



BNP Paribas – Global Risk Survey 2015

Survey of global asset owners

Madhu Gayer, CIPM, FRM

Head of Asia Pacific
Investment Reporting and Performance

Securities Services



Agenda

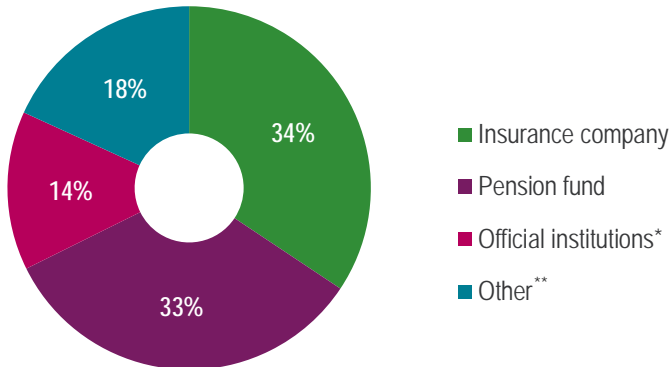
- **Overview of the global risk survey**
- Investment approaches
- Risk management repercussions
- Future directions



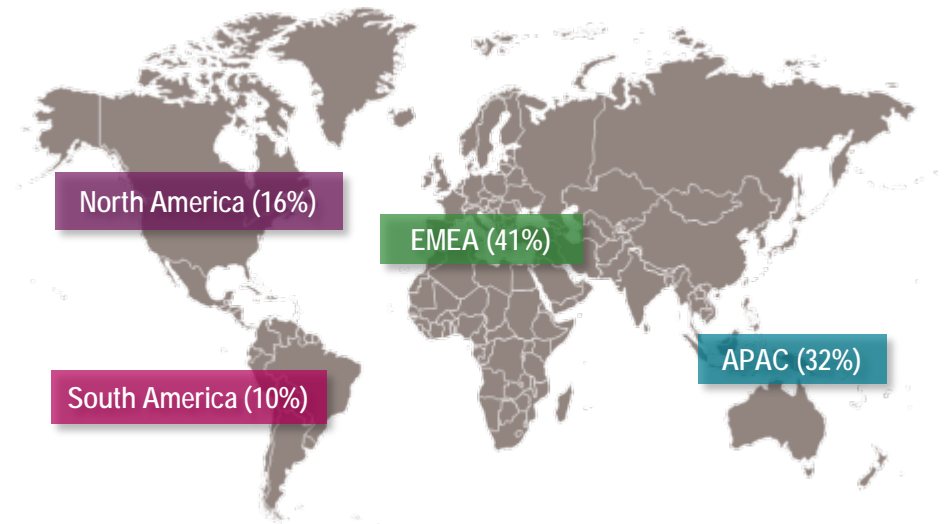
Background to the survey

- BNP Paribas Securities Services designed a questionnaire to ascertain asset owners views on risk.
- YouGov was then commissioned to conduct the interviews on behalf of BNP Paribas.
- The output - 177 interviews with asset owners across the globe – has been used to create our Global Risk Survey 2015.

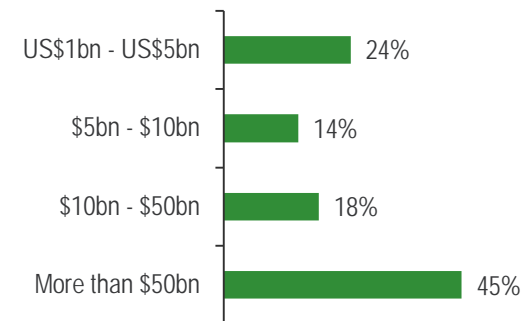
Institution type



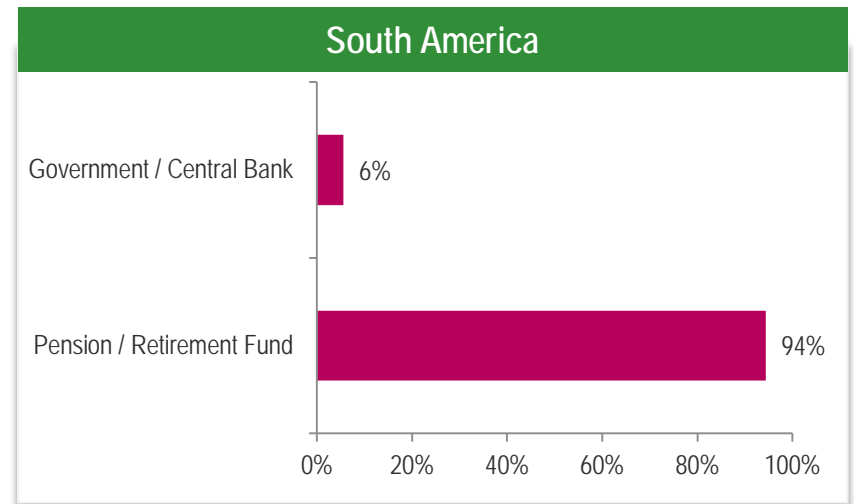
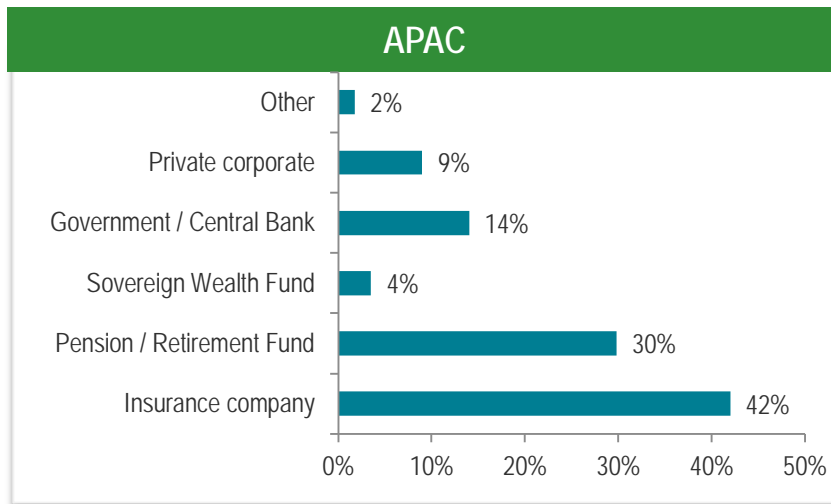
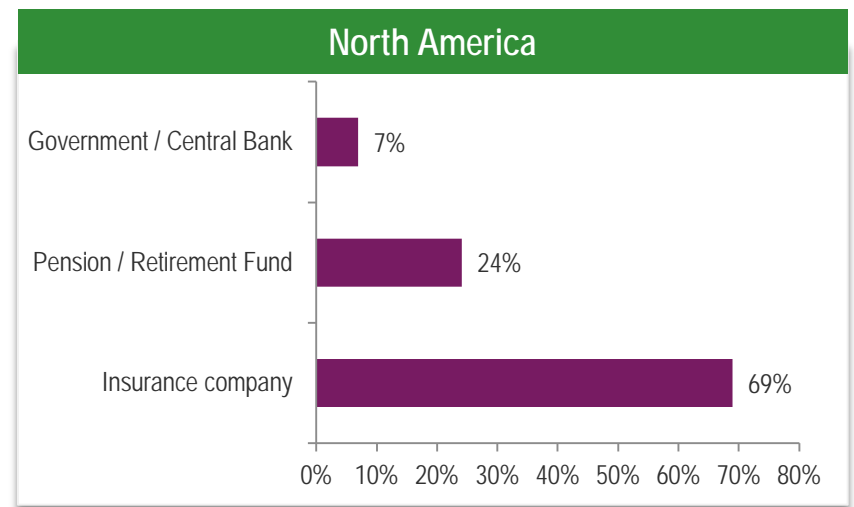
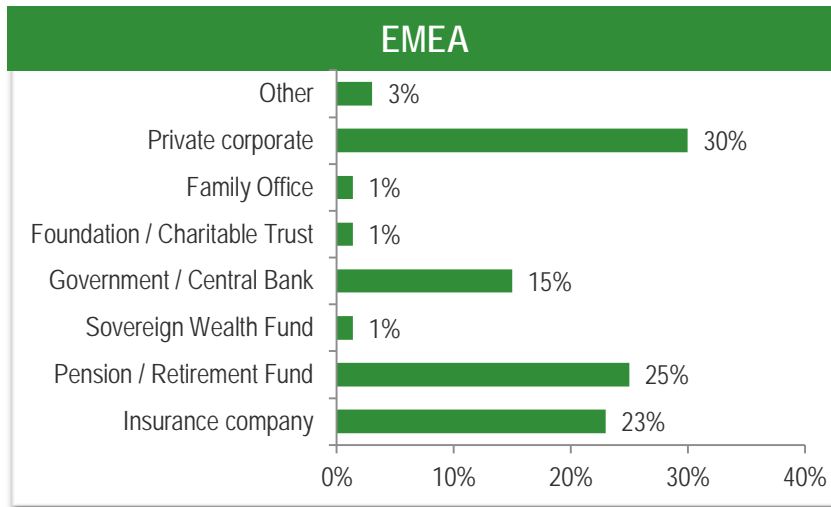
Interview profile (Region)



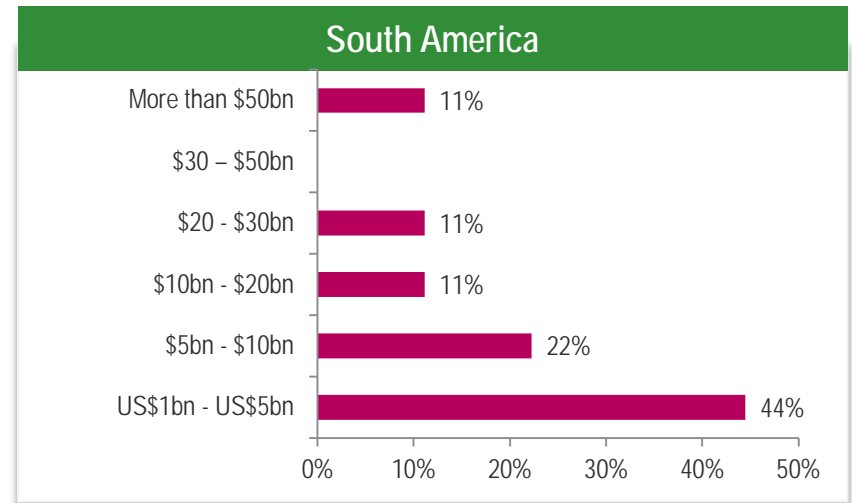
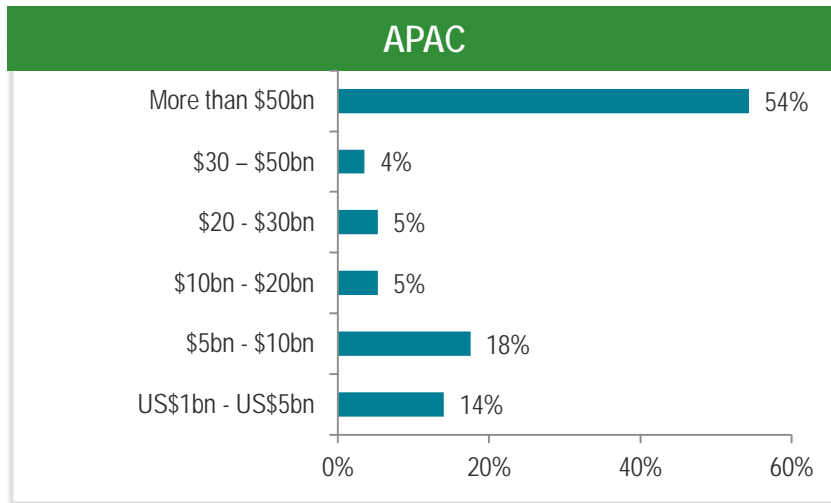
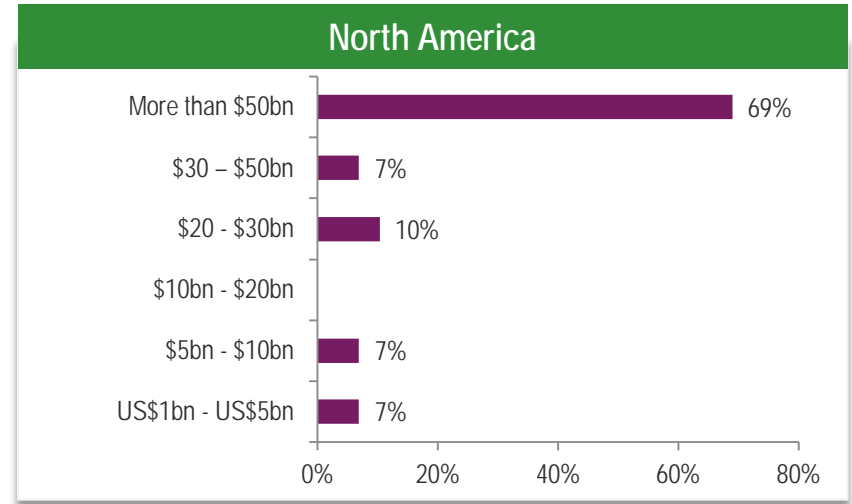
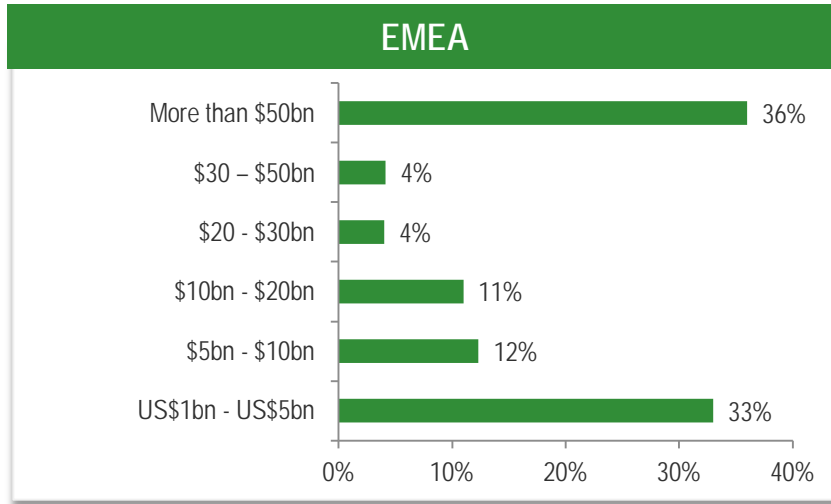
Total AUM



