

ISO 20022 AN INNOVATION ENABLER

Chris Hamilton, CEO of BankservAfrica, argues that ISO 20022 is not just the next iteration in the stream of solutions to the unending problem of efficiency-through-standardisation. A self-confessed “financial plumber,” who can draw on direct personal experience of the implementation of the world-leading, ISO 20022-compliant instant payments platform in Australia, Hamilton believes that the new standard is a game-changer for the payments banks as well as the payments market infrastructures.

It is obvious that ISO 20022 makes exchanges of transactional information more efficient. After all, every form of standardisation increases interoperability and cuts processing costs. Where ISO 20022 is different, says Chris Hamilton, CEO of BankservAfrica, is in enabling innovation. As he points out, making possible service innovations that were either difficult or impossible with earlier or proprietary standards is also the best way to overcome the inertia that is currently stalling ISO 20022 implementations at some financial market infrastructures, but especially in the banking industry.

“My experience is that you can get ISO 20022 implemented much more easily once you can offer something new,” says Hamilton. “Standardisation *per se* is not attractive to banks, particularly when they have a lot of cost sunk into the old standard. But if, as part of your implementation of ISO 20022, you are able to offer banks new functionality, or service capabilities, or richer data, that they have not previously enjoyed, they can see that using ISO 20022 enables them to offer new services to customers. Then you are in business in terms of adoption.”

His oblique slant on ISO 20022 does not stop there. Hamilton also thinks what many perceive to be the principal weakness of the standard – its flexibility – is actually its chief strength. “Flexibility can be frustrating, because it gives you dozens of different flavours of ISO 20022,” he says. “On the other hand, because you can put whatever you like in a message, you can design messages attuned to the needs of a particular use-case. ISO 20022 is also much more flexible on work-flow than previous standards, so you do not have to follow a defined sequence of initiation, response, confirmation and settlement. You can design a message sequence which takes into account multiple parties, which has conditionality, and which allows you to control the flow of value against whatever else is happening in the transaction, such as the transfer of an underlying asset. This

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flexibility gives you the opportunity to provide new types of services.”

Data-rich ISO 20022 messages facilitate new banking services

The practical uses of this flexibility are legion, especially in the digital economy. An on-line used car market, for example, has to gather data not only from buyers and sellers but from the car registration authority, and the official sources of information about outstanding finance and traffic offences on each vehicle. The basic transaction – the delivery of a car against payment – cannot be completed unless ownership is confirmed, existing liabilities are discharged, and the change of ownership is registered. ISO 20022 can automate all of those digital information flows. It can give users greater control over the delivery of value. Above all, it can carry a lot of non-payment information in a payment message.

“The whole point about ISO 20022 is that, unlike the 18-character reference fields in payments systems designed in the 1970s and 1980s when computing power was expensive, it is flexible enough to carry user-defined fields,” says Hamilton. “They are still automated, but they are data-rich. They can carry lots of useful information. It is hard to achieve the same benefits without flexible standardised messages, because prior to ISO 20022 you had to tune the message standard to the particular use-case, like ISO 8583 for payment card transactions. You can get lots of useful data out of the fields in ISO 8583, like merchant identities and transaction types, but the standard is too rigid to be well-suited for use outside the context of retail and consumer payments.”

ISO 8583 is not useful, for example, in capturing the many reasons behind a pension payment (Is it a contribution? Is it a benefit? Is it an allocation by a plan sponsor to an asset manager? What is the tax status?) or facilitating a house purchase (where information has to be shared between the buyer and the seller, the outgoing mortgage

lender and the incoming mortgage lender, the land registry, the tax authorities, several utility companies and two sets of lawyers). While other standards can be pressed into service to support the most important development in payments market infrastructure today - instant payments – they do not have the flexibility to maximise its potential.

NPP in Australia relies on ISO 20022 to foster competitive differentiation

Hamilton, as one of the architects of the pioneer of true instant payments infrastructure - the New Payments Platform (NPP) in Australia – understands this better than anyone. The genius of NPP is to separate the infrastructure (universal connectivity to every bank account) from the competitively differentiating services provided by the banks and potentially their customers (overlay services). “Banks and customers of banks can design the content of a payment message, including who sees what data when, and the timing and conditionality of the payment, to meet the needs of a particular payment context, like selling used cars on-line,” explains Hamilton. “We could not have done that before ISO 20022 existed.”

Overlay services are, in one sense, an aspect of the “appification” of the economy. But, unlike many mobile apps, which create a bi-lateral link between a service provider and a customer, the apps made possible by ISO 20022 are better described as “network apps.” Hamilton says they “connect a bunch of people to do a specific thing.” They are comparable with Uber and airBnB, in providing a seamless transactional process in which most of the work is done automatically in the background, and the customer sees only what the customer needs to see.

