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## The Humans Between Risk and Data

By Brian Sentance, CEO Xenomorph

*Where is the wisdom? Lost in the knowledge...*

*Where is the knowledge? Lost in the information...*

*Where is the information? Lost in the data...*

*Where is the data? Lost in the database...*

The above adaptation of a quote from T. S. Eliot summarises for me one of the main ways in which data management can contribute towards minimising the effects of any future financial crisis. The transformation of data into information and onwards in understanding is a core process for financial markets; a process in which secure access to consistent, high quality data is a vital foundation if we are to improve upon past shortcomings.

Much has been written about the causes of the recent financial crisis, with journalists, politicians, regulators, academics and practitioners alike focussing on weaknesses in security valuation, risk methodology, counterparty identification, credit assessment, securitisation, incentivisation, regulation and the financial system as a whole. In my view, the common theme through all of the articles I have read has been that the financial topic being criticised is merely the means through which the risk was manifested, communicated or multiplied, rather than the human behaviours that initially created the risk or uncertainty itself.

For example, securitisation enabled managers of mortgage portfolios to become engineers of mortgage portfolios, incentivised not by the margin between money loaned and money received, but rather incentivised by the number of mortgages issued and sold on. Senior managers of financial institutions wanted a concise number to summarise risk, so risk managers and academics gave them Value at Risk to satisfy this need for simplicity with all the weaknesses inherent in this approach. Financial engineers constructed valuation models based on assumptions that fitted the limits of the mathematics rather than the extremes of the market. The list of examples is endless; the interplay of human motivations is constant.

What has data management got to do with human behaviour and indeed the relationship between behavioural finance and risk? I have been working in financial markets technology for over twenty years now and so much has changed, but I would also have to say that so much has remained the same. In the field of data management, there still exists a gap in understanding between technologists that create and manage IT systems, and the trading, risk and back office staff that use these systems. The common medium between IT and business staff is data, however both parties have different ways of thinking about, analysing and understanding the data they need. The consequences of not filling this communication gap are increased operational risk, poorer quality data and an inability to see the risks across the whole organisation.

So here is my wish list of some of the ways in which data management can help reduce risk and increase understanding:

- Design your data management solution to serve all front, middle and back office staff and systems. The front-office will go on using data whether you choose to ignore them or not, so don't ignore them.
- Represent data as financial objects that are business-friendly – making data easy to understand will improve data quality and benefit all. Data experts are not always experts in database technology.
- Decide whether you are going to fight or embrace the usage of spreadsheets and spreadsheet data. Spreadsheet data usually exists for a reason – understand what the reason is and decide if your solution needs to do anything about it.
- If you cannot easily add new asset classes and custom fields to your data management solution, then do not be surprised when front-office staff revert to using spreadsheets and your risk and product control departments do not know what is going on in the front-office.
- Do not limit your thinking to just the traditional data “silos” of reference, market and counterparty data that the data management market has defined, and ask yourself if there are other datasets - such as model data and market scenarios - that it would be beneficial to store and make consistent across users and systems?
- Don't ignore analytics and the resultant derived data in your data management solution – your users won't ignore this most valuable of data even if you do.

Users and consumers of data will always find the data they need from somewhere, so make sure your data management solution is not one that users work around, but rather one that users want to contribute to and become part of.

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Our focus is to make our clients more successful by closing the productivity gaps between high performance database technology, data management and end-user data analysis. Through unified and transparent access to data and data analysis, our clients achieve even higher levels of financial innovation, business process efficiency and regulatory compliance.

Trading, research, risk, product control, IT and back-office staff use Xenomorph's TimeScape data management platform at investment banks, hedge funds and asset management institutions across the world's main financial centres.

Established in 1995, Xenomorph has offices in London and New York.

web: [www.xenomorph.com](http://www.xenomorph.com) | email: [info@xenomorph.com](mailto:info@xenomorph.com)  
London: +44 (0)20 7614 8600 | New York: +1-888-936-6457



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