

## BUSINESS JUSTIFICATION

### FOR THE DEVELOPMENT OF NEW UNIFI (ISO 20022) FINANCIAL REPOSITORY ITEMS

#### A. Name of the request:

Electronic Mandates (e-Mandates)

#### B. Submitting organization:

SWIFT SCRL

Avenue Adèle, 1 – 1310 La Hulpe – Belgium

Standards Department

#### C. Scope of the new development:

This request concerns the registration of a set of messages within the Payment Initiation business area (*pain*). *All e-Mandate messages can be registered in the 'pain' area, including the inter bank messages, as there is no clearing and settlement involved in the process.*

*The set of messages are developed* in support of the already approved UNIFI messages CustomerDirectDebitInitiationV01 (pain.008.001.01) *and FtoFICustomerDirectDebitV01 (pacs.003.001.01).*

The set of messages will complete the support of direct debit transactions, with electronic mandate related information and cater for the initiation, amendment and cancellation of the e-Mandate *and for confirmation of validation and non-validation by the Debtor bank of the e-Mandate initiation, amendment and cancellation* in the customer-to-bank and inter bank space.

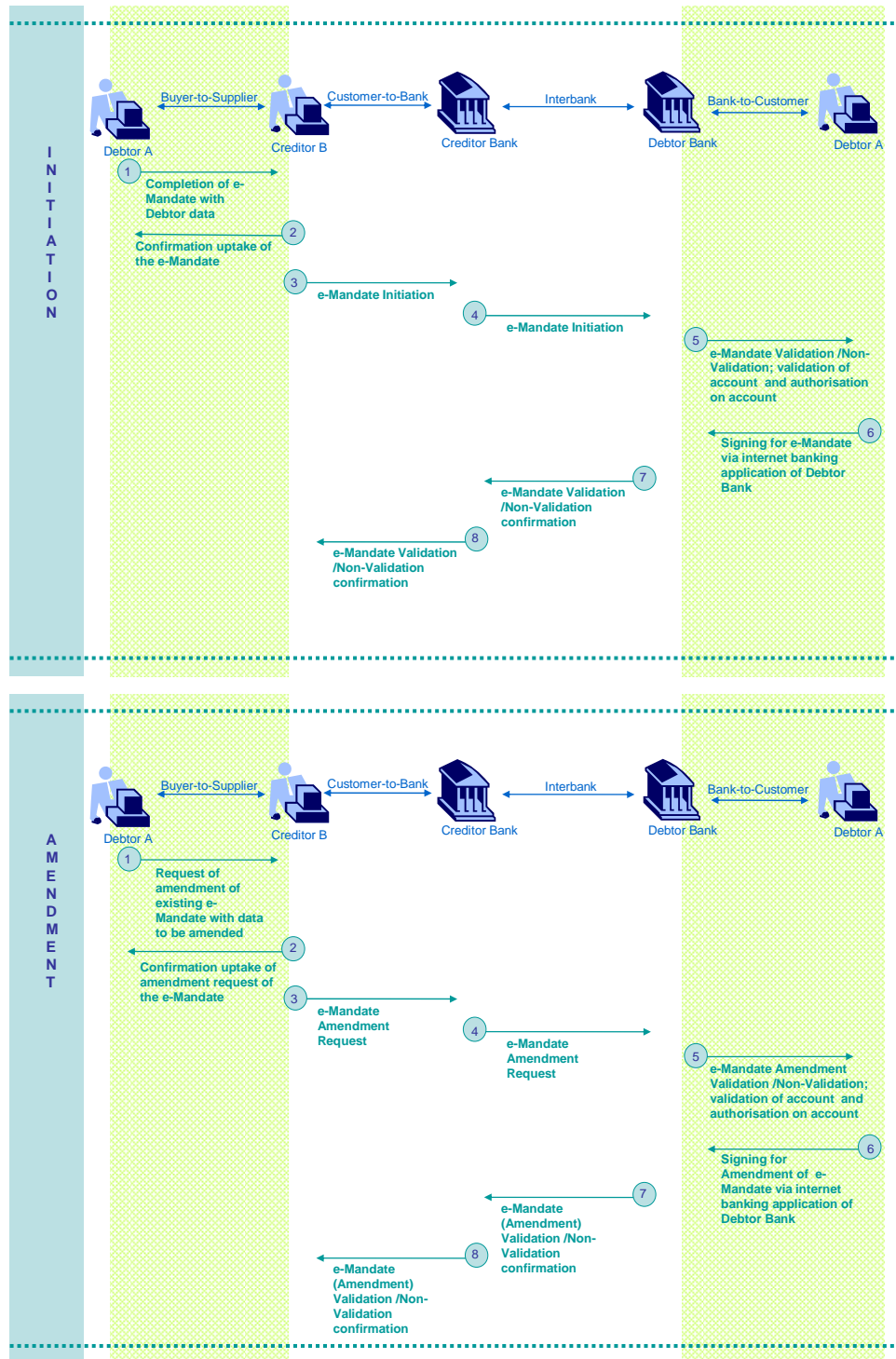
A mandate is the authorization and expression of consent given by the Debtor to the Creditor to allow such Creditor to initiate Collections for debiting the specified Debtor's account and to allow the Debtor Bank to comply with such instructions. E-Mandates are mandates created through the use of electronic channels.

