



Futureproofing risk management

Investing now in a new-generation technology platform for front and middle office is the smart choice. Those who don't are storing up problems – regulatory and financial – for the future, says Steve O'Hanlon, chief executive officer of [Numerix](#)

Structured Products: What challenges or opportunities do you see for the derivatives market over the next year?

Steve O'Hanlon: Many of the institutions we are working with are at a critical inflection point toward transforming their trading operations – by bringing front and middle offices together with finance to share a technology platform. The relationship between risk management, capital efficiency and liquidity is crystallised by the new regulatory requirements, forging a direct link between the quality of risk management and the ability to manage capital and liquidity efficiently.

As banks undergo various elements of transformation within their institutions, we see two things happening – banks that refuse to challenge the status quo, and banks that are going to embrace change. While challenges will continue from a software, data management, IT infrastructure and architecture perspective, those that successfully implement change will have a fundamental operating advantage in the market as they have opted to spend more today to reduce cost in the future.

Structured Products: What new functionality, modules or systems have you released that will help your clients evolve with the market?

Steve O'Hanlon: As an enterprise technology company, our next-generation risk technology platform supports front-office trading and middle-office risk from a single platform. As the market for analytics is rapidly changing due to new regulations, technology and performance issues, Numerix is uniquely positioned because it offers the only solution that can address the transformation occurring inside today's financial institutions – where the sell side for cross-asset front-office analytics is emerging and squeezing into traditional middle-office risk management functions.

Our Oneview platform has already helped clients optimise trading and risk operations, provide visibility into total cost of ownership (TCO) of derivatives operations, reduce risk exposures, bring back return on equity (ROE) to the desks and reduce capital



Steve O'Hanlon

charges – ultimately facilitating cost savings through the reduction of legacy and duplicative systems.

Structured Products: With end-user requirements constantly in flux, how has the technology sector evolved to meet new customer demand for solutions?

Steve O'Hanlon: As the technology sector has evolved it has had to capitalise on rapidly changing market dynamics. By becoming more modular and flexible, they have adapted their business models and responsiveness across the enterprise. As a technology company that has been transforming banks' pricing and risk analytic infrastructure since 2004, Numerix is a perfect example of how the technology sector has adapted to meet customer demand for new solutions.

Structured Products: What are the most important characteristics that a technology vendor needs to succeed in the valuation, pricing and risk management of structured products and other complex derivatives today?

Steve O'Hanlon: Responsiveness to changing market dynamics and regulatory demands is key to succeeding in today's market, where front-

office risk solutions enable users to be more agile and adaptable in the face of change. In terms of solutions – a next-generation risk technology platform must be able to scale up quickly and support a wide range of pricing and risk analytics in a unified way.

Solutions for decision-making and optimising resources are also critical where analytics provide actionable intelligence in real time and the ability to optimise capital allocation, funding costs and collateral usage.

An increased focus on profitability has also put greater emphasis on having the ability to integrate all derivatives valuation adjustments (XVA) and derivatives-related costs into pre-trade prices. The ability to perform profit and loss prediction, attribution and back-testing to understand profit and loss and risk drivers, as well as forecasting of capital requirements will continue to grow in importance.

Structured Products: What is the most challenging area of regulatory-driven adoption your clients are currently undergoing?

Steve O'Hanlon: The most challenging areas of regulation-driven adoption continue to be related to *Fundamental Review of the Trading Book* (FRTB) and Basel III capital requirements.

In today's market, a grasp of how the marginal risk of a potential trade impacts the overall capital requirements is critical to making informed trading decisions, and also provides guidance on how to reflect the associated capital utilisation in the pricing of trades. However, the capital regulations can be difficult to navigate and must be well understood before tackling complex computations such as trade-level capital valuation adjustment (CVA).

Existing CVA capital regulations are also being revised to better align with FRTB, which overall is serving as a unifying framework for different approaches to the calculation of regulatory capital. With Numerix Oneview, our ability to be interoperable, flexible and transparent enables us to quickly respond to extensions and revisions to regulatory requirements.