



RIMES hosted its fourth **Paris** forum in February 2013. The forum developed some important themes raised at previous forums during 2012, concerning the management of index data and benchmarks. This RIMES forum was entitled:

Benchmark Data Governance: Understanding the Costs and Risks

SUMMARY

The forum also considered the conclusions of some independent research conducted by Deloitte towards the end of 2012. Deloitte attended the forum to present the research and to answer questions. The Deloitte study considered the entire data value chain within buy-side firms and involved in-depth onsite engagements with 13 firms. It concludes that financial data is no longer a back-office issue but is becoming of strategic importance for all buy-side firms.

As data grows in volume and complexity it becomes more costly to acquire and to manage. The Deloitte study suggests that many buy-side firms now recognize the importance of financial data and are addressing data management as a corporate governance issue. Index data and benchmarks are a crucial component of this data challenge as they are inherently complex and expensive to manage.

The Deloitte research also highlights how difficult it is to delineate total data management costs. In many firms there is little or no dedicated resource: typically, individuals spend only part of their time managing data. All findings were therefore reported in terms of fulltime equivalents (FTE) or percentages of FTE.

Attendees

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AG2R La Mondiale
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BNP Paribas
Securities Services
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CNP Assurances
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COVEA Finance
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GIE La Française
Asset Management
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Groupama Asset
Management
.....
La Banque Postale
.....
NATIXIS Global
Asset Management

KEY FINDINGS OF THE DELOITTE STUDY

- The number of people involved in data management is more closely correlated to the quantity of data sources rather than AUM, reflecting the complexity of the business rather than its size
- 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 potentially unidentified scope for rationalization
- 53% of data processing activity involves data collection and data transformation.

Most firms want to streamline data sources in order to cut costs and tighten control. However, good governance is a prerequisite to rationalization. Firms need to understand exactly where they are in order to move forward. The forum revealed a perceptible shift in the importance of data governance. Several participant firms have embarked on data governance projects or enlisted expert help to improve processes and control. Data management is receiving attention at executive level.

The forum concluded that data complexity is likely to continue to increase as a result of product innovation. New sources of index data and benchmarks are an integral component of investment strategy and will continue to be part of mandates. Index data and benchmarks are no longer a preserve of IT and back-office functions – they have become a corporate governance issue, requiring consolidated vision and planning.

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RIMES Paris forum participant

DATA GOVERNANCE AND DATA PROCESSING

The Deloitte study considered two families of data management activities:

- **Data governance** Data purchase, monitoring and usage control
- **Data processing** Data collection, validation, transformation, storage and distribution.

Managing an increasing volume of data increases costs and operational risk. Most firms have a grasp of license costs, which are visible. However, understanding data management costs poses a far greater challenge and includes the teams, systems and processes that handle data throughout the firm.

The Deloitte study concludes that many firms do not have proper control over their index data and benchmarks and there is universal concern about the large and increasing number of sources. Participants agreed that rationalization and centralization are essential to control costs:

"We would like to rationalize to avoid searching for information all over the place and to better manage the contracts that we have with providers."

Data management costs are higher for index data and benchmarks because the data is complex and often mandated:

"When we win a mandate we are obliged to take the index that the client wants."

Many firms source data from a combination of data providers and integrators. Firms have an average of seven staff acquiring, checking and validating data before its use in business applications. In practice, the challenge faced by participants is not whether to rationalize sources but how to do so.

Participants agreed that decommissioning indexes is also challenging and that it is often difficult to ascertain which indexes are necessary. Some firms had simply switched indexes off to gauge the reaction:

"The idea is to stop feeding and see if people react by the end of a week, a month, six months."

Most participants reported a need to manage and support an ever-increasing population of

benchmarks, which is increasing the overall cost of doing business. It was agreed that managing benchmarks requires specialist skills and experience:

“Benchmark management is already a complex profession that includes a lot of skills.”

DATA MANAGEMENT – COSTS AND COMPLICATIONS

Most firms spend more on data processing than data governance:

- Firms spend twice as much 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.

