



RIMES hosted its first **Copenhagen** forum in February 2013. The overall aim of the forum was to develop themes around best practice methods for the management of index data and benchmarks. Many of these were raised at the 25 RIMES forums held during 2012. A good cross section of firms and functions attended the meeting, entitled:

## **Benchmark Data Governance: Understanding the Costs and Risks**

### **SUMMARY**

The RIMES Copenhagen forum also discussed the specific findings of some independent research conducted by Deloitte towards the end of 2012. The Deloitte study considers the cost structure of data within asset management firms with an emphasis on non-license fee costs. The research examines the role of index data and benchmarks within the wider context of financial data and entailed in-depth onsite engagements with 13 major asset management firms, representing about 5% of global AUM.

The Deloitte study reveals that many buy-side firms now recognize the importance of financial data and are addressing data management as a corporate governance issue. However, the study also shows that many firms have minimal dedicated data management resource; individuals typically spend only part of their time managing data. All findings in the study were therefore measured and reported as full-time equivalents (FTE) or percentages of FTE.

In practice, the asset management industry is becoming increasingly dependent on data. Sophisticated investment techniques and product innovation mean that the industry must manage and consume increasing volumes of data. As data grows in volume and complexity it becomes more costly to acquire and to manage.

#### **Attendees**

.....  
Carnegie Asset  
Management

.....  
Danske Capital

.....  
Forca

.....  
Nordea Investment  
Management

.....  
Nykredit

.....  
Norges Bank

.....  
Storebrand

## KEY FINDINGS OF THE DELOITTE STUDY

- Firms are eager to rationalize data sources and the number of benchmarks – the more complex firms have an average of seven FTE dedicated to benchmark data management.
- 53% of data processing activity involves data collection and validation – many firms are therefore evaluating alternative processing models to reduce costs.
- 42% of study participants in firms managing over \$200B in assets do not have regular governance processes and procedures to monitor, control and manage data compliance, so there is scope for rationalization and cost control.

The RIMES Copenhagen forum shows a growing awareness of the challenges of managing index data and benchmarks. Several participants are exploring new business and processing models and some are seeking expert help. Firms that invest in good governance will realize quantifiable benefits: reduced costs, increased business agility and mitigated operational risk.

# 42%

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



**"I think the level of customization is also going to increase"**

RIMES Copenhagen forum participant

## INDUSTRY CHANGES AND CHALLENGES

The global asset management industry is facing a great data challenge. Product innovation and sophisticated investment techniques require more data. Volumes of data are increasing and financial data is recognized as much more than an IT or back-office matter. It must be regarded as a real corporate issue, requiring global vision and meticulous planning. Financial data is receiving attention at executive level within many firms.

Index data and benchmarks are a crucial component of this data challenge as they are an integral part of investment strategy and will continue to be part of mandates. But they are complex and expensive to manage.

Index vendors launch new products almost every day; clients become more demanding, and investment techniques more sophisticated. There is growing demand for customs and blends. Forum participants confirmed this:

*"I think the level of customization is also going to increase."*

Although license costs are high and predicted to rise, in practice they take no account of the costs of managing the data and preparing it for use in business applications. In reality, data management costs are a multiple of license costs but these are largely unquantified throughout the industry.

Many asset management firms are not prepared for this increasing data management challenge. Forum participants confirm a growing dilemma of how to meet business demands for more data while controlling costs:

*"Handling the benchmark data and handling the benchmark questions. Really simply...we cannot handle it."*

Many firms wish to rationalize their number of data sources and benchmarks to manage down costs and increase efficiency. But first they must understand the cost structure, particularly the non-license fee element. The Deloitte study considered two families of data management activities related to index data and benchmarks: data processing and data governance.

## DATA PROCESSING

● **Data processing includes all the activities surrounding data handling, including: collection, validation, transformation, storage and distribution.**

The Deloitte study confirms that many firms are concerned about data processing. Most firms must collect and manage an increasing volume of data from a growing number of sources. As the data grows in volume, it grows in complexity. Firms with more than 20 sources (including integrators) or benchmarks have an average of seven FTE working in data management, the majority of whom are involved in collecting, checking and validating data before its use in business applications. This is a significant and growing cost that is generally undetected throughout the industry.

A further finding of the Deloitte research is that the number of people involved in data management is more closely correlated to the number of data sources than AUM. This demonstrates that the number of staff required to manage data is proportional to the complexity of the business, rather than its overall size.

