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The Changing Face of Payments

Five myths of ISO
20022 adoption

CGI

CGI's Changing Face of Payments is a roundtable series that brings together CGI payments experts from around the world to discuss various topics related to payments modernization.

In this first roundtable interview, Karen Brown (U.S.) moderates a panel of subject matter experts as they debate five myths surrounding ISO 20022 adoption. CGI banking experts Ainsley Ward (U.K.), Anushil Gupta (U.K.) and Robert Book (Sweden) represent the European perspective, while David Hooper (Canada), Mark Perkins (U.S.) and Andy Schmidt (U.S.) speak for the North American markets.

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Myth 1: Taking a minimum viable product (MVP) approach to ISO 20022 is feasible.

Karen (U.S.)

Many banks believe that taking an MVP approach to ISO 20022 adoption is a viable option. So, the first topic for discussion is whether that's true or a myth. Ainsley, we'll start with you.

Ainsley (U.K.)

The idea behind an MVP is that you do the least amount of work to achieve ISO compliance. This is akin to what happened back in 2009 when banks simply made sure they were accessible under the new SEPA direct debit scheme, without exploiting new related capabilities or opportunities. I think, in some ways, doing the very least possible just to meet the deadline is viable. However, there's a risk this approach will lead to future challenges, and so I don't think it's the most sensible or logical course of action. That is, unless you can't invest in doing more at this point in time.

Andy (U.S.)

I think an MVP is a starting point. But, I worry that banks will work right up to the edge of the standards, without going further. If you're looking at developing just an MVP, you're leaving out all of the business opportunities and value-added services made possible by the new standards. Honestly, this begs the question, "Why do it if you're going to make only a minimal investment?" Most people aren't incented in school or at work to do the bare minimum. Why would you not want to do more for your customers?



David (Canada)

I'd add to that. Many banks say they're producing an MVP, but that's not what they're actually doing. They're doing far more. MVP has become a buzzword. The absolute minimum is to comply. Banks are doing far more than that and calling their work an MVP. So, I think there's some confusion about the meaning of MVP.

Anushil (U.K.)

I think an MVP approach is viable, but the more important question is whether it's valuable. While it's viable in that you're meeting ISO deadlines, that's a very short-term perspective. At a bare minimum, without even going into other potential business use cases, ISO 20022 is supposed to reduce the number of false positives in screening payment messages. The reason this hasn't happened yet in the markets where it's been implemented is because of the MVP approach. With this approach, new ISO messages are just a fancier version of the older messages that ISO was intended to improve.

Robert (Sweden)

The idea behind an MVP is that you do the least amount of work to achieve ISO compliance. This is akin to what happened back in 2009 when banks simply made sure they were accessible under the new SEPA direct debit scheme, without exploiting new related capabilities or opportunities. I think, in some ways, doing the very least possible just to meet the deadline is viable. However, there's a risk this approach will lead to future challenges, and so I don't think it's the most sensible or logical course of action. That is, unless you can't invest in doing more at this point in time.



Mark (U.S.)

I think there may be consideration for the size of the bank. In the U.S., thousands of banks will move from Fedwire legacy to Fedwire ISO in the near future. Many smaller banks will likely need to adopt an MVP approach to begin with because that's all they'll be able to do in the time allotted to them. They also may not offer the same level of service or have as many large corporate customers as the bigger banks, so there may be less demand for the features ISO will introduce. I think smaller banks may be in survival mode for a while just to protect their revenue streams and the customers they have, and not even looking to attract new customers.

Myth 2: ISO migration is a long journey.

Karen (U.S.)

The second myth is that migrating to ISO 20022 takes a long time. We know this is the case for other payment regulatory schemes. What are your thoughts on the timeframe for ISO migration?

Mark (U.S.)

