



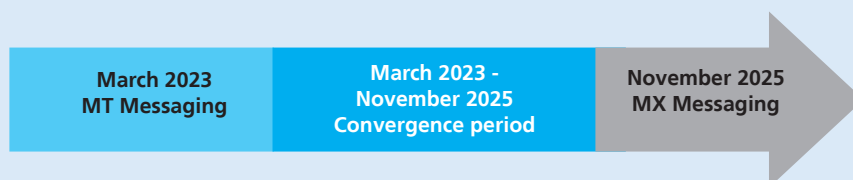
BOX III.3

Adoption of New ISO20022 standard at SWIFT and Implications for the Chilean Payment System

In order to contribute to the further integration and digitization of the payments industry in line with its rapid evolution, SWIFT is promoting the migration to a new international messaging standard known as ISO 20022, which creates a common global language that allows payment counterparties to communicate in real time, in a more automated and effective way^{1/}. It should be recalled that SWIFT is the largest global communication network, which allows the exchange of messaging for financial transactions (such as the purchase and sale of financial assets, the transfer of funds and exchange operations, among others) and is used locally in the Sistema LBTR managed by the BCCh, but also by commercial banks and other financial market entities and infrastructures.

Given that this is a major change, SWIFT established a convergence period for all entities using its network that includes three stages. The first stage starts in March of this year and allows to receive transactions using the new type of messaging; the second stage allows the voluntary sending of payment messages adopting the new standard; and by the third stage, which starts in November 2025, the receipt and sending using ISO 20022 will be mandatory (Diagram III.5).

DIAGRAM III.3 ISO 20022 MESSAGING CONVERGENCE PERIOD
(according to SWIFT implementation timetable)



Source: Central Bank of Chile.

SWIFT defined two work streams to facilitate the adoption of the standard: i) adoption for Large-Value Payments Systems (LVPS+) and ii) adoption for Cross-border Payments & Reporting (CBPR+). Therefore, if an entity or infrastructure uses the SWIFT network for both large value payments and cross-border payments, it must implement this new standard in both systems. In Chile this change affects all financial infrastructures, including those operated by the BCCh, and all commercial banks, and its change is mandatory.

Expected benefits of this initiative

The new standard will bring better information and efficiency in the processing of payments in the economy. With the introduction of new data components, it will be possible to transmit information on payment instructions of higher quality and quantity compared to existing ISO versions. The current limitation in the amount of data translates into the number of fields and the maximum allowed

^{1/} SWIFT: Society for Worldwide Interbank Financial Telecommunication, for details, see [PSR \(2022\)](#).



length per message row, which causes manual processing of some payment messages as they require review by a person to verify compliance with the requirements. With the new standard, financial institutions will be supported in the task of guaranteeing secure and automatic payment processing in compliance with the required standards and also the requirements of each institution. This generates greater interoperability, efficiency in both local and cross-border payments and potential savings in processing costs, thanks to its contribution to the automation of messaging.

On the other hand, this standard will contribute to risk mitigation and the detection of eventual bad practices because more complete information on payments will be available, leading to more effective control and compliance processes. Correspondent banks or custodians will be able to offer an improved service to their customers, with the provision of enriched payment data in the bank statements allowing for the possibility of digital reconciliation (straight-through processing or STP). This will also contribute to more robust controls, for example, with respect to fraud prevention, since this standard adds new data fields in this area^{2/}. This increases the transparency of payments and contributes to the incorporation of automated analysis for the detection of fraud, money laundering or drug trafficking.

Main challenges

The adoption of ISO 20022 has a high impact on all the transactional systems of both the Central Bank of Chile and the financial institutions in the local and international market. The implementation of this standard requires adapting the payment message generation and processing module, whose migration process is complex and involves significant resources. Furthermore, this implementation must be coordinated with correspondent and custodian banks, in the case of cross-border payments, and with the entities that participate in the Chilean financial market, in the case of Large-Value Payment Systems. This is so because during the convergence period it is possible that data truncation may occur if all the systems involved are not modified, which entails a risk for all the agents and complications for the final beneficiary^{3/}.

Having this standard in place is very important for the financial market, due to its financial and operational effects. If a financial institution that uses SWIFT messages as a payment messaging service does not adopt this new standard or does not comply with the established deadlines, it may have adverse effects both at the financial level, by generating difficulties in the transfer of funds within or outside the country, and at the operational risk level, since payments would be made not automatically, but manually. In addition, it may cause failures in the bank reconciliation process, preventing control activities, since once communications at the international and national levels

^{3/} The new enhanced fraud data fields for messaging are "Purpose Code," "Account Holder Age," "Account Holding," "Account Turnover," and "Account Type. Source: " The payments association: ["ISO 20022: What are the real benefits of its adoption?"](#) (February 2023).

^{4/} Truncation means that if a bank sends a payment message under the new format and its counterparty has not yet adopted the standard in its system, the message will not be processed, or vice versa.



are stopped, a high cost would be incurred because it would not be possible to process transactions correctly along the payment chain.

The BCCh is actively working on the incorporation of this standard, which will start operating within the required timeframe. It is important to stress the importance for financial institutions to plan and carry out the necessary activities required to adapt their systems within the indicated timeframe and, in this way, guarantee that no inconveniences are generated for clients and final beneficiaries. To achieve this objective, the BCCh is working on adapting all its systems in coordination with all the financial institutions in the local market through the publication of circulars, informing the main activities and associated deadlines.