



Business challenge

eSecLending uses market data to analyze risk for clients' loan portfolios. Its existing data provider's fees were rising and data was often incomplete, so eSecLending began looking for better options.

Transformation

eSecLending switched to a managed data service from IBM that integrates with IBM® Algo® Risk Service on Cloud to provide daily risk metrics and stress tests for each client's portfolio.

Business benefits:

20%
cost savings on market data by moving to a single supplier for data and analytics

42%
increase in number of instruments analyzed per day, from 7,000 to 10,000

4 times
as many scenarios simulated daily, making risk assessments even more robust

eSecLending

Delivers daily insight into credit and market risk to help clients choose the right counterparties

eSecLending is an independently owned financial services company providing securities financing, collateral and liquidity services, and default management solutions to institutional investors and clearing organizations worldwide. With a consultative, flexible approach, it works with clients to deliver tailored solutions which are aligned to each client's individual requirements, goals and objectives.

"Algo Risk Service on Cloud provides an impressively robust market risk model, giving us a better understanding of our clients' exposure."

Bill Locke
Chief Risk Officer
eSecLending

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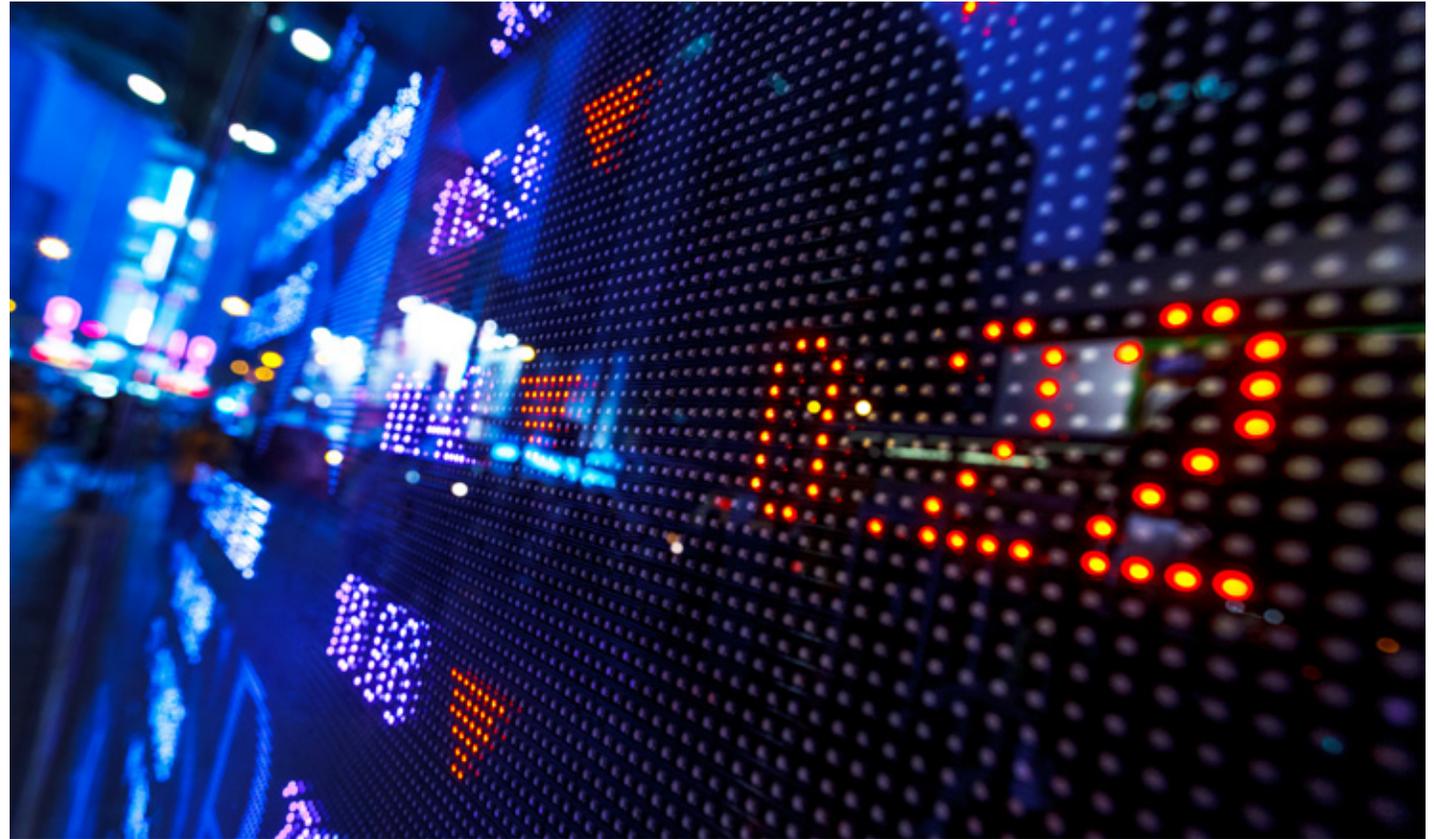


Matching lenders with the right counterparties

In the world of securities lending, eSecLending acts as a match-maker, helping asset owners (for example, large pension plans) find counterparties who want to borrow securities from them (for example, broker-dealers who then lend the securities to hedge funds who want to “short” a stock). These loans are secured by collateral, so the risk to the lender is low; but eSecLending gives its clients additional peace-of-mind by indemnifying them against counterparty insolvency.

