



Adopting a Standardized Approach to Reference Data Management

Major financial services organizations operate in a highly competitive market. The data services they use need to be leading-edge and productive in their own individual contexts, and so they tend to employ best-of-breed offerings from several different commercial vendors.

The challenges

The problem, though, is a lack of homogeneity. In a survey, recently conducted by A-Team Group for Capgemini, we found senior-level data management executives at financial institutions across North America and Europe complaining that each vendor's service is effectively bespoke and that consequently they are obliged to adopt the standards – data definitions, identifiers, data models and more – used by each of their suppliers.

Reference data management, they felt, is characterized by duplication of effort on an industrial scale that consumes time, effort and money for little in terms of unique business benefit.

These circumstances create significant and specific challenges:

Resources

Managing inconsistent reference data duplicates effort on an industrial scale throughout the banking and financial industry. In the face of declining margins and increased regulatory compliance, organizations are confronted with tough choices about an operating infrastructure that supports evolving business models, new products and fresh markets. They also face the challenge of increasing the quality of Financial Instrument Data (FID) on complex legacy infrastructure. In short, in tackling the issue they are consuming time and effort for little, if any, business benefit.

They are also consuming substantial financial resources in the form of long-term operating costs: each organization finds itself integrating the same multiple and mission-critical data sources, but within their own individual areas and with their own granularity of coverage, administrative processes and commercial models.

Furthermore, survey respondents said, there is a lack of tools and services that can make it easier to implement new services and gain from the use of standards where they exist.

Data quality and consistency

The financial data managers responding to our survey point to a lack of standardization in their industry's approach to data management and say there is a need for a collective approach to address wasted effort. Without collaboration among providers of reference and other data services, they feel, process standardization is impossible.

It's not just about inconsistency, though. There are also data quality issues. According to the EDM Council, the downstream impact of bad data can be significant. Statistics indicate that up to 30% of financial trades fail due to financial instrument data (FID) issues, and over 50% of institutions report they lack the agility to manage this type of data.

These challenges are accentuated by unrelenting regulatory pressure. New change management programs are needed to comply with regulations such as Dodd-Frank, FATCA, and AML, and meet BCBS 239, Basel III and MiFID II requirements.

Obstacles to compliance and to achieving other benefits, respondents tell us, include internal organizational and political issues in the form of business and data silos and legacy technologies.

The approach

There are several factors of which organizations should be mindful when faced with these challenges. For instance:

Digital business model

To address inconsistencies in internal infrastructure, thought needs to be given to creating a holistic digital business model. A uniform technology platform coupled with enterprise-wide consistency on processes can deliver considerable improvements in efficiency – especially when (subject to permissions) people across the organization are able to see and share data that previously may have been unavailable to them.

Supplier buy-in

Here's another recommended step. To achieve standardization organizations may need to develop a phased approach, requesting the development of standard feeds from each of their providers in turn and bringing them together in a comprehensive model. Key to the success of such initiatives, respondents felt, will be greater transparency from service providers around their data coverage roadmaps and client-onboarding strategies. Cooperating and planning in this way, they argued, will improve data quality and hence simplify reconciliations and reduce exceptions, thereby streamlining operations in general and reducing costs.

Industry view

The financial industry has no common language, and this lack of standardization brings a big burden to the industry."

"All vendors should use the same definitions and IDs and deliver in standardized formats."

[Standardization should involve] "setting generally accepted guidelines in regards to how data domains (parties, securities, prices, etc.) are created or supported, as well as to how these are governed. The goal is to enforce a level of consistency or uniformity to certain practices or operations within the selected environment."

"Now standardization is ad hoc, [but] standardization will be driven by regulatory requirements."



Regulatory compliance

Respondents to the A-Team Group survey agreed that a standardized approach to data management could also improve data lineage, which is fast becoming a de facto requirement for regulatory reporting, streamlining new product set-ups and allowing firms to gain more control over data attributes. In addition, it can deliver major improvements in data cleansing and validation, data sourcing and distribution, and management of identifiers and classifications.

Applicability

A standardized approach won't be appropriate for every process. Certain functions will require continued manual intervention; but areas in which most benefit may be gained from standardization include all the main data management tasks, as well as data distribution and wider data infrastructures, where the opportunity exists to reduce footprint and operational overhead. Survey respondents also agreed that a standardized 'Data-as-a-Service'-type model in the form of shared services or mutualized data management platforms is appropriate here.

There are no shortcuts to any of this, and to get there organizations will need to assign responsibilities and allocate budgets. Yes, there will be costs – but they should rather be seen as an investment, because the net benefit will be so much greater than the outlay.

Moving forward

Recommending an approach, even including specific steps such as those above, can only take organizations so far.

Each bank or financial institution will be highly familiar with its own specific issues and will also be aware it's not alone in facing the challenge of disparate reference data. But it won't have any detailed experience other than its own. Nor will it have any in-depth knowledge of steps others have taken and the extent to which those steps have been successful.

This is why it's worth seeking the external perspective of service providers who are not just familiar with a generic approach to the standardization of data management, but who also have real, hard experience of design, implementation and management in individual circumstances – preferably at comparable international business levels.

Such providers can apply their breadth of knowledge and experience to new and specific environments, analyzing the scale of the issue and the outcomes expected before developing a pragmatic approach to reference data management suitable to cases and needs.

A case in point

For instance, Capgemini offers Integrated Data Management services to help financial services organizations better manage and remediate their legacy data infrastructure while improving data quality to address regulatory requirements. Their work with leading companies across the globe have delivered outcomes such as:



Cost reduction

Up to 50% savings in the cost of reference data management, including elimination of large upfront licenses and efficient and timely data distribution to all relevant systems

Enhanced agility

Easier scalability through offshore resourcing and rapid speed of implementation and transition

Increased accuracy

Almost 100% accurate and up-to-date reference data, leveraging automation to reduce manual processing

Reduced risk

Lower global risk exposure by standardizing data to provide additional data parameters to quantitative research analysts for models that support Value at Risk (VaR), potential credit exposure and large exposure calculations.

About Capgemini

A global leader in consulting, technology services and digital transformation, Capgemini is at the forefront of innovation to address the entire breadth of clients' opportunities in the evolving world of cloud, digital and platforms. Building on its strong 50-year heritage and deep industry-specific expertise, Capgemini enables organizations to realize their business ambitions through an array of services from strategy to operations. Capgemini is driven by the conviction that the business value of technology comes from and through people. It is a multicultural company of 200,000 team members in over 40 countries. The Group reported 2016 global revenues of EUR 12.5 billion.

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Summing up

It was clear from the in-depth discussions conducted as part of this review that there is an appetite in every major international financial market for an end to long-term inconsistencies in reference data.

To achieve this there should be a collective effort from institutions, their data suppliers, regulatory bodies, services providers and other stakeholders to standardize data management and to support this move with enterprise-wide digital business models as well as rigorous and consistent best business practice.

It's felt most firms should gain from a standardized, shared-services model in about three years. Some, however, are already seeing the benefits of a standardized approach to data management. Capgemini has itself been active with major institutions worldwide to help bring about the change that is so clearly needed.

About this paper

This paper draws on discussions with 40 industry practitioners, including heads of data management at sell-side and buy-side financial institutions in the UK, mainland Europe, and North America.



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