



# The squeezed middle – ISO 20022 and the banks

Banks have a huge pool of ISO 15022 based correspondents on one side of them – and a raft of demands for ISO 20022 on the other

## The challenge

As providers of financial messaging solutions, we at Trace Financial often find ourselves discussing the long-heralded advent of ISO 20022 messages with banks, data vendors and other financial service providers.

Many of them have a growing and uneasy sense that “it’s getting closer” (or even “it’s right behind you!”) but find it hard to identify exactly what direction “it” is coming from, what will be needed to deal with it, and when to put an effort into developing or acquiring those capabilities. So what are the answers?

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## The pressure for ISO 20022

Let's start by taking a look at the two very different directions where the pressure for ISO 20022 messaging is coming from.

### 1. Major projects

One direction is top-down. Let's look at some cases. Case one: the EU has *guaranteed* a greatly increased use of ISO 20022 payment messages from early next year, by simply making a regulation to mandate the use of SEPA credit transfers and direct debits for a large class of existing Eurozone retail payment flows. So case one is: the Regulator says "Thou shalt ... (in 2014)".

Case two is the DTCC's planned switchover from its legacy formats to ISO 20022 standards for Corporate Action messaging, as part of a major project to replace all of its legacy corporate action processing systems. Because there is a large user base for the legacy message formats, the transition will be gradual. But nonetheless, being the largest of all securities service providers means that the DTCC can make it happen. Case two: the Central Securities Depository says: "Thou shalt ... (by 2015)".

On to case three. It was obvious that Target2-Securities (T2S), as a brand-new settlement service for European securities, would opt for messaging based on the ISO 20022 standard for all its communications. As a new - and very large - player, with no legacy interfaces to worry about, the choice made itself.

### 2. New entrants

It seems pretty clear from the above that one of the two 'arms' squeezing the banks towards ISO 20022 comprises the very biggest players in the financial landscape - including regulators, national depositories, and trans-national service providers. What about the other 'arm'? This consists in the main of a range of 'new entrants' with much less - if any - legacy messaging infrastructure to hold them back. They include banks' corporate clients, especially in rapidly growing Asia, and newly emerging institutional entities who, in the course of adopting SWIFT, choose ISO 20022 messaging at the same time.

So the established banks are being squeezed towards ISO 20022, on the one hand by the mandates of top tier service providers and governments, and on the other hand by the desires of a host of new entrants, both corporate and institutional. But they *also* have to also maintain extensive messaging capabilities in ISO 15022 (MT), together with various local, service-specific standards for their established networks and client base. The banks have to be planning not just for coexistence (of MT and MX) but for a whole world of continuing 'standards diversity'.

## Variations within ISO 20022

In fact this standards diversity exists even *within* ISO 20022 itself. A multi-layered entity, it includes the message syntax itself (the 'format' in old money), its global market usage guidelines (MUGs), and possibly several different and specific market implementation guidelines (MIGs), not to speak of any business rules the bank itself might want to apply.

But it doesn't end there. Take a closer look at T2S: the detailed messaging specs for that project were published in September 2012. While some of the messages are implementations or variants of messages that are already fully registered under ISO 20022, a good number are new messages that are not yet registered - and there is a third group which will never be registered, being wholly specific to the one project, though they will use ISO 20022 syntax. The DTCC took a slightly different path to handle its specific needs, by specifying a set of extensions (extensibility is catered for in the standard), to provide a home for certain fields peculiar to its own needs.

In short: diversity and variation don't magically disappear when a global standard is introduced - they just reappear in a different form; as usage rules, variant forms, extensions, and so on. But there is a really big gain: now that everyone uses the same language and tools, *these variations can be precisely described and understood by all*. By analogy - in the old days you did business in Spanish and I did business in Hungarian. Now we both use Esperanto, and although our respective businesses still have local differences and variations (as well as some similarities!), we can discuss and understand them.

## How banks can prepare

So what do banks need for 'ISO 20022 preparedness'? Firstly, a reasonable fluency in the common language. Secondly, the capability to manage - and maintain - an ever-expanding, ever-mutating universe of message definitions, usage rules, variants and extensions. And thirdly, the ability to transform them fluently to and from ISO 15022 (MT) and a range of other legacy formats: in-house and external, XML and non-XML.

That sounds like - and is - a tall order, for a requirement whose exact shape and timing is still unclear. But banks could perhaps draw inspiration from another field in which uncertainty is managed: insurance. An 'ISO 20022 insurance policy' would mean that the institution had done the research, identified what was needed and where to get it, and thus had the necessary capacities within arm's length, so that when, finally, someone says: "it's here" - they are ready.

### About Trace Financial

Trace Financial Limited are leading specialists in financial message transformation and have been designing, implementing and supporting mission critical solutions to the financial industry for over 30 years. Trace Financial is part of the privately-owned Trace Group.