# Simplifying the Challenges of ISO 20022

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## The New Standard

**ISO 20022 is a multi-part International Standard prepared by ISO Technical Committee TC68 Financial Services. It has gained global acceptance as the open standard for developing messages and is being used as the common data model for payments systems and applications around the world.**

Adoption of this common standard means the end of customized bank and application specific data mapping routines and multiple messages all providing the same transaction remittance data.

## A Technical Challenge for Most

For financial institutions and corporations alike, the implementation of ISO 20022 requires a collaborative effort from all internal and external parties involved in the workflow of a transaction. It impacts all areas of the company including operations, IT, compliance, customer service, relationship management, treasury and accounting. ISO 20022 should not be considered as just another technical project as each of these areas have to work with their end-users, technical support teams and application providers to understand the impact and changes to systems required in order to send and receive ISO 20022 formatted payments and messages.

One area that is particularly impacted by the adoption of the ISO 20022 standards is reconciliations. The additional structured data and improved data quality provides a financial institution with the ability to enhance their automated reconciliation capabilities and reduce the number of items requiring review, manual intervention and exception processing. These improved reconciliation capabilities allow financial institutions to meet critical account reconciliation deadlines.

## Enhanced Data Sets

ISO 20022's enhanced XML data structure allows new fields to be recognized and mapped as part of the banks' automated reconciliation process.

- Transaction fees and charges can be mapped and matched by the deducting party and then reconciled to the proper offset account.
- Foreign currency transaction values can be identified, mapped and reconciled to the correct FX offset account

A higher quality of transactional payments data and associated remittance information provides an increased level of automated matching, a reduction in the costly and timely manual interventions and an improved customer service.

The usage of ISO 20022 has become the "de facto" standard for global real-time payment schemes. The need for 7x24x365 payment processing will mandate straight through processing as these transactions must be processed in as little as five seconds end-to-end. This requires enhanced intraday transaction posting and reconciliation capabilities.

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# The Challenges of ISO 20022

SWIFT has advised that all payment service providers and banks create an ISO 20022 data strategy to ensure a successful transition into the world of ISO 20022. A direct result of the COVID 19 crisis has seen governments worldwide collaborate to standardise operational resilience. Financial services companies are responding by shining the spotlight on data and finance transformation projects in order to meet future regulatory pressures. Most firms are currently in the phase of developing their strategy with the aim of accommodating the ISO 20022 messaging within the next 18 months.

**There are six key considerations in building out the necessary components for a successful ISO 20022 process:**

## Business & Data Challenges of ISO20022

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- Enhanced intraday transaction posting and reconciliation capabilities
- Payment instructions to central infrastructure will need to be ISO 20022 compliant
- Some of the systems affected include: Data storage; Risk systems; Accounting systems; Core banking systems
- Significant changes required to legacy systems to be able to send and receive ISO20022 formatted payments and messages
- When messaging between two systems are standardized, the interaction between these systems will require rewriting of all the codes
- Financial institutions may have pre-built online infrastructure to store, distribute and process their data

The impact of ISO 20022 will be felt across most departments dealing with payment transactions, their downstream processes and beyond. The reality is that most firms will not have the budget or time and resources to invest in the front-to-back process re-engineering programs required to adapt to the new standards.

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## Improvise, Adapt, Overcome

**To overcome the challenges that ISO 20022 presents, companies will need to give consideration to a list of requirements including:**

### Integration
Managing the data flow requires the ability to easily integrate the varying sources into the ISO 20022 XML and ASN.1 syntax.

### Transformation
Data from multiple systems will be required to comply with the standards. A transformation layer will provide the ability to augment transactional data from multiple sources.

### Lineage
Traceability of transactions internally has never been more important. The ability to demonstrate full audit trails eludes most companies today and ISO 20022 will intensify that need.

### Governance
International regulatory pressures are putting an increased importance on governance processes that reduce operational risk.

### Accuracy
Ensuring the data is qualitative is imperative in reducing operational and financial risk.

### Scalability
ISO 20022 is designed to safeguard the payment process but also to deliver against the increasing volumes of non-cash transactions.

### Accounting Rules Engine
Data aggregation and accounting subledger capabilities will reduce overheads with General Ledger integration.

