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CASE STUDY: ABSA BANK

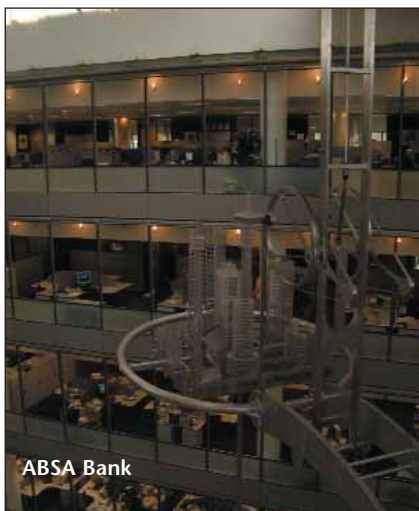
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Wrapped up and ready to go

One place to look for innovation in the payments space is South Africa. ABSA Bank is among the banks to have made notable strides in the last few years, with the benefits now starting to be seen

Much of the current activity in the payments systems space is centred on adding common user interfaces and routing layers around the existing infrastructures. Replacing one payment engine with another is not necessarily seen as the way to go; rather, the emphasis is on being smarter around the core, bringing more streamlined and consistent processes and much better flexibility to connect to customers on the one hand and clearing and settlement mechanisms on the other. One bank that started on such a path earlier than most was ABSA Bank, so that it now has significantly improved straight-through processing (STP) and has an infrastructure that is able to support not only its own payments traffic but can also be leveraged by its new parent.

Much of the progress has been achieved working with a supplier which, with all due respect, might not be one of the first to spring to mind when talking payment systems. A lot of work has been done at the bank with Misys' Meridian Link product, with ABSA Bank clearly the most sophisticated user of this middleware to date and with many of the enhancements being fed back into today's product. Other components at the bank comprise Fundtech's payment platform and SwiftAlliance, but Meridian Link represents the layer that ties together all of the bank's payments infra-



structure and handles the flows with the outside world.

Meridian Link was selected in 2003. The bank's IT solutions architect, Sean Mouton, used Swift's Sibos show to talk to all of the vendors and evaluate their offerings. While some have caught up – and some have fallen by the wayside – since then, Meridian Link was deemed to be the most user friendly. A three-week proof of concept exercise in November confirmed the choice and the first project commenced in January of the following year. The development and implementation of the single user interface took around 18 months.

The initial intention was for the product

to provide the routing capabilities around SwiftAlliance. The bank was replacing IBM's mainframe-based Merva and felt that the Swift offering was light on routing capabilities, hence the need for an additional layer. The Misys product now fulfils that original specification but has been broadened since then so that it now constitutes a common user interface across all of the bank's platforms and effectively 'divorces the legacy systems from the users', says Mouton. 'We have created a whole STP environment with Meridian Link.'

The layer handles all mapping, from legacy systems into Swift formats and back again. With incoming Swift messages, the bank had automatic routing of 72 per cent with Merva; that figure is now 93 per cent, with this achieved through the facilities within the middleware tool for doing look-ups to DB2 and enriching the messages where required. For MT202s and 205s, the STP rates are 98-99 per cent. There have been improvements for outward messages as well, with stronger formatting capabilities.

The middleware has been extended to handle links to corporates. It interfaces to their ERP systems and handles EDI messages. It also calls security devices to encrypt the messages. Similarly, the middleware handles sanctions list checking. ABSA's customers using this capability

Barclays: Payment parallels

Barclays is putting in a solution for liquidity management for SEPA and Target2

While ABSA Bank has been adding a layer above its existing payment systems, its parent has been similarly adding a layer above its own payment systems ahead of SEPA and Target2. The emphasis at Barclays has been on payment liquidity management, with the aim being to provide a view into the bank's real-time positions for all payments globally. The first phase is entering User Acceptance Testing, following the selection of Fundtech's solution towards the end of the Summer.

