



# Benchmark Data Governance: Understanding the Costs and Risks

RIMES hosted its sixth North American forum in Chicago in May 2013. The forum was open to clients and prospects, and a cross-section of buy-side firms and functions was represented. The aim of the forum was to develop key themes around the management of index data and benchmarks and to facilitate open discussion and transfer of ideas.

## SUMMARY

The Chicago forum was used to review some recent independent research conducted by Deloitte.

A specialist team of Deloitte asset management consultants conducted the survey in the belief that there was insufficient independent research available on the challenges of managing index data and benchmarks within the buy-side. The study considers the cost structure of data management within global asset management firms with a focus on non-license fee costs.

The Deloitte research examines the role of index data and benchmarks within the wider context of financial data. Financial data is the lifeblood of the buy-side and many firms regard it as a crucial business asset that must be properly monitored, managed and accounted for. 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.

Firms have a growing understanding of the unique challenges of managing an increasing volume of index data and benchmarks. Research by Investit and Cutter shows that 72% of asset managers expect an increase in index data and 90% expect an increase in the use of customs and blends. Many buy-side firms recognize the importance of data management and are addressing it as a corporate governance issue.

Index data management is now receiving widespread attention at executive level. Despite this, 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

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Adams Street Partners  
.....  
Grosvenor Capital  
Management  
.....  
Guggenheim  
.....  
Harris Associates  
.....  
Northern Trust  
.....  
Northern Trust Global  
Investments  
.....  
Nuveen Investments  
.....  
PPM America

## KEY FINDINGS OF THE DELOITTE STUDY

- 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
- 53% of data processing activity involves data collection and validation – consequently, many firms are evaluating alternative processing models to reduce costs and boost efficiency
- 42% of study participants in firms managing over \$200B in assets do not have systematic processes and procedures to control data usage, so there is scope for rationalization and cost control

There is growing awareness of the rising costs of managing an increasing volume of index data and benchmarks. Some participants at the Chicago forum have begun data governance projects or are using managed services to improve processes, tighten control, and increase transparency. Firms that improve data governance will be able to control costs, increase their business agility and improve overall client service quality.

# 42%

of study participants in firms managing over \$200B in assets do not have systematic processes and procedures to control data usage



"There are lots of hidden costs because there is a lot of duplicate effort"

RIMES Chicago forum participant

## DATA PROCESSING AND DATA GOVERNANCE

The Deloitte study focused on two key business functions – data processing and data governance.

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

Although data processing and data governance are separated for the purpose of analysis, in practice they are inextricably linked and it is impossible to implement strong data governance without having robust data processing in place.

### DATA PROCESSING

- Firms with more than 20 sources of benchmarks have an average of seven FTE working in data management, the majority of whom are involved in collecting, checking and validating the data before its use in business applications.

The Deloitte study shows that data processing is a major undertaking within asset management firms. Firms source data from a combination of data vendors and integrators. In the study, Deloitte defines a feed as a data delivery mechanism, which could be a single vendor feed or a data integrator with multiple vendor feeds.

Managing an increasing volume of data increases both costs and operational risk. Most firms have a good grasp of license costs, which are visible and mainly fixed in the short term. However, understanding data management costs poses a far greater challenge and includes the teams, systems and processes that handle data throughout the firm. Many of these costs are hidden within other costs throughout the buy-side.

The RIMES Chicago forum confirmed that firms spend more on data processing than governance. This is in part due to the need to onboard new indexes quickly and to prepare the data for use in business applications:

*“It is more about the cleaning function and the aggregating of the data and consistency.”*

Participants agreed that the number of benchmarks and their complexity is what determines the FTE in data processing. Often there are no visible fees but there are always hidden costs:

*“There are lots of hidden costs because there is a lot of duplicate effort.”*

It was noted that many investment management firms had grown through acquisition and that the data management problem might be replicated across an organization:

*“Part of our history is really just bringing together a whole bunch of other organizations, and so there’s a lot of work done just based on figuring out who’s got what contracts and the terms of how we rationalize those.”*

It was agreed that technology alone could not solve the data processing challenge – it was first necessary to gain a deep understanding of the core challenges:

*“It goes beyond just automating the request to really finding the end user who really needs the data and justifying it.”*



**“So, we have constant viewing that governance, as you guys said, really directly affects the bottom line, right?”**

RIMES Chicago forum participant

Participants agreed that expert partners could play a role in validation, but only if they were specialists and the commercial arrangements were carefully managed.

## DATA GOVERNANCE

- **Firms spend two-thirds of the FTE on data processing and only one-third on governance**
- **42% of participants, with AUM of over \$200B do not have regular processes and procedures to control data usage.**

Data governance is a universal challenge as all firms must manage a rising volume of index data and benchmarks that is also growing in complexity. Data governance is also important because of increasingly prescriptive regulation, such as Solvency II, which requires firms to store and disclose an increasing volume of source data.

