

Technology & Infrastructure to Facilitate the Rapid Change in Back Office Operations

Graham Nyman
Helen Richardson

- Drivers for Change... Sources of risk
- RTS & STP... Two sides of the same coin
- Implications of e-business
- Technology & Infrastructure
- Managing the Pace of Change

Back Office Industry-wide

The following industry-wide **issues** and **pressures** are present in today's back offices:

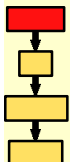
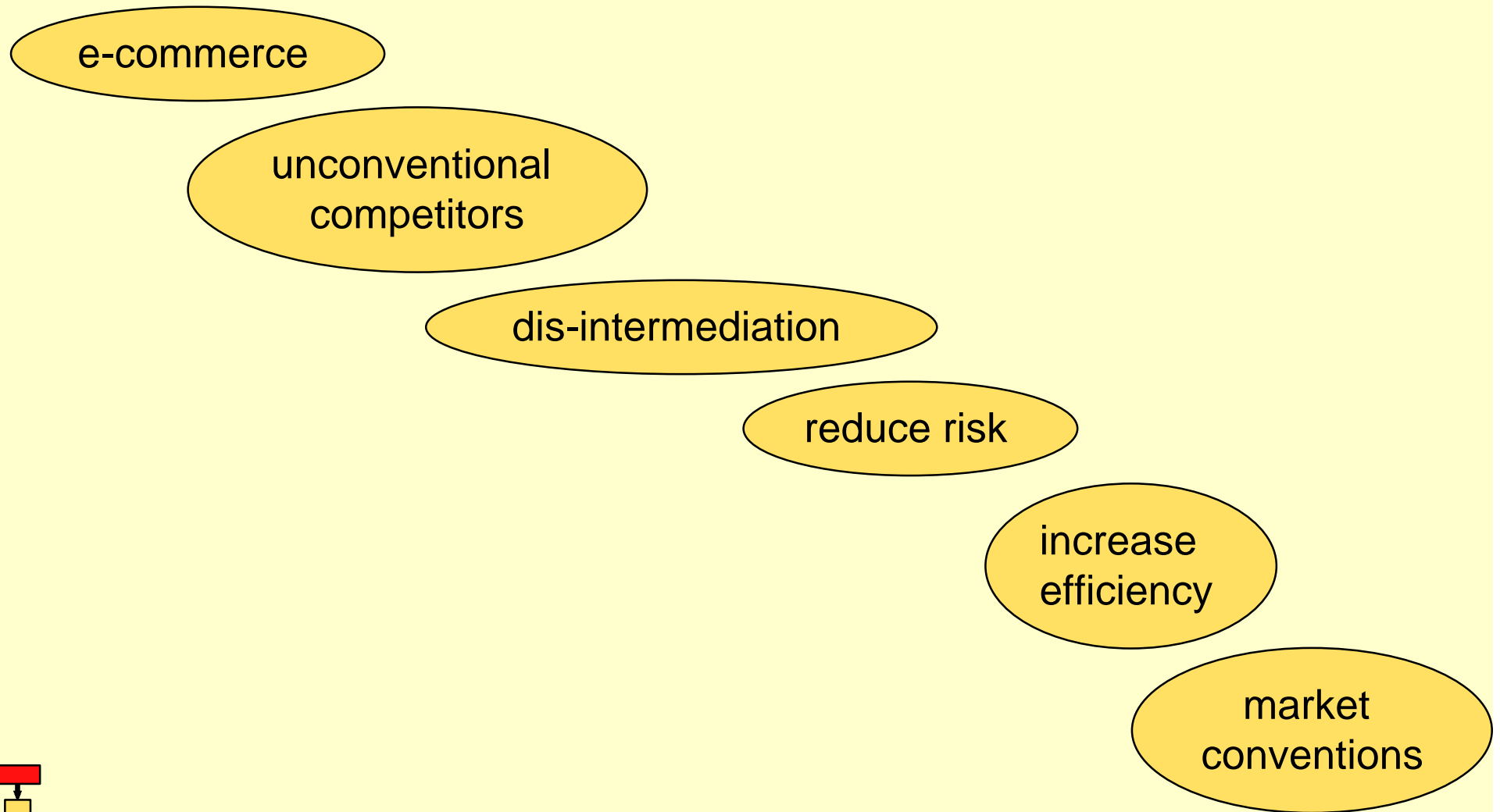
Issues

- High costs of maintaining legacy platforms.
- Out-dated back-office processes and technologies.
- Disjointed automation with manual interventions, repair queues and investigations.
- Automation initiatives are often proprietary.
- Incompatible databases and data standards.
- Poor reference data quality.
- High error rates (i.e. over 20% for cross-border transactions).