The Deloitte research shows that firms invest a lot more in data processing than data governance. Moreover, 53% of data processing resource is concentrated on data validation and transformation.

Forum participants confirmed that they spent a lot of time handling data. Handling an increasing volume of data that is also growing in complexity is a major challenge:

*“Definitely, when it comes to external benchmark systems, we can see the use of much time on [data] handling.”*



**“There’s no process for that, so it’s done case by case with our team and the contracts”**

RIMES Copenhagen forum participant

It was agreed that technology had an important role to play but there were limitations on how much validation could be performed automatically:

*“I guess it’s hard to automate or get the system to do all the screening.”*

## DATA GOVERNANCE

● **Data governance includes data acquisition, monitoring and controlling usage, and compliance management.**

The Deloitte study examines processes and procedures to monitor and control data usage throughout the firm and to ensure compliance with the appropriate license agreement. The analysis shows that firms spend two-thirds of the FTE on data processing and only one-third on governance. Moreover, 42% of participants, with AUM of over \$200B have no regular processes and procedures to control data usage.

These findings show a lack of governance, confirming that that many firms do not have proper control of their data. This increases costs and operational risk, and potentially leads to reputational risk. Such low levels of control often 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.

Forum participants confirmed a lack of standard practices and procedures around data governance and control. Data governance is often piecemeal:

*“I think for us it’s not a formalized process. That is more something that happens whenever somebody wants to access certain information.”*

It was agreed that firms tend to acquire more data and few had established processes for decommissioning indexes when they were no longer required. In many cases, legal issues rather than business requirements prompt decommissioning.

*“There’s no process for that, so it’s done case by case with our team and the contracts.”*

Few participants had formal processes in place to track benchmark usage and to



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make sure that its use was compliant with the appropriate license agreement. Several participants confirmed that benchmark usage was only discussed in relation to rising costs.

## DATA COSTS AND COMPLICATIONS

The Deloitte study confirms that all asset management firms are grappling with similar data management challenges. Many firms are struggling with index data and benchmarks because of the unique characteristics of the data and its many uses throughout the firm. The data is inherently complex, expensive to manage, and difficult to control. Benchmarks are often mandated and it can be difficult to convince clients that there are cheaper alternatives available. Firms are increasingly considering the costs and benefits of each new client:

*“We have to consider that [benchmark] in the entire business case. Do we want that client?”*

Many of the data management costs are difficult to identify and understand. In practice they are often ‘siloeed’ throughout the firm and hidden with other departmental costs, such as performance measurement and IT.

Firms often adopt a disjointed approach to data management and many do not have the right operating platform to manage the data efficiently. Forum participants confirmed that managing an increasing volume of index data and benchmarks is increasing overall costs. There is universal willingness to explore new business and processing models and some firms are enlisting expert help:

*“If you cannot handle the benchmark yourself, then you must hand over [to a specialist].”*

Participants noted that there were advantages in rationalizing sources and consolidating feeds. However, it was agreed that this could be difficult to achieve, because of the differing needs of various departments. For example, the front office places greater emphasis on data timeliness, whereas performance measurement requires data to be 100% accurate.

It was agreed that managing an increasing volume of index data and benchmarks created costs and complications that had knock-on effects throughout the firm.



**“If you cannot handle the benchmark yourself, then you must hand over [to a specialist]”**

RIMES Copenhagen forum participant



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## CONCLUSION

The Copenhagen forum shows that most firms are aware of the problems of managing an increasing volume of index data and benchmarks that are also increasing in complexity. Participants agree that this will get worse over time as indexes proliferate and their use becomes more complex.

All firms need to manage costs and become more efficient. Both the Deloitte research and Copenhagen forum discussion suggests that many firms wish to rationalize sources and the number of benchmarks. However, success may require a new, strategic, approach to data management.

### Firms need to:

- Take an enterprise view of the data, to ensure firm-wide efficiencies and controls, and to address governance and processing
- Build a strategic operating platform to include all the processes, data stores, business applications and IT
- Establish clear sightlines and responsibilities from data acquisition through to utilization and decommissioning
- Consider enlisting expert help or using a managed service as a strategic operating platform.

Firms have limited scope to control license costs but they can reduce costs by increasing operational efficiency. By implementing the above measures, firms will be able to build a strategic operation platform including all the processes and systems that handle the data. This enables data acquisition to be aligned with business needs so firms use only the data they need.

RIMES is committed to helping the industry achieve a best practice methodology for the management of index data and benchmarks. This will be developed further at future RIMES forums.

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

## 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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