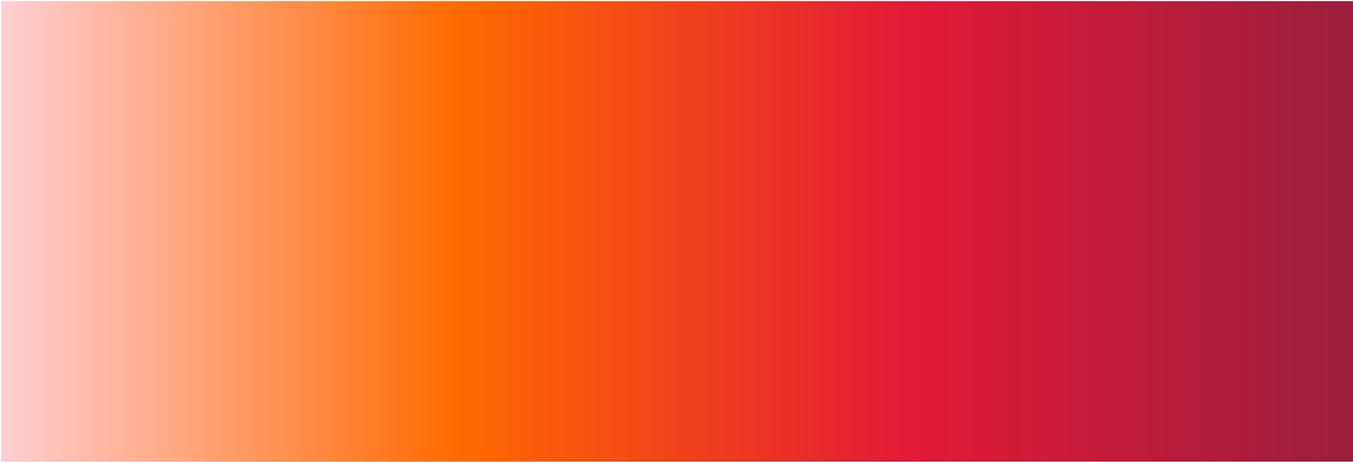
When you think about migrating away from legacy systems, you have to think about all the affected touchpoints. There are a lot of systems connected to payments applications that could be impacted by ISO 20022 and may have data schemes that need to be modified to accommodate it. The legacy systems some banks are now using aren't well-adapted for this kind of change. So, the migration to ISO will be a major effort for these banks if they require a number of system conversions.

David (Canada)

When you have 6, 8 or 12 systems involved, does the data really need to go through all of them? If so, do you need to change every system to process this data? Is there a reason the data is in those systems, or can you process the data separately? Many banks have come to realize they don't need to convert all of their systems in preparation for ISO, but instead just a few.

Karen (U.S.)

Andy, what do you think? Do you think banks are specifically targeting just what they need to migrate, or do you think they're now looking at ISO adoption as a much bigger change?



Andy (U.S.)

I think banks are definitely grappling with their strategy. The data issue is important, but I think the opportunity for value-added services is equally important. I think some banks are taking a staged approach in terms of, “First, let’s figure out how to do real time, then let’s figure out how to use ISO 20022 in general, and then let’s figure out how to drive business value.” I worry about that last stage. Are they willing to make that climb? Do they think there’s value? I see banks focusing on the first two stages, not the third one where they can generate recurring, high-value revenue and create competitive differentiation. Just being able to process ISO 20022 messages is not sufficient.

Anushil (U.K.)

This is a complex question with different dimensions. ISO migration presents two key challenges: one related to technology and the other related to program management. Overall, across geographies, I think ISO migration is first and foremost a program management challenge, as well as an opportunity. What do I do first and when? What do I do in parallel? What don’t I do at all? On the technology side, data is the main challenge. Migration speed and success depend on having good, traceable, available, reliable, and complete datasets.

Robert (Sweden)

In the Nordics, various payment schemes are progressing. We just recently announced adoption of Europe’s request-to-pay scheme, and banks also are working on high-value and cross-border payment schemes. So, I agree with the fact that it takes time to implement a new scheme. Introducing ISO obviously takes a long time to do as well. There are a lot of technical issues to address. The more legacy you have, the more time it will take. If you have a proper internal structure for accessing data, this will obviously make your ISO migration move faster. But if you don’t, you need to start from scratch essentially, which is time-consuming.