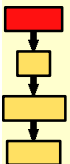
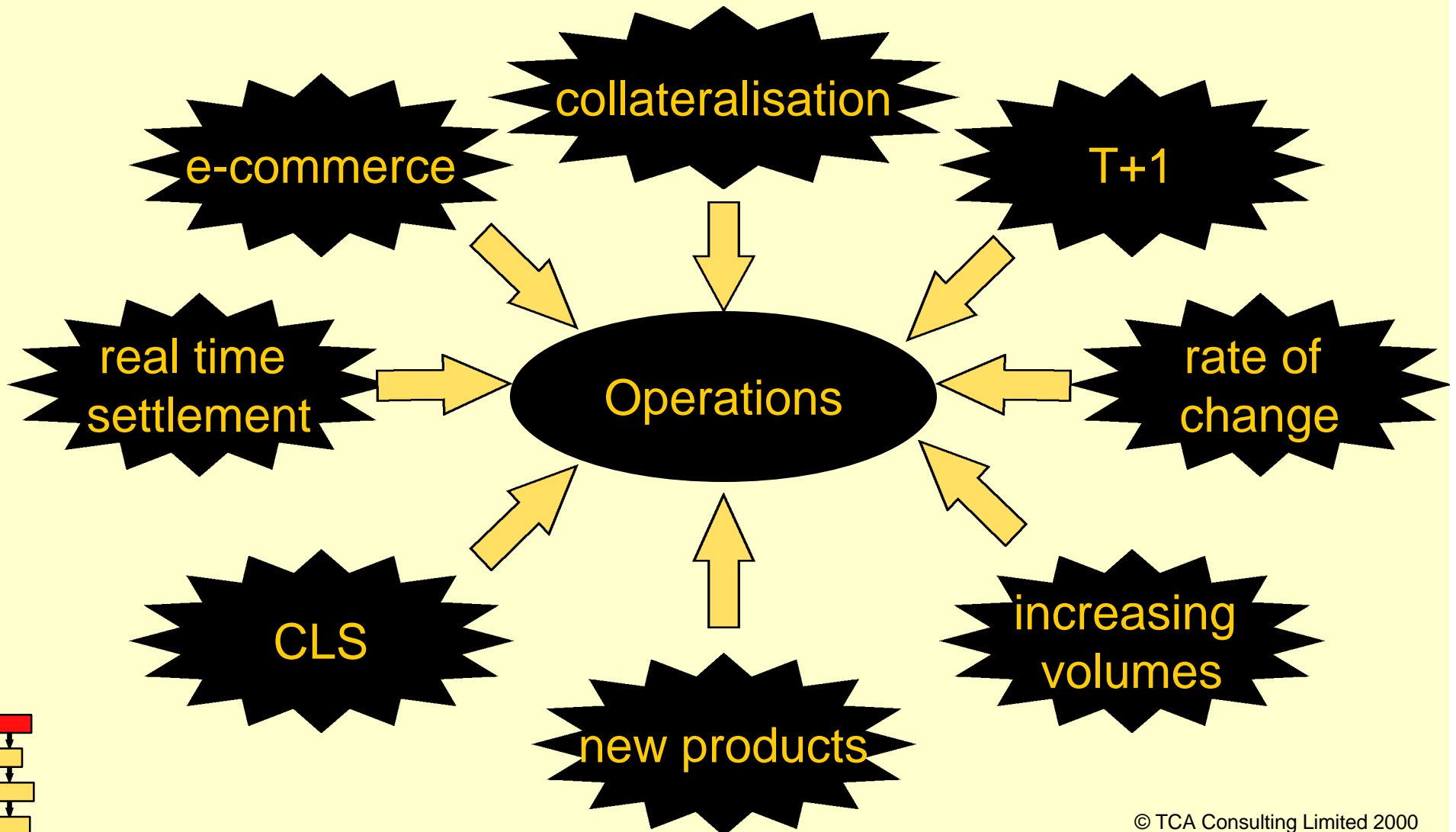
Pressures

- Pace of change
- Product and service innovation
- Front office requirements
- Customer requirements

Competitive pressure



Drivers for change



Moving towards a **T+1** settlement cycle for securities is gaining increasing support.

