



1. Mandate
2. Objective and Requirements
3. Conclusions
4. Recommendations

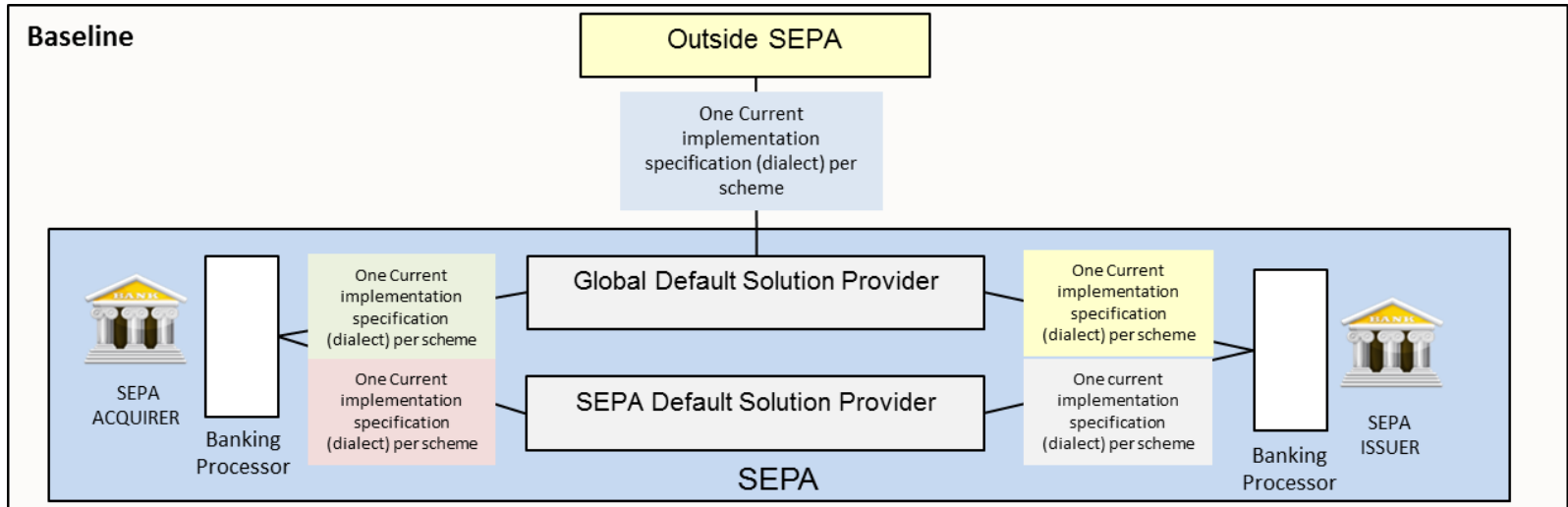
## Back-up information

1. Scenarios Considered
2. ISO 20022 Options
3. Planning
4. Business Rationale
5. Costs and Benefits
6. Point of Attention

