

Evolving Priorities in Buy-Side Risk Management Technology



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Market turmoil and global events led to a major decline in equity markets by the end of 2018.

Did active managers cope with the fall and did risk management models and systems make the grade?

What are the current requirements of risk technology and how will these needs evolve in the future?

Speakers



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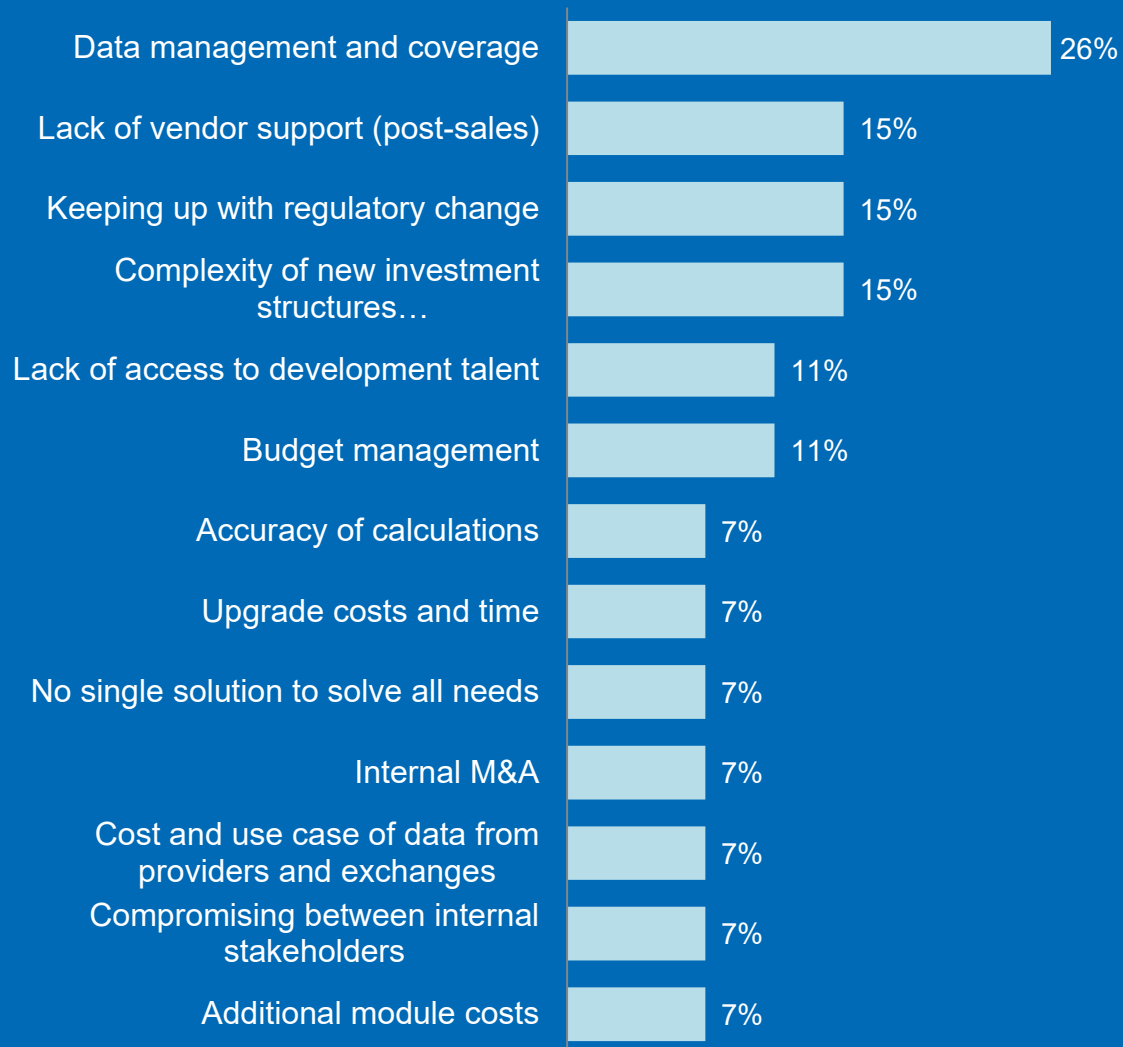
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2018 Market Conditions - Risk Teams Earn Their Stripes

