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BNY Mellon Highlights Investment Risk Process

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As risk management strategies rise in importance alongside portfolio construction, managers must navigate a plethora of challenges to stay ahead of the curve. While managers can assess risk through statistical models and use technology to make those analytics easier, those models are only as good as the data that goes into them, and often struggle to account for unforeseen events. Furthermore, to ensure the accuracy of their assessments, a manager must take care to understand the various intricacies of the risk they are measuring and the systems they are using to do the measurement.

First, managers are tasked with properly accounting for the layers of risk. More organizations are dedicating teams to the study of macroeconomic and microeconomic risk assessments, which could sharpen market views and predict potential downside events, says **Jack Malvey**, chief global markets strategist at **BNY Mellon**. Doing a "strong job" in risk management requires a combination of approaches at fundamental and quantitative levels, he says. The issue, however, with these unforeseen events is that they are nearly impossible to predict until the catastrophe shows, says Malvey.

To mitigate such risk that could adversely impact clients' portfolio performance, Malvey says the firm continues to subscribe to "new and better" risk models. BNY Mellon's risk process is "conservative, strenuous and rigorous," combining many different data streams with information gleaned from various discussions with the risk team, he says.

The questions are often focused on particular situations or black swan events, he says. For instance, this includes, what would happen "if the Euro blows up," what bitcoins mean for the industry, flash crashes, the state of Ukraine and anything that could present a risk whether geopolitical or in compliance, says Malvey.

To uncover the potential impacts of these hypothetical risks on a portfolio, managers turn to their risk models. And this is where the importance of adequately defining risk as the first step falls into place. Though technology has improved to provide managers with more effective and timely risk analytics, the results it provides are only as good as the data managers put into their models. Positioning inaccurate data into the model can skew the risk assessment, technology experts say.

Sometimes a risk model looks off, and it becomes apparent if someone does not understand "what the issue is in the markets," says Malvey.

A good risk picture that accurately accounts for risk exposures require managers to concentrate on incorporating more real-time data into their models, says **David Quinlan**, co-president at **Eze Software Group**, an asset management technology firm. Historically, there had been a post-trade mentality to risk where managers were less concerned about the real-time data, often waiting till the next day to add in new data to risk metrics, he says.

But now managers are seeking more timely updates and technology risk systems that meet these needs in order to create a "much more interactive" way of managing risk, he says.

Along those lines, it further demonstrates the need for managers to choose their data effectively and understanding that simply having the right technological tools is not enough, experts say.

“When you look back in history, there was a lot of risk starting folks in the face. Bubbles were brewing all over the place,” Malvey says. The difference now is that managers are offered more opportunities to track errors and with more information on risk, they can make better decisions, he says.