

WHAT IS ISO 20022?

What is ISO 20022 and how does it impact the payments industry?

ISO 20022 is an international standard for exchanging electronic information between financial institutions (FIs), covering trade, cards, payments, securities, and FX. Until recently, organisations used different ways to share this information, resulting in delays and inefficiencies. ISO 20022 is predicted to revolutionise the banking sector, and the increased 'rich' data transfer it enables is immensely attractive for FIs as it can enable stronger security and reduce transaction errors.

Financial institutions will be familiar with ISO 8583, but a key differentiator between the two is ISO 20022, a universal standard, covers all transactions, whereas ISO 8583 covers only card transactions. While ISO 8583 is still in use and relevant as a format, with Europe driving innovation in areas such as open banking and faster payments, US FIs as well as the rest of the world will need to comply with ISO 20022 if only for interoperability.

The need for a global standard is clear – payments systems based on different standards leads to a lack of interoperability and poses a barrier to data automation capabilities. With the global introduction of ISO 20022 standards for cross-border payments, a common basis will be introduced allowing data rich transmission which has previously not been possible under current message standards. This will lead to a banks and their clients being able to process payments far more efficiently and economically, and the information from payer to beneficiary will flow seamlessly with full data content, resulting in greater customer satisfaction and improved fulfilment of compliance requirements.

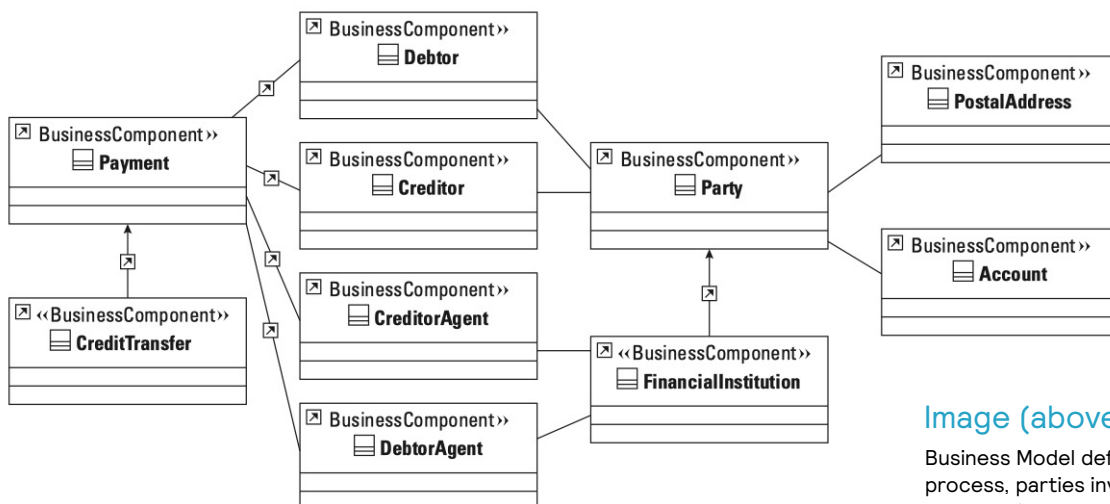


Image (above): Business Model

Business Model defines the relevant business process, parties involved, and information required for the business activity to take place. In this case, here is the simplified business model for a payment.

For an acquirer, there are pros and cons

PROS

CONS

ISO 20022

- Efficiency gains – Increased efficiencies from a standardised and harmonised format of financial messaging, increased straight through processing rates
- Cost savings – Potential simplification of cost intensive processes such as payment processing, investigations, data analytics, reporting
- Digital compliance – Automated analytics for various compliance purposes (i.e. sanctions screening) based on structured information
- New and improved services – Enhanced customer satisfaction from improved services for corporate clients, addressing biggest pain points (e.g. reconciliation)
- Period of transition and potential data truncation – The coexistence period comes with a risk for all agents and frustration for the beneficiary. Intermediary service providers must be amongst the first movers to ensure full data delivery end-to-end
- Implementation costs – Significant investments and resources required until it releases anticipated benefits
- Industry-wide effort – Global consensus of market requirements and standards required

