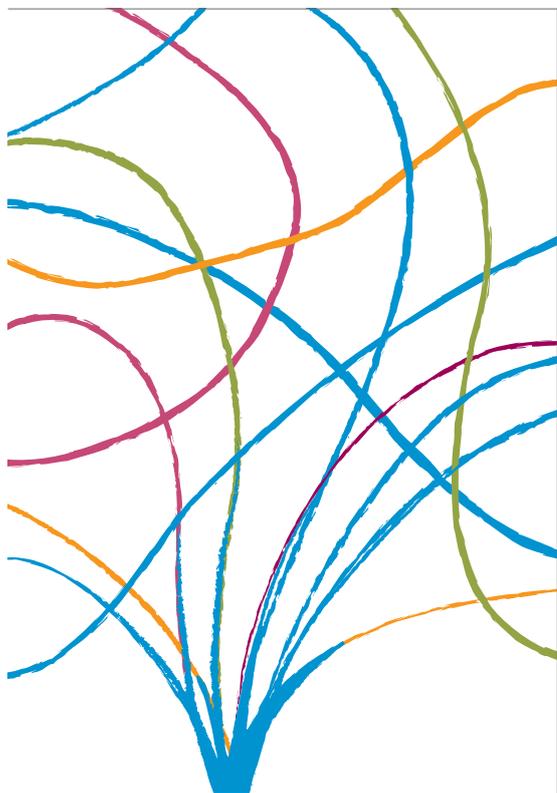


Index & Benchmark Data Management

The Index and Benchmark Data Road to Best Practice

RIMES Forum Series **Sydney**

RIMES hosted a client forum, in Sydney on 27 July. The overall aim of the forum was to discuss how the industry can develop a best practice approach to the management of index data and benchmarks. The forum was also attended by the independent buy-side consultancy, Investit, which is developing a best practice methodology for the management of index data and benchmarks.

ATTENDEES

Aberdeen AM
Citi
Colonial First State IM
Magellan Financial Group
QBE Insurance
State Street

EXECUTIVE SUMMARY



From the outset, participants were encouraged to contribute their own views and experiences, with view to gaining a deeper understanding of the pain points associated with index data and benchmarks. RIMES is hosting similar forums worldwide, so the collective aim of the forums is to understand how the industry can work together to develop a best practice approach.

In practice, the index data and benchmark challenge is two-dimensional: the number of indexes is increasing and they are also growing in complexity. A wide and expanding range of business functions is using index data in different ways throughout buy-side firms, so overall consumption of Index data and benchmarks is increasing. Most firms are grappling with common issues around index data benchmark management and governance.

The RIMES Sydney forum was attended by a good cross-section of buy-side firms, with a broad range of functions represented. Participants agreed on many of the major issues raised and showed a collective desire to develop a more systematic approach to the management of indexes and benchmarks. If this can be achieved at the industry level, buy-side firms will benefit from increased efficiency and improved business agility.



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THEME 1 INDEX DATA AND BENCHMARKS – GROWING IN VOLUME AND COMPLEXITY

After some brief introductions, the forum considered the evolving role of index data and benchmarks. The growing challenge stems partly from the increasing volume, but more from the increasing complexity of new benchmarks types. These require careful management but there is also a need for frequent contact with individual index vendors:

“...the dialogue is established and the relationships are established...the myriad of types of benchmarks and suppliers and vendors, each one of which will require these relationships to be built, from a licensing supply perspective, that to me is additional complexity.”

Although index data and benchmarks are often discussed together, from a data management perspective they present different processing challenges. An index is a published measure that is generally consistent and standard; however, benchmarks vary enormously and many are blended and customized to meet particular investment objectives and requirements.

Individual departments within a firm also have different requirements for index data and benchmarks. Some departments do more customizing than others, and this in itself can introduce errors:

“Maintenance is a big chunk of our work...which is not practical. There are just too many human error possibilities.”

The management of index data and benchmarks is even more challenging within fixed income and across fund types. This is most common with insurance clients:

“...where we are running a fixed income fund and it has to match liabilities in the future, then the benchmark they want to blend is quite complicated because it would be this much of this curve and this much of this curve, and it’s all on duration and stuff like that. How do you validate it?”

Most participants use a combination of spreadsheets and manual processes to manage index data and benchmarks and to govern their usage. This is essential to ensure compliance with prevailing licence agreements. A lot of effort goes into such spreadsheets:

“A lot of work went into that spreadsheet. That spreadsheet has more checks than you’ve ever seen.”

The discussion moved on to costs, which were generally noted to be increasing.