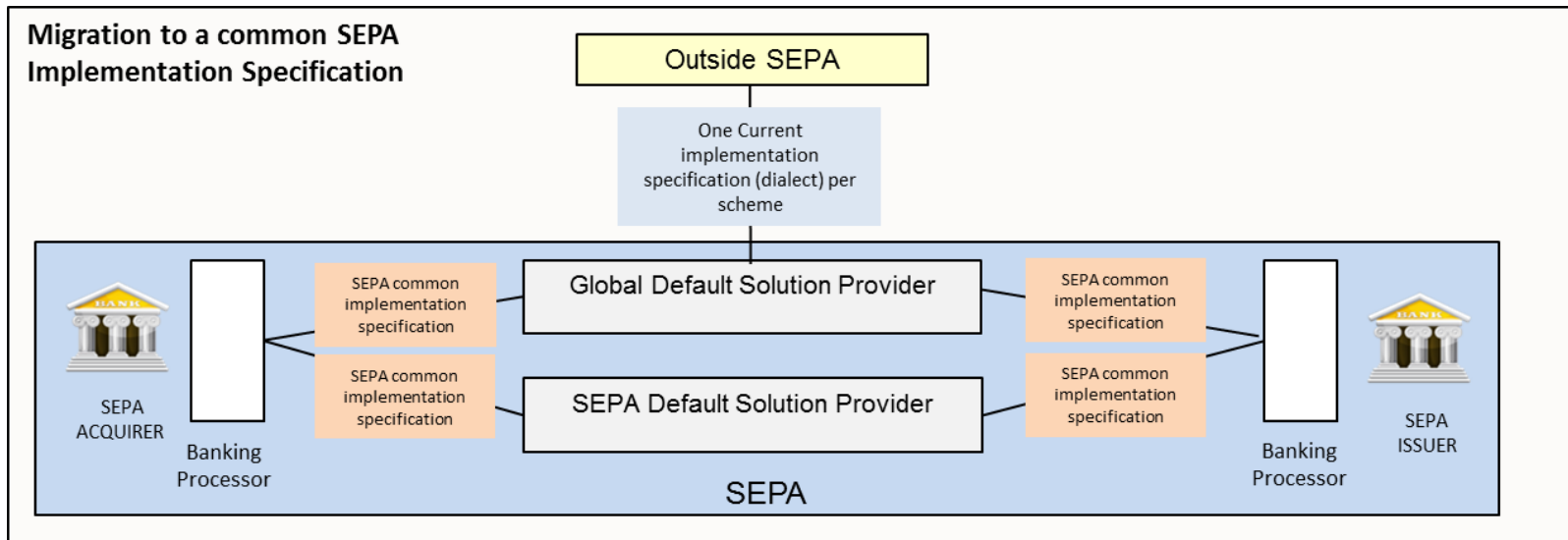
- From 29 June 2015 meeting recommendation ERP/2015/sta3:
  - *The ERP invited the CSG to perform a study at the European level to evaluate any interest and benefit of the migration to a single message standard and standardised clearing/settlement practices in the issuer-to-acquirer domain*
- Domain definition:
  - Communication between the PSP of the Payer (the card issuer) and the PSP of the Payee (the acquirer), in 3 phases:
    1. Real-time authorisation
    2. Financial presentment of the amount of the transaction (Clearing)
    3. Final settlement phase
- ERP and Eurosystem's view: multiple diverse standards are suspected to cause fragmented markets

# Objective and Requirements

From



To





# Conclusions

- A fair number of advantages but also of drawbacks in migrating to a common standard
  - No business case for the low and medium estimates
  - A payback period in the high estimate situation of 11 years for Scenario 2 (ISO 8583) and 18 years for Scenario 3
  - A mandate, with all the derived issues, would be the only way to achieve the expected results
  - The need to ensure nearly complete homogeneity of the standard coverage, at the risk of hindering innovation
- 
- **All that considered, the CSG is unable to recommend mandatory migration to Scenario 2 or 3. The CSG is also unable to recommend Scenario 1 because it would perpetuate the current situation.**
  - **The 11 May CSG discussed the report prepared by the A2I task force. The consensus view was that rather than establishing European specifications, the focus should be on ensuring European requirements are accommodated within the relevant global ISO standards. In view of this it was also agreed to establish a liaison between CSG and ISO.**