Why

- Reduction in pre-settlement risk.
- Shorter settlement gap between security and derivative markets will reduce the need for credit cover between the markets.

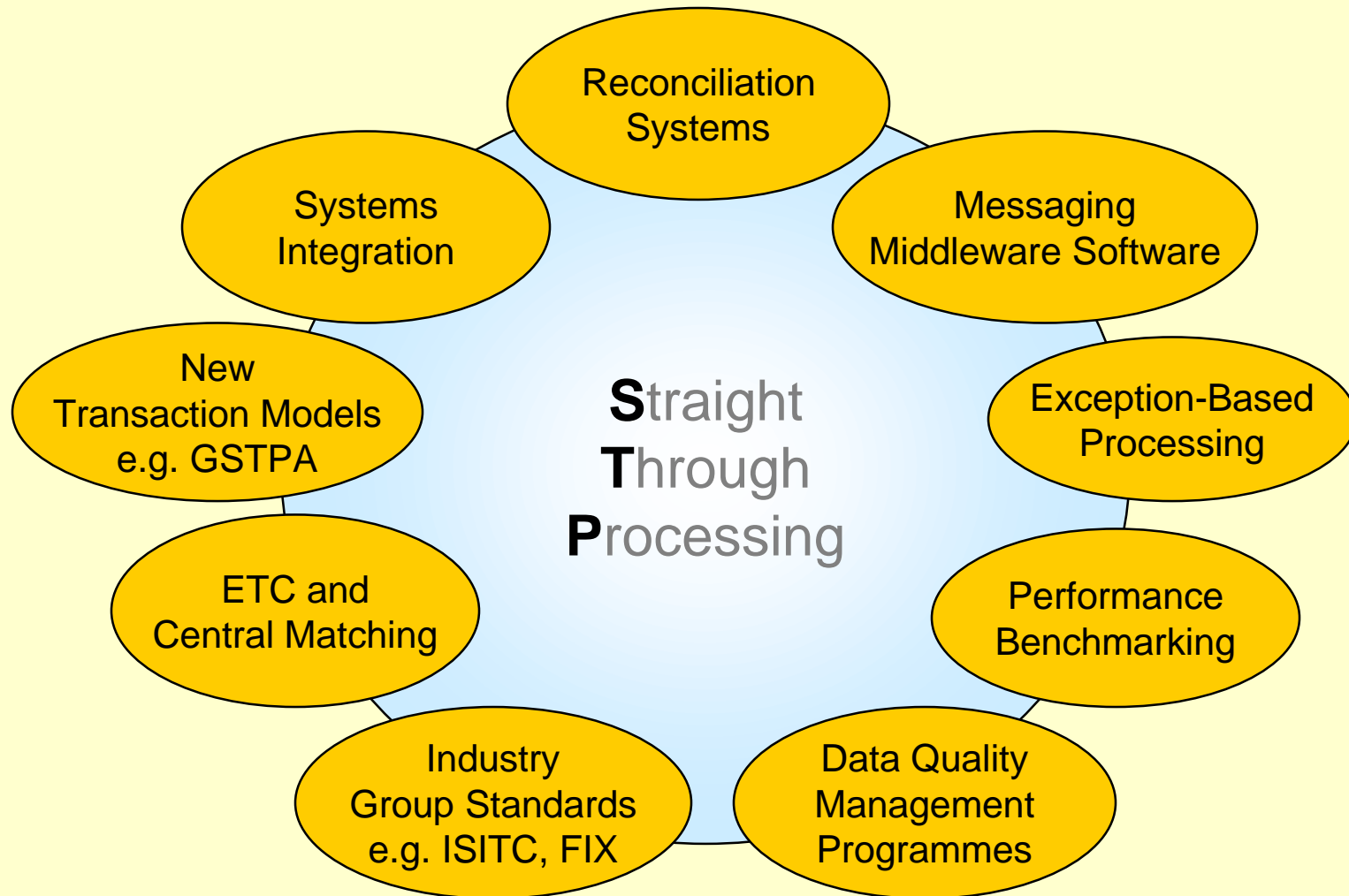
Issues

- Increase in settlement failure rate due to shorter timescales.
- Will involve significant changes to processes and work practices.
- Scale of technology and resource investment required.

Disadvantages are short-term for longer term benefits.

Back Office Current Initiatives

The following current initiatives are being used to address these issues.



