ISO 20022 MIGRATION:
AN INVESTMENT WITH VALUED RETURNS FOR BANKS

For over 40 years, the SWIFT MT* message standard has enabled industry automation, reducing the cost and risk of cross-border business and enabling the development of the correspondent banking system on which the world trade depends. Today, MT is beginning to show its age. MT was designed at a time when storage and bandwidth cost more than they do today. It emphasizes shortness over completeness and readability of data. It existed before the start of the anti-terrorist financing regulation, which requires payments to be screened against sanctions lists, and before the development of big data technology, which can extract important business intelligence from transaction data. It limits text to a Latin-only character set, which is no longer optimal now that many of the world's fastest growing economies are in Asia.

While MT continues to be maintained in line with the needs of its users, SWIFT, in collaboration with the industry, has worked to develop and promote ISO 20022 – MX* - which addresses many of the shortcomings of MT. Even though ISO 20022 has existed since 2004, it's only recently that its real use has been discovered by the payments industry due to the demand of corporates for increased interoperability and transparency, coupled with widespread digitization and a push to enable instant payments anywhere in the world. Such demands can only be met with an infrastructure which is superior to the current one in terms of processing payments much faster and supporting the digital business models.

MX messages provide detailed, well-defined structures for key payment information. This increases the interoperability between settlement networks as well as ensures higher levels of straight-through processing (STP) and efficient compliance processes. Specific data points to identify the ultimate originator and beneficiary will also lead to increased transparency in the payment processing. With the growing trend of mobile payments in Asia, MX is better suited to process these payments securely and quickly.

The facility to incorporate more detailed information during the payment initiation gives banks a possibility to provide value added services to their clients, reduce operational costs and the volume of costly exception processes. With the detailed data, the potential benefits for corporates include automating their reconciliation process for payments and remittances, reconciling invoices to shipment notes and tracking these back to original orders, thus removing manual processes. MX provides verified and authoritative information about the exact entity involved in a payment. This information is shown throughout the payment process to all parties involved and will therefore assist firms with managing liquidity and credit risks.

Even though the migration to MX is a positive step forward, it has its obstacles. The full benefit of MX can only be realized if the data is supplied entirely by the payment initiators. Payment market infrastructures (PMIs), banks and SWIFT should closely align their roadmaps for adoption of MX. Failing to do so can lead to high chances of unstructured data being supplied to the creditor. Correspondent banks need to become 'first movers' to ensure full data delivery end-to-end.

This migration not only affects bank's IT systems, but it also goes beyond core payments processing, affecting applications in the areas of anti-financial-crime (AML), liquidity management, billing and account reporting. As MX messages are more superior than

MT, banks need to find a way to utilize the richer data supplied to them before they can provide value added services to their customers.

Based on what MX has to offer, banks could approach this not just as a technical migration but as an opportunity to offer a wider range of services to customers. This can be achieved by taking a step back and analyzing their current payments business process, to establish new ways to add value for customers (e.g., aiding automated reconciliation and reducing false-positive compliance checks) by capturing, storing and managing additional information.

Acting as a 'first mover' will potentially result in competitive advantage. While it might be possible to handle the overflow ISO data via translation software (e.g. SWIFT translator) in the short term, banks may find that their ability to develop competitive and compelling services for customers is constrained if they do not prepare for full alignment with MX in the very near future.

Now is the time for banks to look forward to this migration, considering its potential for value added services. These new offerings are likely to render an attractive return on the banks' investment.

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*The Swift MT (Message type) standard is widely used for Payments, Cash management, Securities, Trade finance, FX/ Treasury.

MX is a newer SWIFT message standard using an XML format based on ISO 20022.

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