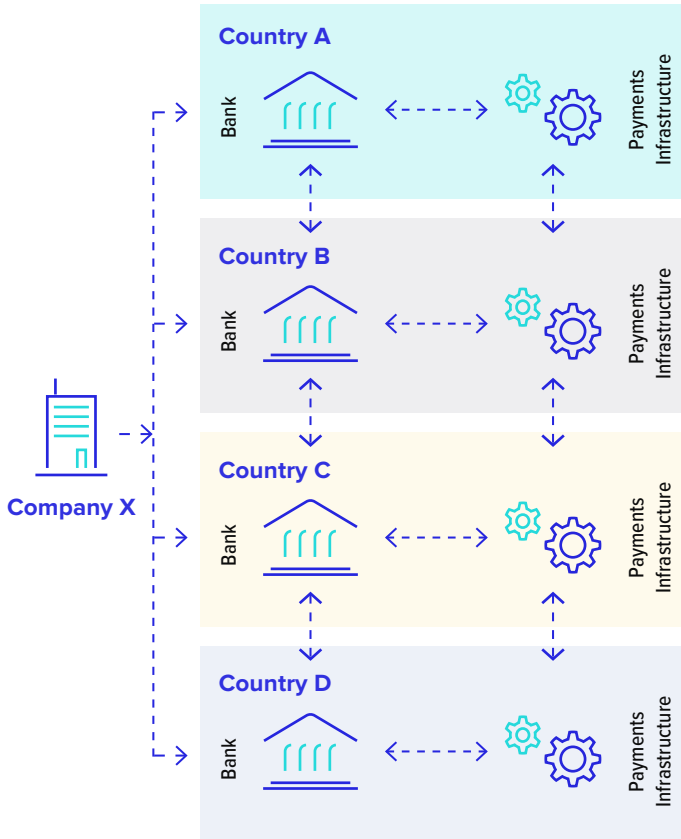
¹⁸ Quibria, 2015

¹⁹ Quibria, 2015

²⁰ Quibria, 2015

²¹ Bank of England, 2018

Figure 3: Global interoperability



--> ISO 20022-based messages

Source: Adapted from Quibria, N. (2015). Introduction to ISO 20022 for U.S. Financial Institutions. Nacha.

Interlinkage of payment systems

ISO 20022 means that payment systems across countries “speak the same language.” This brings about opportunities for payment system operators to link payment systems across the globe,²² which in turn means that banks can lower their own costs for cross-border transactions while increasing speed.

Interlinking payment systems makes it easier for banks to offer cross-border payments to countries where they have no presence or partnerships, reducing reliance on correspondent banking relationships.²³ This enables the

creation of new products and services and limits costs by eliminating translation services. Looking at the bigger picture, domestic instant payment experiences have raised customers’ expectations for cross-border payments, too; this has prompted banks to explore innovative products; bank customers can seamlessly transact domestically and cross-border.

5. User experience

Speed and transparency

Thanks to increased automation enabled by ISO 20022, payments are processed and settled more quickly with higher levels of STP rates. This means there are reduced errors and failures, resulting in lower processing costs because manual intervention adds time and money to the process. The improvement in the quality of the messaging data negates the need to confirm information and limits the room for mistakes, improving the overall customer experience.

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In supporting cross-border clients and transactions, ISO 20022 is a true enabler for linking the globe, in terms of a domestic platform connecting to another domestic platform. Regardless of the payments network, ISO 20022 provides a strong standard for data and a framework to establish and define better market usage practices.”

Dougal Middleton

Vice President, Enterprise Payments, Scotiabank

²² Examples include the Immediate Cross-Border Payments (IXB) project, project Nexus, or the linkage between PayNow and PromptPay, to name a few.

²³ Bank for International Settlements, 2023

6. Innovation benefits

New and innovative products

The uniformity of the messaging format across systems and regions brings about other benefits to banks, such as increased opportunities for product and service innovation. **“The more the ISO 20022 standard is used, the more value-added services will be implemented based on that standard,”** said Andrea Meier of DZ Bank. ISO 20022’s adaptability to emerging technologies provides banks with the chance to implement top tech solutions and capitalize on operating efficiencies.²⁴

Nonetheless, one key factor is the consistency in market practices while utilizing the ISO 20022 standard. Dougal Middleton, vice president, enterprise payments at Scotiabank, highlighted that the industry needs to leverage market practice groups to make sure that financial institutions understand prominent use cases and how they are consistently articulated in the dataset so that they can innovate on top of it. He added, **“Consistency of data enables us to build on our platforms and deliver innovative experiences and stronger solutions for our clients.”**



Conclusion

The global move to ISO 20022 has the potential to provide numerous benefits for both banks and their customers, and banks are already viewing ISO 20022 as a chance to strategically transform their business and leverage the benefits and value-added opportunities offered by the new standard. At a high level, ISO 20022 is improving bank customers’ experience with faster and more transparent transactions, improving fraud prevention efforts with enhanced and more accurate data, easing AML and compliance, bringing more efficiency and cost reduction to payment processing, standardizing the end-to-end payments value chain globally, facilitating the interlinkage of domestic infrastructures, encouraging the creation of new services, and helping banks better understand their customers’ payment behaviors to offer new products. Above all, ISO 20022 is key for global interoperability, regardless of the underlying payments infrastructure.

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ISO 20022’s rich and structured data is the foundation for greater operational efficiency and improved data analytics and compliance, bringing opportunities to innovate and deliver enhanced customer experiences. Swift is supporting ISO 20022 adoption in payments along with providing solutions centred on richer data, for improved fraud detection and targeting financial crime.”

Nicolas Stuckens

Head of ISO 20022 Adoption and Data Quality, Swift

ACI Worldwide has been an accredited partner of Swift for more than 30 years.

²⁴ Lucas, Gancz, & Forman, 2022

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