

The value of managed services for trading and risk management

A new trend gaining speed in the capital markets

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Enterprises in the capital markets are undergoing major transformation and disruption, due largely to market forces such as global macroeconomic events, political volatility, evolving regulatory requirements, new types of market competitors and heightened customer expectations. Doing business and capturing revenues is harder. In this environment, the ability to execute is paramount.

The power of technology provides the solutions to many business challenges. The trillion-dollar investment giants such as Blackrock, J.P. Morgan and Citigroup spend billions of dollars a year to super charge their technology capabilities. Some are even instigators of new frontiers in technology, such as Goldman Sachs, which is exploring [a service that's like Netflix but for data](#). And there's PIMCO, the \$1.7 trillion asset manager, that is trying to "[turn every employee into a data scientist](#)," according to its CTO, Dirk Manelski. But only around 41 banks and asset managers globally (numbering approximately [28](#) and [13](#), respectively) are in the \$1 trillion+ club.

Most of the world's financial organizations don't have the technology budgets afforded by these top players. They are limited in terms of the new technologies they can adopt because of the expense, resources, time and expertise required to build and maintain an infrastructure strong enough to support them. Rather than struggle to keep pace with technology, many organizations turn to managed services providers for help (in fact, according to [Chartis Research](#), the principal market for managed services is made up of Tier 2 and 3 organizations). A trusted managed services partner can deliver essential technology services and solutions that can reduce costs, improve performance, decrease burden on IT staff, and help firms focus on managing and growing their business.

The term managed services can be used to describe a broad range of things, but it is commonly recognized as a form of outsourcing. For the purposes of this paper, we will not be focusing on IT-centric outsourcing. We will discuss managed services in the context of managed applications and business functions deployed on a cloud computing infrastructure, the areas where I believe financial sector firms—and particularly those with derivatives trading operations—can benefit the most.

To be more specific in this definition of managed services, it is about a technology vendor operating its software on behalf of the customer, therefore the vendor provides full operational support of its software and often takes direct responsibility for some of the business workflows and operations that are outsourced to it. In this model, the managed services provider is seen as a strategic partner capable of delivering technology, operational support and expert advice that are built on deep business domain knowledge and experience.

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Managed Services Solutions

Our observations have shown that the solutions and services, in terms of pricing and risk management, derivatives businesses look for in a managed services vendor are the following:

- Compute risk sensitivities/Greeks, conduct scenario analysis, VaR and Expected Shortfall for market risk management.
- Perform pre-trade pricing with XVA-integrated prices, for any derivative type (from vanillas to exotics) across all asset classes.
- Perform stress tests, shocks and scenario analysis for regulatory purposes as well as risk management purposes.

- Manage counterparty credit risk and calculate exposure measures (e.g., PFE, EPE, ENE), pricing adjustments (CVA/DVA) and CVA sensitivities for hedging.
- Develop and test derivative trading strategies and hedging programs.

Providing these front-to-middle office capabilities, or Risk as a Service capabilities in general, often requires integration of industry standard analytics with a customer's proprietary systems or third-party systems, and the ability to deploy solutions on a private, public or hybrid cloud.

Benefits of Managed Services

A managed services program can be used to empower business line managers and their staff by ensuring they have access to the latest and most innovative financial technology, and particularly to the services, applications and features they need to do their jobs more effectively and, potentially, more profitably. These capabilities can come without the hefty and capital-intensive upgrades to in-house infrastructure. Let's dive in and explore the business-critical benefits of managed services:

• **Faster Implementation than On-Premise Software**

The time devoted to installing, migrating, testing and deploying some applications in-house could take years, compared to having them delivered and used quickly via managed services.

• **Faster Time to Market and Increased Competitiveness**

Timing can mean everything when a financial institution introduces a new product or service to the market. Today's most successful businesses gain a competitive edge because they are flexible and can respond quickly to market changes. This type of flexibility requires modern technology infrastructure, new features for business applications, new functionality, or the adoption of new applications. It is the managed services provider who is tasked to handle the complexities of its software and the underlying infrastructure. This frees up the customer to capture market opportunities as they appear and increase business velocity.

