

DEVELOPING AN IT ROADMAP TO NAVIGATE THE ENERGY MARKET STORM



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The wake created by the oil market collapse in the second half of 2014 has now persisted for almost a year, with continued low oil prices and high levels of volatility. The natural gas markets have fared no better, with persistent low prices that seemingly wander aimlessly in a market with no clear direction. The influences of both markets have extended to other energy commodities as well, with power increasingly correlated to natural gas, the impacts of future LNG exports yet to be determined, and oil products prices moving irregularly with the underlying crude contract. With this increased market uncertainty, and coupled with an activist regulatory environment, it is becoming increasingly difficult for energy traders to move confidently, knowing that they can make a profit and limit risks for their businesses.

While volatility is, for many, the lifeblood of trading, the high levels of uncertainty in today's markets make it difficult to formulate profitable trading strategies and identify short-lived opportunities. This is particularly so without real-time data and information that provides traders critical insights into market conditions and internal positions, and facilitate rapid analysis of opportunities and risks. Without such visibility, stepping out into the current storm in the commodities markets is unnecessarily risky.

Unfortunately, a recent study and report from Capco indicates that many in this market may not be adequately provisioned to address those risks, as they lack critical timely and accurate information from their trading systems and technical infrastructures. In this study, Capco surveyed more than 100 energy trading and risk management professionals from around the world, whose companies' trade energy commodities, agricultural products, metals and renewable energy credits.

Among the many findings from that report, 41 percent of the respondents noted they don't have a consolidated view of their trade, pricing and risk data. Without such information, traders don't have a clear picture of their current positions and exposures, and are essentially flying blind in the storm. Simply put, without this most fundamental information, risks of all stripes are exacerbated and trades become essentially speculative transactions. In addition, the report also noted that 38 percent of traders indicated their critical ECTRM systems did not help them adapt to changing markets and business needs.



The issues exposed by both of these noted results are not uncommon in this industry. Each and every energy and commodity trading and/or marketing company faces unique challenges; and rarely, if ever, is there a singular solution that addresses all of their needs. Further, companies in this market are in a near constant state of change – growing organically or via M&A into new commodities, markets and/or assets.

Unfortunately, experience has shown that many of these companies lack an IT strategy that can accurately anticipate and plan for that growth – invariably leading to a trading technology infrastructure comprised of a mix of poorly integrated disparate systems that have become virtual silos of critical business data that are unable to support the complex “opportunity to cash” cycle that is inherent in this market.

Symptoms of such an ad-hoc IT infrastructure may include:

- Customizations to vendor-supplied systems that require continuous maintenance and re-coding with each system upgrade or release, increasing costs and delaying deployment of crucial technologies
- Extensive use of spreadsheets, increasing risk of errors or omissions and undermining regulatory compliance

- Adjustments to, and de-optimization of, business processes in order to address short-comings of software
- Increasing latency in calculating and producing valuations, positions, management reports, and settlements – undermining trading performance, increasing risks and slowing cash flow.

Certainly, none of the respondents' companies had set out to create an IT infrastructure that is unable to adequately support their critical needs for a clear, accurate and real-time view of their business and markets. However, without a strategy to address both current needs and future growth, these companies have acquired and deployed new ECTRM systems, price/data feeds, market interfaces and numerous other technology components in reaction to unplanned or previously unarticulated needs of a particular business unit or commodity desk. The approach was not in the context of creating a technology infrastructure that is able to be leveraged by the entirety of the business. And, lacking a proper strategy to fully integrate these new solutions or components into both the technical and business process flow, means that data consolidations, management reporting and market analysis can only be accomplished via complex point-to-point connections to move data from the new system to others. Or it requires “man handling” data via file transfers, spreadsheets or rekeying, slowing information flow and substantially increasing the risks of lost data integrity and false results.

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Developing and maintaining tenuous point-to-point connections among systems is a never-ending and time consuming process. With each new maintenance release or patch of an end point system, the risk of integration failure increases. Once fixed, they will surely break again or become outdated with the next system upgrade or change in business process.

Overcoming the key issues associated with these complex, fragile and inefficient infrastructures will require more than just a bit of technical plumbing. To address the

root cause of these failures and ensure traders have the accurate information they need in a particularly difficult market, companies need to elevate their view and devise a “global” IT strategy. That will enable them to address not only the technical issues of the day, but serve as a forward-looking roadmap that addresses future business needs as well.

Developing such a roadmap will require experienced resources. Companies should seek out consultants that are knowledgeable in industry best practices and possess a deep understanding of the issues that currently plague your systems and organization. More importantly, they must be equipped (via experience with other companies that operate in the same industry) with the knowledge of what issues and complexities may arise given the nature of your company and the industry in which you operate.

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While each business is unique and the outcome of the road-mapping exercise must be reflective of those unique characteristics, the high level steps to developing that roadmap can be generalized as:

1. Inventory of the current state – technologies, processes and issues
2. Needs analysis – What capabilities are required to address current issues?
3. Future requirements based on anticipated/forecasted business strategies and future-state business processes
4. Review and identification of available technologies and solutions to address current shortcomings and future requirements
5. Revised “current state” architecture detailing inventory of technologies and systems to be maintained, re-implemented, retired or enhanced

Once complete, the roadmap will be the governing document with which a company can eliminate unnecessary complexities, costs and risks; and optimize the use of technology to ensure traders are properly equipped to address a complex and ever-changing market.

Certainly, the process of developing such a roadmap will not be costless, and the initial implementation of the plan may require system upgrades or potential replacements; but those costs may be offset through improved utilization of existing technologies and divestment of costs associated with the elimination of redundant or outdated systems. Ultimately though, the greatest benefit derived from the development and execution of the technology roadmap should be a measurable net improvement in bottom-line financial performance for your business, achieved through improved trading performance.

“ Companies must develop a holistic and global IT strategy that serves as a forward-looking roadmap. ”



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MORE INFO

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ABOUT CAPCO

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