



WHITEPAPER

ISO20022 can be a significant opportunity as well as a threat for corporates

What enterprises need to know

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Questions Answered Inside:

- What is ISO20022 and why is it important to talk about?
- How can enterprises create value from ISO20022?
- Given all the benefits, how can the TIS EPO Platform help you to optimize ISO integration?

ISO 20022 can be a significant opportunity as well as a threat for corporates, however, waiting is not an option. The time to act is now!

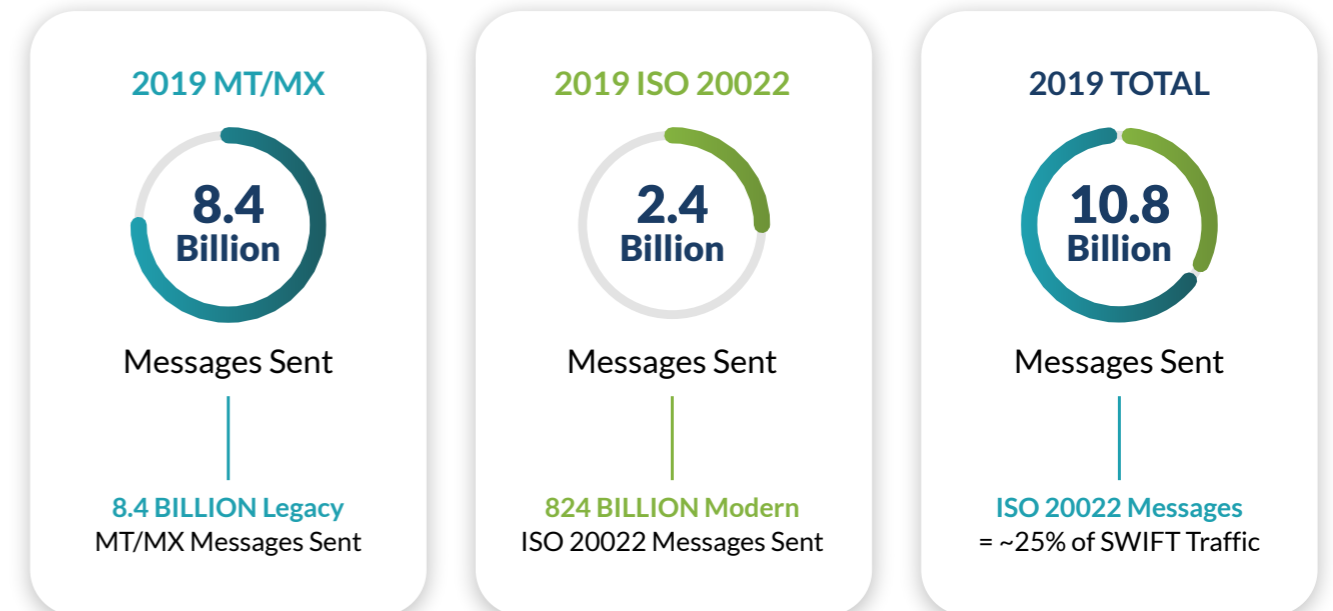
Deutsche Bank's Christoph Hofmann, Head of Corporate & Payment Solutions explains the move to ISO 20022 *"as a major overhaul of the global payments infrastructure and one of the hot topics in the payments industry... at least in the interbank space."*

[Let's ISOFY It! What's Next on the Corporate Treasurer's Agenda, May 18, 2021] At first glance it may seem that the consequences of these changes are limited to the interbank market. However, enterprises will soon need to act to avoid issues regarding the up- and down-load of payments and statement information to their banks and systems providers. These changes will have a direct effect on the corporate community as well. Why? Because clearing systems, banks and of course SWIFT

itself are changing from the FIN standard, which uses the MT message type, to the ISO format which uses XML. Company systems such as ERPs, TMSs, HR support etc. will, at some point, need to be able to send and receive the new format for both payments and account information. There are, however, significant benefits for enterprises once a conversion to ISO 20022 is made. The ISO format is not new to corporate players in the market, but it is not yet being used to the full extent possible. One of the reasons for this is that clearing systems and other players are not yet able to take advantage of the richness that ISO 20022 can provide. Information is truncated and data is lost before it reaches the beneficiary.

