



ISO 20022: What Is It and Why Is It So Important?

Standards make the world go round and in payments, it's no different. ISO 20022 is coming into force for all payments – and looks set to revolutionise the financial landscape.

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For many of us who have spent a career in payments, ISO 20022 (referred to in the industry as 'ISO twenty-oh-two-two') is imprinted permanently on our brains. We are already in deep and, as a result, the discussion usually gets quite technical quite quickly. To an outsider, we often add only confusion and complexity.

With that in mind, let's take a step back and look at what ISO 20022 is and what it means for the finance community.

First, what is ISO?

ISO stands for the International Organization for Standardization, an

independent non-governmental body that brings together experts to share knowledge and develop consensus-based international standards that support innovation and provide solutions to global challenges. From the device (or paper) you are using to read this to the shoes on your feet, ISO standards are everywhere.

World-class specifications ensure safety and efficiency. They mean that you can be confident the goods and services you are using are reliable and of good quality. In short, they make things work. The same goes in the world of finance. For money to flow through the global system easily, we rely on standards.

The transfer of funds is the lifeblood of the financial sector and as such needs to be executed in a consistent and highly efficient way. Financial messaging, the instructions linked to payments that enable them to be settled, is at the heart of virtually all economic activity and plays a central role in allowing modern society to function effectively.

ISO 20022 is the next generation standard that looks at 'electronic data interchange between financial institutions'.

Why am I so interested in all of this? I work for SWIFT, the global cooperative responsible for providing secure financial messaging services to banks across the globe. As such, we are the ISO-appointed registrar or 'guardian' of the standard.

What makes ISO 20022 so great?

The library of ISO 20022 specifications has grown each year and now covers the entire financial industry, enabling everything from foreign exchange trading to credit card payments.

It has been around since 2004 and is now widely used – enabling automated transfer and straight-through processing across entire chains all over the world.

It is used by payment systems in more than 70 countries and, in the coming years, it will be the de facto standard for high-value and instant payment systems of all the major currencies, supporting 80% of global volumes and 87% of value of transactions worldwide.

Now we are looking to finish the job. In September 2018, following an extensive consultation exercise with the industry, the SWIFT board approved the migration of all cross-border payments traffic to the ISO 20022 standard.

The timeframe for the migration runs from November 2022 until November 2025. During these three years, ISO 20022 and existing SWIFT MT standards can both be used. This coexistence period gives banks the time they need to implement changes to their own systems. SWIFT will offer transaction management services to ease the way during this time.

From November 2025 onwards, the millions of cross-border payment messages that are sent and received every day over the SWIFT network will be ISO 20022 messages.

Better data

For financial firms to offer their clients an instant and frictionless end-to-end payments experience, they must be able to communicate seamlessly. This is what ISO 20022 enables.

Use of rich, structured and extendable messages ensures that data exchanged between institutions is complete, unambiguous and machine friendly, enabling efficient automation and improved compliance, thereby reducing industry costs and risk.

By providing an agreed global methodology and data dictionary for payments data, ISO 20022 significantly improves the quality of data across the payments ecosystem. As international trade increases, you have more players adding, reading and processing the data. The ISO 20022 data model ensures the data remains consistent no matter what syntax or protocol is used to make the payment itself.

Richer and better use of data will open up many new opportunities, including in the area of compliance. Unstructured data repeatedly translated and truncated across multiple data formats can lead to ambiguous payments. This is an issue particularly when processing vital data such as party details. Ambiguous and incomplete party details reduce the effectiveness of compliance controls, and frequently require manual interventions to repair and process payments. A consistent, granular and rich language for payments will thus have a significant impact on the cost of doing business and the speed of payments overall.

A uniform data model also enables firms to interact with new service providers in the ecosystem, building new and meaningful value chains for their clients. Application programming interfaces (APIs) are supercharged with an underlying ISO 20022 data set. This is how you innovate quickly.

The time is now

With goods and services moving more rapidly and across greater distances than ever before, value needs to shift further, faster. Modern, open, globally adopted standards are key to our ambition of making this happen instantly.

In September 2020, we announced a new strategic vision for instant and frictionless



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account-to-account payments where rich ISO 20022 data is the foundation. At the heart of the new strategy is an enhanced platform that will orchestrate interactions between financial institutions and other participants to minimise friction, optimise speed and provide end-to-end transparency and predictability from one account to another anywhere in the world.

The SWIFT platform will enable the adoption of ISO 20022 for cross-border payments and reporting to be carried out more smoothly and in a less disruptive way.

Based on new transaction management capabilities, the platform will maintain full ISO 20022 transaction data that any authorised party in the payment chain can access. This means that every bank in a payment chain gets access to complete data. Therefore, members can choose to benefit more quickly from rich data, without needing to wait for all parties in the payment chain to use the new standard.

The platform will be backward-compatible and adapt to the capabilities of financial institutions, so it can be accessed using MT or ISO 20022-based APIs or messages. The platform provides coexistence until November 2025 and financial institutions can adopt ISO 20022 at their own pace.

ISO 20022 provides an unprecedented opportunity for the global financial community to transform international payments – and we intend to grab it with both hands. ■