

# Andrew Walton-Green: About real time

What's happened since Gresham Computing took the main responsibility for the Real Time Nostro service it had developed with Cable & Wireless?

Andrew Walton-Green, chief executive of Gresham Computing tells all

## Why did Gresham take over primary responsibility for the sales and management of RTN?

Both companies looked at their core capabilities and strengths. Gresham is a technology company that was focused on real time financial solutions, while Cable and Wireless is a telecoms business with expertise in virtual private networks and secure hosting. That C&W would take the lead in selling a technical banking product just didn't make much sense. We therefore decided to change the responsibilities around and also change the revenue sharing arrangement. This ensured that the key strengths of both parties were retained.

Gresham now leads the sales and marketing effort because the company understands the banking community and the technology. C&W provides what it is really good at – a secure infrastructure.

## What role will Cable & Wireless play in the further development of the solution?

C&W will very much be involved in the development, but the lead role in this will be taken by Gresham. C&W will provide assistance to how the product is developed and how it is sold and marketed.

## Does the system continue to be hosted at C&W's facilities?

Yes, this is absolutely the case. RTN will continue to be hosted out of C&W's central hub.

## How many banks are users and how many are data providers on the system now?

At the last market update, in April 2006, there were 20 banks that had committed to provide data to RTN including the top four banks in the world and seven of the top 20. Each of the banks that has committed to RTN is a substantial player.

At the beginning of January 2005, we had four banks that were live on RTN and providing data. By the end of 2005, we had 12 of the 20 banks that have committed to RTN live and providing data.

In terms of users, there are two categories – browser-based and direct. We have 14 browser banks, of which some are still trialling the service. Browser-based users look at information via a web browser screen. They can manage that data and see what is going on in real time. They can react to that, organise alerts, investigations and get consolidated balances across the same currencies from different providers. They can see their total US or European position or drill down into individual transactions.

Direct services are higher value because we provide all the information, all the time directly into the back end systems of the user bank. At the start of this year we had four banks committed to taking this service, of which one, Barclays, is live.

These banks will be feeding the real time nostro information into their back end information systems. They can use that for better control of liquidity, do reconciliations intraday and manage



exceptions. These banks will find once they change processes, there will be knock-on effects. If you can provide clients with visibility over transactions faster than your competitors can that is a value added service. Better customer service is something that Barclays said was the most surprising benefit of being a RTN user, and is a clear differentiator.

Improvements in liquidity management also address issues about regulatory compliance. At the entry level browser-based users can get in and see and understand where they are. It is also good for disaster recovery because the system is external to the bank and can be accessed from a terminal anywhere.

## Has the number of information providers and users reached a critical mass yet?

If we had only four banks delivering data to treasuries there would be a

chance that we couldn't offer aggregated services of real value. Treasurers have three to five major correspondent relations that account for the funds they manage. If we had only four providers of information, there'd be limited take-up. Now we have 12 providers, there is more value and in 2006 we are bringing on added providers and users.

Critical mass is a much used term. From the banks' point of view, once we have 20-30 major banks providing data into the service, that is critical mass. It means when we talk to a treasurer of a medium sized bank we have data from all of their major correspondents. We are hitting 70 per cent of their target market.

## Is adoption in line with forecasts?

My personal view is that I'd like adoption to grow more quickly. It has taken a while to get there, but if you look at Swift, it took ten years to get to critical mass and so too did CLS.

## How good a job are the information providers doing in attracting users to RTN?

Some players are very strong in this area – Royal Bank of Canada, Royal Bank of Scotland and Barclays are pushing hard to have information for themselves and to get their providers and dependents to provide information and are encouraging the use of the information. Once you have real time information and are using it, the fact you don't have it in particular currencies is a serious frustration.

Bank and correspondent relationships are relatively cosy and for a number of years it would take a lot for someone to move their relationship. But there is no doubt that with the changes happening in the industry, and the fact that corporates are increasingly asking their correspondents for real time information, a point will come when if you cannot provide real time information to your correspondent, they will find someone who can.

## What more could be done to increase user numbers?

The element that is having the most impact on user numbers is that banks are using the data in anger now. A lot of the momentum behind RTN is through word of mouth; there hasn't been a huge marketing campaign. Real time information is available, and bankers and the marketplace see that this is the right way of doing things.

As the great wedge of regulatory documentation starts to bite in the next three years, the number of RTN users will also grow as banks have to comply with regulations. Banks will have no option but to take real time information, but there are benefits; it's not a bitter pill.

There are commercial advantages in using real time information. For example, someone buying an airport from a receiver in Eastern Europe will have to deliver €50 million on a particular day. He sends the instruction out and it goes into the international banking system of his bank. But it arrives late, which means he doesn't get the airport. It also means the bank is in a position that it is exposed to the commercial risk to the customer it let down. There are hundreds of examples like that happening today. If the bank was providing and receiving real time information these issues would go away and the financial impact on the bank would be massively reduced.

## Has it become more straightforward for banks to become users of RTN?

To be a browser user is very easy – a bank could get up and running on the same day. Becoming a direct user, however, does require a bank to upgrade its infrastructure and also change some of the processes by moving from end of day to intraday. They won't be able to ship transactions off to India overnight for processing. Banks are not unfamiliar with dealing with their home currencies on an intraday or real time basis, but they are unfamiliar with dealing with international payments on this basis. CLS has a four hour clearing window. RTN enables banks to know what is going to happen before it happens – if something is wrong, you can act upon it straight away.

