

Payments

ISO 20022 migration

The payments industry across the globe is adopting ISO 20022 standards for the transmission of payments and associated transactions. While the move to greater standardisation comes with the promise of significant benefits, there remain concerns and hesitation from Corporates and Non-Bank Financial Institutions around the impacts this will have for their business.

Some of these concerns are driven by what the impact of adoption will have on legacy systems, processes and operating models. In addition, there is also the investment outlay required for corporates to implement solutions to maximise the business value of ISO messaging.

The following article aims to run through the key considerations for our corporate clients. As a leading UK bank, we will be ready to support you throughout the transition period and then again when you are ready for payments initiation, receipt, and balance and transaction reporting. We all have a role to play.

Why is this happening?

Traditionally, undertaking payments involved significant manual interaction. Payment systems and processes were designed to facilitate this manual processing, with most data captured and transmitted as unstructured free text. In addition, there are restrictions in the amount of data that can be captured and sent. This creates challenges for automated processing, sanctions checking as well as reconciliation for both banks and corporates.

In a rapidly changing business environment, these traditional processes are no longer fit for purpose and around the world payment infrastructure providers are now all transitioning towards the adoption of ISO 20022 – a new global standard for payments messaging.

What is ISO 20022?

ISO 20022 is a single standardisation approach (methodology, process, repository) to be used by all financial standards initiatives.¹

In the payments space this means:

- An internationally agreed common language for data collection and tracking
- Standardised messages for different types of payments and reporting transactions.

¹ <https://www.iso20022.org/>



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Features and benefits

ISO 20022 is more than just a set of message formats, it provides a common language and model for payments data with the following features:



Improved Structure

Current message types are 'free form' or have limited structure, whereas ISO provides a highly structured format.



Additional Fields

A much larger number of fields, including Legal Identifier and Purpose Codes, which are not present within existing message formats.



Larger Capacity

The ability to carry more data in each field.



Interoperability

Today each scheme uses its own format. ISO will bring common standards across all schemes, delivering increased uniformity across the industry.



Extended Character Set

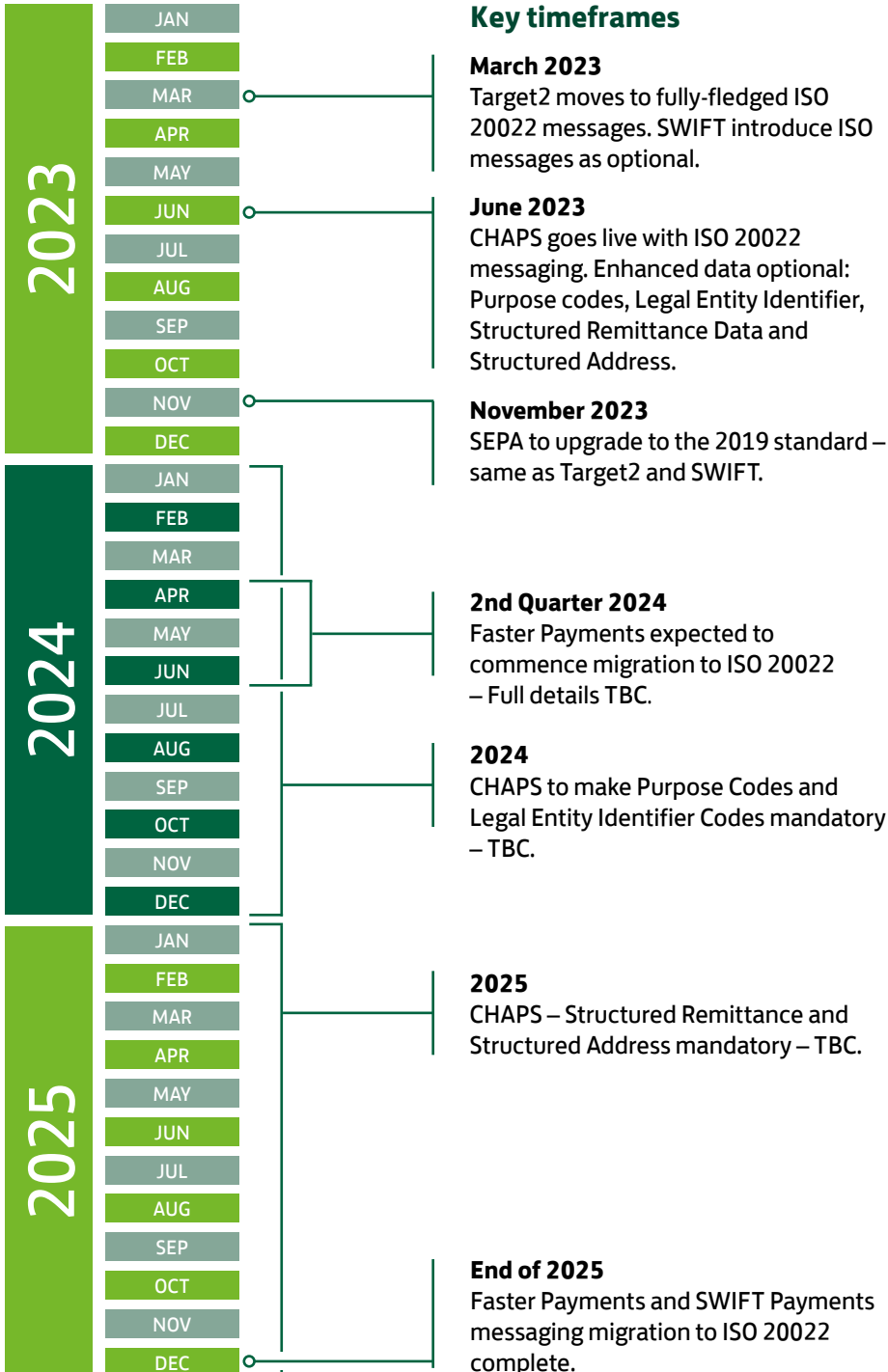
A wider set of characters is supported.