SWIFT ISO vs MT STATS: 2019 Messaging Figures^{1*}

* 2019 is the last year with full comparable metrics available from SWIFT



Although corporate adoption of ISO 20022 is projected to continue growing quickly, recent SWIFT data shows that ISO traffic accounts for just 25% of their total traffic when compared alongside FIN (legal MT/MX) message traffic.

¹ SWIFT Resources Center - <https://www.swift.com/about-us/discover-swift/fin-traffic-figures>

What are the Timelines of ISO 20022?

Beginning March 2023, SWIFT will fully support i.e., accept, and translate, the ISO 20022 format from MT messages. At this point in time, it will not yet be mandatory for banks. The official migration deadline for financial institutions is November 2025. On this date, all FIs must be able to send and receive ISO XML messages. SWIFT has announced that between March 2023 and November 2025, there will be a coexistence period of both format types. All banks must embrace this change quickly and efficiently and yet smaller banks are already struggling to meet the deadline. Financial institutions will, each at their own pace, stop supporting and accepting legacy MT formats, also from their corporate clients. In addition, some banks have begun requesting data formatted

according to the new specifications from financial service and system providers.

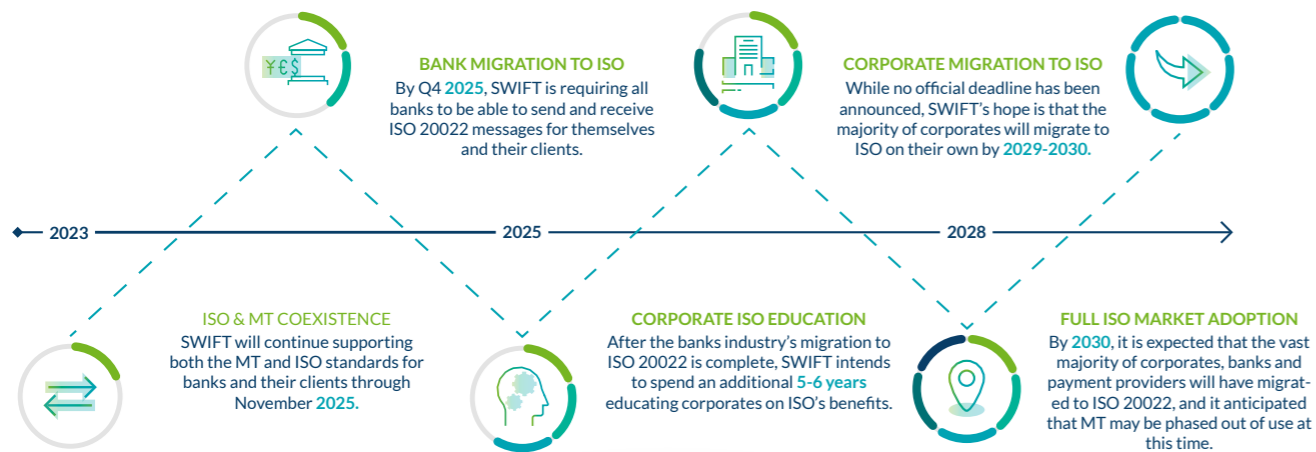
SWIFT is not requiring corporates to convert by November 2025. They want instead to educate companies on the benefits and advantages of moving to ISO 20022. This will, in fact, allow enterprises to continue using MT formats until at least the end of 2026. However, this is a huge disconnect as the MT 101 is not 100% structured allowing data formatting issues and truncation. In addition, the "word on the street" is that SWIFT will charge corporates for format conversion at some point in the future.

Apparently, most banks have not identified this as a priority for communication to their enterprise clients. Few to none in the corporate world are looking into this issue on their own today. To date, banks are focused on their own ISO 20022 transition projects while the burdens of the pandemic have pushed this topic to the back burner for corporates. However, **Kerstin Schoenwitz, Global Formats Senior Product Manager, Corporate Bank, Deutsche Bank**, strongly feels that *“corporates need to know about the migration impact now and plan accordingly in regard to connectivity to their banks, SWIFT, and their back-office systems.”*

Although some banks may, of course, extend the deadline for their own clients... others may not. In essence this means designating significant IT resources to move from

MT to ISO 20022 at different times for different systems, payment types, and banks all over the world. But it could also mean leveraging appropriate conversion services or outsourcing this complexity to a competent vendor. Such a complex migration can create significant issues for corporate entities in terms of resources, efficiency, accuracy, and cost. **Thomas Egner, Secretary General of the Euro Banking Association**, agrees and feels that *“corporations should find appropriate strategies to deal with the challenge of mastering such a complex conversion. Partnering and cooperating with industry peers and/or specialized service providers can help to reduce operational burdens and project complexity and thus create a seamless and non-disruptive transition.”*

ISO 20022 Industry Adoption Timeline



Source: SWIFT ISO 20022 Resource Center

What are the Benefits of ISO 20022?