• **Level the Playing Field**

Managed services can help regional or smaller tier sized companies act "big" by giving them access to the similar technology and expertise that larger companies enjoy. Customers do not have to hire, train and retain a team of "resident experts" specializing in the vendor's software.

• **Quickly Implement New Technology**

You don't have to make the continuous investment in new technologies and upgrades. The vendor ensures you are always getting the latest functionality. You can also mix and match "best of breed" solutions from your managed services partner and replace solutions when something better comes along, rather than being locked-in to a specific technology.

• **Stay Focused on the Core Business**

Managed services can help your firm stay focused on its core business and not get distracted by the operational support of complex vendor software and IT decisions.

The Top 10 Criteria for Choosing a Managed Services Provider

As part of the vendor evaluation and selection process, an organization should consider the following criteria:

- 1) Does the managed services provider truly understand your company's business? Surprisingly, this question is rarely asked but, in my opinion, it is critical.
- 2) Completeness of the functionality offered.
- 3) Ability to provide customized software solutions.
- 4) Can meet compliance standards that are at least as stringent as are imposed on the customer's own operations.
- 5) Pricing transparency.
- 6) Clarity of Service Level Agreements and Quality of Service KPIs.
- 7) Ability to scale out operations.
- 8) Provides elasticity as customer's needs change.
- 9) Ability to support multiple locations and geographical regions.
- 10) Efficiency of implementations and production rollouts.

The Cost-Benefit Analysis

We are often asked: "will managed services reduce my costs?" Most likely, however, the definitive answer depends on many factors. A managed services program will certainly reduce capital-intensive investments in application and IT infrastructure. That said, I believe that understanding opportunity costs is at least as important. Can your business afford to wait? Can you afford to fall behind the competition? Other important issues: Are your existing in-house or third-party technologies cloud ready? Or are they too legacy to adapt and need to be replaced?

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Position for Success with Managed Services

Businesses are continually facing challenges in scaling and managing their application and IT infrastructure while effectively reducing costs. System stability, availability, and performance are critical to running a successful organization. Managed services gives an organization control over which services will be managed by the vendor and which ones will be kept in-house. In addition, it gives the technology users access to a team of technology experts, who are just a call or email away. As the users' needs change, the services can be tailored and optimized.

With financial institutions under pressure to transform and innovate quickly, delivering innovation on a legacy IT infrastructure or building a new one may be unsustainable. Implementing a cloud-supported managed services approach may very well be the right approach.

Institutions—both the sell side, buy side and insurance companies—are increasingly taking such a step as they learn of the benefits of having quickly deployed best-in-breed applications that deliver the latest in software functionality and sophistication.

AUTHOR BIOGRAPHY



Mr. Meyvin, as Senior Vice President of Global Managed Services, leads Numerix's software as a service efforts and is responsible for delivery of the hosted Numerix Oneview product suite to Numerix clients and partners.

Mr. Meyvin joined Numerix in 2000 as a System Architect. He later served as the Head of Professional Services, managing the company's global implementation and consulting functions, as well as serving as the Global Head of Product Development.

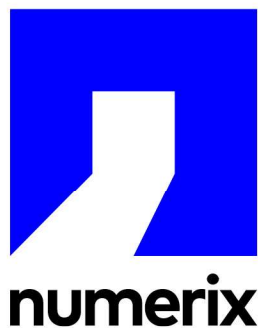
Prior to joining Numerix, Mr. Meyvin was a Senior System Architect at Xerox Corporation, where he designed and developed real-time control systems. He later led a multi-disciplinary team designing, implementing and deploying ValueQuiX™ — a \$40M distributed, mission-critical product configuration, pricing and order-submission system for the global Xerox sales force.

Mr. Meyvin earned a master's degree in computer science from the Rochester Institute of Technology and a BSc in Civil Engineering from the State University of Architecture and Civil Engineering in St. Petersburg, Russia.

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