Deutsche Bank

flow briefing

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ISO 20022 migration: the lessons learnt so far

Here comes the statement we have all been waiting for: ISO 20022 has been adopted by Swift, as well as market infrastructures (MI) in the Eurozone, Australia, New Zealand, and Canada.

From the moment this project was conceived until now, a lot of time has passed – and it is great to finally see the baby take its first steps.

But, as we all know, there is a long way to go. Given the years of coexistence in front of us (in the correspondent banking space, the MT format is expected to be used along ISO 20022 until November 2025), the fact that many will start injecting their ISO 20022 cross-border payments in the months to come, and the upcoming markets migrating to ISO 20022 in the near future (e.g. UK, Asia, US), it is now important to reflect on the lessons learnt from these whirlwind first days – and how this could help all of us on the journey to optimise cross-border payments.

MT practices do not work for ISO 20022

The CBPR+ ISO 20022 standard – used in correspondent banking – not only provides more space and structure to fit information, but also comes with stricter validation.

Let's look at two points, in particular:

1) Unlike the MT standard, CBPR+ ISO 20022 differentiates between two types of Bank Identifier Code (BIC) elements – BICFI and AnyBIC:

   – BICFI. Allows the BIC of a financial institution (FI) only and is used to identify agents (for example, the debtor agent, creditor agent, previous instructing agent, etc.)

   – AnyBIC. May include any type of BIC (FI and non-FI, e.g. CORP = Corporate) and is mostly used for the identification of parties (e.g. the debtor in a pacs.008 message)

This means that if, for example, an agent in the chain (identified using the BICFI element) includes a non-FI type BIC (for example, CORP), the transaction will be rejected. In particular, this may create issues for transactions originated in MT (with no such differentiation) or transactions cleared via MIs that do not apply the same level of granular validation. For example, a message would pass MI validation but get rejected at the point of entering the correspondent banking space (see Figure 1).
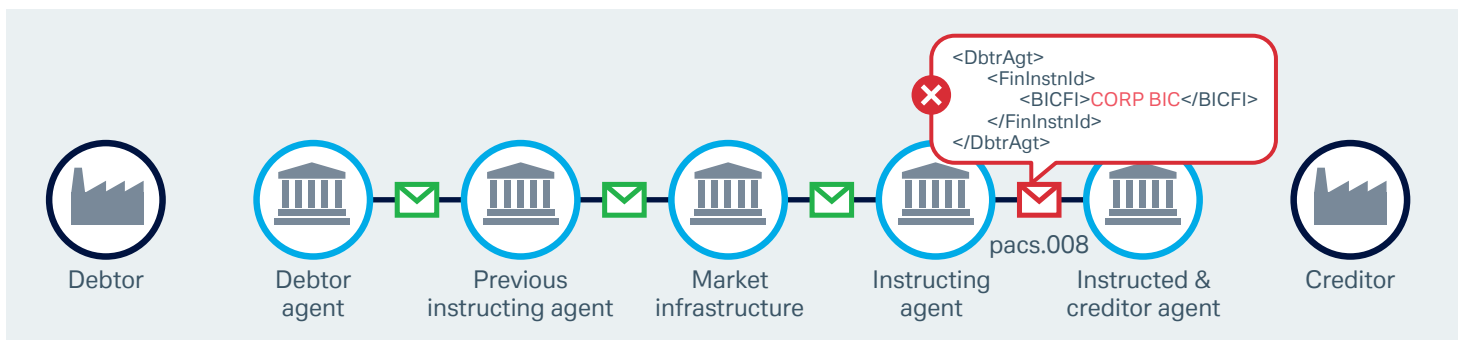

Figure 1: Strict validation of the <BICFI> data element (source: Deutsche Bank)

2) While BIC remains the most preferrable way to identify an agent, there are several other options, too – for example, the provision of name and address. Unlike MT, however, CBPR+ ISO 20022 imposes a rule that the name and postal address of an agent should always be provided together in cross-border payments (for example, name without address or address without name are not allowed). This creates challenges when translating originating MT messages that include the agent's name only or when forwarding these messages from MIs that do not apply the same level of validation.