- **e-Commerce is a fundamental change.**
- **e-Commerce is about delivering value to customers.**
- **e-Commerce requires the back office to play a key role.**

e-Commerce trading is **continuous**:

Extended / continuous opening hours

e-Commerce trading is **automated**:

Immediate credit checking / collateral

Full automation of new products

e-Commerce trading is **competitive**:

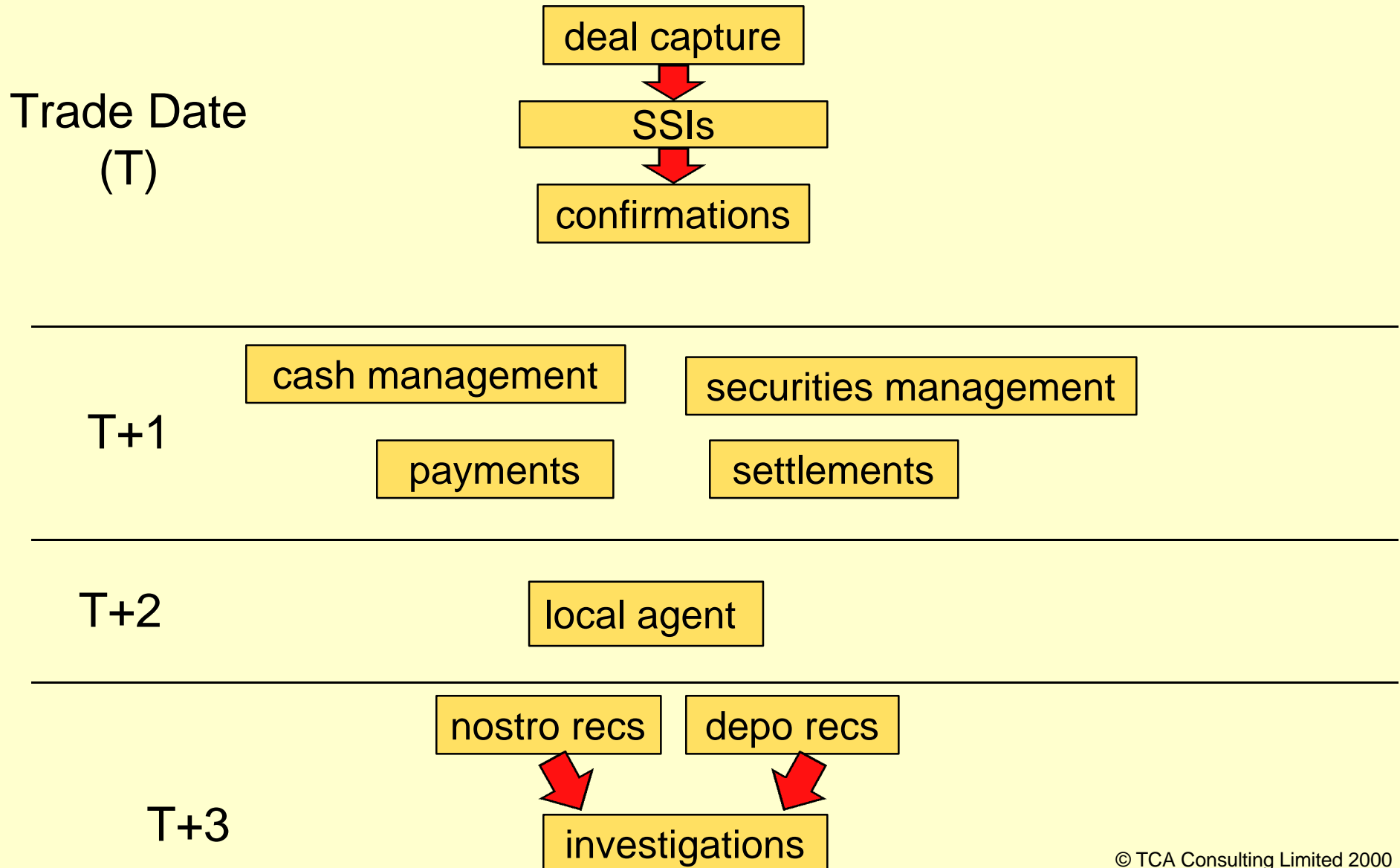
Lower barriers to entry (no bricks & mortar)

