

## The international standards revolution

In payments systems messaging, the holy grail of the standards revolution is the single international standard: one standard to replace the myriad of proprietary and open standards currently in place in the financial industry. For many institutions and their corporate customers, which have to maintain multiple linkages and multiple message formats running on multiple legacy systems, the cost and effort involved in standardisation often obscures the benefits. As a result, reaching industry consensus and developing momentum towards any new standard is a very challenging and protracted process.

The reality is that any program of standardisation must focus on delivering value to business and not just blue sky or intellectual stimulation for technologists.

The challenge for the standards knights (jousting with profit-focused business managers) is how to articulate the business benefits in such a way that a sustained industry effort can be established to reach the ultimate goal of a single standard.

Perhaps the best business motivation will be the realisation that by not quickly addressing the issue of standardisation, it will open the door for a new market or competitor to develop a more efficient and nimble product, allowing it to directly impact the profitability of many large institutions.

A related example from Heidi Miller<sup>1</sup> was the inability to develop a secure and easy to use on-line payments solution for what became the very successful company e-Bay. e-Bay turned to another e-business start up in the late 90's to solve their needs after several banks could not deliver a suitable solution. e-Bay eventually bought the company for over \$1billion USD. The company was not a bank; it was PayPal. Of course, the irony is that PayPal transactions leverage the same systems the banks spent billions of dollars building. Miller notes that "however when we as an industry are properly motivated, it's impressive what we can achieve together. Look at what has been done with Equilend, CLS, the Euro, Target, and SEPA."

Motivation will again be the key to taking advantage of the current revolution occurring in messaging standards. Perhaps the most prominent example of the standards revolution is the UNIFI initiative from the International Organisation for Standardisation (ISO). Rather than only describing message formats in detail, UNiversal Financial Industry message scheme (UNIFI) provides a business-based approach to developing message standards.

*If the Australian payments industry doesn't engage in global standards processes, will we be left behind?*

UNIFI was designed to address the problem caused by the creation of several new standardisation initiatives that had evolved over the last decade using internet based messaging. These initiatives are a real alphabet soup; SWIFT, TWIST, FIX, MDDL, XBRL, IFX and several others.

Over the past decade, the rapid expansion of the internet led to a proliferation of standards initiatives based on using eXtensible Markup Language (XML) as a language. However each initiative developed their messages in their own XML dialect.

XML's genesis came through innovations designed to solve the difficulties in large scale electronic publishing in the 1970's. One of the key people involved and the person who coined the term "markup language", Charles Goldfarb, has referred to XML as the holy grail of computing, solving the problem of universal data interchange between dissimilar systems. XML was developed in the late 1990's based on the markup principles as a framework to achieve this nirvana. XML's power comes from its simplicity and ability to describe data within the message. This flexibility however has assisted in the creation of many "standards" in isolation, resulting in overlaps and confusion in usage.

UNIFI's approach is to provide an umbrella mechanism whereby the 'alphabet soup' and other standards can successfully co-exist in the short term and converge over time to a single standard. The approach requires

business level modelling to be undertaken as a pre-requisite to the formation of the messages. The result of the business modelling is a non-technology dependant, non-language dependent set of models and data descriptions that are stored in dictionaries allowing anyone access to look-up the information.

The UNIFI (or ISO20022) approach is also being taken up in the development of new standards for initiatives such as SEPA (Single Euro Payments Area). The approach promises reduced implementation costs and time, but also incorporating flexibility in individual business processes.

Although the UNIFI approach provides a means for the financial industry to move towards a single standard, the momentum needed to attain the objective is yet to be achieved. Standards organisations such as SWIFT and TWIST are very active in promoting the approach and encouraging their members to commence convergence programs.

The success or failure of UNIFI will depend on a clear understanding and articulation of the business benefits and the ability of the industry to see beyond their short term issues and get involved in collaboration and planning for the future. The question for Australia is what part do we want to play in this revolution?

There is little doubt that regulatory and market forces driven primarily by the Europeans and the United States will push our local financial institutions to adapt to new global standards. Evidence of these forces already exists with various initiatives such as anti-money laundering, Sarbanes-Oxley, IBAN, IBEI etc requiring changes to infrastructure and operational processing.

Motivation and engagement at a payments industry level is the key to Australia influencing the strategy and implementation of international standards. The benefits gained in reducing costs in infrastructure maintenance and development alone would justify a unified Australian voice to influence the direction of the UNIFI standard.

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1. Based on a speech by Heidi Miller, Treasury & Security Services Executive, JP Morgan Chase & Co – SIBOS 2004

The ideas and opinions expressed in this article are those of the author and not necessarily those of APCA or any APCA member. This article has been included in APCA's 2007 Annual Review for the purpose of promoting industry discussion on topical issues.