

## Embracing the transition to ISO 20022



## Contents

Introduction .....	3
What is changing and why?.....	3
SWIFT and ISO 20022 .....	4
Bank of England and ISO 20022 .....	6
Eurozone Messaging and ISO 20022 .....	7
Timeline for change .....	7
ISO 20022 and e2gen .....	8

## Introduction

The International Organization for Standardization (ISO) founded in 1947 is an international standard-setting body composed of representatives from various national standards organizations that promote worldwide standards. ISO 20022 is an ISO standard for electronic data interchange between financial institutions for payment transactions, securities trading and settlement information, credit and debit card transactions and other financial information.

Financial institutions will experience significant transformation in the way that they send, receive and handle financial messages going forward as various market infrastructures move towards the adoption of ISO 20022 domestically and globally. It is important for organisations to view this as an opportunity to modernise their messaging infrastructure. This should lead to improved data quality, interoperability between service providers and ultimately a better customer experience.

This paper investigates the upcoming changes to the messaging landscape in relation to ISO 20022. This specifically includes the transition from SWIFT FIN in the proprietary ISO 15022 format to the new SWIFT MX Standards, as well as some regional messaging infrastructures.

## What is changing and why?

Financial institutions have constantly been required to amend the way that they process payments. The format of SWIFT FIN payments changes regularly and it is over 10 years since the introduction of the ISO 20022 standard for Single European Payments Area (SEPA) customer transfers and direct debits. Recently, we have seen the adoption of ISO 20022 in Australia with the New Payments Platform (NPP) in 2018. There have been plans published from other national payment service providers such as the Bank of England and Federal Reserve Banks to implement ISO 20022 into domestic payment networks. CHAPS alone saw its volumes increase by 16.5% to a record 48.5 million in 2018 and in April 2019 it saw £6.8 trillion worth of payments processed. With such growth the Bank of England has subsequently named the ISO 20022 standard as the chosen path for this service.

It is apparent that we are now starting to recognise ISO 20022 as the future messaging standard for many of our important payment services. Common problems in the use of different payment formats include:

- The lack of interoperability between different formats
- The loss of automated processing causing manual intervention and a subsequent increase in time taken to process messages
- Low quality data causing delays in activity such as sanctions screening/AML interventions
- Different processing times in the receipt and settlement for payments causing inconsistencies in cash management

The plan for migration of different payments network from their respective formats to ISO 20022 will enable the following future advantages:

**Harmonisation**

Over 70 countries have already adopted ISO 20022, so messages will be harmonised with payment systems around the world.

**Resilience**

ISO 20022 will be used across many payment systems. This improves resilience by allowing simplified re-routing of messages to reduce the impact of outages on users.

**Analytics**

Enriched data will improve analytics. More efficient data collection may improve decision making.

**Compliance and regulation**

Richer data will make it easier for businesses to detect fraud and help target financial crime.

**Straight-through processing**

Richer data will reduce the need for organisations to make manual interventions. Potentially fewer delays for the end customer.

**Competition and innovation**

More flexibility means more competition and innovation in the financial sector. Better data may lead to product innovation.

**Enriched data**

More data can be carried. It enables more detailed and better structured reference information.

**Flexibility**

ISO 20022 can adapt more easily than current messaging standards. So it's more responsive to changes in the economy, emerging technologies and innovation.

With a standard recognised globally for international payments and domestic transfers, both financial institutions and their customers should be able to gain value from greater efficiency by processing more granular data leading to increased customer satisfaction and compliance.

Institutions able to process ISO 20022 can also benefit from easier deployment when looking to replicate this message structure in new payment services, making their infrastructure far more scalable than ever before.

**SWIFT and ISO 20022**

There was a recent decision to eliminate the free-format options in fields 50a and 59a on SWIFT Payments which demonstrated a clear intention by SWIFT to clean up the quality of data provided in the FIN message types. The recently announced plan to phase out the FIN format in favour of MX will provide financial institutions with a much larger and enriched payments infrastructure in the future has led to SWIFT dropping the changes to the free format fields as ultimately the FIN messages will be phased out. Aqua Global has been recognised by SWIFT by our inclusion to their ISO 20022 Cross-Border Payments and Reporting Plus (CBPR+) Vendor list.

In order to support the transition to ISO 20022 messages SWIFT will provide a temporary MT to MX mapping utility to ensure that:

- MX standard adopters will not be requested by recipients to revert back to MT format
- Those recipients that cannot handle MX can convert the messages to MT format prior to processing.

It is also important that institutions do not suffer from a loss of quality data when remapping the fields seen in traditional FIN messages into the new MX formats as this can create problems of:

- Additional identification for ordering and beneficiary parties being stripped.
- Reduction in vital information in sanctions checking and FATF compliance.

