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**A global view
of data
management
trends and
challenges**
**The RIMES
2018 Survey**

Summary

This is the 6th annual RIMES client survey. Completed in late 2017 and early 2018, it straddled a period of substantial regulatory change with both MIFID II and the first European Benchmark Regulation (BMR) deadlines coming into effect. It also followed another year where the trend continues for investors to move towards low-cost investment products, particularly from active to passive funds. On the back of these changes, the survey provides insight into the 2018 priorities and approaches for data management in investment firms, and how they differ from region to region.

The survey shows that managing costs is still the most important data priority for investment firms this year, and especially so for US & Canadian firms. This begs the question as to whether the effectiveness of traditional approaches to data management stack up. RIMES has run annual client surveys for a number of years - time and again costs and quality of data have ranked highly in the responses. This year's survey reinforces that there is no single silver bullet - firms are combining various approaches to reduce the overall impact of their data management costs with distinct trends observed between US & Canada, EMEA and APAC. The survey gives insight into the increasing appetite for outsourcing data management and the specific data & functions being considered. This is particularly true of EMEA firms where cost pressures appear particularly high and there is a suggestion that there is limited merit in further rationalizing data vendors. US & Canadian firms are more bullish on the value they can extract from vendor and operating model rationalization.

In the APAC region, sourcing data for business growth is a key feature with firms considering sourcing all forms of market and economic data from external parties.

The survey highlights the ongoing efforts and progress of firms in complying with current and future regulations and their approaches to doing so. Firms admitted that, in many cases, they are still working on meeting their obligations, often after regulations have already come into effect. It is clear from responses that some firms are either unaware that upcoming regulations are applicable to them, or how to comply and more must be done to rectify this.

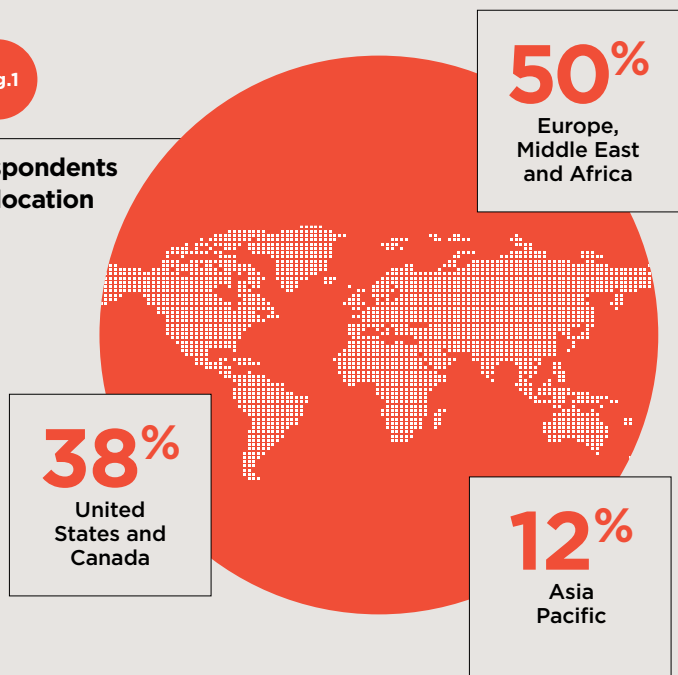
Background

For this year, a two-part survey was issued investigating firms 2018 priorities for market and reference data management, as well as a focus on regulation and BMR in particular. The survey was completed by 90 respondents, the majority identifying themselves as investment management firms, with a healthy representation from pension, insurance & asset-owner firms as well as custodians and asset servicers. Respondents were worldwide providing a good coverage and insight into the different views and perspective of firms in EMEA (50%), US & Canada (38%) and APAC (12%). 50% of firms had assets under investment or administration in excess of \$100bn, 24% in our middle tiers between \$31bn and \$100bn and the rest below that.