### Issues
The operational control framework should include the ability to issues to be tracked, managed and escalated.

### Accessibility
Solutions should be cloud based with the protective layers of certifications whether private, semi-public or public cloud.
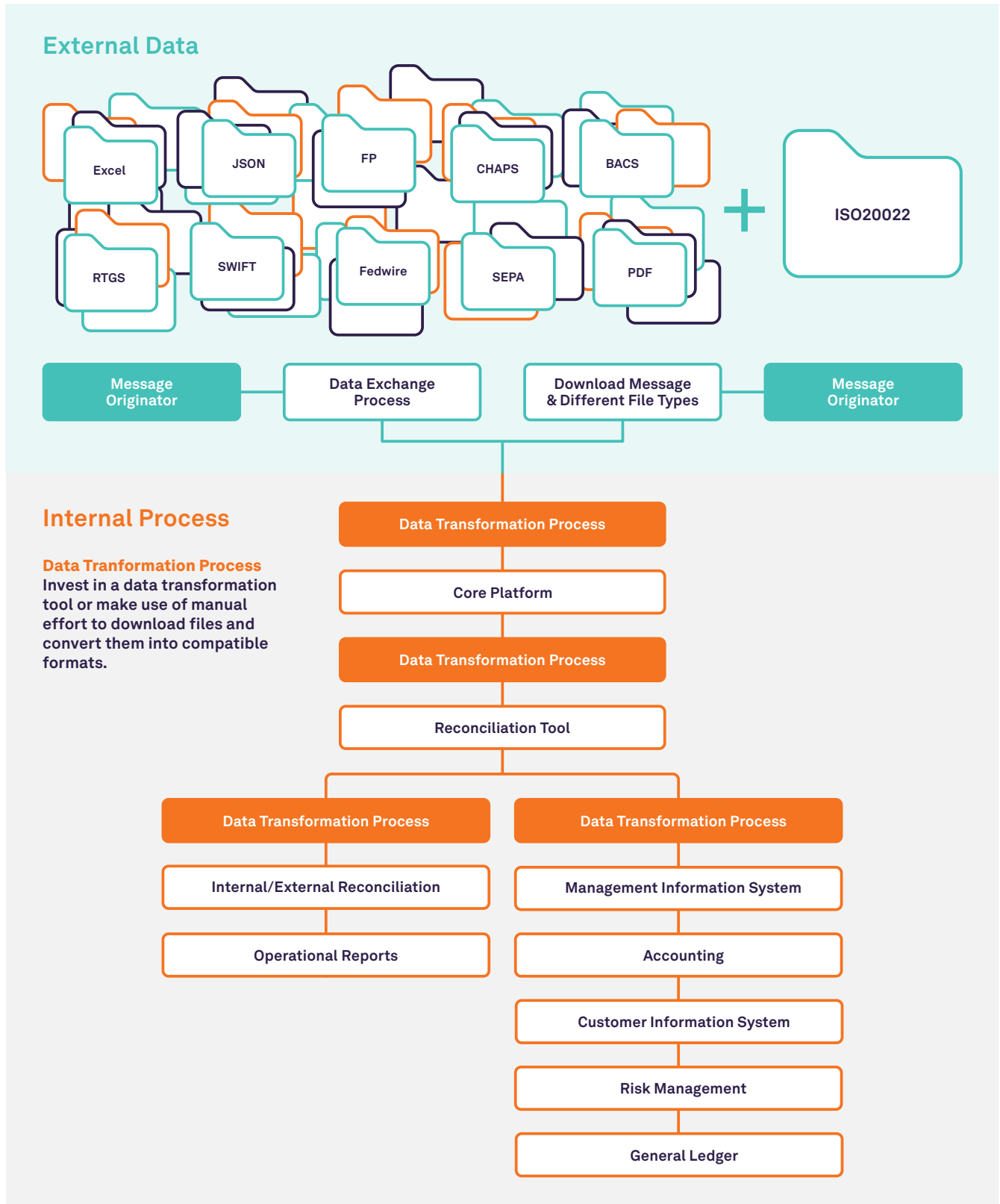
All of the above are underscored by the need for reconciliations of