The transition to ISO 20022

Brian Bollen discusses the payments technology landscape and what comes next for SWIFT, banks, brokers, dealers and custodians

We live in a new era of transformation for payments technology. The combination of regulation, AI and telecommunications speed and power is modernising central bank settlement systems to move money in real time. It's paving the way for redefinition of the very phrase 'real time'.

"Payments will become truly instantaneous," states Vinay Prabhakar, vice president, product and corporate marketing at Volante Technologies. "Instant payments in Europe are not currently mandatory; FedNow in the US is not mandatory. But FedNow comes close to being a regulatory mandate, and if a bank doesn't want to be disintermediated by newcomers, they will have to operate 24/7."

At the end of June, Volante Technologies issued a press release reporting that it had powered an unidentified major custodian to complete pilot testing successfully on the FedNow instant payment network. It launched last month.

As anyone who works in the industry can readily testify, the payments technology world has advanced almost unrecognisably since the global financial crisis of 2008. This is sharply demonstrated in its operational shortcomings in terms of transparency and scale, and operational competence. Even internet banking technology that was state of the art a decade ago is starting to look old.

Volante's Prabhakar uses a simple analogy to make his point. "A bicycle frame that was suitable for a seven-year-old rider in 2007 will not be suitable for that same rider as an adult today," he says. "Global payments — the account-to-account transfer of funds — have been the weakest link in the chain.

"It is only now that payments technology is catching up, and not a moment too soon, as the advent of AI, ISO 20022 and instant payments will otherwise place a weighty load on the old frame that it can no longer bear."

Many moons ago, the processing of international money transfers took place using visual display units that granted access to the then nascent SWIFT system. In that antediluvian world, even a telegraphic transfer marked 'urgent' might take five calendar days to process from start to finish.

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Rodolphe Dubost, BNP Paribas

Today, we face a world in which ISO 20022 enables vast tracts of images and data to travel with individual payments, mainly through mobile networks. This in turn raises the prospect of global macro changes.

"A whole industry developed around the needs for reconciliation of data and analysis, generating new and higher value work for legions of staff," says Volante's Prabhakar. "Today, in a world where payments are now achievable in a fraction of a second, the question is: do we have enough staff?"

Whatever the answer to that question might be, Prabhakar says that the impact of change in technology will be enormous, as the pace of payment capability accelerates and the ability to detect fraud grows.

Keep calm and carry on

Rodolphe Dubost, global head of cash management and liquidity for securities services at BNP Paribas, says that business continuity planning and cyber security are two of the key factors to improve global payments technology. Resilience in these areas is paramount.

Dubost says: "We need to ensure continuity of service to our clients. Our clients want to make payments, often quickly and securely, while complying with prevailing regulations. All the while, we are pursuing a multi-year programme of modernisation for our legacy systems."

The way clients interact with web interfaces is quickly changing, and institutions also have to evolve rapidly and continually, he adds, echoing earlier themes.

"All other considerations aside, the industry has no choice but to be compliant when SWIFT's current ISO transition phase completes at the end of 2025."

His colleague, Jean-Marc Friess, chief digital services officer for securities services at BNP Paribas, highlights the growing role being played by AI in several banking areas including payment services.

In late June, BNP Paribas's Securities Services business announced the launch of its virtual agent, NextGen Online Assistant (NOA). The portal has been designed to help clients find the information they need quickly and efficiently. NOA leverages the latest cognitive technology of Amelia, a specialist in Enterprise Conversational AI.

NOA has been specifically trained for the securities services environment and to interact with the bank's underlying systems, leveraging a set of APIs to ensure reliability and scalability. It is available on NeoLink, BNP Securities Services' main client portal.

Commenting on the portal, Friess says: "NOA is testament to our ambition to deliver a multichannel and digital client experience, in line with the BNP Paribas Group's 2025 strategic plan. NOA's journey has just started. Our virtual agent will continue to grow to support clients throughout the investment cycle."

Transition to ISO 20022

More familiar and less contestable sentiments relating to technology developments have involved payments in one form or another.

Roland Brandli, strategic product manager at SmartStream Technologies, turns to the plastic construction toy Lego for an analogy when asked to describe the industry's current major payments technology issues.

"Every payment type (payment rails, to use the industry jargon) has a different size, colour and shape, and you need to put everything together to execute payments successfully. You cannot build a roof if the right size and shape of block is missing."

"Arguably, the biggest current challenge is that all the Lego blocks are changing because of the transition to ISO 20022," he adds.

Moving on to the topics of T+1 and AI, Brandli comments that "we have had provisions in place for both T+1 and AI for several years now," stressing the importance of combining the best elements of machinery and human beings to maximise the benefits that AI might deliver through continuous learning and informed supervision.

SWIFT recently published a working paper on preparations for the move to T+1 and instantaneous settlement in financial markets, and industry preparedness for such a change.

In a summary of the paper, SWIFT explains that it covers the various equity settlement technologies and analyses how collateral, stock lending and margin requirements can impact the settlement processes.

The debate on shortening the equity settlement cycle is discussed, along with potential policy recommendations based on industry preparedness.

"The findings of this study will help stakeholders identify gaps in their current settlement processes and develop strategies to meet the demands of accelerated settlement," declares SWIFT.

It focuses attention on a number of key findings.

There are benefits for brokers and dealers, as well as associated custody businesses including reduced counterparty risk and lower settlement margins. For wealth and fund managers, the main benefit is arguably improved access to funds for custom.

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Going forward

Readying firms for STP is essential to improve their ability to comply with accelerated settlements and introduce further efficiency and operational risk reduction.

The arguments for accelerated settlements are strong, with markets such as India already on a T+1 cycle and mainland China using a T+0 cycle for delivery versus payment settlements.

Though SWIFT says: "Our research shows that acceleration can come with significant costs, and, maybe less intuitively, risks — given the need to operate seamless settlement processes."

SWIFT closes its summary by saying that "clear steps need to be taken to implement the migration to accelerated settlement processes. Automated affirmation and STP levels must dramatically increase to ensure current high levels of settlement efficiency."

It concludes: "Work needs to be done to remove batch processes, especially overnight batches which will not meet the new deadlines. It is imperative to remove non-standard instructions and paper from as much of the system as possible." ∎