Index & Benchmark Data Management

Index and Benchmark Data: The Road to Best Practice

RIMES Forum Series
Frankfurt & Munich

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RIMES hosted its first two forums in Frankfurt and Munich during December 2012, entitled **Index and Benchmark Data - The Road to Best Practice.** These were part of a program of 25 RIMES buy-side forums scheduled worldwide during the year. The overall aim of the forums is to develop an industry dialogue about a best practice approach to the management of index data and benchmarks.

ATTENDEES

Deutsche Asset Management
Investment Data Service
MEAG Munich Ergo Asset Management
NORD LB
Union Investment
Universal Investment

EXECUTIVE SUMMARY

→ The forums considered some of the common challenges associated with managing a growing number of indexes and benchmarks. RIMES also presented the findings of some independent research conducted by Investit, a European buy-side consultancy. The research surveyed 34 investment management firms mainly within Europe and representing around 11% of global total assets under management.

The research suggests that index data and benchmarks present a growing challenge for all buy-side firms. The data is growing in both volume and complexity, making it difficult and costly to manage. Although license costs are a major concern, in practice the costs of managing the data are a multiple of the license costs. With increased pressure on margins, buy-side firms must become more efficient at managing index data and benchmarks.

Investit recommends that firms invest in a strategic data operating platform, covering all the processes, data stores, business applications and IT that support the business. A strategic operating platform is a prerequisite to good data governance, and good data governance is a major milestone on the road to best practice.

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THEME 1 COSTS AND BUDGET PERCEPTIONS

The forums opened with a general discussion around costs and budgets. The Investit research shows that costs are a growing concern: all firms must achieve more with the same level of resources or less.

➔ **93% of firms believe license costs to be the largest index cost component**

➔ **only 20% of firms expect an increase in budgets to cope with the challenge**

License costs are a universal concern but most agreed that these are fixed in the short to medium term. Of greater concern is the rising cost of managing index data and benchmarks. In reality many of these costs are spread across multiple functions, including IT and data management. It is hard to identify the internal costs of managing index data and benchmarks and this is a prerequisite to controlling them. In practice, the internal costs of managing the data are high and a multiple of license costs:

> **"So, the challenge is to evaluate how you might lower costs for managing benchmarks."**
> Frankfurt delegate

Participants reported on individual attempts to measure the total internal costs of index data and benchmarks but it was agreed that there was no standard approach or method:

> **"We tried, I don't think there will be any correct calculation at the end of the day, but if you try to look at your processes...the relation to your license costs looks different."**
> Frankfurt delegate

It is always difficult to establish which costs to include: for example, what percentage of IT costs should be attributed to benchmark data. Then there are the wider issues of opportunity costs, including the time taken to onboard new indexes or resolve data issues.

Forum participants are at different stages of addressing the cost issues associated with index data and benchmarks, especially the hidden costs. However, most are aware of the scale of the challenge and are beginning to take positive steps.

THEME 2 GROWING VOLUMES, INCREASING COMPLEXITY

The Investit study shows index data and benchmarks to be a two faceted challenge: volumes are increasing and so is data complexity.

75% **75% of companies surveyed expect the volume and complexity of indexes to grow**

41% **41% of the managers are using more than 250 blended benchmarks and 20% are using more than 500**

Participants at the Frankfurt and Munich forums confirm this and agreed that the problem was further complicated by the increased use of customs and blends:

> **"The universe of benchmark data is growing more and more and it's becoming more customized."**
> Munich delegate

Several factors are driving volumes and complexity. More indexes are being created almost daily, investment techniques are becoming more sophisticated and plan sponsors are demanding more from investment managers.

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Some firms use business applications to manage customs and blends, but many rely on spreadsheets. Controlling the use of indexes for blending purposes can be difficult if there is no centralized data management function or structured business processes to monitor and control use.

The data management challenge is aggravated by a lack of standards across vendors. Each has its own methods, standards and rules, which creates complexity and causes difficulty onboarding new indexes.

Even firms that are well organized find the increasing complexity of new indexes and the increasing number of vendors a daunting challenge that can cause delays:

> **"The time to market from new vendors is still very long."**
> Frankfurt delegate

The Investit study recommends that firms invest in a strategic operating platform as a first step towards good data governance. The study also shows that perceptions of the data operating platform vary by function:

100%
58%

100% of data management respondents view their operating platform as strategic compared to 58% of performance measurement respondents

Participants acknowledged a need to develop standards and procedures to improve the management of index data and benchmarks. It was agreed that the problem needs to be addressed and that doing nothing is not a practical option.

THEME 3 QUALITY – DIFFICULT TO DEFINE, HARDER TO MEASURE

> **"I feel we have lots of data issues when it comes to the quality."**
> Munich delegate

Index data and benchmarks are more complex than other data sets. A lack of standards means that it is difficult to maintain quality and consistency. There are many vendors and each has its own standards, making quality control difficult:

> **"We have no quality assurance within the data provider. So that means all the data controls lie with us."**
> Frankfurt delegate

Many functions throughout the firm use the data for diverse purposes. In practice, data management is often fragmented which makes it difficult to maintain quality. Moreover, each vendor has its own rules and methods, making it hard to maintain data quality.

> **"We don't have the knowledge in our data team to check if the data is that which we really need."**
> Frankfurt delegate

The specialist nature of the data means that expertise often lies within a business function rather than within the data management team. Errors are difficult to identify until the data is in the hands of users. Often it is the investment managers or performance measurement team who investigate and resolve errors. Issue resolution typically takes far longer than with other data types, and often requires index vendor input:

> **"If it's an IT issue, it might be fixed very quickly. If they have to go back to the vendor then it might take a lot longer."**
> Frankfurt delegate

Participants agreed that maintaining quality is hard with increasing volumes.

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Quality issues arise at all stages of the lifecycle so it is essential to adopt a more systematic approach to data management and governance.

THEME 4 GOOD GOVERNANCE – MORE OF A JOURNEY THAN A DESTINATION

"There's always the question of whether or not I have the appropriate license."
Munich delegate

Data governance is a growing concern for all firms. The aim of good governance is to ensure that data acquisition is aligned with business needs and to ensure that its use is in line with the governing license agreement. Many firms find it hard to keep track of which data is being used throughout the firm and for what purposes. This makes it impossible to ensure that data usage is always permissible, and it also makes decommissioning difficult:

"If an index is not used within a benchmark anymore then you cannot easily switch it off. You still need to ask some people if it can really be discontinued."
Frankfurt delegate

Investit suggests that a prerequisite to good governance is an effective operating platform. However, good governance is an ongoing challenge, even for firms that are very well organized:

"We use indexes from a lot of different vendors. Governance is particularly difficult to achieve as managers have a problem in keeping control of the data"
Munich delegate

Implementing a central warehouse for data is one way to address the data challenge in large firms spread over different locations with multiple systems. However, building a physical warehouse is a challenge in itself that can increase operational risk. Centralization and documentation of processes is a good starting point on the road to good governance. Using a specialist managed data service offers a flexible, responsive and cost-effective way to implement a strategic operating platform for index data and benchmarks.

The forums showed that firms are at different stages of development of data management methods. They also confirmed that achieving good data governance is a challenge, even for well-organized firms. Participants agree that using a managed data service can help firms achieve more with less while increasing their overall business agility.

We are encouraged by the contributions of forum participants. RIMES is committed to helping the industry develop a best practice approach to the management of index data and benchmarks. Good progress has been made during 2012 but there is still work to be done. We look forward to further discussion during 2013.