

# ISO 20022 XML Messaging: Can it Take Cash Management to the Next Level?

The adoption of ISO 20022 XML is more than simply introducing yet another file format. It is an opportunity to establish a low-cost, low-maintenance strategic messaging foundation, which facilitates the associated improvements in the underlying operational processes.

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In the current climate, corporates across the globe are looking at ways to improve financial and operational efficiencies and effectively take out existing layers of cost. The current cash management landscape is one that is typically underpinned with regional and global corporates having to connect to multiple banking partners. This model introduces a level of complexity and therefore cost, as the corporate is usually expected to support multiple file formats or even multiple bank-specific interpretations of the same format, in order to initiate their supplier, treasury and employee payments.

This is clearly undesirable and introduces costs from a development and maintenance support perspective, as banks require either different information in the same field, or the same information but in a different field. It also increases the challenges around banking integration, as extending services from an existing banking provider or adding/changing a banking provider becomes a more time-consuming task as message portability does not exist.

While the host-to-host corporate to bank space comprises of three core components - method of connectivity, security and the file format - this article purely focuses on the opportunity to simplify the file formatting layer through message standardisation.

There have been earlier attempts at standardising financial messages, but these have lacked a continued, focused and committed collaborative effort by all the key stakeholders in the cash management process. This is a significant difference in the evolution of XML as a financial messaging standard, as the level of stakeholder collaboration has been unique.

## Background to XML

The collaboration around XML financial messaging started eight years ago in June 2003, on the back of the combined Rosettanet and TWIST discussions. Citi was one of just 10 banks invited to participate in the initial XML standardisation meeting, which was hosted by SWIFT. As one of the first banks to embrace the concept of a common global standard for financial messaging, Citi recognised that the competitive boundaries were about to change forever, and corporates would begin to shun banks that were not opening up to greater levels of file integration interoperability.

The need for a focused and committed collaborative effort was driven by the core objective to achieve a single payment standard that could be used globally by any corporate, irrespective of size and sector, and by any servicing bank regardless of location. Since then, all the key stakeholders - banks, vendors, corporates and the standards organisations - have continued to support the ongoing evolution of XML in the financial messaging space.

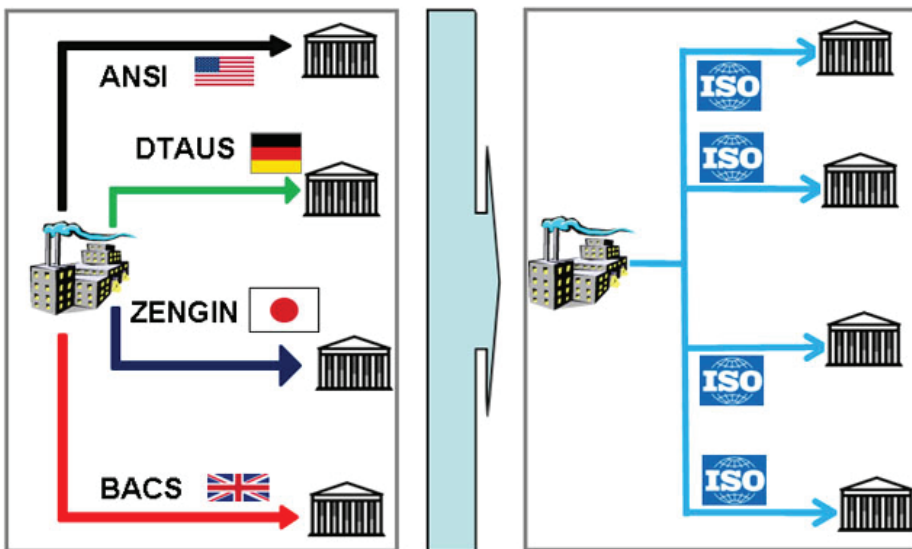


Figure 1:  
Simplified Messaging Landscape

Source: Citi

Given we are now in 2011 and taking a moment to look back, it is very clear that significant progress has been made in terms of both adoption and the level of messaging alignment that has been achieved. Citi is observing increased rates of XML adoption, with live XML customers more than doubling in the past year to over fifty, initiating payments on a truly global scale across 76 countries in addition to single euro payments area (SEPA) payments. The quickening demand for XML messaging is taking share from older, traditional formats, such that XML now accounts for 18% of Citi's file-based transaction volumes - it is clear that corporates are starting to realise the benefits around adoption. The diagram below shows the simplification that can be achieved with XML messaging.

## The Real Benefits of XML Adoption

While some people hold the view that XML is 'just another format' and that a single, harmonised template is unrealistic, the reasons below will hopefully clarify why the financial industry is starting to see increasing momentum in adoption.

### *Mindset change around business rules*

Before the introduction of XML messaging, the traditional model for implementing a generic file format - such as D96A PAYMUL or SAP IDOC - was for the receiving banking partner to clarify what payment information was required in order to make a valid payment. This information would vary, based on the required payment method and originating country and, most importantly, that only this information should be provided.

