

ROUNDTABLE: STANDARDS HARMONISATION

WORKING IN
HARMONY





PARTICIPANTS

Stephen Lindsay,
Head of Standards
at SWIFT



Patrik Neutjens,
ISO 20022 Programme
Director at SWIFT



David Renault,
Head of STEP2 services,
EBA Clearing



Marc Recker,
Director, Market
Management, Institutional
Cash, Deutsche Bank



Bjørn Stendorph Crepez,
Head of Business Development
Issuance & Safekeeping, VP
Securities, Denmark



Nadya Hijazi,
Managing Director and
Global Head of PCM
e-Commerce at HSBC



MODERATOR

David Bannister, editor,
Banking Technology



WORKING IN HARMONY



ISO 20022 is one of the major standards used in financial transactions. It is currently being discussed/implemented in close to 200 market infrastructure initiatives around the world, and is also increasingly used as the business language between banks and their corporate and financial institution clients.

Despite celebrating its 10th birthday in 2014 – or perhaps because of it – the number of variations being deployed is prompting concerns that it is rapidly becoming less useful as a standard. There is increasing recognition that differences in implementation and market practices could lead to a fragmentation of the standard.

One typical example raised in this context, is SEPA, where some national variations have caused concern to the banks participating in the scheme. Another area where fragmentation is leading to higher costs is the corporate-to-bank space, where corporates are asking their banks for a common implementation of a global standard they can reuse with all their banking partners.

And with real-time payments dominating the conversations these days, it is clear that a harmonised approach to adoption of ISO 20022 in that space will only bring benefits to implementers as well. Nearly all of the national initiatives, including Australia, Canada and the US have indicated, and in some cases

mandated, the use of ISO 20022 in their plans for real-time payments systems, so a consistent approach will be crucial to ensure cost-effective implementation.

This has prompted several initiatives to bring consistency and rigour to the rollout of the standard in order to maximise the benefits from the effort the industry has put into it thus far.

In response to this challenge, SWIFT has initiated the ISO 20022 Harmonisation Framework effort, calling out to 20 market infrastructures (some using the SWIFT network, some not) with concrete or future ISO 20022 implementation plans.

Some of these market infrastructures have already implemented ISO 20022 and are using it in ‘live’ mode with their members, while others are rolling it out, or are formulating plans.

Starting the discussion at Sibos, Boston, last year, SWIFT proposed the ISO 20022 Harmonisation Framework to several market infrastructures during a workshop in April this year, to ensure a consistent roll-out of ISO 20022 for financial institutions, and reduce

cost and risk. Global market practice (such as the High Value Payments System guidelines – developed by the Payments Market Practice Group – for HVP systems such as TARGET2 and Euro1/Step1, RTGS in Canada, India and Brunei) are important pillars of this framework – as are a version/ release management cycle similar to that which the industry is used to for FIN.

Sharing of message, market practice and release information with other market infrastructures completes the framework. SWIFT is now asking market infrastructures to endorse the framework, and a significant number of them have shown commitment and are willing to implement the principles of the Harmonisation Framework. Other market infrastructures will be invited to join the discussion – and potentially support/ endorse the framework as well.

For banks connected to multiple market infrastructures, this should bring consistency and predictability – and avoid having to manage multiple, fragmented implementations of ISO 20022.

Leading this is Patrik Neutjens, ISO 20022 Programme Director at SWIFT, who says SWIFT's ISO 20022 programme has three main objectives: "Helping the industry to become more efficient in the adoption of ISO 20022; to ensure that SWIFT messaging platforms and products and value-added services fully accommodate functionality that exist in FIN today; and thirdly working with customers, market infrastructures and financial institutions to help them prepare for the adoption." The harmonisation efforts are in support of the first and third objectives.

Neutjens says that SWIFT has been working on the issue with a number of market infrastructures from around the world since Sibos in Boston last year. "We agree that there is a problem because the increased adoption of ISO 20022 brings the risk of fragmentation. The benefits the standard is supposed to bring may be in jeopardy," he says. "We agreed in April in Brussels to develop a more formal framework for harmonisation which is basically the principles around which this harmonisation should take place, looking at encouraging the use of global market practice and streamlining the use of message versions and maintenance cycles plus sharing of information of who is using



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what and where information sharing is key to create alignment and to ensure that the common principles (market practice and message version-related) are used whenever possible"

The culmination of all these discussions is the Harmonisation Charter which SWIFT is now in the process of gaining formal endorsement and support for, from market infrastructures in the first instance. At Sibos the names of the organisations that are supporting it will be announced. "What I can say is that people are taking this seriously and have serious intentions within whatever regulatory constraints they have," says Neutjens.