Benefits

- **Processing Speed:** Structured data will allow the reduction in manual processing and better automation of payment processes such as AML and sanctions checking. This will enable corporates to transact more efficiently with their payment counterparties.
- **Additional Data:** Message standards are extensible which means much more data can be transmitted with a payment. This will allow corporates to vastly improve the reconciliation processes.
- **Cost Reduction:** Greater standardisation will result in the simplification of data that corporates need to hold and send to their counterparties.
- **Innovation:** As adoption increases, the advantages of ISO 20022 will facilitate greater innovation opportunities for corporates and banks particularly when combined with other technology advances such as cloud computing and investment from infrastructure providers.

Examples

- **Reconciliation:** Several invoices can be settled with a single payment. Every invoice number can be included with the payment, along with associated information to allow easier reconciliation by the receiving supplier, saving time and cost for both payment parties.
- **Innovation:** As ISO messaging is more widely adopted, innovations like pre-validation of data and instant confirmation of payment receipt will become widely available.



What do corporates need to consider?

While much of the heavy lifting will be undertaken by us (or your Bank), there will be a number of things that Corporates will need to consider.

In moving to structured data, you will need to think about your own migration journey starting with a review of information about payment counterparties and how this will be populated in a structured format. E.g.: ISO messaging has separate fields for each part of an address such as building name, number, post code. You will also need to consider how and what you capture when setting up a new payment counterparty in the future. Changes will be made by electronic banking systems to facilitate the entry of structured information which will become mandatory by 2025.

As ISO is more widely adopted, countries around the world will require more information to be provided with a payment such as Legal Entity Identifier of beneficiaries and payment purpose codes. Corporates will need to think about how these emerging requirements will be captured and stored.

Corporates should also engage with their ERP vendors to ask what they are doing to support the migration to ISO.

Corporates who are currently using SWIFT for Corporates will not be impacted by the initial SWIFT MT migration which starts in 2022, however they should still plan for an eventual migration and consider the above guidance.

Please note that all migration dates are subject to change by industry bodies.

How is Lloyds Bank preparing for the ISO 20022 migration?

We have invested in a new cash management and payments platform; Lloyds Bank Gem® which is both our Corporate and Institutional enhanced cash management and payments platform and our ISO 20022 and API-enabled International Payments Platform. We have also been represented in each stage of the infrastructural journey here in the UK and have representation on several working groups such as the Bank of England's Testing working group as we prepare for the CHAPS migration. Additionally, we have been a part of the SWIFT Payments Market Practice Group, which aims to address the evolving ISO 20022 standards requirements of high value payments systems providers.

How will Lloyds Bank support clients with migration to ISO 20022?

We will be producing further communications as we get closer to migration to keep clients informed of developments and any steps they should be taking to prepare.

Please speak to your usual Lloyds Bank contact to discuss your ISO 20022 migration journey.



Online

lloydsbank.com/commercialbanking



Call your Relationship Manager

Please contact us if you would like this information in an alternative format such as Braille, large print or audio.

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