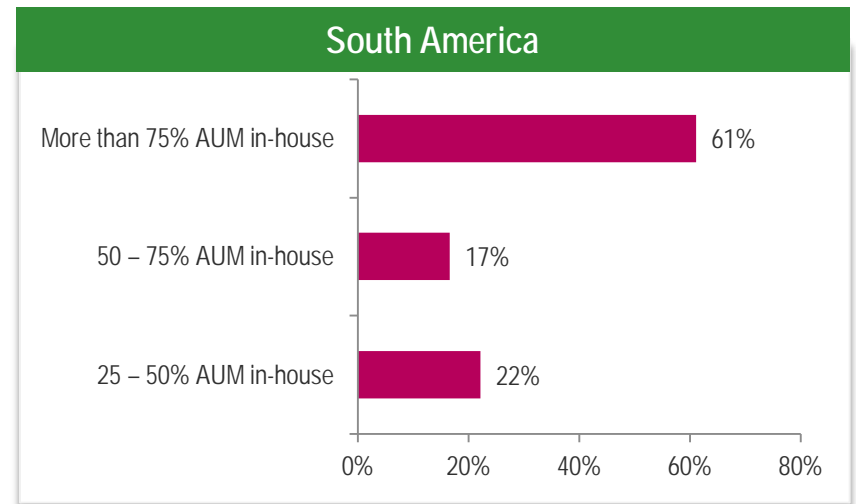
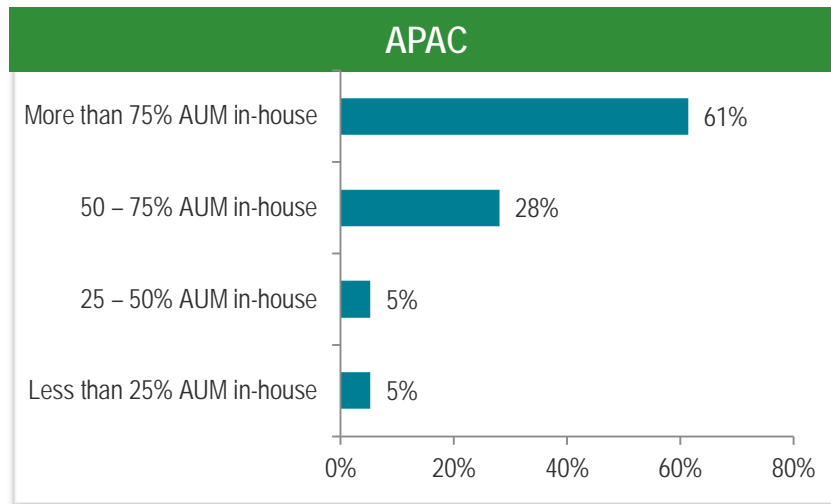
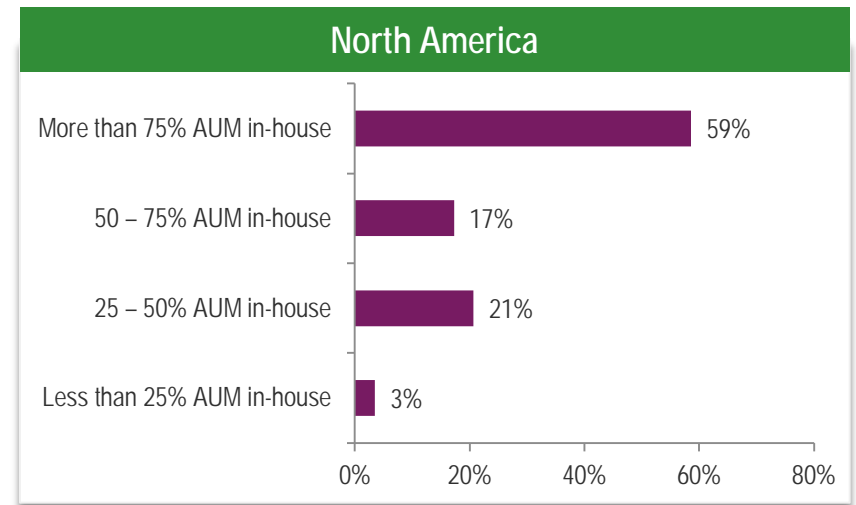
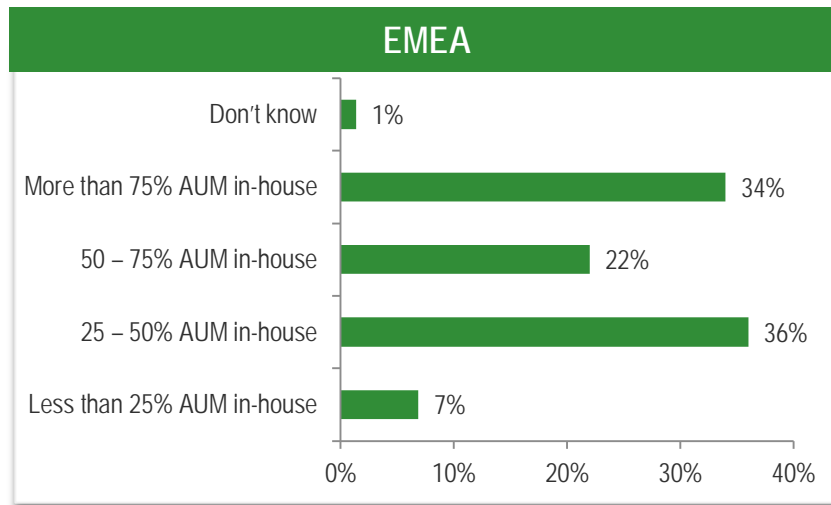
Type of institution



AUM



AUM managed in-house



Agenda

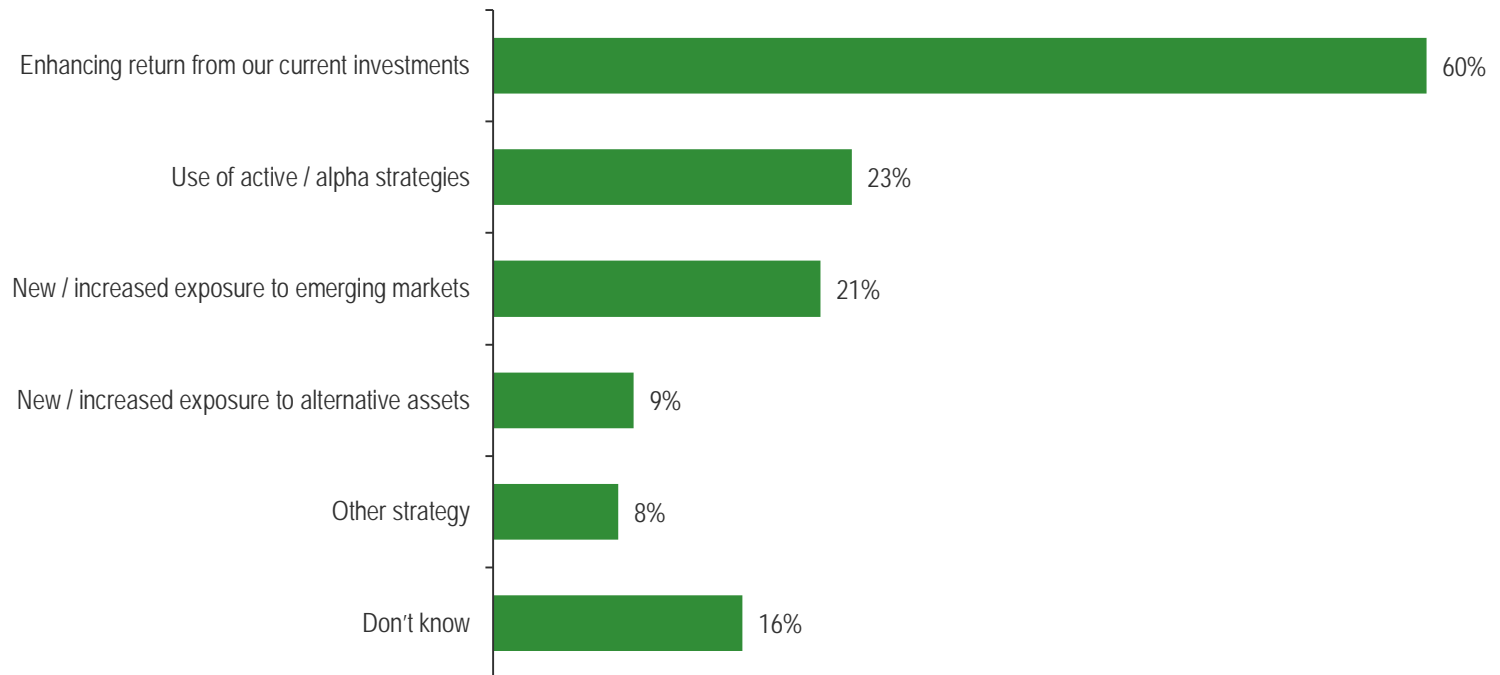
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How are asset owners addressing a low yield environment?

By far the most common method of addressing a low yield environment is through enhancing return from current investments.

How are you addressing a continuing low yield environment?



