

FS*tech*



**ISO 20022 and the transformation of real-time
cross border payments: Are you ready?**



Roundtable Special

ISO 2022 and the transformation of real-time cross border payments: Are you ready?

Senior leaders from the financial services industry gathered for a closed roundtable discussion to explore real-time cross-border payments and the best strategies for preparing for future challenges

The explosion of growth in B2B cross-border payments has driven profound changes for financial institutions (FIs) in the UK & Europe, with many still dependent on complex correspondent banking relationships which offer limited visibility into the status, costs, certainty, and location of payments.

The pace of change is set to accelerate further this year as the industry prepares for the transition to the global ISO20022 standard. With the SWIFT deadline for ISO 20022 implementation set for November 2021 (now extended to Nov 2022) and the SWIFT testing window in February 2022 where you will get a 'black mark' if you fail to deliver, FIs are under pressure to ensure that their systems, data, and employees are ready to reap the benefits of real-time cross border payments infrastructure.

While continued reliance on MT and other legacy messaging will be permitted during a co-existence period until 2025, those who do not act now to become ISO native will face a growing list of compliance, customer experience and infrastructure challenges, and risk losing their interoperability advantage as the payments ecosystem transforms around them.

At a virtual, closed roundtable discussion employing Chatham House Rules hosted by FStech and Bottomline, senior experts in payments strategy,

infrastructure, and technology from across the UK payments landscape explored the journey towards real time cross border payments and discovered how organisations can best prepare for the challenges of the year ahead and beyond.

The event began with a discussion about some of the key challenges financial institutions are facing as they evaluate the global shift to real-time cross-border payments.

The chief product owner from a large UK bank explained that when it comes to ISO20022, the organisation is still in the assessment stage.

"Both in terms of upgrading gateways and how we share information with other institutions, how we make best use of that additional information through our entire estate, and how we use that information to make better decisions," he explained.

A project manager from a large corporate service organisation stated that while it's not a financial institution, it has offices in 85 countries and make a tremendous amount of payments worldwide, including lots of cross-border.

"We're actually starting with an implementation project for solutions around payments to get things up to date and more efficient within the organisation," he commented. "Of course, for us upon implementation we want to start off with the latest technologies and of course be compliant with ISO20022

rather than legacy processes and standards and then having to make a change later on."

A regional HR business partner from a well-known US investment bank remarked: "Certainly with ISO, the big benefit is the structure that it provides. But that only really becomes fully effective if you have regulatory harmonisation."

The head of IT at a Swiss multinational bank said that there is a major shift from industry standards which have been there for a long time to the new ISO20022 format.

"Although we have been doing some variants of ISO20022 in our payments industry right now as far as UK clearing is concerned," he noted. "We are keen to gauge the readiness of the industry and what solutions are available."

The head of cash management at a Bahrain-headquartered bank reminded us that the ISO journey is quite challenging for most financial institutions.

"The first challenge for us has been keeping track of the migration timelines which have been shifting in 2020 where SWIFT postponed the start of the migration by one year to November 2022," he explained.

One senior manager of procurement risk, oversight, and governance at an investment management company, communicated that his team's job is to make sure it pays suppliers in a timely fashion.

"We seldom get into situations like payment rejections, we get into situations where there are compatibility issues, and that's all happening because there are many ways to make a cross-border payment," he said. "This new ISO standard is definitely something which we are really looking forward to because we want to eventually pay our suppliers in a



timely manner, effectively, and without payment failures.”

The head of regulatory, industry, and network at a large US bank agreed that ISO is an enabler.

“I can see that through things like the FSA consultations running at the moment and just generally what’s happening around cross-border payments,” she explained. “But also, I see that from an execution perspective we can focus on the impacts to our clients and into the actual business itself.”

A business analyst from a professional services company confirmed that the organisation is starting the journey of changing from the legacy systems and direct bank handling of its payments in banking folders to a centralised payment hub.

“We have challenges like less standardisation, less oversight, difficulty maintaining oversight, and no optimisations,” she observed.

One product lead specialising in international payments at a UK clearing bank commented: “I guess for us it’s interesting to be here to learn how the

industry is progressing when it comes to ISO20022, as it does impact us and our ability to be able to offer a really true real-time user experience for our customers, and that’s what is most important for us.”

