

IN A BUSINESS WHERE TIME MEANS EVERYTHING,  
TECHNOLOGY CAN HELP YOU MAKE INFORMED DECISIONS

# Instant gratification with Cash Reporting

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We live in an age where technology enables us to demand and often get instant gratification. Cash from a hole in the wall, global mobile connectivity and pay per view movies; how much more could one want? In the business of batch process in international money transfer, there are many who want more. Regulators, corporate customers, treasurers, money traders, equity dealers and many areas in the banks want to see what is going on, not tomorrow, but now!

**Regulation is here and more to come...** Managing risk, knowing what has and hasn't happened against expectation, is key and knowing this intra-day makes it easier to meet best practice. For example, today real-time information can support an organisation's calculation of operational losses as required under Basel II. It also supports Sarbanes-Oxley compliance which requires the verification of deposits and movement of monies between accounts, one of the main processes affected by this regulation.

However, more regulation is coming and the convergence of a number of regulatory initiatives will require intra-day information for full compliance and the achievement of best practice.

- The UK Financial Services Authority (FSA) has put forward a draft proposal for comment, to be implemented in 2007 that all banks are to have intra-day data so they can provide accurate and rapidly available information on stricken firms in

the event of a financial crisis.

- The Committee on Payment and Settlement Systems (CPSS), a sub committee of the Bank for International Settlements (BIS) is asking banks a raft of questions on how they address risk exposure for non PVP transactions. It is 10 years since the Orange Book (also known as the Allsopp Report) became obligatory reading for Treasury Management and yet the same questions are being revisited. Now however, some banks are leading the way and setting a new level of best practice by managing and measuring exposure in real time.

## Funding costs reduced

Beyond compliance, another way to consider the additional value of real-time information is to look in hindsight at a set of troublesome transactions. What could the bank have done differently if the information had been more timely? With a liquidity cut-off approaching, the bank might determine it is short and goes to the market and borrows. Then it receives an unexpected amount that covers its short position and more. But with overnight processing this wouldn't be identified and the bank unnecessarily bears the cost of borrowing.

## Reduced costs of exception management and investigations

Real-time information supports the earlier identification of transaction failures/non-receipts and the raising of the associated



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investigation process. Research suggests that just the administration cost of generating a compensation claim or investigation is around US\$105, never mind the compensation amount. Any bank looking to improve its investigation and enquiry process will find that information in real time will help prevent some claims and facilitate the speedier resolution of others which leads to lower costs and claims.

#### Improved customer service – internal and external

Users of real-time Nostro information have reported very positive customer feedback as a result of being able to identify and fix any shortfalls, erroneous trades, etc before the customer has realised the error exists. Although it is difficult to put a tangible figure on the benefits of improved customer service, this is often the prime reason that banking relationships endure over the long term. And it is a great defence mechanism against price erosion.

There can also be a knock-on customer service effect for corporate customers of a bank using real-time information. Increasingly transactions are based upon important timelines. In the case of an oil supplier, a ship can be held in port pending notice of receipt of funds. Loading is delayed and tides are missed, all because of a lack of knowledge about the payment status. With real-time data the corporate can send immediate notice for the underlying transaction, in this case oil, to continue. Receiving more timely notification would result in faster turnaround time for deliveries and a service differentiator for the supplying bank.

#### Increased trading opportunities

The benefits can be about trading the efficiencies as well as managing inefficiencies in a bank's processes. For example, one major UK 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 which improves the efficiency of working capital.

#### Building a business case

As regulatory and compliance pressure on banks continue to build, the momentum is increasing for banks to evaluate the impact of intra-day data on their business and the measurable benefits to be gained. A good example is what Citigroup and PepsiCo have done. PepsiCo collect hundreds of millions of dollars from over 1400 bank accounts globally. The problem was visibility. Cash would be paid in, world-wide, but since PepsiCo Group Treasury was unaware of it, they couldn't invest it efficiently. Citigroup, using the SWIFTNet infrastructure, worked with PepsiCo to build a solution which collated this data from multiple accounts and multiple banks. The solution provides a view of what is going on intraday. Consequently, PepsiCo can now make investment decisions today rather than wait for the information to slowly filter through to them.

However, such solutions are expensive while the problem is generic. So the real issue is how does the whole of the banking community solve this problem, both for itself and its customers? The answer is to use a common infrastructure, common standards and share the burden of regulatory compliance in order to gain the benefits of using intra-day Cash Reporting more quickly. SWIFT provides the global platform which is secure, trusted and reliable. Gresham and Cable & Wireless are working with SWIFT and the banks to provide a common infrastructure for the global banking markets, enabling faster and consistent roll out of the SWIFTNet Cash Reporting through the use of the Real Time Nostro service.

Now the choice for banks is simple – either build it yourself or adopt the outsourced approach but doing nothing is no longer an option.

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