

OPERATIONAL PEAKS: Managing Your Infrastructure

Presented By:

Jill Godsey – Charles Schwab

Bob McBey – Southwest Securities

Mike Calandra – Morgan Stanley

Norm Eaker – Edward Jones

April 30, 2007



"There is no excuse for not being prepared for growth."

- Peter Drucker

"You can not predict the future, but you
can prepare for it."

- John Bachmann

Jill Godsey – Charles Schwab

Multi-channel firm

Bob McBey – Southwest Securities

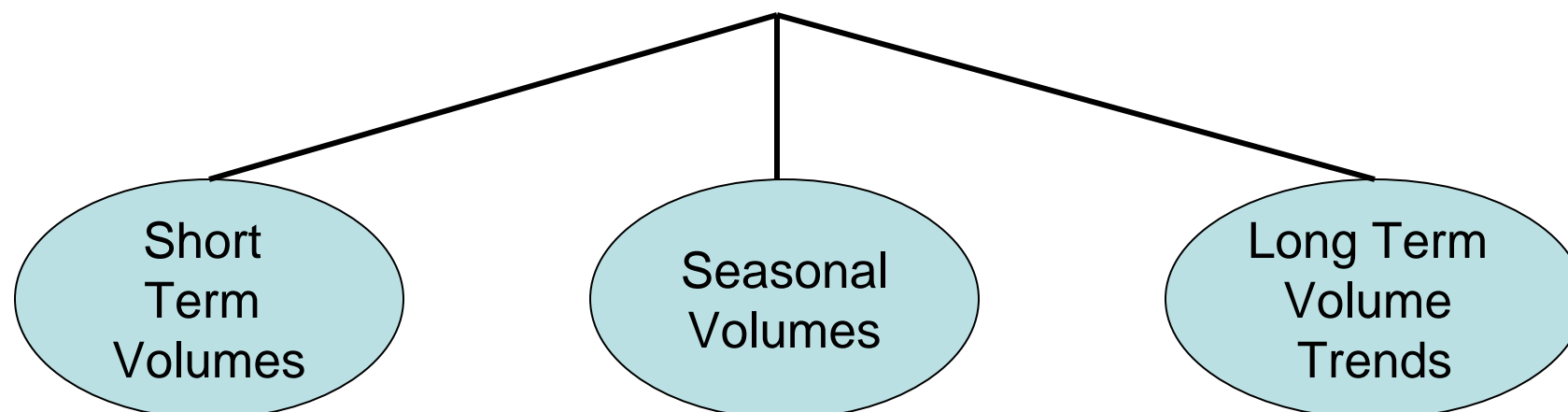
Correspondent Clearing

Mike Calandra – Morgan Stanley

Institutional

Norm Eaker – Edward Jones

Retail



Short Term Trends

- ▶ Monday – it's 30% of the work, not 20%
- ▶ Market breaks: Singapore market drop
- ▶ "Stuff" happens – deal with it!

Seasonal Trends

- ▶ Tax season
- ▶ IRA season
- ▶ December
 - Mutual Fund dividends & capital gains
 - IRA RMD withdrawals
 - Charitable gifts
- ▶ Interest rates drop – lots of calls & CMO principal returns
- ▶ Interest rates rise – lots of early redemption bond puts

Long Term Trends

- ▶ NYSE volume growth
- ▶ Baby boomers
- ▶ Algorithmic trading
- ▶ Institutional growth (mutual funds, 401k, 403b, Hedge funds)
- ▶ International growth
- ▶ Retirement account growth
- ▶ Mutual Fund growth
- ▶ Insurance & annuity growth
- ▶ Separately managed account growth

NYSE VOLUME HISTORY

	<u>Trades/Day</u>	<u>Shares Per Trade</u>
1970	30,000	388
1980	51,000	872
1990	75,000	2,082
2000	877,000	1,187
2005	4,836,000	331
2007	6,425,000	382

Find one thing you can take back and use to better manage your volume surges

- ▶ Norm Eaker \$1 guarantee !!!

