What Is Straight Through Processing? STP Definition

Straight through processing (STP) refers to an automated process conducted through electronic transfers without the need for any kind of manual intervention.

It is most popularly used in payments processing as well as processing securities trades.

Any company involved with straight-through processing needs to have the necessary systems and technical networking in place to facilitate STP efficiency.

Typically, straight-through processing is most well-known in the areas of securities trading and payment.

However, it is a methodology that could be implemented in a variety of technical situations. The technology for STP is constantly evolving. In payments, cryptocurrencies, fintech providers as banking alternatives.

STP and Payments

STP has developed alongside the integration of computer programming and

computers. In the early 1970s, automated clearing Houses or ACH networks began.

During this time, the Society for Worldwide Interbank Financial Telecommunication (SWIFT) was also established.

Before ACH and SWIFT became commonplace, payment transfers were Often done using a telegraphic system. A single operator typed telegraphic transfer orders through morse code.

The Federal Reserve Bank of San Francisco introduced ACH in the United States, mostly as a solution for payroll direct deposits.

As the ACH and SWIFT networks have grown since the ‘70s, these two systems serve as the main framework for the majority of domestic and global payment transfers.

Any financial service provider who wants to participate in payment processing has to link up with a payment processing network to facilitate electronic STP.

Generally speaking, most all electronic payment processing is considered STP, but advanced coding within the payment networks can be added to stop or flag any suspicious transactions for alerting the security specialists.

ACH and SWIFT were groundbreaking technology that changed the capabilities of banks. And also created a variety of opportunities for financial technology platforms.

STP itself has increased the efficiency of payments both domestically and globally, making things easier for accounts payable and accounts receivable.

STP streamlines using payment and routing information so the instructions don’t need to be entered manually.

Manual processes take time and can disrupt workflow, which detracts from productivity, and are much more susceptible to human error, leading to lost profit.

How the STP Process is Different From Traditional Payments

Traditionally, sending money involved multiple departments both on the sending and receiving end of a transfer.

The process could take days to complete. The payment would be initiated either over the phone or through a software program.

A person at both companies would need to confirm the payment settlement details either by phone, fax, or email.

From there, the settlement details were manually entered into a payment system and confirmed by a supervisor to ensure accuracy before the payment was issued.

Before ACH and SWIFT, transactions were then sent via telegraphic message with a special code.

The process took anywhere between several hours to a few days to even issue a pending on all the involved details.

International payments were even more complex. In case of emerging documents to meet local regulatory laws and requirements.

Many people had to be involved on both the sending and receiving end of the payment as well as employees from any of the intermediary banks that may have been involved.

Telegraphic transfers had a higher error rate, cost more, and were often delayed.

The lack of automation cause instability and a lack of exact processing expectations. This created problems for suppliers and customers who were trying to make business payment transactions on time.

It’s clear STP was a huge help for businesses because it streamlines the accounting process for companies. It also helped in tracking and collection efficiency moving money between business partners and customers.

It helps to reduce the number of Errors involved in accounting and improved

working capital and cash flow efficiency.

It also helped improve business analytics because companies could easily track client behaviors and spending patterns, as well as errors, and costly delays.

E-Commerce

STP allows businesses to authenticate their customers online, sell them a product, collect a payment, and set delivery of the product with just a few clicks. All e-commerce sellers need to have a transaction solution.

Platforms can partner with brand providers like American Express, Visa, Mastercard or discover.

They may also partner with a financial technology like PayPal. With fintechs like Affirm and Klarna, payment plans and installment credit is becoming increasingly popular.

One of the most popular examples of STP inaction is with amazon.com. The retailer has remained focused on removing any obstacles to their customers making purchases on its website.

Amazon has made great use of automation technology along with sophisticated algorithms to serve its customers and increase revenue.

Cryptocurrencies

Cryptocurrencies are an up-and-coming form of STP used for transactions.

A cryptocurrency is an electronic transfer that does not require any kind of manual intervention. the biggest benefit of cryptocurrency is that it removes the need for a holding company intermediary.

Cryptocurrency funds can be transferred from one person to another directly, in real-time, through a unique network, known as a blockchain.

> *If you've ever sent or received a wire-transfer through your bank, you've been a customer of STP.*

How STP Saves Money

Bank XYZ processes 200 funds transfers per day and does not use a straight through processing system.

Through analysis, the bank has determined that for every 200 payments they process, 10% of the payments, or 20 payments are processed incorrectly.

The bank is charged a $20 fee for each payment that is not processed correctly either by the receiving bank or corresponding Bank since they have to correct the payment instructions or manually enter information to fix the error.

200 payments process per day comes to 4000 payments per month.

At a 10% error rate, that’s 400 errors per month and a $20 / error, the bank has $400 per day or $8,000 per month.

After the bank implements an STP system, the payment errors decrease to 1%. at that 1% error rate, only two payments per day or 40 payments per month are processed incorrectly. At the $20 fee, they are cost is reduced to $40 per day or $800 per month.

Using an STP system, accurate settlement and routing information is saved in the system without manual entry. As such, costly errors are reduced for both the banks and the customers.

STP in Securities Trading

Today, nearly all secondary Market Securities trading involves electronic processing.

There may be some human intervention on the front end and placing the trades, but for the most part, electronic systems handle all of the work. Any transaction in the secondary Market requires a trade settlement process that is associated with STP.

Millions of STP transactions happen every day for stocks, bonds, exchange-traded funds, mutual funds, and more.

All financial service companies have some kind of back-office staffing that is responsible for the management of any trade settlements conducted through STP.

As with a bank, electronic trade transactions are monitored by people in a back office.

These trades can be flagged or stopped because of coded security measures, which then usually require human intervention.

However, security trades are generally accomplished, even the exchange of an actual certificate is completed within two days.

In 2017, the U.S. Securities and Exchange Commission mandated a T+2 settlement cycle for securities trades. In securities trading, STP refers to the full cycle.

The process can be done without human intervention. STP for trading requires securities codes, along with brokerage accounting codes, similar to the coding needs for bank accounts and routing numbers.

Electronic systems operate with code identifiers to allow the cycle to complete.

The more technical innovation we have – computers, electronic exchanges, the internet – the more improved the STP opportunities and innovation are. As technology advances, we'll see better processing times for the full STP cycle.

Creditors can fully automate their underwriting with STP, with coding set up to handle the parameters for lending, authentication, and approval. Credit extension can be nearly instantaneous after an online application is submitted.

Payroll systems also benefit from STP as electronic time tracking makes it easy to track time, authorization, and approval, which can then flow through to the direct deposit.

As the financial market continues to grow and evolve, we can expect STP to continue to make financial transactions faster and more secure.

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