



Market infrastructure modernisation

The global banking industry is undergoing a period of rapid change, with new technology helping to speed up processes and introduce internationally recognised standards. But adapting to a new market infrastructure takes time and dedication.



Christian Westerhaus, head of industry engagement and surveillance solutions, cash management, Deutsche Bank

Banking has been revolutionised in recent years, as banks embrace the digital world and embark on technological transformation programmes. The impact of a cultural shift towards digitalisation is driving demand for faster payments, from both retail and corporate banking customers. For banks to keep up with this expectation for 24/7 instant payments, a next-generation market infrastructure is needed.

Underpinning all this is ISO 20022, the emerging global standard for payments messaging. This standard creates a common language for payments data across the globe, enabling faster processing and improved reconciliation.

For Christian Westerhaus, head of industry engagement and surveillance solutions, cash management, at Deutsche Bank, the extent of the changes to come are not to be underestimated. He says: "This is a very large-scale programme because over the next five years the major market infrastructures for payments in the eurozone, the US, and the UK will change to new ISO 20022 data formats. Alongside this work, each of the market infrastructures are also following up with their own broader innovation agendas. Each player, whether connected to market infrastructures directly or indirectly, and their clients will be impacted by this change."

To add to the complexity, there will be varying timescales in each jurisdiction. For example, the Eurosystem will go for a 'big bang' approach in November 2021 for TARGET2, while the US Federal Reserve will take a phased approach to the implementation of the ISO 20022 standard for the Fedwire Funds Service. Instead it will be completed in three phases, beginning in November 2020 and not ending until late 2023. The Bank of England is expected to move UK's CHAPS payments to the ISO 20022 standard in 2022.

Says Mr Westerhaus: "Ultimately, this network needs to ensure global reach to support trade, commerce and the global economy."

He believes that it will be difficult to make a business case for the investment needed for mere compliance without exploiting the benefits that will come from enriching payments messaging with the global standard. To this end, Deutsche Bank is working with its end clients, made up of both corporates and financial institutions which use its clearing services, to help them understand fully how they can benefit from improved payments data in their cash management operations.

He adds: "Having a better data structure serves various needs for end clients. For example, this means better reconciliation for corporates, as well as richer data to use for their commercial goals and for compliance. It should foster rationalisation in the payments space, ensure more straight-through processing and faster execution."

COLLABORATION IS KEY

Collaboration, both externally with global and regional transaction banks and internally across the different functions within the bank, is going to be key to ensure successful industry-wide migration to ISO 20022, according to Mr Westerhaus. "Global transaction banks have to work together to collaborate on understanding and interpreting the standard. This is not just a cash management product challenge or a task to comply with ISO 20022. You need to work together with operations because banks' operating models may change, as well as with the anti-financial crime and compliance functions because there will be more requirements for the filtering of data in this context. This all needs to be brought together."

He continues: "Our clients expect friction-free payments, better data structures, and full traceability of payments. A lot of that has



Marc Bayle, director general,
market infrastructure and payments, ECB

been delivered over the past few years already, in collaboration with Swift for example. However, the road doesn't stop here; the tasks ahead of us are far bigger than what we've seen over the past three years."

The European Central Bank (ECB) has led the way with the launch of pan-Eurozone instant payments system, TARGET Instant Payment Settlement (TIPS), in November 2018. The launch comes as part of a revamp of Europe's market infrastructure that will see the real-time gross settlement (RTGS) system, TARGET, align with TARGET2-Securities and the new Eurosystem Collateral Management System (ECMS).

According to Marc Bayle, director general for market infrastructure and payments at the ECB, there will be several interesting new features in the modernised TARGET Services. The first will concentrate on delivering a central bank liquidity management functionality, which will enable banks to allocate funds for different purposes, such as buying securities or paying a wholesale monetary transaction directly into TARGET.

Other services will include longer opening hours that will enable banks to increase revenue streams, as well as delivering greater efficiencies in liquidity management across the bank's different operations, using standardised technology for all transaction processing in the banking area.

"It is a challenging project because all banks must move in one weekend, in a 'big bang' approach. Therefore, we have a structured plan with different milestones to be reached in 2019, 2020 and 2021, to measure the banks' progress in adapting their systems to this new technological environment. We have to make sure they have defined their requirements and the way they



Stephen Lindsay, head of standards, Swift

will connect," says Mr Bayle.

While work is underway to prepare for Europe's move to ISO 20022, Mr Bayle stresses that the revamp of TARGET Services will bring many other benefits to banks. He says: "As well as bringing new technology for instant payments to Europe, we are also going to modernise the way collateral is used in the management of liquidity and payments, particularly in the next-generation of TARGET that brings new ways to manage central bank liquidity in the money markets more efficiently."

SWIFT'S MIGRATION ROADMAP

Swift's expansive reach means it will play an important role in ISO 20022 adoption. A consultation with its members last year showed a clear appetite for adoption of the standard for payments and cash, but less so for securities, trade or foreign exchange. Stephen Lindsay, head of standards at Swift, says: "In terms of timing, one of the main drivers for the migration is that market infrastructures around the world are moving. To provide an end-to-end payment which is fully ISO 20022, we will start our migration in 2021. It will run for four years to give the entire community the time to catch up."

Swift has been working closely with its community and the market infrastructures driving the migration – the Fed and the Clearing House, the Bank of England, EBA Clearing and the ECB – looking at their plans to make sure they come together and are compatible.

Mr Lindsay adds: "I think the major challenge for Swift is to make sure that the entire community of 10,000 banks make this migration, not just the larger banks. We need to find a way to engage with those customers who perhaps aren't as tuned in to what's going on



Boris Brunner, head of network
and partner management, SIX

with ISO 20022 as the larger banks. We need to ensure that what we have on offer in terms of products and services is going to make it possible for them to make that move."

Ahead of the game, Switzerland's SIX has already successfully completed the modernisation of its market infrastructure. Boris Brunner, head of network and partner management at SIX, says the overhaul began almost 10 years ago. It was completed in 2016, meaning that it was both Single Euro Payments Area and ISO 20022 compliant for all payments, including the Swiss franc. All banks had migrated by the end of 2017, and by mid-2018 all corporates had been migrated.

Mr Brunner says: "What was important was that we offered some migration tools, some validation platforms, but also a translation service so that banks could send and receive messages with ISO 20022. This helped avoid a first-mover disadvantage."

He stresses the need for a common vision, a governance body to co-ordinate and move the whole project forward, and the need for clear communication regarding the objectives and goals of each phase for complete transparency. "It is also important that you have some banks that can act as role models for others to follow," he adds.

One of the main goals in Switzerland was not only to make life easier for banks, but to support the whole digitalisation process end-to-end, down to corporate level and working with software vendors.

Mr Brunner says: "This is what made us successful – Switzerland is one of the first countries worldwide which has managed to migrate to ISO 20022 end-to-end."

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