Companies in Europe will well remember the changes brought about by PSD1 in terms of SEPA formats. This was first and foremost a European issue. The payments landscape is now being rebuilt globally with ISO 20022. Companies will, at some point, be forced to embrace

the new ISO XML format. They will need to address this inhouse or work with a provider that can take this issue off their plate. For enterprises, adopting ISO 20022 can be an operational burden up front. However, in the medium and longer term, there are important benefits and opportunities!

THE BENEFITS FOR CORPORATES INCLUDE THE ABILITY TO:

- Implement richer data and structured formats end-to-end. This will include both local languages and characters e.g., Chinese and Russian
- Handle more stringent regulatory reporting requirements. There will be a need to collect and maintain more detailed information in relation to counterparties
- Avoid truncation through format standardization by all participants, allowing significantly more reference information e.g., up to 9000 characters
- Reconcile far more easily and support better STP (straight-through-processing) rates including better automated reconciliation
- Simplify and automate processes using standard formats and in turn allow APIs to easily pull needed data from the cloud; if both organizations use ISO 20022, then APIs will become more effective
- Ascertain that the payor input is fully structured, including the address data of the beneficiary and ultimate beneficiary e.g., clearly designated fields for POBO (payments on behalf of) beneficiaries
- Easily work with instant payments supporting R2P (Request-to-Pay), just-in-time salary payments, SWIFT GPI, etc.
- Take advantage of account proxies / proxy payments to help in the avoidance of fraud and cybercrime

KEY BENEFITS FOR BANKS AND REGULATORS:

- Allow far more effective filtering and monitoring for compliance risks given the rich but structured data; with better filtering, there will also be fewer false positives
- ISO XML provides more data and structured information on remittance parties, which will help reduce delays in cross-border payments that often occur due to manual compliance checks
- Create interoperability globally with one standard so that banks and corporates will not have to deal with multiple formats or local flavors
- A real common language globally regardless of some small differences in country interpretations
- Faster, cleaner processing overall

The shift to ISO 20022 is not just another “bank project”. Financial Institutions must convert from MT messaging - used since the late 1970s - to ISO XML. This is not only a change in the language that banks “speak” to each other via SWIFT, but a push to create interoperability between local (country formats) and cross-border payments. The end game is to have the same formats in place everywhere i.e., globally, all with the same specifications and rules.

ISO 20022: why this and why now?

The decision to shift to a richer format by SWIFT, a bank owned consortium that provides a network enabling FIs worldwide to send and receive information about financial transactions, the world’s clearing systems as well as its banks, was strongly influenced by the need for better regulatory compliance, for example, the prevention of financial crime, sanctions screening, etc. **Annelinda Koldewe, Product Area Lead, Reporting & SWIFT, ING,** explains that “easier and far more accurate filtering and monitoring of payments, requiring a uniform structure was a key factor in the decision to migrate to ISO 20022.”

Mario Reichel, Managing Consultant, PPI AG and Co-Convenor Non-Financials of the CGI-MP Group, adds that “it really began with TWIST [at that time: Treasury Workstation Integration Standards Team - now known as Transaction Workflow Innovation Standards Team]. The main goal of TWIST was to find a bank-agnostic payment initiation format valid in any currency for any country covering all payment flows. That led to the so-called core payment kernel and later to ISO 20022. TWIST is now known for the standardization of fields to compare bank pricing and charging. This new format came at just the right time for the development of SEPA. In this way, no one country or region was forced to use the format of another nor the MT standards”.

Marta Stensheim Haugen, Head of Payments, Transaction Banking Product Management, Nordea, agrees that “the banking community as a whole was driven by the need and the desire to comply with the requirements of the regulators and SWIFT. However, a very key point was our desire for interoperability between domestic (national) and cross-border (international) schemes.”

