



Embracing ISO® 2022: Enhancing Financial Messaging and Operations

ISO 2022 is one of the most significant changes in the payments industry in decades. Its capabilities are essential for instant payments and will be critical to innovations like end-of-day batch and real-time payment processing.

The Federal Reserve Banks are set to adopt the ISO 2022 message format for the Fedwire Funds Service, with a planned single-day implementation on July 14, 2025. This transition will mark the end of the existing proprietary Fedwire Application Interface Manual (FAIM) format, replacing all FAIM messages with the new ISO 2022 standard. This move underscores the broader industry shift towards standardized, efficient, and interoperable financial messaging.

The transition to ISO 2022 can indeed be confusing and challenging for financial institutions, particularly those that are less familiar with the standard or have legacy systems that require significant updates. Despite these initial challenges, the long-term benefits are transformative, including enhanced efficiency, improved compliance, and the capacity to offer innovative payment services. In this insights paper, we'll look at the considerable benefits of the new standard.

Embracing ISO 2022

What is ISO 2022?

ISO 2022 is an international standard for electronic data interchange between financial institutions. Launched in 2004, it provides a common platform for developing messages using XML syntax, facilitating accurate and efficient communication in financial services. The importance of ISO 2022 lies in its ability to standardize financial messaging, which leads to improved interoperability, enhanced data quality, and increased efficiency. This standard helps reduce errors, lower costs, and accelerate transaction speeds by providing richer data, promoting domestic and cross-border interoperability, and supporting new and improved services.

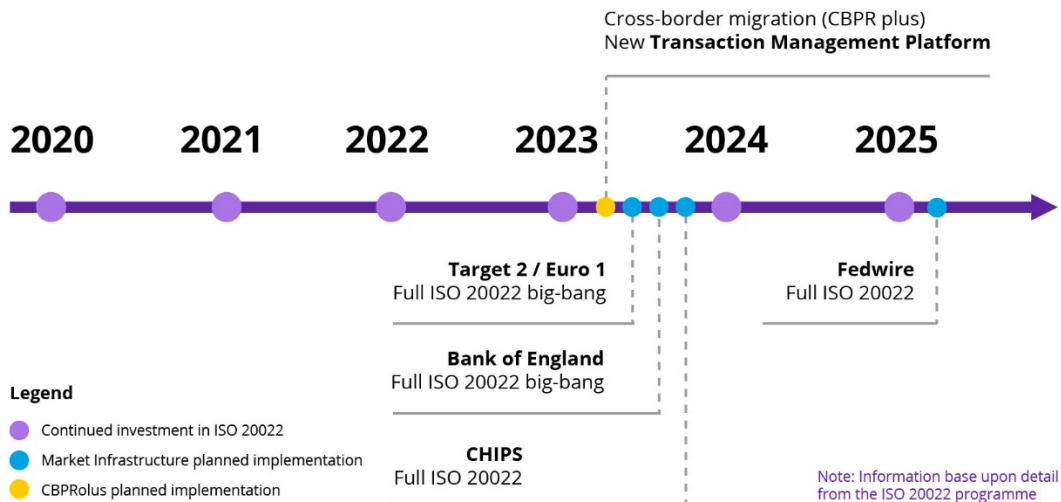
Significance of ISO 20022

In an effort to create a common language that financial institutions can use for payment messages, the International Organization for Standardization (ISO) developed [ISO 20022](#). This enhanced messaging standard provides a structured common language that can be used between financial institutions and bank customers, ensuring everyone is on the same page. ISO 20022 is considered one of the most significant changes in the payments industry in decades. Its capabilities are essential for instant payments and will be critical to innovations like end-of-day batch and real-time payment processing. The standard introduces new data fields that allow richer transaction data to be included in payment messages, enhancing straight-through processing and improving the overall customer payments experience.

Adoption in the Financial Industry

The standard is widely used by banks, payment service providers, securities firms, and market infrastructures. Its adoption is crucial for maintaining competitiveness, as the lack of ISO 20022 could degrade the U.S. dollar's leadership as a global settlement currency, encouraging migration of U.S. dollar clearing offshore.