Ainsley (U.K.)

As we look back into the history of payments, we see that migrating to ISO is in line with other migrations of this size. Take the EMV standard, for example. This cryptography standard for cards first emerged in 1996, but it wasn’t until 2017 or 2018 before it was implemented in the U.S. It can take 15 to 20 years to make these types of large-scale payment changes. ISO 20022 was first introduced in 2004, and, not coincidentally, SWIFT will retire its current messaging standard in 2025, just a little over 20 years after its introduction.

Myth 3: Corporates aren't really ready for ISO 20022.



Karen (U.S.)

Is it true that corporates aren't ready for ISO? Do corporates want this or are they trying to hold back the adoption of ISO?

David (Canada)

I'm not sure yet. I think there seems to be some clamoring for it. I think larger corporates face adoption challenges because of all of their ERP systems. There's a chasm in the banking world because a lot of banks don't connect directly to corporate ERP systems. They force the corporates to come to a portal and download files into their ERPs. A lot of smaller businesses have less to convert in order to embrace ISO. As a result, they may be the first to benefit from ISO. But, I'm seeing a lot of variation as to who wants it and who's ready or able to support it.

Mark (U.S.)

When it comes to value-added services like business remittance data, I find it interesting that Fedwire introduced new elements a decade ago to house larger unstructured and ISO-compatible structured remittances, but I don't think any corporates leveraged those capabilities. It's astonishing to me that this data has been available to send with wire transfers, but the service just never took off. Maybe corporates weren't aware this data was available, and it was an education issue. Or, perhaps their bank's applications lacked mechanisms to send this data to or receive the data from their corporate customers. I never really understood why there was a disconnect, and I'd be curious to see what has happened with corporates leveraging remittance capabilities in other geographies where ISO is already well-established.

Andy (U.S.)

Here in North America corporates are focused on ISO 20022, but it's not mandated. For corporates that do business only within the U.S., using an international message format may not be as important. However, since the U.S. is newer to the game in terms of standards, and nowhere near other markets in terms of mandates, I think it's going to be a while before we see corporate adoption. My projection is that multinationals will trigger adoption by saying, "Hey, wait a second, I can do this here. Why can't I do this in North America?"

Ainsley (U.K.)

The largest ERP systems globally have been ready to support ISO transactions since the early 2010s. Further, all of the newer technology platforms designed to support small businesses are ready either to handle ISO or could become ready very quickly. All of the industry bodies within Europe have said that they're ready to get on board with ISO. We see something similar in Canada. A Canadian study showed that moving to new payment systems would add about \$6 billion to the Canadian economy. Corporates realize that having better information, better reconciliation, and easier payment cycles will make their businesses more efficient, so I think they're ready to embrace ISO.



Robert (Sweden)

I agree with Ainsley. However, I think that, with every change in banking, there is a period of time when banks need to sell the change to corporates. So, I think banks need to be clear on the added value this change will bring to corporates and to their customers, such as more efficient reconciliation, as Ainsley mentioned. I think in the Nordic region, at least in Sweden, reconciliation already is highly effective for corporates. So, this advantage might not be as strong of a selling point for corporates there. However, there are other selling points, such as standardization across multiple geographies because, at least in Sweden, we are hugely dependent on exports.



Anushil (U.K.)

The answer depends on the type of corporate. Large, modern corporates, like Amazon, have been ready for a while now and have been asking their banking partners for the past five years the same question, “Why is this taking this long?” For the majority of the smaller, older corporates, it’s been a different story. At least in the U.K., small and medium enterprises with legacy batch-based systems are not ready for ISO 20022. And, this could be a difficult conversation for bank to have with corporates: “Look guys, we need you to move to ISO 20022.” Many banks aren’t ready to have this conversation unless a corporate, like Amazon, asks for it. I believe there is still work to be done to socialize the many business and operational benefits that ISO 20022 could potentially bring.

Myth 4: ISO 20022 is just another message format.

Karen (U.S.)