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Presented By:

Jill Godsey

Vice President

Charles Schwab & Co.

April 30, 2007



Flexing Capacity at Charles Schwab

- **Short term spikes**
- **Seasonal demand increases**
- **Long term demand increases**
- **Valleys and downtime**

Any capacity planning has to start with a reliable forecasting model

- Business drivers: tie to revenue plan so your revenues/costs are aligned
- Functional volumes: use history to forecast how top level drivers will translate into staff work volumes. *Example: 0.2 cashiering events per active account per month*
- Total workload: apply task durations to volumes to calculate capacity requirement
- Forecast productivity: forecast vacation, sick, jury duty, breaks, training, etc. by month to estimate productive minutes per labor equivalent
- $\text{Workload} \div \text{productivity} = \text{Labor equivalent capacity needed}$
- View the forecast over next 3-12 months to determine if permanent or contingent workforce hiring is best
- Recognize that you'll most certainly be wrong! Test your plans for sensitivity to various assumptions and have a contingency plan in place for how you'll react

Short term spikes can be the most challenging to address, as you have very little time to react and a fixed pool of resources to draw upon

- Formalize a Volume Contingency Plan that prescribes a list of actions whenever certain spike conditions emerge...
 - > *Example: when mail drop volumes for any department exceed 120% of average for that day of week (“alert level yellow”), immediately:*
 - cancel all meetings and training,
 - put staff and project resources on the processing line
 - offer overtime for all employees in the division.
 - > *Higher alert levels prescribe increasingly draconian measures.*
- Train all new hires on two or more complementary skill sets
 - > *Example: every new hire can deposit checks (same day service level) and process statement address changes (3 day service level).*
 - Match the rep to the business need on a daily basis.
 - Catch up on longer service level work after the immediate crisis is solved.

Seasonal demand increases are predictable, but they are difficult to meet without sacrificing service costs or quality.

- Manage workforce time off to limit non-productive time during busy periods
 - > *examples: establish vacation and training blackout periods*
- Create a mandatory overtime program to be invoked whenever voluntary overtime falls below need
 - > *examples: require 5 hours/wk of overtime per rep (simple) or bundle favorable and unfavorable overtime shifts together for bidding to ensure even coverage across the week*
- Restructure processing to create simple work that temps can complete
 - > *example: fully trained service reps can delegate time consuming simple work like faxing or statement research to temporary “service rep helpers”*
- Explore creative staffing solutions
 - > *example: match low summer workload with staff that want summers off (moms).*

Sometimes your capacity models forecast a long term increase in demand for services and processing. The driver may be a new product, increased client engagement or general business growth. Your challenge is to increase capacity at minimal cost.

- Automate: Get computers to handle whatever you can
 - > *example: Autodialer for margin maintenance calls*
- Delegate: Consider outsourcing
 - > *example: BPO for cost basis edits in India*
- Eliminate: Create self-service or branch service capabilities
 - > *example: eTOA*

Efficiently using staff during demand valleys and downtime requires preplanning.

- Prepare computerized training modules to sit on the shelf to make productive use of unexpected business lulls.
 - > *example: continuing education requirements for licensed employees*
- Use the time to prepare for the next demand surge
 - > *example: work on automation projects*
- Invoke your voluntary time off program
 - > *Have plans for allocating voluntary time off such that all necessary skills are retained and resources can be quickly called back in case of a demand spike*

OPERATIONAL PEAKS: Managing Your Infrastructure

Presented By:

Robert McBey

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April 30, 2007



Managing Southwest Securities' Infrastructure

- **Short Term Spikes** (No more than 4 weeks)
- **Seasonal Volume Surges**
- **Long Term Growth**
- **Periods of Decline**

Short term spikes can be managed with the repositioning of cross-trained employees, employees working from home, or outside temporary help. Cross training is essential

Examples:

Inbound Correspondent Conversion

- In this particular peak period staffing issues can be addressed by members of other areas.
- While jobs are being broken down into smaller tasks, a lot of time and effort is spent teaching individuals the entire process rather than a small part of the function. This allows employees to answer new correspondent questions and help with functional duties like account set up, security master set up, entity set up, etc.

