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## Credit Risk Systems: We Got Ourselves a Horserace

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### The Face of Credit Risk Management Solutions has Changed This Year.

Sort of. The two major systems providers were each acquired by a larger concern: ROME by Triple Point Technology and Financial Objects, which earlier acquired Raft, by Temenos. The two new competitors are in a battle for market share and both are looking at Europe as fertile ground, because it's a less mature market for credit risk systems than the US. Fortunately for both, current events in credit have shone a spotlight on the value of their offerings. What's at stake? Let's find out.

Triple Point Chief Marketing Officer Michael Schwartz would take issue with our initial assumption. "There *were* two major players in this market for credit risk systems," he says, "but if you look at the energy and commodities markets, there's now really only one. Temenos, formerly Financial Objects, is moving more toward a traditional market based on (Temenos') focus on software for the banking industry. Triple Point is focused on traditional commodity markets, and our credit risk system is also specifically focused on the energy and commodities markets."

The Triple Point acquisition is all good news for ROME in terms of expanding into the EU market. Triple Point's European sales, delivery and support have increased by 100 percent, and Schwartz says they've cross-trained an additional 50 people on the ROME system. "As part of a larger company, ROME has a very stable group to work with. Prior to the acquisition, ROME would use independent consultants, but now that they've moved to the Triple Point model, using our own employees and our system integrators, that risk is gone," Schwartz says. "From the development side, ROME's technology gets incorporated into Triple Point's 200-person development staff and has access to considerable resources."

Dan Reid, one of ROME's founders and now VP of credit risk solutions at Triple Point,

agrees. While the merger has meant some reduction of some duplicative administrative functions, all of the company's key players transitioned to Triple Point and ROME can take advantage of significant efficiencies of scale and leverage shared functions with its new parent firm. "We've now got a broader set of sales team members, we've broadened our target customer list and we've doubled our services group in Europe," he says. "At ROME, we could only do as many deals as our staff limitations allowed. Now we're able to leverage the rest of the (Triple Point) organization."

ROME is in a much better position post-acquisition, Reid says, and its European capability is better both from a services standpoint and a products standpoint.

What's more, the front page headlines show that the industry needs these products and services. Reid says recent events, especially the rapid fall of Constellation Energy, show that it no longer takes a rogue trader alone to bring down an energy company. "Energy companies no longer have the luxury of screwing up. Constellation made a back-page mention that it mis-projected a triple downgrade effect, and that was enough to get the ball rolling. That should resonate on trading floors around the industry, the thought that 'we could be next.' In credit risk management, there's tens of billions of dollars in trades being managed on spreadsheets throughout the industry." That means it's worth taking a call from a risk systems vendor next time the phone rings.

Financial Object will likewise benefit from being brought under the wing of a much larger, and in this case European-based, firm like Temenos. Financial Objects' Roland Jones, now of Temenos' energy division, says there will be opportunities to leverage the Temenos network, including its larger sales force and geographic reach. But he cautions that it's not a straightforward task to train a banking software sales force on a knowledge-intensive area like energy credit risk. What's more, he says, "actually it's been a better year for us in

Europe in terms of new clients than it has been in the US, and Germany in particular is very significant for us."

The two biggest utilities in Germany have already signed on to the Temenos/Financial Objects system and Jones says that large institutions there have really woken up to the idea of using a credit risk management system. "A number of state or regional utilities in Germany may be very good targets for the new ASP version of our system, relatively small retail power authorities who are principally concerned with buying and collateral management who this solution might suit."

Jones says that, big picture, it comes down to the fact that European energy markets were deregulated later than US markets. Their client base reflects that, with 60 percent in North America and 40 percent in the EU. All over Europe, company awareness of the need to establish credit risk platforms has been growing in the past couple of years, he says. "But I think the main impetus right now is that there are some real stories and some real defaults in the market. People are unable to predict, or react quickly when bad news emerges... These systems can actually save them."

"In some cases bitter experience is the only thing that can persuade them they need to spend money on this insurance policy type of solution," he says. The classic example is Calpine in the US, which went into bankruptcy protection just over a year ago. He says that as they re-emerged from restructuring, one thing they knew from their own fall was that they better have a good credit risk system to manage exposure, liquidity and so on (In fact they chose Financial Objects).

Beyond that, the market is maturing, Jones says. "You have guys who are still working on spreadsheet or on the back of a cigarette packet to work out exposures. When they see similar institutions who are able, at the touch of a button, to slice and dice their whole portfolio by all sort of factors and calculate potential future exposures, they seem much better able to cope. So then they do ultimately say, 'We gotta have one o' them.'"