



The Transformation of the European Payments landscape

Market infrastructures around the world are renewing their platforms and adopting the data-rich ISO 20022 standard, which is expected to open up a host of new opportunities for both financial institutions and their customers.

As part of its Vision 2020 strategy, the Eurosystem is modernising and consolidating its market infrastructures. TARGET2 and T2S will be consolidated, in terms of both technical and functional aspects and TARGET2 will be replaced with a new real-time gross settlement (RTGS) system using the ISO 20022 messaging standard. The new consolidated platform will be launched in November 2021. Furthermore, liquidity management will be optimised across all TARGET Services and the Eurosystem will also introduce a number of components that will be shared across all TARGET Services.

At the same time EBA CLEARING, the privately owned, commercial money alternative to the services offered by the Eurosystem, is evolving its EURO1 and STEP1 platforms in parallel with the new TARGET2 RTGS.

Timed to coincide with the migration of key market infrastructures to ISO 20022, cross-border payment and reporting messages will also migrate to ISO 20022 starting in November 2021, with a planned co-existence period of 4 years. Migration plans are also well underway in a number of domestic markets, including the United States, the United Kingdom and Hong Kong.

Another important change underway is the move to real-time payments. Markets are looking at moving their low value payments into instant payment systems in order to provide customers with a more seamless, and real-time experience, around the clock, 365 days a year. The Eurosystem's TARGET Instant Payments Settlement (TIPS) service and EBA CLEARING's RT1 service both offer pan-European instant payments.

Impact

The main impacts of these migrations can be categorised into three areas: Format, Connectivity and Processes. In turn, each of these has an impact on the end-to-end chain of applications at financial institutions, sometimes all the way upstream to the Front End applications, which will need to cater for the additional information that is required, and carried, in the new ISO 20022 messages.

Standards

In the case of both the TARGET2 and EURO1 migration, the decision has been made to move from FIN MT messaging to "fully fledged" ISO 20022 messages. T2 and EURO1/STEP1 will each be publishing their standards based on the HVPS+ market practice, whereas for the cross-border flows another working group (CBPR+) has been set up in the SWIFT community to agree on, and build, the message specifications.

Connectivity

The provision of connectivity to the European Single Market Infrastructure Gateway (ESMIG) is subject to the public tender carried out by Banca d'Italia on behalf of the Eurosystem. The new gateway gives market participants access to all Eurosystem services - TARGET2 (T2), TARGET2 for Securities (T2S) and Target Instant Payments System (TIPS). As an outcome of the public tender process, two Network Service Providers (NSPs) have been awarded the concession to offer their services to actors connecting to TARGET services. All financial institutions connecting to TARGET Services will need to choose an NSP for their future connectivity.

Business affected

On the liquidity side, the creation of the Central Liquidity Module (CLM) for the Eurosystem services, as well as the renewed set-up of how liquidity is managed across EBA CLEARING services, present both challenges and opportunities. Within this new model, participants/actors will have to review which structure will be applied for the activities of their main office, branches and subsidiaries.

Upstream (business) applications are also affected by this migration. Due to the use of a fully-fledged implementation of ISO 20022 in TARGET2 and EURO1, in some cases, more information will be included in these ISO 20022 messages, thus limiting the ability to directly translate an old FIN MT message into ISO 20022 format and vice-versa. New messages and new functionalities will have to be adopted and integrated into banks' systems.

In addition to the impact of new liquidity models and upstream application/information requirements, it is important to note that the operational flow of messages will also change, due to the migration from a Y-shaped FINCopy system towards a V-shaped messaging scheme. This will be the case for both the Eurosystem and EBA Clearing. All messages will have to be addressed to the central system, and new types of confirmation and error flows will have to be integrated.

Solutions

SWIFT has been appointed as a Network Service Provider for ESMIG. Access to all Eurosystem services will be possible via SWIFT's connectivity services.