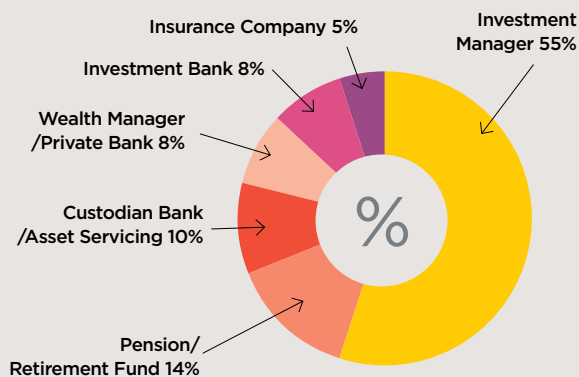
Responses

Fig.1

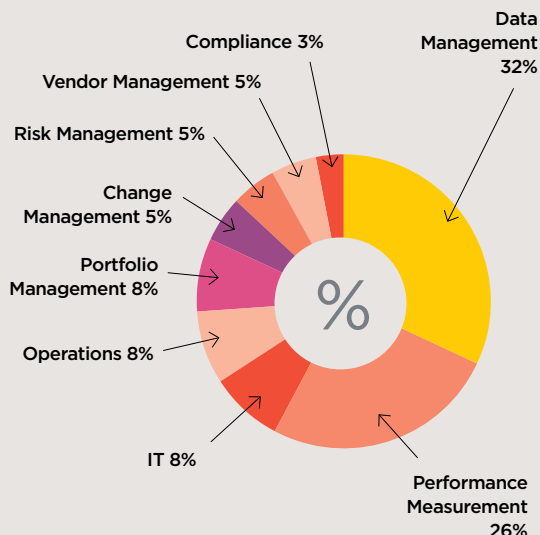
Respondents by location



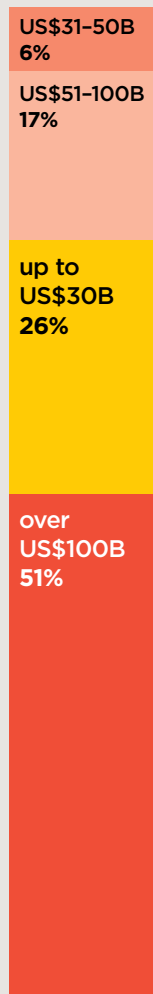
Respondents by type of firm



Respondents by business area



Respondents by size of firm



2018 Market and Reference Data Priorities?

Market data is still viewed as an expensive necessity for financial services firms. Despite being the core focus in previous years, cost control and data quality remain the priority for most organisations, with over 60% of firms across all business categories agreeing.

50% of investment management firms aim to source additional data to meet new regulatory obligations, compared with 36% who were sourcing data for business growth. This is particularly pronounced for EMEA firms (51%), whereas US & Canadian, and APAC companies cited this as their least important initiative; 29% and 27% respectively. US investment managers are more bullish about sourcing data for business growth but are equally the most cost conscious with over 70% of US firms rating this as their 2018 priority. In APAC, firms sourcing data for business growth was the stand-out priority with nearly 75% of firms, or respondents agreeing.

Actions to address data management and market data costs

What is clear is that there is no single agreed approach to dealing with data costs. In the survey, most firms opted to combine two or three different approaches, with some considering four or even five different methods. Clearly addressing market data costs using multiple approaches could be an expensive initiative.

Respondents were asked to select as many of the proposed solutions that were applicable. The spread of results revealed that there is no universal remedy to data cost control with many firms looking to; rationalize the number of market data vendors they employ (36%), change their operating model (38%) or switch to more competitively priced vendors (31%), with all three being the most popular choice for US & Canadian-based companies.