- Investment firms had a torrid time at the end of 2018 with the fall of global equity markets
 - Market volatility
 - Geopolitical and regulatory uncertainty
 - The normalization of monetary policy
- Passive investments have fallen significantly
 - Call to action for active managers
- How has technology helped firms navigate choppy waters during 2018?
 - Risk systems to the rescue



Challenges With Risk Systems (n=27)



Today's Challenges for Risk Technology

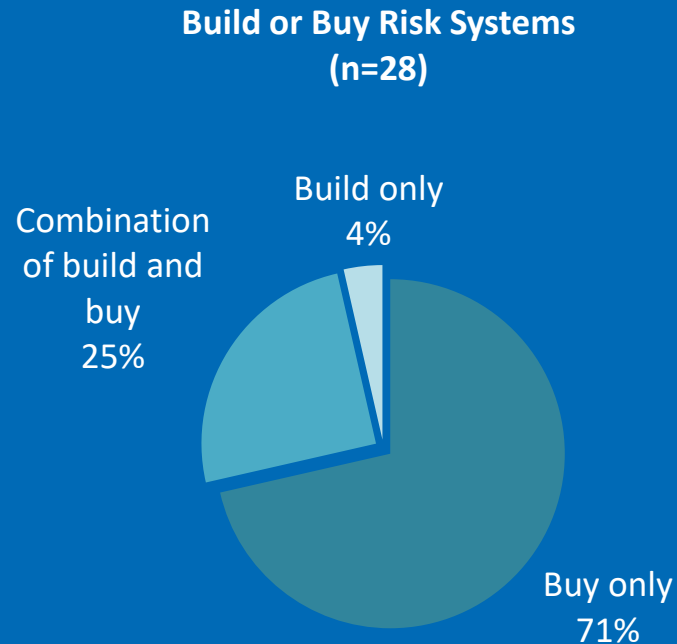
- The number one challenge for risk teams is data management
- Too much time is spent on the cleaning, enriching and managing of data
- Risk teams need to spend their time on garnering insights, reviewing reports and providing feedback to investment teams to better understand exposures
- Regulation has driven technology investment, with liquidity risk measurement and management a challenge for 2019

Today's Risk Teams - Requirements



- More collaboration as some risk professionals move closer to the front office
- The battle between integrated risk management systems versus best-of-breed systems rages on
- A shift away from single asset and vanilla portfolios continues
- Increased regulations and reporting requirements are the gift that keeps on giving
- Data, data, and more data
- Risk management systems are on the move... off premise and into the cloud
- Liquidity risk and management goes mainstream

Most Firms Rely on Third-Party Technology



Source: Aite Group

- Most main-stream firms rely on third-party technology and models to help manage risk
- The development and maintenance of technology is high
- Market data services add value to buy-side firms
- However, some firms have built risk analytical tools internally for specific specialist asset classes

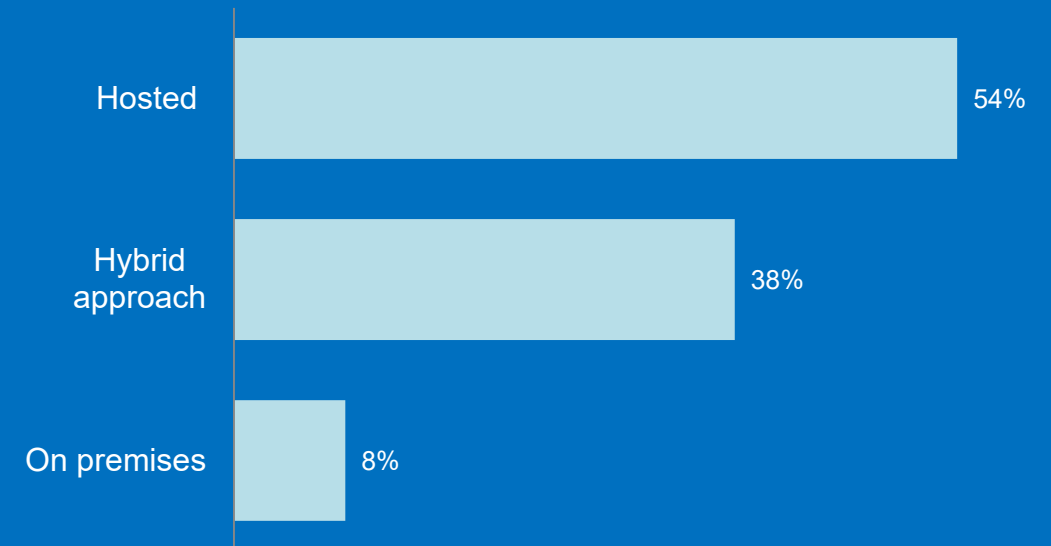
“Any quant can create a monte-carlo model – a vendor solution must help with the manual labor of getting the data in place accurately. We need to utilize the economies of scale of a vendor system.”

