



# The payments language of the future has arrived

## Reshaping the banking experience



The global payments infrastructure is moving to a single messaging standard. The implications for banks will likely be enormous. Are you ready?

For decades, the formats supporting high value and cross-border payments have been fractured. Lack of interoperability due to different standards and formats have resulted in significant delays and inefficiencies in processing payments. Now, the world is moving towards one common global standard for financial messaging, called ISO 20022. Global adoption of this standard is accelerating with a number of high-value payment market infrastructures already live on ISO 20022 and more planned to go live by 2023.

For banks, the implementation of the new standard represents a global mandate with near-term deadlines. In Asia, mainland China and India are already live with ISO 20022 with Hong Kong (SAR) on track to transition soon. Major central clearing houses and SWIFT are planning to switch starting in 2021 with the US, Canada, UK, and eurozone moving ahead with plans to transition to ISO 20022 over the next four years, comprising over 87 percent of global high value clearings.

### A better language

ISO 20022 represents a new business language. The lack of common business terminology has been a key challenge across payment types, which ISO 20022 is solving through a globally accepted standard. It offers significant enhancements over the proprietary legacy clearing standards that

have dominated until today. The standard uses a mainstream XML format that is compatible with mature and emerging technologies. This format is also extendable, allowing for adaptability to future business changes.

Perhaps more importantly, the new standard allows banks and payment participants to include significantly more contextually relevant data related to the payment. Among other things, it provides rich structured party data, extended remittance information and allows for special characters and expanded character sets.

### From a ripple to a wave

The benefits of implementation may be clear, but the path to compliance is not. ISO 20022 introduces significant changes to the extended ecosystem that supports the payment value chain. Most banks will find that they will need to make some fairly significant changes across the organization if they want to achieve ISO 20022 compliance ahead of the industry deadlines.

Consider, for example, how ISO 20022 may impact your customers and channels. There may be changes required in client systems, online payment screens, reporting tools and user guides; payment origination forms and disclosure terms will need updating; direct file transmission format specifications will also likely need to be changed.



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Financial crime teams will need to think about how they will update their risk management applications to support the new data model and XML processing. Payments processing functions will need to assess the impact this type of structured data will have on their

straight-through processing (STP) rates. There will need to be updates to the structure and format of statements and advice to support additional field lengths and party information. The list of potential interdependencies across the enterprise goes on, see table below.

Organization wide impacts				
Customer and channels	Enterprise services	Payments processing	Accounting, reporting and exceptions mgmt.	Integration/ infrastructure
<ul style="list-style-type: none"> <li>Corporate customer debtor and creditor source data quality</li> <li>Payment-entry screens and disclosure terms</li> <li>Securities/trade related payments sources/vendors</li> </ul>	<ul style="list-style-type: none"> <li>Sanctions, AML, fraud model updates</li> <li>KYC source data quality for debtor legal name and address</li> <li>Legal entity identifier (LEI) reference data lookup capability</li> </ul>	<ul style="list-style-type: none"> <li>High value system and clearing gateway updates</li> <li>Operations team changes from lower manual interventions</li> <li>Recurring templates and mappings updates</li> </ul>	<ul style="list-style-type: none"> <li>Data truncation controls</li> <li>Analytics insights from rich ISO data</li> <li>Investigations, customer servicing team ISO training</li> </ul>	<ul style="list-style-type: none"> <li>Middleware support for XML and ISO 20022 data</li> <li>Storage and bandwidth for larger size of XML message</li> <li>Systems not capable of xml processing</li> </ul>

## More than just a new standard

While it would be tempting to dismiss the shift to ISO 20022 as purely a compliance exercise, the reality is that the new standard has far-reaching and highly strategic implications for most banks and financial institutions. In fact, the adoption of ISO 20022 may unlock some of the value adding opportunities that financial institutions have been chasing for years.

It's not hard to imagine, for example, how the new standard could unlock revenue enhancing opportunities through new product development and innovation or how it could improve efficiency through reduced labor requirements and lower maintenance costs. It could create opportunities for enhanced operational productivity and improved automation. Its impact on the overall customer experience (as fewer payments are rejected and channel experiences are improved) should be clear.

Not surprisingly, many banks are now starting to recognize that they can use the transition to ISO 20022 to help drive their wider transformation and modernization journeys. This is leading some banks to take a much more strategic approach to ISO 20022.

## Planning your journey

Our view of the competitive marketplace suggests that all banks should be using the shift to ISO 20022 to rethink the way payments are integrated into the wider business, infrastructure and growth strategy. Not all banks and financial institutions are the same, however, with different organizations requiring different approaches based on their internal environments and strategic priorities.

Some may decide that technical compliance is all that is required to fulfil their long-term growth strategy. Others will undoubtedly see the new standard as an enabler of change. While ISO 20022 is an industry mandate and banks are being forced to comply<sup>1</sup>, we view this as an opportunity for financial institutions to use this as a catalyst to strategically transform their business in order to reap the benefits and unlock the value-added opportunities enabled by the new standard.

The first step, therefore, is to consider both your immediate compliance needs and your long-term strategic payment priorities (including things like compliance deadlines, cost and resource availability and other 'in progress' initiatives) in order to start developing a baseline understanding of your specific environment and objectives. The obvious next step is to assess how ISO 20022 will impact your 'current state environment' and 'future state' plans.

<sup>1</sup>[https://www.iso20022.org/sites/default/files/documents/adoption/ISO20022\\_adoption\\_report.pdf](https://www.iso20022.org/sites/default/files/documents/adoption/ISO20022_adoption_report.pdf)



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## Approach to compliance and strategic transformation

Baseline current state	Assess ISO 2022 impacts	Develop target state strategy and operating model	Develop roadmap and migration plan
<ul style="list-style-type: none"><li>— Baseline ISO changes from clearings</li><li>— Assess impact across payments value chain</li><li>— Ongoing initiatives overlapping ISO effort</li></ul>	<ul style="list-style-type: none"><li>— Identify application and interface gaps</li><li>— Integration/middleware and infrastructure gaps</li><li>— Operations, servicing and reporting gaps</li></ul>	<ul style="list-style-type: none"><li>— Develop target state guiding principles</li><li>— Develop vendor/in-house options for closure of gaps</li><li>— Develop prioritized target recommended options</li></ul>	<ul style="list-style-type: none"><li>— Build target state roadmap/implementation plan</li><li>— Identify risk to/from ongoing efforts</li><li>— Internal and external vendor cost estimates</li></ul>

### Bringing everyone along

In working with a top five global bank recently to help develop their ISO 2022 transformation plan, professionals from KPMG in the US along with key stakeholders from the bank assessed the impacts of ISO 2022 across their enterprise. We then developed a multi-generational roadmap and plan to position them to achieve compliance with the industry mandate as well as strategically transform their organization.

What we learned through this — and similar ISO 2022 projects — is that broad cross-functional awareness and stakeholder participation is key to unlocking strategic value. The more we were able to engage with stakeholders and impacted vendors across the ecosystem, the more opportunities for value we were able to uncover. Those who view ISO 2022 solely as a compliance exercise may not reap the full benefits that the standard has to offer.

### Get ready

The bottom line is that ISO 2022 is quickly becoming the global language for financial messaging. This is an industry mandate that is expected to standardize high-value payments processing globally.

The big question is whether banks and financial institutions will see the transition as an opportunity to unlock value-adding opportunities or whether they will see this purely as another compliance project. Our view suggests the most successful organizations will be the ones that choose the strategic path.

To learn more about how ISO 2022 impacts your organization and how KPMG can help you prepare for this change, please contact:

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