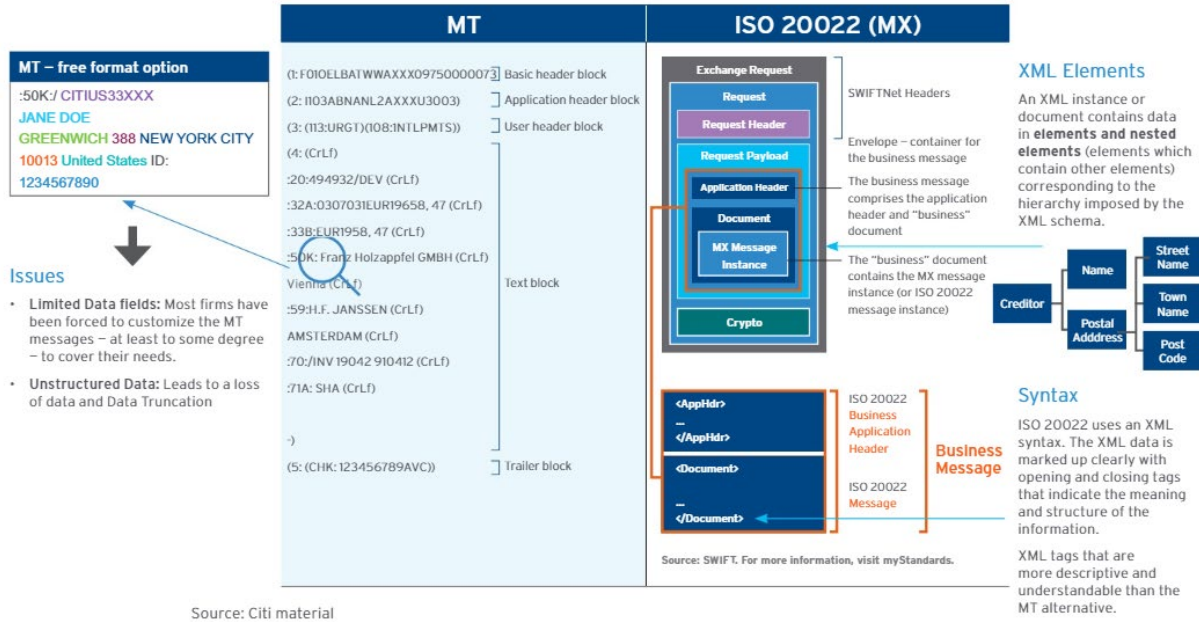
Overview of ISO 20022 Timeline



Source: [Luxoft](#)

The timeline for ISO 20022 implementation varies by region and payment system. Many major payment systems have already started the transition, with global deadlines generally falling between 2022 and 2025. For instance, the deadline for banks to migrate to ISO 20022 for cross-border payments in the U.S., EU, and U.K. is November 2025. Several organizations have already implemented, including CHIPS, which migrated in April 2024, and Swift, which began migrating customer and inter-bank payments in 2023. Swift currently operates both MT and ISO 20022 messaging formats, planning to [end this coexistence period in November 2025](#). This ensures end-to-end interoperability and prevents data loss or truncation during cross-border transactions.

Snapshot of Swift MT Format Versus ISO 2022 MX Format

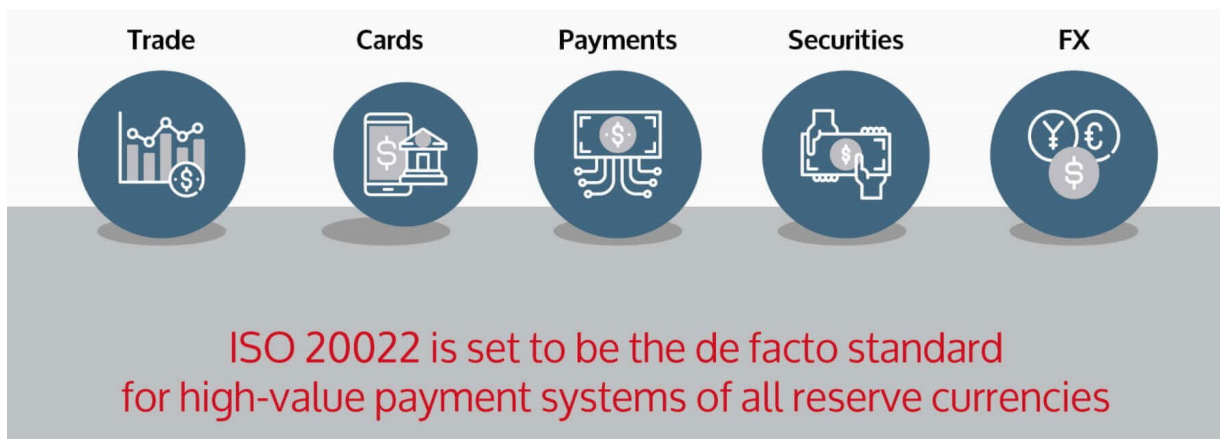


Source: [CitiBank](#)

