

Crescore



2008 Nordic Front Office Survey



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Preface

Crescore is a consulting company that helps organizations within the financial services industry, providing solutions to operational problems. Over the years, we have worked with most of the major organizations within the Nordic area. For us, as well as for our clients, it is important to be on the frontline and to set the trends rather than to follow others.

Over the last few years, we have noticed that there has been a growing interest in system support for the front office environment. We see several reasons for this growing interest:

- Many organizations have already made large investments in their back office environments, often as a result of centralization and in order to improve efficiency. As a natural extension of their efficiency initiatives, their focus has now turned to their front office environments.
- The competitive environment has increased the need for improved performance if you are an asset manager, and the need for

creativity in generating new products if you are a sell-side organization.

- In the past, there have been a number of organizations that have suffered significant losses because of their lack of sufficient risk control. This has caused financial institutions and regulators to act, demanding increased internal control.

The 2008 Nordic Front Office Survey examines how individuals working within front office environments perceive the support they receive from the systems they use. In addition, the survey identifies shortcomings and areas for improvement within front office solutions.

Crescore would like to thank all those who have participated in this survey. We hope you will find this study to be useful.

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Introduction

What was the objective of the survey?

The 2008 Nordic Front Office Survey identifies processes that are functionality relevant to front office users within investment and fund management, treasuries, and capital markets.

What areas were covered by the survey?

The survey evaluated both the technological solutions used today and the desired direction for development.

The analysis covers the following areas:

- What are the current system supports and solutions used to address front office needs?
- How are these systems and solutions connected to other processes?
- Where does the largest potential for improvement lie?

How was the survey designed, implemented and evaluated?

The 2008 Nordic Front Office Survey was administered using a questionnaire given to executives in asset- and fund

management, capital markets, and bank treasuries. The respondents work in selected institutions in Sweden and Norway. These institutions are among the largest in their area in their respective country.

With extensive knowledge of the financial industry and the systems supporting it, senior consultants at Crescore developed the questions. The questions addressed the situation and trends that fell within the survey's objective.

The questionnaires were completed during interviews performed by our senior consultants. The respondents were given the opportunity to investigate the questions, where necessary, and return with an answer. The questionnaires were then consolidated into one database in order to validate and analyze the data.

By analyzing the data gathered from respondents, we were able to identify similarities, differences, and trends.





Trends and observations

Derivatives a commodity

Today, derivatives and structured products within both fixed income and equity are ordinary products and are used by most larger financial institutions.

However, the majority of organizations still do not use commodities. This is perhaps somewhat surprising given the rise in prices and the media attention given to commodities lately. Can we expect commodities to be a focus for the larger asset managers in the near future? Or will smaller (niche) players perhaps beat them to it?

Disparate system structure

The fact that most respondents use a number of different systems indicates that the different products cannot be adequately managed within one system. There is evidently room for improvement on the vendor side.

Those organizations that use Excel and/or in-house build systems often supplement these with other systems. These organizations also want to increase the depth of their analysis and decrease their manual actions. As such, the implementation of some kind of system is critical in order to decrease manual handling, as all manual actions imply an increased risk and may

possibly result in a flawed analytical basis.

Asset managers, however, seem to require fewer systems than capital market organizations, for instance. As expected, this difference is related to the nature of the business although it is also likely related to the capability of the leading system vendors. When it comes to asset management, SimCorp Dimension is the dominating portfolio management system.

System consolidation was not regarded as a focus area, however. System performance was instead highlighted as a problem area. It might well be asked if this result would have been different if the questions had been posed to the IT organization instead.

Get connected

Many of the respondents had one or more systems for order management although many large financial organizations remain unconnected to any trading platforms. Notably, connectivity and external communication are regarded as the areas with the largest potential for improvement, together with system performance.

It seems that order management is seldom the focus of attention despite the

fact that efforts in this area can reduce costs and provide a competitive advantage.

It's all about data

When it comes to risk management systems, the largest potential for improvement lies within data quality. Other preferred improvement areas include product coverage and real time capabilities. Overall, respondents seemed happy with their system's risk capabilities (i.e., risk measurements, methodology, scenario analysis, etc.).

Only one of the respondents mentioned credit risk as an area that could be improved. This was somewhat surprising given recent events. Could a possible explanation for this be that most of the respondents' organizations are more advanced in this area than those mentioned in the news? Or do they perhaps fail to see the similarity between the current situation and past events?

The most popular risk management system seems to be BarraOne. However, it is worth noting that 3/5 of those using BarraOne also use another, supplementary risk management

system, whereas none of the non-BarraOne users has more than one system for ex-post risk management.

Performance is good

Measuring performance is very important for all asset managers. Most asset managers also calculate attribution as far down as the security level. Some asset managers, however, do not calculate attribution at all.

A number of the asset managers had separate systems for performance measurement, whereas the majority relied on the portfolio management system for their performance figures. Will more emphasis be put on performance figures in the future, especially when the economy is downshifting and the market is getting tougher?