# Recommendations

| Issue / recommendation   | Addressees / relevant stakeholders | Remark |
|--|------------------------------------|--------|
| <p>The CSG recognises a potential in the adoption of ISO 20022 compared to ISO 8583, for the following reasons:</p> <ul style="list-style-type: none"> <li>• It could provide interesting advantages in terms of support for evolution</li> <li>• Although there is no business case for the whole ecosystem some individual entities might find a positive business case in the migration</li> </ul> <p>The CSG thus recommends the adoption of a market driven approach to migration to ISO 20022 where such a migration is decided based on business considerations.</p> <p><b>In order to optimise the market driven approach and make sure that those entities who decide to migrate to ISO 20022 choose the same commonly agreed specification, the CSG proposes to carry out the following activities:</b></p> <ol style="list-style-type: none"> <li><b>1. Refine and advocate the framework proposed in this document</b></li> <li><b>2. Establish a liaison between the CSG and the relevant ISO committees so that SEPA requirements in this domain are taken into account</b></li> <li><b>3. Consider alternative migration strategies (clearing only, specific geographical domains, groups of Schemes etc.)</b></li> <li><b>4. Monitor the evolution and adoption of the standard</b></li> </ol> | <p>CSG</p>                         |        |



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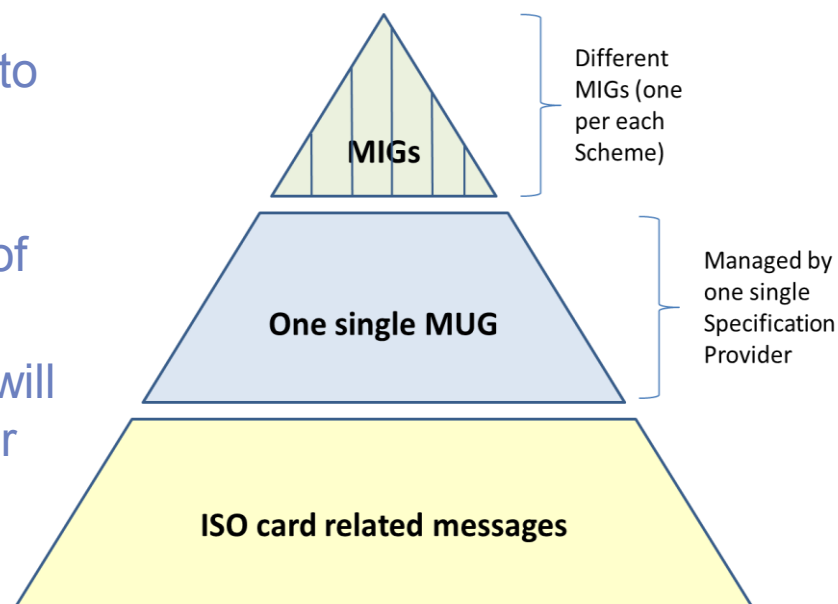
# Scenarios Considered during the study

## ➤ Three scenarios

- Scenario 1: “Baseline Scenario”
  - Let the market evolve with different A2I implementations
- Scenario 2: migration to a common ISO 8583 implementation
- Scenario 3: migration to a common ISO 20022 implementation

## ➤ Framework considered

- One Single Specifications Provider to manage the standard based on requirements provided by Schemes
- Schemes to ensure the availability of default solutions
- Acquirers, Issuers and Processors will also have the option to develop their own in-house solutions





# ISO 20022 Options

- Two clearing and settlement models
  - 'Traditional': clearing separate from settlement
  - Clearing and settlement combined in the same messages
- ISO 20022
  - ATICA covers the 'traditional' model + authorisation and other aspects
  - SCC covers clearing combined with settlement
- Scenario 3 must consider both initiatives in order to cover both business models
- In case Scenario 3 is adopted, the Specification Provider will have to:
  - Collaborate with the Berlin Group on SCC
  - Define functionality/area split between ATICA and SCC
  - Co-ordinate the harmonisation of the data modelling of SCC and ATICA clearing messages
- The actual movement of funds is out of scope