The chief customer officer from the same bank explained that another key challenge had been the ISO journey: “The cross-border element is one element, but actually there are some fairly significant changes coming around even faster in the UK payment schemes to move to ISO20022. For example, the CHAPS upgrade that is due at the beginning of next year, all the regulated banks have had to spin up their teams and to be working on that now.”

The chief product and network officer at a British cross-border payments company made clear that the biggest challenge facing the organisation and the wider industry is picking the right partner.

“That’s probably the biggest concern particularly as many of the markets in which we specialise are sub investment grades, so capital allocation can be significant,” he noted.

Edward Ireland, subject matter expert at Bottomline suggested that the industry is currently in a period where so many different regulatory deadlines need to be met.

“We’ve got SWIFT going in the coexistence period, we’ve TARGET2 going into a hard cutover, we’ve got Bank of England moving slightly earlier, and MEPS+ and Singapore moving slightly earlier than SWIFT,” he added. “So, you’ve really got to be on the ball in terms of which projects you need to manage; when you’re dealing with so many different markets you’ve really got to know your timelines and what are the requirements for those individual markets.”

Next the group moved on to talk about where the SWIFT technology transformation is being managed within organisations.

“From our perspective we have governance across multiple elements so at a global level, at a regional level, and then locationally as well,” explained the head of regulatory, industry, and network at a large US bank. “The scale of our bank, the number of markets we are in, et



cetera, and the level of expertise you need per specific clearing, there has to be a local engagement.”

Bottomline’s Edward Ireland said that with a large organisation you have the resource to have a dedicated project team.

“Then when you come down to smaller organisations you might be wondering where you’re going to put it,” he remarked. “We’ve been asking our participants if they have set up a project team for this yet and been encouraging them not to try to do it off the side of their desk.”

The senior leaders then explored some of the major pain points for banks in managing traditional correspondent banking relationships.

“We see, for example, in Canada the regulation has moved on even beyond the basic requirements to now include the requirement for things like beneficiary address,” said the regional HR business partner at a well known US bank. “When you are making cross-border payments how do you ensure that everyone globally is aware of the different standards, and it makes it very challenging in the cross-border space to really move to a high frequency, seamless process.”

One business analyst at a professional services company expressed that ISO will

give the industry a common language.

“But again, that depends on the local or the country specific regulatory requirements,” she noted. “Operationally it’s also a challenge to have a centralised team handling all the payments, they should have knowledge of each and every regulatory requirement of certain fields or specific countries.”

The chief customer officer at a UK clearing bank added that it’s important to think about data strategies for the future.

“Because if you use an API structure, no country is going to standardise its own structure or its own compliance,” he commented. “But the ability to be able to have that data in an API structure, that can have different end points that could be called upon, can allow you to actually be very flexible in being able to adapt those to each of the individual markets.”

One senior leader said that the common theme came down to standards: “If you think of how long some of the chains are for certain cross-border transactions there could be multiple banks in the chain, you have no visibility on what happens before or after you, so there is zero transparency. But in order for us to even begin to think about conceptually getting that visibility as an

industry, we need to be coming together and standardising globally.”

A chief strategy officer at a banking-as-a-service platform expressed that while there will be some pain, eventually it would be a big gain.

“I find it a bit fascinating with the concept of the CGI because what the customer wants isn’t transparency on something that takes three days, it’s to get the payment in seconds,” he explained. “Now, who cares about transparency for three days? I want to have the payment now. It feels almost like it’s a patch on something that doesn’t really quite meet what the customer wants.”

One director of technology and engineering at a large UK bank said that education shouldn’t come from the regulator: “If you look at the UK market Confirmation of Payee banks, they tend to do this stuff begrudgingly. They don’t do a comms plan, they don’t it at the same level as their marketing plans, they don’t do it as sexily as their latest credit card offer.”

A chief product owner specialising in payments at a large UK building society noted that in terms of the enhanced data that’s going to be available, the organisation are right at the early stages of assessing what that would mean from a technology point of view.

“However, at the very forefront of our mind is what that means about communicating better with members,” he added. “So it’s right, front, and centre, we are on a bit of a kind of crusade around the rest of our organisation to try and make folk aware of this.”

Andrew Giles, senior account director at Bottomline, concluded the virtual event with some final words.

“What is absolutely clear from today’s session is that everyone is facing different types of problems and considerations,” Giles concluded. “I think what’s key is getting all the planning and preparation done now rather than sitting on your hands. It is the banks & FIs that move quickly to get ahead of the timelines that will reap the most rewards.”