



RIMES
FORUM
FRANKFURT

Benchmark Data Governance: Understanding the Costs and Risks

RIMES hosted its second Frankfurt industry forum in April 2013. Clients and prospects were invited to attend and a cross-section of buy-side firms and functions was represented. Understanding the Costs and Risks. The aim of the Frankfurt forum was to facilitate open discussion and transfer of ideas.

SUMMARY

The forum discussed some recent independent research conducted by Deloitte. A specialist team of asset management consultants conducted the survey, which examines the cost structure of data management within asset management firms. The survey entailed detailed on-site engagements with 13 major asset management firms, forming a representative industry sample and managing about 5% of global AUM.

The Deloitte study considered two primary functions within data management:

- **Data governance: data acquisition, monitoring and control, and compliance management**
- **Data processing: data collection, validation, transformation, storage and distribution.**

The above distinction is fundamental to understanding the cost structure of data management: firms typically invest far more in data processing than governance. Few firms have teams dedicated to managing index data and benchmarks. For many staff, managing data is only a partial responsibility. Deloitte therefore measured and reported headcount as full-time equivalents (FTE) or percentages of FTE.

Attendees

.....
Credit Suisse Asset
Management

.....
Deutsche Asset
Management

.....
Union Investment

.....
Universal Investment

HIGHLIGHTS OF THE DELOITTE STUDY

- 42% of respondents in firms managing over \$200B in assets do not have regular processes and procedures to control data usage, so there is scope for rationalization and cost control

- 53% of data processing activity involves data collection and validation - many firms are therefore evaluating alternative processing models, including outsourcing and partnership to reduce costs and boost efficiency

- Most firms are keen to rationalize data sources, particularly the number of benchmarks - the more complex firms have an average of 7 FTE working on benchmark data management

The Frankfurt forum shows a growing awareness of the strategic importance of good data governance. Some participant firms have embarked on data governance projects or enlisted expert help to improve processes, tighten control and increase transparency. We are very encouraged by the progress firms are making and look forward to further discussion.

42%

of respondents in firms managing over \$200B in assets do not have regular processes and procedures to control data usage, so there is scope for rationalization and cost control



"It's more client decisions - when they say they want the brand, we just have to take it."

RIMES Frankfurt forum participant

REGULATION AND COMPLIANCE

Regulation and compliance are two critically important and related aspects of data governance. Good data governance is essential to ensure that data is used, stored and managed in a way that complies with external regulations. It is also necessary to ensure that data is used in a way that is compliant with the prevailing license agreement.

The Deloitte study shows that many firms do not have systemic control of their data and are unable to monitor and control data usage throughout the firm. One of the universal challenges is understanding *who* does *what* with *which* data, and with the proliferation of customs and blends, this challenge is escalating. This makes it difficult to control and reduce costs but also exposes the firm to regulatory and compliance risk.

Index regulation is emerging as a universal concern and a challenge throughout the buy-side. Emerging regulations, such as the ESMA Guidelines include new, prescriptive reporting and disclosure requirements. Firms managing UCITS must access and store increasing volumes of constituent-level data. Participants showed some fundamental concerns about emerging index regulation:

"That's the one, big question: who's responsible for making sure that the vendor complies with the new regulation?"

Complying with the new regulations may also prove a challenge for customs and blends:

"The blended benchmarks will be the problem because, at least for us, we don't have a vendor that generates that benchmark."

Index vendors have become increasingly aware of the diverse uses of index data and benchmarks and often conduct audits to understand data use within firms. Exchanges too have a growing awareness of data usage:

"Not just data vendors, also the exchanges have been very active."

Good data governance requires strategic commitment and sustained effort. Most data management challenges ultimately relate in some way to data governance and new external regulations are emerging all the

time. Data management is often fragmented throughout the firm so it can be difficult for individuals to understand what they are allowed to do with data:

“It’s not always the people in the organizations that misuse data; they simply don’t know. It’s very hard to know what you can actually do and what you can’t do; it keeps changing all the time.”

INDEX RATIONALIZATION

The Deloitte research indicates that most asset management firms wish to rationalize their index data and benchmark sources to reduce costs. Many participants at the Frankfurt forum share this goal. However, before rationalization can begin it is first necessary to gain a deeper understanding of index and benchmark subscriptions: what the data is used for and where within the firm.

The natural tendency is for firms to acquire increasing volumes of diverse data. Clients often specify new sources as part of a mandate and brand loyalty is strong throughout the industry:

“It’s more client decisions - when they say they want the brand, we just have to take it.”



“It’s more client decisions – when they say they want the brand, we just have to take it.”

RIMES Frankfurt forum participant

Consultants play an increasingly important role throughout the industry and they are not always cost conscious when it comes to index selection. Clients are becoming more aware of data costs but it can be difficult to convince them of alternatives:

“So, making the effort of convincing an institutional client to look for alternatives on the benchmark side is a difficult and long-term process - usually they come with a business mandate.”

Some participants have implemented centralized data management projects to increase transparency and tighten control. Having a centralized point of contact with the vendors makes it easier to control data contracts and gain economies of scale as data consumption increases. However, centralized data management can impair business agility and a firm’s ability to seize new business opportunities quickly. It was agreed that increasing transparency alone could generate cost savings:

“So I think that’s where you can also save money just there to have the transparency within the firm across all the relevant parties.”

Given the increasing scale of the data management challenge, many firms are exploring alternative data management models, including outsourcing and partnership.

OUTSOURCING AND PARTNERSHIP

It was agreed that firms could insulate themselves from change by seeking specialist help from expert partners. Using a managed data service could also help a firm overcome some of the operational challenges of multiple data feeds. With the right partner, a firm can improve data governance, although forum participants agreed that responsibility for compliance could not be outsourced:

“There is no way you can get rid of responsibility. You can have somebody else do it but you will still be responsible.”

