

Is Counterparty Risk Bringing You Down?

COUNTERPARTY RISK ANALYTICS PRACTICES

“The [Counterparty Risk Management Policy Group] recommends that all large integrated financial intermediaries must have, or be developing, the capacity (1) to monitor risk concentrations to asset classes as well as estimated exposures, both gross and net, to all institutional counterparties in a matter of hours and (2) to provide effective and coherent reports to senior management regarding such exposures to high-risk counterparties.”

In many Financial Services organizations, the current ‘best practice’ for counterparty risk management calls for a report to run every night, and a management review the following day to evaluate the risk profile for their organization.

This type of policy has worked for many years, and during low to medium market volatility levels, seems adequate. The efficacy of this practice was shattered during the credit crisis of 2007 and 2008. Today’s larger, faster, and most importantly, more volatile markets require far more frequent analysis.

Organizations now need to know their counterparty exposure the next minute instead of the next day. The answer appears simple — just run the risk modeling more frequently — but since many models take hours to run on their current infrastructure, the best that can be achieved is often twice-per-day. And twice-per-day counterparty risk analysis is not good enough. Today’s financial services firms need to have insight throughout the day for adequate risk analysis.

And the markets are getting more and more volatile every day.

THE UNDERLYING PROBLEM

In early 2008, Greenwich Associates wrote:

“Among the vast majority of U.S. institutions, default swap (CDS) counterparty risk is a growing concern. In fact, 85% believes it represents a serious threat to global markets.”

They were right!

One of Sybase’s customers was facing this exact problem. The root cause could be traced to their original once-per-day load policy — the infrastructure selected to perform the daily risk analysis was based on an overnight batch set-up — providing the company with limited and latent information. The data volumes to be handled were huge, the analytical models large and complex, and the legacy data management solution was based on a resource-hungry standard architecture that was good for online transactions and overnight reporting, but not for real-time analytics.

Like many other financial services institutions that evaluate Sybase RAP – The Trading Edition, the benefits claimed by Sybase seemed too good to be true:

- Dramatically faster reporting and analysis, sometimes as much as 1,000 times faster
- Massive savings in disk storage because of compression
- Reduced administration needs
- Reduced power consumption

TECHNOLOGY BREAKTHROUGH

After a short implementation time period, this customer realized the benefits of RAP – The Trading Edition: providing real-time streams across large data stores, supplemented with rich historical information for complete, current, and on-demand analysis. Counterparty risk management was addressed with a single view, virtually eliminating data latency, while dramatically reducing storage and network costs.

	Sybase RAP	Traditional Architecture
Query Speed	10-1,000x	Slow
Storage (% of raw input data)	20-70%	200-300%
Admin	Lean	3 x RAP
HVAC	Green	Not so green

The customer now extracts data from multiple RDBMSs via a single source with Sybase technology. OLTP systems are intact and preserved for optimal performance, while the consolidated data source serves as the real-time analytics server. This elegant solution provides the right information at the right time, without any interruption or compromise to existing systems.

And, because global financial services clients must often replicate trade and position data to other locations, the storage costs and network savings are multiplied for each replicate transmission, reducing the overall expense of the system, as well as supplying real-time data to multiple geographies.

YOU NEED TO ACT

KNOW THE INDUSTRY BEST PRACTICES

- On-demand risk management across divisional silos
- Next generation infrastructure integrating market, credit, liquidity, and operational risk
- End-of-day pricing of complex positions handles extreme volatility

AUDIT YOUR PRACTICES

- Have you integrated your front and mid-office risk management, analytics, data infrastructures and procedures?
- Do you have a strategy to aggregate and analyze risk across your channels, divisions, and business lines?
- Can you run your risk models frequently enough to effectively monitor risk in your enterprise?
- Are your liquidity management systems maximizing your trading capabilities and minimizing your exposure?
- Are you able to perform pre-trade VaR?
- Can you provide your traders with real-time P&L?

THE BUSINESS BENEFITS OF ACTING TODAY

The unique combination of real-time information delivery with historical data aggregation provides a complete view of counterparty risk and allows you to **act quickly on opportunities or take measures to mitigate loss**.

Faster analysis coupled with access to real-time information and historically rich data is a requirement.

Your organization needs to be prepared to meet the Counterparty Risk Management Policy Group recommendations. With market volatility a given, explosive data volumes, and intensified managerial and mandated compliance requirements, can you afford not to have a comprehensive counterparty risk solution?

TAKE THE NEXT STEP

Know your exposure — and your options. Contact Sybase for an in-depth discussion of what we can do to facilitate counterparty risk mitigation.