remittance transaction data at all points of their lifecycle within the company. For financial services firms, reconciliations are key in ensuring that data is accurate, monitored and managed.
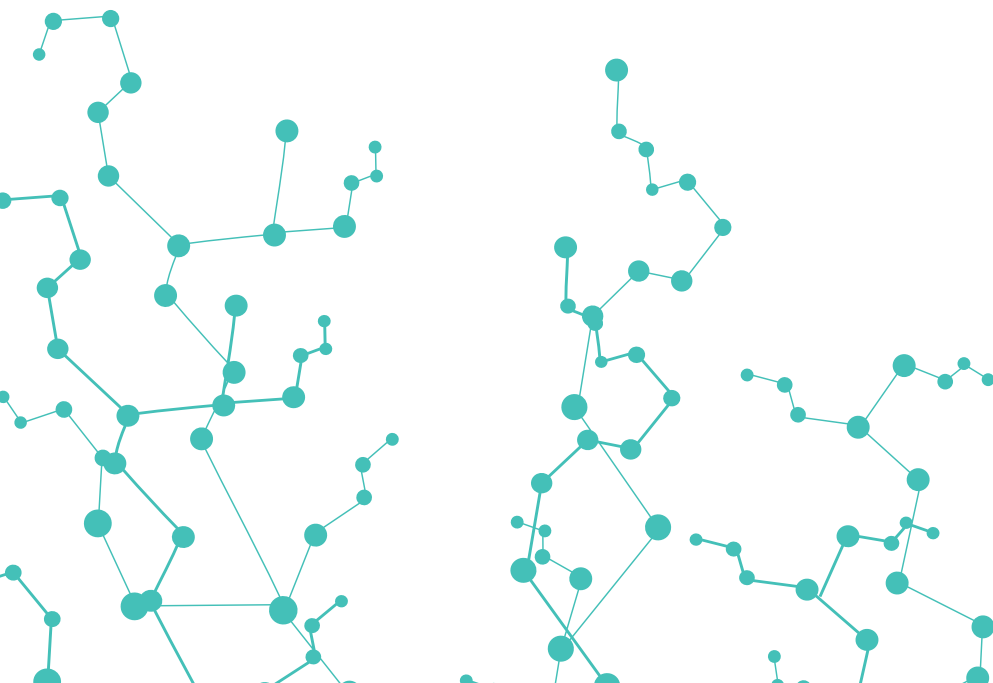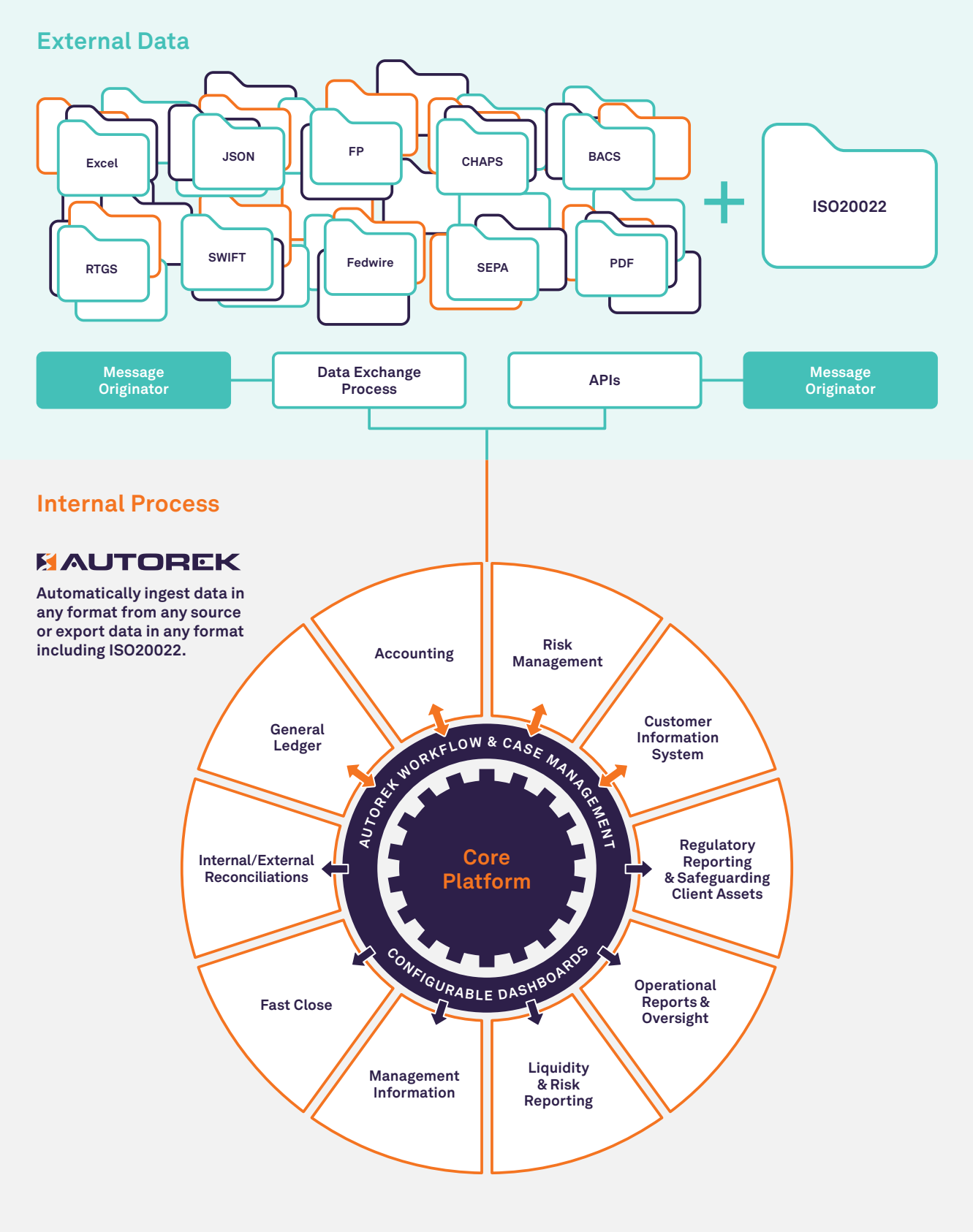
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# AutoRek Creates Payment Remittance Data Control