Some participants are very concerned about the costs incurred in bringing on new sources:

“I think what surprises me is the time that we can lose collecting data.”

One of the complications is that vendors have different data structures and formats:

“They all have exceptionally complicated models that are very different from one another and we lose a lot of time trying to gather data.”



“There is a crisis in benchmark management at the heart of the industry.”

RIMES Paris
forum participant

It was noted that the industry would benefit from a standard approach as the current situation works against all users. An increasing number of sources is accompanied by an increasing number of formats, which increases complexity and processing costs. The current situation is unsustainable and inhibits business agility:

“There is a crisis in benchmark management at the heart of the industry.”

Many firms have few or no formal governance processes to control data usage throughout the firm. It was suggested that governance needs to be improved in parallel with rationalization and centralization. Most firms acknowledge the need to invest in processes and procedures to develop a strategic operating platform.

All agreed that the time is right to invest in data governance. As more data suppliers arrive all the time, the challenge grows continually. Participants reported varying degrees of success in establishing the right global/local mix of data license agreements.

The discussion moved on to archiving index data and benchmarks. Although this is not often regarded as a governance issue, there are inevitably licensing issues surrounding the storage and redistribution of data:

“For example, there are sellers who say that you cannot keep something for longer than a year in archive or others for five years. “

Participants discussed the inevitable overlap between legal and technical responsibilities, particularly regarding data distribution and storage. It was agreed that virtually every technical project had legal implications.

DATA VALIDATION, MONITORING AND CONTROL

The discussion moved on to data validation and control. All firms spend a lot of time validating data and checking it for completeness, timeliness and accuracy. This can be a protracted process, given the varying needs of different departments and functions.

In many firms, if an index does not pass the necessary checks, it is recalculated, which takes time. There is a lot of checking and rechecking of index data and benchmarks:



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“The concern [is] that everyone re-does the same calculations to make sure they are 100% accurate.”

However, most firms realize that there are practical limits to the number of checks that can be performed:

“At a certain point we have to rely on a value-added production chain.”

Some participants reported that index data and benchmarks were tested more thoroughly downstream, towards the client:

“10 minutes before going to see the client we start to take interest in the pertinence of the reporting that we have just done.”

It was agreed that checking data increased data management costs. However, these costs increase significantly when checking is performed downstream, nearer the client. It was noted that data integrators could help with automation but could only assist with index data and benchmark validation if this was a specialist service:

“They realized that there was an additional cost to check all the data that they received and then applying the corrections with this type of general integrator. In the end what they gained with automation went on correction.”



“The concern [is] that everyone re-does the same calculations to make sure they are 100% accurate.”

RIMES Paris
forum participant

CONCLUSION

The forum concluded with a general discussion around index data and benchmark control and governance. 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. The forum indicates that many firms are unsure about which data is in use and for what purposes. So, although firms spend a lot of time checking and validating index data and benchmarks, many do not monitor or control its use. This potentially increases operational, financial and reputational risk.

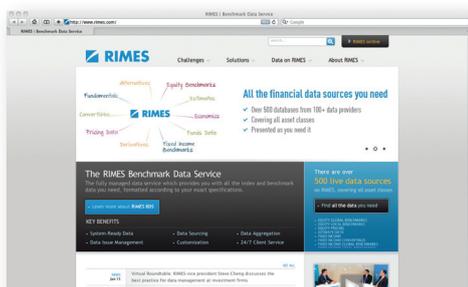
Many firms recognize the importance of data governance and it is moving up the corporate agenda. As volumes of index data and benchmarks increase, so do license costs and the costs of managing the data. With margins under pressure, firms need to invest in data governance to align costs with business objectives.

The forum suggests that many firms either aspire to - or are in the process of - rationalizing their data sources and centralizing data management. Although both may be desirable, centralization should not be pursued at the expense of flexibility. On the other hand, decentralized data acquisition and management can increase costs and reduce control.

As index data and benchmarks are likely to increase in both volume and complexity, the time is right for firms to take a more strategic approach to data management. This begins with a strategic vision of how data will flow through the organization, showing clear processes and responsibilities that obviate the need for repetitive checking and validation of data.



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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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