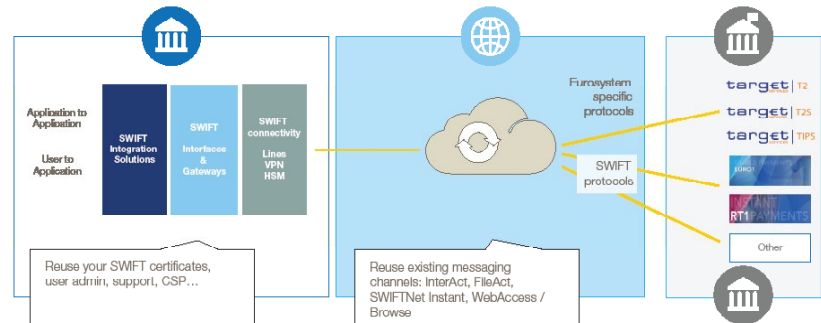
In addition, SWIFT offers customers a variety of business & technical services to assist them with their Impact Assessments, conduct gap analyses between FIN and ISO 20022 messaging standards, implement integration services for full alignment of all flows, and many other services to help banks prepare for the migration.

On the message formatting side, the SWIFT Standards Advisory team is playing an important role by offering gap assessments that show the differences between the two messaging standards on a field-by-field basis. The MyStandards tool is also being used to populate and review all the different market practices. The T2 and cross border (CBPR+) market practices will be available on MyStandards. In addition to this, SWIFT Translator will offer customers a direct connection to MyStandards to easily load market practices and prepare mappings from any format to any format, with the ability to review the required additional information, as mentioned above.

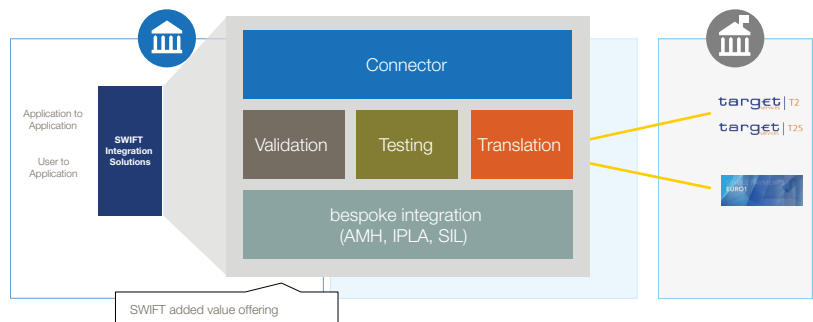
On the connectivity front, the challenging timelines call for straightforward solutions, including the re-use of existing technical solutions. SWIFT customers will be able to choose between re-using existing technical solution and implementing new dedicated infrastructures.

When it comes to the messaging content and connectivity setup, both the Eurosystem and EBA CLEARING are putting a series of specific requirements in place, some of which go beyond the standard ISO practices. These include, among others, the need for a signature of the Business Application Header inside the ISO 20022 message or in the Business File Header. For these MI-specific requirements, we are designing a set of Value Added Services to ease the integration activities.

SWIFT – Your single window to European market infrastructures



SWIFT value added services for ESMIG – facilitating integration and early testing



- Connector will shield SWIFT customers from all ESMIG and EURO1 specifics, such as Business Application and File Headers signatures, (de)compression, direct payload adapter, (de)bulking, etc.
- Validation will be possible at the edge for incoming and outgoing TARGET2 flows, as per the TARGET2 Market Practices, compensating for the absence of network validation
- Translation from any format to the T2 market practice will be possible, using the SWIFT Translator tool
- End to end testing for TARGET 2 will be possible with SWIFT as of July 2020, more than 6 months before the official Eurosystem User testing phase

If you need help planning your migration project, are looking for an NSP for TARGET Services or need help with any specific area related to the changes highlighted above, please reach out to your account manager or email us at EU.Payment.evolution@swift.com.

For more information on the changes happening in the European payments landscape and SWIFT's offering for ESMIG, please visit swift.com.

SWIFT is a member-owned cooperative, providing secure financial messaging services to more than 11,000 organisations, across the financial ecosystem, in almost every country in the world. For nearly five decades we have delivered certainty, continuity and excellence by constantly evolving in an everchanging landscape. In today's fast moving, increasingly connected and challenging world, this approach has never been more relevant.

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