The initial selection started around 18 months ago, centred on finding a solution to manage the payment flows to and from Target2. It was felt that the Single Shared Platform, with its roots in a development by Deutsche Bundesbank, Banque de France and Banca d'Italia, does not fully cover the payment liquidity management needs of multi-country banks such as Barclays, with not all Eurozone central banks providing the same options as the Target2 threesome.

A Request for Proposal (RFP) was drawn up which, says the bank's associate director, operations, Andrew Whiteley, was well defined and fairly pragmatic. A preliminary study had been done ahead of this to look at the subtleties of the requirements, particularly local ones. The need was for a flexible rules-based solution that did not have an impact on the bank's existing systems. Those systems are mostly country-specific, largely due to the regulatory reporting requirements of each country associated with Target1.

At the same time, Whiteley admits that the bank was not certain about its direction and was expecting much more feedback from the suppliers than was actually received. Nor was there clear direction from the industry as a whole. 'It was never our intention to watch what other banks were doing, but rather to do what was needed for Barclays,' he says. Ultimately, it was felt there was not a great deal of choice. A lot of suppliers wanted to partner to build a solution, he says. Barclays had no relationship with Fundtech until the acquisition of ABSA Bank, but the US supplier was felt to have the closest fit to the bank's requirements. There was no real need for a proof of concept, he says, as Fundtech had a working solution, so the main emphasis was on 'closing the gaps'.

Fundtech had done work in Israel, connecting ten banks to the RTGS platform and managing liquidity within that environment, says the supplier's executive vice president, strategy and business

development, Moti Porath. Some of the work done by Fundtech within its long-running project at Citibank was also relevant and constituted building blocks for the payment liquidity management offering. 'A lot of the plumbing was off-the-shelf,' Porath says, including the way data is orchestrated within the management tool to create a form of dashboard.

There were fairly tight deadlines but, to date, the project has gone smoothly and has been on time, says Whiteley. The biggest challenge has been gathering the relevant information and then deciding how to structure it. The bank is effectively building a 'global liquidity scheduler' which will allow it to schedule, manage and prioritise payments based on its eurozone cash positions.

The main goal is to remove manual processes. The first phase will be connectivity to Target2 through Germany; as the ECB's Single Shared Platform is rolled out on a phased basis, so the payment liquidity management offering will be rolled out as well, until it is fully up and running.

Barclays has a clear statement that it is taking the payments business seriously and wants to play in this space, says Whiteley. 'Target2 focused our minds on where we needed to be.' The payment liquidity management part is an important piece in the jigsaw and it was deemed to be much more realistic to put in a new layer than replace or centralise the existing payment systems at this point.



Barclays

include the Southern African oil company, Sasol, and energy utility, Eskom. The latter has taken an extremely proactive stance of late, pushing the use of Swift formats (IBS, November 2007). ABSA has four corporate customers linked to Swift at present via the MA-CUG closed user group model. The middleware means that these can be connected almost as soon as they register, says Mouton.

For processing FileAct traffic, the mes-

sages can be debulked and routed accordingly, with the ACH traffic being formatted once more. For foreign exchange trading, the middleware similarly handles reformatting as well as currency conversions and look-ups such as rates and checks against national holidays. From its parent, Barclays, for instance, it picks up transactions via IBM's MQSeries, translates them from Barclays' formats, and maps them into ABSA's back office system for processing.

Meridian Link also interfaces with Fundtech's RTGS and CLS solutions.

The layer is also used for the content management of faxes. These are scanned, emailed and then placed in work queues, with the data stored in IBM's Content Manager. Previously, there were a lot of emails and flat files from corporates, with the data needing to be rekeyed into the payment systems. While not all the manual processes have been removed, they have

Barry Kislingbury,
Misys



obviously been much reduced and work will be done over the next 24 months to further eradicate them.

The data still resides in the source systems but the bank's users can access this via the common user interface, so that they can readily answer customer queries regarding the status of their payments. While the project did not have a specific Service Oriented Architecture (SOA) tag at the outset, this is effectively what has been achieved, says Mouton, with the back-end systems being exposed as services. The sanction list checking is an example – the middleware kicks off a service and carries out the necessary processing based on the replies.