System Conversion

- In general, a system conversion takes a lot of full-time employees' time testing. To achieve the goals of thoroughly testing and maintaining work efficiency, two techniques are utilized. Employees are encouraged to work from home to accomplish testing, and if testing must be done from the home office, workers from other areas are rotated in to cover the day-to-day work load.

Analyze the seasonal projects and plan for situation so that service is not sacrificed. Communication to introducing brokers is essential.

Examples:

Government reporting

➤ Tax session is the most common example, especially in the 2006 tax year with the changes to the tax laws. Many brokers would call in for an explanation of entries on their client's 1099. We tried to plan ahead to limit the number of questions by sending out information on the new changes to the correspondent network and by publishing a government reporting calendar with a timeline of when forms would be available. In addition, we do not allow the end customer to call in directly to the government reporting area, thus limiting the number of calls.

Qualified Plan Contributions

➤ Come April 15th it seems like everyone is making their IRA contributions. Staff is added to the R & D Department to ensure the timely booking of deposits to customer accounts. Written and simple work flow procedures ensure cross trained personal keep a high standard of quality.

The three secrets for long term growth planning while keeping costs down.

- **College internship programs**
- **Hiring policies**
- **Automation**

With the advance of technology in the back offices, we need better educated, fast thinking individuals that can not only do the work but suggests ways of it doing faster and better. College internship programs allow you to assess future educated employees relatively inexpensively.

New hires in the home office are required to work in the back office for two years before transferring to another area of the firm. This will help all employees understand the nuts and bolts of the security business.

Automate where possible embrace technology

As we all know, the financial industry is very cyclical. In periods of decline, you must enhance your focus:

- **Update Written Supervisory Procedures**
- **Work to automate**
- **Cross train employees**

If down time is extended, have a mandatory time off policy and rotate staff through it. This will help to keep well-trained personal.

- **To manage your infrastructure effectively, planning and communication are essential.**
- **To be more efficient, introducing firms must maximize the relationship with your clearing firm.**

Operational Peaks: Managing Your Infrastructure

Presented By:
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SIFMATM
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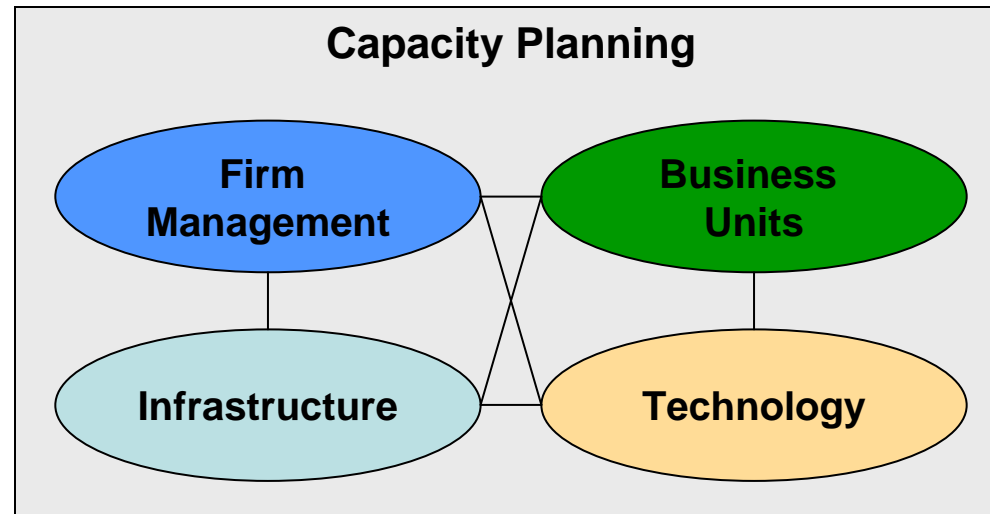
Operational Peaks: Managing Your Infrastructure

