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Case Study: Fortis Global Markets Risk Monitoring Dashboard

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Distributors would love to convince investors to acquire even larger pieces of yet more exciting structured products. Is there a way? Fortis Global Markets believes there is.

Fasten Your Seatbelts

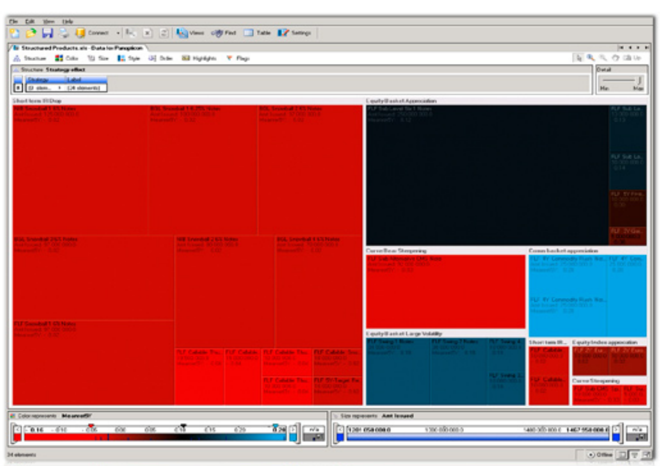
An often-ignored consequence of the sub-prime credit liquidity crisis may be a pronounced curve steepening at the long end irrespective of the Fed cutting short-term interest rates. Furthermore with most of the commodity markets now in contango (where the futures price is above the expected future spot price), distributors may be excused for feeling nervous about the performance of various structured products sold to an increasingly sophisticated retail public.

In order to compare different products in terms of risk, Fortis Global Markets risk-grades them along four criteria:

- Sensitivity of the payout to various composite macro factors
- Level of expected payout within one (or more) year(s)
- Stability of the payout
- Probability of an early termination

Once risk-graded, each structured product, would be comparable whereby the total grade determines the product's risk profile. Clearly, the first criterion is paramount since it determines the outcomes of the other criteria.

Scenarios could be based on base case forecasts by the distributors' (or even competitors') strategists or could be generated using the Monte Carlo simulation (BGM for rate products). The latter approach is only worthwhile when using multiple correlation matrices and risk/return measures since correlation patterns are unstable over time.



For each given strategy and scenario, colors depict actual MtM performance; block sizes correspond to amounts outstanding. The more uniform the color distribution, the higher products are "correlated". The treemap toolkit clearly visualizes sensitivities of each product whereby drilldown analysis can be performed. Underlying scenarios can be provided by any party; in this sense, the Fortis Global Markets approach is really neutral. At the end of the day, clients always know best.

Simulate Risk, Return and Volatility

Having defined the scenarios in terms of return and volatility as well as correlation, the simulation procedure can be applied for each scenario. For example, the output allows users to measure the sensitivity of MtM at a desired confidence level. Instead of the value-at-risk, CVaR can be applied. Furthermore, the MtM associated to each scenario allows for the computation of its expected value and its volatility.

As it is common for a distributor to place a structure anticipating a Trichet slashing interest rates as well as a structure expecting a bear steepening, respectively flattening, a portfolio approach to risk-graded structured products may be warranted.

Helps Distributors Avoid Concentration of Risk

Fortis Global Markets developed their Risk Management Dashboard using Panopticon Explorer. It helps distributors build their product range while simultaneously avoiding risk concentration in the portfolios of retail clients. The tool is quite powerful in that both structured notes as well as fix funds can be covered and various risks can be associated with the instruments in the funds.

See and Understand Quickly

The Dashboard lets users see and understand the following information at a glance:

- Risk factors, such as product MtM at risk, actual MtM, product payouts and associated volumes
- Descriptive data, such as coupon type, maturity, call feature, primary (secondary) market volume and price
- Type of strategy pursued at launch (exploiting low implied volatility, playing the steepening, and so on)

More Information

For more information about the Fortis Risk Management Dashboard, contact:

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