As a result, it's very important for eSecLending to understand both the fundamental creditworthiness of counterparties, and the market value of the loaned securities and collateral. With this in mind, the company carefully monitors exposure to both counterparty credit risk and market risk at the level of each client's loan portfolio.

This type of risk analysis is highly complex, given that eSecLending manages portfolios worth around USD 45 billion, and represents a highly diverse set of asset owners and counterparties managing a huge range of securities, security types and valuations.



To provide the daily risk insight that eSecLending and its clients need, the company relies on IBM Algo Risk Service on Cloud—a solution it first adopted in 2013, when it first recognized the need for a more advanced set of risk analytics tools.

At first, eSecLending used the solution by uploading an end-of-day snapshot of all its transactions, together with a set

of pricing data from an industry-leading market data provider. Overnight, the IBM Algo solution would integrate and process the data, running thousands of simulations to assess various risk metrics and stress tests for each client's portfolio.

The resulting dataset would be returned to eSecLending by early morning, and the company would then plug it into its own internal risk systems to produce reports and KPIs.

Bill Locke, Chief Risk Officer at eSecLending, comments: “The system itself worked very well—the problem was the data. Our data provider was continually raising its fees, and we often had issues where the data for some securities was missing or didn't arrive in the correct format. That affected the quality of our own reports, and we were spending a lot of time going back and forth to try to resolve problems.”

A single source of data and analytics

When IBM announced that it was launching its own managed data service for IBM Algo Risk Service on Cloud, eSecLending was immediately interested in the idea.

Bill Locke explains: “The idea of getting both the data and the analytics service from a single vendor was very appealing to us, both to reduce costs and to eliminate a lot of the support issues that we were having with our incumbent data provider.

“Although it was a new service and being an early adopter is always a risk, we were confident that the IBM Algorithmics team could deliver. We had been working closely with them for several years, and we had a lot of trust in their team. We also knew that several other Algo Risk Service users were equally disappointed with the fee creep from our old provider, so there was a good chance that they would follow our lead.”

eSecLending and IBM worked closely together to ensure that the move to the new data service went smoothly. The company decided to run its daily risk analyses using both its existing data feed and the new IBM data feed in parallel for a month, to verify the results. At the end of the month, Bill Locke’s team was fully satisfied, and ready to make the change.



“It was pretty close to just flipping a switch,” he says. “Inevitably, there were a few teething issues, but nothing like the ongoing issues we had with missing data before. Every time we needed some help from the IBM team, they responded fast and took care of the problem quickly — and that’s continued to be the case right up to the present day. We have a support call with IBM every two weeks, but more often than not, we don’t have any real problems to discuss.”

Greater insight at lower costs

Since adopting the managed data service for IBM Algo Risk Service on Cloud, eSecLending has reported a significant reduction in monthly costs, combined with an increase in the completeness and accuracy of its risk reporting.

“We’re saving around 20 percent per month on our data costs, compared to our previous data provider,” confirms Bill Locke. “And we no longer find holes in our reports, because the pricing data is higher-quality and more complete. That saves time for the risk team and boosts confidence throughout the business that our risk figures are really robust.”

The service has been able to scale as the company's business has grown: the number of securities it analyzes has risen from 7,000 to 10,000 per day, and is expected to rise to around 11,000 in the near future. The use of the managed data service has also allowed the IBM team to increase the number of simulations it runs for eSecLending by a factor of four, from 1,000 to 4,000 per day.

Bill Locke comments: "Taking stress tests as an example, we look at four major historical scenarios to see how they would impact our clients' current positions. We used to look at these four scenarios on both a one-day and a five-day horizon, but we then asked if we

could see a three-day horizon scenario for each event too. The IBM team was able to turn around our request in two or three weeks, which shows the value of having a single vendor for both your data and your analytics services."

He concludes: "Algo Risk Service on Cloud with managed data provides an impressively robust market risk model that we can run at both the portfolio level and by individual holding, giving us a better understanding of our clients' exposure.

"That means we can not only protect ourselves and our clients more effectively against both counterparty credit risk and market risk; we can also give our clients better advice about which counterparties they should lend to, and whether they ought to diversify. The result is a smarter service that helps both asset owners and counterparties make the right deals at the right time."

Solution components

- IBM® Algo® Risk Service on Cloud

Take the next step

IBM is working with organizations across the financial services industry to use IBM Cloud, cognitive, big data, RegTech and blockchain technology to address their business challenges. Watson Financial Services merges the cognitive capabilities of Watson and the expertise of Promontory Financial Group to help risk and compliance professionals make better informed decisions to manage risk and compliance processes. These processes range from regulatory change management to specific compliance processes, such as anti-money laundering, know your customer, conduct surveillance and stress testing.

To learn more about IBM financial risk and regulatory compliance solutions, visit ibm.com/RegTech and follow us on Twitter @IBMFintech

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