Thoughts on Managing Your Infrastructure

- **Short-term (unplanned) capacity constraints**
- **Seasonal capacity constraints**
- **Long-term capacity constraints**

- ▶ **Short-term capacity constraints come from unplanned or an unexpected occurrence of events. The manner in which we deal with each situation depends upon the factors surrounding the event.**
- ▶ **Accept that these events will occur throughout the course of the year.**
- ▶ **Addressing short-term capacity constraints & associated risk requires:**
 - Evaluating the situation and escalating when appropriate
 - Prioritizing work streams based on criticality - enables redistribution of resources
 - Leverage your resource pool to focus on time / risk sensitive items
 - Leverage other options (e.g., temp's, other internal resources, your agent, technology etc.)
 - Isolate – Contain – then Execute (ICE)
 - Parse issue into manageable components
 - Alert notification process
 - Conduct post mortem to prevent re-occurrence by identifying tangible deliverables

- ▶ **Seasonal and long-term business conditions are typically known events.**
- ▶ **Capacity strategies which address seasonal and long-term capacity constraints can be minimized or eliminated through coordinated planning between Firm Management, the Business Unit, Operations and Technology.**



Continued

■ Firm Management

- > *Incorporate firm strategic direction into plans (e.g., service model, transaction processing etc.)*
- > *Empower Operations to define, manage and implement capacity improvement projects*
- > *Provide funding to support planned initiatives*

■ Business Unit:

- > *Understand Sales & Trading's planned goals of (e.g., growth target by product/market)*
- > *Sponsorship for new development - technology is the enabler so automate, automate, automate*
- > *Recognizes that Operations is a key decision maker regarding new or expanded business growth*

■ Operations:

- > *Understand current labor drivers and the threshold where additional capacity is required*
- > *Continually evaluate your support model*
- > *Leverage resources across multiple time zones to expedite work (staff composition by region)*
- > *Talent Management: build depth & breadth through training and mobility*
- > *Partnership: no substitute for continued planning with your business and IT partners*

■ Technology

- > *Scenario Planning - with Infrastructure and amongst IT*
- > *Optimize the performance of your systems (e.g., night cycle, real time, throughput, staffing etc.)*
- > *Vendor Mentality - institute Service Level Agreement*
- > *Evaluate "unplanned" short-term capacity events to mitigate future reoccurrence*

- ▶ **In our effort to become volume insensitive to shifting spikes in the market - without degradation to the quality of service to our clients as well as limiting any increase to fixed costs - we focused on automation and procedures around:**
 - Trade Capture - for example: integration, rules based enrichment, TD aggregation/net
 - Reconciliation - real time versus next day (e.g., P&S, settlements, cash agents and books/records)
 - Exception Routing / Resolution: leverage work-flow technology to “publish” exception data to owner/decision maker (Sales/Trading, Prime Brokerage, clients, other operational areas etc.)
 - New Product Approval process
 - Establish metrics packet to track targets and performance
 - Pre-established periodic review sessions with your clients
 - Creating specific processing utilities and standards (generalist vs specialist)
 - Optimizing our internal systems (e.g., software, through-put etc.)
 - Employ a proactive Talent Management strategy in creating a fungible & flexible staff
 - > *Staffing structure (on-site, off-site, off shore, temp’s, interns, work from home, part time)*
 - > *Build depth and breadth (cross train, formal continued education, skill set enhancement)*
 - > *Leverage time zones to expedite work (play on technology)*

Operational Peaks: Managing Your Infrastructure

Presented By:
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Principal
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April 30, 2007