Some banks (and corporates) are saying that ISO is just another new format that's not much different from legacy formats, such as the Fedwire-specific message format. They don't see any significant change for them, other than the need to comply with another new format. What are your thoughts on this?

Mark (U.S.)

I think of the change in terms of providing a more common framework for payments. ISO 20022 is not just another message format that will be adopted in the same way by all payment schemes. For instance, the real-time payment versions of ISO are quite similar to those used for other payment types, such as high-value payment clearing, but may have slight differences in schemas, particularly with things like field availability. For instance, FedNow will have limitations on how or what correspondent fields may be used, which will be different than Fedwire. However, you could have a single ISO format for payment entry channels to the bank whether you want to do FedNow payment or a Fedwire payment, but it would be up to the bank to route the payments to the appropriate rail-based business rules in alignment with the scheme requirements. Ultimately, there are benefits in making use of a standard framework and language when it comes to payments processing.



David (Canada)

There are two considerations: actual changes to the structure for processing payments along with usage changes. Different industries will use new ISO fields for different things. Unfortunately, we don't have a global standard for usage. There are variations, and I think the trick is to minimize them. There may be different uses in Canada, the U.S. and Europe, so you've got to accommodate all of them, depending on where you do business. I don't know how we get around that. It takes years to get buy in, and by the time we get it, it's already changed again.

Andy (U.S.)

I'm a little uncertain. As a global company, we share templates, and I can tell which template I'm using and which country it came when Microsoft tells me I've misspelled a word. I wish we could get to a place where you have the equivalent of a Google Translator that says, if the payment came from Spain, and it's going to the U.S., then this field should use this language. We've been talking about field translation forever. One of the early challenges with both SEPA and ISO 20022 was that everyone wanted to use their own language within fields. I would like to view this as a solvable problem. Simple translation from one market to another is something that should be achievable.

Robert (Sweden)

If you look at the core message format proposed by ISO, it's very comprehensive. I'm optimistic that this might become the common standard for decades to come. There obviously are a few threats, such as too much diversification. For example, in the case of SWIFT, we have two different versions for high-value and cross-border payments. So, the danger is that we continue to diversify too much and then we're back to square one.



Ainsley (U.K.)

In the past, we've had to deal with some fundamentally different messaging formats, as well as different message transmission methods. ISO is really taking us away from that. For example, in the Norwegian market, there's a vast array of legacy payment types. In fact, there are about 9 or 10 different formats for making different types of payments, and each evolved from different legacy pieces of paper. The simplification that comes from moving all payment types to an ISO-like structure will have a massive impact on the cost of managing payment systems.

Anushil (U.K.)

I think the answer depends on the bank and segment. Versions are changing every year based on market needs. I don't really see different versions as a challenge. However, I think it's a mistake to not look at ISO 20022 more holistically and think of it only as a message format. It is a model for transmitting payments, and XML is the current format. Tomorrow, or five years down the road, a more data-efficient, developer-friendly format may emerge and threaten the XML formats for multiple reasons.

Myth 5: ISO deadline dates are going to change.

Karen (U.S.)

A final myth for discussion. Some believe ISO 20022 deadline dates are going to change. Obviously, that wouldn't be unheard of; implementation plans for payment schemes change. Take, for example, SWIFT, SEPA, Fed NOW and CHIPS. Do you think ISO 20022 deadlines are going to be delayed? Should banks take this into consideration in preparing their implementation plans?

Andy (U.K.)

ISO regulators have given themselves the option of pushing back the deadline. But, at some point, you have to say, "No, this is really the deadline." Otherwise, there will be banks that have made the journey only to be left hanging. We saw this happen with SEPA when the deadline kept getting pushed back. The larger banks went first and the smaller banks fell behind. Whether you give a hard deadline or a shifting one, you need a clear plan for getting everybody there.

Mark (U.S.)

I think there's always a possibility that some presumed deadline dates could change. For example, official ISO message formats for Fedwire haven't yet been published, and yet the first possible date for moving to ISO is just a year and a half away. But, I also think banks shouldn't assume the dates will change and should proceed with preparation as best they can.