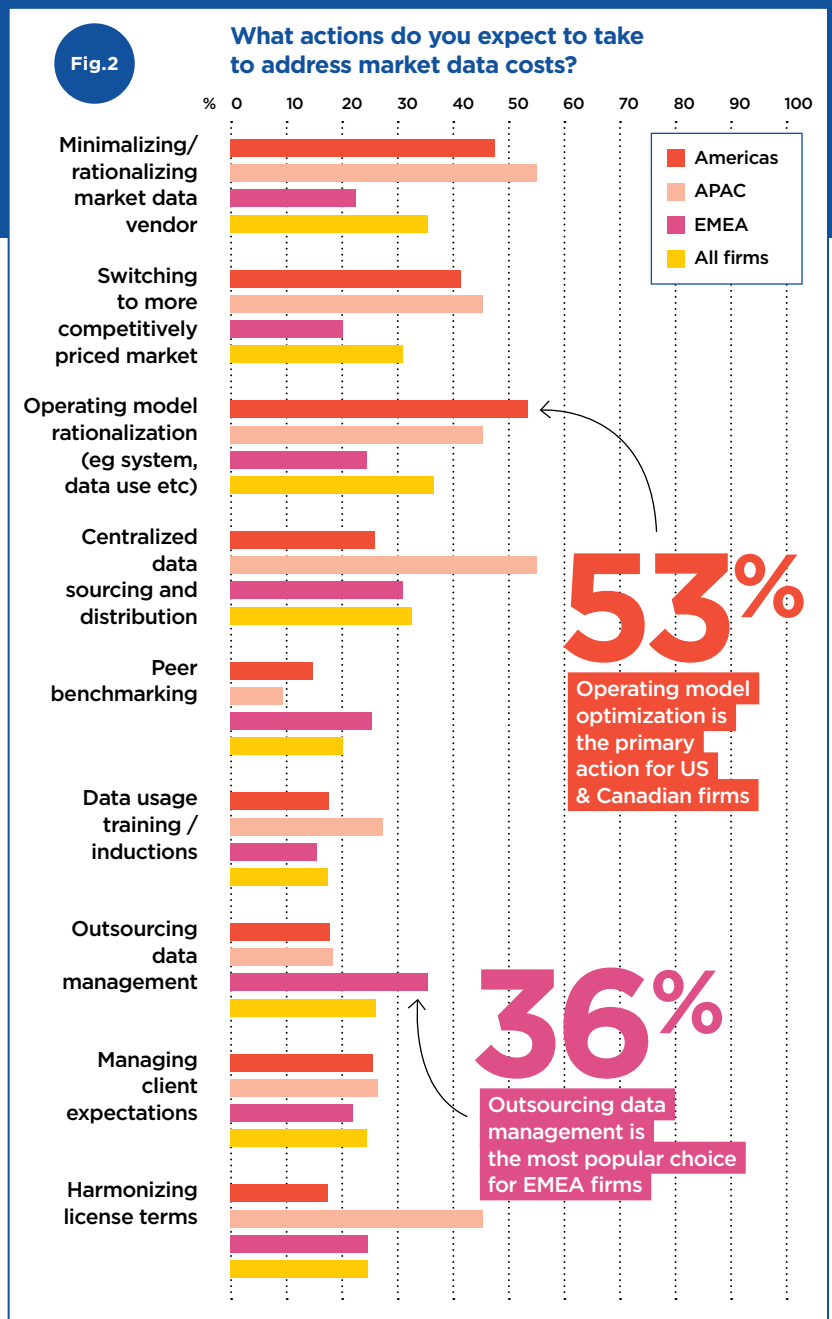
Centralizing data sourcing and distribution at 32% has historically been offered up as a mechanism for market data cost control, with 54% of APAC managers agreeing. In this region a general, multi-pronged approach is prevalent with several firms suggesting that they would be looking at the vendors they use, the terms and costs of those vendors and their own operating model. There was little appetite for peer benchmarking. US & Canadian firms favour an operating model change to address rising data costs, as well as switching to more competitively priced vendors. This is a view shared by APAC firms but there is clear water between the approaches of US, Canadian and APAC firms with those of companies based in EMEA.

In EMEA outsourcing data management is the most popular choice with 36% of managers indicating that they are looking to this to reduce their data costs. Rationalizing or switching vendors is the less popular choice for EMEA, suggesting that European managers believe they have already optimized their use of data and do not expect there to be much room for reduction in data license costs beyond the initiatives that they have already employed over the past few years. We may be able to conclude that the traditional approaches to data management, historically employed by European firms, are no longer as effective as before and outsourcing is perceived as a future solution.

Methods for data usage management and optimization?

Based on our knowledge of the market, we had hypothesized that the management, governance and optimization of data use would play a major part in controlling costs. We provided a series of options that we felt were employed in the market and invited recipients to select all that they currently use for managing usage.

The results showed that inventory management - understanding which providers were providing which data, often in conjunction with managing licenses - is the most commonly



used. Investment banks, 60% of custodian banks and asset servicers, and over 50% of investment managers use inventory management for data usage optimization. Respondents who identified themselves as being in either IT, Risk Management or Compliance claimed their firm was using inventory management; much more so than Data Management, who identified combining inventory management with a greater spread of initiatives as part of an overall solution.

We were pleased to see the degree to which data usage mapping - tracking the use of data across the enterprise - is employed, with pension funds and insurance companies citing this as their preferred mechanism for managing data. Arguably, asset owners have

simpler market data requirements in their operating model than investment managers; they have fewer products for which to source data and as such data usage mapping is a viable solution. Investment managers, on the other hand, tend to have a greater variety of products with overlapping and complex market data requirements. Mapping data usage can be a significant task to establish and maintain in such situations.