Need for differentiation and added value

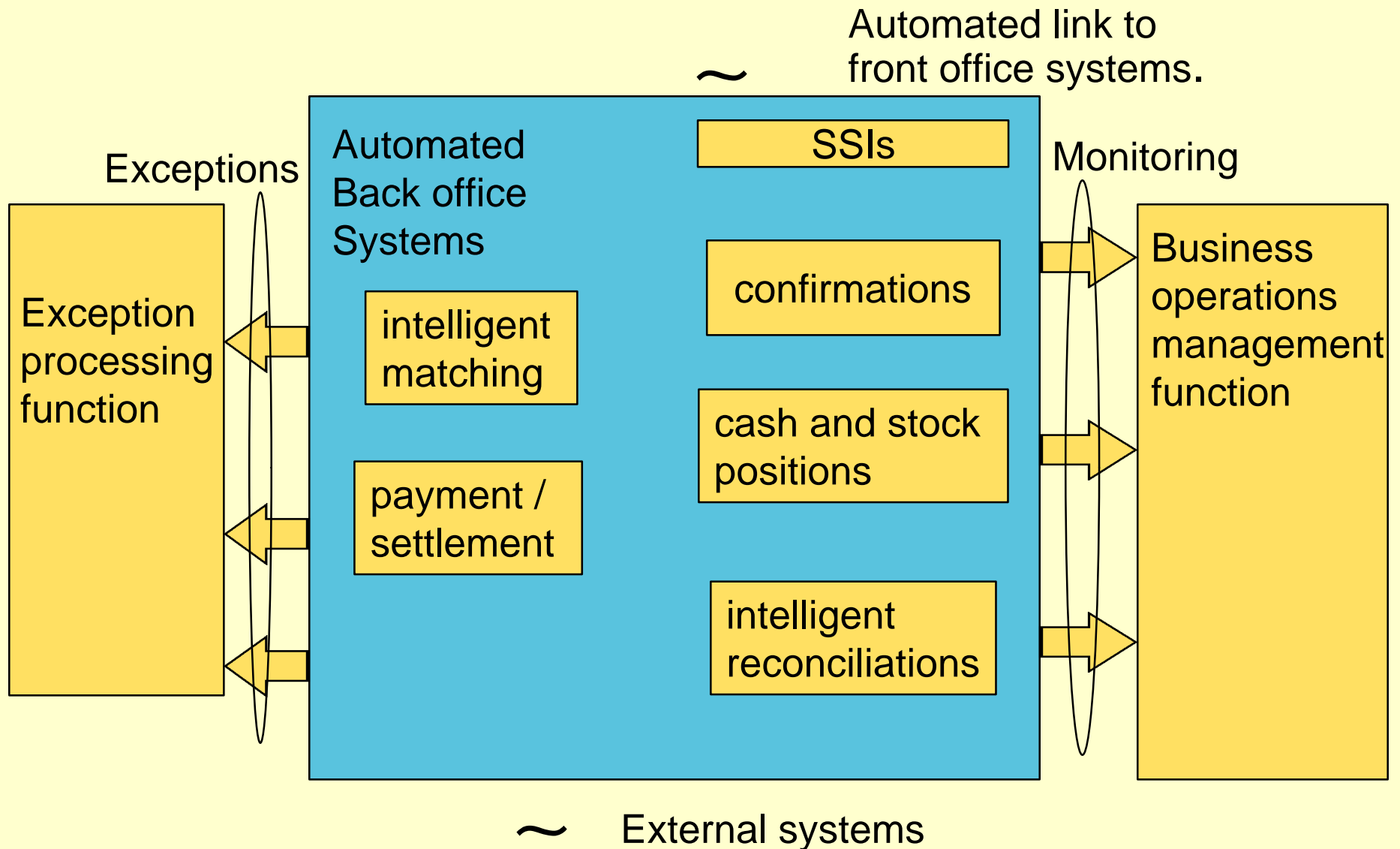
Technology & Infrastructure in Back Office Operations