The need for global market practice

Marc Recker, Director, Market Management, Institutional Cash, Deutsche Bank says that it is not just banks and market infrastructures that have an interest in maintaining the quality of the standard. He points to the Common Global Implementation (CGI) initiative, which provides a forum for financial institutions, corporates, vendors and market infrastructures to progress various corporate-to-bank implementation topics with the goal of simplifying implementation for corporate users and to promote wider acceptance of ISO 20022 as the common XML standard used between corporates and banks.

"Globally operating corporates are demanding a move to standards," he says. "Especially multinationals want CGI – they don't care what is inside; they want to deliver one format to the bank. With our currently fragmented landscape, each global bank has hundreds of mappings taking place. From a business perspective, we have to achieve harmonisation not only for our own operations, but for our corporate client base. SEPA was a first step in this direction, however, given that we still have country specific variances, there is much greater potential for further harmonisation to the benefit of the underlying client."

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Stephen Lindsay, Head of Standards at SWIFT, says: "That's something we talk about a lot: the whole process of market practice harmonisation is to eliminate the accidental differences. We know there are going to be inherent differences because of local tax regimes or different practices in different places, but at least if we are doing the same things let's do them in the same way. That is really what we are trying to do, especially with the market practice aspects of the programme."

Recker says that there is a parallel with the challenges associated with most regulations; i.e. where the industry is fighting against financial crime and money laundering and the Financial Action Task Force issues global recommendations to be implemented in different jurisdictions. "Ideally it should be carried out in the same way, but difficulties arise because of different regional and/or legal interpretations."

Nadya Hijazi, Managing Director and Global Head of PCM e-Commerce at HSBC, agrees about the risk of fragmentation. "For us a standard only works if it is used across all of the banks, otherwise it's just a proprietary format, which is what happened with some of the other 'standards' before ISO 20022 came along. Previous attempts, because they didn't collaborate across the banks, the infrastructures and the customers, in the end became proprietary because everyone adapted them to their version. Everyone is supportive of ISO 20022 because there is nothing in it for any of us in having to support variations. It's in all our best interests."

But she says that there will always be a need for flexibility. "A standard is not a straitjacket: we need to be standardised *enough* and there is a fine balance – customers sometimes don't have the back-office that can perfectly format a message exactly as you need it so you have to work with them to find a way to adapt the format without losing the benefit of standardisation. I think that will always be the case; it's just the reality that not every customer has a standard system."

There has to be an element of consensus about what global market practice is, according to Neutjens. "For this to really work you have to have best

practice in different business segments. In High Value Payments today a market practice exists – it has been established and people are familiar with it, so any RTGS that is looking at renewing has that as a starting point. In the same vein, now that real-time or instant payments are coming up the industry has confirmed that ISO 20022 will be the standard and now we have to see what the market practices will be," he says.

"The Harmonisation Framework needs market practices as much as it needs messaging and operational processes, so part of the remit that we are working is to work with CGI on the corporate side, and others such as the ISO 20022 Real-time Payments Group. In securities, for instance, we are asking 'where is the greatest need' and clearly we are consulting with the MIs to see what should be the focus and the priorities."

Lindsay agrees. "We are not saying that we have to own the market practice arena, we're just saying that market practice is important. Where there is CGI, or some other group that is already active in that space, that's great."

More coordination around maintenance and version management

Part of the harmonisation plan is to adopt a similar approach to changes as is currently used with SWIFT's FIN messages, which are updated across the industry at the same time every year.



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"We can take steps towards that – you're not going to get there in one go," says Lindsay. "The first step, and this is what the Charter says: if we are going to do an update this year, then everyone will do it on the same date and that will be in November. You might not want to do an update – you could skip two or three releases – but when you do, do it on the same day as everybody else. And can we also agree that when we put out advance information about what the update is going to contain, we do it in the same timescales and formats so that they can retrieve and consume it from one place. That doesn't mean that we make everybody do everything at the same time, but it does mean that by making a few decisions at an individual institution level we can really make a difference for the whole community. We can get a lot of benefit by bringing some discipline to the process."

Bjørn Stendorph Crepez, Head of Business Development Issuance & Safekeeping at the Danish CSD VP Securities, agrees: "Our point of view is that we need somebody who can help us by being a little more rigid – we as market infrastructures like to see SWIFT being the one pushing to avoid variants and reduce the number of variants. Discipline is important."



