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Portfolio management in illiquid credit

Kanav Kalia of Oxane Partners reflects on how global banks are activating digitalisation projects to tackle the growing complexity in illiquid credit investments

Financial markets have careened from crisis to crisis through the last several decades, each one as unexpected as the previous one. These crises have brought about radical overhauls for credit management and risk governance processes at banks across the globe. The current pandemic has sparked a marked shift at banks, from looking at individual deals or positions to analysing aggregate exposure across the entire illiquid credit book.

Crises spur the need for transparency and speed

A recent survey of risk professionals at banks published by Risk Publications (Risk.net, 2020) to understand the impact of the coronavirus pandemic highlights that the demands for stringent credit risk analysis have risen sharply in the past few months. The respondents almost unanimously agreed that responsibilities and risk controls have increased, and they are now expected to make decisions faster. While the respondents reported that the volume and availability of credit data has increased at their banks in the last few quarters, their top challenge continues to be organising, handling, and analysing that data in a timely and efficient manner.

From 'siloed' to 'aggregated' risk control

The predominant challenge in managing global illiquid credit portfolios lies in addressing varied needs across trading desks, with each desk having distinct deal structures, data

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sources, workflows and reporting metrics. Drawing up a coherent data-driven portfolio-wide view of risk and performance is extremely challenging with disparate systems and processes with no inherent holistic approach. While within their individual silos, desks have some control over their exposure, holistically a single aggregated view across the entire book is usually missing. With teams working remotely during the pandemic, there is a growing need to move away from 'siloed' to 'aggregated' view.



The need for a universal ‘command-hub’

While banks are no strangers to technology, and many have formidable in-house capabilities, the global illiquid credit desks of even the well-established banks remain largely untouched by technology. The reason boils down to the highly bespoke and nuanced nature of the deals. While one solution may address the needs of direct lending trades, it might not be the most apt one for CLOs, portfolio financing trades or asset-backed lending transactions. To reliably impute risk exposure and understand performance, banks need a digital infrastructure that is flexible enough to support the diversity of deals and robust enough to maintain tight controls.

An ideal solution would create a universal ‘command-hub’ that centrally manages the variability across deal types and is adaptive enough to address current requirements and meet future needs holistically, capturing the unique data management, workflows, and reporting needs. Such a solution would enable banks in credit analysis, and scoring, capturing self-ratings, notifying early warnings, automating all reporting and enabling powerful insights.

Rethinking the portfolio management conundrum for illiquid credit

Oxane’s solution blends two key elements – a flexible multi-asset portfolio management technology platform and a dedicated team of credit analysts to support ongoing portfolio operations. This approach gives the banks an end-to-end solution that cuts through complexity and chaos with robust digital capabilities for portfolio management, harmonised firm-wide view of risk and performance, and the ability to outsource operational tasks while retaining complete

control. Portfolio managers have a single solution that covers the lifecycle of a trade from deal closing until deal exit. This new operating model that is ‘powered by technology’ and ‘enabled by credit experts’ enables banks to channelise their resources for better efficiency, resilience and effectiveness.

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The results of regimented credit portfolio management

Over the past seven years, Oxane’s solution has evolved iteratively, adding varied types of deals and continuously maturing to keep pace with the dynamic demands of illiquid credit investments. Currently, our portfolio management solution supports private debt, asset-backed lending, middle-market portfolio financing, CLOs, real estate lending, securitisation trades and distressed debt giving a wide coverage.

With the solution, banks have data integrity and data enrichment enabled by a team of credit analysts and a single view of risk and performance across portfolios helping them remain in control even when volume and volatility grow multi-fold due to events like the coronavirus pandemic.

The pandemic has exacerbated the need for holistic visibility, real-time insights and speed of execution, and there is a growing realisation within the banks that the existing manual, fragmented processes are increasingly becoming untenable. The winners in this market landscape will be those who have the agility to capitalise on new opportunities with a regimented credit portfolio management process in place to enable robust risk management capabilities.