Enhancements to Payment Processes

The adoption of ISO 2022 brings specific enhancements to payment processes. It enables richer, more structured data in payment messages, improving the accuracy and efficiency of payment processing. This results in faster settlement times, better reconciliation, and enhanced fraud detection and prevention. Financial institutions benefit from improved data richness, greater compliance with regulatory requirements, and the ability to support innovative payment services.

ISO 2022 Set to Become the Standard



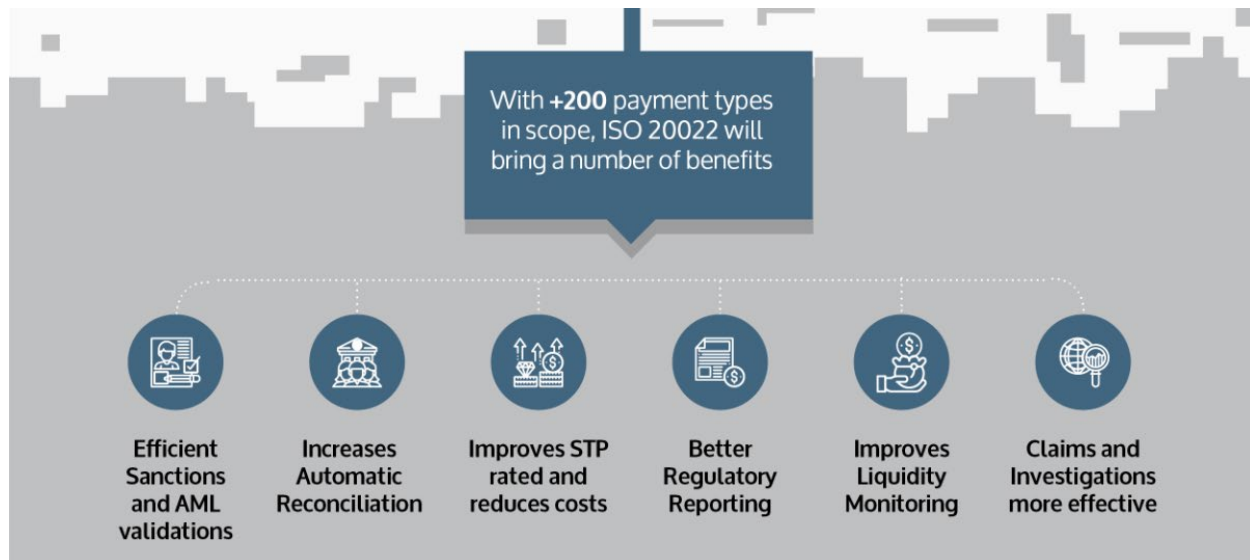
Source: [RedCompass Labs](#)

Benefits for Community Financial Institutions

Many community financial institutions (CFIs) are understandably feeling a bit anxious about the approaching ISO 20022 deadline and the challenges it will present to their staff, not to mention the cost of migration. However, ISO 20022 presents many benefits and opportunities for CFIs and their customers. One of the most significant benefits will be enhanced fraud and financial crime prevention. The structured and expanded payment format allows more data to be included with every transaction. With elements like Legal Entity Identifier (LEI) and purpose codes, it will be easier to see where payments are going and why they're being sent. Structured name and address details for senders and beneficiaries will help improve anti-money laundering (AML) and Know Your Customer (KYC) practices, making screening more efficient and accurate.

Unlike traditional Fedwire payments, where senders try to fit in data wherever they can, the ISO 20022 format is highly structured, with data restricted to specific fields. This will enable artificial intelligence (AI) to detect payment anomalies that could indicate fraud or financial crimes. Fraud investigations will also be reduced, as false positives can be quickly dispensed, leaving more time and resources to devote to true red flags. CFIs will welcome these benefits, given the heavy fraud losses experienced in the industry.