Chief Risk Officer - Pension Fund

Hosted Model is Preferred

- More firms are shifting technology off-premise
- Buy-side firms are willing to relinquish control and rely on third-party expertise to manage technology
- However, firms need to pay attention to SLA agreements to ensure service levels meet expectations

Preferences for Vendor Deployment
(n=24)



Source: Aite Group

Multi-Asset Risk Problem



- Data, data, and more need for data
- Coverage gap concerns
 - Securitized and structured products
 - Derivatives
 - Alternatives
- Fixed income versus equities: apples and oranges
- Regulation continues to be a factor (e.g., modernization rules)
- Portfolio attribution lacks a clear leader

“The big change in portfolio risk management is having to deal with the growth of multi-asset strategies – we currently need a lot of best-of-breed risk systems for single assets classes to have strong risk management capabilities for these portfolios.”

Head of Risk Management – Global Asset Manager

Risk Technology Requirements of the Future

Future Requirements for Risk Teams



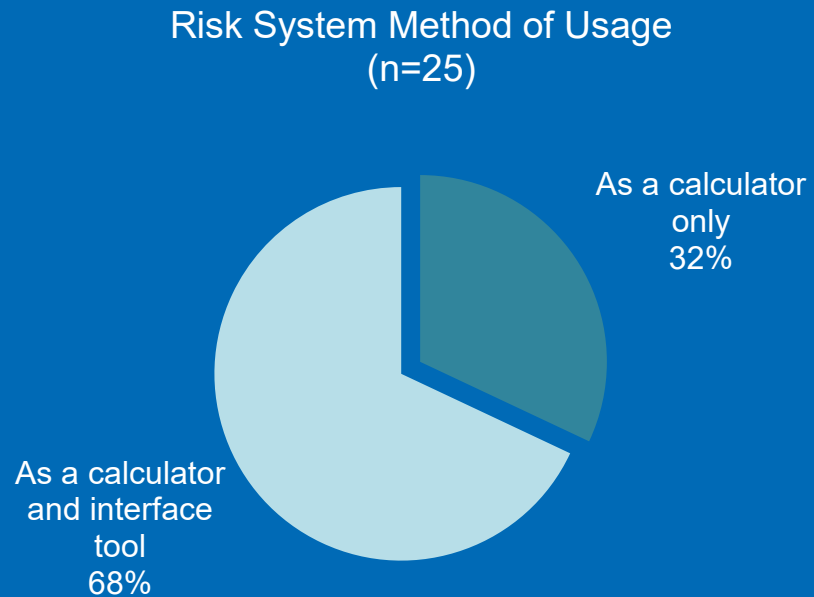
- The integration of business intelligence (BI) tools
- Proliferation of Microservices and API
- Easy integration with and access to third-party data science tools
- Desire of cloud-hosted to cloud-native services
- The expansion of real-time capabilities
- More economic models and expansion of asset class coverage

Buy-Side Suggestion Box



- Content management as a service
- API and programmatic access
- Alternative assets support
- Models addressing specific risks
- More customization
- Keeping up with regulations
- Inclusion of environmental, social, and governance (ESG) in risk models
- Expansion of factor attribution capabilities