Base: All asset owners (177)



Addressing a continual low yield environment

EMEA



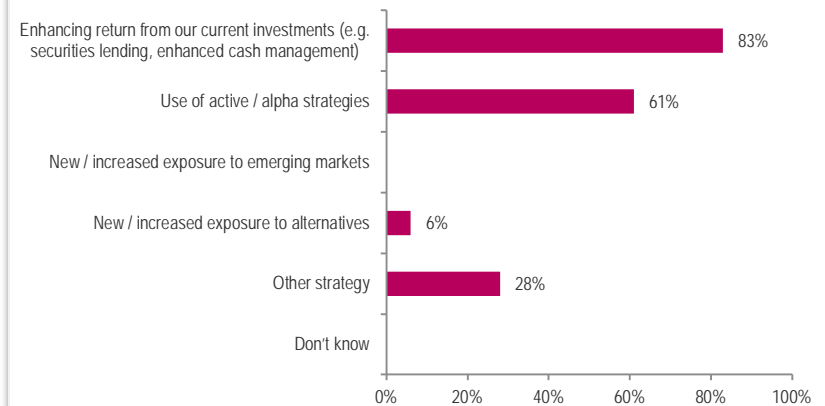
North America



APAC



South America



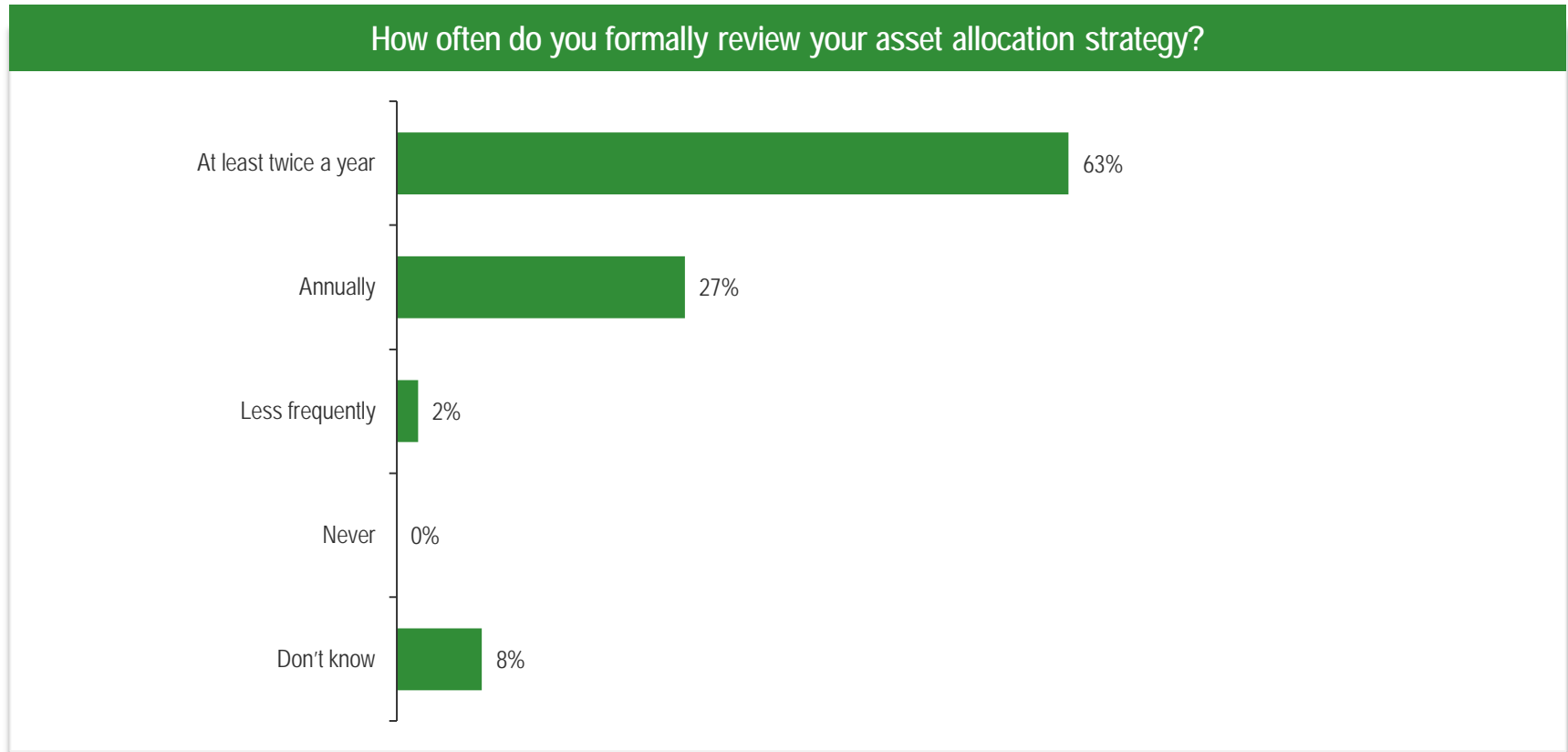
Quotes on how asset owners will meet these challenges

- *We coordinate and track analysis of all our assets and liabilities and run scenario testing*
- *Our risk management practice increasingly enables us to make that transition from investing in domestic market entities to global markets*
- *I think self-auditing is essential*
- *We are **developing diagnostic tools to help us assess our organisation's readiness to successfully integrate new technology***
- *We're looking for alternative information sources in order to validate our own risk forecasts. We're also applying far more conservative investment policies than before.*
- *We're **investing in liquid assets to meet more immediate benefit payments**. We're also evaluating all options around fixed income investing and opportunities that provide a good risk return trade-off.*
- *We'll **continue investing in government bonds. We think Eurobonds are too risky. Emerging markets and companies with good credit scores are more interesting.***



Frequency of formal asset allocation strategy reviews

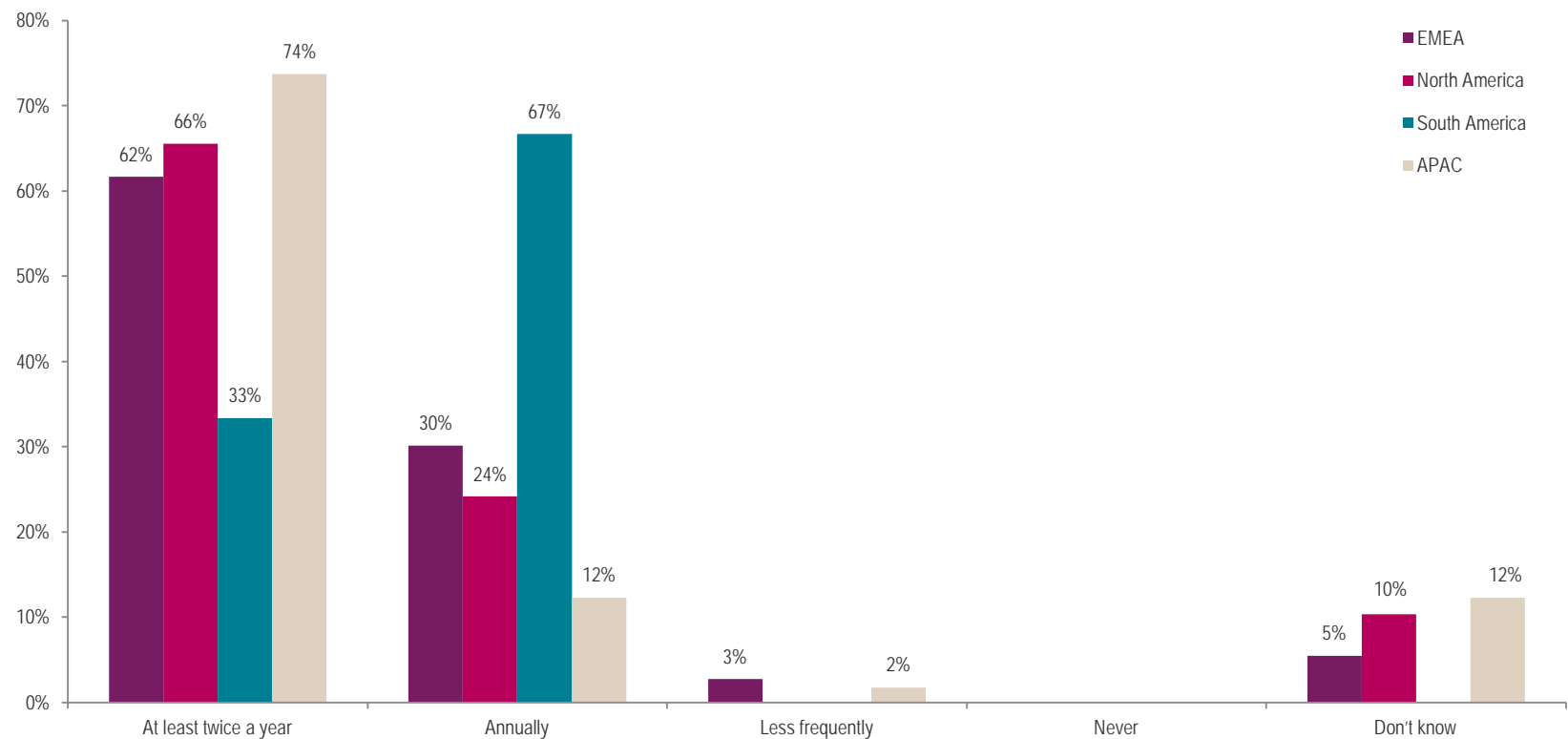
Three in five asset owners formally review their asset allocation strategy at least twice a year. Most of the remainder conduct such a review at least once a year.



Base: All asset owners (177)

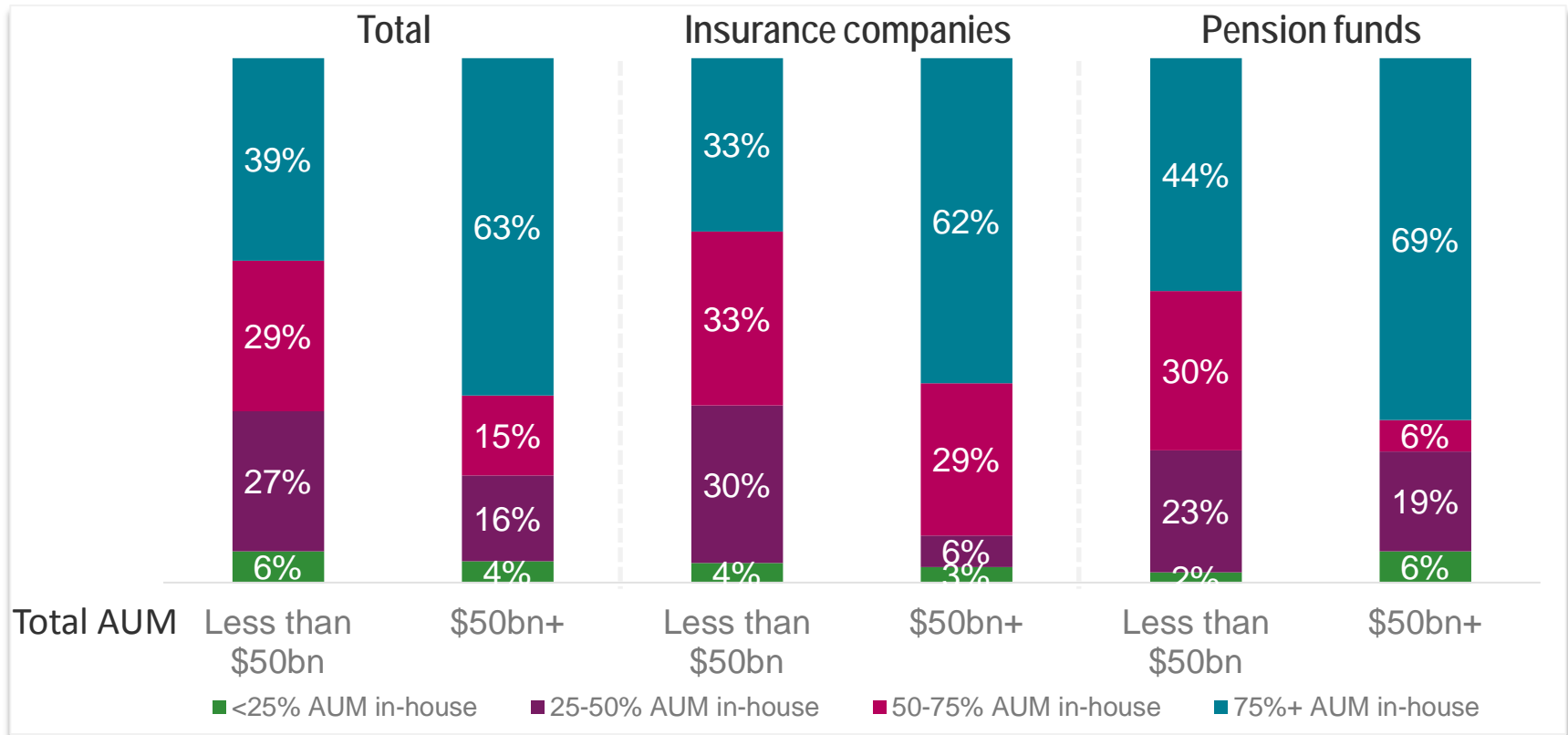


How often do you formally review your asset allocation strategy



Organisations with a higher amount of AUM are more likely to manage a greater proportion of it in-house

Amongst those companies with \$50bn+ AUM, more than three in five manage 75%+ of their assets in-house.