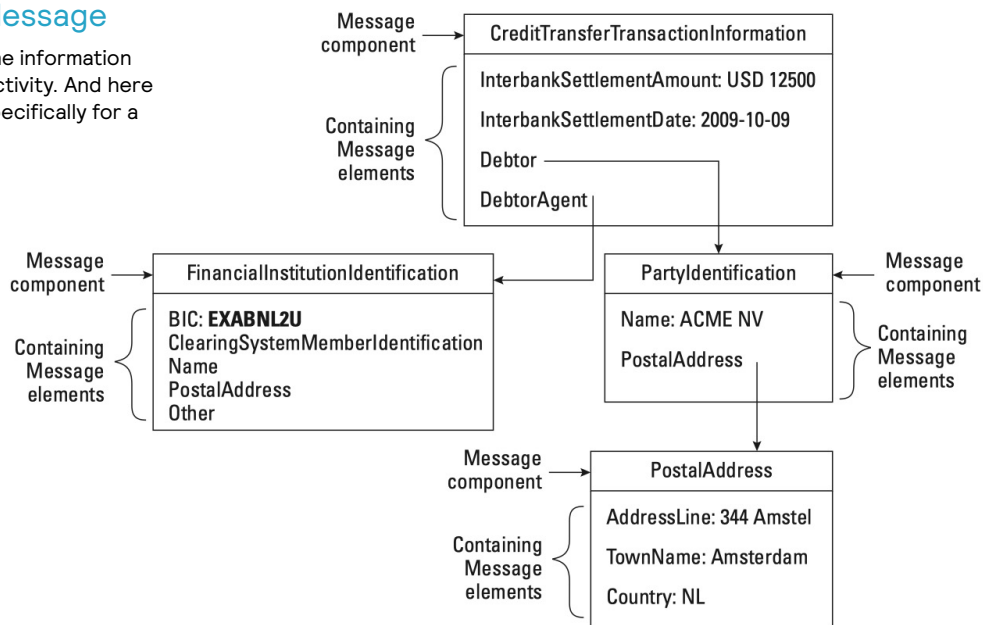
How does it work?

In the digital age, the FS industry mediates information through digital messages – both internally and over the internet. ISO 20022 is more than just a global message standard though – it works using three distinct layers. These levels are best explained through a worked using a simple payment credit transfer instruction example.

ExampleBank in Utrecht, the Netherlands (Bank Identifier Code (BIC) EXABNL2U) has been requested by its corporate customer ACME NV, Amstel 344, Amsterdam to transfer 12,500 US Dollars on 29 October 2019 from its account 8754219990.

Image (right): Logical Message

Logical Message describes all of the information needed to perform the business activity. And here is the logical message structure specifically for a credit transfer (see image).



```
<CdtTrfTxInf>
  <IntrBkSttlmAmt Ccy='USD'>12500</IntrBkSttlmAmt>
  <IntrBkSttlmDt>2009-10-29</IntrBkSttlmDt>
  <Dbtr>
    <Nm>ACME NV.</Nm>
    <PstlAdr>
      <StrtNm>Amstel</StrtNm>
      <BldgNb>344</BldgNb>
      <TwnNm>Amsterdam</TwnNm>
      <Ctry>NL</Ctry>
    </PstlAdr>
  </Dbtr>
  <DbtrAcct>
    <Id>
      <Othr>
        <Id>8754219990</Id>
      </Othr>
    </Id>
  </DbtrAcct>
  <DbtrAgt>
    <FinInstnId>
      <BIC>EXABNL2U</BIC>
    </FinInstnId>
  </DbtrAgt>
</CdtTrfTxInf>
```

Image (left): Syntax

Syntax is the physical representation of the logical message. For ISO 20022, extensible markup language or XML is most commonly used. This message can be understood by any payments organisation that has adopted the ISO 20022 standard.

[Image source](#)

Of course, ISO 20022 is not limited to payments. It covers the entire financial services industry – enabling a common understanding and interpretation across diverse areas including securities, trade services, forex, cards and related services.

For banks, richer data and higher volumes of information being passed securely back and forth leads to more satisfied merchants. Pollinate's data storage is compatible with ISO 20022, making it future-proof and easy to work with banks. Check out the [Pollinate platform](#) to see how you can transform your SME offering today.