Positive pacs.002 status reports must not be sent without bilateral agreements

Newly introduced CBPR+ pacs.002 status messages are used to provide an update to the counterparty on the received payment. Here we distinguish between two types of status messages:

1) Negative confirmations. **Must** be sent in case of a rejection of a previously received payment. Negative pacs.002 messages contain RJCT ("rejected") as a transaction status and the respective reason code as part of the status reason information.

2) Positive confirmations. **If bilaterally agreed, these can optionally be sent** to provide an update on a previously received payment. Positive pacs.002 can contain any transaction status code – as defined in the external ISO 20022 code list (e.g. ACSC= AcceptedSettlementCompleted) – except for RJCT, which is used in a negative pacs.002 message.
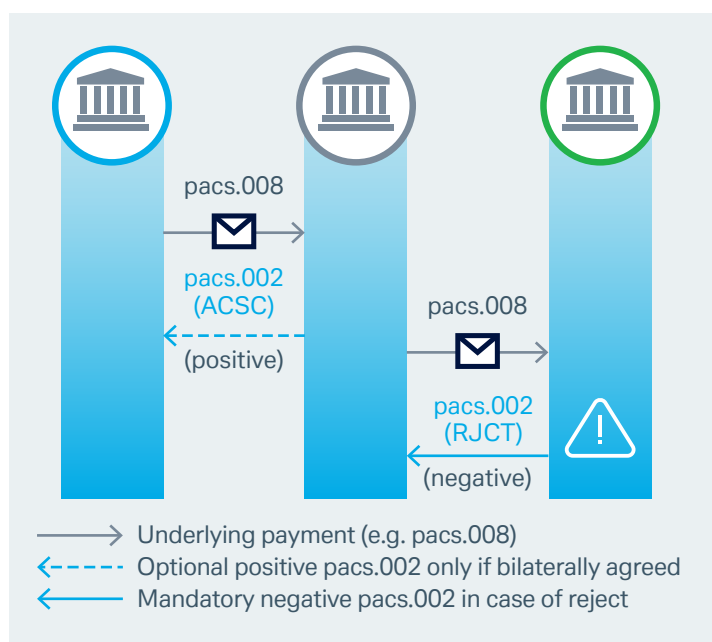

Figure 2: Positive vs. negative pacs.002 (source: Deutsche Bank)

What has been seen by the market is that the optionality of positive pacs.002 messages has been misinterpreted – and in some cases these messages are being sent after every payment without bilateral agreements in place.

The general industry approach is to limit the consumption of pacs.002 messages to a bare minimum, with the process design focusing on the receipt of "negative" pacs.002 (for payment rejects) only. Those, by their nature, trigger the creation of an exceptions & investigations case, requiring user intervention. Receiving an unexpected large volume of "positive" messages may contribute to an operational overhead.

For the Eurozone: the differences between the MI messaging standard and CBPR+ need to be kept in mind

The migration in the Eurozone of the TARGET Services and EBA Clearing deserves its own section. Despite being one of the biggest communities, they managed to introduce ISO 20022 in a single day without any coexistence period.

As a large percentage of MI transactions either originates or continues its way in the correspondent banking space (so called "one-leg-in" and "one-leg-out" transactions), we need to be mindful of the differences between the two standards. Here are some examples observed by the market, which lead to friction and may require further harmonisation work:

– MI allows the contact details element to be used for debtor → not allowed by CBPR+

– MI does not allow "new" (with respect to MT) agent identification elements, such as previous instructing agent 2&3 and intermediary agent 2&3, to be provided with unstructured addresses → allowed by CBPR+

– MI allows multiple provision of the charges information element when the charge code is DEBT → single occurrence allowed by CBPR+

– MI only allows usage of BIC11 identifiers → BIC8 and BIC11 are allowed by CBPR+

– MI allows usage of "/" in the account identification → not allowed by CBPR+

– MI does not allow unstructured remittance information to start or end with an empty character → allowed by CBPR+

As more institutions and communities adopt ISO 20022, this list will, of course, continue to grow. Teething issues, however, are a natural phenomenon of every big project. As before, through collaboration and the right focus, our community will resolve the remaining issues and reap the benefits that ISO 20022 can unlock for our clients and ourselves.