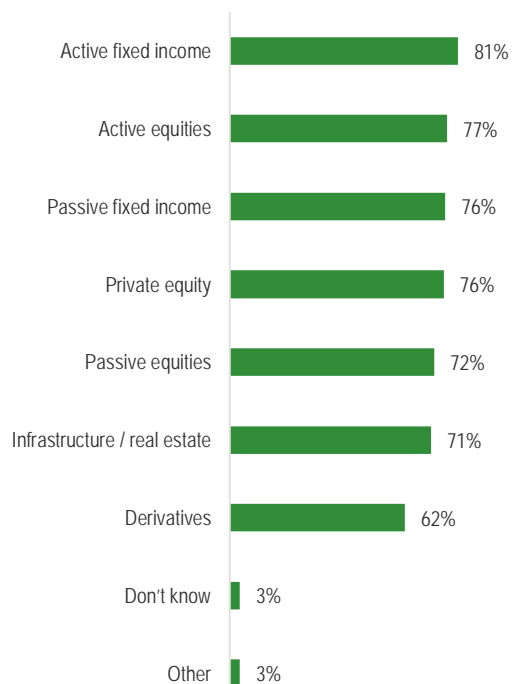
Base: All asset owners (177) / All insurance companies (61) / All pension funds (59)



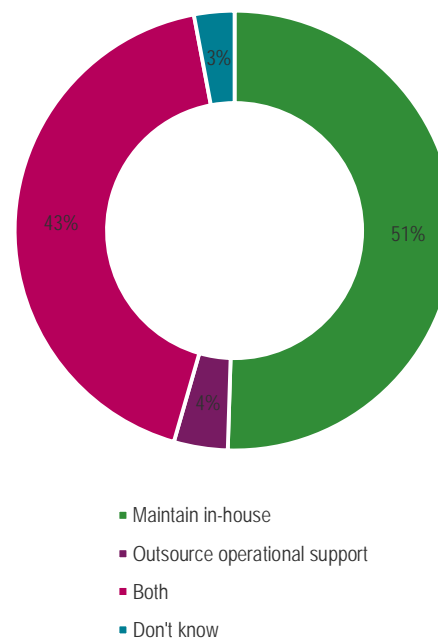
Which elements of investment management activities are managed and traded in-house?

Asset owners are most likely to manage and trade active fixed income, active equities, passive fixed income and private equity in-house (all mentioned by more than three quarters).

Which of the following parts of your investment management activities do you manage and trade in-house?



Do you maintain the operations for those activities in-house or do you outsource the operational support?

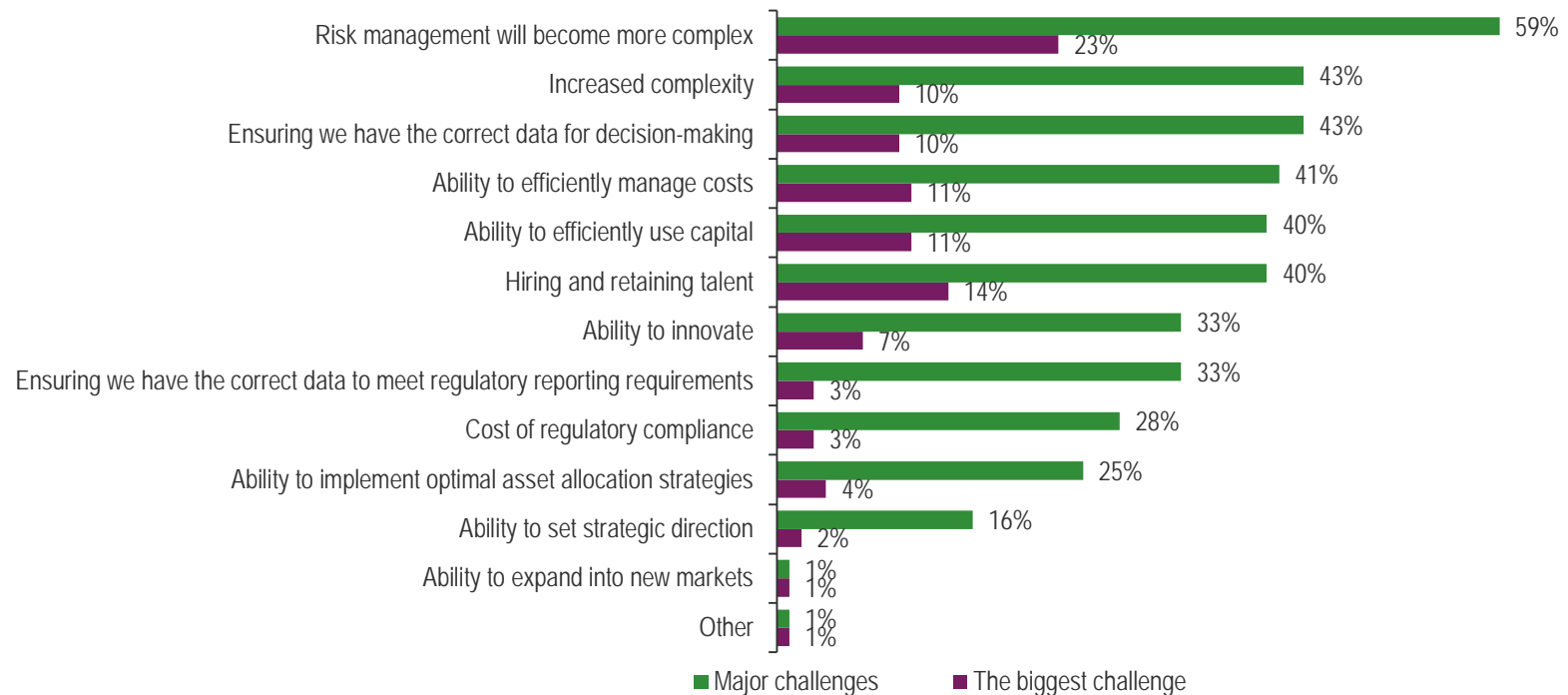


Base: All asset owners who manage AUM in-house (176) / All who manage and trade in-house (169)

Major challenges over the next 12 months

Around three in five asset owners think that risk management will become more complex in the next year and a quarter identify this as the biggest challenge impacting their organisation in that time.

Which of the following do you see as the major challenges for your organisation? And which has been recognised by your senior management /the Board as the biggest challenge impacting your organisation?

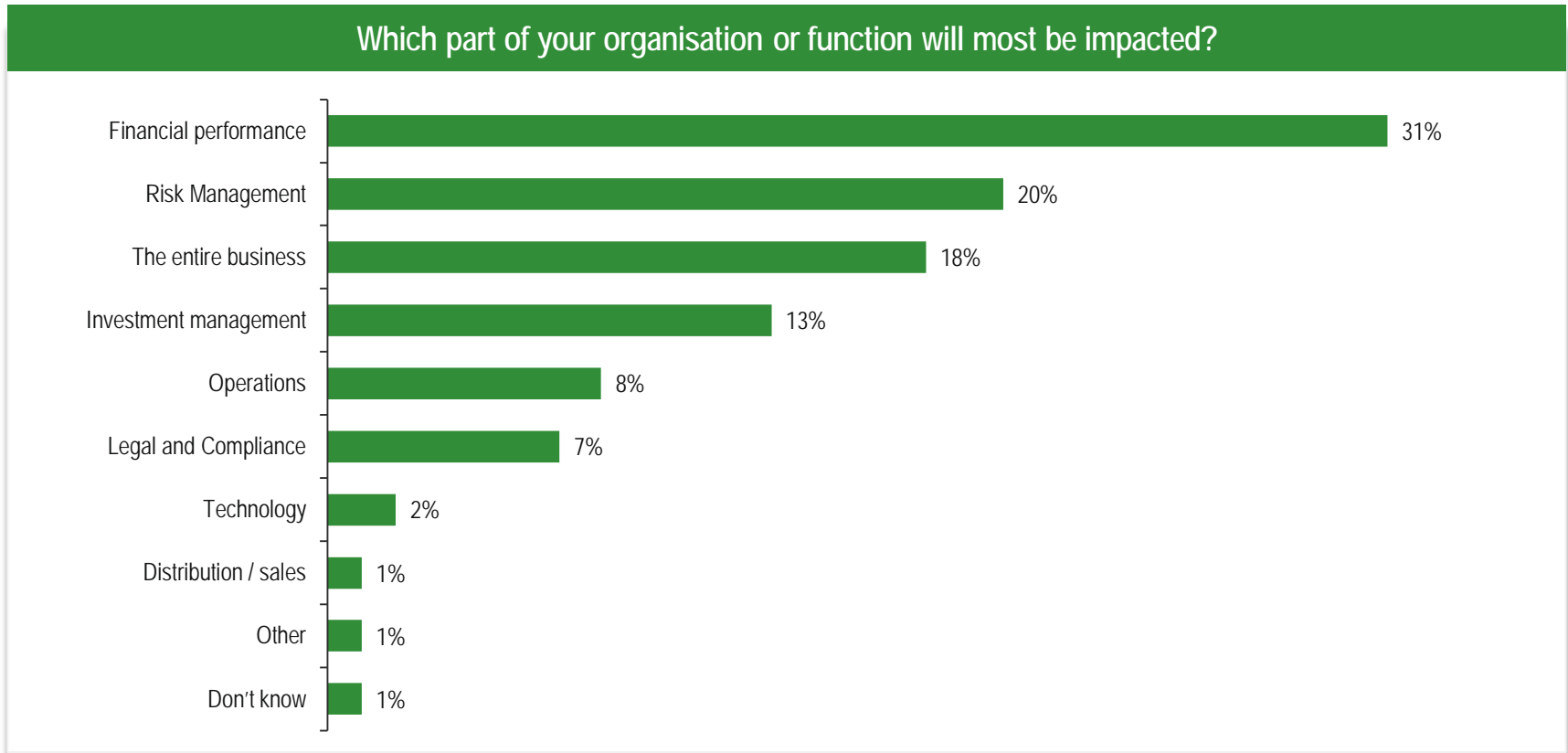


Base: All asset owners (177)



Which parts of the organisation will be most affected by major challenges over the next year?

While there is no consensus around which areas of the organisation will be most impacted by major challenges, asset owners were most likely to mention financial performance.



Base: All asset owners (177)



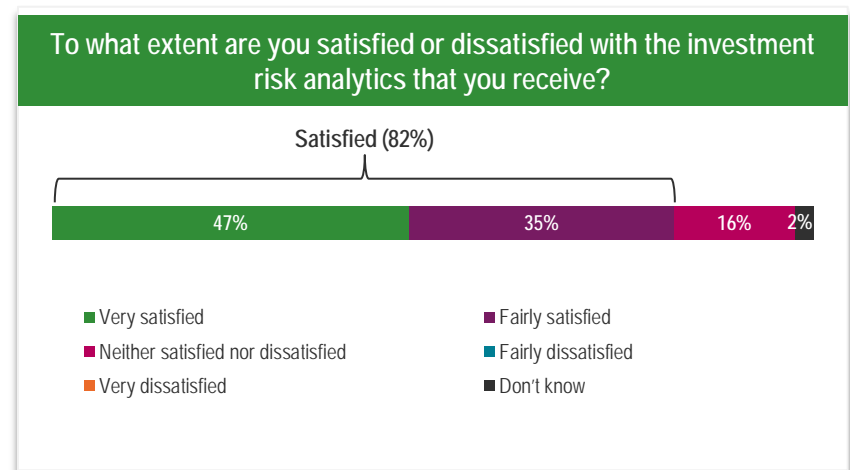
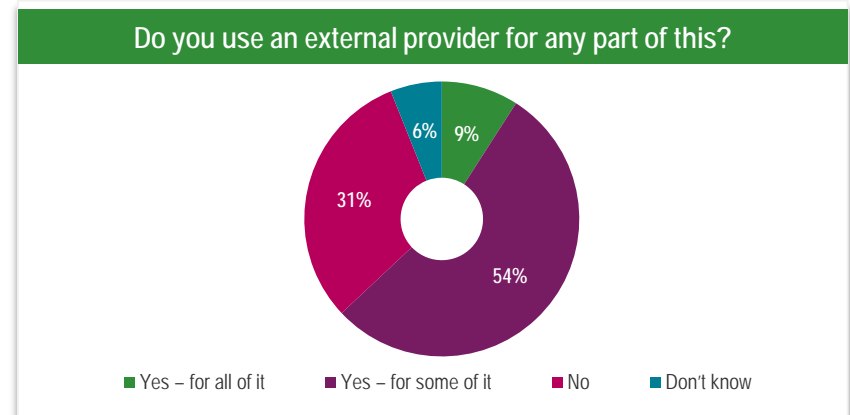
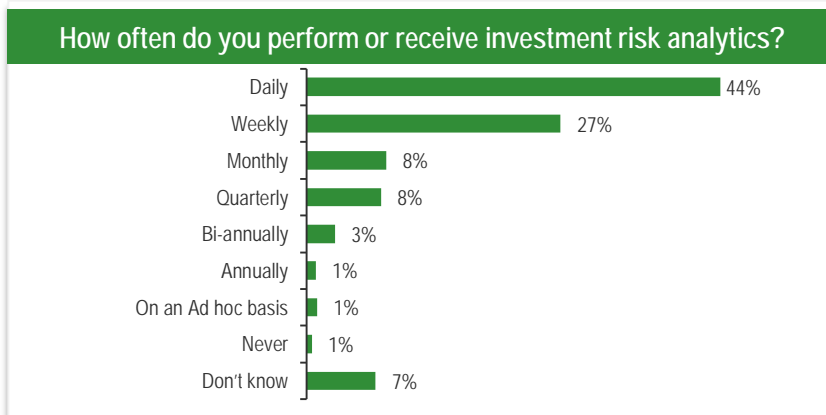
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Investment risk analytics

92% of asset owners perform or receive investment risk analytics. Liquidity risk, stress testing, value at risk and risk attribution are the top four techniques.