HSBC's Hijazi broadly agrees but strikes a note of caution "If you make a change it has implications throughout the bank: FIN messages are embedded within the bank and ISO 20022 is getting to the same point, so if you are going to make a change you are impacting multiple customer systems and also within the bank itself. It's really about people being able to plan, prepare and schedule those changes in a way that when you make them the customer knows when to expect it" she says. "With FIN messages you don't have a choice, but at the moment with ISO 20022 there is still quite a lot of flexibility about when the bank adopts the change. My gut feeling is that it would remove a degree of autonomy, but you will eventually need to get to that point if it becomes as standard as FIN currently is. Customers also drive you to it – if one bank has adopted something, and you have a shared customer, they will ask you to adopt it too. Customers' core business is not the mapping of file formats – they just want to get on with what they do."

That said, she is strongly in favour of the development. "Harmonisation is something you have to do in incremental steps – standardisation is an evolution. What is helping this time round is that we have a forum where people discuss changes and applicability with the other banks. That governance framework, for me, is key to keeping cohesiveness and avoiding fragmentation. Tools like MyStandards help too, acting as a repository of changes. At the end of the day, SWIFT is a good body to do this, because of its experience in standards."

EBA's Renault says that in some market segments the maintenance process is already embedded. "In high-value payments they are used to the discipline of upgrading the FIN messages, and I think they will stick to that – and that will give a clear direction to the industry that, yes, you can use ISO 20022 in a disciplined environment. Retail is bit more complicated: payments have a life-cycle that can last several days, or even weeks, and if you change in the middle of that there will be issues to be solved. In SEPA we haven't moved to new versions since 2010, and unless there is a big business reason

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to, or something new that we need, we'll ignore it. In any case, that's the decision of the scheme owner and if the European Payments Council decides to move to a newer version, all participants and market infrastructures will have to adopt it."

For VP, the business reason was strong enough to overcome other issues: "As a first mover, we have additional costs because we start early and we make some mistakes as we go, but we think that it is important enough for us to make that investment," says Crepaz.

Renault replies: "There are also benefits to being a first mover, which we saw with SEPA. Yes, we had issues back in 2008/2009, but after that we were stable and had no operational problems when we went live, and that is something that it is impossible to put a price on."

"The Harmonisation Framework has to be seen as best-practice at the end of the day; it can't be seen as a straitjacket for everyone," says Neutjens. "We know that quite often there are very valid reasons why certain things have to be done in a particular way. Sometimes that is only for a certain time.

"For instance, T2S during its go-live and implementation has frozen its message versions for the duration of that transition to create a stable environment. But once a major infrastructure is in a steady state, with the bulk of its participants connected, there is no reason why they shouldn't adapt and upgrade on a regular cycle. The common part is actually quite big, and if people start moving forward with ISO 20022 as part of their processes there are a number of things that are common that lets them manage transparently and efficiently."

Standards mean business

Crepaz says the securities landscape is rapidly changing as a result of initiatives like TARGET2 for Securities, which is based on ISO 20022. "Participants are having to adopt new business models that are more aligned to cross-border activities," he says. "How can we open up to new clients? We have to replace our proprietary systems and adopt standards, so we are very much in favour of the ISO 20022 Harmonisation.

"By 2018 we have an ambition to support most of our business processes



be adhered to," he says. "Of course, there will be some local regulations/business needs required by local market practice. However, these should come on top of the global core standards."

Hijazi says that there are also customer service benefits: "When we are

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with ISO 20022 and we have a strong ambition to discontinue supporting proprietary formats. What we would like to get out of it is basically that, apart from reducing the number of platforms that we have to manage, it will also let us get back to business: let's do what we are best at and concentrate on that. Instead of talking and spending millions, let's get back to what we are really there for." T2S at one level is only an IT project, he adds: "It's really like the railway system – you don't talk about the standards of the rails – or the telco industry. If you change your network provider you don't talk about formats and how you communicate. As a market infrastructure we have to bring down those barriers so that is easy for customers to connect to us."

Deutsche's Recker says that from the banking industry perspective the most important thing is that ISO 20022 should not be thought of as simply an IT project. "More advantages can be gained by bringing it further into the business. When you look at payments and what has happened over the past 35 years with SWIFT's FIN, we have a global standard that has some limitations. However, with ISO 20022 and the current fragmentation we see around the globe, we potentially run the risk of falling into the same trap. At the very least, the same core has to

onboarding customers we work closely with them to help simplify and streamline the process for them. Anything that provides a tool to help us do this we pursue quite strongly. It moves the conversation on from how this format is mapped to that format to the value-added services we can provide and client service dynamic that we'd prefer to concentrate on with the customer."