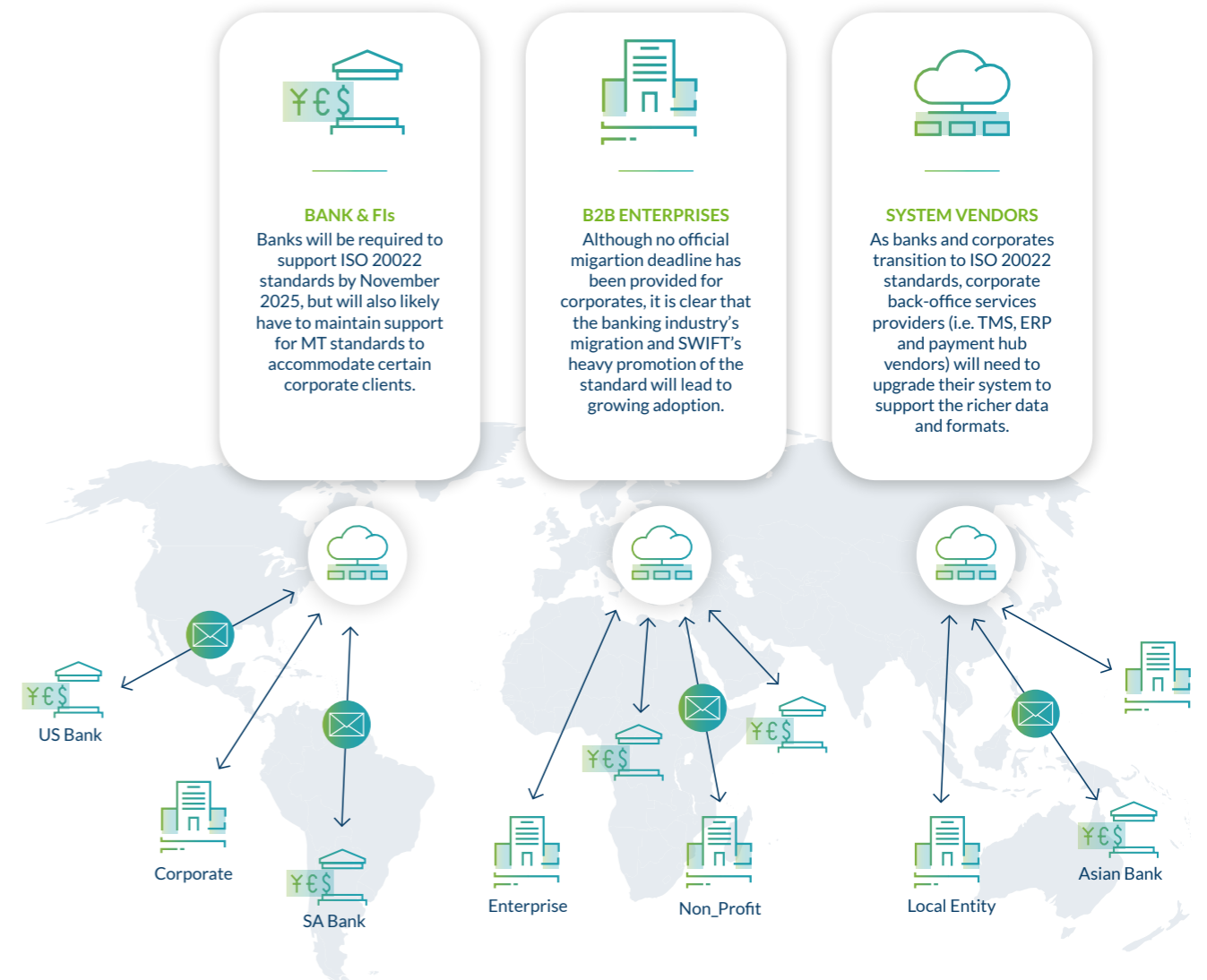
The CGI-MP Group, a forum, and a catalyst for change

Kerstin Schoenwitz explains that “the CGI-MP industry group aims to achieve a common global implementation of ISO 20022 through close collaboration between approximately 50 member banks - from all geographic regions - together with corporates, ERP and TMS providers, etc. The group is creating a new version of usage guidelines that allow as little deviation as possible [per country and payments type] to avoid room for “interpretation!”

