



EAGLE ARTICLE

TO KNOW YOUR BUSINESS IS TO KNOW YOUR DATA: SURVIVING THE CREDIT CRISIS

John Legrand

Managing Director of Europe, Middle East and Asia Pacific,
Eagle Investment Systems

The 2008 global economic crisis will definitely be one for the history books. For years to come business school scholars will study the anatomy of the financial meltdown and analyse the various aspects of how and why venerable institutions failed to protect themselves against being overexposed to risky investments. The unimaginable happened to the financial industry last year, and as we advance deeper into 2009, the aftershocks of the crisis continue to reverberate. Many companies' shortcomings have been laid bare for all to see – and the old adage “the devil is in the detail” has never been more pertinent.

It may feel like ancient history now, but we all remember a few months ago when CEOs stated with 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. And with the recent annual earnings announcements taking place, we've only just begun to comprehend how big a hit some firms have taken. 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?

One of the significant reasons 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, organisations around the globe 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. 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. For many, this proved a very challenging task, especially in Asian markets where data management strategies are not a common practice. 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, this is not the case if they fail to have control over the data that feeds these systems. By not implementing a clear data management strategy, Chief Investment Officers and Heads of IT could be putting their companies' competitive advantage at risk because they lack a clear understanding of their full exposure and true investment performance.

So why do some organisations lack priority around data management? One 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. Unfortunately, it is typically a crisis situation that causes firms to reassess their current strategies and look for ways to improve quality and prepare for other unforeseen obstacles.

As a result of today's market conditions we're seeing leading financial institutions placing considerable attention on data management as a central component of their risk management strategy. This is also true in Asia, where traditionally we haven't seen much focus on data management projects. For many, a data-centric model is being employed that centralises all their

securities, accounting, analytic and performance data in order to accurately gauge the current state of their business. For those organisations that aren't currently looking at establishing a comprehensive data management strategy, they most certainly will in an effort to not only provide greater transparency within their portfolios, but to meet the anticipated regulatory oversight that will no doubt be required as a result of today's global economic crisis. 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 require the right data management systems in place to do this in real time, any time of day.

What is notably different about 2009 is that there is now a tangible demand for risk strategies around portfolios and in investment structures. As more and more companies invest in data management systems and implement processes to prove transparency, we should start to see a gradual restoration of confidence in the global market. The industry needs to be assured that internal processes and controls are robust in terms of independent valuation and oversight, and that data and systems infrastructure exist to effectively support this. The good news is that the understanding of data management amongst financial organisations around the world is now rapidly changing. Everyone is becoming more risk focused and compliance orientated. 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.

The Year of the Rat (2008) ended in a global economic meltdown and a crisis of confidence unseen since the Great Depression of the 1930s. Can the ox - the strong, hard-working symbol for 2009 in the Chinese lunar calendar - carry us forward to better times? One can only hope. The ox represents stability and perseverance - precisely the characteristics that need to be invoked in the wake of the turbulence and chaos unleashed on the world in 2008.

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.

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www.eagleinvsys.com | sales@eagleinvsys.com

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