Q17 - Base: All asset owners (177); Q18/Q19/Q20 - Base: All asset owners performing or receiving investment risk analytics (163)



Reasons why satisfied with investment risk analytics

- *Because our investment risk analytics focus on our company as a whole ... this **holistic approach provides insights into different risk types** so that we can make informed strategic and business decisions*
- *We have a **dedicated team** who work very efficiently on risk reporting requirements ... their analyses are realistic and futuristic which helps us innovate according o our needs*
- *In our risk analytics we do from time to time include all of the previously mentioned options. Though **since we do it so often** we tend to only focus on the more important things for our business*

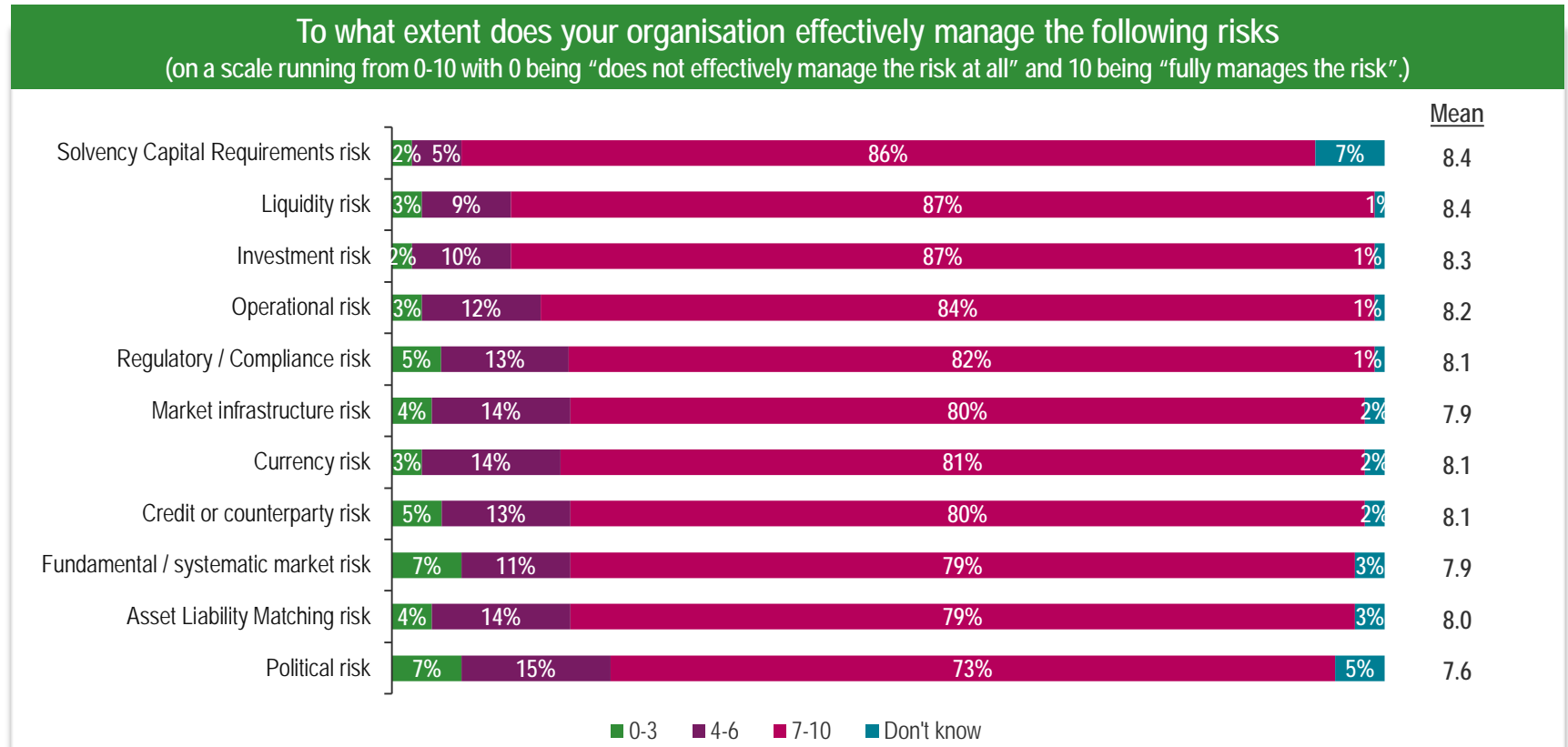


**Multiple comments about taking a holistic approach
and how the analytics supports innovation**



Effective management of risk?

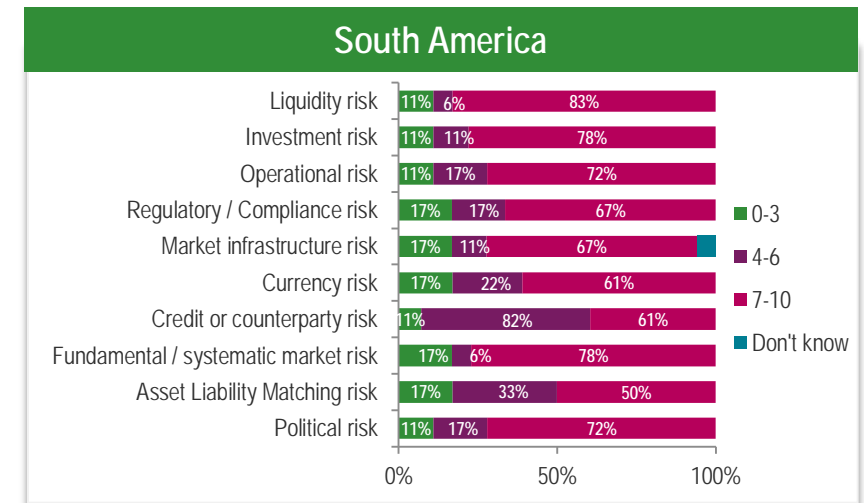
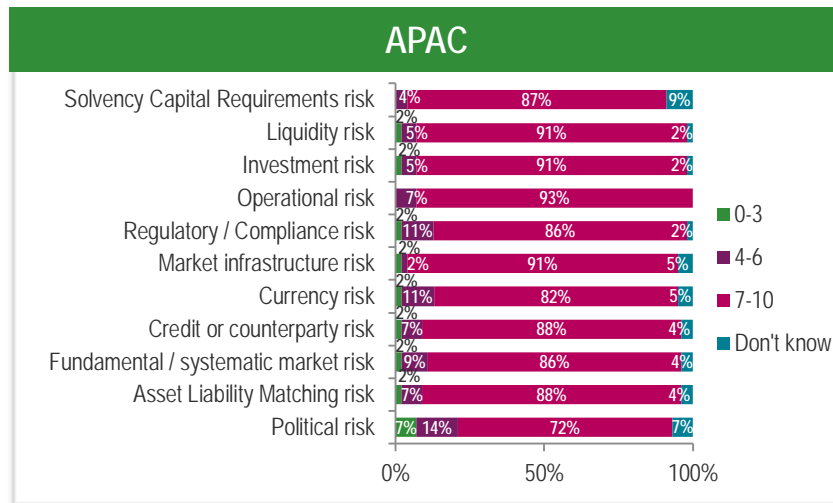
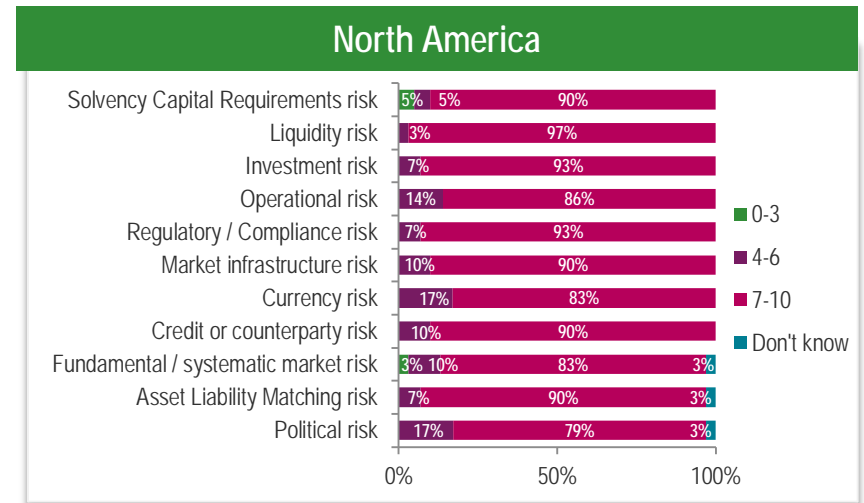
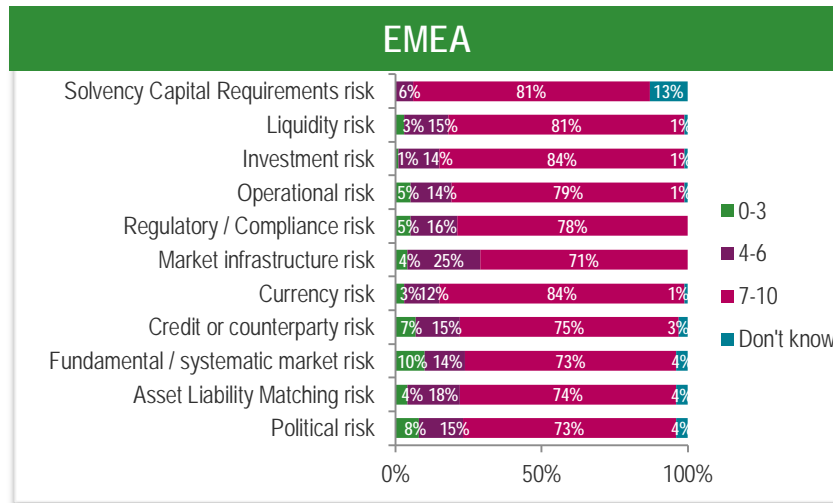
A majority of asset owners feel their organisation effectively manages each type of risk. Management of political risk is seen as the least well managed, but still scores relatively well.