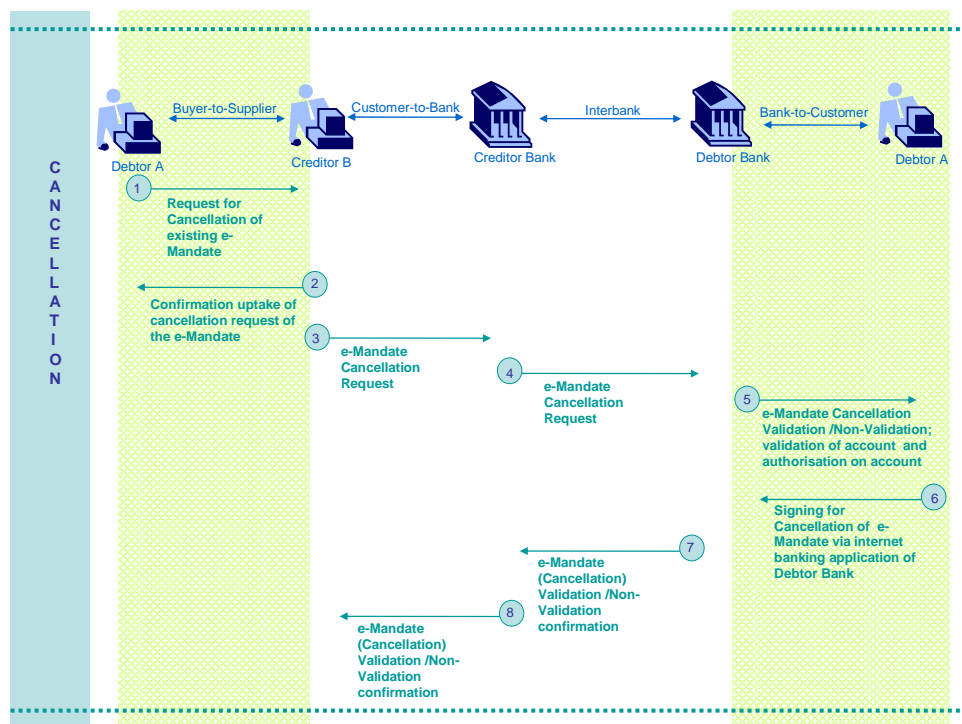
The set of messages will cater for single mandate submission only (one mandate per message). ~~The messages do not include an electronic signature. The assumption is that these messages will be e-signed separately and will be routed to a party in the processing chain that is able to validate and authenticate the e-signature. The messages will contain a placeholder for the e-signature reference to enable parties to make the link with an e-signature which is authenticated separately.~~

*The data in the e-Mandate initiation, amendment and cancellation is the result from the collaboration between the debtor and the creditor. Any initiation, amendment and/or cancellation of an e-Mandate are only effective after validation of the initiation, amendment and cancellation requests (confirmed via the confirmation of validation message). Meaning that the Debtor must have identified and authenticated himself according to the instructions received from the Debtor Bank and via the authentication means as defined and provided by the Debtor Bank.*

This generic set of messages will be developed as global messages and support all relevant direct debit schemes, including the SEPA Direct Debit Scheme (SDD).

In view of this scope, we propose that the evaluation of the candidate ISO 20022 messages be dealt with by the Payments SEG.





#### D. Purpose of the new development

For the moment, there is no international way in which the communication of mandate information is done, nor are there existing message sets that cover the same scope.

Current direct debit services are based on national direct debit schemes, often paper based. Whilst these national schemes share common features, there are still many differences in the way they are operated. Moreover, incompatibilities exist within the regulations governing the legal relationship between the parties. The existing national standards do not fully support a truly global, cross-border scheme

Developing the standards in this structured way will ensure a coherent set of messages for initial mandate instructions, and related changes and cancellations. E-Mandates offer Creditors and Debtors the possibility to eliminate the paper handling of mandates, both for the issuing *and maintenance* process and for storage purposes.