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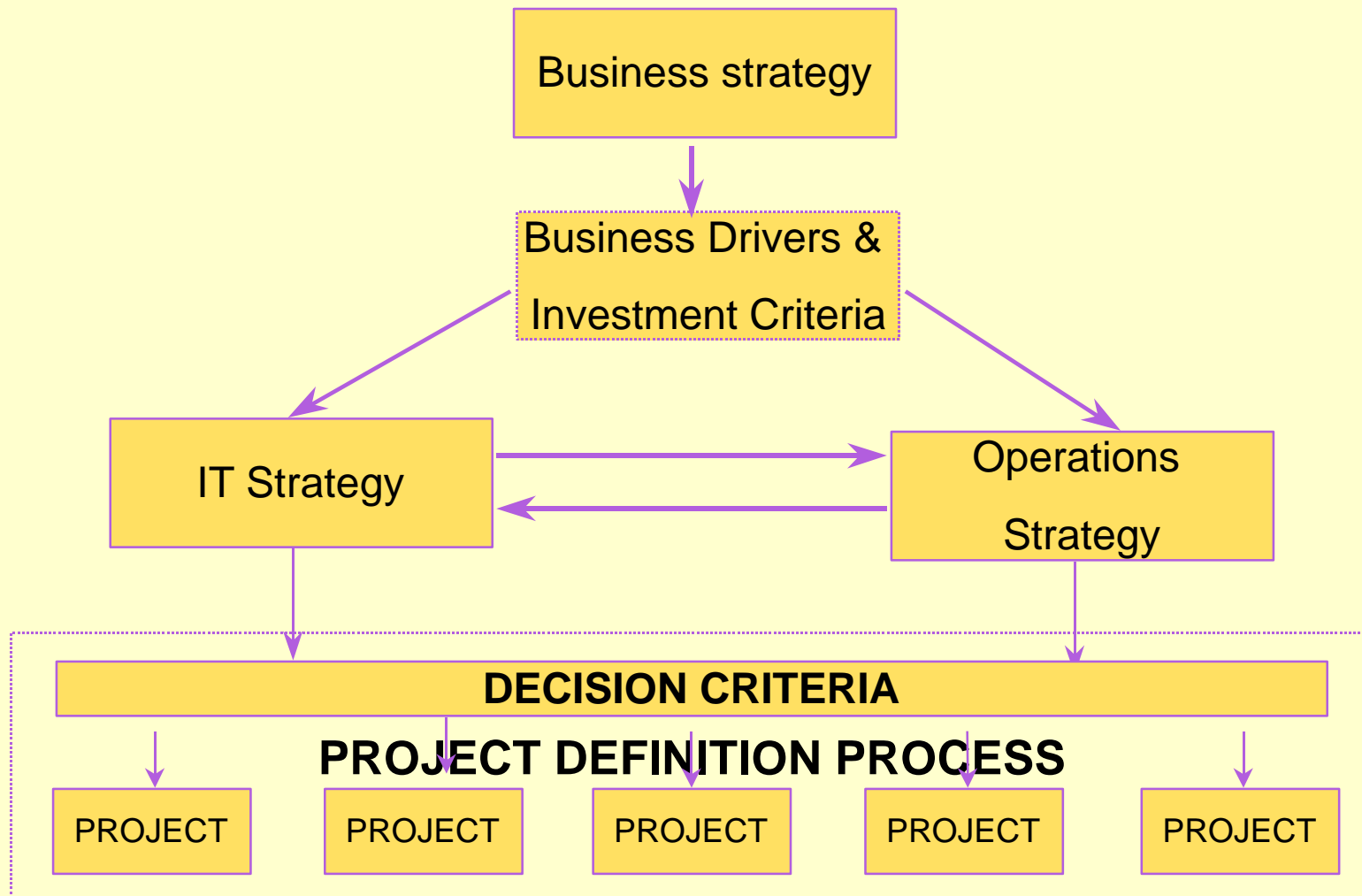
Back office structure - old paradigm



