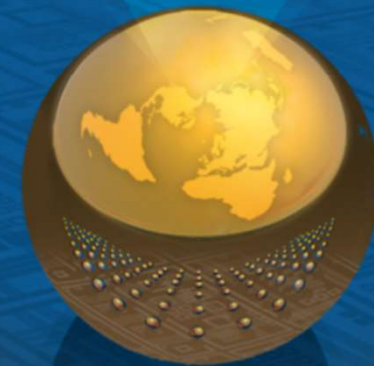**Community of Practice of the National Remittances Stakeholder Network Senegal**

26 September 2023

Financing Facility for Remittances

ISO 20022 – implications for remittance service providers
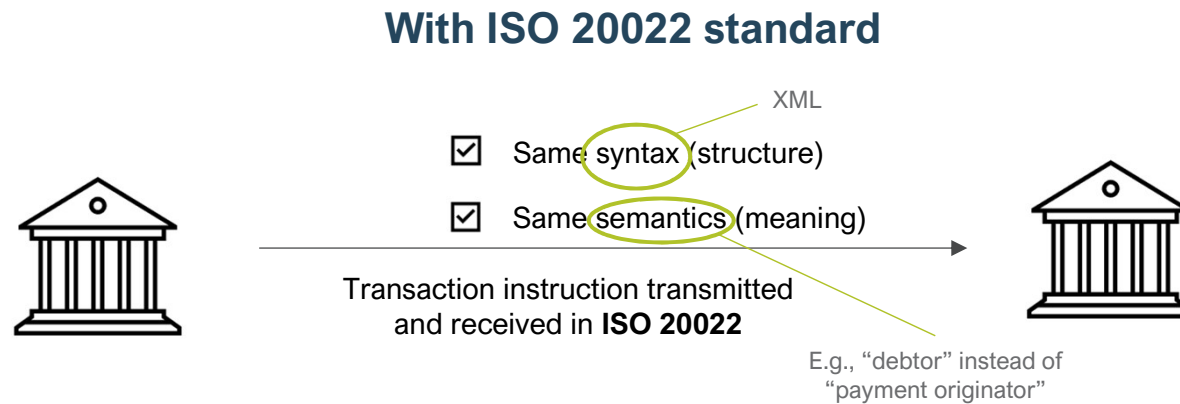
Barry Cooper, Technical Director, Cenfri

Agenda

1. What is ISO 20022?

2. Implications for customer due diligence (CDD)

3. Cost considerations of ISO 20022

4. Questions

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What is ISO 20022?

A multi part International Standard prepared by ISO Technical Committee TC68 Financial Services

With differing standards

'The great thing about standards is that there are so many to choose from'

Transaction instruction transmitted in **MT103**

Transaction instruction only receivable in **ISO 8583**

With ISO 20022 standard

XML

☑ Same syntax (structure)

☑ Same semantics (meaning)

Transaction instruction transmitted and received in **ISO 20022**

E.g., "debtor" instead of "payment originator"

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Advantages of ISO 20022: using a common standard and creating interoperability with other standards/ APIs

- A formal business model for the financial services industry, which can be used as a reference for many different purposes, including building standardised messages and APIs (Application Programme Interfaces)

- A method to develop well-structured financial messages and API resources

- A way to unify the many existing standards

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Why reduction of variables matters a lot

The more jurisdictions, channels and instruments served for remittances, the higher the level of complexity.

