



# XML: Key to SEPA Compliance and Global Standardisation

by Dieter Stynen, Head of Cash Management Corporates, Western Europe, and Head of Global Transaction Banking Belgium, Deutsche Bank

**W**ith the end date for domestic payment instruments in euro only a few months away, all companies should now have completed, or have made considerable progress towards migration to SEPA (Single Euro Payments Area). A vital element of the migration project is the use of XML ISO 20022 formats (XML) on which SEPA payment instruments are based. This article outlines some of the issues that treasurers and finance managers need to consider when implementing XML as part of a SEPA migration project, and the opportunity that XML presents to introduce considerable process efficiencies. These are further enhanced when used in combination with a robust and bank independent communication channel such as SWIFT.

## Bank communication channels

Treasurers first need to ensure that their systems support XML, including both the channels with which they communicate with their banks, and that their internal systems, such as ERP, and treasury management systems (TMS) support XML formats. If using SWIFT, or modern electronic banking systems provided by the major banks, whether web-based or host-to-host, this will not be an issue. Systems provided by smaller, local banks, or older versions, may need to be upgraded or replaced. Before XML, proprietary banking systems transmitted and received files and messages in diverse formats, which in some cases has made it difficult to change banks, or the technology used to connect to them. In contrast, XML is a standard format, which better facilitates a harmonised approach to bank connectivity. For example, companies can add or change banks more easily, without the need to amend systems to send or accept files and messages in new formats. Alternatively, the SEPA migration project may also be an opportunity to implement SWIFT connectivity. SWIFT provides bank-neutral, robust, secure connectivity across multiple banking partners, thus further enhancing companies' bank independence, and supports both XML and other formats.

## The value of XML conversion

A more significant technical challenge when introducing XML as part of the SEPA migration is to modify the internal systems that provide or receive information from the banks. These could include one or more ERPs, TMS, payment systems and reconciliation systems. While many vendors of these systems have modified them to support XML in good time for SEPA migration, their customers need to be using up-to-date versions in order to take advantage of this functionality. In the case of ERP, particularly where multiple systems are in use, and systems that are developed in-house, the upgrade process can be an extensive process with significant time, cost and resource implications. In these situations, it may be more realistic to make use of a third

## About ISO 20022 (XML)

The standard referred to as ISO 20022, based on XML, was first developed in 2003 by RosettaNet and TWIST, with significant collaboration by SWIFT and major global transaction banks. SEPA payment instruments (SEPA Credit Transfers and SEPA Direct Debits) are based on ISO 20022, so all corporations operating in Europe will need to support this by February 2014; however, the standard has far wider applicability as a standard for payments and other transaction types globally.

ISO 20022 is not simply a set of message standards, but a formula for the development of message standards across all parts of the financial industry. One of its most significant characteristics is the decoupling of the business rules from the physical message formats. The models evolve with the business, while the formats evolve with the technology to benefit from the latest innovations. This results in a very high level of automation, ease of implementation, openness and cost-efficiency.



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party conversion service to ensure SEPA-compliance before the February 2014 end date. These services convert outgoing legacy formats into XML, and incoming XML into formats that can be imported into in-house systems.

While the use of third party conversion services is likely to form a vital element of many companies' SEPA migration projects, they should be considered a stop-gap for the purposes of compliance, as opposed to a long-term solution. By introducing another party and further processing steps for payment and reconciliation, additional risk, time and cost are inevitably involved, which treasurers and finance managers should seek to eliminate in due course.

### Challenges of XML migration

Although ISO 20022 formats have widespread support throughout the financial community and bring a variety of benefits, there are some considerations and challenges that should be taken into account as part of the implementation process. Firstly, while the most significant advantage of ISO 20022 should be its uniformity, variations have materialised across banks. Consequently, treasurers and finance managers should insist that their banks and vendors support the Common Global Implementation (CGI) ISO 20022 standards as opposed to a proprietary version. This is essential in order to derive the full benefits of standardisation, not only within the Eurozone, but more widely as ISO 20022 becomes adopted as a global standard.

Another challenge, particularly bearing in mind that every company has competing priorities, is securing sufficient IT resources for the project. As SEPA migration is compulsory with a fixed deadline, and the impact of failed salary, supplier and debt payments could be catastrophic, treasury and the finance teams engaged in SEPA migration should be able to make a strong case for securing the necessary resourcing. Constraints on resourcing may also apply to the banks as a large number of customers seek to test the XML files they are producing. This is likely to impact on turnaround times for test files, which can affect project timelines. To avoid this issue, and to support our customers' SEPA

### Benefits of XML

- SEPA compliance, avoiding the considerable risk and cost associated with failed salary, supplier and debt payments
- Standardisation of formats both for SEPA transactions and globally
- Reduced cost, resource and fragmentation of bank communication and integration, as a single set of information in a single format replaces disparate proprietary formats and interfaces
- Banks now filter data to process payments, ignoring any extraneous data sent by a customer. In the past, this filtering had to be done by the customer, which otherwise resulted in rejected messages
- Content-rich formats which are not truncated as files are passed between financial participants, enhancing automated processes such as reconciliation
- By leveraging a consistent format, companies can connect with new banking partners quickly and easily, therefore managing their counterparty risk more effectively
- Processes can be centralised, streamlined and rationalised, supporting corporate efficiency objectives

migration projects as efficiently as possible, we have introduced an automated XML tester. This enables our customers to obtain immediate, detailed feedback on any errors in their files, without the risk of project delay.

### From regional compliance to global benefit

Successful implementation of ISO 20022 brings a variety of advantages in addition to SEPA compliance. The ability to use a single, standard format for payments information and other transaction types makes it easier to achieve a high degree of automation in processes such as bank account reconciliation. This is enhanced further through rich content, which is not truncated as messages are passed between financial participants, allowing the same information to flow from originator to beneficiary. ISO 20022 is relatively easy to create, and once systems have been modified to support it, the format can be used more widely than SEPA, across multiple regions and transaction types, and therefore represents a foundation for global standardisation. This is already a realistic prospect for customers of Deutsche Bank, which now supports ISO 20022 globally.

The ability to standardise formats and messages at a global level has significant implications for centralising and harmonising treasury and shared service centre (SSC) processes and information flows. As we will see later in this series of

Deutsche Bank articles on the implementation and implications of SEPA migration, treasurers and finance managers leverage standardised formats to introduce or expand the use of techniques such as payments-on-behalf-of (POBO) or collections-on-behalf-of (COBO). The challenge now for companies is how quickly they can migrate to SEPA, including ISO 20022, in order to ensure compliance by February 2014 and take advantage of these opportunities. □

### Dieter Stynen Head of Cash Management Corporates, Western Europe, and Head of Global Transaction Banking Belgium, Deutsche Bank



Dieter Stynen is Head of Cash Management Corporates Western Europe and Head of Global Transaction Banking Belgium. He joined Deutsche Bank in 1998 as Cash Management Sales Advisor in the local BeNeLux/France sales team. After leading that group for four years, he moved into treasury solutions, serving as head of the EMEA team for three years. Dieter was appointed to his current role in July 2012.

While his earlier experience was in the chemical sector, he started his career in banking in 1996 with The Bank of New York Mellon as a Customer Service Officer for Global Custody clients. Dieter has a Masters degree in Applied Economics from the University of Antwerp, Belgium, and an MBA from the Katz Graduate School of Business, University of Pittsburgh (USA).