A target structure - new paradigm



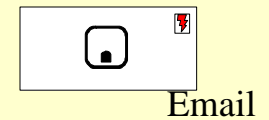
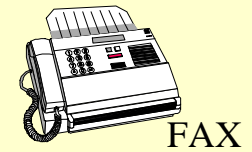
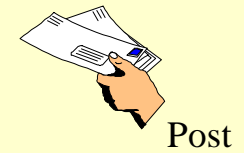
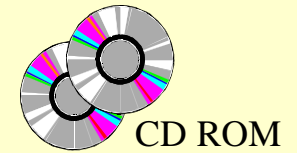
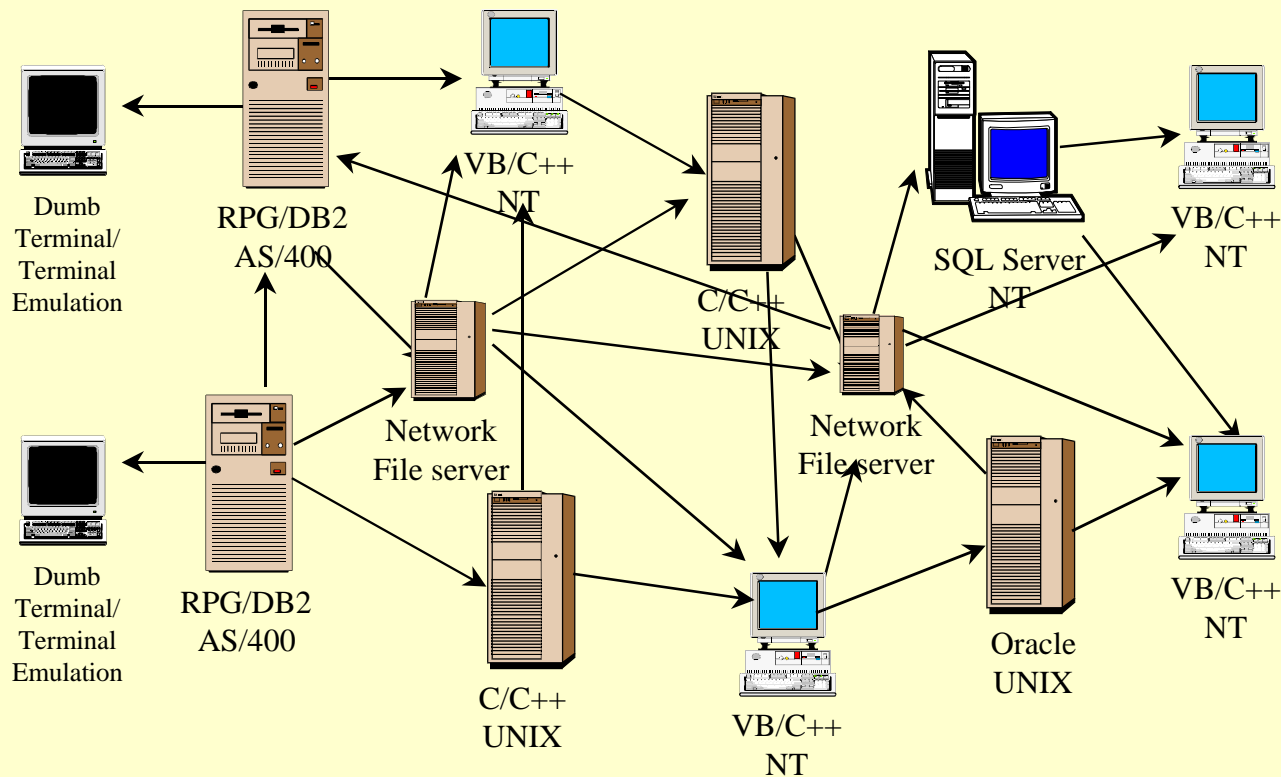
Maximising IT Effectiveness



- Process review and mapping by product/instrument
- Operational risk and productivity and efficiency assessment of processes
- Process improvement and redesign
- Current skills and staffing, shortfalls
- Controls and procedures
- Claims and fails review
- Exception handling
- Service cost assessment