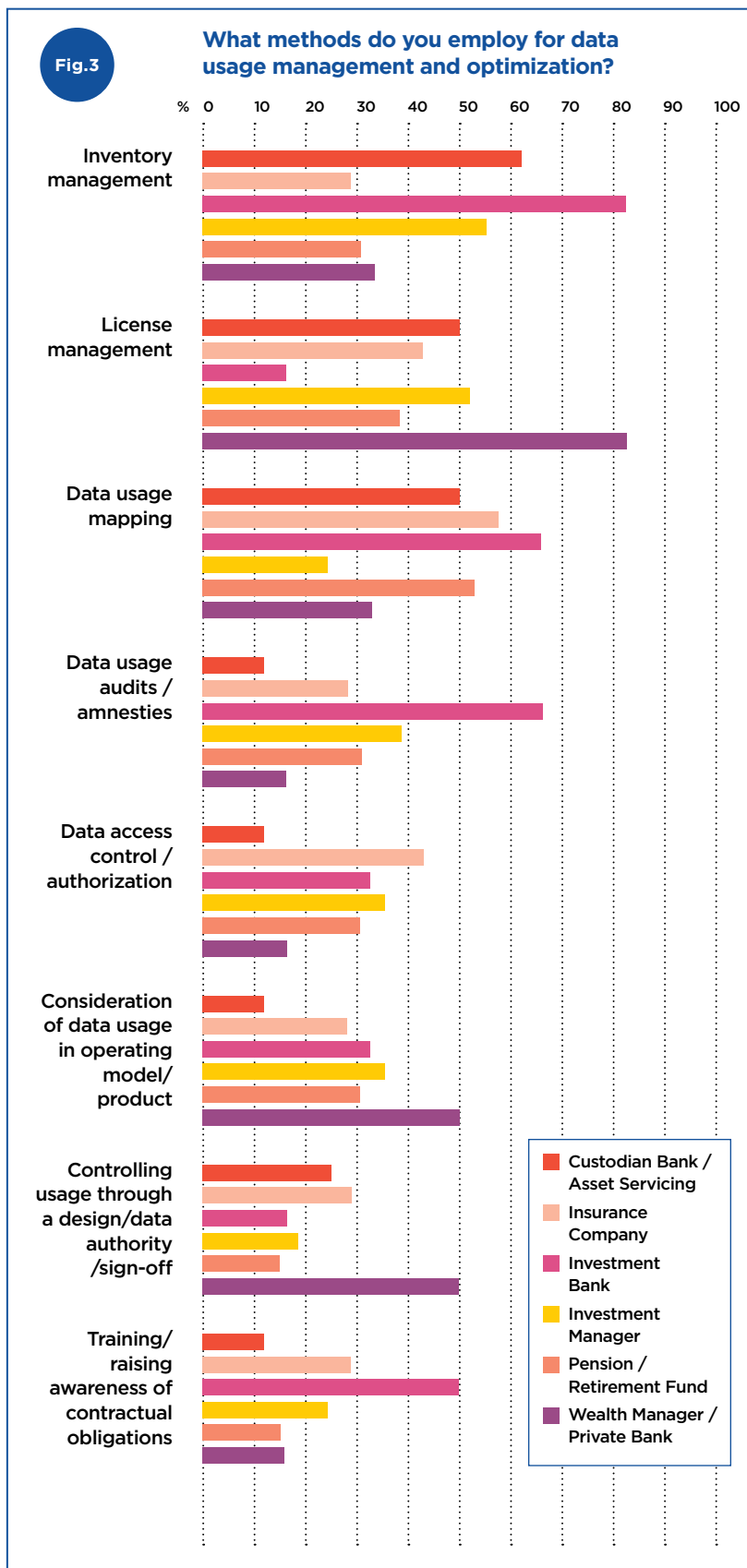
In recent years the role of a ‘design authority’ or ‘data authority’, be it a single person or group, assuming the responsibility of controlling data usage has been promoted as best practice. However, this languished in last place with fewer than 20% of investment managers employing this method.

Data usage management is hard, but an absence of good governance and control quickly contributes to spiralling data costs, especially when business teams are given free rein to ingest data from numerous sources. The variety, combinations and extent of methods being employed, whilst data costs are still a priority issue, suggests that some solutions are not always as effective as hoped.

Outsourcing data management

Over the past few years outsourcing has gained popularity and expanded beyond the traditional custody, fund accounting and, latterly, investment operations/middle office functions. Outsourcing Data Management has been a popular conversation amongst the asset management community with many, especially in EMEA, considering this the next phase in the evolution of data management. Understanding that there was appetite for this in the market we were keen to understand what data management activities firms would consider outsourcing if they could, and which they felt were important to retain.