'Anything in or out of the bank by SwiftAlliance is via Meridian Link,' says Mouton. Prior to this, the way to improve STP rates was to buy better printers, he jokes. The infrastructure is now providing all of the integration from ABSA into the payments side of Barclays and is also starting to support Barclays' own traffic. ABSA hosts the Swift infrastructure for two of the group's African entities (the Ugandan operations of both ABSA and Barclays), as a Swift Concentrator, and is now adding a third, Barclays Tanzania.

All of the work has needed close cooperation with the end-users, says Mouton. It is easy to work off a bit of paper and to use business analysts, he says, but the real need is to understand the processes. To achieve this, the developers often sit with the end-users, in their work areas. There is a team of twelve developers working in the Swift and payments area, around nine involved in front-end projects (with a need to add others here) and a small web development team as well.

The other close relationship now needs

to be with the bank's software suppliers. The bank has clearly used Meridian Link as an enabler – 'We took the product, ripped it open and used it as a toolkit', says Mouton. Along the way, it moved from the original C version of this to the rewritten J2EE version, bringing performance improvements. As mentioned, some of the enhancements have been taken directly back into the standard product. In addition, Misys has used the bank's experiences to help direct its developments. The sup-

plier's global product manager for financial messaging, Barry Kislingbury, says: 'Because they got to know the product, they provide good feedback'. The latest release, launched last month, reflected much of this, he adds. The bank is now a beta client for all new releases.

'In the last four years, we have changed

'In the last four years, we have changed the concept of our relationship with vendors'

Sean Mouton, ABSA Bank

the concept of our relationship with vendors,' says Mouton. There is now no 'ABSA-tising' of systems. Any enhancements that are specific to the bank are done outside of the core applications so that there are no maintenance nightmares, he says. 'The 80:20 [20 per cent customisation] principle doesn't count any more.' There is now a much stronger relationship between the bank and its main solution providers. In part, this is because the business is changing a lot faster than in the past. Projects of 18 or 24 months are no longer acceptable, release cycles have to be much shorter. 'We release certain components on a weekly basis,' says Mouton.

The change of approach explains why the bank is currently upgrading one key system and is evaluating another. It has been using Misys' Midas since the late 1980s and took the source code not long after, due to South African sanctions at that time. So this has been 'ABSA-tised hugely', says Mouton. There is too much reliance on a few individuals who know the ABSA version of the system; moreover, many of the enhancements made by Misys since then have replicated the bank's own development efforts. 'A lot of what is in MidasPlus,

we'd done ourselves.' As such, it is upgrading to the supplier's MidasPlus version, thereby coming back onto a standard release. The project started in February and has reached a pre-production parallel run. The databases were similar, so there were few changes, says Mouton, and the bank is using Meridian Link to do the necessary data mapping from the old to the new version. Another heavily customised system is in the trade finance area, Surecomp's Imex, so the bank is looking at its options here, with Misys' Trade Innovation and Trade Portal under evaluation.

The payments work to date has been in the area of high-value cross-border, of which the bank has around three million per year, but it is now looking to handle lower-value funds transfer traffic using the same infrastructure. This would be a 'big jump', admits Mouton (more than 480 million per year), but there is a need to con-

solidate the infrastructure. The work being done in the area of FileAct and ACH traffic is a tangible indication of the shift.

Whereas in the past, Mouton's division was a relatively small one, limited to corporate and merchant banking, it is evolving into a service provider within group operations. Without tearing out the existing infrastructure, it has been able to build a flexible mapping, routing and user interface layer which provides a solid basis for moving forward. Whether this puts ABSA ahead of the other South African banks is difficult to tell, as this looks to be a country where payments innovation is prevalent, as reflected in the impressive strides of late at Standard Bank (IBS, November 2007).

It is easy to conclude that such investment by ABSA has been necessary to keep up with the competition but, whatever the motives, it means that the bank looks to be well positioned to both compete for payment business with its direct rivals and support the activities of its parent where appropriate. **6**

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