#### E. Community of users:

The new message set is intended to benefit:

- All private and corporate customers from all industry sectors, including financial institutions, that use the UNIFI direct debit messages. This set of messages will complete the single solution for the collection of direct debits to any bank, anywhere in the world. The new messages will support end-to-end Straight Through Processing (STP);
- Creditors and Debtors, in that it offers the possibility to eliminate the paper handling of mandates, both for the issuing process and for storage purposes.
- All financial institutions that process direct debits because they will be able to propose the same solution for mandates to all of their domestic and foreign customers.
- All software vendors because they can use it in support of the single UNIFI-based solution that they will integrate in their payment instrument packages.

The development of the new set of messages stems from a specific request of the EPC and is, in the first instance, to be used within the SEPA community *for* (as an optional *e-Mandate* service). In the scope of SEPA, we are sure the *development of these* messages ~~will be accepted within the whole of~~ *is supported by* the SEPA community ~~with~~. *EPC foresees* a strong support for adoption within the SEPA community.

#### **F. Timing and development:**

SWIFT committed for delivery of the underlying models and the resulting e-Mandate messages in time for the messages to be used by November 2009.

SWIFT expects to deliver the candidate UNIFI business and message models to the UNIFI RA in the 1<sup>st</sup> quarter of 2009.

Representatives of corporates, banks, ACH, vendors and ERP vendors as well as the following standardisation organisations and industry bodies are included in the SWIFT Business Validation Group: EPC, TBG5 and EACT.

We are not aware of any other standards development initiative in this domain.

#### **G. Commitments of the submitting organization:**

SWIFT SCRL confirms that it can and will:

- Undertake the development of compliant candidate UNIFI UML business models and message models for the Direct Debit electronic Mandate.
- Address any queries related to the description of the models and messages as published by the RA on the UNIFI website.

At this stage, SWIFT has no plan for the organisation of the 'pilot testing' or the implementation of the messages.

SWIFT SCRL confirms that it is committed to initiate and participate in the future message maintenance.

SWIFT SCRL confirms its knowledge and acceptance of the UNIFI Intellectual Property Rights policy for contributing organizations, as follows:

*“Organizations that contribute information to be incorporated into the ISO 20022 Repository shall keep any Intellectual Property Rights (IPR) they have on this information. A contributing organization warrants that it has sufficient rights on the contributed information to have it published in the ISO 20022 Repository through the ISO 20022 Registration Authority in accordance with the rules set in ISO 20022. To ascertain a widespread, public and uniform use of the ISO 20022 Repository information, the contributing organization grants third parties a non-exclusive, royalty-free licence to use the published information”.*

#### **H. Contact persons:**

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## I. Comments from RMG members and disposition of comments:

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### Comments from US – March 31, 2008:

Useful proposal wherever mandate is used in support of direct debit. We endorse creation of this standard and encourage broad geographical engagement.

#### *SWIFT's Response:*

*SWIFT welcomes the support of the US community*

### Comments from Germany:

We agree with the NBJ E-Mandates. However, we do have a minor comment on the wording concerning banks or financial institutions.

As the Payment Service Directive, which will be in place in the EU by November 2009, introduces the terminology of payment institutions and payment service providers these wordings should also be used in the NBJ. It should be clearly expressed that this standard applies to all parties performing financial transactions as a payment service provider, not only to "banks" or "financial institutions".

#### *SWIFT's Response:*

*SWIFT has the intention to develop this set of messages as a global standard, the industry consultation will be of a broad geographical spread. As the PSD terminology will only be taken up in Europe, SWIFT would like to avoid using wording that is particular only to one geographical area.*

### Comments from the United Kingdom:

We note the time frame mentioned in the justification and wonder if this will allow sufficient time for scheme members wanting to adopt the optional e-mandates service to incorporate into their own systems

We note the comments under section E about a strong take up. We do not feel that this necessarily reflects the UK position on e-mandates - albeit at a very early stage in its development. The UK response to the questionnaire on the e-mandates service description stated "We believe that the development of an e-Mandates solution for the SEPA Direct Debit Scheme of the type described in the Service Description is a very ambitious goal that will be difficult to achieve by 2009 given the number of fundamental issues that would need to be resolved before the project could be implemented."

Under E Community of users, where it states that in the first instance the new messages will be used within the SEPA community (as an optional service). We would like a bit more emphasis put on it being optional.