What we found was that there is demand for outsourcing many of the elements of data management, but no consistency on which capabilities and services to outsource.



Technical data integration and data storage & security were more likely to be considered for outsourcing than retained. These are low-hanging fruit and are typically the domain of an IT department. Even so these were popular choices with IT departments with 80% of IT respondents agreeing.

Data integration is one part of preparing data to ensure that it is 'system ready' and typically co-exists with data quality assurance. However, most outsourced data solution vendors do not provide this as a service; they might highlight poor quality data but they won't correct it.

The survey showed that there was appetite for outsourcing operational/functional responsibilities of a Data Management department, though the responses were more generally divided. Data sourcing, mastering and quality assurance are all aspects of data management that are under consideration for outsourcing, especially in EMEA where there is a longer heritage of outsourcing business functions.

61% of respondents consider the data management of market prices as key a item to be outsourced, closely followed by economic data (59%) and corporate actions (58%).

Unsurprisingly, "Sourcing and management of indices and benchmarks" scored highly at 68%. Most firms would also consider outsourcing OTC derivatives pricing, with 54% of respondents identifying that this is something they have outsourced or would further consider doing so.

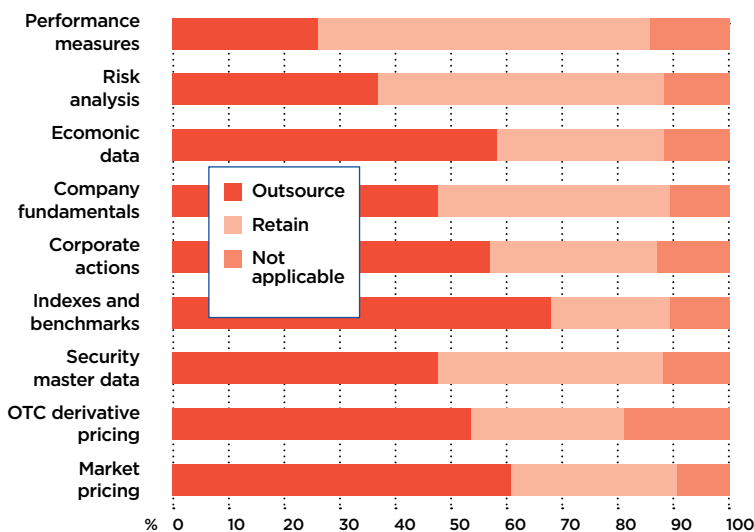
In general, when asked, firms were more likely to consider outsourcing data management than retain it. Only in the case of risk and performance measures, based on portfolio rather than market data, are firms less likely to consider outsourcing, with 50% expecting to retain the generation and management of risk analytics and 60% preferring to retain performance measurement. This should be uncomfortable reading for many fund administrators branching out into middle office services who have targeted both data functions in recent years.

Preparedness for next wave of regulation

Acknowledging that regulation has driven change in recent times, and that it will continue to do so throughout 2018/19, this year's survey covered participants' preparedness in meeting their regulatory obligations. On average, only 40% of respondents admitted to being ready or on target to meet their upcoming regulatory obligations. Recognizing that the survey was conducted in late 2017 and early 2018, a period during which a number of regulations were coming into effect, 14% of firms are knowingly behind schedule in implementing upcoming or existing regulations with MIFID II, the Extended Senior Managers & Certification Regime and BMR programmes all under pressure.

By the end of the survey in February 2018, only 60% of firms were ready for MIFID II, meaning an alarming 40% were either unsure or behind schedule despite the proximity of this survey to the January 2018 deadline. More than a third of respondents were unaware of their preparedness for regulation.

Fig.4 Which data types do you believe sourcing, validation and enrichment could be outsourced?





BMR preparedness, compliance and preparations

Given the depth of experience of RIMES' clients in benchmarks and indices, we asked respondents about the impact that BMR would have on their firm. 24% were still evaluating, but over 40% of investment managers believe that it is an inconvenience, whilst 30% recognized that it had either a significant impact or complicated their current operations.

Despite our assertions, there remains confusion on the applicability of regulation, for example a number of respondent EU-based Investment Managers were unaware that the BMR was applicable to them.