ISO 20022 requires the inclusion of more data components than its predecessor ISO 15022. The guidelines for ISO 20022 involves over 400 message types which makes it extremely difficult for processes to be completed manually. **The below diagram shows the complexity involved in the transition process using an existing legacy approach.**

## External Data

Excel

JSON

FP

CHAPS

BACS

RTGS

SWIFT

Fedwire

SEPA

PDF

+ ISO20022

| Message Originator | Data Exchange Process | Download Message & Different File Types | Message Originator |
|---|---|---|---|

## Internal Process

**Data Tranformation Process**
Invest in a data transformation tool or make use of manual effort to download files and convert them into compatible formats.

**Data Transformation Process**

**Core Platform**

**Data Transformation Process**

**Reconciliation Tool**

**Data Transformation Process**

**Internal/External Reconciliation**

**Operational Reports**

**Data Transformation Process**

**Management Information System**

**Accounting**

**Customer Information System**

**Risk Management**

**General Ledger**

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**The below diagram shows how AutoRek can manage large volumes of required data sources:**

## External Data

Excel | JSON | FP | CHAPS | BACS

RTGS | SWIFT | Fedwire | SEPA | PDF

**+** ISO20022

| Message Originator | Data Exchange Process | APIs | Message Originator |

## Internal Process

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**Automatically ingest data in any format from any source or export data in any format including ISO20022.**

Accounting · Risk Management · Customer Information System · General Ledger · Internal/External Reconciliations · Regulatory Reporting & Safeguarding Client Assets · Fast Close · Management Information · Liquidity & Risk Reporting · Operational Reports & Oversight

**AUTOREK WORKFLOW & CASE MANAGEMENT**
**Core Platform**
**CONFIGURABLE DASHBOARDS**

AutoRek delivers a interoperability hub that optimizes the touchpoints between internal applications and the ISO 20022 standards but also provides a control framework that actively reconciles, manages invalid or rejected messages and escalates exceptions in real-time.
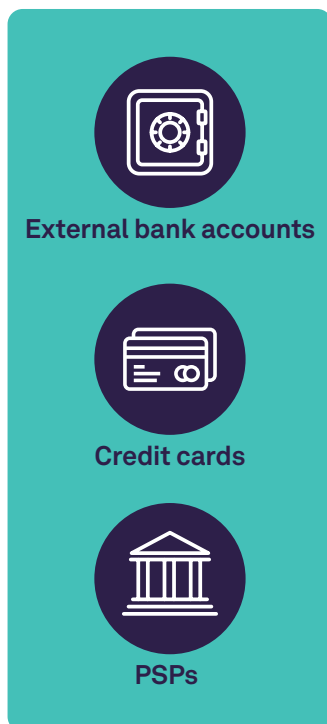
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# AutoRek Paves the Way to Integration!

