Behind the scenes, the global financial system is currently undergoing probably its largest, most far-reaching transformation in recent history. Multiple new market infrastructures, such as instant payments initiatives, are being implemented in many of the world’s major markets, while existing high-value payments (HVPs) systems and central securities depositories are being upgraded to offer easier access, better services and lower transaction costs.

Underpinning most of these initiatives is ISO 20022 – an open, international messaging standard that defines key business processes and data, which is compatible with both mature and emerging technologies, such as blockchain and open application programming interfaces. ISO 20022 brings a host of benefits, enabling end-to-end business processes with high-quality data and no loss of information. It introduces a future-proofed payment standard that can be easily incorporated into existing back-office systems.

Its potential to transform market infrastructures is evident. In the next five years, it is predicted that the top five traded HVP currencies will have all moved to ISO 20022, as will 89% of the value of transactions worldwide. ISO 20022 is also the principal standard in the instant payments market, providing the foundation for implementations in Australia, the US, Canada, Sweden, Denmark and Singapore.

This is also the case in Europe. Both EBA Clearing’s RT1 platform, which went live in November 2017, and Eurosystem’s Target Instant Payment Settlement (TIPS), which is due to be rolled out in November 2018, are adhering to the ISO standard. Within securities market infrastructures, the investment funds industry has also adopted ISO 20022. Target2-Securities, Eurosystem’s securities settlement system, processes more than 1 million instructions per day using the standard.

Yet migration to ISO 20022 is not a trivial undertaking. It draws on bank budgets, requires widespread IT and architecture changes, and impacts business models – so care and co-operation are needed across the industry to ensure success.

A three-pronged approach
In Europe, Eurosystem is in charge of facilitating the migration to ISO 20022 messaging and plays three roles within market infrastructure and payments: as an operator, as a catalyst to foster change and integration throughout the market, and as overseer of various payments and securities systems.

Eurosystem has three significant modernisation projects under way as part of its Vision 2020 programme. Aside from TIPS, it is also consolidating the technical infrastructure of Target2, the Eurosystem’s real-time large-value payments settlement system, and Target2-Securities. The last project is an upgrade of the Eurosystem collateral management system – not a market infrastructure per se, but rather a back-office system for national central banks, and one that stands to bring benefits to all parties through increased harmonisation.

The Eurosystem’s ISO 20022 implementation will follow a ‘big bang’ approach, scheduled for 2021, yet different markets within Europe have their own requirements that need distinct approaches.

The Swiss migration
Within the European context, Switzerland represents an instructive case study of a successful market migration to ISO 20022. As one of the oldest real-time interbank settlement systems, the process of migrating to ISO 20022 began in 2010, with existing systems nearing the end of their lifespan in the face of sweeping industry digitalisation.

As global market infrastructures modernise across the world, Deutsche Bank’s head of market infrastructure and industry initiatives, cash management, Paula Roels, examines where the global banking industry stands in implementing the landmark ISO 20022 standard, the different approaches to its implementation and the critical factors for success.
EARLY ENGAGEMENT OF ALL STAKEHOLDERS IS CRITICAL FOR ANY SUCCESSFUL ISO 20022 MIGRATION

Paula Roels

With a proprietary message landscape that also needed replacing, and interoperability between the Single Euro Payments Area and the Swiss market a key requirement, the project needed careful handling, and therefore market participants took a longer term view.

A three-phase roadmap was drawn up. First, market infrastructures were brought onto ISO 20022; then the bank-to-bank space was addressed; and, lastly, so too was the customer-to-bank space, focusing on both payments and reporting. The process was a success, largely thanks to the new system’s board of directors representing 85% of the market, meaning strategic discussions and decisions carried a high level of commitment, as well as the fact that the Swiss National Bank was involved early on as operator and supervisor, helping to ensure smooth progress.

Indeed, early engagement of all stakeholders is critical for any successful ISO 20022 migration, to ensure agreement on specifications and the overall roadmap. This is relatively easy in the bank-to-bank space since the parties involved view market infrastructure changes as mandatory. Corporates and their vendors, with no legal requirement to change, can be harder to persuade. They need to be convinced with hard facts.

This might not be a problem, however, as a cost/benefit study, conducted by Deloitte for the Swiss project, recently discovered. It found that, of the investment required, this was split roughly equally between banks and corporates. Yet the anticipated payback rate for corporates was much faster than for banks – two-and-a-half years compared with nine – which is a strong business case for corporates to change. And although this seems like bad news for banks, it should be remembered that the need to future-proof processes and replace legacy systems can often trump other considerations.

LISTENING TO CLIENTS’ CLIENTS

Market infrastructure modernisation has knock-on effects for all parties, and the feedback from Deutsche Bank’s clients’ corporate customers is clear in terms of what they expect from ISO 20022. Achieving straight-through processing and ending manual payments via numerous standards and multiple customised message pipelines are at the top of the list, as are moving towards consistent formatting standards and a consolidation of cash management transaction data flows.

Yet achieving these aims – and realising the benefits they will bring – requires orchestration and harmonisation on the part of banks, Swift and other institutions. Swift’s community consultation in April 2018, which set out its vision for migration of cross-border services to ISO 20022, is a significant step in the right direction. With the formal consultation now complete, the results and a detailed roadmap for migration are expected to be released towards the end of 2018.

Additionally, in 2017, Swift formed the High Value Payments plus (HVPS+) task force, a global market practice group of market infrastructures and banks, including Deutsche Bank, that addresses the evolving ISO 20022 standards requirements of HVP providers and the need for interoperability, particularly considering increasingly global clients.

When it comes to implementation, as in the Swiss example, the importance of tackling market infrastructures first, then interbank and, finally, customer-bank infrastructure is a promising approach. Indeed, there are several international corporates that have implemented ISO 20022 before respective market infrastructures, leading to inefficiencies – so the need to prepare well is clear.

Common experiences need to be shared. Eurosystem, for example, is part of the Committee on Payments and Market Infrastructures and works closely with regulators in other jurisdictions. It also works with advisory groups at the Eurosystem level, with participants from the market side as well, who share knowledge, views and gauge interest in standardisation. And with HVPS+, Eurosystem is actively engaging with market infrastructures and industry representatives, such as Deutsche Bank, to jointly develop global standards in response to corporate clients’ future needs.

Ultimately, collaborative efforts to establish market infrastructure services that ready the market for the rapidly changing environment must be encouraged. Migration to ISO 20022 is a large part of this effort, with its potential to deliver rich, structured information with a payment, and the flexibility to respond to future client needs and the future set-up of the financial market infrastructures. Yet different markets may require their own approaches. Market players should learn from those who have come before, keeping in mind the overall imperative of fostering collaborative efforts to share resources and knowledge where possible.