Securities Industry and
Financial Markets Association

34th Annual Operations Conference

Expand staff available to do the work

- ▶ SWAT teams for areas susceptible to volume spikes
- ▶ Part-time staff on tasks with short learning cycle
- ▶ Former department associates recalled
- ▶ Cross-trained staff
- ▶ Generalists (multi-skilled & portable; pay for knowledge role)
- ▶ Limit vacations:
 - Not on Mondays during tax season
 - No Retirement Ops vacation during IRA season

Expand time frame in which to do the work

- ▶ Mail – go get it at 2:00 a.m. every day
- ▶ Monday bottlenecks - Saturday & Sunday processing
- ▶ Spread work out throughout the year to minimize bottlenecks
 - IRA invoices
 - IRA RMD distributions
- ▶ Overtime
 - For those in the department
 - For those in other departments
 - Come in early, late, weekends, flexibility is the key
- ▶ Flex time: Four 10 hour days
- ▶ Work at homes to expand work day - Give laptops
- ▶ Extend normal system cut-off times (12/31 & 4/15)

Change risk tolerance or service standards

- ▶ Make trade-offs on work priorities to free up staff for key activities
- ▶ Auto processing based on risk parameters – raise thresholds

Manage based on facts & understanding

- ▶ Understand volumes – by day of the week, by hours of the day, by week of the month, by month of the year

"Tax Hotline" staffed with annual temps (accountants & CPA's) to service CPA's and clients on 1099's and cost basis issues

Free flu shots

Re-set sick days in July versus January

Ask mutual fund vendors to spread December dividend & capital gains distribution payment dates (reduce # on same date and do big funds on Friday)

Use temps for special projects

- ▶ Breakpoint claim processing
- ▶ Class action mailings
- ▶ Fair Fund distributions

PEOPLE

Make Operations a career destination

- ▶ Low turnover leads to high productivity & staff flexibility

Staffing Strategy

- ▶ Have some "A" players for growth
- ▶ Have some "B & C" players for stability & continuity

Leadership Development programs

REAP Program for associate development & portability

Use the audit department as a development ground for future managers

PROCESS

Simplify processes

- ▶ Eliminate paper
- ▶ Eliminate touches & hand offs
- ▶ Eliminate internal dependencies

Process mapping

Clear understanding of non-scalable processes to target

- ▶ Paper driven
- ▶ Third party dependent

TECHNOLOGY

- ▶ Use technology to push work out and provide self-service tools
 - ▶ Home office → branch → client

THINKING

Incorporate into all leader reviews what they are doing to prepare the organization for growth

- ▶ People
- ▶ Processes
- ▶ Technology
- ▶ Structure

Know what drives your work volume that you can project capacity needs around

- ▶ Client growth
- ▶ Financial advisor growth
- ▶ Assets held in custody growth
- ▶ Trade growth
- ▶ Advertising & promotional spending

THINKING

Periodically revalidate your capacity model assumptions – work drivers, process & labor capacity, structure

Create a focus of effort around themes

- ▶ "Make tax season a non-event"
- ▶ "Make Mondays a non-event"
- ▶ Make December a non-event"

5-year forward look plan

- ▶ Identify processes that won't scale
- ▶ Do a 3 deep management review – where are you thin?
- ▶ Define a likely future structure and begin preparing management now
- ▶ Establish automation priorities based on future bottlenecks & limits on capacity
- ▶ Ask: What should we push to the branch
- ▶ Ask: Where do we need a major breakthrough or innovation
- ▶ Ask: Where do we need help from an industry change
 - ▶ Utility
 - ▶ Vendor
 - ▶ Regulatory change
- ▶ Ask: What stuff should we abandon or stop doing

SUMMARY: What points of potential leverage can you pull to handle volume growth?

- ▶ People
- ▶ Process design
- ▶ Technology
- ▶ Branches
- ▶ Customers
- ▶ Product vendors
- ▶ Industry utilities
- ▶ Regulatory changes

"What is the hardest thing in the world?"

To think."

-Ralph Waldo Emerson

QUESTIONS

COMMENTS

SHARING WHAT IS WORKING IN YOUR FIRM