AutoRek is a world leader in providing financial control tools to financial institutions and Fortune 500 companies. Having been active in the payments space for decades, AutoRek has a long history of working with complex data challenges and delivering solutions that meet requirements.

Due to the varying nature of formats presented by the differing sources, AutoRek has become adept at managing data integrations and building out connectors for all types of data sources. The software adopted the concept of XML data processing during the early stages of its development and has the ability to easily import and export XML. As a result, the standardization approach imposed by ISO 20022 has allowed AutoRek to streamline data integration from legacy data sources to and from XML.

AutoRek has the ability to incorporate external data sources and internal systems allowing the platform to act as a gateway between the legacy tools that are too limited for ISO 20022 and the standard itself.

## External Data Sources

**External bank accounts**

**Credit cards**

**PSPs**

## Internal Systems

**ERP systems**

**Risk management tool**

**General ledger**

AutoRek's payments solution is an automated reconciliation and data transformation platform that helps firms manage the end-to-end data control process. The need for real-time management information (MI) is key for payment service providers and banks to ensure the data that is being processed throughout the day is accurate, managed and transparent. AutoRek offers fully integrated dashboards that provide real-time windows into the active status of the transactions. This is supported by intelligent workflows that identify issues as they arise and auto-allocates these to the right parties for resolution, thereby mitigating operational and financial risk.

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## AutoRek Addresses the Challenges of ISO 20022

**In conclusion, AutoRek is able to help your firm overcome the challenges that ISO 20022 present. The solution's versatility is central to addressing the list of requirements outlined below:**

- Flexible data integration supports processing of data in any format from any application. AutoRek can be easily integrated with existing file formats or connect directly to source systems where required.

- Data transformation occurs within the AutoRek solution to allow downstream systems to ingest data in the required format. This will help firms avoid the large costs of configuring or replacing other core systems due to the change in data formats.

- AutoRek posting rules provide the tools needed to automate ledger account migration, while ensuring the integrity of records at a transactional level guaranteeing that data is fully accounted for.

- Data quality is a significant challenge for many organizations. Data cleansing rules support validation of format and content, assuring the integrity of data throughout the migration process.

- AutoRek has successfully ingested ISO20022 data and is able to handle the increased volume that each file contains.

- AutoRek is completely scalable to meet any sized firm's transaction volume requirements.

- Workflows for certification and sign-off of each control point support accountability and governance.

- AutoRek provides reference data lookup rules supporting fully automated resolution of any discrepancies.

- Comprehensive audit trails provide traceability of all actions, meaning you are able to demonstrate positions, status, and exposure at any point in time.

- Reconciliation breaks/exceptions are immediately highlighted and escalated to users through the AutoRek workflow functionality. Analytics provide root cause analysis with drill down to individual exception management workflows.

- Web based solution hosted in AutoRek's ISO 27001 and SOC2 certified cloud or hosted within a firms private hosted cloud.

Payment processing is undergoing a revolution like never before and the intent of ISO 20022 is to align an outdated approach to the technical innovation driven by Fintech firms today. The immediate result is significantly impacting the back office of every financial services firm globally and the challenges of this seismic shift need to be met. The AutoRek suite provides peace of mind by delivering full ISO 20022 connectivity and remittance transaction data control without impacting the legacy estate.

## Related Resources

Watch our **Understanding Modern Challenges Of The Reconciliation Process Webinar** >

Read our **Reconcile your data with confidence Whitepaper** >

Read our **Embracing Technology in the Payments Sector Whitepaper** >

Read our **Automating ATM Cash Management: Reconciliation & Reporting Whitepaper** >

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### Vincent Raniere

**Cell:** +1(305) 588-9825

**E-mail:** vraniere@is4banks.com

### Marc McCarthy

**US:** +1 212-739-0496

**E-mail:** marc.mccarthy@autorek.com

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iSoftware4Banks, Inc.
www.is4banks.com