Base: All asset owners (177), except for "Solvency" which was only asked of Insurance Companies (59)

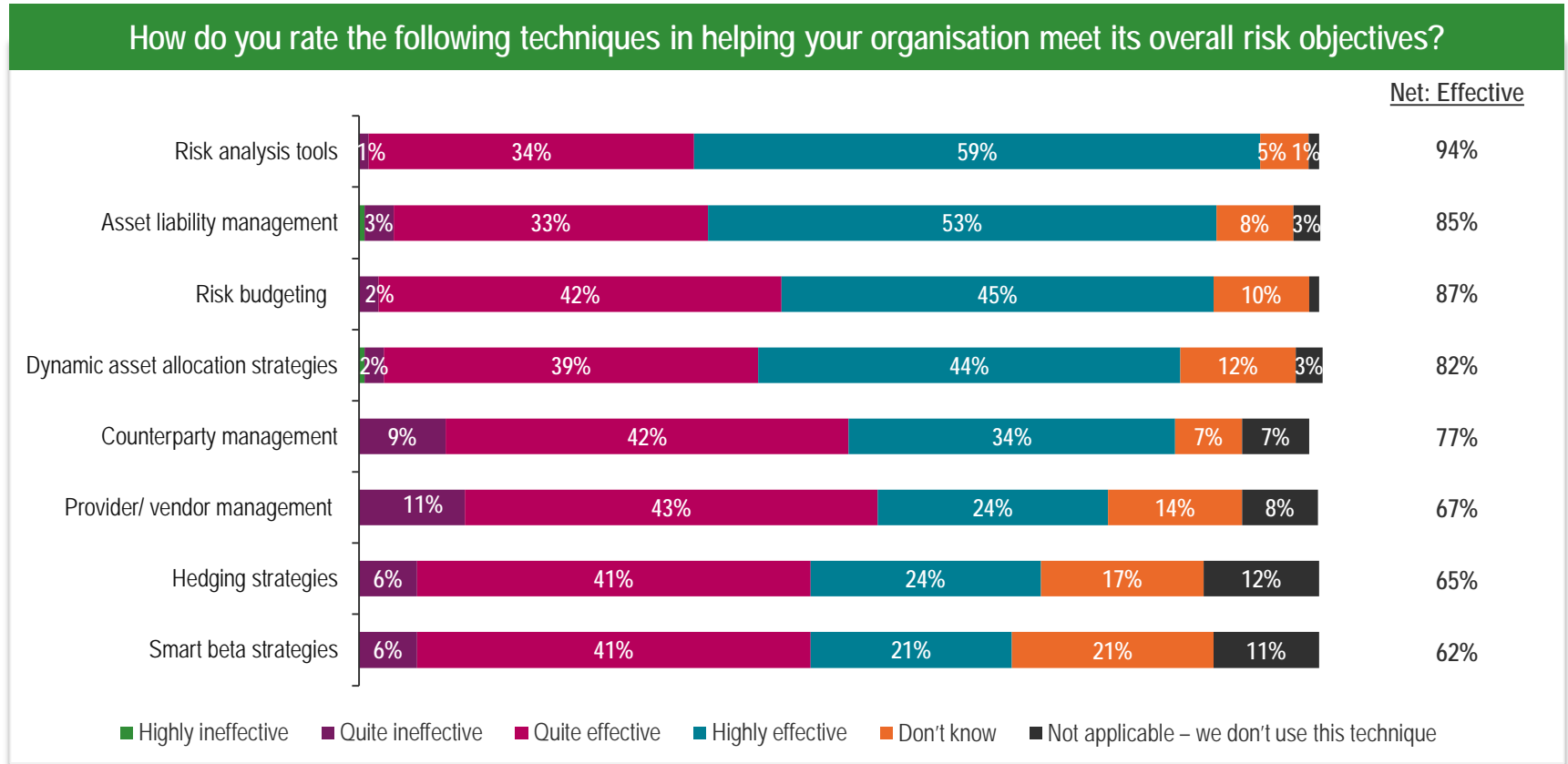


How well do you manage these risks? (0 lowest score)



Effectiveness of techniques to meet overall risk objectives

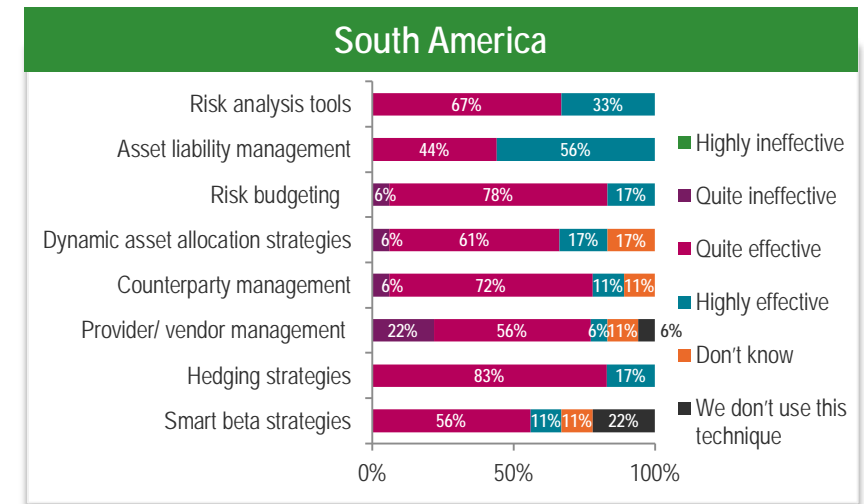
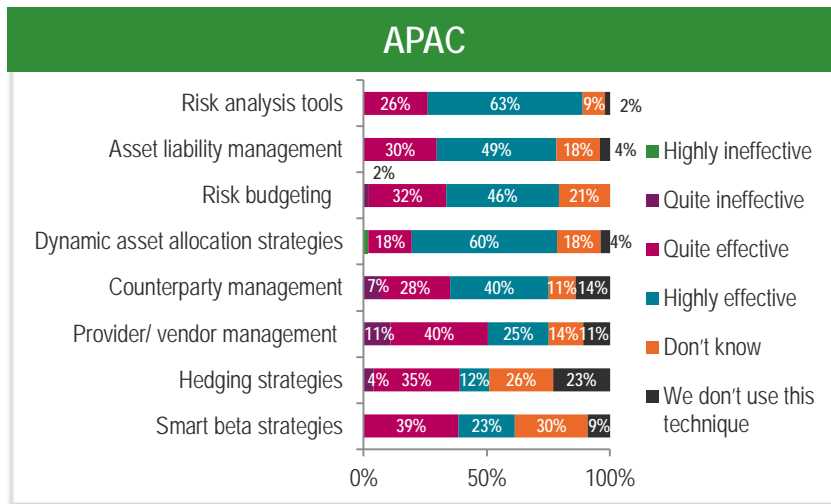
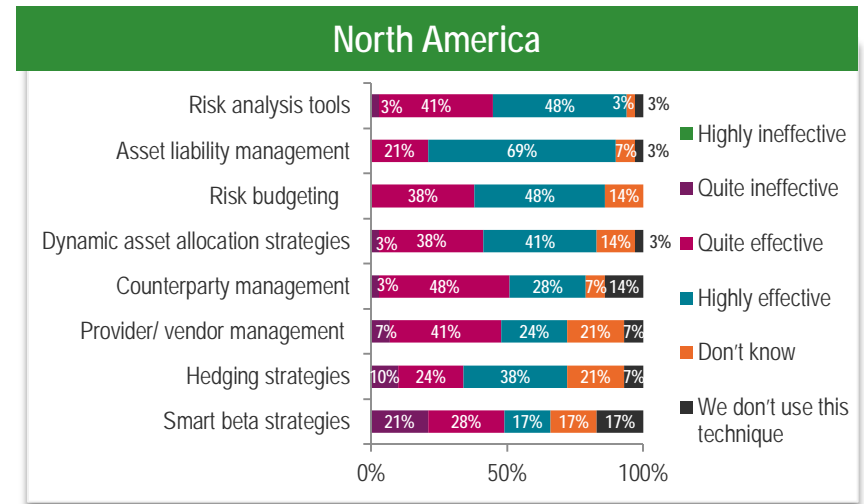
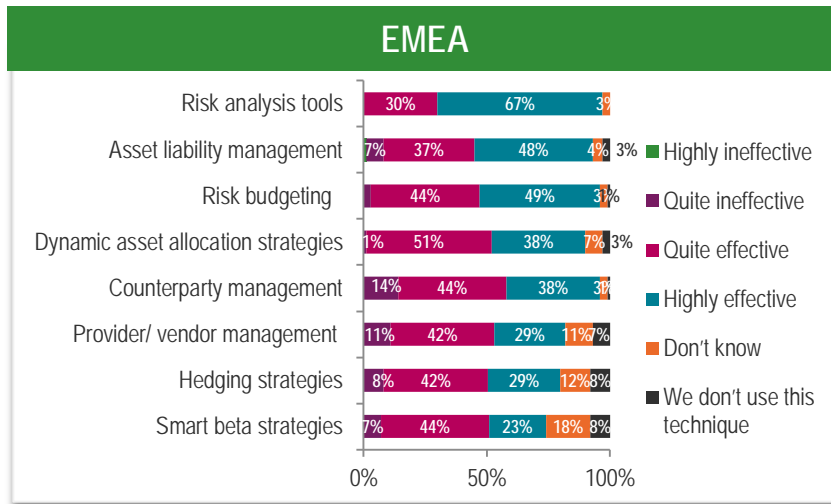
At least four in five asset owners rated Risk analysis tools, Asset Liability Management, Risk budgeting and Dynamic asset allocation strategies as effective techniques



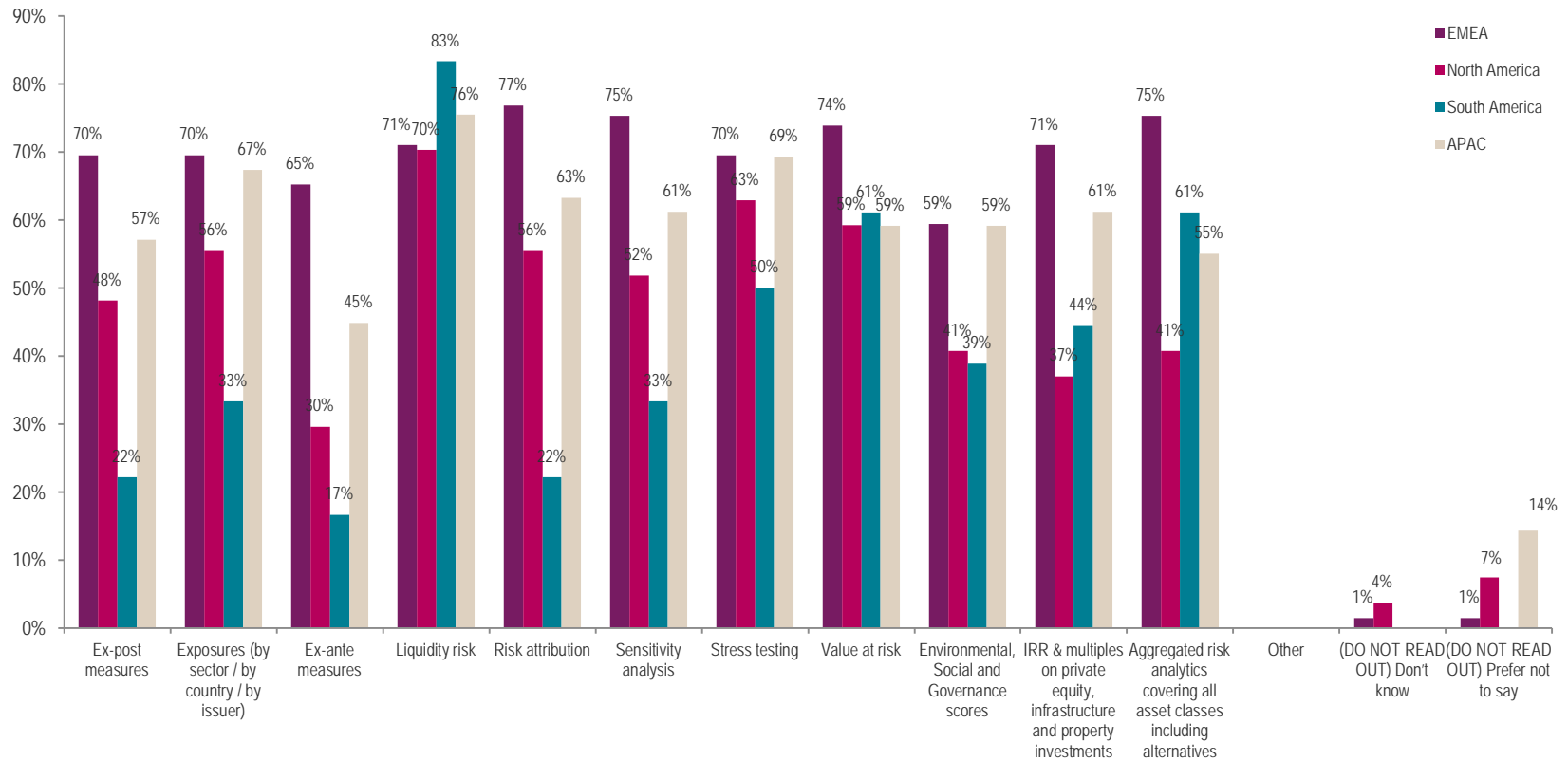
Base: All asset owners (177)



How do you rate the following



Regional split: What is currently included in your investment risk analytics?