Annelinda Koldewe agrees with the above but adds that, “in the end we all know that there can be small variances, however the benefits and rewards of this rich and structured format are tremendous.”

Marta Stensheim, in turn, reminds us that, “even with all the long-term advantages, the movement of the RTGSs [real time gross settlement systems] to the new standard at a different pace from SWIFT, will make the short-term adoption of ISO 20022 far more difficult. It allows significantly richer message detail, however, only when our clients can use the full scope end-to-end will this be truly useful.” To underline this point, Marta also points out the similarities to the issues surrounding the SEPA journey!

Who is Primarily Impacted by ISO 20022 Migration?



What are the key challenges for corporate clients? The change to ISO XML will have a profound effect on the corporate payment process

The change from MT to ISO creates challenges for corporates who are at different levels of maturity in a journey to optimize their enterprise payments. Enterprises must prepare to meet the changing requirements of this new format from their current SAP IDOC or an old XML standard, because eventually their banks will no longer allow or support these formats. When asked to specify if and how long FIs would continue to exchange the old MT message types with corporate clients, the answer from **Kerstin Schoenwitz** was, *“Deutsche Bank will continue to support MT101/MT94x message types, however, we are closely watching the position of SWIFT and other market infrastructures, especially with a view to the structured ISO postal address.”* However, what about other banks?

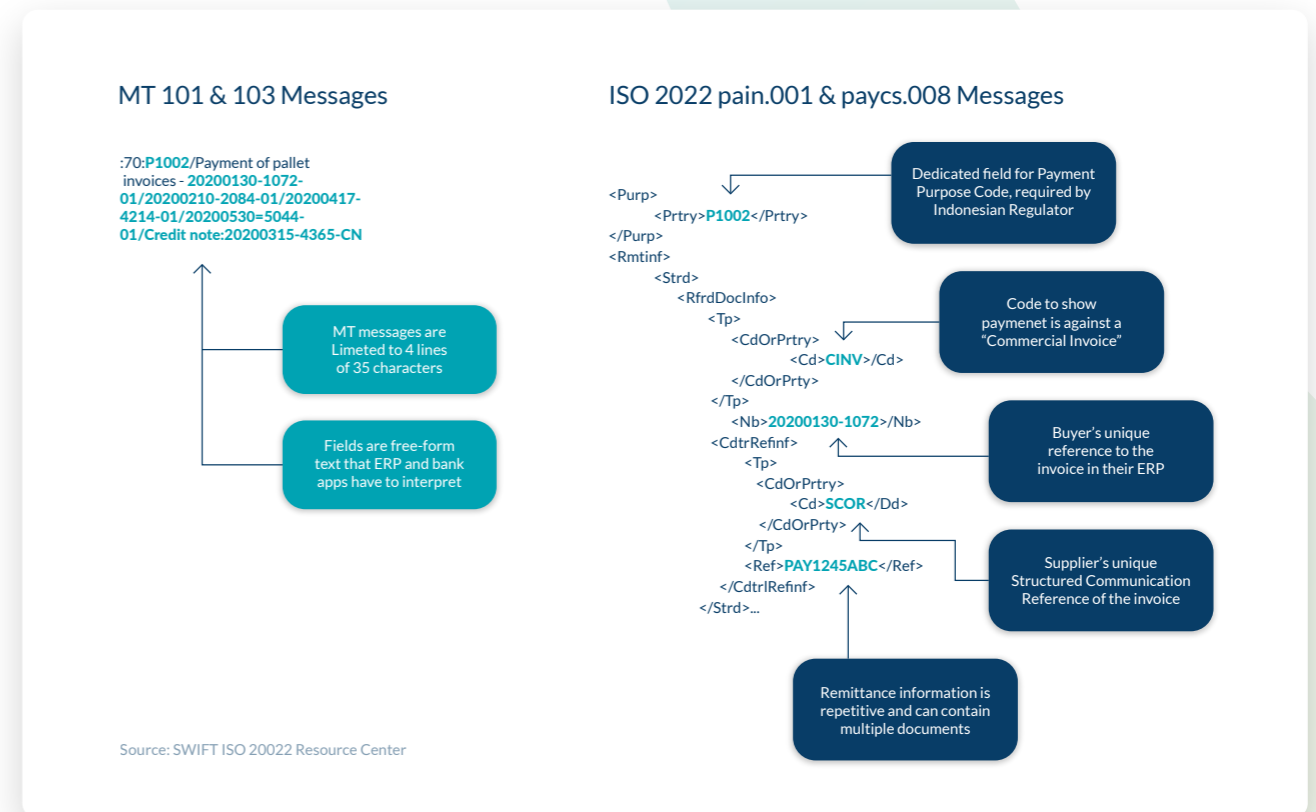
Large corporations use a variety of financial institutions. In the end, it will most likely depend on the importance of the relationship, the ability of a bank to offer conversion services, and the opportunity to price these services appropriately. It is equally clear, through discussions with enterprises and banks, that corporates are not yet gearing up to meet this challenge as noted above. Most companies are familiar with ISO XML - it is used in many batch-based or instant clearings (e.g., SEPA and SEPA instant), however corporates often use a different and outdated format version. *“One thing is clear,”* says **Marta Stensheim**, *“every corporate will eventually have to move away from local standards.”*

