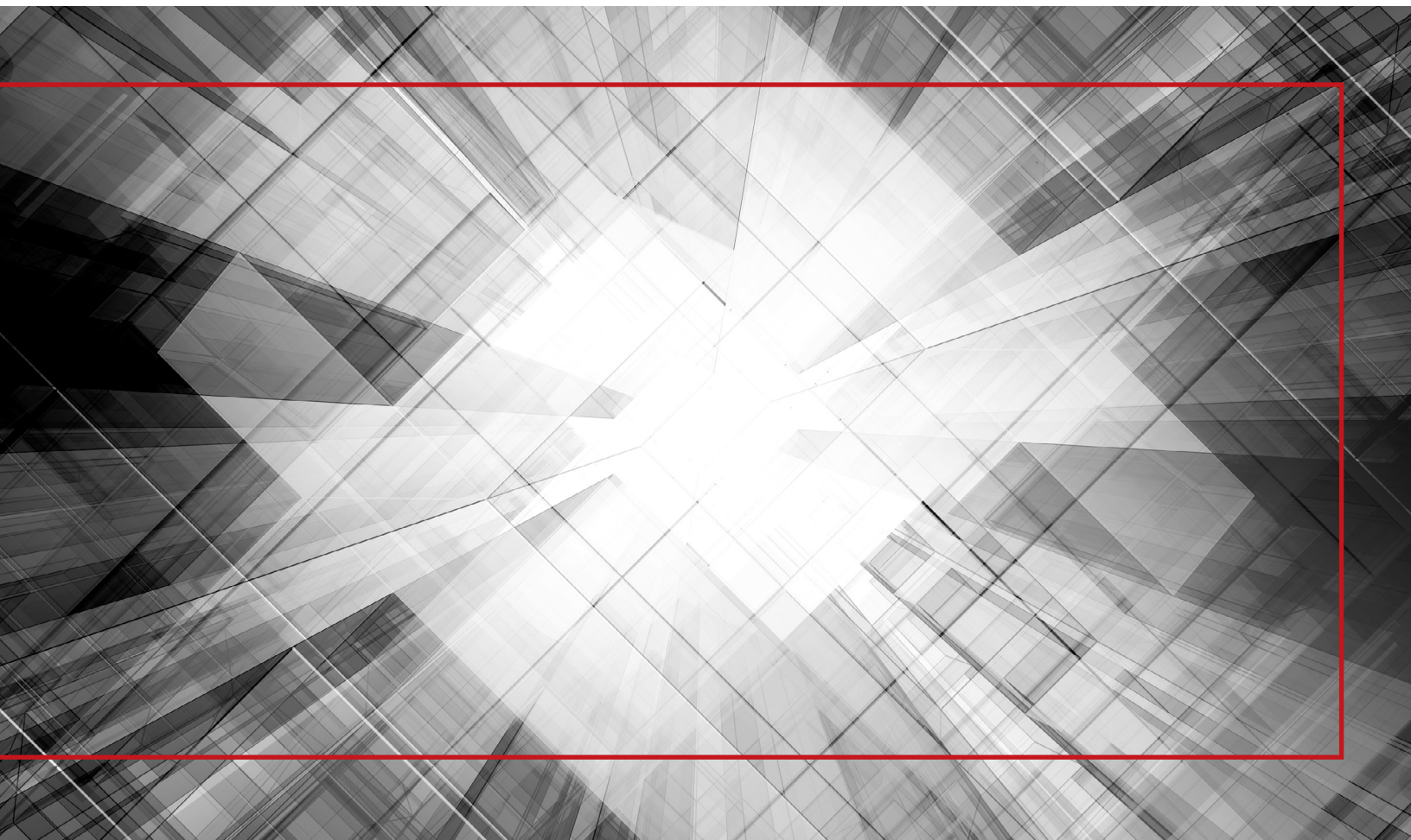


ISO 20022 AND BEYOND





INTRODUCTION

Players in the Canadian payment ecosystem are recognizing the value of open banking, working to reinforce its cyber resiliency and bracing for new and innovative competition. A major trending topic that underpins all this change is the International Organization for Standardization (ISO) 20022.

ISO 20022 is a standardized messaging scheme for financial services. Currently, there are several domestic and international payment messaging formats that vary by structure, meaning and policies. Without a standardized system, it creates the same difficulty humans encounter when trying to carry a conversation with someone who speaks another language. It would be very challenging to understand each other; the same words could have a different meaning or words in one language may not exist in the other. The complexity and richness of your conversation would be reduced to rudimentary gestures. ISO 20022 aims to bridge this gap in communication. It provides a universal way for people and technology to understand financial payment instructions.

