

Structured products Europe Awards 2017

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**Pricing and analytics
platform of the year**



Structured products Europe Awards 2017

The winners

The ongoing low yield, low vol environment has continued to test the capacity of structured products providers to deliver returns for investors. Not only have spiky and unpredictable events such as Brexit and the US election blindsided the markets, but central bank activity has also been hugely influential on liquidity and returns.

Within Europe clear trends have emerged. Equity markets are more enticing than fixed income in many countries. Cross-asset businesses are proving more resilient as they can lever open the opportunities that sit between currency, debt and equity markets. While many countries in western Europe are experiencing the weight of European Central Bank (ECB) policy and the concentration of the European Union's regulatory change, equity markets are strengthening and central and eastern Europe is experiencing positive economic growth.

Among the winners this year are firms who have been building, selling and delivering the right structured products to investors through a combination of perseverance, ingenuity and experience that has surpassed their many competitors.

Societe Generale, the Structured Products Europe house of the year for 2017, has issued more than €20 billion (\$23.6 billion) of structured notes in the region this year, employing its excellent quantitative skills to find a way to investors' hearts for fixed income, commodities and currency, despite equities turning heads on every corner. Developing securities structures under which to offer credit protection, working the currency markets effectively and building uncomplicated but effective retail offerings saw the bank bring in a raft of other awards this year.

Deal of the year went to Credit Suisse, for replicating hedge fund strategies via structured products to drive up returns and opportunities for its private wealth clients. The bank also took the institutional structurer of the year award thanks to considerable cross-collaboration with its sell-side peers and clients.

Within the equity markets, BNP Paribas took centre stage, overcoming falling demand through tight control of cost and risk as our equity house of the year, while also taking the award for its home market of France, where it drew cautious buy-side firms from the insurance sector into taking more risk, and benefiting from it.

In other country awards, UBS has performed well – notably winning the house of the year award for Italy, where it brought equity products into traditional bond heartlands, and boosting turnover 60% in Switzerland, where it secured house of the year through a combination of asset classes, instruments and strategies.

In Germany, Commerzbank was awarded house of the year for the breadth of choice it offered and its constant presence, which earned high praise from clients. Raiffeisen Centrobank is this year's central and eastern Europe house of the year, a result of working well in the retail sector and providing coverage across the entire region.

Modelity and Numerix have both demonstrated an outstanding capacity to support structured products providers, the former easing the burden of firms subject to both the Packaged Retail and Insurance-based Investment Products regulation and the revised Markets in Financial Instruments Directive, the latter firm proving its incredible versatility in offering pricing and analytics.

Whether they are a provider of structured products or an enabler of those businesses, this year's winners are playing in a game that is increasingly competitive and costly, setting their achievements on a high pinnacle. ■

Pricing and analytics platform of the year

Numerix

Numerix's prowess at pricing even the most complex products has often seen it chosen when firms need technological support for their structured products business. But the company had to take its place alongside other vendors that offered support for the rest of the workflow – in product distribution, valuation, risk analysis and data management. Its pricing libraries came as add-ins, and so Numerix relied on one of these other systems to actually deliver its analytics. Over the past few years, however, the company has extended its capabilities so that it now offers the full package.

“Our differentiator – and what continues to get us invited to the table – is our analytics,” says Jim Jockle, chief marketing officer at Numerix. “Where once we sat inside the system responsible for workflow, today we offer the full system.”

This chimes well with the current desire among banks to consolidate their technology and reduce the number of vendors they deal with in order to simplify their infrastructure and cut costs. The trend is exemplified by a large regional European bank's attempt to build a structured products desk around Numerix's technology. The company is providing a system that will cover pricing, quoting, risk analytics, and monitoring of products and market events, along with all the workflow to support these activities.

“It also reduces operational risk for the client as it is dealing with one best-of-breed vendor,” says Jockle.

A fear that plagues financial institutions when consolidating their systems is that of losing the ability to tailor the technology to their particular needs. It is something that Numerix has strenuously avoided as it has built out the functionality of its Oneview platform.

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“Numerix has always been known for the flexibility of the analytics – that flexibility is in our DNA,” says Jockle. “We realise that people want to work in a way that is best for them. We originally provided for this with access to our analytics through scripting languages and application programming interfaces for other tools like reporting applications. The question was how to effectively maintain this flexibility throughout all the levels of a system's architecture.”

One solution was to provide access to Oneview via Python, now the programming language of choice for many quants and in-house developers. “With Python, clients can rapidly incorporate new features or address complex requirements, giving them agility in a constantly evolving global



Jim Jockle

financial market,” says Jockle. It also allows users to interrogate all the pricing and risk data that Oneview generates. “Our goal is to empower our clients with tools to perform bespoke analysis of the data that is generated in their systems so they can get better insights into their markets.”

Another of the firm's answers to the flexibility question is the loose coupling of the component parts of its system. Traditional IT architectures can integrate components so tightly that it is impossible to change an individual part without affecting the

whole. One example of the difference that Numerix's approach can make is in the new user interface for its risk management component, which it introduced this year. Based on the latest HTML5 technology, the modular, widget-based interface is fully decoupled from the back end of the platform using standard web services technology. This gives users the ability to add as many widgets – sections of software that perform various functions or access services – as desired to create a customised dashboard for their risk analysis.

Furthermore, Numerix has also decoupled the analytical calculations from the user interface to improve performance. “This has made the applications much faster, more usable and easier to scale,” says Jockle.

The performance improvements mean significant memory is saved during calculations, which can reduce the amount of hardware needed, and therefore reduce costs. This is particularly helpful in functions such as the calculation of the various derivatives valuation adjustments (XVAs) required for accurate credit and other risk measures.

One institution taking advantage of this functionality is Russia's Sberbank. Over the past few years, the bank has been building an enterprise-wide automated financial market risk system. As part of the project, it is incorporating Numerix analytics for calculating, analysing and managing exposure limits for complex deals, including pre-trade XVA calculations, such as incremental credit valuation adjustment and funding valuation adjustment.

In retaining its system's flexibility while expanding functionality and improving its performance, Numerix is opening new opportunities for itself in Europe's structured products market, while cementing its position in places such as Switzerland, where some of the most important issuers continue to rely on its technology for their strategic operations. As the judges say, Numerix deserves this year's award for “continued innovation and product development in evolving a comprehensive menu of technology solutions well aligned to regulatory developments and clients' needs. ■