- Estimated duration for the migration, from the moment that the Specification Provider completes the specification(s), Schemes have issued their MIGs and the Solution Providers have completed the implementation, could be **from 4 to 8 years**
- The preparation phase could last up to 4 years and a half

|   | Y1 |    |    |    | Y2 |    |    |    | Y3 |    |    |    | Y4 |    |    |    | Y5 |    |    |    | Y6 |    |    |    | Y7 |    |    |    | Y8 |    |    |    | Y9 |    |    |    |
|---|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|----|
|   | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 |
| Specification Provider establishes new standard     | █  |    |    |    | █  |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Schemes reference default solution                  |    |    |    |    |    |    |    |    | █  | █  | █  | █  |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |
| Schemes ensure availability of new default solution |    |    |    |    |    |    |    |    |    |    |    |    | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  |    |    |    |    |
| Issuers certification and migration                 |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  |
| Acquirers certification and migration               |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  | █  |
| Decommissioning phase                               |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    |    | █  |

- **Methodology:**
  - Quantifiable aspects analysis (i.e. assumption of costs and benefits)
  - Unquantifiable aspects analysis (i.e. pros and cons)
- **Quantifiable aspects: 3 situations – low, medium and high estimates**
- **Results:**
  - Negative business case for the low estimate for both Scenario 2 (ISO 8583) and Scenario 3 (ISO 20022)
  - Extremely long payback period for the medium estimate, e.g. after 50 years the deficit still amounts to more than:
    - € 500 million for Scenario 2
    - € 1 billion for Scenario 3
  - Payback periods in the high estimate situation
    - 11 years for Scenario 2 (ISO 8583)
    - 18 years for Scenario 3 (ISO 20022)

# Costs and Benefits

| Low Estimate Summary                   | Scenario 2 ISO 8583 | Scenario 3 ISO 20022 |
|--|---------------------|----------------------|
| All One-time Cost (m€)                 | (474)               | (605)                |
| Net Annual Result After Migration (m€) | (29)                | (43)                 |
| Ratio Annual Result/All One-time Cost  | N/A                 | N/A                  |
| Payback period (years)                 | N/A                 | N/A                  |

| Medium Estimate Summary                | Scenario 2 ISO 8583 | Scenario 3 ISO 20022 |
|--|---------------------|----------------------|
| All One-time Cost (m€)                 | (1,187)             | (1,501)              |
| Net Annual Result After Migration (m€) | 51                  | 11                   |
| Ratio Annual Result/All One-time Cost  | 4%                  | 1%                   |
| Payback period (years)                 | Extremely long      | Extremely long       |

| High Estimate Summary                  | Scenario 2 ISO 8583 | Scenario 3 ISO 20022 |
|--|---------------------|----------------------|
| All One-time Cost (m€)                 | (2,102)             | (2,622)              |
| Net Annual Result After Migration (m€) | 389                 | 319                  |
| Ratio Annual Result/All One-time Cost  | 19%                 | 12%                  |
| Payback period (years)                 | 11                  | 18                   |

# Points of Attention

## ➤ Mandate aspect

|                       | Pros  | Cons  |
|-----------------------|---|---|
| No mandate on Schemes | Partial harmonisation of the market   | <ul style="list-style-type: none"> <li>Fragmentation issue unchanged</li> <li>Unfair competitive advantage to actors who do not migrate</li> <li>Worse business case due to impossibility to discontinue old platforms</li> </ul> |
| Mandate               | <ul style="list-style-type: none"> <li>Reduction of fragmentation</li> <li>All benefits identified</li> </ul> | Some actors may choose to exit the market due to high investment  |

- Mandate enforcement nearly impossible on a long period
- CSG cannot enforce the mandate

## ➤ Standard Coverage

| Option          | Description  | Pros  | Cons  |
|-----------------|--|---|---|
| <b>Complete</b> | <ul style="list-style-type: none"> <li>All functionality</li> <li>Strict uniformity</li> </ul> | Uniform implementation and universal coverage | Schemes and Inter-PSP processors must disclose proprietary innovation                           |
| <b>Baseline</b> | Only non proprietary/ competitive domain functionality   | Better protection<br>Quicker innovations      | Risk of fragmentation with different implementations and 'flavours' as in the current situation |