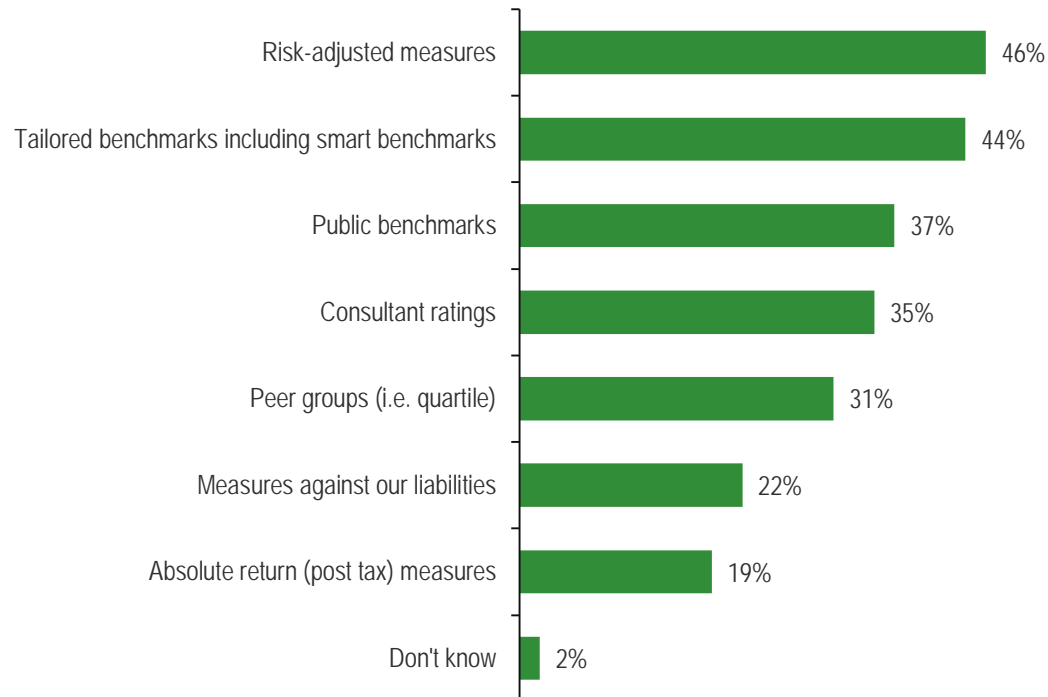
- Quite mixed results by region. Biggest discrepancy is with South America (note however types of institution profile differs by region)
- Liquidity risk scored highest overall for all regions



Use of performance measures

The most frequently used performance measures are Risk-adjusted measures, Tailored benchmarks and Public benchmarks.

Which three of the following performance measures do you use most frequently?

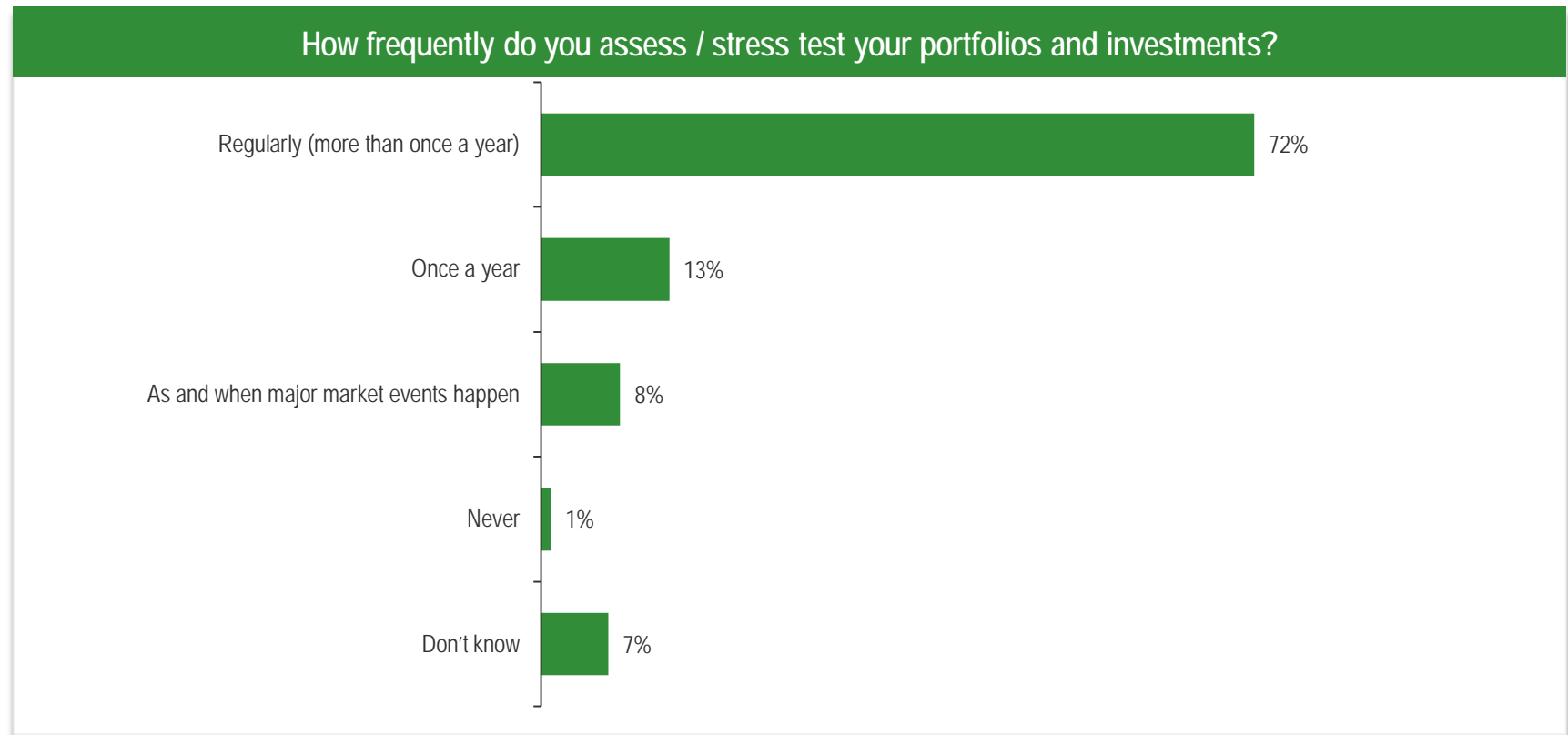


Base: All Risk managers and Operations managers (54)



Frequency of assessing/stress testing portfolios & investments

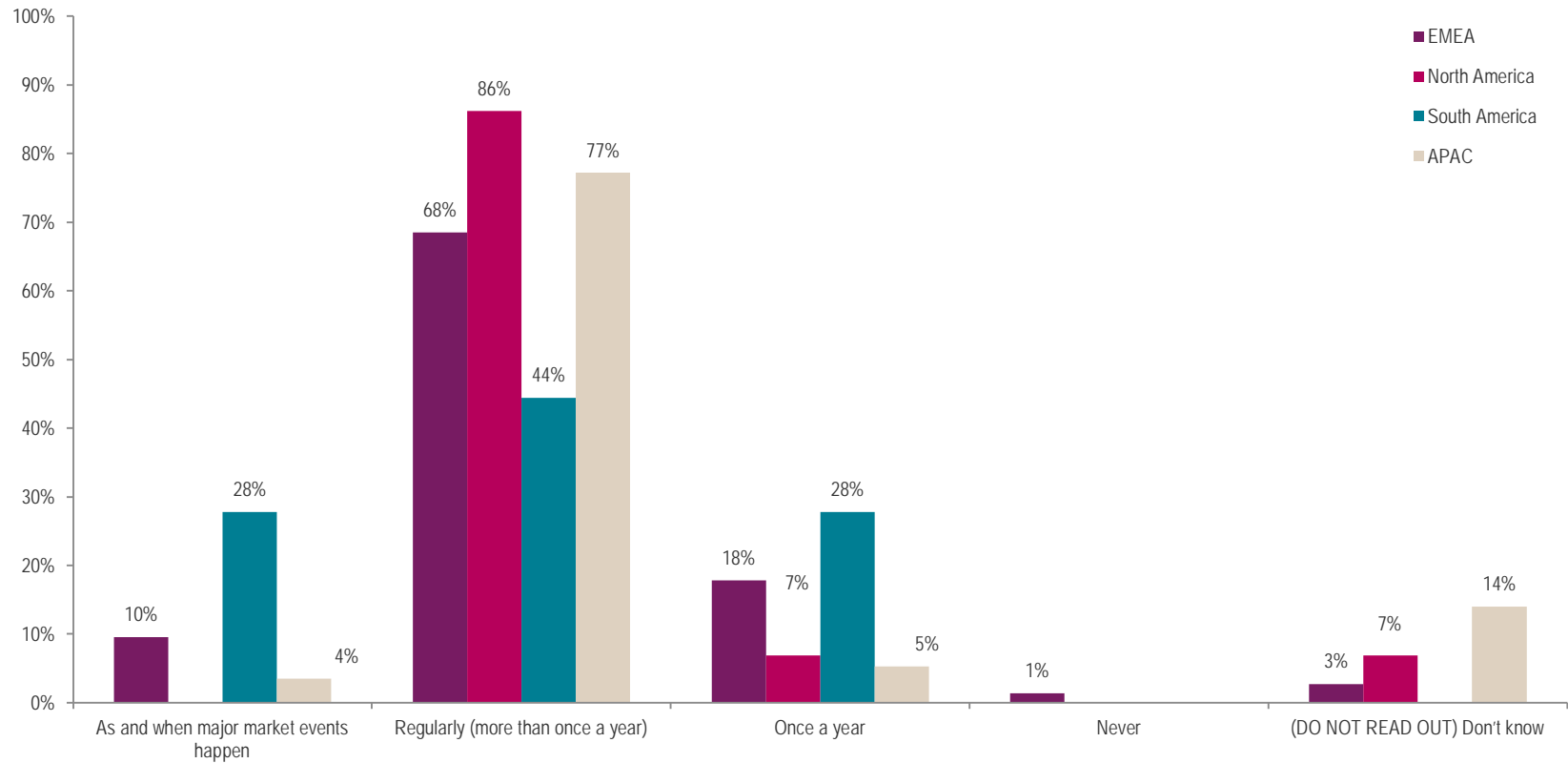
The vast majority of asset owners assess their portfolios and investments more than once a year. Around one in ten do this annually, while a similar proportion take a more ad-hoc approach.



Base: All asset owners (177)

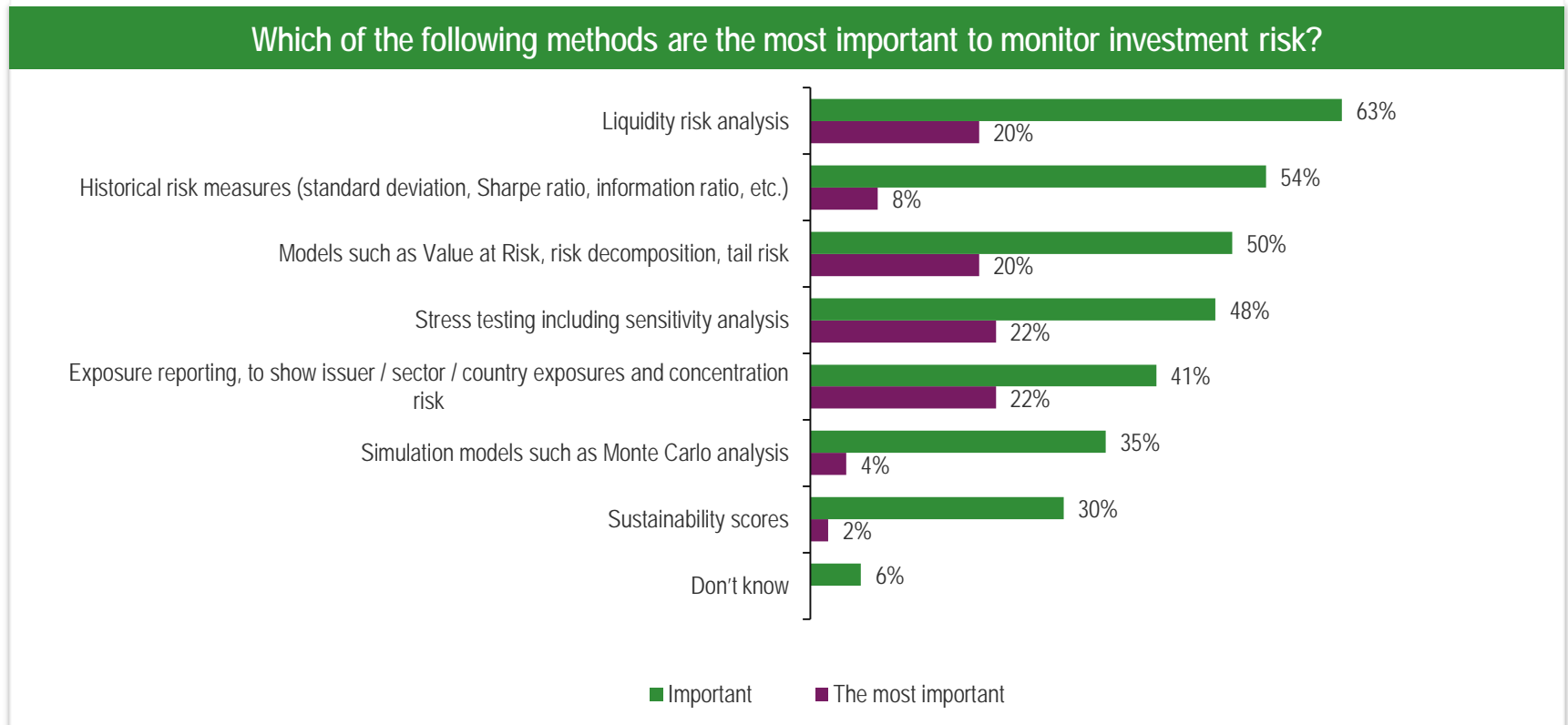


How frequently do you assess / stress test your portfolio?