ISO 20022 is expected to unlock greater efficiencies, new capabilities and play a key role in Canada's Payments Modernization vision. Although Canada has not regulated the implementation of the standard, Canadian institutions (including Canada's Big Five Banks) have started and should continue to, take note of the benefits that ISO 20022 offers, as we join over 30 countries that have adopted the standard already.

Over the past year we have been working with Canadian financial institutions (FIs), technology vendors, regulators, and industry incumbents on ISO 20022, and here are some of our observations.

STARTING WITH THE BASICS: UNDERSTANDING ISO 20022

The speed of adoption of ISO 20022 is slow due to the lack of education within the industries (e.g., insurance, health, retail, etc.) and across the supply chain(s). Consequently, this creates a gap between the suppliers and consumers of ISO 20022 services. As other economies move towards deeper and broader implementations of ISO 20022, Canada is behind.

The European Payments Council's Single Euro Payments Area initiative, spanning twenty-eight European union member states, focused on reducing dozens of standards across the regions into a single file format utilizing ISO 20022 as a standard. Companies, public authorities, and individuals within the member states can now exchange payments with greater efficiency and accuracy. Therefore, to remain competitive in Canada, we need to understand the applications of ISO 20022 by industry, implementation options, and partners, to accelerate our adoption timelines and simplify Canada's broad range of standards.

MAKING IT HAPPEN: BENEFITS OF ISO 20022

Organizations can realize the benefits of ISO 20022 for payments through enhanced remittance information, global interoperability, and operational cost savings:

ENHANCED REMITTANCE INFORMATION

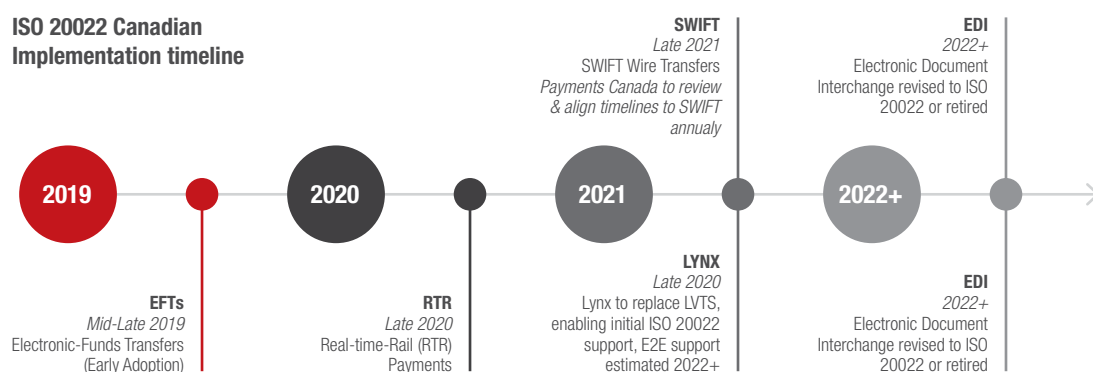
ISO 20022 allows payment and remittance data to travel together. It provides a standardized message syntax, reducing the risk of incorrect data and need to reconcile payments manually. With a standardized structure, remittance information can be utilized to implement or enhance the accuracy for auto-matching accounts payables and receivables - an opportunity to increase the share of straight-through processing for payments. This will provide the capacity for resources to focus on other value-add tasks.

In the insurance industry, Capco identified two implementations for enhanced remittance information. The first is the use of remittance details within a payment message, to perform the auto-allocation of large fund transfers received from agencies that collect a portion of the insured customer's premium payment as commission. Secondly, a 'payment request' feature will be introduced through Canada's Payments Modernization work, that allows businesses and customers to request payments directly. This will enable an enhanced payments experience, similar to requesting funds through PayPal or splitting the cost of an Uber ride. This feature, along with ISO 20022, will give companies the ability to append the remittance details to the request, thus providing a reason for payment(s), reducing the cost of collections for outstanding receivables, and lowering the volume of bad debt.

GLOBAL INTEROPERABILITY

Payment messages follow various formats based on payment networks and use cases (e.g., high value vs. low value; batch vs. real time). A Capco study of the local payment messages from three Canadian banks revealed that collectively, the banks only share 50 percent of the mandatory message elements (32 out of 63 elements) compared to other G7 countries that have 60 percent or higher. These variances cause payment information to become truncated or translated as they move between banks - creating a challenge for organizations to seamlessly optimize payments products with multiple FIs.

