



## ***The Back Office: An Overview***

The first essential in every bank is that the dealing function is separated from the settlements function and that both have separate management reporting lines. The set-up incorporates not only the personnel and systems, but also the correct relationship between the staff and duties of front and back office.

A financial services company is logically broken up into three parts: the front office includes sales personnel and corporate finance, the middle office manages risk and IT resources, and the back office provides administrative and support services.

A dealer should never have the opportunity to make a payment on a deal and settlements staff should never have an opportunity to undertake a market deal or write up a deal ticket. Therefore, the dealing environment where the deal is initially concluded must always be separated from the settlements department where payments are made. This 'wall' divides the lines of responsibility between the two departments.

A good back office will keep on top of the front office and try to anticipate problems and plan accordingly. Mutual appreciation including knowledge of respective roles will make the difference between a growing reputation for your institution, or conversely, a major loss of money and / or reputation.

The back office may also be defined as the physical location within a business where records are kept and processed. In the case of a brokerage firm, the back office includes the section where individual account records are kept, cheques are processed, and security certificates are sent. It is also called the operations department.

The actual title given to this function may vary between any of the following:

- ✓ Back-office
- ✓ Settlements
- ✓ Middle office
- ✓ Support

Normally the justification for the specific title describing the role is dependent upon the size and role of the front office. The essential role covers the three main areas of: reputation, risk and reward.

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Reputation in any institution needs to be protected, in what is a most competitive market. An excellent service from the front office can be destroyed by an inefficient back office. Therefore efficient processing and follow-up operations make all the difference.

Risk management is very high profile in today's markets. However, the risk cannot be properly managed if the original input is either incomplete or inaccurate, which then leads to incorrect data being included in management or external reports.

Back office does not make money, but it could quite easily make the profits earned by the front office disappear. An effective back office has the incentive to maximize its performance by the right to participate in front office profits.

The back office role falls into two phases:

- ✓ Physical settlement of all transactions
- ✓ Post settlement functions

Physical settlement involves carrying out a series of duties in respect of all transactions originating from the front office, which leads to making an actual payment. These payments are executed by back office with established cut off times in mind.

Post settlement involves a large amount of responsibilities relating to the consequences of the payments. For example, account maintenance, cash management, management reports etc.

Back office operations have been relatively stable for several years but drivers for change have emerged recently. The development in technology, the need for cost reduction, domestic business pressures, international developments and the need for profit optimization have become the key drivers of change. With rapid advancement in technology, there has been a convergence between domestic and international markets, leading to intensified competition. This is evident from the fact that many are moving towards universal straight through processing (STP). In domestic business, clearing and settlement service providers face pressures to improve services and avoid duplication.

In order gain a competitive advantage; cost reduction has become vital to organizations. In light of this, financial institutions are outsourcing and centralizing their back office functions; though some are still in doubt of how much to outsource, what to outsource, etc. Banks are currently in the process of consolidating their back-office operations to reap synergies and cut costs. While others prefer to outsource their back-office operations to low cost centers, it does not come without the pitfalls. Currently banks are trying to find a balance between this.

As the foregoing would imply, the back-office is generally out of the public's sight and its role in the scheme of things can easily be sidelined. However, for any other aspect of the business to function properly, the back office is critical and from a strategic standpoint should not be overlooked.

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## FINANCIAL & ECONOMIC INDICATORS

As at 12 June, 2008

<u>Exchange Rate/US\$</u>	<u>Closing Value</u>	<u>Previous Week</u>
Yen	107.96	105.94
Euro	1.54	1.56
Jamaica	71.65	71.57
Guyana	204.70	204.70

<u>Commodity Prices</u>	<u>Closing Value</u>	<u>Previous Week</u>
Crude oil (US\$/bbl)	136.74	127.79
Natural Gas (US\$/mmbtu)	12.49	12.49
Gold (US\$/Troy Ounce)	868.20	877.20

### Eurobond Indices (Return % YTD, as of 12-June-08)

Lehman Brothers Global Aggregate Index	-0.55
JP Morgan EMBI+ (percentage change)	-2.40
CMMB Eurobond Index	n/d

<u>Policy Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
United States	1.88	2.00
Euro Zone	4.00	4.00
Japan	0.54	0.51
Brazil	12.25	12.25
Trinidad	8.25	8.25
Jamaica	13.50	13.50
Barbados	4.50	4.50

<u>Market Interest Rates (%)</u>	<u>Closing Value</u>	<u>Previous Week</u>
US 90-day T-Bill	1.96	1.82
US 10-Yr Treasury	4.21	4.04
3-month UK Libor	5.95	5.86
Japan 90-day T-Bill	0.53	0.53
Brazil 90-day T-Bill	12.40	12.30
TT 90-day T-Bill	7.17	7.17
Jamaica 90-day T-Bill	13.92	13.92
Barbados 90-day T-Bill	4.31	4.31

Sources: Bloomberg, CMMB, Central Bank of Trinidad and Tobago, Bank of Jamaica, Central Bank of Barbados, [www.lehman.com](http://www.lehman.com)

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