An illustrative example of complexity in cross-border payments:

	Informal	Bilateral	Multilateral	Centralised	Centralised	Centralised
Open/closed loop payment system	Closed	Closed	Closed	Closed	Open	Open
Instrument	Mixed	Single	Single	Single	Single	3
Channels	Single	Single	2	2 to 3	7 or less	9 or less
Currencies	2	2	3 or less	3 or less	Multiple	Multiple
Regulators	0	6	6 to 9	9	9 to 30	30 to 36
Compliance regulations	0	8	20 to 30	20 to 30	30 to 120	120 to 200
Indicative complexity	Simple	Simple	Complicated	Complicated	Complex	Highly complex
Delta	Base (1)	25 times	600 times	1,000 times	100,000 times	11 million times
Footprint	Towns	Small cities	Cities, small country	Countries	Countries	Region / Continent

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Agreed methodology to create consistent message standards across all business processes

Three different layers in ISO 20022:

1st layer: Key business processes and concepts

2nd layer: Logical data models and flows

3rd layer: Syntax

- Specifies how to convert a message model to XML
- Alternatives to XML, e.g., SWIFT proprietary syntax or FIX syntax

A common repository of information: currently, the ISO 20022 repository holds around 775 business components and more than 800 message definitions. But there is also space for proprietary fields.
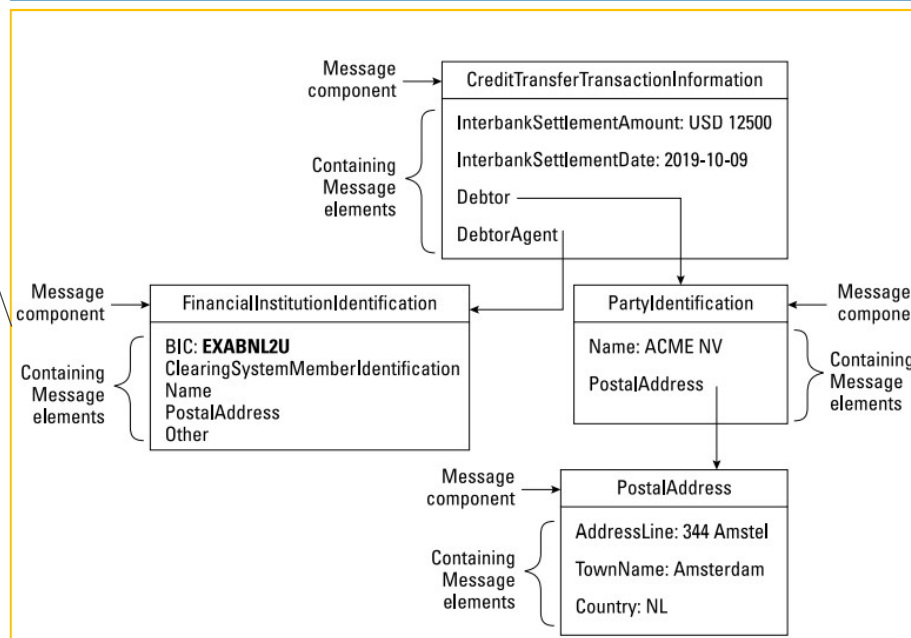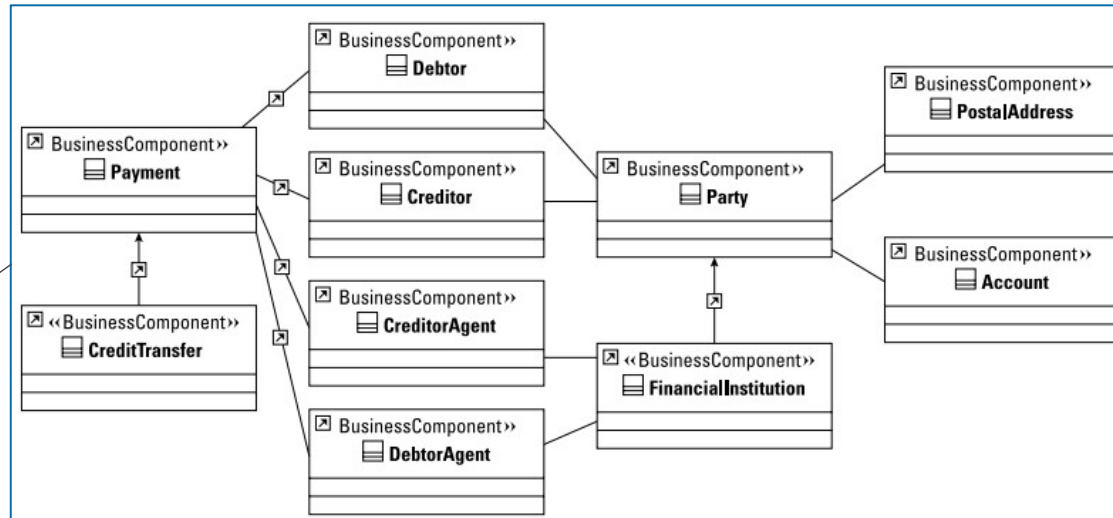
Reuse components across all messages and API resources: 'PostalAddress' is usable for credit transfers, forex transactions, credit card payments etc.