Most important methods for monitoring investment risk

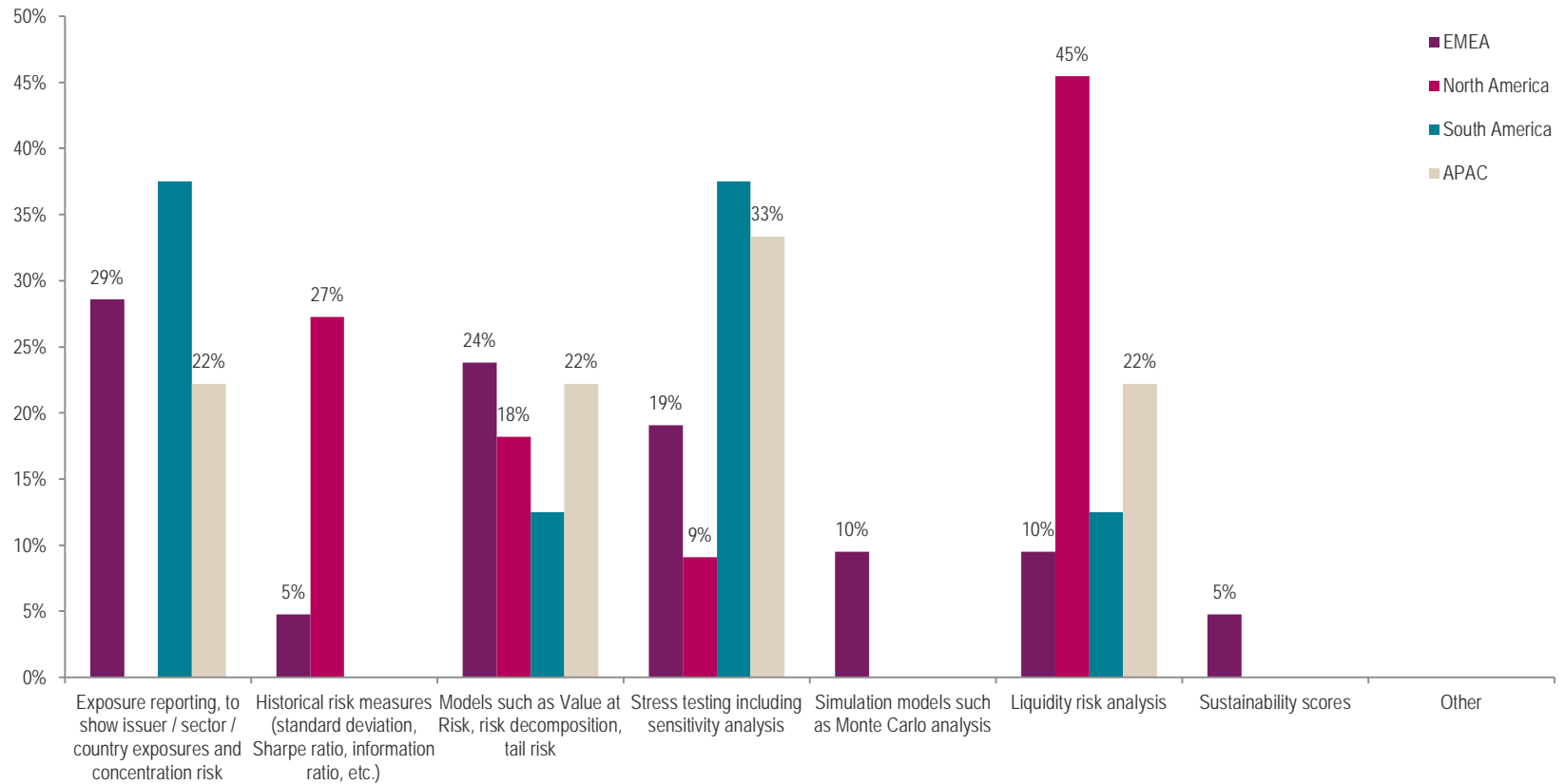
While there is no consensus around one clear method of monitoring investment risk one in five asset owners report **Stress testing, Exposure reporting, Liquidity risk analysis** and models such as values at risk as the most important methods.



Base: All Risk managers and Operations managers (54)



And which is THE most important method for monitoring investment risk?



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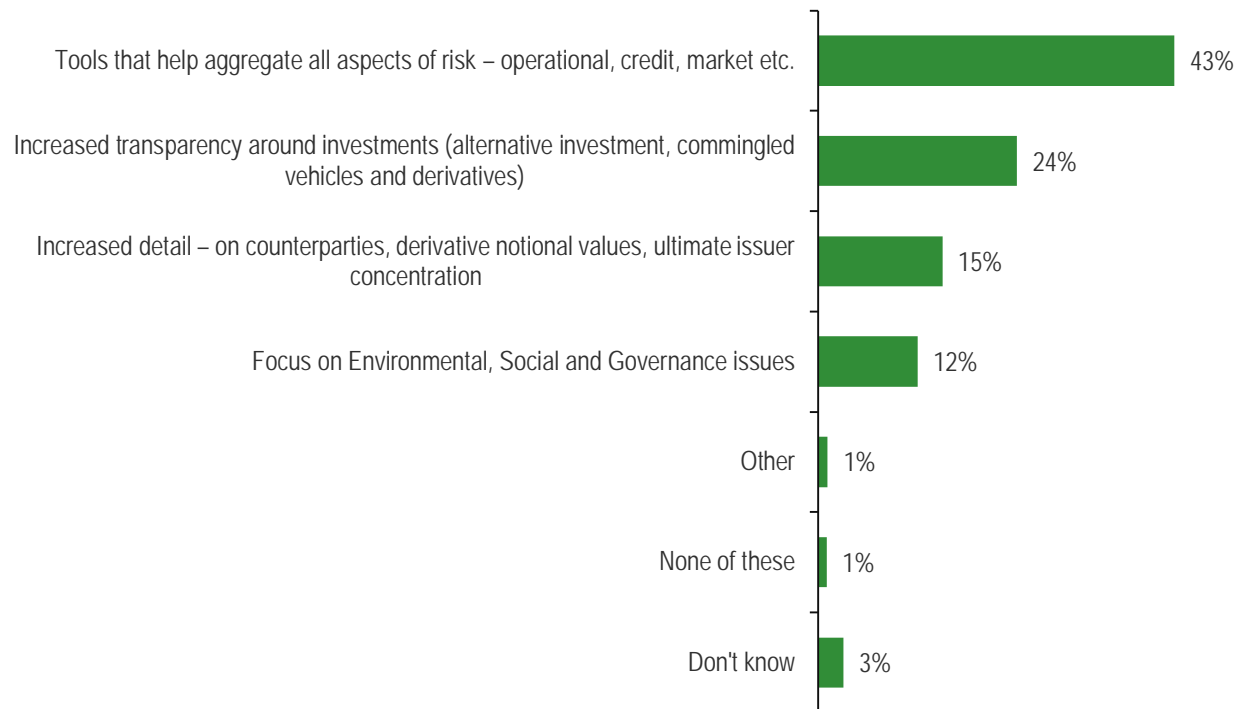
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Looking ahead: the next phase of risk management

Around two in five asset owners anticipate that the next phase of risk management will be tools that help aggregate all aspects of risk.

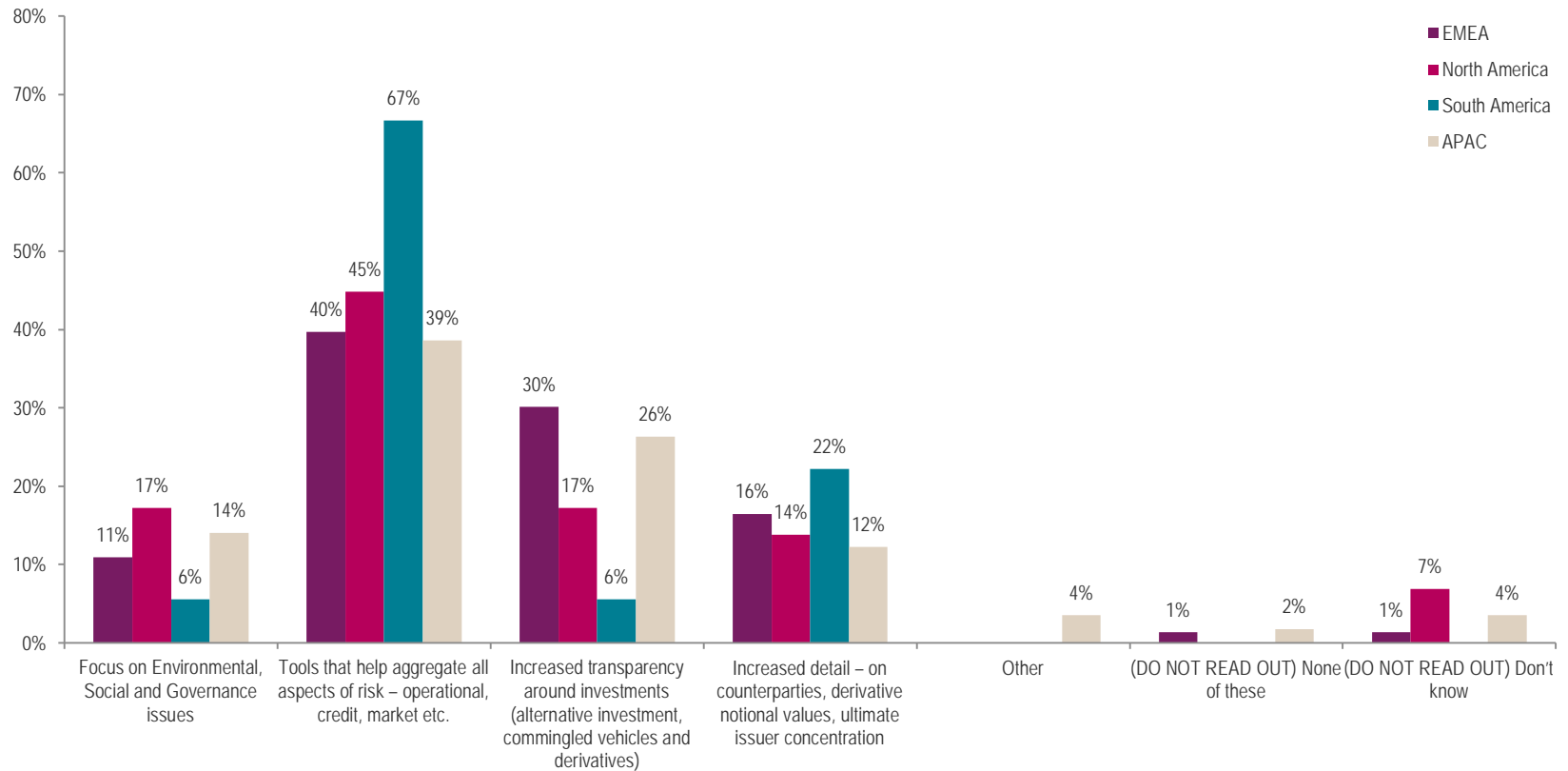
In your opinion, which of the following, if any, will be the next phase of risk management?



Base: All asset owners (177)



What is the next phase of risk management?



BNP Paribas – Global Risk Survey

Survey of asset owners, February 2015



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