“At the moment, platforms such as Uber and airBnB are making their business models work with the tools the payments industry has given them, but those tools are not particularly well-

adapted to the purpose,” says Hamilton. “If we can give companies in the digital economy a better tool-kit, we can make more transactions happen more cheaply. That will keep banks and banking organisations in business, by enabling them to provide a better service to their customers.” Banks could, for example, use customer transaction data to generate more transactions, by proposing, Amazon-like, purchases in areas of proven interest to customers. Retailers might even pay banks for the additional sales they generate.

ISO 20022 is about new banking services, not data products

Hamilton warns, however, that banks need to think clearly about what data-rich ISO 20022 messages can do for their product development. He argues it is a mistake for banks to think in terms of data products, rather than innovative financial services. “Banks could, for example, mine transaction flows to give retailers interesting information about how people shop in their stores,” he says. “They could explain that 25 per cent of people who buy groceries also buy clothes, but only 5 per cent buy shoes. There is nothing wrong with that but, to add value, banks need to move beyond providing such data insights. They need to use data to add a new service, like mining customer data to automatically populate a tax return. They need to use data to offer extra value and to cross-sell.”

What is true of consumer-led retail banking services is equally true of the business-to-business transactions intermediated by banks. The efficiency of trade finance transactions, for example, hinges on the integration of information from importers, exporters, local banks and global banks. The same is true of supply chain management, in which information about individual components has to be shared between manufacturers, distributors and buyers. This is why investment dollars are following Fintech solutions in general, and distributed ledger

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Attend Chris Hamilton's session at Sibos:

'The innovation enabler: What ISO 2022 can do for market infrastructures and their users'

Standards Forum Sessions
Monday 16 October 2017
15.30- 16.20

Moderator

Chris Hamilton
 CEO, BankservAfrica

Panellists

Siegfried Vonderau
 Head of Division TARGET2 / T2S
 Services Management Deutsche
 Bundesbank

Jyi Chen Chueh
 Executive Director, Head of Custody
 services, transaction banking,
 Standard Chartered

Berthold Kracke
 CEO, Clearstream Banking AG

Isabel Schmidt
 Head of Institutional Cash
 Management, Americas, Deutsche
 Bank

Janet Lalonde
 Director, Modernisation, Payments
 Canada

technologies (DLT) in particular – because they promise to make these business-to-business information networks more efficient.

FinTech and DLT are not threats to standardisation on ISO 2022

"There is a nervousness among hardened transaction banking professionals about DLT and FinTech solutions leading to less standardisation rather than more, and certainly to more fragmentation, at just the time when all the hard work on standardisation is done, and ISO 2022 is winning the day," says Hamilton. "But that is an artefact of timing, in which lots of different digital solutions are being explored, without high levels of interoperability in mind. That is perfectly normal with any new technology – standardisation will come later. The payments community took a long time to get the point about standardisation. We all built proprietary, domestic solutions. This is no different."

However, digital time does run faster than conventional time. There is a legitimate concern that the potential of digital information networks will not be realised unless they adopt standardisation early. ISO 2022 is at bottom no more than a combination of data fields and work flows, and there is no reason in principle why a FinTech or DLT-based service cannot use it, and indeed find that it accelerates the growth of its network. "If DLT threatens to fragment markets, it may be that the intelligent application of hard-won wisdom about message standardisation can help to reduce the fragmentation by standardising the data elements in the distributed ledger," says Hamilton. "It is certainly worth exploring."

Investing in ISO 2022 requires banks to balance past, present and future

Market infrastructures, of course, are natural explorers. Around the world, they are already among the earliest adopters of ISO 2022, as an integral part of the modernisation of payments systems to fit them for the digital era. "Sooner

or later, the technology platforms the payments industry uses are going to become obsolete," warns Hamilton. "We need to invest because the digital economy demands it and, if the banks do not do it, someone else will. They already are in some countries. Ideally, the banks will invest with forward-thinking market infrastructures, and we will all move on to a new platform in concert, because the business of the banks relies on the infrastructures we supply."

But he is wise enough to recognise that not every bank sees digitisation as an existential threat, and that many have yet to be convinced that the new revenue opportunities are worth the scale of investment necessary. "You can take a pragmatic commercial view, which says, 'I can bolt pretty stuff on to the front-end, not take the risk of disrupting my legacy ledger, and make a wide margin for quite some time to come,' or you can say, 'If I invest now, it will be tough for three or four years, but when the digital economy takes off, I will have a serious competitive edge,'" says Hamilton. "I can see the appeal of both these positions."

But as CEO of an infrastructure provider that needs to work with South African banks to invest in new technology – just as he worked with Australian banks before them – Chris Hamilton knows which side he is on. "I am not suggesting we replace what the banks have now with an ISO 2022-based system which does the same thing," he says. "That has been tried in lots of places around the world, and the banks do not like it, because it represents a whole lot of costs with no compensating benefits. I am not happy unless we go to our user community saying, 'If we do this, here are all the potential value-adding, revenue-generating opportunities that will open up to you.'"

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