Data elements in ISO 20022 related to customer identification, includes Legal Entity Identifier (LEI) for SMEs

Illustration 4 – Description of customer data elements in MX/ISO20022:

Level	Element description	ISO20022 tag	Position in subfield
2	Debtor	<Dbtr>	
3	Name	<Nm>	Name by which a party is known and which is usually used to identify that party
3	Postal Address	<PstlAdr>	Information that locates and identifies a specific address, as defined by postal services
4	Department	<Dept>	Identification of a division of a large organisation or building
4	Sub Department	<SubDept>	Identification of a sub-division of a large organisation or building
4	Street Name	<StrtNm>	Name of a street or thoroughfare
4	Building Number	<BldgNb>	Number that identifies the position of a building on a street
4	Building Name	<BldgNm>	Name of the building or house
4	Floor	<Flr>	Floor or storey within a building
4	Post Box	<PstBx>	Numbered box in a post office, assigned to a person or organisation, where letters are kept until called for
4	Room	<Room>	Building room number
4	Post Code	<PstCd>	Identifier consisting of a group of letters and/or numbers that is added to a postal address to assist the sorting of mail
4	Town Name	<TwnNm>	Name of a built-up area, with defined boundaries, and a local government
4	Town Location Name	<TwnLctnNm>	Specific location name within the town
4	District Name	<DstrctNm>	Identifies a subdivision within a country sub-division
4	Country Sub Division	<CtrySubDvsn>	Identifies a subdivision of a country such as state, region, county
4	Country	<Ctry>	Nation with its own government
3	Identification	<Id>	Unique and unambiguous identification of a party
4	Organizational Identification	<OrgId>	Unique and unambiguous way to identify an organisation
5	Any BIC	<AnyBic>	Business identification code of the organisation
5	Legal Entity Identifier	<LEI>	Legal entity identification as an alternate identification for a party

Party	Field	Golden Source
Creditor	Name	Debtor's ERP system = LEI DB (if applicable)
Creditor	Postal Address	Debtor's ERP system = LEI DB (if applicable)
Creditor	Identification	Debtor's ERP system = LEI DB (if applicable)

Party	Field	Golden Source
Debtor	Name	Debtor Agent's KYC File = LEI DB (if applicable)
Debtor	Postal	Debtor Agent's KYC File = LEI DB (if applicable)
Debtor	Identification	Debtor Agent sourced from LEI DB (if available)

*This field definition also applies for the ultimate debtor, creditor & ultimate creditor

Source: PMPG, 2019

Implications for customer due diligence (CDD)

By end of 2025, ISO 20022 will become the de facto standard for global cross-border payments

- Better, richer, higher-quality data exchanges:

  - ✓ ISO 20022 messages can contain more and richer data than their MT equivalent

  - ✓ This richer data will meet some long-term demand from:

    - ❑ customers (who want more remittance information carried with the payment instruction),

    - ❑ regulators and risk managers (who want better assurance that screening and testing measures are effective)

    - ❑ business managers (who want to be able to mine databases of payments for insights into customer preferences)

- New capabilities:

  - ✓ ISO 20022 messages, with their richer and better-structured data content, offer line-of-business managers the ability to improve and innovate remittance products faster and better than MTs

- Improved operational efficiency:

  - ✓ ISO 20022 messages will lead to higher end-to-end STP rates, with fewer false positives arising from poor-quality risk-bearing information in payments-related exchanges.

