WHITE PAPER

Developing a Business Case for Real-Time Information

Gresham
real-time financial solutions

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Real-Time Information: Nostro Management Benefits and Beyond

In recent years, the banking industry has seen increasing demand for timely information. To meet this growing demand, banks must manage the movement of cash and liquidity more effectively, while at the same time complying with increasing regulatory demands.

A growing number of banks are recognising the benefits of real-time information beyond just the nostro management function. Many business functions currently benefit from—or have the potential to benefit from—the greater use of real-time cash reporting information. Banks are now looking at how this information can improve operations and the bottom line in treasury and cash management, credit control and risk management. They are also examining how real-time information can improve customer service, support current compliance initiatives and help them prepare for the next round of regulation.

Developing a business case for a real-time cash reporting initiative doesn't require a lot of time or investment, but it does demand careful planning and clear objectives. This document provides a good starting point by outlining some of the major benefits of real-time information that banks have built business cases around.

Real-time information can have a significant impact on many areas of the business

Improvements in Business Functions

Cash and Treasury Management

With the immediate availability of transaction and balance information, financial institutions can fund books based on actual positions, as opposed to just predictions. They can identify gaps in funding positions and measure the potential savings from known cash positions derived on a real-time basis. This is one of the quickest ways to prove the potential for a rapid return on investment in real-time information.

The table below shows an actual example of one bank's assessment. It identifies the variations in actual and projected cash positions across a range of currencies, with the associated funding gaps and benefits. These figures were taken from a single day's activities. Although benefits will vary from bank to bank, they should be assessed as part of building a business case. The savings can be significant and greatly improve a financial institution's liquidity and cash management.

Currency	Projected Currency Position	Actual Currency Position	FundingGap	Funding Rate	Funding Cost CCY	Funding Cost USD
AUD	2,444,123	-18,555,231	20,999,354	5.29%	3,086	2,206
EUR	532,510,057	-137,273,044	669,783,101	1.91%	35,536	43,299
GBP	-747,660	265,209,084	-265,956,744	3.94%	29,107	53,301
SEK	936,713,995	2,145,837	934,568,158	2.04%	52,959	7,089
USD	8,442,376	285,413,066	-276,970,690	1.02%	7,848	7,848
HUF	5,876,908,376	6,086,487,175	-209,578,799	11.79%	68,637	331
NOK	498,790	-448,304	947,094	1.89%	50	7
JPY	76,017,591,378	-955,198,472	76,972,789,850	-0.03%	64,144	586
CAD	36,738,216	-1,126,929	37,865,145	1.96%	2,062	1,511
PLN	-166,028,981	-14,946,471	-151,082,510	4.24%	17,794	4,655
					TOTAL	**$120,833**

Sample Daily Cash Position

It is worth focusing on the benefits of managing intra-day nostro accounts, not just in terms of major currencies, but specifically those currencies considered volatile and where penal rates are high for late receipts or overdrawn positions. With real-time information, banks can better manage the unexpected.

A straightforward way to start thinking about the additional value real-time information can bring is to look back at a set of troublesome transactions and ask: What could we have done differently had the information been timelier? How much money could we have saved?

The Financial Services Authority (FSA) has put forward a draft proposal—to be implemented in 2007—that will require banks to have intra-day data

Regulatory Compliance

Real-time information can support calculation of operational losses as required under Basel II. The availability of real-time information also supports Sarbanes-Oxley compliance; verification of deposits and movement of monies between accounts is one of the main processes affected by this regulatory framework.

Having said that, more and more regulation is coming in from all directions, and a number of initiatives currently underway will require intra-day information for full compliance. In the UK, the Financial Services Authority (FSA) has put forward a draft proposal—to be implemented in 2007—that will require banks to have intra-day data so they can provide an accurate picture of their positions within hours of a financial crisis. Also, the Committee on Payment and Settlement Systems (CPSS), a subcommittee of the Bank for International Settlements (BIS), is asking banks how they address risk exposure for non-CLS transactions.

Central banks want to be more stringent in setting capital weighting on gross settlement. Some leading banks, however, are telling central banks that, when they are managing their information in real-time, they subsequently have less exposure. Therefore they want the central bank to reduce the amount of capital they must put aside.

Relationship Management

Informing counterparties intra-day of expected but non-received payments allows banks to launch investigations and take prompt remedial action. It also reduces funding costs by rectifying the position same day or next day—a marked improvement on general market practice. For the bank receiving the payment, it is an added-value service. Real-time information significantly improves customer satisfaction levels, and banks can identify and react earlier to non-receipts.