Benefits to Community Financial Institutions



Source: [RedCompass Labs](#)

Other benefits of ISO 20022 for CFIs and customers include:

- More transparency, greater efficiency, and fewer delays caused by unstructured, incomplete, or inconsistent data.
- Improved customer reconciliation capabilities, due to dedicated reference fields and structured remittance data.
- Greater message harmonization across the payments industry, thanks to a global standard used by all financial institutions worldwide.
- The potential to make hyper-personalized offers to customers based on purpose codes such as SALA (salary payments), INTE (interest), and TAXS (taxes). By analyzing traffic patterns for certain codes, CFIs may be able to identify cross-selling opportunities.

Preparing for ISO 20022 Compliance

To comply with ISO 20022, financial institutions will need to update or replace legacy systems, train staff on the new standards, and coordinate with other financial institutions and service providers. This includes modifying existing processes to accommodate the richer data fields and structured formats of ISO 20022 messages. Ensuring a smooth transition involves conducting a thorough assessment of current systems and processes, investing in necessary technology upgrades, and establishing a project management team to oversee the transition. Collaboration with other institutions is essential to ensure seamless integration.

While there are challenges associated with ISO 20022 adoption, such as the complexity of migrating from legacy systems and the need for significant investment in technology and training, the long-term benefits outweigh these initial hurdles. The enhanced efficiency, compliance, and interoperability brought by ISO 20022 will significantly improve the financial services industry.

PCBB Achieves Early Compliance for Seamless Transition

As of June 21, 2024, PCBB was certified by the Federal Reserve Bank as ISO 20022 compliant, achieving certification roughly thirteen months ahead of the Federal Reserve's deadline and the one-day cutover date of July 14, 2025. Early adoption ensures a more seamless transition, minimizes disruption, and enables thorough testing and optimization of systems, ensuring the highest level of service and reliability.

For more specific information and technical details, refer to the [ISO 20022 website](#) and the [Federal Reserve's Fedwire® Funds Service ISO® 20022 Implementation Center](#). These resources provide comprehensive guides and support to help institutions navigate the transition to ISO 20022, ensuring they remain competitive in the evolving global financial landscape.

Key Takeaways:

1. **Global Standard Adoption:**
 - a. ISO 20022, an international standard for financial messaging, will be adopted by the Federal Reserve Banks for the Fedwire Funds Service on July 14, 2025. This transition enhances interoperability, data quality, and transaction efficiency.
2. **Benefits for Financial Institutions and Their Customers:**
 - a. ISO 20022 provides more transparency, greater efficiency, and fewer delays caused by unstructured data. Financial institutions will benefit from improved data richness, greater compliance with regulatory requirements, and the ability to support new business opportunities through innovative payment products and services. It also improves customer reconciliation capabilities and supports personalized offers based on transaction data.
3. **Enhanced Payment Processes:**
 - a. The new standard introduces richer, more structured data in payment messages, leading to faster settlement times, better reconciliation, and improved fraud detection and prevention.
4. **Improved Fraud Prevention:**
 - a. ISO 20022's structured payment format enhances fraud and financial crime prevention through detailed data inclusion, supporting better AML and KYC practices and reducing false positives in fraud investigations.

5. Preparation and Long-Term Benefits:

- a. Financial institutions must update systems, train staff, and coordinate with other entities for a smooth transition. Despite any initial challenges, the long-term benefits include improved efficiency, compliance, and the ability to offer innovative payment services.

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About PCBB

PCBB believes in the power of local financial institutions to be the catalyst of small business growth and to enable communities to thrive. Our team is committed to providing not only the tools and knowledge our customers need to serve their clients, but also the partnership and trust they deserve. Our robust suite of competitive services includes cash management and international services, lending solutions, and profitability and risk management advisory services. These solutions help community financial institutions maximize revenue, increase efficiency, and manage risk.

Faster Payments and PCBB

To ensure our customers remain competitive, we make investments to keep up-to-date with industry and technology advancements, like the FedNow[®] Service, Swift GPI and ISO 20022. We are a liquidity and settlement provider for the FedNow[®] Service (and participated in the pilot of the service), a member of the former Faster Payments Task Force, and a founding member of the Faster Payments Council.

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