…But operational and technical costs can be significant as well

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Cost considerations of ISO 20022

Costs vary depending on your current messaging format; a full transition to ISO 20022 may make sense for banks now but smaller institutions can gradually adapt

Example of mapping a MT103 to an ISO 20022 credit transfer.
A middleware software can create the translation/mapping:

- If you are a small RSPs with one business line, then you should be able to adopt ISO 20022 at your own pace.

- Most large service providers are equipped to continue to support existing formats by using the interoperability tools (middleware).

- Side-benefit for new players: you can use all of the existing data definitions from published ISO 20022 content as the basis for defining your internal data structures.

> BCEAO interoperability project

- Implementers: maintain appropriate decoupling of the internal versus external structures through proper architectural layers

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Progress with BCEAO interoperability project

Main actors

Owner	Overseer	Scheme governance	Operator	Settlement agent	Participants
BCEAO					• National treasuries, • Commercial banks, • MMOs/EMIs, • MFIs, • Postal financial services

Progress to date

- Developed payment system roadmap
- Conducted market readiness assessment
- Roundtable discussions with participants in eight member states
- Development of central proxy routing system

Remaining developments

In progress:
- **Integration layer (for participants who have not adopted ISO 20022)**
- Cloud services solution being built by AWS

Remaining:
- Assess data protection protocols
- Develop QR specification guidelines

Impact targets

- Raise the financial inclusion rate from 55% to 75% by 2025 for lower-income populations, women and MSMEs;
- Reduce cash-based transactions from 90% to under 50% by 2025;
- Enable a high-performing and scalable solution that keeps costs low;
- Set-up pre-requisites for a full digital economy in the WAEMU zone.

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Consider the following questions when planning the implementation of ISO 20022 standard:

- Which business processes does ISO 20022 support?

- What are the touchpoints in my organisation and my application landscape?

- What are the AML-CFT requirements/implications?

- How will I get message data into – and out of – my applications?

- What data do I need to fulfil the minimum requirements of the messages I'll generate? (This may not just be the mandatory fields; depending on the context in which the message is to be used and the service to be offered, other data may also be required.)

- Where can I find the data – is it in my back-office system already? If not, can I find it elsewhere and use my enrichment capability to add it to a message?

- What business event should trigger the production of outgoing messages?

- What processing steps are required? For example, do I need to batch and un-batch messages?

- Is manual authorisation of messages required?

- What should I do with invalid or rejected messages?

- If my solution requires a conversational message processing style (request-response), what do I need to do to accept the request and create the response?

- What is the messaging style? (Depending on the type of solution, messages may be exchanged with partners interactively, on a store-and-forward basis or in batch files.)

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Questions?

Thank you

Barry Cooper
Email: barryc@cenfri.org

About Cenfri
Cenfri is a global independent economic impact agency and non-profit enterprise that bridges the gap between insights and impact in the financial sector. It collaborates with its partners to foster economic growth and sustainable development in emerging and developing markets in Africa and beyond. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About IFAD's Financing Facility for Remittances
Since 2006, IFAD's multi-donor Financing Facility for Remittances (FFR) aims to maximise the impact of remittances on development, and to promote migrants' engagement in their countries of origin. Through the financing of almost 70 projects in over 40 countries, the FFR is successfully increasing the impact of remittances on development by promoting innovative investments and transfer modalities; supporting financially inclusive mechanisms; enhancing competition; empowering migrants and their families through financial education and inclusion; and encouraging migrant investment and entrepreneurship. The FFR is cofinanced by IFAD, the European Union, the Grand-Duchy of Luxembourg, the Ministry of Foreign Affairs of Spain and the Swedish International Development Cooperation Agency (Sida).

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