Not only banks and corporates, but their systems providers will be affected as well

Regulators are demanding additional and more detailed beneficiary and ultimate beneficiary information. This can only be assured through rich and structured data. The answer is the migration to ISO 20022 for the payments process. Even though corporates have not been mandated by SWIFT to migrate, this change will have a significant effect on how a company’s systems send and receive payment information from their banks. ERPs such as SAP and Oracle, TMSs, HR/ Payroll platforms, in-house built solutions, and all the feeder systems providing payment information to and from financial institutions will be affected.

This will require internal system enhancements regarding what data is actually needed and where it is stored. In addition, beginning March 2023, there is a risk that corporates will receive incomplete information if relying on MT940s or MT942s for reporting and receiving banking information. This is because the MT 940 is unstructured with limited fields and must be “translated” to the ISO 20022 CAMP 053. If the payment originator uses ISO XML, the incoming data set may be truncated if the receiver is still working with the MT format. This, in turn, will make reconciliation difficult and error prone. *“It is very important to note,”* says **Marta Stensheim**, *“that this is not just an IT conversion project. Processes must also be reviewed, changed or updated and mapped!”*

Difference in MT Message Structure Compared to ISO 20022



Today SWIFT has some 15-20 key TAGS, which will need to be converted and translated (e.g., MT 101 to PAIN001). A PAIN001 also has hundreds of fields vs just 15 in an MT message. ISO XML is a framework, with just a few mandatory fields, and the rest are conditional or optional. However, not only are there questions of how to map different fields from MT to ISO XML, but also how the unused fields will then be treated. An additional challenge for

corporates, systems providers, and banks is not just the migration of MT to XML, but also translating many local formats such as the RIBA in Italy or the ABA in Australia, to ISO 20022. At some point, all service providers will be forced to adopt ISO 20022 or partner with a vendor. They will need a service provider who can support a seamless translation of any type of format into an ISO XML standard message.

Outsourcing complexity to a vendor specializing in payments can provide real advantages

If a bank continues to support legacy formats past the conversion deadline, they will need a mechanism to convert the incoming payment and the outgoing balance and transaction information. This can be error prone, as noted above, and certainly costly! A high standard of quality may not be assured. Large, multi-national corporations with multiple internal systems already worry about the complexity of multiple payment feeds to their banks all over the world. During the conversion to ISO 20022, they will also need to consider a new format with a variety of flavors. This can easily translate into multiple, time-consuming, and expensive IT projects and process adjustments.

Eventually all participants in the payment process will need to eliminate outdated formats. On-premise systems that cannot be changed easily or cost effectively will become an issue. So, the next question is, who can help? Some ERP vendors, for example, can provide XML formats for sending payments to banks, which may sound like an easy answer for corporates. While this is possible, it is also quite expensive and complex. Why? Because an enterprise would need to program the correct version of ISO XML for every bank and branch in every country, in addition to every payment type, all within their ERP system. The company would also be responsible for keeping up with all the appropriate changes over time!