Remarkably, none of the respondents used the same system for ex-post risk measurement and performance measurement, although many system vendors stress their systems' capabilities in both areas. Is this a conscious choice, or have the vendors simply failed to market their systems effectively?

Survey results

Five major areas were covered in the survey:

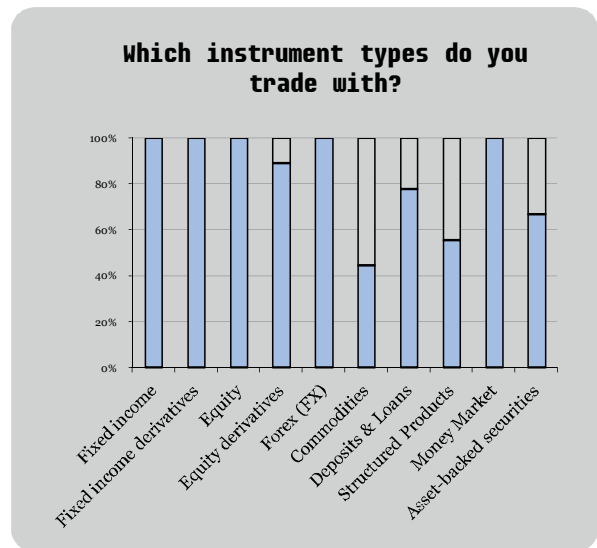
- General information about the respondent and its front office systems;
- Position analysis and ex-ante risk;
- Order management and deal execution;
- Ex-post risk management; and
- Performance Management

1. General

There is a wide spread regarding the types of instruments each respondent trade in. Only a few respondents use all the instruments covered in the survey; however, all of the respondents use most instrument types.

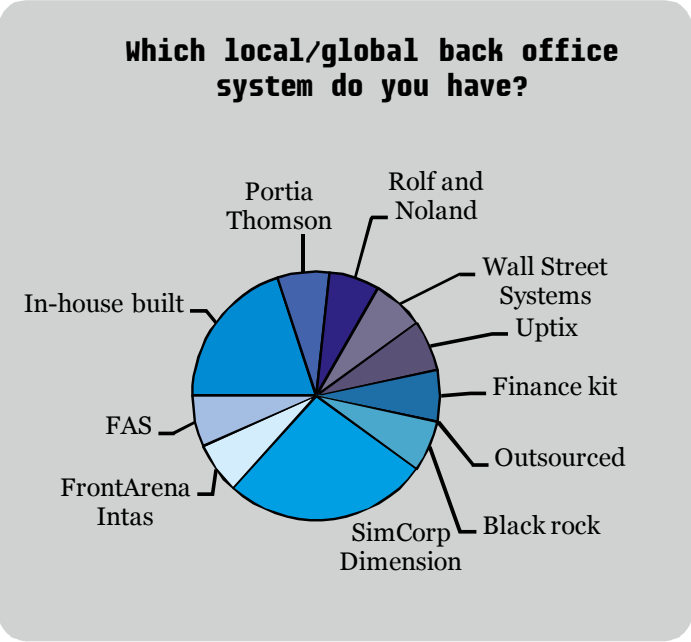
There are basically two main reasons for not trading in a certain instrument type: The excluded instrument is not part of the investment strategy. The implemented technical solutions do not support a specific instrument.

The second bullet is a subject for missed business opportunities, which could in itself sometimes motivate a business case for investing in new solutions. However, only one of the respondents has pointed out that instrument coverage is one of the areas of improvements.



While the types of instruments that are being traded in are similar, the picture of the front office systems they use is far more fragmented. Different respondents use different systems and there are quite a few that even use several front office systems, which indicates that no front office system completely fulfils their customers' needs. In total, nine different off-the-shelf systems are being used in addition to in-house built systems. The system that most respondents have implemented still only covers a fourth of this survey's population, which signifies that there is no dominate player among the vendors. All respondents that have in-house built systems also have off-the-shelf systems.

The need for several systems could be explained by the lack of depth in the solutions offered by vendors. Even if the solution may be comprehensive, the users desire more functionality (such as STP, external communication, and different kinds of added functionality).



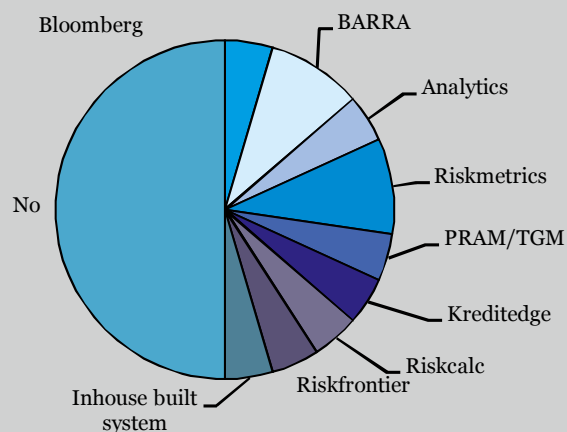
2. Position analysis and ex-ante risk

Almost all respondents have real time connections to information systems. These connections consist predominantly of Bloomberg and/or Reuters. They also have connections to back office systems that are updated online or in batch once per day in all occasions (except one).