Between jurisdictions and banks, there may also be a different understanding of terminology. In these situations, the sender and receiver of the payment will be required to communicate through external means to clarify the details of the payment. As ISO 20022 is syntax independent, it will align financial communication and enhance interoperability between systems and jurisdictions. The standard will enable improved traceability for domestic and cross-border transactions which will, in turn, improve payments confidence, resiliency, and security. Additionally, we believe there will be a convergence of payment types triggered by ISO 20022. Specialized payment messages including EFTs (electronic fund transfers) and EDIs (electronic data interchange), will no longer be required, as they transition to a single ISO 20022 standard that will become adopted over time.



IMPROVED PROFITABILITY

Reducing the number of payment formats, nuanced processes and support resources is beneficial. Converging towards a single standard will result in lower overall IT support and operational costs, decreased technological footprint, easier maintenance and troubleshooting. Along with improved accuracy and understanding of money movement, there will be improved clarity in predicting cash inflows and outflows. You can also identify new revenue streams through product and service innovation that leverage the clean, structured data that make up the payment instructions.

REALIZING THE BENEFITS

Each organization should select a representative to engage with the appropriate individuals and teams across the business to spearhead the initiatives. It is essential to pursue answers to further understand the standard, requirements, and any additional questions that can have a material impact on the business (e.g., best practices in other jurisdictions, timelines, resources required, ecosystem participants and constraints). Information on ISO 20022 is available through various means including online databases, discussions with FI representatives and attending conferences/ training sessions. Gathering information and insight allows organizations to remain aware, while identifying specific methods to improve their business through ISO 20022 implementation.

While developing a business case and validating assumptions with incumbents and new market players, we concluded benefits from ISO 20022 will be realized over a long-term horizon. Therefore, executives that focus on compensation tied to short-term ROIs, may not place a high priority on implementing the standard, in contrast to other initiatives. We recommend strategically integrating ISO 20022 into transformation programs to reduce the implementation cost, while still reaping the benefits.

GOING BEYOND: EXTENDING ISO 20022 PAST PAYMENTS

Innovative opportunities to leverage ISO 20022 capabilities are abundant. With the ability to support both structured and unstructured data, the addition of dimensions in the payment message can produce new insights. Michael Lewis noted that weather forecast data could be used to predict adjacent opportunities from food security to fertilizer waste¹. The same mindset can be applied to ISO 20022, utilizing the rich data from the payment messaging to forecast customer or business needs across all industries, and deliver a customized experience for each client segment.

With improved data quality, consistency and the introduction of new data fields, detailed transactional records can be leveraged for new opportunities. Capco is currently exploring the use of ISO 20022 for merchant category codes (MCC) within the credit card industry. In particular, the ability to design bespoke offers, products and services to retail or business customers, and the use of enriched payment data within the insurance industry to enhance predictive models.

The real-time payments capability that is part of Canada's Payments Modernization also aligns with ISO 20022. With enriched payment information and instant access to funds, new business capabilities can be defined. Payments with remittance data can be sent and auto allocated in real-time instead of batches, resulting in a larger cash flow to invest in money market funds. A new, 'request money' capability will allow for seamless retrieval of funds from customers or businesses alongside the payment request details. This will create a seamless experience for the payor and can assist in reducing outstanding receivables.

BRINGING IT TOGETHER

There are extensive capabilities that ISO 20022 provides to improve an organizations' payments ecosystem and gain a competitive advantage. It is important to take a proactive rather than reactive stance for ISO 20022 with your customers, suppliers and partners to reap the rewards. With a thorough understanding of the standard's potential and strategic thinking, organizations can adopt ISO 20022 to deliver a superior customer experience, create new offerings, increase operational efficiency and ultimately improve profitability.

ABOUT CAPCO'S PAYMENTS PRACTICE

Capco is a global business and technology consultancy focused on the financial services industry. We have performed end-to-end delivery and strategy for global and Canadian big banks. With over 1000 global resources (90+ in Canada) specializing in payments, we have deep expertise in strategy, cyber and wholesale payments resiliency, systems integration, and vendor assessment across commercial and retail payments. For more information, please contact us at Canadapaymentspractice@capco.com.

REFERENCES

¹ Lewis, M. (2018). The Fifth Risk. W. W. Norton & Company.

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ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at www.capco.com, or follow us on Twitter, Facebook, YouTube, LinkedIn and Instagram.

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