

Making the most of standards

Corporates are using ISO 20022 to achieve greater transparency and control, while the standard's flexibility also helps market infrastructure initiatives gain acceptance.

Across the financial industry, there are many different use cases for the standardisation of information and transaction flows. The ability to share and interpret more data more quickly - by removing the legacy barriers to internal and external communication flows - leads to better decisions and better outcomes in any number of processes and activities. It is therefore unsurprising that ISO 20022 forms the basis for information exchange in the vast majority of new services and initiatives being developed by banks and market structure operators.

In the corporate space, ISO 20022 already has a positive track record. Many firms first discovered the universal financial message framework via the Single Euro Payments Area, where it underpins the standardised credit transfer and direct debit formats, meaning that participants no longer need to worry about standards differences in euro payments within Europe. Since then, increased use of ISO 20022-based messages has helped to improve efficiency and reduce rates of manual intervention at payment factories, in-house banks and other structures used by large corporates to centralise and automate payments flows.

"And firms involved in the increase in M&A activity over the past 12-18 months have found it easier to realign their relationships if they're already using ISO 20022-based platforms to interact with their banks, as the onboarding processes is considerably smoother," says Tom Durkin, global head of integrated channels at Bank of America Merrill Lynch.

In addition, ISO 20022 is increasingly the basis for new value-added services

improving the speed and quality of treasury decision making. ISO 20022 is the backbone for this data," Durkin explains.

From the banks' perspective, this growing appreciation of the benefits of ISO 20022 in the corporate space increases motivation to further develop their capabilities. "Supporting ISO 20022 enhances our competitiveness," says Durkin. "Some banks were cautious about supporting universal message standards, because of the impact on client portability, but those days are gone. Embracing ISO 20022 has helped our business growth to blossom."

Robust, but flexible

IFX Forum, a message standards body focused largely on transaction banking services, is using ISO 20022 as the basis of its members' efforts to tie more detailed remittance data to payments. From a reconciliation perspective, it is much simpler for corporates' accounts receivable departments to match incoming payments messages to outstanding invoices if the payment contains remittance data, such as invoice numbers, in a standardised format. But the range of invoice and payment-related procedures across different countries and industries - not to mention the differing levels of automation across multinational corporates to small businesses - makes it extremely hard to develop tools and mechanisms with sufficient flexibility to gain popular appeal and critical mass. "The remittance data carried by payments messages needs to be robust and standardised enough to be understood and recognised by systems and users, but it

dated, synchronised flows of remittance and payments data, IFX Forum has been sensitive to existing remittance practices and payments channels, both in the US, where the majority of its members are based, and internationally. To ensure its ISO 20022-based proposal "adheres to existing standard conventions and rules", IFX Forum worked closely with US government bodies and NACHA, the US electronic payments association, as well as ISO's Payments Standards Evaluation Group and other standard-setting bodies.

Though industry consensus is building and banks see an opportunity to differ-

sumers find it more convenient to write on a check stub. That's why existing business practices have been accommodated in the ISO 20022 standards we have developed. Our remittance standards support a lot of use cases."

Urban accepts that patience is required, as the industry includes both early movers and laggards, but says the existence of flexible ISO 20022-based standards for sharing remittance data means that banks and their customers can adopt an industry-approved approach as and when their individual business cases mature.



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for corporates, and the starting point for their efforts to increase control and transparency over their finances. For example, as well as seeking greater transparency and enhanced levels of automation, corporates - in line with the retail market - expect faster, near-real time payments. The vast majority of real-time retail payments initiatives are based on ISO 20022. But this is just one element of the corporate treasury's liquidity management dashboard. "As treasury workstation providers compete to offer data visualisation and analytics packages, these need to be fuelled by high-quality, high-integrity, complete data sets, in order to fulfil their intended purpose of

must also be flexible enough to accommodate industry practices," says Rich Urban, president of IFX Forum. The need for inclusivity also makes remittance data reconciliation a suitable challenge for a message framework designed to accommodate multiple different practices and definitions, such as ISO 20022.

According to Urban, the initial impetus for IFX Forum's work on remittance data came in the mid-2000s from a wish by member banks' international corporate clients to exchange a standardised 'payment kernel' on a cross-border basis, but expedience forced them to set aside the remittance aspect. In its renewed efforts to support and facilitate auto-



entiate through added-value transaction services, there are still a lot of challenges to the end-goal of including remittance and payment data in the same message. The limitations of existing channels and systems can be overcome by migration to ISO 20022, but banks also face many competing priorities, for example the increasing pressure to deliver retail-level payments in near real-time, as consumers come to expect greater speed from service providers in the digital age.

"To achieve adoption," says Urban, "you have to live in today. Lots of remittance data is still recorded on paper. No matter how much bigger firms would like to automate, many smaller firms and con-

IFX Forum is also working with Nexo, an industry utility for operators of automated teller machines, to support migration to ISO 20022, as 'hole in the wall' cash machines continue to add a greater range of functionality to their traditional cash withdrawal and balance enquiry capabilities.

Compromise and coexistence

Banks are already working on ways of leveraging the work undertaken by IFX Forum to deliver differentiating services. But for market infrastructure operators, ISO 20022 is less of a path to market share growth than a means of ensuring



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widespread market acceptance of a new initiative and meeting its objectives - often defined by regulatory or other supervisory authorities - as efficiently as possible.

TARGET2-Securities, the single securities settlement platform launched by the European Central Bank earlier this year, initially gained approval in 2008, when ISO 15022 was the message standard of choice in the back offices of securities market participants. According to Siegfried Vonderau, head of division for TARGET2 / TARGET2-Securities services management at Deutsche Bundesbank, this created a number of opportunities and challenges. "The decision was taken to only use ISO 20022 messages within T2S, partly because its predecessor was too limited in scope for our expected needs, but also because it was already clear that ISO 20022 could be deployed effectively in both the payments and securities markets," he explains.

This dual acceptance was important because T2S is designed to sit between Europe's central securities depositories and its national central banks, effecting settlement on a delivery versus payment basis for securities transactions in central bank money. The decision to use ISO 20022 was beneficial to T2S because it enabled the project to use and shape a wide range of message formats (T2S uses around 130 messages, while TARGET2, the pan-European real-time gross settlement system for high-value euro payments, uses less than 20). However, a

compromise was required because some market participants were concerned that a minority of end-users would not be able to accommodate ISO 20022 immediately. As such, although all directly connected participants in T2S must be able to process ISO 20022 messages, the content of the messages has been structured to facilitate translation into ISO 15022 if required. "T2S supports coexistence of message formats for the time being, but we have not compromised the richness of the information carried," explains Vonderau.

Accommodating such compromises is one of the strengths of ISO 20022 and one of the reasons why it has become the messaging standard of choice across the payments and securities sectors. From Vonderau's perspective, the ability to share and interpret more data more quickly is a critical element of the standard's appeal, particularly at a time when there is such a strong regulatory emphasis on transparency to minimise systemic risk. "The evolving regulatory framework of the financial markets is leading to a large number of initiatives focused on data collection and analysis. The next level for ISO 20022 will be catering for these needs." ■

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Closing panel: making ISO 20022 work for you

Thursday 15 October - 14:00-14:45



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Siegfried Vonderau, head of division for TARGET2 / TARGET2-Securities services management, Deutsche Bundesbank