

How Financial Firms Can Improve Business Integration Capabilities and Increase Straight-Through Processing Efficiency



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Introduction

We are all aware of the effects globalization is having on the business landscape and the extremely competitive environment we now live in. It's no surprise, then, that financial service firms are generally dissatisfied with their integration efforts. A recent commissioned study conducted by Forrester Consulting on behalf of Sterling Commerce shows that nearly two-thirds of those surveyed rate their integration capabilities as only somewhat or not at all effective in enabling IT to quickly respond to new business needs or regulatory requirements.¹

Clearly, to maintain a competitive advantage, organizations in all industries need a fast, efficient way to integrate, both within and outside their enterprise, to their customers, partners and third-party providers that takes full advantage of their existing legacy systems as well as the latest technologies. Sterling Commerce solutions help organizations serve their customers more effectively and efficiently, to help lower costs and increase revenue potential. Such solutions include capabilities that can improve your business agility, efficiency and performance through secure and flexible integration, seamless automation, and the visibility and access to actionable information within your IT and business processes.

This white paper discusses the increased demand placed on financial services organizations to improve their straight-through processing (STP) levels across all business units.

Background

For years, the capital markets area of the financial services industry has utilized technology to improve straight-through processing capabilities for the entire trading life cycle, to be handled electronically with minimum human intervention. The objective has been to reduce costs as well as risks, both systemic and operational.

With technological advances bringing STP closer to reality than ever before, the sell side of the capital markets operations is about 98% STP. The buy side stands at about 50% STP efficient at best, due to less investment in standards and automation by buy side organizations than their sell side counterparts. As the sell side of the capital markets demonstrates, the STP approach is now expanding into other areas of the financial services industry, in particular to corporate banking and transactional banking.

This strategy has been prompted by the financial services organization's customers, in an attempt to maximize the return on their investment in streamlining their business models. This has been brought about mainly by globalization, and has forced banks to change their processes to help customers reach their business goals.

1. Source: "The Value of An Enterprise Integration Strategy," A commissioned study conducted by Forrester Consulting on behalf of Sterling Commerce, December 31, 2008.

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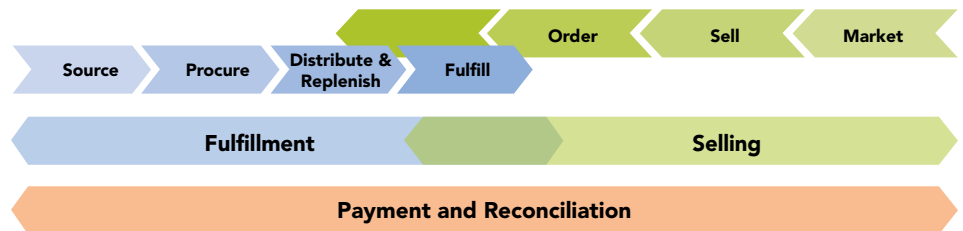
With the advent of globalization and the increase in competition across all industries, organizations are considering better ways to manage their money flows. For example, some organizations have consolidated their treasury and cash management services, while others are utilizing shared services centers. Still others have simply centralized their operations.

These initiatives have changed the relationship between banks and their customers. Banks now need to be more mindful of customer needs in order to retain their business. No longer can banks dictate how customers do business with them. Today's customers dictate how they wish to do business and be serviced by their bank(s). If the level of service is not satisfactory, the customer will simply switch to a competing bank that can, and will, provide the level of customer service and satisfaction desired.

These initiatives have also changed the way organizations do business with each other, as there is a greater reliance on technology to complete the business process. Banks need to be aware of changing customer dynamics, and provide products and solutions that help customers do business more efficiently and cost effectively.

For example, an organization that has centralized payments at their head office, naturally needs to be able to continue to do business in other countries. They need immediate access to prior-day as well as intra-day account balances, in order to successfully manage their working capital.

The business needs to be able to accurately and methodically track transactions at each stage of the process to gain a complete understanding of their financial situation (cash, debt and investments) on a global basis.



Banks need to provide a higher level of accurate, secure and timely information, to help bank customers achieve their objectives.