## How many application vendors are involved with RTN and in what capacity?

All of the main reconciliations application vendors are involved with us, including SunGard, Aleri, SmartStream, City Networks and Checkfree. These vendors collectively have more than 90 per cent of the market. We are not competitive with these vendors, we are complementary.

Some banks develop their own reconciliation systems and we can address that as well. The applications deliver XML information and we provide a XML data feed across SwiftNet or virtual private networks.

## How important is it that application vendors become involved?

Application vendors certainly need to be involved in the process. If a bank decides it will take this information and feed it into its back end systems in order to get the full advantage of real time information, it will need to upgrade its systems to cope with the real time data. The reconciliation applications are an integral part of the process. RTN provides a data stream to these applications, which are based on an industry standard format developed by Swift.

## What relationship is there between RTN and Swift's Cash Reporting service?

SwiftNet Cash Reporting is a standard, rather than a service. People can choose one of two ways to use it. First, they can outsource and get someone else to manage it for them, we can do this. Alternatively, they can build the standard into their own organisation by implementing software inside the bank. Although, I would like to point up that there are 7600 international banks and 14,000 banks globally. If each one wanted to build or buy software that would be rather less efficient than connecting to a hub and taking data.

There is no conflict between SwiftNet Cash Reporting and the RTN solution. Both are applying the same standards either on an internal or external basis. ▶

We know that some banks are taking both in order to build in redundancy if one goes down.

RTN delivers and receives information across SwiftNet. Banks want us to use SwiftNet because they have made a significant investment in that infrastructure and it is a simpler way for us to deliver information.

## Do you think there is still some confusion in the market about how the two services fit in?

People were confused but last year, when HSBC announced that it was doing SwiftNet Cash Reporting using SwiftNet standards and RTN, it helped to explain what was going on and what was possible.

SwiftNet Cash Reporting is a standard that people can choose how to implement, whether it be outsourced or built inhouse. From an economic point of view, I am convinced that outsourcing is the way to go. Outsourcing is much more accepted in the banking industry now and a lot of what they do are utility type services that are not necessarily differentiators.

RTN is just one element of the international payments market and I am sure over the next few years we will see an increasing amount of outsourcing of payment services and RTN is just helping to set that trend.

## What is driving the momentum now behind real time cash reporting initiatives?

One of the biggest drivers is the regulatory environment, which is driving banks towards taking real time information and building systems to cope with access to this data in real time.

Regulatory pressure is pushing everything in the right direction. I think in the future if you don't have real time information about systemic risk, when it is available, you'd be committing a cardinal sin.

The Financial Services Authority wrote to UK clearers recently indicating that some time in 2007 it would like

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intraday information from them if there is a systemic failure in a bank they deal with on an international basis. They want that information within two hours; how would a UK clearing bank provide that unless it had real time arrangements or intraday information? Banks will have to take a systems approach rather than relying on a wish and a prayer – that's not good enough anymore. Under Sarbanes Oxley, banks also need to know their risks in real time. It is an obvious answer to Sox that if you have real time information you will know where you are at any point in time.

From the figures we see, we know that 93 per cent of international payments transactions will reconcile the next day. If you can understand that something is not going to reconcile now, you won't have to wait until the close of play, you can prioritise that payment, fix it and send it on its way. That means better customer service because no one is paying penalties to a third party for failure to deal with the payment instruction. And also you are not exposing your own bank to paying for something when you don't have the cash yourself.

Regulators know that real time technology is available and there is no excuse for banks not to take advantage of the ability to extract real time information and making it part of the core compliance process.

Increasingly banks are taking the step of putting real time information projects into their budget planning. It won't take much more for banks to get the message.

## What are the plans for further development of RTN?

Right now the focus is on getting the basic level of service much more widely accepted, but there are significant opportunities to add to the service.

Providing reconciliations is a key element to RTN and we are happy to work with vendors. The model at the moment is that vendors sell software to the banks to do reconciliations. It seems obvious to me that not every bank would buy reconciliations software, some might want to buy a service, which extends the outsourcing idea. To us it doesn't make any difference, I would support anything that provides the same data to a wider number of people.

Gresham has used the RTN technology to develop the Gresham Payments Gateway (GPG), which will be launched at Sibos. Because we are already connected to 30 different payment systems, we can provide a complete view of payments inside banking organisations. We will be providing GPG on an outsourcing basis, but some banks may also want to buy the technology and do this themselves.

We have also been developing a solution to address the issue of unlocking the financial supply chain. This service will be available in the second half of 2006.

We have patented our approach, which is very simple. Imagine a large company with a good credit rating. It would deal with many suppliers providing them with a variety of products and services. These suppliers may not be paid for 60-90 days, in which case they would go out and get trade finance to bridge the funds gap. We can go into our hub, get information from the buyer so we can tell the supplier as soon as the buyer has indicated when it will pay. In that case the supplier has an option of waiting the required time for the payment or pushing a button to be paid immediately, in which case its bank or financial partner can then acquire that payment from the supplier. The advantage to the supplier is that it gets paid much faster and it is not paying out for factoring arrangements. 