The following time line illustrates a typical case of Bank A, a user of real-time information:

14:00	Non-receipt of ZAR500m identified through Clareti Cash Reporting Service (value today from Bank B)
14:10	Bank B contacted by phone and advised that Bank A expected to receive two amounts of ZAR500m, but only received one payment
14:30	Bank B investigates and acknowledges error
15:00	Bank B issues second payment same day, resolving non-receipt
16:00	(GMT) ZAR cut-off for settlement

A simple exercise looking at a sample week's transactions and the associated cost of receipt shortfalls will reveal the potential savings

Afterward, Bank B admitted it was "surprised and impressed" that Bank A had the information to advise of a non-receipt on same day. Many users of real-time nostro information have reported very positive customer feedback on their ability to identify and fix shortfalls or erroneous trades before their counterparty has even noticed the error. Although it is difficult to put a tangible financial number on its value, improved customer service is a great defence against price erosion and is often the prime reason banking relationships endure over the long term.

When this benefit is added to the quantifiable savings that can be achieved by resolving non-receipts and other errors same day, the case for investment is compelling. A simple exercise looking at a sample week's transactions and the associated cost of receipt shortfalls will reveal the potential savings (and this is before calculating the administration and management cost of handling compensation claims and non-receipts after the event).

Research suggests that just the adminisation cost of a compensation claim or investigation is approximately US$105. Because agreement on the rates at which compensation claims are settled often involves a protracted exchange of correspondence, the preference for all parties concerned is clearly to get it right the first time.

Reconciliation, Exception Management and Investigation

Integrating a streamed feed of real-time information into reconciliation systems can increase benefits significantly. Capturing cash positions from multiple sources is time-consuming and error-prone. A process that supports the automatic capture, format and distribution of data enables same-day, real-time identification of transactional and balance information. Users can move from value-date cash management to intra-day cash management and streamline reconciliation activities that traditionally take place inside and outside the treasury function.

By deploying the applications' controls to raise alerts, set limits and identify erroneous transactions on a real-time basis, banks can reconcile major currencies with high volumes and financial values more efficiently and, therefore, more quickly.

At the end-of-day, banks must also undertake a comprehensive, auditable reconciliation of all transactions in multiple currencies across all nostro accounts. These processes are traditionally separate. But with a high level of automation using real-time information, they can be merged into one activity that can reduce the overall settlement and reconciliation cycle.

One bank has been able to perform more trades and generate more revenue through better monitoring of real-time information against client trading limits

Credit and Risk Management Controls and Alerts

The ability to identify same-day payments and non-receipts, coupled with the opportunity to react to issues in a more timely fashion, satisfies several risk requirements. Information is produced faster, the volatility associated with some currencies lessened and exposure reduced.

Banks can also monitor real-time information against client trading limits, thus enabling the optimisation of trading activity against established limits. One bank has been able to perform more trades and generate more revenue through better monitoring of real-time information against client trading limits. In this instance, either existing limits can be utilised more or lower limits with greater utilisation can be set.

The Clareti Cash Reporting Service carries additional 'intelligence' along with the real-time information. When same-day currency limits are reached or exceeded, for example, it can be configured to alert users. These alerts can be sent to liquidity managers using a range of channels, including email and wireless devices.

Customer Service

Many of the benefits described in this review have focused on the institution receiving the data, but the opportunity exists to pass this information, and therefore the benefits, onto corporate customers—either as additional added-value information or the development of additional products or services.

For larger institutions, real-time cash information is likely to be used as one of a number of data sources for an existing customer portal. Visibility of a real-time view of funds could be extremely valuable to a corporate customer. In the case of an oil supplier, for example, a ship can be held in port pending notification of receipt of funds. Loading doesn't commence and tides are missed, all because of a lack of timely knowledge about the payment status. With real-time data, the company can send immediate notice for the underlying transaction to continue. Receiving more timely notification would result in faster turnaround time for deliveries and a product differentiator for the supplying bank.

Building an Initial Business Case

It is essential to weigh both the potential benefits in terms of controls and management and the impact on lines of business

Embarking on the real-time journey doesn't require a wholesale review of all business practices and policies because the benefits and opportunities can be 'sliced' to fit most individual institutions. A good place to start is to look at the gaps between projected and actual positions and think about how this could be resolved by having an aggregated view, using a web browser, of all nostro accounts in real-time. A simple pilot trial of such a service will highlight the benefits. Banks can then investigate the further potential for real-time information at their own pace.

Potential for Further Business Transformation

Depending on how far banks want to take real-time information in their business, achieving the optimum benefit may require them to make some changes to the their organisation, business processes and IT systems (if a real-time information feed is to be integrated). To get maximum value from managing nostro cash transactions on a real-time, same-day basis, a bank might eventually need to:

- Adjust current business processes
- Introduce roles and responsibilities for managing the non-capture of transactions expected, but not received at a given time
- Contact counterparties and advise them of non-receipts and the actions they can take as a consequence
- Adopt the latest, integrated software solutions from one of Gresham's partners

The impact real-time information can have on improving business will also depend on factors such as:

- Currencies traded and/or cleared
- Geographic location
- Effectiveness of current internal processes and IT
- Transaction volume
- Assessment of 'management' benefits (risk, credit and compliance)
- A longer-term view of operating in the face of increasingly rigorous, often externally driven controls and surveillance

Put simply, it is essential to weigh both the potential benefits in terms of controls and management and the impact on lines of business, because the two complement each other.