David (Canada)

Without truly seeing a huge benefit from ISO or calculating any sort of return on this big investment, I think banks will welcome the deadline getting pushed back. However, when a bank feels pressure from customers, as well as regulators, then compliance becomes more of a priority. Otherwise, they're likely not to feel a rush and have other priorities. Banks need to know the why and the what's in it for me. Many haven't figured out yet the benefit for their customers. They're not seeing those opportunities, and so they're not excited about moving forward.



Mark (U.S.)

Mark Perkins (U.S.): I think it's interesting that Fedwire and CHIPS were advised, I believe, by the SWIFT Payments Market Practice Group to not go forward with their original, multi-phase ISO implementation approach. They have since decided to go with a big bang approach. That said, we haven't seen a lot of direction or new information coming from Fedwire on that front lately.

Karen (U.S.)

No other central banks associated with the adoption of ISO have done a big bang approach yet. Is there more risk associated with that approach? Are ISO regulators now potentially thinking, "Maybe we shouldn't," which is why they've been reluctant to come up with a format?

David (Canada)

It could be that the heavy lifting has been done for other modernization initiatives, and regulators think it'll be easy to go with a big bang approach because of that. If changes have been made for SWIFT and new systems are in place, maybe a big bang approach makes sense.



Biographies



Robert Book (Sweden)

Robert Book leverages the latest developments in business models, processes, technologies, and behaviors to simplify, streamline, and otherwise enhance the payments area. Robert has more than 20 years of experience in financial services, including specialized expertise in business development and innovation which he uses to support CGI's Banking and Payments Solutions.



Karen Brown (U.S.)

Karen Brown serves CGI's Global Payments Solution Lead, overseeing CGI payment solutions, including marketing and implementation. Prior to joining CGI, Karen worked in the UK banking sector. She has more than 28 years of experience in developing payment solution strategies and marketing plans, along with significant expertise in implementing payment solutions for banks.



Anushil Gupta (U.K.)

Anushil Gupta has deep cross-functional banking expertise which he uses to develop strategy for retail and corporate banking within CGI's UK operations. He also has 13 years of experience in providing consulting services for large transformation programs, such as UK ring-fencing, payments transparency, ISO 20022 migration, and channel and data strategy initiatives for top global banking groups.



David Hooper (Canada)

David Hooper is a banking and payments executive with 25+ years of experience and in-depth knowledge acquired within the Canadian and global banking landscape. David has worked with financial institutions across North America to support the development of open banking and payments strategies. He leads CGI's Canadian Open Banking and Payments Centre of Excellence, with a focus on helping clients build and execute pragmatic payment strategies and roadmaps to modernize and digitally transform their business.



Mark Perkins (U.S.)

Mark Perkins brings more than 20 years of payments experience to his role as Offering Manager for CGI All Payments. Prior to joining CGI, Mark worked for top-3 fintech company where he managed a high-value payments product used by more than 100 financial institutions. In that role, he participated in strategic industry groups, such as the Federal Reserve's Faster Payments Roundtable, as well as the Format Advisory Group with the Federal Reserve, The Clearing House, and SWIFT.



Andy Schmidt (U.S.)

Andy Schmidt is a former banker and industry analyst who helps drive CGI's strategy across the company's global financial services vertical. Andy has more than 25 years of experience in guiding financial business and technology decisions. His primary expertise spans current and emerging payment types, anti-money laundering, know your customer (KYC), and onboarding. He also specializes in product and market strategy, innovation, data, mergers and acquisitions, and the translation of complex technologies into straightforward business opportunities.



Ainsley Ward (U.K.)

With more than 20 years of international banking and payments experience, Ainsley Ward is a recognized industry thought leader who oversees business development for CGI's payment solutions. Previously, he worked on modernization and open banking initiatives in Canada and served as a banking subject matter expert for CGI in Belgium. Having worked with banks on every continent, Ainsley is well versed in the demands of payment market modernization, as well as in finding opportunities from mandatory changes and guiding banks to better outcomes.



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