



ISO 20022 Migration: 5 must-haves for success

From strategy and planning to budgeting and testing: a practical guide to securing a successful migration.



```
[cpu] done / done / password found / operation 129 227  
[cpu] negative / negative / [not found] / operation 2289 4  
[cpu] done / negative / error 003  
[cpu] error / error / restart  
[cpu] done / done / access / complete / operation 122 334  
[cpu] error  
[cpu] negative / analyzing / operation 552 390  
[cpu] preparation complete / code xxx000x0xx0x0
```



01. ISO 20022: The biggest impact on payments, ever...

Over the next four years, central banks across the globe will upgrade their messaging format from the legacy SWIFT MT standard to the ISO 20022 financial messaging standard. According to its official definition, ISO 20022 is "a single standardisation approach (methodology, process, repository) to be used by all financial standards initiatives."

However, ISO 20022 is more than just a new messaging standard; it represents a seismic change for the industry, involving 200 initiatives worldwide in over 70 countries, aiming to define a harmonised and richer data model across the industry.

Banks participating in settlement networks will have a massive workload on their shoulders. Indeed, following the lead from central banks, they will need to be able to receive and send MX messages, the new SWIFT message standard, using an XML format based on ISO 20022 by 2025. If they do not comply, they will run into the risk of having to change their access from a direct to an indirect participant, or, of losing access to central bank money.

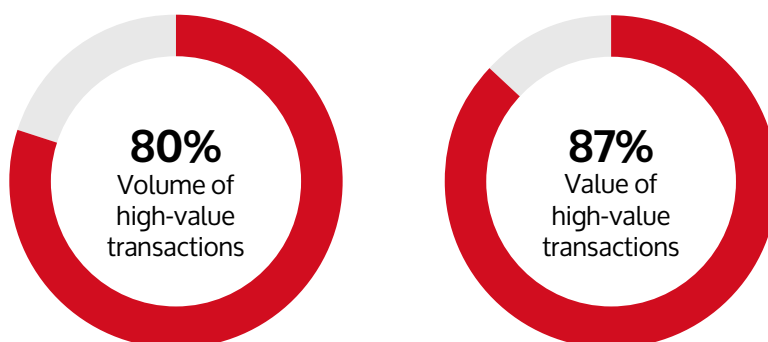
Figure 1: ISO 20022: Key Facts

ISO 20022 is a standardised global language for financial messaging. It covers:



The new standard is set to be the de facto standard for high-value payment systems of all reserve currencies.

In the upcoming years, ISO 20022 will account for:



02.

Preparing for ISO 20022: Challenges and Opportunities

With over 200 payment types in scope, ISO 20022 brings several benefits to financial institutions. Banks can leverage the more granular data model brought by ISO 20022 to significantly improve the efficiency of their internal processes while reducing costs. The positive impact on banks' STP rates could also be significant. Similarly, regulatory reporting, sanctions, AML, claims, investigations, and liquidity management are additional areas where banks will experience improvement.

However, ISO 20022 also represents a great challenge for financial institutions across the world, particularly incumbents running on legacy infrastructure. Indeed, it will rapidly impact many applications within the bank, with changes coming from around the globe; the scope of the migration as well as its risks are significant.

Central Banks will introduce new data requirements, and non-compliance may result not only in fines, sanctions or AML breaches, but also reputational damage.

Indeed, if a bank is late in adhering to a given RTGS (Real-Time Gross Settlement System), the ecosystem and potentially its customers will know, negatively impacting its chance to compete in the future and eventually resulting in customer loss. As a result, banks need to rethink how they deliver change in payments to migrate to the new payments message standard successfully.

RedCompass Labs' whitepaper aims to give some practical insights on how to implement the biggest change in payments ever.

**Figure 2: ISO 20022
Key Opportunities and
Challenges**



03.

5 must-haves for a successful ISO 2022 migration

We finally get to the heart of the issue. How can a bank ensure a successful migration and drive business value out of ISO 2022? Leveraging our experience with our global clients on implementing this messaging standard, we have prepared a five-point practical guide to help banks successfully navigate the ISO 2022 migration.

1) Your Migration Strategy must be in line with your vision

The first step in your migration is to understand which strategy works best for your business. Typically, three different types of migration strategy can be deployed:

1. Migrating to a new ISO-enabled architecture: all the key components of the end-to-end processing payments chain are upgraded to adopt ISO 2022 as their existing canonical language.
2. Migrating using Translation Services and Data Vaults: the key components retain their canonical format, but protocols, usually APIs, are implemented to retrieve the richer and more granular data brought by the ISO standard.
3. Hybrid approach: depending on the location, banks apply one of the implementation strategies above.