The Current Picture

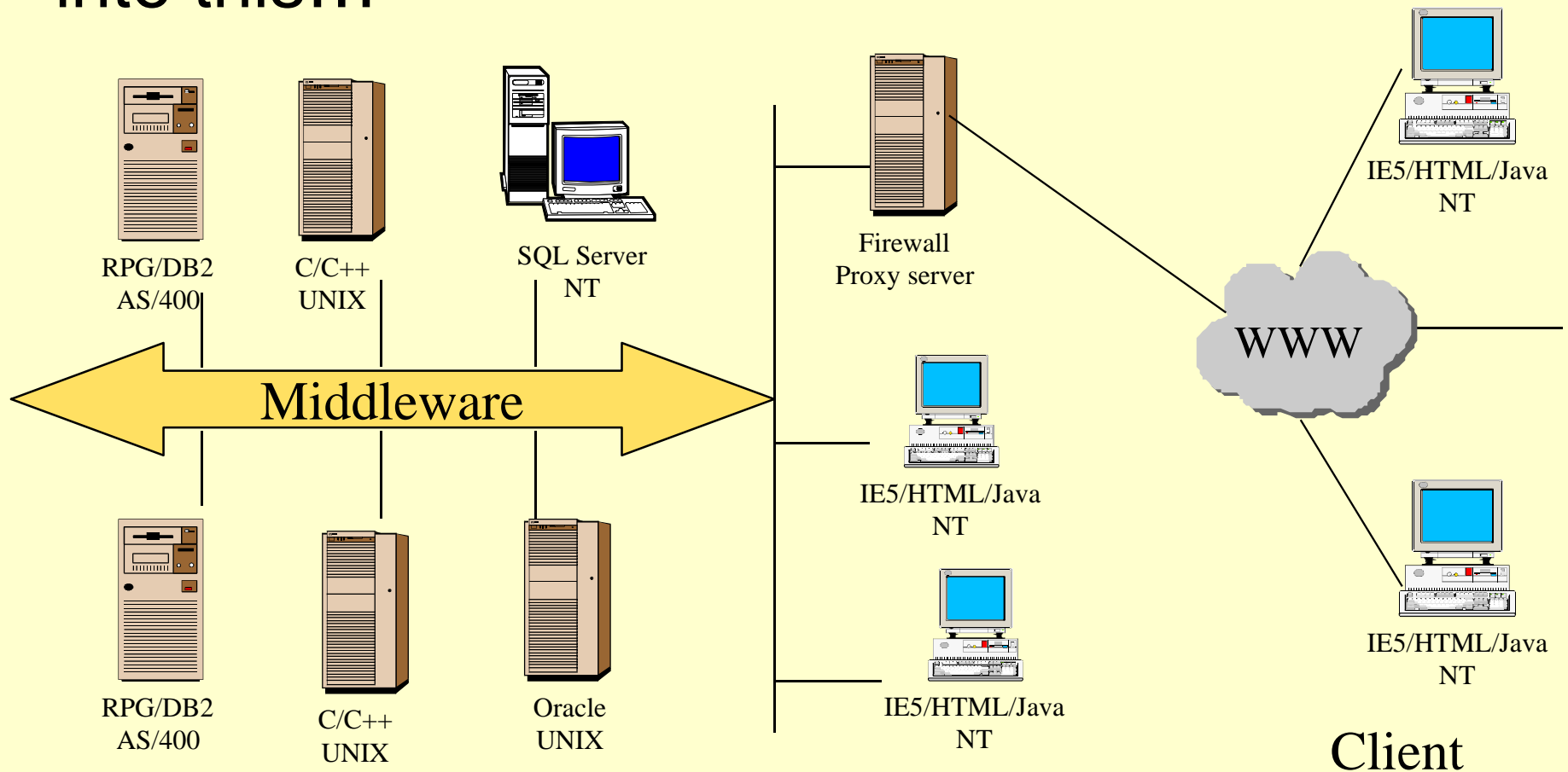
The challenge is to turn this....



Client

The Target Infrastructure

into this...



Technology Review

- Product/Instrument based applications & interfaces investigation
- Batch & transaction processing
- Integration Approach
- Project management methodology including project risk management
- Programme management healthcheck
- Current projects, skills and resourcing
- Support/maintenance provision and user satisfaction survey
- Project cost/benefit analysis

Good e-Integration

- Established vision and business strategy
- Review of business workflows
- Detailed analysis of data flow and mapping
- Legacy/Core Processing systems wrapping
- Selection of appropriate middleware solutions
- Adoption of new skills and methods
 - OO and UML, XML/XSL, EJB, Case Tools
- Phased Implementation

Integration Layer Requirements

- Support existing and new business logic
- Provide multiple database access
- Link to legacy systems & client connectivity
- Support a distributed architecture
- Transactional security & integrity
- Fully auditable
- Fail over support and load balancing
- Persistence
- 24/7 Operational support

Delivery Critical Success Factors

The critical success factors to delivering the new solution are:

- Business commitment, support and involvement.
- Real-time, open architecture.
- Proven business case.
- Specialist system and process knowledge.
- Experienced financial services knowledge.
- Proven methods and approaches.
- Effective project and cross-project planning and management.
- Quality control of deliverables
- Effective risk identification and management.

Implementation Management

- Programme Management
 - Project portfolios
 - Rigorous Timeboxing
 - Effective Sponsorship
 - Clear communication
 - Clear scoping of frequent deliverables
- Project Risk Management
- Goal Focus
- Continual Feedback and Improvement
- Staff training and development

- e-commerce is happening
- RTS will happen
- Your survival requires a rapid, controlled response
- Desired state views are easily drawn
- Technology is not the problem but the solution
- Greatest challenge is designing and managing the programme of work to implement the new paradigm