Interoperability – For a Truly Connected Financial Enterprise

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Financial Institutions (FIs) and corporates are increasingly getting interconnected due to ever-changing business models and regulations. There is a greater need in the financial services industry to seamlessly integrate business processes — internally and externally — with minimal disruption to core business operations. While organizations use financial messages to communicate and transmit information, a myriad of formats (SWIFT, FIX, EDIFACT, ISO, FpML) pose a significant integration and communication challenge.

FIs are under tremendous pressure to support these ever-changing messaging standards as well as streamline service levels, increase straight-through processing and lower the cost per transaction.

What's Really Impacting Financial Institutions?

The top 4 strategies that are being adopted by FIs to address their IT challenges are:

Application Rationalization – Due to changing business strategies and decisions, such as mergers and acquisitions, FIs end up creating and maintaining multiple applications doing the same logical group of work. Application rationalization is resulting in consolidation of such applications to agile, scalable and resilient platforms.

Data Center Modernization – Changing economic trends, business priorities and technology revolution such as virtualization, automation and cloud computing are forcing FIs to rethink the way their data center is being maintained. More and more institutions are opting for agile and cost-effective data center upgrades, resulting in a more streamlined business and operating model.

Legacy Modernization – The need to remain competitive in the market, in terms of cost, quality and value-added services, is resulting in FIs investing in new technologies to replace outdated architecture with state-of-the-art, user-friendly, cost-efficient and scalable platforms.

Application Updates – Due to the changing regulatory landscape, messaging standards and business and operating model updates, there is a need to renew key business applications.

This is resulting in an overhaul of business and infrastructure processes, leading to integration challenges and messaging upgrades. More often than not, these processes follow disparate messaging formats, which inherently pose significant challenges for a coherent and seamless environment.

Messaging and Integration Challenges

Some of the common messaging and integration challenges that FIs encounter in day-to-day business operations are:

All these challenges are making FIs take up:

There could be multiple formats and protocols to support internal systems. For new initiatives, new components have to work along with legacy infrastructure.

Monitoring, maintenance and upgrade initiatives for newer messaging standards such as SWIFT, ISO, PAIN and FIX.

Huge investments are required to make changes to industry standard protocols (SWIFT/FIX/FpML), including forced changes to downstream systems with low impact on processing requirements.

Big investments for accommodating application formats, protocols, handshakes and standards.

Inability to manage complex message routing requirements.

Complex client onboarding and setup initiatives, resulting in revenue realization delays.

Regulatory requirements such as Dodd Frank Act, European Market Infrastructure Regulation (EMIR) and Sarbanes-Oxley Act that are resulting in continuous changes to the messaging structures and causing a ripple effect on applications complying with these standards.

Long testing cycles for message transformation and integration validation.