TIS provides a triple win for companies, vendors, and banks by solving their key enterprise payment challenges

- ✔ Outsourcing Complexity
- ✔ Supporting Connectivity
- ✔ Breaking down Data Silos
- ✔ Streamlining Processes
- ✔ Supporting Regulatory Compliance
- ✔ Reducing and Preventing Fraud

The TIS Enterprise Payment Optimization (EPO) Platform, which is able to connect to virtually all systems and banks, can provide out-of-the-box solutions for corporates. Relationships to banking partners are not just maintained, they are improved and enhanced. IT projects are not required for an ISO 20022 conversion, because TIS supplies the proper formats. Data cleansing is supported to comply with the new ISO XML standards, supported through SWIFT ref Bank Directory Plus, IBAN checks and

validations, plus a variety of other methods. Companies can decide to upgrade their systems over time when they are ready, yet always be assured of the appropriate bank connectivity. Treasury and finance can also create and execute their strategy regarding banking partners, location, degree of centralization etc. based on their needs, rather than the necessity of making changes to accommodate a new format.

Highlighting the Value of TIS



LEADERS IN BANK CONNECTIVITY

TIS has been specializing in enterprise payments, bank connectivity, and cash management for over a decade, and our industry-leading metrics are proof of our superior capabilities in these areas.

TIS' EPO technology platform can support a corporate and its systems providers (such as ERPs, TMSs, HR systems, etc.) to handle the format migration from legacy standards to the ISO XML required standards. Participants in a company's payment ecosystem no longer need to facilitate hundreds of format conversions to properly connect and provide payment information or receive appropriate statement data from their banks. Regardless of the timing or the time needed by systems providers, the enterprise is fully covered because they are connected to the TIS EPO platform. The platform, in turn, manages the connectivity

to all client systems. The diversity and complexity of the ISO 20022 format cannot be supported or processed by many outdated systems; however, this complexity can be outsourced to TIS. In addition, the (increased) cost of maintaining both ISO XML and legacy formats is something that TIS can handle for their customers. Once connectivity is established from a client's system to their chosen bank, TIS takes care of the heavy lifting, thereby allowing the client to avoid the pain of constantly monitoring, enhancing, and maintaining the connection.

The ISO 20022 XML conversion is a major undertaking, in part, because there are over 100,000 unique payment types globally and each one needs different data and data sequences to populate and create a new format. For example, two large US banks with branches in the same country for the same payment type can have a different format. TIS requires only days to integrate a new banking partner and is a leader in this area today. The EPO platform maintains more than 4,000 ISO XML formats, which translates into the largest format library in the world. This is vital for clients who look to TIS in order to outsource their systems and payments complexity.

In conclusion

One thing that all our banking and payment experts agree on is that the time for enterprises to get started on their migration to ISO 20022 is now! Although corporates have not been given official or enforceable deadlines, it is clear that they will need to act soon if they want to reap the rewards while avoiding any negative consequences of a global conversion with multiple moving parts. The benefits can also be significant given the rich and formatted data that will be available.

ISO XML's hundreds of data fields provide exciting opportunities for corporate clients to add significant detail to their financial messages, which can be vital for reconciliation and straight-through-processing. Richer

data can support better and more precise communication, as well as new use cases. One example is increasing the efficiency of an in-house bank in regard to POBO (payments-on-behalf-of) through the use of ultimate debtor and creditor fields. Proper conversion will remain vital and the decision as to how these fields will be used or "ordered" is up to a combination of banks, local regulators, and policy makers i.e., governments. There are no global or universal rules, although the CGI-MP industry group recommendations seem to be gaining in acceptance.

Financial Institutions globally have begun their ISO 20022 journey. Some are already asking financial services vendors to change and migrate formats for specific countries and payment types. TIS has become a global leader regarding bank and country formats, receiving inquiries by international banks regarding best practices for different countries. For corporates, TIS continues to be recognized as both a pioneer and a key innovator in removing complexity and supporting connectivity. Today, TIS is reimagining the world of enterprise payments through a cloud-based technology platform. This platform is uniquely designed to help global organizations optimize their payments processes and associated data.

Learn more at tispayments.com »

ABOUT TIS

TIS is reimagining the world of enterprise payments through a cloud-based platform uniquely designed to help global organizations optimize outbound payments. Corporations, banks and business vendors leverage TIS to transform how they connect global accounts, collaborate on payment processes, execute outbound payments, analyze cash flow and compliance data, and improve critical outbound payment functions. The TIS corporate payments technology platform helps businesses improve operational efficiency, lower risk, manage liquidity, gain strategic advantage – and ultimately achieve enterprise payment optimization. Visit tis.biz to reimagine your approach to payment

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