

## **Making Real the Grail of Automation**

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### **Executive Summary:**

Transforming business demands vision backed by execution; in almost any organization, achieving process automation or true, straight-through processing is still a vision outside their reach. Diving headlong into any technology pool is enticing; but remember, STP initiatives are *not* solely technology projects, so the business must take the lead. Be warned: most enterprise solutions require a high level of customization, and cannot be installed off-the-shelf. Expect to use a number of integrated software components – so implementation will take a while. Don't forget to include automated, independent checks & balances. Build a flexible & cost-effective factory and the business will have a powerful weapon – to garner huge benefits.

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**Cars' performance is measured going 0 to 60;** departments often count people – as if going from 8 to 80 matters. But it is profit that determines business success. There are many examples of firms going from a loss, to hundreds of millions in profit. Doing so takes some luck, but more often vision – backed by execution. More and more business transformation is supported by an underlying technology strategy whose key component is automated, straight-through process.

Over the past few years the terminology associated with automated transaction processing has evolved through EAI, and into today's buzzword-of-the-month. But the simple "Straight through Processing" (STP) clearly captures the essence of true integration – the creation of a system that solves a fundamental business problem. Unfortunately, the goal of taking a transaction from the initial point of capture and totally automating its full lifecycle is still often an evasive goal. But, happily, there have been some notable successes where true business transformation was made on the back of an enterprise-wide STP strategy. One financial services company used such a project to help increase revenues from \$80mm to over \$500mm. Moreover, their initial investment was paid back in just 3 months.

Why is it that true STP still has not been achieved in most firms? It is not that the goal of such projects is obscure; to build a "factory" where the company's business processes are cleanly executed -- reducing costs, controlling risks, and enhancing the infrastructure for increased transaction volume mere details. However, the landscape is filled with missed expectations and failed projects. So how do you truly exploit the various technological solutions to meet the business vision of end-to-end process automation? More importantly, how do you provide the agility a changing business demands so that executives can concentrate on product & market, and not on process?

### **What is it that makes the successful project successful?**

**Firstly**, enlightened companies realize that this is NOT solely a technology problem. It is clear that those who believe the most appropriate structure for the IT group is the traditional "ring fencing" will never be happy. They only want to throw business problems over the fence to IT, and receive a fast and accurate solution. Obviously the

actual deployment of the technical architecture should be left to the techies. However, articulating and driving the vision of automated transaction lifecycles should only come for the business side of the house. Successful projects are those that are structured in a manner where the business constantly drives and technology facilitates.

**Secondly**, it should be understood that STP cannot be purchased “off the shelf”. Anybody that believes pre-wrapped solutions exist is surely going to be disappointed. Contrary to the trade press and vendor sales pitches, there is no single product that “does it all”. Most solutions require a number of components.

**Thirdly**, take an enterprise view if possible. Historically, STP solutions have been deployed for individual products i.e., one set of infrastructure for product A and another for product B. Attacking the problem from a company-wide perspective enables you to leverage off component based programming solutions. Where those components are “services”, STP overlaps SOA (Service Oriented Architecture). Reusing developed components is important because it speeds up the project, keeps costs under control, and reduces risk. In addition, the support burden becomes more manageable.

**Lastly**, in order to receive the full benefits of this kind of project, companies need to accept that this is a long-term commitment. There are a number of STP vendors who will try and convince you that implementations are fast, and benefits immediate. In most cases this proves far from the case.

### **So what exactly are the elements of an enterprise STP solution?**

The actual processes are simple to understand. For one sector of the world of financial services the bulk of STP encompasses initial transaction capture, data extraction & transformation, business-rules logic application, trade/message enrichment, and trade insertion. When deployed correctly, these provide streamlined, real-time automated processes for trade execution, position keeping, confirmation matching, payment generation, and associated accounting treatments. However, solving these challenges individually does not create a complete system, nor does it solve the major business problems.

Life cycle & exception management must be implemented, and become the cultural catalyst in the business transformation of the back office. This transforms the processing of trade tickets to the management of exceptions, and reduces costs and risks significantly. The underlying data in each of the operational systems is enhanced and provide clean management information. Moreover, as people are eliminated from the processing cycles, business opportunities are created. Management’s time can be re-allocated from excessive attention on internal processes to harder pursuits – customer need, the market, and maximizing P&L.

In order to solve the STP challenge, Middleware or some kind of Enterprise Application Integration (EAI) is also must. Most leading Middleware vendors are now able to provide consolidated tools to achieve the technical integration at an application level. Quite a few will also combine this with a business-rules engine. Managing the solution requires an extensive tool and information overlay i.e., dashboards – but only a few vendors provide this, a factor which complicates the implementation of an enterprise solution.

Also mandatory are a set of external (to the STP process) checks and balances. These provide additional independent controls, and stand up to the rigors of regulators and auditors. One of these is an independent messaging reconciliation solution, to ensure that all trades captured in system A make it error-free to B, C etc. In order to capture any errors or bugs in the STP architecture, this reconciliation routine must be external to the actual process. Be paranoid, but be safe.

For most solutions, you can expect to combine three or more components/applications. You can also expect to deal with the complications of geographic distribution, operational, and regulatory demands. These all combine to illustrate why developing a full STP solution suite demands great attention to detail, and even then, is not easy.

**In conclusion**, in order to implement a successful STP solution the following should be taken into consideration.

- STP projects are NOT technology projects. The business must take a lead.
- Most solutions are highly customized and cannot be purchased off the shelf
- No single software package will do it all. Expect to use a number of integrated software components.
- Ensure that external, independent and automated checks and balances support deployed solutions.
- Whilst technology advances have made implementation much quicker, enterprise projects (if done correctly) tend to be a long-term program of short-term deliverables. As such expectations need to be set appropriately.

Diving headlong into the STP, SOA, or any technology pool can distract. The plethora of detail is fascinating and beguiling – but it can mislead. Remember to keep the focus on the business’ customers, products, and goals. IT’s ultimate goal is to build a clean factory that is cost-effective, and which can quickly respond to changing market conditions.

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### **Biographies**

*David Dart* has spent his career running IT groups supporting trading rooms around the world. Currently the regional CIO for a European bank, he previously was with Solomon Brothers, S.W.I.F.T., and Standard Chartered Bank. He began his career with British Telecom.

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