Finding fixes

FIs can explore multiple options (as depicted in Figure 1) to arrive at a solution that best addresses the requirements of their messaging framework.
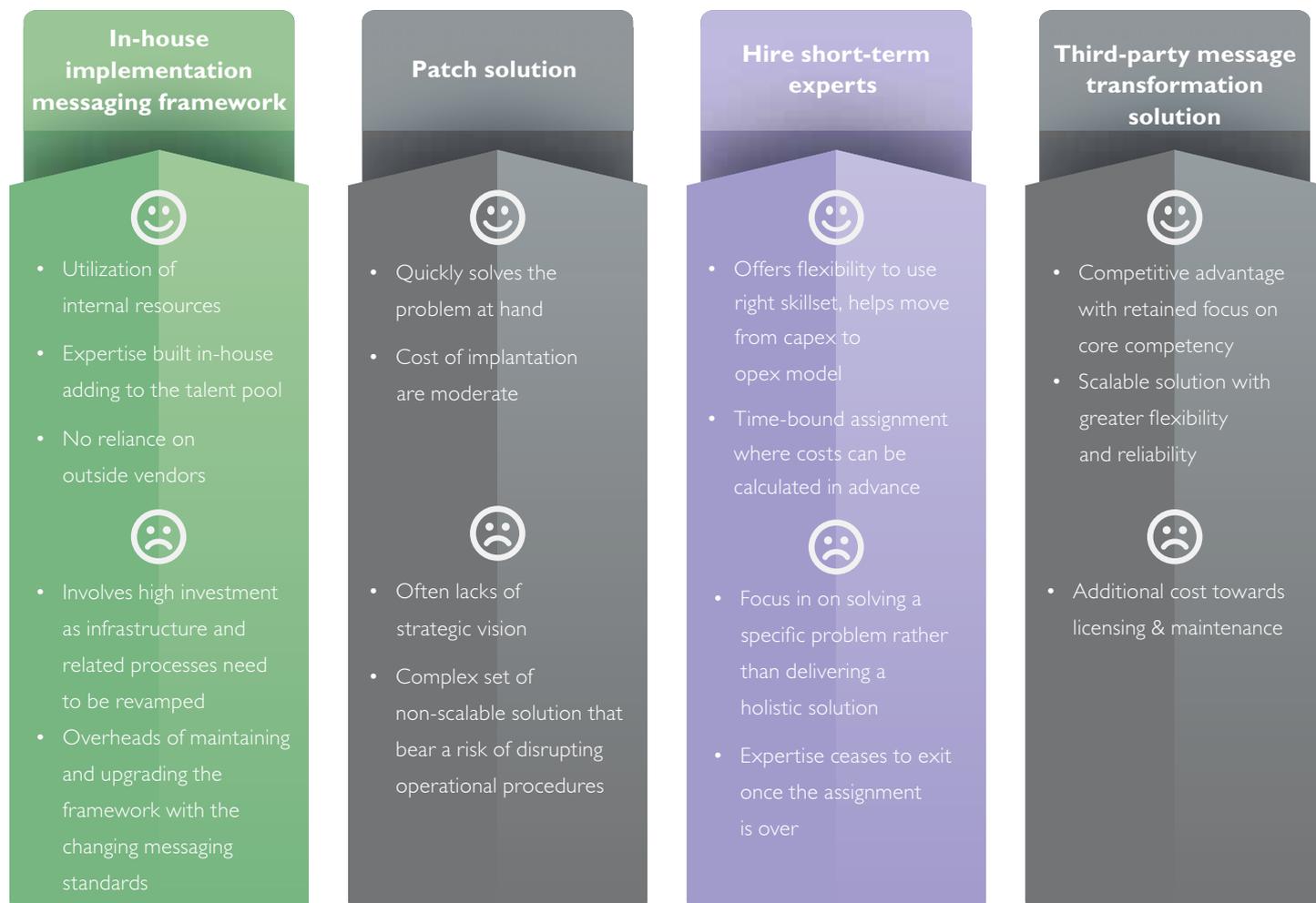
In-house implementation messaging framework	Patch solution	Hire short-term experts	Third-party message transformation solution
🙂	🙂	🙂	🙂
• Utilization of internal resources • Expertise built in-house adding to the talent pool • No reliance on outside vendors	• Quickly solves the problem at hand • Cost of implantation are moderate	• Offers flexibility to use right skillset, helps move from capex to opex model • Time-bound assignment where costs can be calculated in advance	• Competitive advantage with retained focus on core competency • Scalable solution with greater flexibility and reliability
☹	☹	☹	☹
• Involves high investment as infrastructure and related processes need to be revamped • Overheads of maintaining and upgrading the framework with the changing messaging standards	• Often lacks of strategic vision • Complex set of non-scalable solution that bear a risk of disrupting operational procedures	• Focus in on solving a specific problem rather than delivering a holistic solution • Expertise ceases to exit once the assignment is over	• Additional cost towards licensing & maintenance

Figure 1: Weighing Pros & Cons

To remain competitive, FIs need to go for an enterprise-wide Message Transformation Solution (MTS). This will not only help standardize their communication protocol and streamline their enterprise architecture, but also add flexibility, agility and scalability to their IT architecture, while reducing redundancies and complexities of the available systems.

Although the decision to procure or build the product in-house is entirely situational and depends on an organization's near and long-term strategic objectives, opting for third-party solutions has some clear advantages. Third-party solution providers are usually experts in message transformations and have unparalleled advantage with years of experience in the industry and deep technology expertise. They can help streamline the transformation and communication function, increase straight-through processing and revenue realization, while reducing time-to-market, redundancies and disparate communication mechanisms. They can also enhance the product functionality in the backdrop of ever-changing messaging standards, while shielding the client from constant machine and application upgrades.

Towards a holistic approach

Financial Institutions have a myriad of messaging formats to support with new ones being added each year, which impacts the way they interact internally and externally with other firms. The coming years will witness innovative ways in which applications and processes interact with each other. Thus a holistic approach towards applications integration and message transformations is the need of the hour. The time has come for organizations to start looking towards messaging as a strategic need rather than a communication mechanism.

About the Authors

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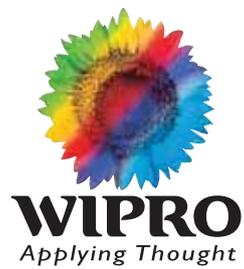
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