THEME 2 THE COSTS OF MANAGING DATA

The licensing costs of acquiring an increasing volume of index data and benchmarks are significant; however, the internal costs of managing the data are always a multiple of licence costs. Investigating and resolving data queries and errors is also a significant overhead:

“If we put our prices out there for consultancy work, or digging through to find where the problem was, we would have one of our technical experts three or four or five days. It’s a \$10,000 or \$15,000 operation for us to find that history problem.”

One of the common challenges with costs is the hidden costs associated with managing index data and benchmarks. Licence costs are high, but they



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are visible and up front. Hidden costs only begin to accrue once the data is on board:

“Although your costs are probably more upfront, you don’t have those operational costs, or perhaps less so, cleaning things up either as a one-off or ongoing, whatever it might be.”

Part of the cost challenge lies in establishing what firms are entitled to do with index and benchmark data. Many firms perform extensive customizing in-house, while others pay the index vendors to customize the data for them. Either way, customization is expensive.

Participants agreed that most challenges ultimately came down to costs and these would either be internal or external. Given the wide range of functions using index data and benchmarks it was easy for firms to overpay for data:

“What was happening was we were sourcing things for investment analytics and then you had a middle office team some place else sourcing it and getting another licence separately, and...paying twice.”

It was agreed that global accounts with index vendors helped, but index data and benchmarks are often sourced locally and for specific purposes. Some firms have tried to eliminate local data procurement to improve data governance and control costs. Although well intended, this can impair business agility and cause delays.

THEME 3 THE IMPORTANCE OF DATA GOVERNANCE

Most participants are aware of the importance of data governance and have some system of controls in place, often based on spreadsheets. However, it seems that processes are often not as

robust as for other data types.

Strong data governance is crucial to confirm that the correct data is being sourced to meet business objectives and that its use is compatible with the appropriate licence agreement. Firms tend to be proficient at the governance of procurement; however, good governance must control the entire data lifecycle:

“When we look at governance, we look at procurement management information, decommissioning, usage management and compliance management, so those are the factors that we look at. Procurement was the one got the tick in the box.”

The governance of index data and benchmarks is more challenging than other data types, because of its unique characteristics and lifecycle:

“I would say that generally, anything an investment manager buys is good... we are good at procuring and we are very, very poor at retiring.”

The problem of decommissioning becomes greater when there are a great number of complex blends calculated in house. Many participants reported that they were calculating more than 250 blends in-house, which made governance and cost control a challenge.

“If you have no habit of how you actually decommission, that seems like a very particular problem to decommissioning blends.”

It was agreed that there was no best practice method available to govern and control the lifecycle of index data and benchmarks. Most participants agreed that costs were much more easy to measure when there was an invoice associated with them.



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Good data governance is essential, but it is more akin to a journey than a destination. The costs of not having good data governance cannot be measured solely in financial terms and must include operational and reputational risk. But, just as the use of index data and benchmarks transcends multiple departments, so does good governance.

Strong data governance also calls for education of staff within buy-side firms and their clients. All stakeholders must be aware of the implications of adding new indexes, or using existing indexes for different purposes.

CONCLUSION **STANDARDS ARE EVOLVING**

It was universally agreed that index data and benchmarks have become a critical part of the investment management process. The use of index data and benchmarks is likely to continue to increase as is their volume and complexity. Buy-side firms must rise to this challenge, while realizing that they will not win new business on the basis of their ability to process benchmarks.

Managing index data and benchmarks is not a source of competitive advantage but it is a measure of overall business efficiency. And benchmarks are an aid to more granular client reporting which is a source of competitive advantage.

It was concluded that there was a growing understanding of index data and benchmarks but more work is needed. Investit has conducted some research on 34 asset managers throughout Europe to gain a better understanding on their uses and management. Participants at the Sydney forum are also invited to participate in the survey as part of a wider survey of the Australian market.

The meeting concluded that it was desirable to develop a best practice framework for the management of index data and benchmarks. The aim is to implement strong data governance and strong data processing. Specific steps firms need to take are to:

➤ **Invest in benchmark data governance**

➤ **Invest in the right technology and data processing**

➤ **Adopt a holistic, enterprise view of index data and benchmarks.**

It is clear that there is no simple solution to the many complex challenges posed by index data and benchmark management, but firms need to act now to avoid even bigger problems in future. Market conditions are forcing firms to consume more index data and benchmarks, so external costs and internal pressures are increasing in parallel.

We would like to thank all participants for their enthusiastic contributions so far and look forward to continued discussion on this vital business area.