

INVESTMENT- GRADE CUSTODY



TCS BaNCS enables Indonesia's leading state-owned bank to take on new custody business while positioning itself for overseas opportunities

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Budi Santoso,
Head of Custody for BNI



The investment opportunities in Indonesia are heating up. Ever since credit ratings agencies upgraded Indonesia to investment-grade status in 2012, investors from around the world have increasingly turned their attention to the world's fourth-most populous country.

The leadership at Bank Negara Indonesia (BNI), Indonesia's leading state-owned bank, have been preparing for a rapid growth phase in their custody business since 2009. As economic conditions were improving, the bank's board of directors realized that BNI's custody business had a unique market opportunity to become a global gateway for Indonesia's capital markets.

BNI's strongest competitors, the local branches of global banks, use versions of the custody software provided by their parent companies. In response, BNI realized that by deploying a fully-localized solution optimized for Indonesia's capital markets, the bank would be able to leapfrog competitors to provide the highest levels of service to Indonesia's investor community.

However, execution on this strategy entailed the deployment of a suitable replacement solution to BNI's legacy systems, which were then characterized by manual processes, slow service times, and unwieldy reporting capabilities.

"Our main challenge was to increase service levels for customers," said Mr. Budi Santoso, Head of Custody for BNI.

Mr. Santoso worked with Citibank from 1994 to 2010 before joining BNI in early 2010. Over the following months,

he helped BNI to define the business requirements for an improved solution. In 2010, he started requesting RFPs from custody solution vendors.

As a state-owned, independently-run financial institution, Bank Negara Indonesia follows strictly-regulated rules for bidding and sourcing. The first RFP round solicits vendors who can fulfill the minimum requirements, and the second round requires those vendors to quote a price. In 2011, TCS won the contract to replace BNI's entire custody application stack.

As the first deployment of TCS BaNCS for a domestic custodian bank in the Indonesian market, winning the BNI custody deal represented an important milestone for TCS. Accordingly, TCS was required to go the extra mile to adapt to BNI's requirements. "TCS was flexible enough to respond to our new requests – even for requests that were not specified in the RFP," says Mr. Santoso.

Given the urgent need for an improved custody solution, BNI and TCS agreed upon the rapid delivery timeframe of one year. Yet even that wasn't fast enough to meet internal demand for a better solution. BNI's Managing Director of Business Banking, Mr. Krishna R. Suparto recognized the compelling business opportunities that would be possible with the go-live, and rallied for a faster start date. "We worked hard – even on the weekends – but in the end we were able to finish in 10 months," recalls Mr. Santoso.

Krishna R. Suparto
Managing Director – Business Banking

One of the major deployment challenges was training the BNI custody staff on how to use the new application – even as the old application was still very much in force during the workweek. “My team, within the very short time span of three to four months, had to come into the office on weekends to learn the new system from the TCS trainers,” says Mr. Santoso. “The people on the TCS team were quite patient in explaining everything, despite some communication encumbrances.”

Deployment Benefits

The deployment proved to be extremely popular with customers. By offering a fully automatic process for cash settlement, payments, corporate actions, and other custody functions, BNI now credits the customer’s cash account before 10am, enabling customers to put those funds to use faster and more efficiently.

The automated TCS BaNCS solution increases employee efficiency, reduces errors, and from a business standpoint, opens up the capacity for new business. Instructions entered into the TCS BaNCS custody application are automatically linked and sent directly to the central securities depository, saving time and effort over the previous process, which used to take 10 minutes for a single trade using a semi-manual process. “The cost has been reduced by approximately 30 to 40 percent,” says Mr. Santoso. “We’ve reduced the error rate, expediting the settlement and corporate actions processes to the benefit of our clients.”

In addition, the custody solution of TCS BaNCS works in concert with BNI’s core banking solution, also a TCS BaNCS deployment (for details, see TCS BaNCS #3, 2008). “The linkage between the TCS BaNCS custody application and the TCS BaNCS core banking system is easy and fast,” says Mr. Santoso. “When we settle a custody transaction, the trade is automatically reflected in the core banking application.”

The compliance department is also a beneficiary of the TCS BaNCS custody solution. Recent regulatory changes now require custodian banks to maintain end-to-end information about the beneficiary owners of accounts, and this information that was previously difficult to maintain. “Using TCS BaNCS, we have more confidence from a control standpoint, because we’re able to ask the compliance team to check on a reconciliation status, the present volume, or account ownership data faster than ever,” says Mr. Santoso. “It’s very convenient for the compliance team.”



Dr. Henrisa Lubis,
Vice President, IT Division, BNI



Building the business

The success of the project is the result of the joint efforts of TCS with BNI’s technology team led by Mr. Suwoko Singoastro, Managing Director of Operations & IT, and Mr. Henrisa Lubis, Vice President of the IT Division. By bringing to market improved automation and enhanced functionality, BNI was able to aggressively seek out new custody clients with high demands that would have been impossible to service under the old custody system.

A major milestone was the signing of a deal with a major state-owned insurance company in Indonesia, with over IDR100 trillion (USD 10 billion) in assets. BNI will implement virtual accounts for 171,000 companies and their workers, and perform safekeeping, transaction handling, corporate actions, representation services and reporting on behalf of the client.

“TCS and BNI’s technology team were instrumental in the process of BNI being selected for managing a custody mandate of this magnitude,” remarked Mr. Santoso.

Suwoko Singoastro
Managing Director – Operations & IT

The deployment of TCS BaNCS has also facilitated greater usage of the SWIFT network for interbank messaging. Previously, BNI only exchanged SWIFT messages with Euroclear, BNI’s international central depository. Now, BNI has started exchanging SWIFT messages with the local branch of BNP Paribas, and hopes to further extend the use of the messaging network with other domestic clients.

Looking ahead, drawing upon the powerful capabilities of TCS BaNCS, BNI’s leadership now has the scalability and the capability to become a global player by enabling foreign investors to be able to open accounts at BNI branches outside of Indonesia. Already, BNI has branches in Singapore, Tokyo, Hong Kong, London and New York. BNI recently opened a new branch in Osaka, and this year plans to open other branches in the Middle East and Myanmar.

BNI’s global outlook will make it easier for clients worldwide to invest directly into the Indonesian capital markets, contributing to the rapid growth and rich prospects for the Indonesian economy. ■





Budi Santoso (photo at left: fourth from left) with BNI team, and leading a team meeting (photo at right: standing).

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FAST FACTS

- BNI’s custody and fund administration increased total assets under custody 23% compared to 2011.
- Indonesia has approximately 74 million middle-class and affluent consumers, and this number will double by 2020, to roughly 141 million people (Source: The Boston Consulting Group, “Asia’s Next Big Opportunity,” March 2013).
- BNI was founded in 1946 as the country’s first national bank, and converted into a limited state-owned corporation in 1992.