#### *SWIFT's Response:*

*SWIFT recognizes the strict and ambitious time frame. The service description of the e-Mandate solution for the SEPA Direct Debit will be finalized on the 6<sup>th</sup> April and send out for national consultation. SWIFT has a close cooperation with EPC and SIBS (developers of the EPC e-Operating model) in order to start industry consultation and development within time frame, aligning where necessary. Most outstanding fundamental issues, as referred to in the comments surrounding the usage of e-mandate with the EPC solution, such as secured*

*sending, are an issue to be catered for by the EPC e-Operating model (EPC documentation on the e-Operating model will be included in the national consultation send-out)*

*SWIFT adds in the sentence to emphasize the optional character of the additional set of messages under E: 'The development of the new set of messages stems from a specific request of the EPC and is, in the first instance, to be used within the SEPA community for an optional e-Mandate service'.*

#### Comments from France:

The French community welcomes this interesting Business Justification proposal and would like to express the following comments:

- 1- We recognize the need for a set of messages in order to transport an electronic and secure flow of information between the debtor and the creditor, the creditor and his bank and the creditor bank and the debtor bank and return if necessary. We also think that there is a need for a creation message, a modification message, a cancellation message and a return or reject (still to be defined) message.
- 2- Considering the existing description of this flow end to end of information and knowing that the EPC is still working on it, it seems natural at this stage that this first Business Justification would remain quite imprecise until EPC delivers a more precise and definitive description of the SEPA Direct Debit E-Mandate service description as some very important elements are still subject to discussion like the way this E-mandate will be secured between each couple of parties.
- 3- This brings us the conclusion that it will be difficult to finalize this Business Justification before getting all the necessary information from the demanding party.
- 4- However, we would appreciate in between to get at least some complementary details concerning each bilateral exchange of information (between two parties in the value chain) as well as a clear description of each message in the value chain. So we propose that a flowchart would be added in order to get a better understanding of which message should be used and at which level within the end to end SDD transaction. This picture should include a Query/answer flow allowing:
  - The debtor bank to ask the creditor bank for information on the mandate or a full copy of the initial electronic mandate or an electronic image of the paper based mandate and
  - The creditor bank to send back the required information to the debtor bank. eventually extended from debtor to debtor bank and from creditor bank to creditor.
- 5- Finally this E-Mandate flow being part of the Direct Debit payments instruction scheme, we would expect the Swift to support the transportation of this new set of messages as it would normally be part of the corporate clients to bank cash management message flow."

#### SWIFT's Response:

*1. The scope of the messages is as follows: Initiation, cancellation and amendment and confirmation of validation/non validation messages (this last one covering the mentioned reject/return feature).*

*2 The EPC will use this new set of messages in support of the SEPA Direct Debit. The secured way in which EPC will route these messages over the internet is a matter of the EPC e-Operating model developed by SIBS and has no real impact on the development of these open and global standards. The description of the EPC e-Operating model will be part of the EPC national consultation on e-Mandates. The EPC Service Description of e-Mandates will be finalized on the 6<sup>th</sup> May 2008.*

*3. See 2. Next to the usual SWIFT process of industry consultation and business validation, the development of the messages will be done in close follow-up with EPC and SIBS. An additional issue is that if development were to wait for final documentation at EPC level, SWIFT will be unable to deliver at the set date.*

*4. A flow chart has been added to the business justification. The details on the content of the message are to be the result from the industry consultation held by SWIFT. For a first delivery, looking at the time frame, SWIFT has limited the messages to deliver and did not include a dedicated message for question and answer; requesting a copy of the mandate of specific information of the mandate. We recognise that there might be a concrete need for such a message; we will consider the development of a generic message for the request of documentation Administration portfolio (admin).*

*5 The set of messages is to be developed under UNIFI (ISO 20022) rules and regulations. Anyone able to support these messages is allowed to exchange them over the network of their choice, SWIFT over the secured SWIFT network and/or EPC over the internet via secured encrypted routing.*

Comments from ISITC:

ISITC has no comment, however we will continue to monitor progress and offer our participation if requested.

*SWIFT's Response:*

*SWIFT welcomes the support of ISITC.*

Comments from Swiss Community - 31<sup>st</sup> March 2008:

Switzerland welcomes this Business Justification.

However we suggest to delay the voting on the BJ as the business models are still under discussions in various payment bodies e.g. EPC or SPC. There are still some weaknesses in the model which should be eliminated and a common understanding should be reached, before the RMG should decide on the BJ. That would lead to clear guidelines for the submitting organisation SWIFT and the dedicated SEG.

*SWIFT's Response:*

*Next to the usual process for SWIFT of industry consultation and business validation, the development of the messages will be done in close follow-up with EPC and SIBS. Additional issue is that if development were to wait for final documentation at EPC level, SWIFT would be unable to deliver at the set date.*