

INDUSTRY PERSPECTIVE

**A FOUNDATION FOR
PROVIDING INCREASED
CUSTOMER VALUE**





EXECUTIVE SUMMARY

Technological advancements are driving tremendous change in the payments industry. With new competitors entering the market every day, financial institutions must innovate to protect and grow their market share. The adoption of the ISO 20022 standard provides financial institutions with a platform to leverage their understanding of their customers and provides differentiated value-added services to keep customers loyal.

ISO 20022 is changing the way the world thinks and talks about payments and banking services, and can be seen most vividly in Australia, Canada, Europe, Japan, Singapore, the U.K. and the 14 countries of the Southern African Development Community with their move to implementing ISO 20022 into their payment infrastructures.

More than just a technical standard, ISO 20022 creates a universal language for financial messages that enables improved business information and payment flows. Despite its many iterations, there remains little debate that ISO 20022 is the standard for real-time payments, infrastructure renovation and innovation.

With this new foundation in place, today's product managers can deliver solutions that service customers, businesses and consumers, with comprehensive offerings that streamline banking interactions.

SEE TRANSITION AS AN OPPORTUNITY FOR INNOVATION

By embracing the transition to ISO 20022 and its flexibility, financial institutions can respond to consumer demand for real-time information and payments with satisfying, innovative, differentiated services. The combination of ISO 20022 and real-time processing brings payments processing in line with the expectations of customers and facilitates real-time commerce capabilities expected of today's technology.

The comprehensive data structure and extensible XML structure enable a host of new capabilities that drive efficient commerce, including:

- Increased operability across international markets
- Better remittance data exchange
- Enhanced reconciliation
- Straight-through processing
- Any-to-any processing
- Consistent enterprise reporting
- Enhanced investigations and issue resolution

Combining that trust with the technological capabilities expected of today's online, real-time, all-the-time world, places the financial institution in a unique position to serve customers comprehensively and drive the business forward.

- Closer associations between transactional data and payments
- An improved, responsive ability to provide new 'overlay services'

These capabilities will help financial institutions better understand their retail customers by expanding the payment choices they offer and helping to position themselves as trusted partners offering convenient ways to pay, shop and bank. Business customers will realize better information flows and gain greater control of their cash positions, enabling them to make more informed decisions across the business.

Much of the innovation leading financial institutions are driving

requires a flexible processing infrastructure. ISO 20022 helps deliver that by providing interoperability across systems and improved flexibility to make modifications. Financial institutions that view the transition to ISO 20022 as an opportunity to lay a foundation for future agility, position themselves for innovation and new product definition in the digital age.

Financial institutions still retain a trusted position with their customers. Combining that trust with the technological capabilities expected of today's online, real-time, all-the-time world, places the financial institution in a unique position to serve customers comprehensively and drive the business forward. To accomplish this goal, the financial institution needs to put in place a flexible, nimble foundation that enables innovation.

STAY STRATEGIC

A phased approach to ISO 20022 can be viewed as the first step in an ongoing effort to realize strategic

benefits. Migration loses its value when there is no subsequent benefit to be gained. Banks that want to lead view migration as an opportunity to develop a strategy for long-term, sustained transformation instead of a need to complete an immediate operational objective.

A value proposition that drives a business case for the necessary foundation investment is critical. An outcome that is merely a core message format transition with no market benefits of improved value for customers is a non-starter in today's competitive financial markets environment.

ALIGN IMPLEMENTATION TO ORGANIZATIONAL GOALS

The path to ISO 20022 should both support and drive investment in an institution's strategic goals. When assessing the current infrastructure and future goals of the organization, one should consider the following:

1. Identify the assumption

The ability to leverage a standard to offer enhanced customer functionality implies that the supporting engine can leverage the format.

2. Explain the reality

Supporting a format is not the same as interpreting and acting upon it. Basic translation software can facilitate the transformation of data from one field to another, which is often a necessary step in processing.

3. Draw logical connections

Extension of products and services requires advanced processing capabilities. Fields in certain messages may drive unique product offerings and alternate processing workflows that must be understood by the processing engine.

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4. Make a powerful conclusion

None of this is possible without a payments-aware technology base that both supports and comprehends ISO 20022 to act on its contents.

BEST PRACTICES — LOOKING FORWARD

Constituents embarking on such a transition can learn much about the governance, format and semantics of ISO 20022 from the deployment of similar market initiatives previously such as SEPA.

STANDARDS FORMAT

While the SEPA launch was well executed given the learning curve it required, lessons can be learned from the multiple iterations and updates that have been made in subsequent years to its rulebooks.

