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# Open Standards in the Corporate Market

***The demand for standards-based interoperable corporate services from banks will only increase. Although they may appear to offer short-term tactical advantages, attempts to lock-in customers by refusing to implement such standards are ultimately doomed to fail. This article argues that banks need to find ways of implementing standards quickly and flexibly.***

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A profound transformation took place in the IT industry in the late 1980s, the effects of which are still being felt. It was at this time that pressure from customers compelled IT platform vendors and then application vendors to move away from proprietary closed architectures and embrace open standards.

**From Competition to Co-operation**

Technology vendors were loath to move away from the closed architecture business model that had benefited them for so long. The cost of switching from one architecture to another was so high that users were effectively 'locked-in' to a given vendor's technology and this was just the way vendors liked it. Eventually, however, the pressure from customers for open, interoperable systems that could be sourced from a variety of suppliers became too great to resist, and, one by one, technology platform vendors started to open up; breaking their businesses into different product lines (servers, storage, software, etc.) and competing openly with one another. "Cooperate on standards – compete on implementation" became the new mantra for forward thinking technology companies, and the trend continues, with Web Services standards being the latest and most visible example.

**Win Win**

The obvious beneficiaries of this change were the customers, who could now pick and choose amongst vendors for different parts of their IT infrastructure, enabling them to negotiate from a strong position on price and service, ultimately driving down the total cost of ownership. But many vendors also benefited. Standards drive volumes - think of the impact of the basic Internet standards (TCP/IP, HTTP, HTML, etc.) on sales of computer equipment and software. Smart vendors realised that, although they were now working in a more competitive market, that market was growing more rapidly than ever before, and the vendor with the right product at the right price could still do well.

**The Corporate Dimension**

Today, financial institutions face a similar challenge, as corporate customers increasingly demand standard interfaces to banks and other financial service providers. The emergence of corporate-sponsored standards bodies such as RosettaNet, TWIST, OAGi, and IFX and their co-operation with others on key corporate-to-bank initiatives like ISO 20022 Core Payments Kernel, sends a clear message to financial institutions to open up their existing proprietary corporate solutions and make them work in a standard, interoperable way.

The objections inside the banks mirror those of the IT vendors 20 years earlier; by lowering switching costs, the introduction of standards will make it easy for corporate customers to shop around for the best deal or the best service, driving down margins and increasing competitive pressures. The trend, though, is inexorable. The arrival of secure IP networks, XML and affordable integration tools have brought the technological means to integrate back office functions with bank services within reach of an ever-greater number of corporates. In line with this, Microsoft, Oracle, and many other vendors of infrastructure and ERP software, have announced support for customer-to-bank integration. As barriers to entry come down and more corporates get connected, the incentive for others to join them and enjoy the benefits of an integrated financial supply chain will only increase.

**Learning from Example**

Against this background, financial institutions need to heed the lesson learnt by the IT industry: clinging to proprietary products in the hope of locking in customers will not work once the benefits of openness become clear. Instead, institutions should aim to provide open interfaces to their systems in the most cost effective way they can, and then focus their energies on growing market share by providing better, clearly differentiated services.

The comparison with the IT industry is more than just an analogy. Whilst IT platform vendors were operating on a scale that made wholesale reengineering of their products feasible, specialist application vendors - with millions of lines of code but only tens or hundreds of customers - often had no such luxury. Instead, they had to find ways to open up their products without rewriting them. Generally this involved 'wrapping' existing functionality in a way that made it externally accessible. Financial institutions that wish to expose existing corporate applications as standard services can use the same techniques.

**The Delivery Question**

So far, the standards bodies operating in the corporate-to-bank space have concentrated more on the content of standardised instructions than on the delivery mechanism. There is a broad consensus that XML should be the format, and much cooperative effort has gone into creating XML 'directories' from which service requests and responses can be created. The choice of delivery mechanism, however, has generally been left open, and it is safe to predict that different customers will want to connect via different channels, according to their needs, size and location. It is likely that SWIFTNet will be one of the mainstream connection choices for larger corporates, but other networks and VPNs may also become popular. Messaging styles will also vary, from interactive to store-and-forward and file transfer. To compete successfully, institutions will need to offer a range of options to their customers.

**The Wrapping**

Application vendors have addressed the problem of providing flexible open access to existing business logic with the use of various kinds of middleware 'wrapper'. 'Middleware' is an overloaded term and covers a wide range of products and approaches. However, the characteristics of middleware useful in this context are that it can offer secure multi-channel access for customers, support for standard XML and the standards directories from which it is constructed, and a mapping mechanism capable of adapting standards-based requests to the legacy systems that will perform the processing.

**Thinking Ahead**

Using a middleware-based approach to messaging banks can, with flexibility and at relatively low cost, offer standards-based access to existing systems. In the current environment flexibility and cost are key considerations. Where there are several standards competing for a particular area of business, it is often impossible to pick a winner, and even where there is only one standard to consider, new standards tend to be subject to frequent revision. As the momentum behind corporate-to-bank standards starts to build, the ability to keep up with standards as they emerge, and perhaps to back multiple standards without incurring excessive cost, will be crucial to any financial institution that wants to remain competitive in the corporate market.

**Conclusion**

The demand for standards-based interoperable corporate services from banks will only increase. Although they may appear to offer short-term tactical advantages, attempts to lock-in customers by refusing to implement such standards are ultimately doomed to fail. Banks need to find ways of implementing standards quickly and flexibly, then move on, concentrating their efforts on retaining customers and growing revenues by providing improved services. The IT industry has already been down this road; it has similarly been forced to open up proprietary systems, and has developed strategies and tools that can help.

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