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Advanced financial technologies at Universities – Cambridge, a mine of talent

In the search for competitiveness in the finance industry, more financial institutions are collaborating with leading universities in the UK. These collaborations are one of the sources of the City's strengths.

“Thanks to Cambridge University's Centre for Financial Research, we could develop cutting-edge asset-liability management platform,” says Francesco Sandrini, Global Head of Financial Engineering of Pioneer Investments, the asset management arm of UniCredito. Assets under management at Pioneer Investments are EUR 251 billion (JPY 38 trillion), mostly from pension funds. The foundation of its current asset allocation model was developed with Cambridge University 5 years ago.

An asset allocation model is the ‘brain’ of an asset management firm. The reason why Mr Sandrini decided to collaborate with a university was to take advantage of its advanced knowledge in financial technology. Mr Sandrini says, “in order to develop the asset-liability management platform we wanted, the strong mathematical approach by Cambridge University was crucial”.

“Collaborations with academics are best to try out new ideas and techniques,” says Stacy Williams, Director of Quantitative Strategy & Model Trading at HSBC. Mr Williams asked for Cambridge University's help in developing a trial FX model trading system. “The joint project went well, and I'm very happy with it.” Mr Williams also has an on-going project with Oxford University. “The aim is similar, but different professors have different approaches, which are worth trying.”

Leading financial institutions like HSBC employ many PhDs in computational finance. One of the reasons why they are keen to maintain relationships with people in the “ivory tower” is to stay ahead of the game to win clients. Mr Williams says, “you need a wide variety of sources of new ideas and techniques to deal with increasingly sophisticated clients such as hedge funds. Universities are mine of great ideas.”

Another aim of joint projects is to recruit talented students. Pioneer Investments hired three PhD students straight from collaborations. It is increasing such projects with universities in Ireland, Italy and France.

Citigroup also hired three PhD students they found in joint projects. Piotr Karasinski, ex-European Head of Rates & Hybrid Derivative Products Research and another Cambridge partner, says, “it is crucial to maintain good relationships with universities to hire the best people.”

Joint projects are good news for universities as well. “The main sources of funds for research at university used to be government grants and subscription income from research reports. We wanted a more stable funding model and that's one of the reasons why we started collaborations with financial institutions,” says Professor Michael Dempster, Director of the Centre for Financial Research at the Judge Business School of Cambridge University.

Cambridge University opened its Centre for Financial Research in 1996 with the main aim of training 'quants'. Since then, it has dealt with the global leading financial institutions; projects include developing derivative valuations and risk management, to name a few. PhD students who worked on joint projects are now contributing their experience to current employers such as investment banks and central banks. The Centre has had more than 40 sponsors including resource companies interested in real option theory for their operations.