However, as the capital markets, corporate and transactional banking areas are now experiencing, there is a web of technology complexity within and outside an organization that needs to be addressed in order for STP to be effectively achieved.

Bank infrastructures are extremely complex due to such factors as regulatory demands, compliance, and numerous industry standards, as well as mergers and acquisitions. This places additional pressures on each bank's capability to meet customer expectations, including agreed-upon service levels.

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Data is now an invaluable resource

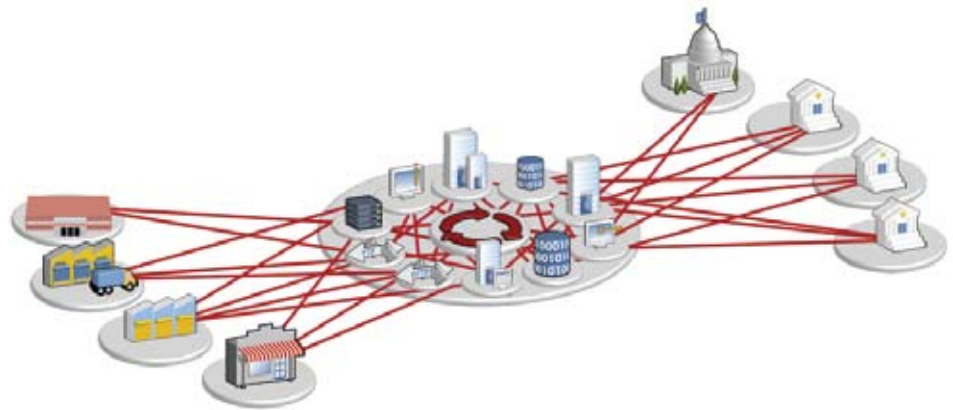
Globalization and the reliance on technology have seen data become an invaluable resource, critical to success in today's highly competitive business environment.

This reliance on data, together with the increasing volumes and the inherited complexity of the infrastructure, causes challenges for any organization. This is especially true in regard to the integrity of the data sent or received inside and outside a given enterprise.

Diagram 1

Inherent complexity with existing infrastructures

- Expensive to handle the diverse ways that commercial organizations want to do business
- Too many standards and networks to connect across the financial services community
- Many correspondents, clearers, brokers and outsourced service providers, each using different technology
- Too slow to integrate internal systems to get a single view across all channels



Most organizations, particularly financial services organizations, understand the importance of the data they rely on, but are challenged by data management and data movement complexities. Simply put, they exhaust absurd amounts of resources, time, money and effort in a continuous search for missing data, amending wrong or incomplete data, and developing workarounds to resolve data conflicts. (The Forrester survey on integration strategy reveals that a majority of financial service firms indicate that their current integration capabilities are only somewhat or not at all effective in enabling IT to quickly respond to new business needs or regulatory requirements.)²

This seems to be an accepted norm in most modern organizations, and is factored into the day-to-day operations of the business. This is an unnecessary cost, however, that can be eradicated by implementing technology solutions that can validate, translate, reconcile and, if need be, amend the data on the fly. This ensures a much higher level of straight-through processing for the organization, and presents a decided edge over their competition.

Such improved straight-through processing can be achieved through business integration capabilities that help grow your revenue streams, while reducing operating risks and costs, connect and match events with related financial transactions, accelerate post-merger integration, and meet customer service levels, all while maintaining comprehensive data and process security.

2. Source: "The Value of An Enterprise Integration Strategy," A commissioned study conducted by Forrester Consulting on behalf of Sterling Commerce, December 31, 2008.

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An interesting fact: The Data Warehousing Institute estimates it costs U.S. business over \$600 billion per annum to trace and correct bad data. Based on this estimate, it can be safely assumed that the cost of bad data globally is well in excess of a trillion U.S. dollars a year.