For example, if a customer wants to make a domestic bulk payment in the UK (BACS), they would need to provide the domestic banking sort code, whereas a UK priority payment would actually require the SWIFT bank identification code (BIC). This would mean the originating customer would need to filter their bank master and vendor master data records held within their enterprise resource planning (ERP) platform or treasury management system (TMS) in order to extract only the required information. These business rules, which are typically bank-specific, represent an extra layer of complexity, cost and risk to the overall cash management process.

The mindset has changed with the introduction of XML financial messaging as the majority of these business rules can now reside at the receiving bank, which effectively removes a layer of cost and complexity at the customer side.

### *Data overpopulation*

Closely linked with the first point, data overpopulation allows a customer to simply provide their master data (both bank and vendor records) in the XML message. Given the payment message currently has 942 fields, it has been designed to support a full range of data options, thereby making it much easier for the originating customer to merely map across the master data, which the receiving bank will then filter, based on the requested payment method. This in turn allows the corporates to use a single common messaging template across all their banks, again considerably reducing cost and complexity.

### *Message portability and lower bank integration costs*

One of the core requirements of the corporate community is to achieve a bank-agnostic file format, which significantly reduces the cost, both in terms of development and testing requirements. While a large number of XML-enabled banks have tried to reduce the variation around field interpretation, the best way of achieving a truly 'plug-and-play' messaging template is to proceed with an XML harmonisation meeting involving the core banking partners.

Some banks have considerable experience in this space, which ultimately ensures the corporate can benefit from a

single XML messaging template. The harmonisation meeting would typically be attended by a maximum of five to six core banks, with the resulting template then being shared with any local banking partners. While this approach may seem time-consuming, experience has shown it really does deliver results, and corporates that have followed this best practice have a more efficient implementation of the XML messaging standard.

### *Improved operational and financial efficiency*

This final point is really why XML messaging allows corporates to take cash management to the next level. By implementing a single standard messaging template, it provides the opportunity to simplify and standardise the underlying technical architecture, operational processes and required monitoring controls. Effectively, XML offers the opportunity to achieve a truly low cost, low maintenance cash management infrastructure that enables operational and financial efficiencies.

## **Building on Collaboration**

The success of XML on a global stage will ultimately depend on industry collaboration such as the excellent work of the Common Global Implementation (CGI) Working Group. Founded in October 2009 and supported by SWIFT, it has the primary objective of taking XML message harmonisation to an even greater level. With a formal governance model in place, the CGI recently completed the definition of a set of implementation rules that cover:

- The payment initiation and status report messages.
- The direct debit message.
- The end of day statement and associated financial reports.

This work effort has focused on the series of XML messages that were published in the April 2009 ISO annual standards maintenance release. The level of alignment will address both the core message and associated local in-country rules covering the underlying requirements of each local clearing system. It also includes a new common error code list that will enable corporate customers to implement a single master list, thereby removing one of the complexities associated with a multi-banking implementation.

Significantly, the CGI mapping rules may also serve as a blueprint for ERP and TMS vendors to develop standardised out-of-the-box applications and product extensions that can greatly simplify and accelerate the implementation effort for corporates and banks alike. With initial CGI publication due this year, the challenge is now on for all players in the industry to work together to fulfil XML's great potential.

## **Conclusion**

XML provides greater opportunities to improve existing technical and operational processes. However, to maximise the achievable benefits, it is important to follow a proven best practice approach so you can achieve the required low cost, low maintenance cash management environment.

### **Security Concerns**

While security concerns are always on top of the agenda when considering various forms of outsourcing, they may be less of an issue today than previously. The outsourcing industry has been through a number of years of establishing appropriate routines, security protocols and due diligence processes, building up credibility in the process. Anyone looking to outsource business critical and sensitive processes will need to have security as one of their key evaluation criteria when selecting providers.

One development, which could be of concern, is that some outsourcing companies buy IT processing capability from the lowest bidder. This gives rise to the question of who an outsourcing provider is outsourcing to, and what control the company has over its data and how it is being distributed. It remains to be seen whether the outsourcing providers have built a secure environment with enough controls to prevent this becoming an issue.



**Phil Hong** is responsible for leading Citi's roll out of ISO 20022 XML capabilities in the Europe, Middle East and Africa (EMEA) region, covering payments, direct debits, supplier finance and cash management reporting for corporate, public sector and financial institution clients. He also manages Citi's electronic bank statements and straight-through reconciliation (STR) reporting products, integrating via file and message connectivity channels to client's enterprise resource planning (ERP) and treasury management systems (TMS). Prior to joining Citi in 2007, Hong spent four years at American Express managing commercial card products, and 12 years at Thomson Reuters in product, marketing and IT roles, developing real-time dealing and market information products for wholesale financial markets. Hong is currently an active member of the ISO 20022 XML Common Global Implementation group, and was previously one of the original members of the UK Purchasing Card forum.



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the UK experts within the International Standards Organisation Payments Expert Group, a founder member of the Corporate Straight-through Processing Bank Group in June 2003 and the Common Global Implementation Working Group in October 2009, he is widely recognised as an industry expert in the XML space. Sutton holds a Bachelors Degree in Mathematics from the UK Open University, a Certificate in International Cash Management (CICM) from the UK Association of Corporate Treasurers (ACT) and the Information Systems Examining Board Project Management Certificate.

#### Citi

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