It was common with SEPA, for example, for a migrating bank customer to experience a decrease in straight-through processing despite a well-planned and carefully executed migration strategy. Data fields, such as those for remittance information, were found to be inadequate; mandate fields were not robust enough to address such a wide span of local country practices. This was caused by both the field definitions (length and syntax) and a misunderstanding on how to interpret the rules. As SEPA introduced more business requirements, institutions also found a pure technical translation of the standard to be a limitation.

Payments-aware systems that comprehend the data contents offer greater flexibility to implement business services along with required mandate changes.

GOVERNANCE

SEPA was widely criticized for being too intra-bank focused. It did not include the breadth of parties affected from the beginning to ensure a successful rollout and adoption. Governance has since been established with a SEPA Council. The SEPA Council (now Euro Retail Payments Board, or ERPB) aims to ensure inclusivity going forward. This council includes consumers, retailers, corporations and small-to-medium-sized businesses in the ongoing dialog and planning around SEPA. Similarly, as Europe's TARGET2/EURO1/STEP1 infrastructures evolve to adopt ISO 20022, consideration should be given to including a variety of stakeholders to ensure appropriate representation is involved in decisions. This is especially important as the migration moves from a like-for-like approach to utilize the full power of the ISO 20022 message standard.

TURNING A REGULATORY "MUST DO" INTO AN INNOVATIVE "MUST HAVE"

The suggestion to utilize a regulatory, mandated event to implement anything but the required scope is often met with resistance from participants wishing to avoid risk. However, it could be argued that making only mandatory changes carries an equal if not greater amount of risk.

An estimated 76.3 percent (US\$143.3 billion) of IT spending in banking goes toward the maintenance of existing systems (Celent, IT Spending in Banking, 2014). The remaining 24 percent of the spending pie is then available for discretionary spending. This is where budgets will be scrutinized and prioritized to determine the most worthy projects, while others will be sidelined for future consideration.

While an infrastructure such as TARGET2 is implementing a like-for-like migration, it should not be considered as the only path for other market initiatives transitioning to a new standard. Like for like may make sense in some cases, but new product offerings that provide value-added services may justify an expanded scope.

Ultimately, a bank must decide whether it wants to survive or thrive; to meet the minimum requirement or set the bar for competitors to follow. ISO 20022 and XML have become widely accepted standards by virtue of their inherent extensibility. As other industry initiatives embrace the format, full consideration should be given to realizing the value of the standards for driving innovation and customer satisfaction as soon as possible.

SUCCESSFUL EXECUTION

When embarking on new initiatives or migration projects related to ISO 20022, there are several areas of opportunity to actively consider. Opportunities for growth and efficiency fall into four broad categories.

1. Drive new products and services

First and foremost, ISO 20022 is an enabler of innovation and competitive differentiation. Organizations should scrutinize the opportunities to create compelling products for customers using the information the standard can carry.

2. Manage fraud

Consider how data hackers and thieves will approach the infrastructure from the very beginning. Thieves actively look for weaknesses to penetrate in new infrastructures. Organizations can protect themselves by comprehensively assessing all payment types and customer interactions at an enterprise scale to identify weaknesses and correct them before thieves take advantage of them to infiltrate your data.

3. Unlock systems

The information flows enabled both by ISO 20022 and real-time environments put greater demands on all systems in the ecosystem of a financial institution. Organizations can evolve the approach to enable information flows between systems, utilizing middle office payment hubs as needed to facilitate integration. Organizations should review those systems that are limited by batch processing and determine whether an upgrade is necessary.

4. Renovate

Organizations should approach the project with a goal of making the overall processing environment more nimble. In this rapidly evolving payments landscape, it's crucial to enable responsive, enabling systems architecture that allows the organization to compete more effectively. Organizations should keep architectural agility top of mind and use an ISO 20022 project to provide a foundation for further system development.

Not all opportunities are feasible or advantageous for every organization. They should choose those that best align with strategic objectives and build operational activities that support them. Organizations should look beyond ISO 20022 as an operational mandate and embrace it as an opportunity to drive enterprise-level innovation within the organization. Doing so can help the institution stand apart as a leader in the increasingly competitive payments landscape and put the company in a position of strength for years to come.

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ABOUT ACI WORLDWIDE

ACI Worldwide, the Universal Payments company, powers electronic payments and banking for more than 5,600 financial institutions, retailers, billers and processors around the world. ACI software processes \$13 trillion each day in payments and securities transactions for more than 300 of the leading global retailers, and 18 of the world's 20 largest banks. Universal Payments —  — is ACI's strategy to deliver the industry's broadest, most unified end-to-end enterprise payment solutions. Through our comprehensive suite of software products and hosted services, we deliver solutions for payments processing; card and merchant management; online banking; mobile, branch and voice banking; fraud detection; trade finance; and electronic bill presentment and payment. To learn more about ACI, please visit www.aciworldwide.com. You can also find us on Twitter @ ACI_Worldwide.