The end-date to enable full ISO 20022 for cross-border payments remains as originally planned, November 2025 however the original start date has been moved back from November 2021 to November 2022. After 2025, the MT standards will then be withdrawn.

The following message types are affected by the migration from the 15022 standard to ISO 20022:

Current SWIFT FIN Message	SWIFT Message Name	ISO 20022 Message Equivalent(s)
MT 101	Request for Transfer	pain.001
MT 102	Bulk Customer Credit Transfer (Multiple)	pacs.008
MT 103	Customer Credit Transfer	pacs.008
MT 104	Direct Debit And Request for Debit Transfer Message	pacs.003
MT 110	Advice Of Cheque	camt.029 (tbc)
MT 111	Request for Stop Payment of a Cheque	camt.056
112 MT	Status of a Request for Stop Payment of a Cheque	pacs.002 (tbc)
MT 103/2	Return of Funds	pacs.004
MT 200	Financial Institution Transfer for its own Account	pacs.009
MT 201	Multiple Financial Institution Transfer for its own Account	pacs.009
MT 202/202 COV	General Financial Institution Transfer	pacs.009
MT 203	Multiple General Financial Institution Transfer	pacs.009
MT 204	Financial Markets Direct Debit Message	pacs.010
MT 205	Financial Institution Transfer Execution	pacs.009
MT 202 RTN	Return of Funds	pacs.004
MT 900	Confirmation of Debit	camt.054
MT 910	Confirmation of Credit	camt.054
MT 920	Request Message	camt.060
MT 940	Customer Statement Message	camt.053
MT 941	Balance Report	camt.052
MT 942	Interim Transaction Report	camt.052

Current SWIFT FIN Message	SWIFT Message Name	ISO 20022 Message Equivalent(s)
MT 950	Statement Message	camt.053
MTn92	Request For Cancellation	camt.056
MTn95	Queries	camt.026, camt.087, camt.027, camt.033
MTn96/	Response for Cancellation	camt.029
MTn99	Free Format Message	camt.031, camt.032, camt.030, camt.038
MTn90	Advice of Charges	TBC
MTn91	Request for Charges	TBC

Institutions will need to assess the impact of these changes in the following areas:

- Sanctions Checking
- AML
- FATF 16 checking
- Automated inbound Payments processing
- Account Reconciliations
- Balance Reporting
- Outward Payments processing
- Outward Treasury Processing
- Cash Management
- Liquidity Management

This will require careful planning and testing to ensure a smooth and problem free transition as well as the allocation of appropriate budgets and resources.

### Bank of England and ISO 20022

The major UK payments systems are all moving to ISO 20022. This includes payment messages across CHAPS, Bacs, and Faster Payments.

The payment formats currently used by the above services differ on each. The recognised ISO 8583 messages used by the current Faster Payment, the proprietary Standard 18 format for BACS, and CHAPS uses SWIFT FIN formats with additional header information. All of these formats will be replaced by ISO 20022 moving forward.

The table below shows the translations of Bacs PAYMENT messages into their new ISO 20022 equivalent:

Type	Current Bacs	Bacs Message Name	ISO 20022 Message Equivalent(s)
Payment	1a	Direct Credits	pain.001
Payment	1b	Direct Debits	pacs.008
Payment	2	Customer grade Input report	pain.002
Payment	3a	Cleared credits	pacs.008
Payment	3b	Cleared debits	pacs.003
Payment	3c	Credit Contras	pacs.003
Payment	3d	Debit Contras	pacs.008
Payment	3e	Cleared credit reversals	pacs.007
Payment	3f	Cleared debit reversals	pacs.007
Payment	4a	Bank grade credit returns	pacs.004
Payment	4b	Bank grade debit returns	pacs.004
Payment	4c	Credit recalls	pacs.007
Payment	5a	Bank grade input report	pacs.002
Payment	5b	Credit return contras	pacs.003
Payment	5c	Debit return contras	Pacs.008
Payment	6a	Cleared credit returns	Pacs.004
Payment	6b	Unapplied credit notifications	Camt.054
Payment	6c	Cleared debit returns	Pacs.004
Payment	6d	Unapplied debit notifications	Camt.054
Payment	6e	Cleared credit recalls	Pacs.007

Source [bacs.co.uk](http://bacs.co.uk)

