



## Benchmark Data Governance: Understanding the Costs and Risks

RIMES hosted its third LA forum on June 5th 2013. The forum was open to RIMES clients and prospects, and a good cross-section of buy-side firms and functions was represented. The forum sought to develop themes raised at previous forums and to facilitate open discussion and transfer of ideas, particularly between middle office, IT and data management functions.

### SUMMARY

The LA forum also discussed the detailed findings of some recent independent research conducted by Deloitte. A specialist team of Deloitte asset management consultants conducted the survey, believing there to be insufficient research available on the management of index data and benchmarks within the buy-side.

The Deloitte study considers the cost structure of data management within global asset management firms with a focus on non-license fee costs, which are often hidden within other costs. 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 research suggests that many firms recognize the unique challenges of managing an increasing volume of index data and benchmarks and some are addressing this as a corporate governance issue. Index data management is receiving extensive attention at executive level. Despite this, few firms have teams dedicated to managing index data and benchmarks – staff typically spend only part of their time managing this data. Deloitte therefore measured and reported headcount as full-time equivalents (FTE) or percentages of FTE.

#### Attendees

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Capgroup  
.....  
Hotchkis and Wiley  
Capital Management  
.....  
Nuveen Investments  
.....  
PIMCO  
.....  
State Street Bank  
& Trust Company  
.....  
TCW Investment  
Management  
.....  
Wilshire Associates

## FINDINGS OF THE DELOITTE STUDY

- Many firms are keen to rationalize data sources, particularly the number of benchmarks – the more complex firms have an average of 7 FTEs working on benchmark data management
- 53% of data processing activity involves data collection and validation – many firms are therefore evaluating alternative processing models to reduce costs and boost efficiency
- 42% of study participants 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

42%

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



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RIMES Los Angeles forum participant

## DATA GOVERNANCE AND DATA PROCESSING

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 - it is impossible to implement strong data governance without first having robust data processing in place.

The research shows that firms typically invest far more in data processing than data governance. Firms source index data from a combination of data vendors and integrators. For the purpose of the study, Deloitte defined a source as a distribution channel, which could be an index vendor or a data integrator.

Those with 20 sources of benchmarks or more have an average of seven FTEs working in data management, the majority of whom are involved in collecting, validating and checking the data before it is used in business applications. Over time, having a high number of FTEs managing data increases a firm's cost base and compresses its profit margin.

Forum participants discussed the multiple challenges around data governance and agreed that localized sourcing shortened the time to onboard new sources but this could lead to data duplication:

*"Probably you have two, three, four or five people sourcing the same data, but they are from different departments. They don't really know that they're sourcing the same data."*

It was agreed that diversification of investment strategy is increasing the number of sources and benchmark families:

*"On a vendor basis, we probably work with about 40 specific vendors, and within each vendor, many different types of data feeds."*

Most forum participants supported the general conclusion of the Deloitte study that the FTE figures were quite conservative, given the complex nature of the data:

*“On the processing side, they all seem a little low.”*

Several forum participants have undertaken data governance projects; however, it was agreed that good data governance requires perseverance:

*“It’s been a huge headache...I don’t have an efficient way of monitoring the [data] usage.”*

In many firms, members of the data management team have to consult with the business on an ad hoc basis to find out which data is being used and for which purpose.

## DATA COSTS AND COMPLICATIONS

The Deloitte study reveals that most firms invest more heavily in data processing than data governance:

- Firms spend twice as much data processing resource collecting and onboarding new data sources than they spend validating them
- There are no industry standards for onboarding or administering indexes
- Many large firms have no formal data governance in place.

The data management challenge is complex and multi-dimensional: index data and benchmarks are increasing in both volume and complexity. New sources of index data and benchmarks - along with customs and blends - are an integral component of investment strategy and will continue to be part of mandates, so the challenge will inevitably increase.

However, data costs are difficult to understand and have two constituents - license fees and data management costs. In practice, license fees are fixed in the short term and are relatively easy to measure. Data management costs are often more difficult to identify and quantify - they are often subsumed within



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other costs, such as IT. The Deloitte study suggests that, for most firms, immediate savings opportunities lie within the hidden data management costs.

The Deloitte survey confirms that virtually all firms are grappling with similar data management challenges. Index data and benchmarks present a unique, universal management challenge because of the characteristics of the data and its many uses throughout the firm. The data is inherently complex, expensive to manage, and difficult to control. Because data usage is fragmented throughout the firm, data management is often piecemeal: everyone and no one owns it. LA forum participants confirmed this:

*“Well, there are so few people totally dedicated to it. There are a lot of people who have a piece of it, so it’s spread out.”*

Forum participants also agreed that an increasing amount of time is spent validating and transforming data to prepare it for use in business applications:

*“It’s getting more and more difficult, yeah - especially to enter the data [into business applications].”*

Moreover, all of the variables surrounding the data are susceptible to change, often at short notice:

*“I had a case yesterday where the market data changed sector descriptions on us. We had to change some rules on the file, but the vendor data itself was wrong.”*



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## DATA VALIDATION, TRANSFORMATION AND CONTROL

The discussion moved on to consider other elements of data management, including validation and transformation. These two activities consume a lot of resource and it was agreed that expert partners could play an important role in helping firms overcome the operational difficulties of multiple data feeds and formats.

The Deloitte study found that working with a specialist benchmark data provider could help cut data validation and transformation

costs. Forum participants confirmed that index vendors often changed data formats without giving notice:

*“They’ll change the data from under us without telling us, that’s the biggest thing.”*

One of the frustrations expressed by participants was the lack of consistency in data formats and standards across vendors. There tends to be more issues where data was more complex, such as customs and blends:

*“If it’s custom data, you’re more likely to have issues, because we also dedicate a lot more people to custom data.”*

Several participants expressed a wish to rationalize the number of indexes in order to cut costs and tighten control. Firms increasingly make recommendations regarding index selection and make clients aware of potential costs:

*“Yeah, we’ll recommend - I mean, if it’s a very expensive custom index, we’ll go back to them and say, “It’s going to cost X”*

However, only a few firms pass index costs on to clients:

*“A lot of people are sometimes too nervous to do that, even if they want to do that.”*



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RIMES Los Angeles forum participant

## CONCLUSION

The LA forum concluded with a general discussion around the need for improved control and 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 within the terms of license agreements.

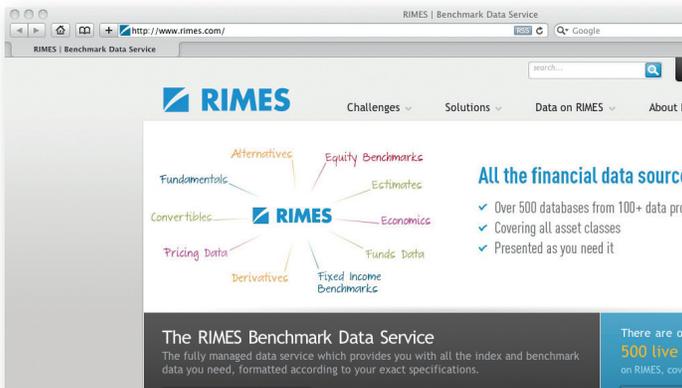
Many firms recognize the importance of data governance and it is moving up the corporate agenda. As volumes of index data and benchmarks increase, so do license costs and the costs of managing the data.

With margins under pressure, firms need to invest in data governance to align costs closely with business objectives. Some firms are evaluating new business models, including the use of managed services to achieve a more strategic data operating platform. Working with specialist partners can also help firms increase productivity by allowing them to focus on the core business of managing money rather than data.

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



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## 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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