



TRUST THE SYSTEMS: Philip Tromp of Perago ... ‘Our focus is on improving the foundation of the financial system’. Picture: RUVEN BOSHOFF

## Banking on trust to protect the economy’s plumbing

Ten years ago Philip Tromp left the Reserve Bank to start Perago — which is now a respected player in systems development for central banks worldwide, writes Stephen Gunnion

Published: 2009/04/17 12:00:00 AM

NEVER has the issue of systemic risk been as salient as during the global financial crisis of the past six months. With banks around the world going cap in hand to their respective central banks — and many liquidated or nationalised as they struggled to survive — the issue of real-time clearing and settlement systems, which help reduce risk, was brought to the fore.

Few men know the value of such systems as much as Philip Tromp, the entrepreneur who has developed payment and settlement systems for a number of central banks around the globe.

Perago — the company that Tromp founded when he left a 22-year career at the South African Reserve Bank behind him — turns 10 this year. During that period, it has developed and grown into one of a handful of companies globally that is recommended by the World Bank to provide payment and settlements systems to central banks.

“I always had a dream that I would like to start something and develop it into something big,” says Tromp.

He says that during his tenure at the Bank he had many opportunities to innovate and introduce new things — specifically in the Bank’s information technology (IT) applications — although these were early days for technology.

These innovations included such simple things as word processing and PCs, but progressed to more sophisticated subjects such as information engineering.

“The Bank has always had a progressive IT department and played a key role in the modernisation of SA’s national payment system in the ’90s,” Tromp says.

“The urgent need of neighbouring countries for assistance in implementing modern financial infrastructure was the trigger to take the knowledge outside the central bank and offer it to other central banks. This presented a new challenge and a great opportunity to make a bigger contribution,” Tromp says. “From where we sit today, we have really made a big impression on the international market and, of course, as South Africans we are really proud of that.” Tromp says central banking is all about trust. “The whole presentation of the company, its people and its message is very much aligned with central bank thinking and the central bank trust model,” he says.

That broader culture fits very well with Perago’s culture because of the company’s origins at the Bank. When Perago gets together with central banks around the table they don’t talk technology and the latest gadgets, they talk central banking. Tromp says that is a big advantage in its specific market.

Tromp compares the infrastructure central banks rely on as “the plumbing of the economy”.

The systems Perago develops deal with the final settlement of transactions in an economy. There are only a few ways to settle these transactions: one is cash — bank notes — and the other is transfers through central bank accounts.

The whole banking system rests upon the principle that they settle with each other through their accounts at central banks.

What Perago’s system does is transform an end-of-the-day process of final settlement to a real-time process that takes place continually throughout the day.

“When everything works well, like it did before the liquidity crisis, the world is not even aware of such things as interbank transactions and liquidity,” he says. “But when something goes wrong all of a sudden there is a lot of focus on that area of activity and people become aware there are risks involved in transactions, even on a bank level.

“Our focus is on improving the foundation of the financial system. The approach we follow; the robustness, the resilience, the security — all these things are critically important in what we do.”

The World Bank has accepted that the real-time settlement environment is a fundamental of a modern economy and as such a growing number of developing countries are installing Perago’s systems.

Its latest contracts include a financial infrastructure project for Palestinians — the first for the Middle Eastern region — and for Honduras, which will open up the Latin American region to the business. It also recently completed an installation in Scandinavia, replacing a system that had been in place for 15 years. This was done seamlessly, with no disruption to the clearing and settlement environment in the region.

“The level of sophistication you have in the sophisticated electronic economies in Scandinavia as opposed to small emerging economies in Africa is completely different, but the fundamental requirement is the same,” Tromp says. “What we try to do is address both those requirements with the same system and that has been working very well for us.”

He says Perago's systems are flexible, offering different options to the banks. The construction of the system allows them to make changes according to their requirements.

By replacing the end-of-the-day settlement process with the real-time model, central banks enable a greater degree of certainty in domestic transactions by providing irrevocable payment finality, which creates a more stable environment where foreign investors know when they make a transaction that there is finality.

The Palestinian project had been piggybacking on other countries in the region. Tromp says that by installing its payments infrastructure and systems for Palestinians, Perago will participate in building an infrastructure that will enable the Palestinian economy to become independent from its neighbours.

He said this was similar to Perago's installation in Namibia following its independence, which had previously been reliant on the South African banking system.

Despite Perago's growth and international ambitions, Tromp says that the company is proud of its South African roots and customers are comfortable with software that is "recognised as being out of SA and being developed by South Africans".

In many cases, Perago's systems are implemented in conjunction with local partners, who are sometimes in the prime contractor role, but the software is clearly from SA, he says.

"There is a lot of respect for the financial system in SA and that is quite widespread," Tromp says.

However, he says the level of sophisticated infrastructure the group supplies is not typically associated with the African continent.

That was part of the reason why in 2005 Perago sold part of its business to Italian group SIA SSB in order to obtain a more continental brand. In that process it also created Perago AG in Switzerland — where the company is headquartered — in order to take the brand forward in line with what customers would associate with Switzerland.

"Switzerland is associated with an apolitical system, with quality, with integrity ... a high level of ethics and quality. And in our game all those characteristics are very important," says Tromp. "The Swiss model really fits it perfectly. That's where we are positioning the company and its products."

Tromp says the "factory" remains South African, wrapped up in Swiss packaging.

"People still know the guts of the company are in SA and there is no problem with that at all," he says.

Of the 100 staff employed by Perago, about half are involved in developing, distributing and installing the group's proprietary software, while the remainder work for the African-based service business, Perago Africa.

This business was started in 2005 as a spin-off from the software business. Perago Africa operates in more than 20 countries in sub-Saharan Africa, distributing products and selling integrated solutions to financial institutions and sectors including the retail and communications industries.

“That has been a wonderfully successful venture for us,” Tromp says. “Through Switzerland we focus internationally and through the African business we are focusing on sub-Saharan Africa.

Competition is tough for central bank customers, as there is only one per country, Tromp says, and few companies have really made it their market. He says it is a difficult market to penetrate as reputation is paramount in winning central bank contracts — which follow normal government tender processes — due to the systemic risk that could be introduced to an economy during an installation.

Having a reputable European parent company has helped Perago break into the European market and his team’s experience in central banking has also helped.

Although Perago’s systems cannot prevent liquidity crises, as they only supply the final leg in settling transactions and it’s up to the economy to provide the liquidity for these transactions, he says a recent conference in Cape Town examined ways in which companies such as Perago and customers such as central banks can enhance their infrastructure in order to identify and mitigate such crises in the future.

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