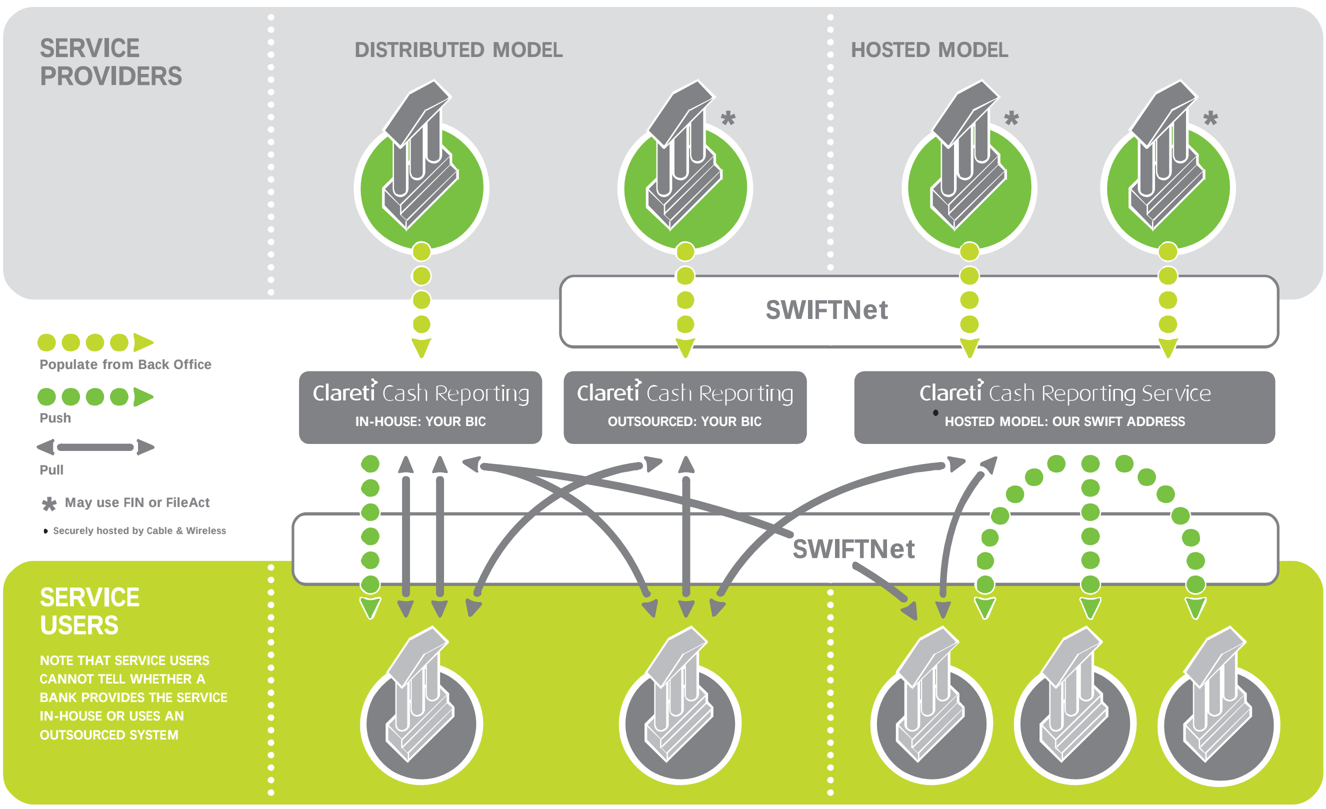
Next Steps

Gresham Computing is committed to supporting the banking industry's drive toward a greater real-time information environment. We do this by focusing on the timely capture, formatting and distribution of information to the right location at the right time. We work with SWIFT and Cable & Wireless to support both of the following models of real-time cash reporting:

- **The distributed model**—whereby a nostro provider bank can use our software or our outsourced service to provide their nostro account customers with real-time information using the SWIFTNet Cash Reporting standard.
- **The hosted model**—in which many nostro provider banks contribute their information in real-time to the Clareti Cash Reporting Service, securely hosted on the Cable & Wireless hub. At the hub, information is consolidated so user banks can get an aggregated view of their nostro account balances in real-time with a single web browser screen or an integrated data feed.

Clareti Cash Reporting has every option covered: In-house, outsourced and hosted model

The Clareti Cash Reporting Service (hosted model) and Gresham's Outsourced Cash Reporting service (distributed model) both run on the SWIFTNet Ready accredited Clareti Cash Reporting software solution. This solution is also available for banks that want to pursue the distributed model themselves.



About Gresham

Gresham Computing plc (LSE:GHT) specialises in the provision of real-time financial solutions to banks and corporates, and has a well-deserved reputation for technical excellence, reliability and a strong service culture. Our storage division helps the largest data users to better manage the unrelenting growth of data.

Further information

For additional information on the solutions featured in this white paper visit:
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October 2006