The Deloitte study shows that many firms are struggling with the challenge of index data and benchmark control. Over time, this increases costs and operational risk, and potentially leads to reputational risk. Low levels of control frequently reflect the state of the data. Index data and benchmarks are characteristically different from all other data types: they have many different uses and users.

Many of the Chicago forum participants have a growing awareness of the importance of strong data governance: it is essential to align data acquisition with business needs and to ensure compliance with the appropriate license agreement. It was agreed that governance feeds through to the bottom line:

*“So, we have constant viewing that governance, as you guys said, really directly affects our bottom line, right?”*

Controlling data usage is an ongoing challenge, to understand who is using which data, where and for what purposes. An associated problem is to ensure that the firm sources only the data that is necessary for the business:

*“So when something gets turned on for somebody, it never gets turned off until you ask the question, and that’s a very onerous thing to do.”*



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It was agreed that data expertise was key to good governance. Although it was possible for a firm to acquire expertise on some specific data sets, it was impossible for a firm to get to grips with all index data and benchmarks across all vendors:

*"I think it's essentially about the expertise. As new sources [are onboarded] you become another expert in data...I mean, it forces you to become the experts."*

The shifting requirements of data governance make it more akin to a journey than a destination. Continued success requires commitment, particularly at executive level:

*"And then the other key piece - and it's imperative - is executive sponsorship."*



**"And then the other key piece - and it's imperative - is executive sponsorship"**

RIMES Chicago forum participant

## CONCLUSION

The RIMES Chicago forum shows a growing awareness of the importance of good data management and data governance in particular. Participants agreed that strong data governance is essential to ensure they align data acquisition with business needs while remaining compliant with license agreements.

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

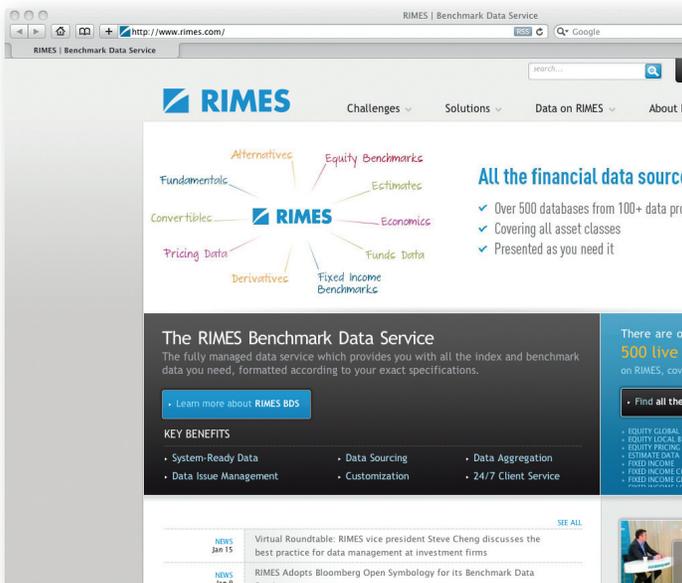
Meeting regulatory requirements is costly and time consuming, so controlling data management costs is crucial. Many firms are exploring new data management business models and are seeking the help of expert partners and service providers to meet the data management challenge. This confirms the findings 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 engaging further with all of you in the future.



You can download more RIMES Forum synopses from our website [www.rimes.com/news](http://www.rimes.com/news)



## About RIMES

Founded in 1996 specifically to serve the complex data needs of the buy-side, RIMES Technologies Corporation is a specialist provider of managed data services and one of the pioneering adopters of cloud-based technology to deliver highly customized financial data over the internet. Delivering world-class data, supported by first-class service remains a focus of RIMES today. RIMES is a unique global company, combining the best people with the most forward-thinking technology. The RIMES team of experts has unparalleled practical experience, gained at the heart of the industry, enabling them to deliver this service to over 200 institutions in 36 countries across the globe.

The RIMES Benchmark Data Service® (RIMES BDS®) provides data in a format that is ready for use in third party or proprietary client applications. All data supplied by RIMES is validated and thoroughly checked for accuracy. This frees clients to focus on their core business issues and enables them to become more agile and streamlined. RIMES BDS is used by a cross-section of buy-side firms. Customers include investment managers, pension funds and custodians. RIMES BDS manages their entire benchmarks data workflow and contains all the data they need to operate efficiently.

RIMES has earned several industry awards over the years: the Inside Reference Data Award for Best EDM Initiative, the Banking & Finance Award for Innovation and 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.



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