



SUCCESS STORY

Government Pension Fund: Optimizes the collateral management process for OTC derivatives

OPERATIONAL EFFICIENCY INCREASED, CREDIT RISK REDUCED

INDUSTRY

Government Pension Institution

SOLUTION:

Consulting
SkySparc OmniFi

ABOUT

This European government pension fund administers the local and state pension schemes, serving a third of the country's insured individuals and pension recipients. It is also responsible for funding the earnings-related pension cover of municipal sector employees.

Its finance and accounting department is responsible for securities and funds transaction administration, internal and external reporting for investments, accounting and money market instruments.

BACKGROUND

To fulfil its mandate of managing earnings-related pensions for its member organizations, this pension fund runs an active trading operation, including trading in over-the-counter (OTC) derivatives such as credit default swaps, interest rate swaps and FX options and forwards. Collateral requirements for these bilateral trades have become more onerous since the credit crisis; arrangements with counterparties must be continuously

monitored in order to maintain a cost-effective trading operation and minimize credit risk. Because of this, the fund decided to outsource its collateral management requirements to a third party. This would ensure that collateral, and the cost of trading, were tightly managed and help to reduce credit risk. It would also free up the middle-office team to focus on the core trading activity.

"Derivatives is an innovative area and changes occur frequently. The flexibility and transparency of the interface builder in OmniFi means it will be easy to maintain the interface and add new instruments when we need to."

Head of Middle Office at the Pension Fund

QUICK FACTS

- The fund wanted to outsource collateral management of its OTC derivatives contracts to manage credit risk and **improve operational efficiency**.
- OmniFi interface builder made it possible to **collect, format** and **deliver high volumes** of transaction and other data to its outsourcing partner on a daily basis.
- The **flexibility** of the **interface builder** made it easy to respond to changing requirements and specifications and deliver this cutting edge project.

CHALLENGE

Providing all the transaction information required for outsourced collateral management presented the fund with a significant challenge. For each derivatives transaction, up to 100 fields of data needed to be populated. The detail was required for every transaction, historical as well as new, on a daily basis. And retrieving the data was complicated because it resided in different areas within its financial systems and applications. Some data would also have to be re-formatted to meet the specifications required for the collateral management system.

"It was obvious that we needed to automate this process. It was a complex challenge because we had to access four or five different business logics and data sets in different locations to retrieve all the necessary data - and then join the data together to create the output," explains the Head of Middle Office.

As the fund did not have the resources or the specialist knowledge to build this complex interface in-house, it brought the challenge to SkySparc. The fund was already using SkySparc's support services for on-going monitoring and support of its Wallstreet Suite set-up and was pleased with the quality of service and expertise.

SOLUTION

SkySparc proposed to use the OmniFi interface builder to automate the multiple queries required to retrieve and format the daily data for the OTC instruments.

The fund made a first analysis of the collateral manager's specifications, identifying what data was required and from where. SkySparc then took this draft plan, refined the business logic, and built the first prototype of the interface.

The interface builder uses Excel to visualize the data and build prototype interfaces. This makes it possible to develop complex interfaces and then quickly and easily modify the functionality as needed. Once development is complete, the interface is deployed on the server in the production environment and Excel is no longer used.

This was an ideal solution for this project because it meant the interface could be prototyped and tested, then modified and re-tested in an iterative process, until everything was working as it should. "The specifications from our collateral manager changed several times, but it was relatively easy to make all the adjustments because the interface builder is so flexible," says the Head of Middle Office.

RESULTS

As well as being large and complex, the project was also cutting edge at the time, as the collateral manager's specifications and systems were still developing and changing. The flexibility of the interface builder, and the ability it provides to prototype changes, was invaluable in this environment. The Head of Middle Office was also impressed by the problem-solving culture of SkySparc's consultants.

The project was implemented in phases, instrument type by instrument type. It is now fully operational, resulting in faster processing and reconciliations and no manual errors in transferring the data to the collateral manager.

The Head of Middle Office is delighted with the results. Equally important, he knows that the interface can be easily and cost-effectively updated when changes are needed.

He also sees the value of the interface builder for maintaining interfaces with other external systems, for example, if the fund changes a service provider.

"SkySparc's responsiveness was tremendous – changes were turned around really fast."

Head of Middle Office at the Pension Fund

ABOUT SKYSPARC

SkySparc, an independent solutions provider trusted by banks, central banks, Fortune 100 corporate treasuries and asset managers, offers complementary software, outsourced support and a wide range of financial and technical consulting services. Outsourced support enables our customers to focus on their core business and benefit from attentive service from our financial and technical experts. SkySparc OmniFi delivers sustainable business value to customer through advanced management reporting, process automation, system integration and fully automated testing. SkySparc is the winner of *Central Banking Publications'* 2015 Consultancy and Advisory Award and the 2014 Adam Smith Award for Best Risk Management Solution, awarded by *Treasury Today*.



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