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# IT enablement of business transformation and growth

*Staff at Nedbank Capital discuss the hurdles of rationalising a patchwork of multiple legacy systems onto a single platform*

As one of South Africa's leading investment banking franchises, Nedbank Capital comprises the Nedbank group's investment banking business. The cluster is aligned along its structuring, lending, underwriting and trading businesses and comprises specialised finance, investment banking, treasury, equity capital markets, debt capital markets, global markets and Nedcor Securities. Its principal clients across its divisions include the top-200 domestic corporates, as well as parastatals, leading financial institutions, non-South African multinational corporates and clients undertaking major infrastructure and mining projects in Africa, and emerging black economic empowerment consortia.

Nedbank Capital has a particular stronghold in specialised finance, mergers and acquisitions, treasury and the country's domestic equity markets. Its full-service treasury operates regionally out of Johannesburg, Durban and Cape Town and internationally out of London. The treasury function is a core strength of the business.



From left: Mark Weston, Cornelis Schabort, Charmain Alves and Dan Zulu

## **The problem**

Nedbank has had its fair share of mergers, acquisitions and consolidations, resulting in a patchwork of trading systems trying to juggle trading activity, position tracking and risk spread across various systems, databases and business lines. This put a tremendous operational strain on the business, impeding growth. There was no straight-through processing (STP), tickets were written and processed manually and existing legacy systems were very difficult to integrate, manage and grow.

Nedbank Capital's clients were demanding new products emerging in the marketplace (both locally and internationally) but existing systems and processes were not designed to handle complex structures or increased trade volumes. Staff wasted lots of time manually rebooking deals or squaring off trading positions in various portfolios. Trying to measure various forms of risk through disparate, unconnected systems made it impossible to capture the effects of risk correlation. The overall picture was distorted but, more importantly, there were severe financial cost implications, such as overstated capital adequacy requirements.

Regulatory bodies continue to pressure institutions to clean up inefficient and archaic manual processes and harness an integrated approach to trading and reporting. Volatile markets persist around the world, which makes real-time position keeping, profit and loss (P&L) and risk measurement and advanced analytical support across asset classes vital for survival.

## **The goal**

In August 2005, the bank took the decision to consolidate all derivative trading systems in a single platform with the following key objectives:

- to clean up and migrate data to create consistent, complete and accurate financial reference and customer data;
- to aggregate trading activity, positions and risk;
- to measure risk with the same efficacy as returns;
- to cut technology costs and simplify data integration for risk analysis (including operational risk analysis); and
- to reduce operational risk, secure the business operations and establish a platform for STP.

Seeking a single solution to consolidate trading activities across desks, and from front to back office, is not an easy task. Nedbank Capital conducted an analysis of vendors present in, or attempting to penetrate, the South African market. The analysis spanned product offerings across treasury trading and risk capabilities, and

vendors' ability to support South African anomalies, as well as operations at home and abroad. The internal analysis also evaluated overall IT strategy and future direction, return on investment and total cost of ownership.

Nedbank Capital opted for SunGard FRONT ARENA, which it had already been using for several years in equity and equity derivatives and structured equity. The bank was familiar with the software and trusted FRONT ARENA's solid foundations. Backed by \$4 billion parent company SunGard, there has been a lot of strategic local investment for South African support since securing the first FRONT ARENA customer in 1998.

"Replacing the myriad systems with FRONT ARENA will enable us to consolidate our customer positions, analyse the risk inherent in the trading profile and provide the full range of financial products and services to clients," explains Cornelis Schabort, project owner at Nedbank Capital.

Dan Zulu, head of IT & Projects at Nedbank Capital, says: "We wanted a system solution that was modular and could be rolled out in phases to support our business plan. FRONT ARENA is one of the most open solutions available, and the technology and infrastructure provide a highly scalable real-time platform for sales, trading, risk management and operations activities. Its open and flexible architecture allows you to adapt the system to your changing requirements without the risk of an in-house build. The ARENA Integration Framework allows it to be easily integrated with other systems and to your enterprise infrastructure."

#### What does it take?

Mark Weston, chief operating officer, Nedbank Capital, says: "In establishing this project, we identified that it was critical to bring together the correctly skilled and staffed internal project team, working alongside the right vendor. We set up the project to succeed by ensuring we had the appropriate resources, internal and external, key stakeholders' support and the ability to make decisions quickly and appropriately. All senior management visibly supported the project."

FRONT ARENA implementation methodology requires small, highly skilled teams working closely with the vendor to deliver the project. The key is to leverage a combination of skills from business, quantitative, accounting, process, IT and systems. Large implementations like this are better done in bite-size chunks, minimising business disruption. Nedbank Capital and FRONT ARENA adopted a phased approach to implementation, taking out one legacy system at a time (figure 1). The project team focused on rationalising the data flows as every additional interface increases the complexity exponentially.

#### The reward

- Effective segregation of duties, improved control over deal entry, eliminating dual capture and time-wasting processes and 'unnecessary' reconciliations introduced by using multiple systems.
- Redundant data cleaned out and improved workflows reduced back-office costs significantly.
- Increased reporting flexibility, with user-defined attributes attached to instruments and trades.
- Integrated reporting, risk measurement and accounting – providing enough granularity through the use of the correct mappings of static data into predefined categories for regulatory returns, and accounting attributes to streamline accounting and statutory reporting.
- Improved security and control over trading environment. Views

### 1 Transition to FRONT ARENA – a view of the past year

ID	Task name	Duration (days)	2005					2006							
			Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	
1	Inflation-linked derivatives (replace Excel)	44	■												
2	Fixed income trading (bonds and related – replace STT bonds)	57	■	■	■	■									
3	Money market trading (replace STT money market)	24			■	■									
4	Static data preparation – settlement management, IRD planning	23					■	■							
5	Structured finance (replace finance kit)	34						■	■	■					
6	Settlement manager	54							■	■	■	■			
7	Confirmation management	43								■	■	■	■		
8	Interest rate derivatives (replace Oberon)	86									■	■	■	■	■
9	Replication – bring Cape Town and Durban online	44										■	■	■	■
10	Stabilisation period – implement new functionality	22													■
11	Credit derivatives (replace Firmament)	21													■

and access restrictions have enabled tight operational risk management from single source of entry.

- STP from single points of entry – Bond Exchange of South Africa trade reporting and matching, confirmations for all derivatives transactions, implementation of the settlement manager to consolidate and automate all payment streams with related benefits of managing operational risk associated with settlements.
- Real-time prices feeds, P&L and desktop risk management. With online historical P&L reporting capability, and drill-down to deal level to decompose P&L positions.
- Platform provided for traders to be more innovative and provide structured solutions to clients.
- Effective distributed environment implemented for non-Johannesburg offices.
- Operations centre of excellence established to service Nedbank Capital and its subsidiaries.

"Working with Nedbank Capital has been an exciting and refreshing journey," says Charmain Alves, regional manager at SunGard FRONT ARENA. "Exciting because it has been one of the fastest-paced implementations ever – and don't for a minute think it was small – migrating off Oberon on to FRONT ARENA in four months involved 23,000 trades. Refreshing because of the high level of commitment Nedbank gave to the project. All implementations are hard and most are difficult. It's fantastic to work with customers that adopt a true partnership approach."

Schabort agrees: "It's not about 'them and us'. We have a common goal to come out the other side with a successful implementation – a vendor that is close to your business and business priorities will do everything in their power to ensure you have what you need when you need it. Working with SunGard FRONT ARENA has been an exceptional experience. We are looking forward to the next implementation phase – providing our customers with direct connectivity to our trading platforms as part of new business we will launch towards the end of 2006."

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