Another impediment is an excess of multiple integration solutions in a given firm. These integration solutions actually need to be integrated themselves; "integrating the integration" so to speak, to get them to work together. As Forrester defines a comprehensive integration solution, "A selection of pre-integrated components designed to handle enterprise application integration, B2B integration that includes support for both EDI and XML (B2Bi), trading partner management (TPM) support, business process management (BPM) for process integration, and managed file transfer (MFT) capability model-driven application development features."³

Once an organization recognizes the benefits that can be derived from a more efficient operation through the use of straight-through processing, it will help if they better understand the impediments to achieving true STP.

The benefits include:

- Increased margins, even while prices are being squeezed because of competition and/or product commoditization
- New revenue-generating opportunities
- Lower operating costs
- Redeployment of human resources into revenue generating areas of the business

The web of complexity impeding STP can be categorized into three key areas:

- Data integrity
- Connectivity
- Format standards

Data integrity

Data integrity signifies that the information received or sent is unchanged from its original source upon receipt, and has not been accidentally or maliciously modified.

Once the data has been scrutinized and accepted as authentic, an organization can invoke the appropriate business processes. They can also utilize internal applications, if need be, to translate the data, route the data to other internal applications or send the data directly to a third-party provider (for example, clearing house).

The Russell Investment Group is a global leader in multi-manager investing, with investment products and services in 44 countries. The firm needed a single, centralized solution framework to optimize business process integration and eliminate the time required to monitor both transactions and dependency on unreliable customer scripting. Sterling Commerce reacted with solutions that simplified the company's

3. Source: "The Value of An Enterprise Integration Strategy," A commissioned study conducted by Forrester Consulting on behalf of Sterling Commerce, December 31, 2008.

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data transfer process, standardized the partner set-up procedure and reduced the implementation time of new partner data feeds. Sterling Commerce solutions also enabled Russell Investment Group to benefit from seamless and secure integration of key business processes, and improved overall service to the firm's partner community.

Another integration services success story is found at one of China's four largest commercial banks, the Bank of China. The bank needed to implement an accurate, secure and regulatory compliant data transmission platform. Choosing specific managed file transfer solutions from Sterling Commerce allowed the Bank of China to benefit from accurate and reliable data delivery, move data securely to ensure regulatory compliance, and leverage existing infrastructures.

Organizations should be mindful of the following when thinking about data integrity:

- Security breaches—has the data been tampered with? Either by:
 - Malicious altering; data theft or forgery
 - Accidental altering; transmission error
 - Accuracy of the data sent or received—is the data complete?
 - Validation—is the data from a trusted source, and if necessary has it been correctly authorized on behalf of that source?

These considerations are more critical now than ever before, as organizations continue to extend business processes to the Internet. Due to regulations, sharing data externally requires robust security of customer and financial transaction data, especially as financial organizations look to include mobile as an additional delivery channel.

Connectivity

The banking industry faces pressure on all sides. The pressure on earnings is coming from increased competition, declining margins in the payments business, and even more regulatory pressures to better manage risk and security. These are a consequence of the impact the current economic crisis has taken on institutions globally, including pressures from the changing interbank credit scenario and merger and acquisition activities, whether opportunistic or forced. Client demand, especially from corporate clients, for easier, faster and safer connections, also adds pressure, as today's financial service providers realize that if they do not meet their customers' service expectations, customers will go elsewhere.

Specifically, customers increasingly express dissatisfaction with their banks integration capabilities. Older systems and integration difficulties mean that client activation (onboarding or the implementation process of set-up) for a new customer can be slow and difficult for both the bank and the customer. Since the bank often does not get paid until the customer is activated, this means lost revenue for the bank, and deep frustration for the customer.

Use of selected Sterling Commerce solutions can enable financial firms to automate manual processes of data and information integration, reduce their customers' implementation costs, and onboard new transaction services for corporate customers faster and more effectively. Such solutions also help firms comply with government

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regulatory mandates through security, audit and reporting controls of their data in motion, provide proactive Service Level Agreements (SLA) management, and maintain the brand reputation by reducing any risk of a data security breach.