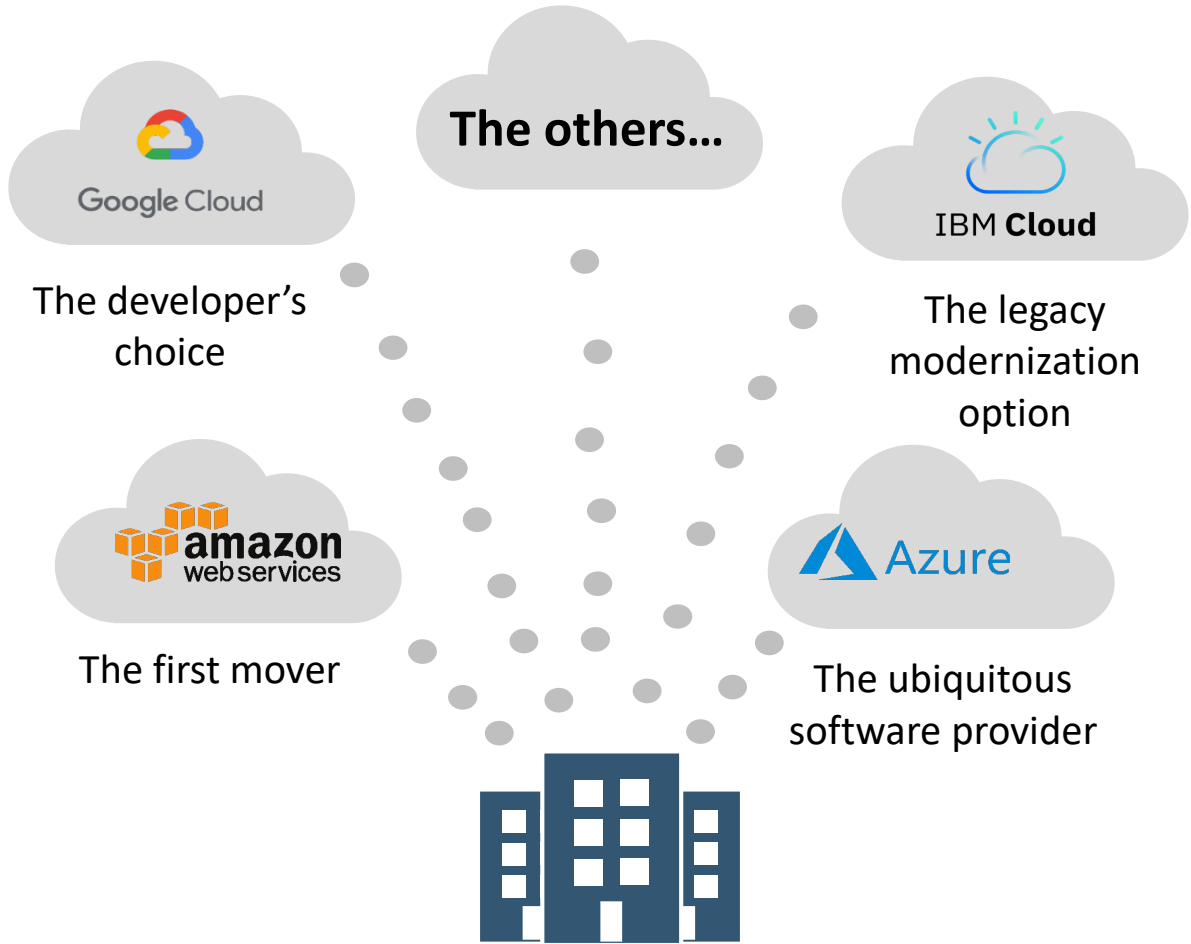
Is the User Interface Important for Risk Teams?



- Evolving role of the risk manager
- Integration of risk tools into the front office
- The rise of real-time risk metrics
- Traditional middle office risk process
- Risk makes its way downstream

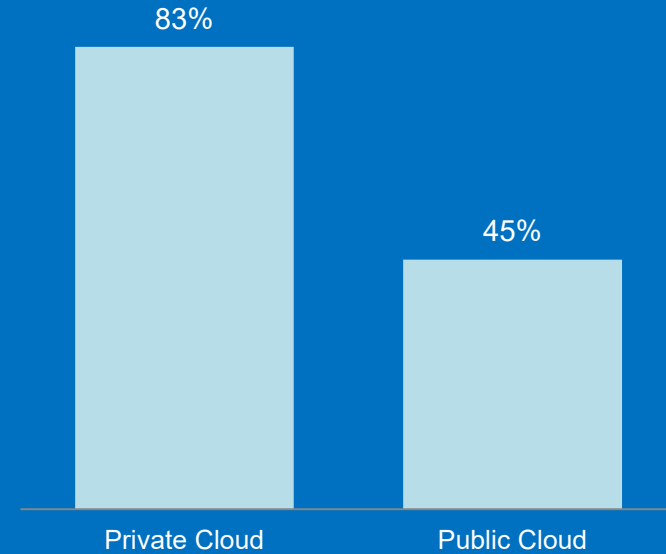


Public Cloud - The Eventual Inevitable?



Source: Aite Group

Private and Public Cloud Adoption By Risk Vendors (N=20)



Source: Aite Group

Q&A

Please submit through the 'questions' tab on your screen

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