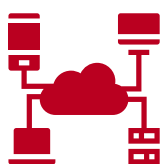
While the short timelines may urge banks towards a quicker, and easier solution, like translation services, it is vital for them to first consider their overall strategy (vision, product strategy, service that the banks want to offer and in which location) when deciding on the best implementation approach to adopt, as ISO 2022 could be a significant accelerator to facilitate their ambitions and deliver their vision.

2) Don't plan each RTGS migration in isolation

Each jurisdiction has communicated different timelines, different migration strategies and different requirements for their RTGS migration. However, understanding the full picture is critical to:

- Design a roadmap that considers the various milestones set by the clearers and the bank's correspondents.
- Understand the existing reusable capabilities and develop a new common framework as opposed to implementing bespoke solutions for each clearing platform.
- Secure the appropriate budget required for a successful migration.

Figure 3: Three strategies to address ISO 2022 challenges



Migration to a new ISO-enabled architecture



Migration using Translation Services and Data Vaults



Hybrid approach

03.

5 must-haves for a successful ISO 2022 migration

3) Budget: avoid regret spend

By focusing on the wider ISO 2022 roadmap, banks can reuse up to 75% of their budget, and we proved this with one of our Tier-1 global clients. To do so, banks need to look for commonalities between the clearing requirements and build a reusable framework that can be easily configured to address variances between clearers. For example, banks should not hard code any new specific fields required by a given clearer but implement a tool that allows adding new fields easily, regardless of the field nature.

4) Stop looking at the bank's benefits.

Focus on your customer's impact

At the beginning of this whitepaper, we have discussed some of the key benefits of ISO 2022 for the bank (i.e. improving sanctions and AML, increasing STP rates, enhancing liquidity management). However, the benefits of the ISO 2022 migration goes beyond these. Indeed, it represents a big opportunity for banks to launch new innovative services that will allow them to increase customer loyalty and attract new customers more easily, leveraging the new data model to offer value-added services and therefore creating new revenue streams. From improving reconciliation to enhancing cash management, the potential is enormous.

5) A unique situation calls for a unique solution: use data analytics-led testing

Any migration and payment change project comes with some testing challenges such as high costs, high risk due to lack of coverage, and of course, time constraints. However, when it comes to the ISO 2022 migration, these challenges are amplified.

The unprecedented scope of change, the risk carried by banks if the migration does not go well, the very short and cadenced deadlines, along with the lack of data, complicate the quality assurance of the target infrastructure significantly. In terms of data, ISO 2022 may be a standardised format, but it still leaves room for creativity, making it impossible for a human brain to think of all the possible variations of a given message. By leveraging production data, methodologies like data analytics, and technologies such as Artificial Intelligence, banks can accelerate their solution implementation while reducing the delivery risks considerably. They can test thousands of scenarios in a few hours and in a repeatable manner. RedCompass Labs technology, [DIR4Payments](#) is built on this foundation and has demonstrated its efficiency on regulatory changes on several occasions.

Figure 5: AI data-led technology helps you to accelerate your testing, cut costs and time.

Find out more about RedCompass Labs [DIR4Payments](#) [here](#).



Wrap-up

Key takeaways

01. Think beyond tactical solutions. The ISO 20022 Migration is not just an IT project.

02. Design robust programme management in your planning phase.

03. Take a holistic approach and build capability: up to 75% of the migration budget could be a reusable foundation.

04. Focus your business case on the bank's internal process improvement AND on the customer's benefits.

05. Use NextGen testing tools based on data analytics and AI to ensure coverage and cope with the extreme pace of change.



About RedCompass Labs

RedCompass Labs helps financial institutions deliver profitable, secure, end-to-end payment and financial crime services and solutions.

The team provides advanced AI data-led payments and financial crime testing technology, data analytics services together with delivery-focused consulting, managed services, and world-class workshops on a vast array of subjects, including the Future of Payments and **ISO 20022**.

RedCompass Labs is committed to opening the doors of finance to all with our payment expertise and data-led technologies, and protecting those who enter, especially by disrupting financial crime that affects the most vulnerable. To this end, we have invested in R&D, data science and created **DIR4Payments**, a game-changing way to accelerate, lower cost and increase coverage by using production data for payment platforms.

We have also developed the RedCompass Labs RedFlag Accelerator, the global point of reference of modern slavery, human trafficking, and Child Sexual Exploitation red flags for the financial industry. The RedFlag Accelerator won the PayTech For Good Award and Themis Anti Financial Crime Innovation Award. Today, RedCompass Labs supports its clients from its four offices in London, Singapore, Tokyo, and Warsaw.

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Don't hesitate to contact us if you need some support with your **ISO 20022 migration**.

We can provide:

- ISO 20022 Workshops
- Strategy and advisory services
- FastStart Analysis
- Planning
- Delivery
- Testing powered by **DIR4Payments**



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