

Sectech: the emerging market custody kings

The search for alpha has taken fund managers deep into the emerging markets, and their global custodians are following them. A London-based vendor is equipping their sub-custodian banks with a securities management, control and processing system that is embarrassing some major brands in the IT business

The early career of Khalid Mukhtar reads like a passage from a novel by Graham Greene. The son of a Pakistani air force officer, he first entered the banking industry with Citibank in Riyadh, where his father was posted as an instructor to the Saudi Arabian air force. Mukhtar served in the eastern province as well as the Saudi capital for four years between 1982 and 1986, interrupted by occasional training courses at the Citibank regional headquarters in Athens. A master of the hard sciences—he graduated in physics, chemistry and mathematics—Mukhtar had no difficulty grasping the intricacies of internal audit.

It certainly gave him the time to pursue a private passion for information technology that persuaded Citi to shift him into an operational role. The bank eventually gave him the chance to manage his first system installation—at its branch in Gabon. “Paradise,” is how

Mukhtar recalls the oil-rich West African state. “We lived in a house two minutes walk from the beach.” Citi was impressed enough by his project management skills to move him to London in 1987, as a member of its African banking technology team. During the next decade, Mukhtar installed systems at the Citibank operations in Senegal, Zaire and Zambia. “Working for Citi was a great experience,” he says. “I learned a lot and saw the world.”

More importantly for his future, it was at Citi in London that Mukhtar met a twenty-three-year-old Indian computer engineer and programmer called Anurag Gupta, a graduate of the prestigious Indian Institute of Technology, Bombay. At the time, both men were working to adapt the Citibank Milan custody system to the other operations of the bank throughout Western Europe. It was a seminal experience.

“We were installing a custody system in the Citi operations around Europe, Middle East and Africa, but there were no concrete plans to upgrade the ageing DOS-based system,” recalls Mukhtar. “It was then that we decided there was an opportunity to do it for ourselves.”

Mukhtar and Gupta began, like so many businesses, in the British equivalent of the American garage: the kitchen table chez Mukhtar in a suburb of southeast London. Their first member of staff was Mrs Gupta, another engineering graduate from IIT, Bombay, and their second was Mukhtar’s sister (also a computer engineer). The first client was a former Citibanker who had joined the custody department at Akbank in Turkey. He knew their work and bought a promise rather than a system. Within six months, the four founding members of Sectech, with a small team of developers and with the help of programmer friends and well-wishers, had finalized a custody system for the Turkish bank. Custody 2000 was based on a sound principle (entering data once only), a Microsoft platform, a normalized database, fax and e-mail as well as SWIFT communication capabilities, and a then-novel Web-based reporting capability. In 1999 Akbank bought the Sectech system over a rival offering from SunGard. It was the making of the company.

“We would not have survived if we had not won the Akbank business,” says Mukhtar.

There followed a marketing campaign throughout Central and Eastern Europe, but early hopes of rapid sales turned to dust. East of the Elbe, Sectech encountered resistance on grounds not of functionality, but price. Mukhtar and Gupta changed the price model and switched their attention to the most price-conscious market on earth: Africa. It has proved astonishingly fruitful. First Bank of Nigeria, National Bank of Malawi and Mauritius Commercial Bank are now among more than a dozen Sectech clients, but the most important proved to be London-based Barclays Securities Administration (BSA),

owner of the largest sub-custody network in Africa. Mukhtar first encountered Barclays at a conference in Nairobi in 2000 and met the then-chief of BSA, Charles Stevens, in London shortly afterwards. Seven years on, the Custody 2000 is in place in the Barclays operations in Botswana, Ghana, Kenya, Mauritius, Zambia, Zimbabwe and Uganda. The new Barclays operation in Egypt will also use it.

One reason the Sectech system appealed to Stevens is its robustness, which obviates the need for local support. Users are supported instead by a mix of e-mail and telephone, mainly from a 25-man operations center at the Millennium Business Park in Mumbai. Mukhtar guarantees a response time of no more than three hours. "We have never had to send an

engineer to any of these countries to resolve a problem," he says. "That testifies to the stability of the system."

The Sectech system is designed and priced for emerging market custodians. Yet, Mukhtar argues, it is rich enough in functionality to prove attractive to broker-dealers and institutional investors as well. Sectech finds itself up against SunGard, TCS and DSTi, rather than local competitors, on a regular basis. It is never embarrassed. "Our system can compete with any custody system anywhere," says Mukhtar. "In the emerging markets, every country is slightly different, in terms of infrastructure and connectivity. But 90% of the functionality any custodian needs is in our core system, so there is minimal customization work to do before installation. But our

greatest strength is that we are not just an IT company. Because we came out of the business, we understand the business. We know about portfolio valuations and settlement confirmations right down to field level." Selling anything in emerging markets has its peculiar challenges. Mukhtar has found, for example, that it is impossible to distribute in Asia except through local representatives. But he remains excited about the sales opportunities there, and the possibilities for improving the system. CSD technology is the most obvious opening—of the 49 countries in Africa, only three have a CSD—but adding front-office fund management capabilities for local asset managers is another. "We have not done too badly," says Mukhtar. "But we can do better still."

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