



EAGLE ARTICLE

ONLY THOSE WHO REALLY KNOW THEIR DATA WILL SURVIVE

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If anyone had been lulled into a sense of complacency about market volatility by the end of 2007, the 12 months that followed in the global markets will have served as a bracing and all too painful corrective. The year has been littered with tales of venerable institutions failing to protect themselves against the prospect of unforeseen disruptions. The aftershocks of the 2008 crisis continue to reverberate as we move into the New Year, and companies' shortcomings are being laid bare for all to see - and the old adage "the devil is in the detail" has never been so pertinent.

We have all listened to CEOs as they have restated their cast-iron conviction that, their companies have not been adversely impacted by the credit crisis - only to see them retract their bold claims at a later (and sometimes not so later) date. So why did so many firms struggle to understand the impact of recent market events on their business? A closer examination of the risk management operations of some of the casualties, and the rapid-fire chain of events that crippled them, suggests that it ultimately comes down to a failure by many financial institutions to properly appreciate the scope of their exposure and the level of potential risk they faced. But why?

The primary reason for this lack of true transparency and insight into their business, and therefore their failure to understand the risks to which they were exposed, is the absence of a cohesive data management strategy.

As the unprecedented events of the last few months of 2008 unfolded, many organisations found themselves in the difficult position of having to quickly and unexpectedly track down their exposure to various institutions to determine the extent of the danger their company was in. For many, this proved a very challenging task. For example, when the US investment bank, Lehman Brothers filed for bankruptcy in September, it took some buy-side firms weeks to establish their exposure. These investors had to work out their exposure from numerous disparate systems - a slow process with a potentially significant margin for error. Whereas those firms with a centralised data management system integrated with their accounting system(s) were able to determine their exposure in a matter of hours.

As many firms have learned, technology systems are only as good as the underlying data. Yet, there is a tendency for firms to think that just by implementing a risk or performance system, they are gaining control and visibility. However, they are not if they don't have control over the data that feeds these systems. Chief Investment Officers and Heads of IT are putting their companies' competitive advantage at risk by not implementing a clear data management strategy with a centralized data management solution.

The reason for this gap is that data management doesn't always make it to the top of the pile in terms of funding for new technology. This is in spite of the fact that most firms have a high level of duplicated data that is fed into multiple systems. Unfortunately, crisis situations cause firms to reassess their current strategies and look for ways to improve quality and prepare for other unforeseen obstacles. As a result of the today's market conditions, firms globally are reviewing their operations and committing to data management strategies in preparation for impending regulation or in search of more transparency within their portfolios. This is also true in the Middle Eastern and Asian markets, where traditionally we haven't seen much focus on data management projects. The good news is that the understanding of data management amongst financial organisations around the world is now rapidly changing. Previously regarded as a 'nice to have' it is now escalating up the priority list to become a 'business critical', and never has data management arguably been more important.

Many major financial institutions are beginning to focus their attentions on data management as a central component of their risk management strategy. Companies are moving towards a data management model, like the solution offered by Eagle Investment Systems, whereby they centralise all their securities, accounting, analytic and performance data in order to accurately gauge the current state of their business. Companies and CEOs need to constantly pinpoint with speed and exact accuracy their exposure to bad debts and toxic investments as well as interest rates, and they need to have the right data management systems in place to do this in real time, any time of day. Data is like a river—it is not static.

If 2008 is to be remembered by historians as the year of the global financial crisis, I believe 2009 will be known as the year of risk management. It often takes a crisis of epic proportions for many institutions to review their operational risk processes and to undertake the necessary actions to minimize these risks. The ongoing financial storm therefore might ultimately prove beneficial, and be the catalyst which triggers the implementation of long overdue reforms in risk and data management systems.

This can only be a good thing for the industry as a whole.

EAGLE INVESTMENT SYSTEMS

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Reprinted in *Alternative Investment Review* - January 2009