

Is Your Organization Leveraging the Full Potential of ISO 20022?

by Rebecca Oi / June 21, 2023

The advent of ISO 20022 signifies a monumental shift in the financial world, a transition that promises unprecedented transparency, efficiency, and improved risk management.

This financial standard elevates transaction data richness to a new level by offering up to ten times more data elements per transaction.

Its global adoption across the banking industry, regulators, and other financial players significantly transforms the once fragmented landscape into a unified field of standardized transactions.

ISO 20022 comes with the potential of yielding higher quality data and thereby enhancing reconciliation rates. It could enable real-time and frictionless payments. Moreover, this new standard compels banking giants to rethink and innovate their offerings in the face of emerging financial tech solutions.

Government intervention and regulatory momentum

The significance of ISO 20022 extends beyond its technical sophistication. It has garnered political backing, with the G20 pushing to harmonize global payments using this standard.

This governmental pressure dovetails with the regulatory requirements and transactional necessities to drive the transition to ISO 20022.

Several institutions, including Geld Service Austria, Bank of England, and ESMA, have already chosen to utilize ISO 20022 for regulatory reporting purposes, further emphasizing its importance.

From a regulatory standpoint, the ISO 20022 standard is a transformative development. It establishes a universal set of data elements and identifiers, such as Critical Data Elements (CDEs) and Unique Product Identifier (UPI), simplifying regulatory reporting processes and ensuring compliance.

The challenge of transition

Despite the promises of ISO 20022, transitioning to this new standard is not without its challenges. The chief concern is the diversity in messages. ISO 20022 provides a format for financial messaging but not a definitive syntax.



Christophe
Vastesaeger, Senior
Solutions Architect of
SmartStream

“This flexibility, while allowing customization, leads to different interpretations and, thus, differing implementations. The potential for proprietary message formats can inadvertently create dependencies and additional costs,” said Christophe Vastesaeger, Senior Solutions Architect of SmartStream.

Another major hurdle is the underestimation of the magnitude of the task. The switch to ISO 20022 often necessitates changes in core banking systems, payment gateways, and portfolio management systems, with complexities resulting in unexpected delays. Hence, banks must plan well and anticipate possible roadblocks

in this transition.

“One potential pitfall of the transition to ISO 20022 is the underutilization of the wealth of data it offers. Without appropriate changes to underlying systems, banks may end up using the new standard with a significantly reduced data set, thereby failing to leverage the full potential of the standard,” added Christophe.

Therefore, timely adoption and full utilization are critical to achieving the true value that ISO 20022 offers.

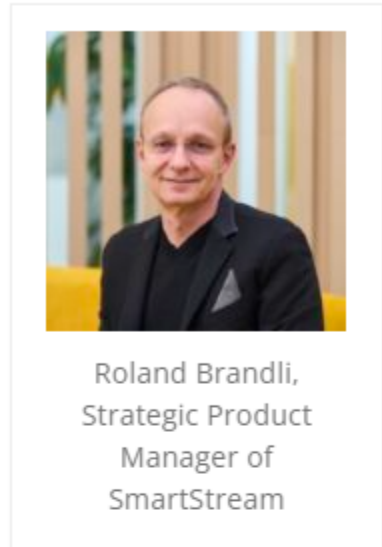
Shaping the future financial landscape with ISO 20022

In today's fast-paced world, efficient data exchange is crucial for the smooth functioning of various systems, particularly in industries such as banking, where secure and prompt transactions are paramount.

End-users now have high expectations for immediate responses and actions from their applications and services, and this expectation has greatly influenced their demands from banking applications.

For instance, banks face competition from highly efficient trading platforms offering nearly instantaneous services. As competition intensifies, traditional institutions are pressured to elevate their performance and provide a comparable, if not superior, user experience.

“Banks are urged to undergo a transition to meet the growing demand for real-time responses. This transition encompasses enhancing the business-to-consumer (B2C) aspect, typically associated with digital transformation, and improving business-to-business (B2B) and bank-to-bank operations,” said Roland Brandli, Strategic Product Manager of SmartStream.