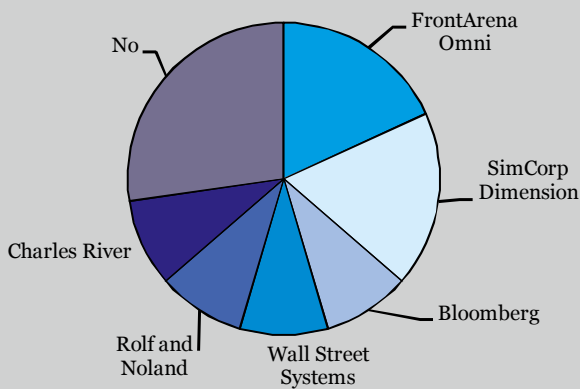
Functionality wise, nearly all respondents use their systems for simulating trades to observe the risk effects. Half of the respondents import figures from a choice of other systems (almost none of the respondents gave similar answers).

System performance is the only common area for improvement among all respondents.

Do you import risk figures from other systems?



Do you have an order management system?



3. Order management and deal execution

Within order management, there is no dominant system. Different respondents use different systems and there are several that use more than one. In total, six different off-the-shelf systems are being used by the respondents.

The majority of the order management systems used by the respondents support Block and/or Program Trading.

All respondents that have a separate order management system also have an interface to the back office system, which updates transactions online.



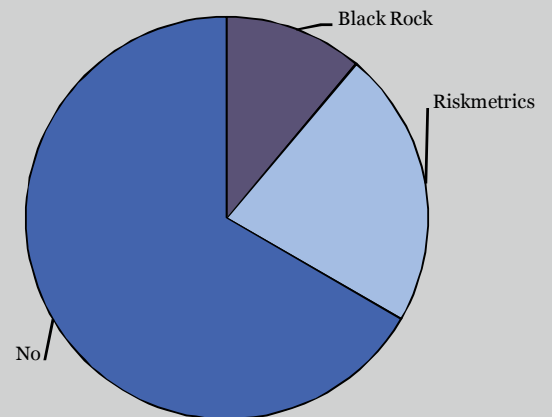
4. Ex-post risk management

All asset managers except one calculate active risk against a benchmark, some of them online, others daily.

The majority of respondents do not outsource any part of their risk analysis. Moreover, their official risk figures are calculated in their risk systems.

The areas that are considered to have a large potential for improvement differ between the respondents. The study, however, does distinguish two areas: to cover all risk types and to improve data quality.

Do you outsource any part of the risk analysis?

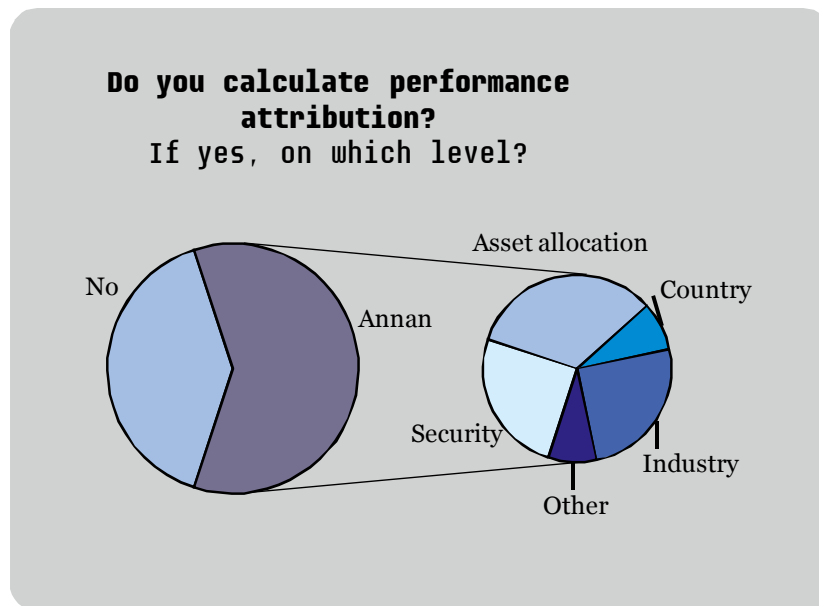


5. Performance

Almost half of the firms in the study use their front office systems to calculate performance. The rest either do not calculate risk or use in-house built systems and/or MS Excel. Those who use their front office system also have an interface to their back office system.

Half of the respondents calculate performance attribution.

No similarities could be identified in the areas for improvement as they differ widely between the respondents.



ABOUT CRESCORE

Crescore is a financial services consulting company, that primarily works with leading financial institutions and insurance companies in northern Europe. Through our offices in Copenhagen, Oslo, Stockholm and Amsterdam, we work with the most demanding and challenging clients within the financial industry.

With Crescore's unique competence in the financial markets and extensive expertise in financial processes, regulations, and systems, we provide our clients with solutions and help them to reach their goals and manage their challenges.

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