

BUSINESS

Russian IT Firms Turn to Financial Market for Clients

By Yekaterina Dranitsyna
Staff Writer

Just a few years ago the very idea of Russia-based software engineers developing integrated systems for international investment funds seemed unbelievable.

Conservative fund managers did not trust outsourcing IT solutions for their business to offshore firms, feeling they had little competence in the financial field.

Alexei Miller, Executive Vice President at St. Petersburg-based DataArt, says that thinking has changed. Financiers in London and New York have turned to Russian software developers as outfits that can deliver tailor-made programs to manage complex money flows.

For hedge funds—financial instruments that often combine several billion dollars of assets—IT software can allow the total management workload to be carried by about 25 staff, thus reducing the company's overheads. "[The calculation] forces hedge fund managing firms to use technology in order to reduce expenses," Miller said.

DataArt was one of the industry pioneers in developing software for western clients, but the first contract from the financial sector—from a New York based investment fund with \$2 billion in assets—came in only about three years ago. Since then, the hedge fund has ordered software development services to the cost of more than \$3 million.

Among other clients, DataArt counts a top five U.K. bank, several American and British investment funds and banks, and most recently a New York technology firm that signed up for a \$1 million order: a set of programs to manage standard hedge funds.

Within three years, DataArt has picked up half a dozen regular hedge fund clients. Nearly half the company's staff is now engaged in developing financial projects that account for 30 percent to 50 percent of total profits, Miller said.

"We reached a point when we had to define further strategy. And we chose an expertise-based outsourcing strategy," Eugene Goland, president of DataArt, said in an interview at the firm's office.

Miller added that "in finance the customer won't deal with someone who doesn't know his business in detail."

Narrow focus—Wide rewards

Each of the roughly 9,000 hedge funds operating across the globe spends up to \$500,000 on securities trading support systems annually. "In specific narrow markets the cost of even standard software is rather high," Miller said.

What most financiers look for is advanced "bespoke software," which in Western countries costs up to \$1 million. Benefiting from Russia's cheaper staff costs, DataArt competes by developing "affordable bespoke" software solutions for broader range of clients, Miller said. About 80 percent of the firm's clients are U.S. firms, the rest coming from Europe, but not Russia.

"The problem with hedge funds is that standard software rarely fits their needs completely. They have a broader set of strategies than other financial institutions and demand more sophisticated trading tools," Artyom Artemyev, the head of the financial engineering division, said in an interview.

The St. Petersburg company's range of services includes software development for accounting, portfolio and security management, investment data collection and analysis, and investor relation management. DataArt's custom software solutions unite several trading programs that are integrated with MS Office, Reuters and Bloomberg terminals.

Jari Petri Angesleva, who took part in the International Finance Corporation's information and computer technology project, said that Russian firms like DataArt have every chance of winning the confidence of global financial firms.

"Financial software has made its breakthrough years ago and the future surely looks sunny. If we take out of the equation the large global players like SAP, Oracle and Siebel, there is a lot of room for smaller firms that can do different levels of integration," Angesleva said in a telephone interview.

"Most of financial firms use several systems and this creates a nice playground for tailor-made solutions to existing systems. This is definitely an area Russian software companies can enter," he said.

Quite noticeably, DataArt does not work with domestic clients, a factor that drags back the development of this sector of the software business. Working with Russian clients demands "other ideas and investment strategies" that may not be as lucrative, said Andrei Fyodorov, director of St. Petersburg-based software development company Digital Design.

On the Russian market software designers have to sell business solutions, whereas "offshore software outsourcing is based on the difference between wages in developed and developing countries," Fyodorov said. "DataArt's geographical focus makes for a very logical market strategy."

Fyodorov warned, however, that outsourcing contracts for financial institutions may not prove to be a stable business direction, being closely tied to the economic situation.

For the moment, DataArt says it has found a good middle ground—less expensive than Western firms and more competent than Eastern competitors. In 2004, the company announced 100 percent growth in revenue—over \$4 million.