It was decided that working with the right partner could help a firm streamline its data management operation but only if there was a strong service level agreement in place:



To learn more about RIMES or to participate in future forums, email marketing@rimes.com



“So, building up exactly these processes that haven’t been in place within the organization, putting that on an outsourced basis with a service level agreement with [continual] monitoring. The liability is an issue that we will always face in any case, whether you outsource or not, and we’ve re-written our disclaimers and service level agreements to reflect that.”

There was universal agreement that outsourcing is of value only when the partner has sufficient expertise to add real value to the business. The benefits of outsourcing are typically presented as a business case showing potential savings and benefits. However, it was suggested that some of the benefits of outsourcing, such as reduced risk and increased business efficiency, were difficult to quantify:

“It’s not a black and white thing. It’s a combination of the two issues. How much you could actually save on internal efforts depends a little bit on that liability question...and then the bottom line.”

The forum concluded that the business case for outsourcing and partnership needs to reflect a firm’s core strengths in relation to its outsourcing partner. Responsibility would have to remain within the firm and outsourced services governed through specifiable KPIs. It was universally agreed that good communications and transparency are fundamental to success.

CONCLUSION

The second RIMES Frankfurt forum concluded with a general discussion around the need for improved governance of index data and benchmarks. Data governance has become a necessity for all buy-side firms to ensure they align data acquisition and usage with business needs while remaining compliant with external regulations and data license agreements.

Data governance is moving rapidly up the corporate agenda within the Frankfurt buy-side community. In the post-financial crisis environment, all asset managers are being forced to navigate an increasingly complex regulatory framework and demonstrate robust management practices for key investor information.

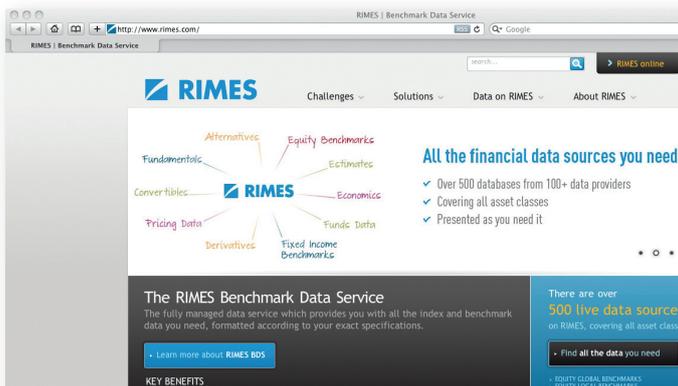
Meeting regulatory requirements is costly and time consuming, so controlling data management costs is crucial. Many firms are exploring new data management business models and are seeking the help of expert partners and service providers to meet the data management challenge. This confirms the findings of the Deloitte research, which suggests that many firms are questioning whether in-house validation is really a good use of their time and capital.

RIMES continues to drive industry best practice for index and benchmark data management. Our fully managed services help to maximize data quality and optimize efficiency. We also provide firms with the tools to improve their data governance, and increase transparency, which is necessary for both regulatory reporting and effective cost management.

We would like to thank all participants for their enthusiastic contributions so far and look forward to further discussion in the future.



You can download more RIMES Forum synopses from our website www.rimes.com/news



About RIMES

RIMES Technologies Corporation was founded in 1996 specifically to meet the specialist data needs of the buy-side. The company was a pioneer provider of managed data services, using cloud-based technology to deliver highly customized financial data over the internet. Providing world-class data, supported by first-class service remains a prime focus of RIMES today.

The success of RIMES reflects a unique practical approach that combines the right technology with the best people. Our suite of services are designed, delivered, and supported by an expert team recruited from the heart of the industry. As a global company, RIMES serves over 200 institutions in 36 countries.

RIMES offers several solutions ranging from data processing to data governance. RIMES Benchmark Data Service provides index and benchmark data in a format that is ready for use in third-party or proprietary client applications. RIMES Reference Data Service helps buy-side firms optimize data services to cut costs and boost efficiency. And RIMES Data Governance Service enables firms to monitor data use, tighten control and maintain compliance.

All our solutions are fully managed and deliver more than 500 data sources from over 100 data vendors in one single, fit-for-purpose feed. We currently feed data into more than 30 third-party data warehousing, risk, performance and compliance solutions, and many in-house systems. We enable buy-side firms to benefit from a world-class data operating platform without a major investment in people or technology. Firms that choose RIMES can achieve more with less.

RIMES has earned several industry awards over the years: the Inside Reference Data Award for Best EDM Initiative, the Banking & Finance Award for Innovation, the Best Product Implementation at a Buy-Side firm and Best Data Provider to the Buy-Side—the latter for the 6th consecutive year—at the Waters Buy-Side Technology Awards.



North America

New York
(Headquarters)
84 Wooster Street
New York NY 10012
USA
+1 212 334 6866

Seattle
1700 Seventh Avenue
Seattle WA 98101
USA

Boston
101 Federal Street
Boston MA 02110
USA
+1 617 342 3689

EMEA

London
No. 1 Cornhill
London, EC3V 3ND, UK
+44 (0)20 7743 6040

Paris
13 avenue de l'Opéra
75001 Paris, France
+33 (0)1 78 09 70 70

Nicosia
Gerasimou Markora 3
Nicosia 1075, Cyprus
+357 22 028 045

Asia Pacific

Sydney
Australia Square
264 George Street
Sydney, NSW 2000
Australia
+61 (0)2 9258 1189

Shanghai
China Insurance Building,
Suite 1411
166 E. Lujiazui Rd.
Shanghai, 200120 China
+86 21 5888 6108

Email
marketing@rimes.com