Hijazi says that the issue of standards has been getting the attention of senior management with the rise of ISO 20022. "HSBC has been a leading adopter of ISO 20022 since 2007, and for the past four years we have been heavily investing in a project to support the deployment of it, not just in the payments and receivable space, but starting to look into other areas of the bank. It started out in payments, certainly, but now it is expanding to open account, securities and other product areas too," she says.

"When we talk about standards in the bank now we get a lot of participation from across the bank, and of course our customers want to talk about standards too."

The need for interoperability in a fast-changing landscape

Renault adds an additional perspective around some of the issues caused by fragmentation.

"As a market infrastructure I'd put the issues around interoperability first. The driver for ISO 20022 was the SEPA project; the industry agreed on a core common standard for SEPA and with that we have achieved a good level of interoperability. In Europe we have interoperable links between some 15 market infrastructures. New developments that are taking place for instant payments should leverage what has been achieved with SEPA."

Recker says that SWIFT's initiative will expand the conversation further. "With the establishment of the Charter we will see a dialogue among the market infrastructures. Now it has reached the point where the industry clearly expects the US and Europe to engage in closer dialogue aiming for harmonisation in the high value payment space [for the world's two largest currencies, the Euro and the US dollar]. That's the value-add this Charter brings immediately: dialogue in the non-competitive space," he says. "Over the past seven years, our industry has had to invest heavily in new infrastructures (SEPA/T2S) as well as other regulatory changes. Global banks like Deutsche, will have to continue supporting regional and local financial institutions in adapting the new global environment. That can only be achieved if

the market infrastructure speaks the 'same language' for the 'same instruments'.

"Market infrastructures also have the weight to carry things forward, says Lindsay. "We started out talking to them because they are the guys in the driving seat, but it is clear that the beneficiary of this is going to be the industry at large. We are seeing a change of scope in that we are saying this dialogue has to involve the banks in general and the larger banks in particular because they are so exposed."

Crepaz: "If you take a longer term view and you look 10 or 20 years ahead, the European market infrastructures will consolidate even more and there will come a time when the sorts of services that, say, Deutsche, is now providing to the smaller banks will become more commoditised and be provided by the market infrastructures as they move up the value chain."

Hijazi agrees: "From our perspective, dealing with the number of customers we do, one of the challenges that our customers face is the need to support a wide-range of country specific formats and proprietary bank formats, particularly if they have a number of banking partners. They are faced with the need to have a large IT staff just to understand how to share information with their banks and make a transaction," she says. "We have the same challenge on the bank side when we go into a country and we have to change formats of the bank's systems, so we are really supportive of any harmonisation efforts, both for our customers and for the bank. I see it as a win-win."

Standards as a strategic tool

"Implementations of ISO 20022 in banks have often been tactical, standalone projects, and in the long-term that will not be tenable, certainly for a large global bank operating in many markets," says Lindsay. "There is a need to come to a more strategic and holistic implementation model – it's tough, because it will need to cross different business boundaries, but there is a fairly urgent need to start that conversation in the banks."

"In Europe, at least, projects such as SEPA and T2S have already demonstrated the benefits of talking a holistic approach to

ISO 20022," says Recker. "Breaking down silos has real benefits in terms of IT resources."

Hijazi says ISO 20022 must have wide adoption: "It doesn't have to be every bank in the world, but it has to be enough to make it viable, otherwise it's just the top banks and the top corporates – there has to be more inclusion. SEPA has helped drive that inclusiveness for ISO 20022 to make it more available and made it worthwhile for the customers to explore the standard."

Recker says: "The potential US migration to ISO 20022, if it can be achieved in a few years, will have benefits for the industry as a whole. The latest communications coming from the Fed clearly show that they see a definite advantage in aligning in a global move."

Implementing the Harmonisation Framework: Timescales

From a SWIFT point of view "we will start publishing data and getting ready on the operational side of things early next year," says Neutjens "It will vary in different market segments. It is key now to turn the Charter as soon as possible into a governance and operational framework that will quickly result in further alignment between the different MIs. The MyStandards platform is being enhanced to provide additional features to further deploy and manage ISO 20022 roll-out in a more consistent fashion; the MIs and SWIFT are identifying which segments to focus on first, and to make sure that global market practice is defined where needed. It is essential that international financial institutions also



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have an important responsibility, to provide guidance and ensure adoption.

For new initiatives, the Charter principles should always be the starting point; for existing 20022 implementations, a way forward that leads to convergence and adherence to the principles is key.

To achieve the goals it has set out to achieve, the Charter will now be shared with financial institutions and market infrastructures around the world, to create further awareness and alignment on the principles put forward in the Charter for efficient adoption of ISO 20022, so the standard can effectively help realise the business and technology benefits the financial industry is looking for. **BT**



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