## Eurozone Messaging and ISO 20022

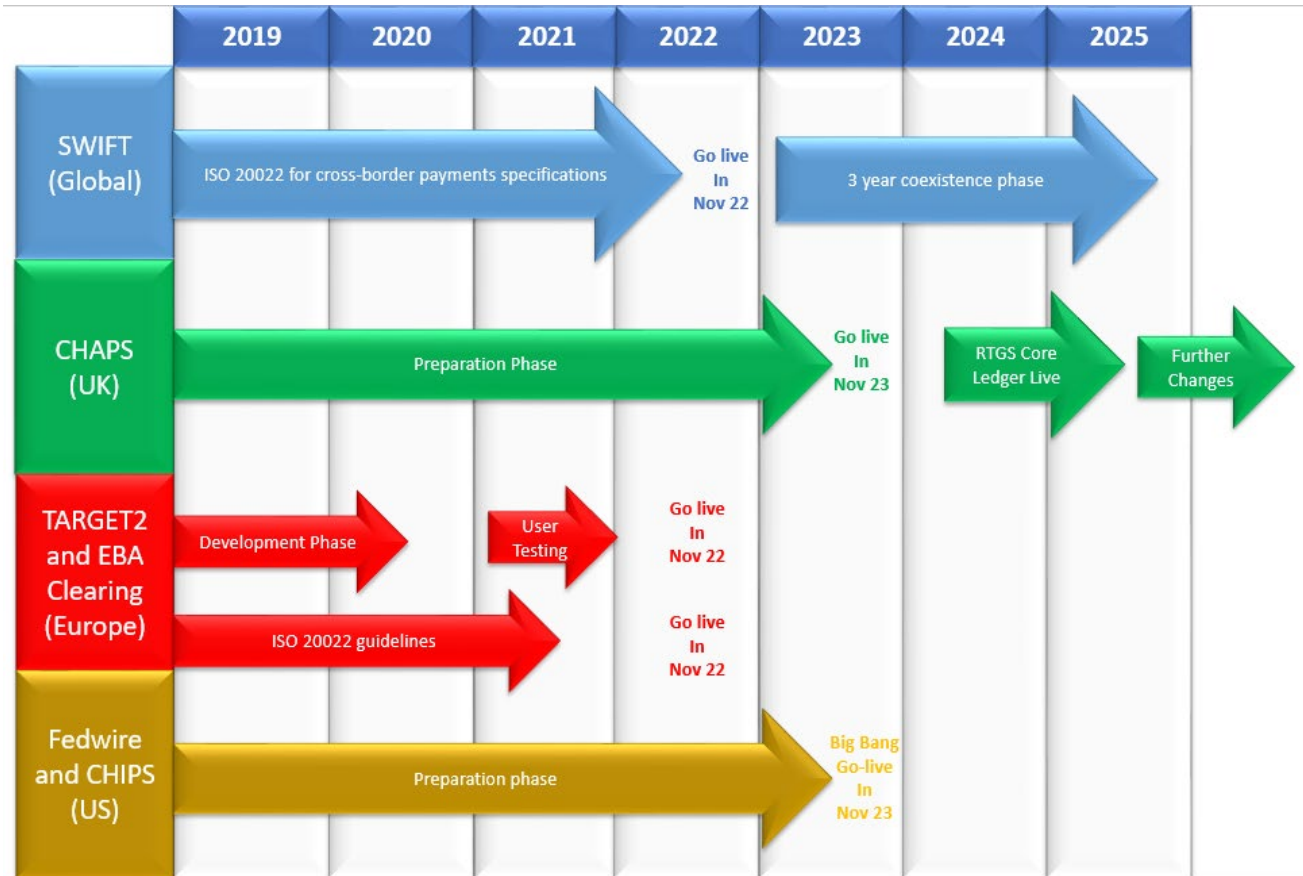
The Eurozone clearing network aims to consolidate messaging services through its target of *Vision 2020*. This includes the consolidation of five current payments systems to the three known as Target Services. These financial market infrastructure services include TARGET2 (for settling payments), T2S (for settling securities) and TIPS (a service for instant payments).

The process of consolidation has already begun with the Pan-European securities service (Target2 Securities) already using the ISO 20022 format.

Users of Target Services will need to adhere to these standards by **November 2022**.

### Timeline for change

The migration from SWIFT FIN to MX has been aligned with the adoption of ISO 20022 for TARGET2 services. The adoption will accommodate a 3-year coexistence phase for MX and FIN message types. A full list of key dates can be seen in the diagram below:



### ISO 20022 and Aqua Global

Many of Aqua Global’s customers already use the ISO 20022 format when it comes to Pan-European payment services. Aqua Global’s messaging hub provides a quick and cost effective solution to automatically process and generate native SWIFT Messages (ISO 20022 and FIN). If required this will also provide an interface with a core accounting system.

#### Benefits

- No change required to your existing systems
- All ISO 20022 standard changes are maintained on an ongoing basis
- SWIFT CBPR+ ready Vendor
- Reduces risks
- Improves operational efficiency

Contact the Aqua team, If you would like further information on how Aqua can support your organisation.



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