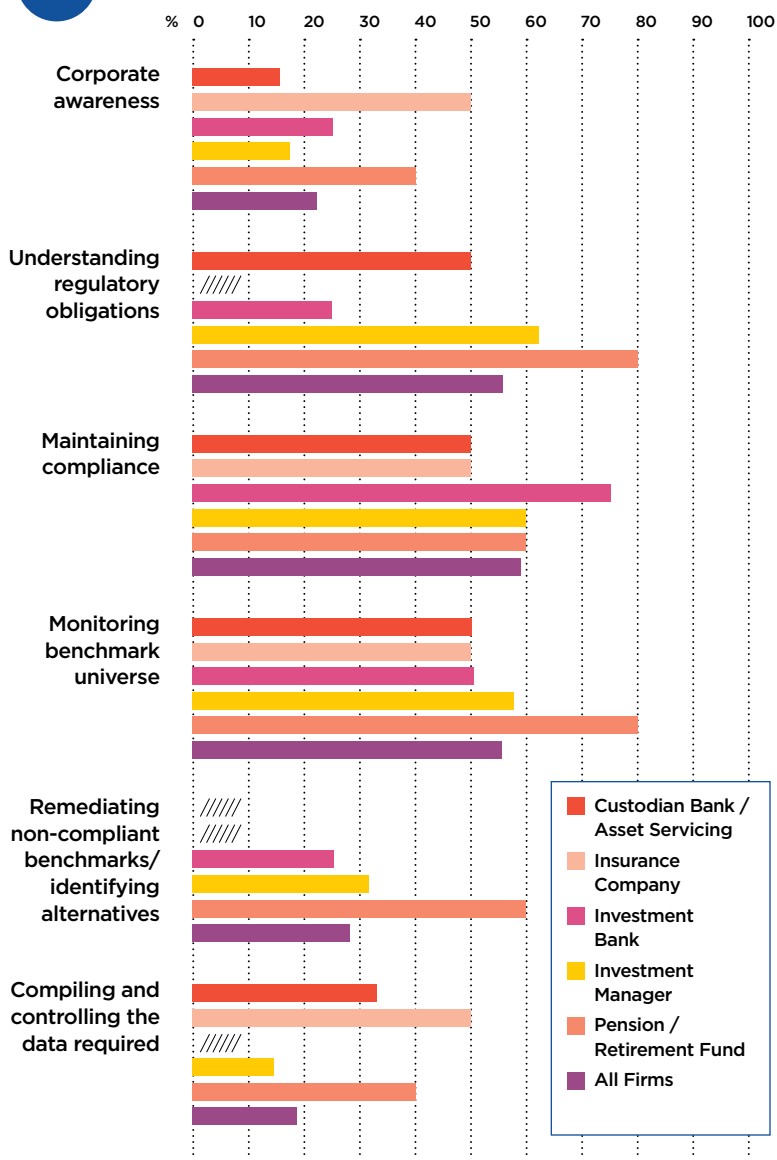
The most significant challenge firms face is understanding their obligations. 57% of firms recognized this, with 63% of investment managers and 80% of pension/retirement firms citing this. Those that did understand BMR recognized that maintaining compliance would be a challenge with 30% identifying that monitoring their benchmark universe would be an ongoing problem, and especially so for firms over US\$100B (41.5%), who we assert have a greater coverage of benchmarks.

Fortunately, corporate awareness of the BMR seems to be very good, with few firms expecting this to be a compliance challenge. We asked about each firm's preparedness for BMR. Around a quarter of firms had BMR projects underway with most of those completing their benchmark inventories and 23% of firms mapping data requirements. This would be where a number of respondents appear to have stalled with as few as 8% having so far completed registrations.

It is clear that BMR is another regulatory challenge that many firms will have to adhere to and that there are multiple issues understanding and maintaining compliance. It is likely to impact a number of departments across a firm, but the general consensus is that it is the responsibility of a firm's compliance function to address it, though only one compliance respondent in the survey agreed!

Fig. 4

BMR Challenges



It is clear that firms will have residual activities to comply with regulations sometime after the regulations come into force, before they even consider meeting their next round of regulatory challenges. For many European firms GDPR is the next looming deadline in May 2018 and, whilst this is not specifically aimed at financial services, it is a general regulation with which all European firms must comply. Of those surveyed 40% thought they were ready or on target, with an equal number either behind schedule or simply not knowing.

 **If you have any questions about this survey, email info@rimes.com**



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RIMES is a specialist firm that truly understands the data management challenges faced by its clients, including over 350 investment managers, pension funds, hedge funds, wealth managers, private banks, custodian banks and insurance companies in 40 countries, including 60 of the 100 largest global asset managers and 9 of the 10 largest custodians by TAUM.