Roland Brandli,
Strategic Product
Manager of
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ISO 20022 plays a significant role in this transformation by providing a standardized framework that is increasingly vital in facilitating seamless communication among different financial systems.

The [API integration](#) facilitated by ISO 20022 is essential for establishing a coherent view of payment channels, a necessity in today's complex and interconnected financial landscape.

Roland highlighted that while API integration is valuable, it is not a one-size-fits-all solution. Like any technology, it comes with challenges and risks. Implementing API integration requires a deep understanding of the data being utilized, the security requirements of the systems involved, and the technical aspects of cloud operations.

Given the complexity involved, the future will likely see a shift toward platforms that offer scalability and versatility in managing large volumes of transactions.

Leveraging artificial intelligence for increased efficiency

Artificial intelligence (AI) is another aspect worth considering. While AI sounds appealing, it is crucial to understand its business value. AI solutions are valuable when they solve specific business problems, and their value proposition is verified.

AI's strength lies in its ability to deal with large datasets. When it comes to ISO 20022, with hundreds of data fields, AI is a potent tool for data analysis.

"These processes often present challenges, but AI can effectively address them. For example, AI can reduce the time and complexity associated with data loading, which is usually costly. By utilizing AI, onboarding new data can be streamlined, resulting in cost savings," said Roland.

Similarly, in data matching, AI can handle large datasets with numerous fields, an area where human capacity is limited. AI can find relationships across different data formats, significantly reducing the time taken to identify connections.

"Finally, AI's supervised learning capabilities can significantly improve operational efficiencies. AI can reduce dependency on specific rulesets by learning from users' individual data sets," added Roland.

This capability also helps create a resilient and sustainable operating model, making AI a potent tool in the financial industry's future.

As with any task, slowing down efficiency or accuracy can lead to problems. Supervised learning functions embedded in AI software allow it to learn highly intuitively, informed by user behavior.

The benefit of this approach is that over time, a more resilient operating law is created, one that is less susceptible to change and delivers consistent results. This resilience is crucial when team members fall ill or need extended leave, as it ensures that operations continue smoothly, minimizing any potential negative impact.

Despite the efficiency of AI, human ingenuity, comprehension, and abstract thinking are irreplaceable. They will remain vital components of the operation, creating value.

The system safeguards against fluctuations caused by personnel changes or unanticipated leaves, ensuring minimal deviation from the expected operations. It helps create a sustainable operating model, critical to stakeholders and financial leaders who must look beyond the present day and plan for the future.

Leveraging the right technology for ISO20022 integration

In some financial industries, where legacy systems are still prevalent, choosing the right technology to enable these instant capabilities is crucial.

SmartStream 's solution offers the scalability and transaction handling capabilities needed to support the breadth and depth of financial transactions.

It can bring together disparate systems, consolidate data, and provide a coherent view of payment channels, enhancing the end-user experience.

The solution natively supports ISO 20022 and provides the necessary tools to integrate and normalize players' various slightly different ISO formats. This investment in data normalization allows for improved data comprehension and facilitates seamless data exchange across various product suites.

One of the significant advantages is its ability to work seamlessly with different types of data and its flexibility to adapt to various operational environments. It can be used across multiple financial sectors, to handle complex and diverse data reconciliation needs.

The platform's key strength lies in its ability to deal with high volumes of transactional data, allowing financial institutions to reconcile transaction and reference data, cash, securities, derivatives, and more. It helps organizations quickly identify and manage exceptions, reducing operational risk and increasing efficiency.

In real-time event streaming and API integration, it can enable smooth data exchange, improve transaction speeds, and ensure data accuracy, contributing to better financial management and customer service.

By leveraging such technology, financial institutions can keep pace with their clients' increasingly digital, instant expectations while ensuring robust, secure, and compliant operations.

A key focus of SmartStream is maintaining and enhancing value operational excellence. It achieves this by reducing deviations and ensuring continuity in facing challenges. As a result, a business using the software can maintain a focus on tomorrow's strategic needs rather than today's operational problems.