Such solution advantages result in benefits that include:

- Accelerated revenue collection
- Lower corporate client-to-financial institution transaction management systems costs
- Increased efficiency and straight-through processing of transactions
- Cost avoidance for bank clients to do business with bank
- Higher customer service levels
- Lower costs for non-compliance with customers SLAs

Another challenge for financial institutions is found in legacy systems not designed to provide real-time visibility to information buried inside their systems. Customers are demanding solutions that provide real-time details about their business, most commonly information about cash management and working capital requirements.

BNP Paribas, one of the largest banks in the world, was out to win business and gain market share by providing customers with automated, efficient and secure access as a central bank in the Irish clearing and settlement network. Selected Sterling Commerce integration solutions worked to automate the bank's process management, reduce operational risk, bridge diverse data processing technology and ensure standardized clearing system connectivity. Such solutions also introduced consolidated control, visibility and reporting, and facilitated new revenue streams.

Organizations should be aware of the following when thinking about connectivity:

- **Activating customer accounts (onboarding)** – How quick and easy is it for a new customer to begin transacting with my organization?
- **Many to many vs. one to one** – How do I handle the connection points between my organization and my customers? Do I implement a gateway solution that deals with many to many, any to any data flows or do I implement a centralized control center to simplify the complexity of one to one connections? Or, do I implement both to handle many to many and one to one connections based on the importance of the customer and the sensitivity of the data they are transmitting and/or receiving?
- **Translation** – How do I handle the different file and message formats from my customers?
- **Bandwidth** – With the increasing volumes and different forms of files (for example, check images) being streamed, how do I handle the increased demand on bandwidth, particularly in countries where the telecommunications infrastructure is less developed?
- **Visibility** – How do I monitor all data flowing in and out of my organization? Can I use visibility as a competitive advantage by providing a higher level of service to my customers?

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Format standards

Industry wide initiatives and organizations that make standards useable in business processes for the exchange of financial information will not need to compete based on proprietary connectivity, but on service and the development of product offerings for their customers. Businesses are looking to extend their global reach, and want their financial service providers to be easy to do business with.

For their part, financial service organizations are looking at ways to reduce the costs and efforts of maintaining and updating industry accepted standards.

Case in point: HSBC Bank Brazil, a wholly-owned subsidiary of HSBC Holdings, is one of the largest financial groups in the world. Their goal was to implement a new file transfer platform to enable bank customers to conduct their electronic business with increased productivity, efficiency, and effectiveness. Selected Sterling Commerce solutions significantly reduced file transfer time from 7 hours to 40 minutes to 3.1 minutes, regardless of the file type. New capabilities also enabled the bank to offer a unique product that discounted receivables in only a few minutes, allow HSBC customers to engage in real-time transactions., and increase bank productivity through the support of high data volumes.

Organizations should endorse industry standards, and be able to handle various formats, via a standards library maintained by a reputable third-party provider.

The standards library should include, but not be limited to, the following formats and standards:

- ISO20022
- SWIFT MT and MX
- EDIFACT
- Local formats
- ERP vendor formats

Process integration advantages

Sterling Commerce applications and solutions enable you to address key integration challenges, including B2B integration, enterprise integration and managed file transfer, with key capabilities. These include enabling you to:

- Onboard new transaction services clients faster
- Reduce the costs of implementation to their customers in transacting business
- Automate manual processes of data and information integration
- Comply with government regulatory mandates by providing security, audit and reporting controls of their data in motion
- Provide proactive SLA management
- Maintain brand reputation by reducing the risk of security breaches

For example, for both B2B integration and enterprise integration, you can choose Sterling Commerce advantages for any-to-any file or message integration. For managed file transfer, selected Sterling Commerce capabilities provide secure transfers through Sterling Commerce proprietary protocol, authorization, and encryption, as well as customer private information auditable for regulatory compliance.

As a result of such capabilities, you can gain crucial business benefits, including improved operational efficiency, better business agility, and enhanced business performance through visibility across IT and business processes.

About Sterling Commerce

Sterling Commerce, an IBM® Company, helps organizations worldwide increase business agility in their dynamic business network through innovative solutions for selling and fulfillment and for seamless and secure integration with customers, partners and suppliers. More information can be found at www.sterlingcommerce.com.

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