Prosights first market risk webinar takeaways
Speakers:
1. Benjamin Genek, Chief risk officer at Daiwa Capital
2. Daniel Krogler, Head of Market risk at State Street
3. Alex Lopes, Head of Market risk at BNP Paribas

Emerging trends in market risk : Alex
 1. Emergence of crypto currencies
   - new asset class customers have an interest in trading
   - problems due to high volatility and market exposure
   - Managing risk requires care and possibly new techniques
 2. Rise in trading of zero day to expiry options
   - Options that expire on the same day highly popular
   - Over ½ of options traded at BNP are zero day
   - These don't register as risk on end of day books
   ⇒ requires intraday risk management to detect + manage
 (Ben: Both have very little historical data + rapid popularity)

 3. Geopolitical events + great uncertainties : Daniel
   - Much of what was stable is no longer
   - heightened geopolitical issues : china expansion, middle east + Russia
   - Immediate "events" that weren't foreseen
      Trump election consequences, Tariffs, 2022 UK pension crash
   - All cause much greater emphasis on event driven risk protocols
   - Recession fears in market
   - News is unpredictable in whether it shocks market

 4. Moving from low rates environment back to high rates : Ben
   - knowledge gap in new risk employees
   - more emphasis on explaining + understanding results (to laymen too!)
   - Weekend announcements causing issues on Monday : how to model
      the impact at market open

Alex: ~~Market~~ Risk management done well is more preparation than reaction

- Market reactions have shifted to stable to high vol very quick
- Primarily is a business of preparation and necessitates a strong risk framework

Benjamin: Crucial for public entering risk to know:

- Must have a skillset of communication to explain results, analytics and metrics
- Must know audience to ensure message heard + well interpreted.
- risk is a responsibility role.

TBC.

Benjamin Technology changing risk modelling as news becomes instantaneous + advent of AI for News parsing + aggregation

- Very important to report truthfully + with full picture
- Very important to have encompassing data for models

Stress testing in Risk Management

Benjamin: - Better as a metric than value of risk
but always looking at only one metric is a mistake
- Requires constant modification + adapting to events
- So how do people use it as a tool?

1. Must use many variants for picture : Alex
- Many variants: Macro Economic, Systematic, Concentration + reverse
- Macro Economic aims to simulate macro events + model impact over all of bank, trading desks + models
- Concentration measures impact of stock correlation and a specific hit on a region eg. Commodities
- Reverse starts with potential loss figure + work backwards to figure what areas/events could cause such a loss.
- Run ad-hoc and measure dislocation of hedging as well
- Run many of different severities

2. Paradigm shifts necessitate new models : Dan
- Japanese allowing negative interest rates
- Unforeseen correlations occur eg. Japan owns lots of
    American bonds, how does < 0% rate affect american?
- Always be able to explain results

What are future trends?: Ben
- Seeing increased global volatility
- Seeing America loosen banking constraints

1. US to stop being backbone of economy Alex
- Tariff crisis + investment slowdown predicted
- accounting this into risk profile
Dan: not a crisis to come as plenty of liquidity + credit
    and not seeing a flee to safe assets.

2. More unforeseen events Dan
- 2022 UK pension crisis, Twiggs + Trump

3. More dislocations of correlated assets, damaging hedges : Alex

What are thoughts on technology, specifically AI?

1. Positives of AI : Alex
- technology mature enough, now just find uses
- as everything becomes more complex, use AI to augment ability
- create Market Risk assistant + News Analyser assistant.

2. Negatives of AI: Ben
- AI model complexity beyond human reasoning
- Nobody qualified to reconcile LLM + creativity is issue