

Data centrality

The heart of investment manager success

WHITEPAPER

In this paper, we investigate the benefits firms gain from shifting to a data centric environment, why so many organizations suffer with data problems and how they can overcome them.

Data centrality has become integral to investment managers' business success.

Accurate, timely and comprehensive data is vital to every part of the investment management value chain. The challenge for firms is to collect and control the data they need from the ocean of information surrounding them, and employ the right filters to extract useful and usable intelligence from it. That's no easy task when, as EY's 2018 Global Alternative Fund Survey points out, 90% of the data in the world is estimated to have been created in the last two years¹. And the exponential rate of growth shows no signs of slowing.

Managing the raw data volumes, and delivering the extracted insights in a scalable and extensible way without incurring high costs or adding headcount requires an integrated, targeted and well-defined strategy. Which is where many organizations struggle.

In this paper, we investigate the benefits firms gain from shifting to a data centric environment, and how they can best achieve it.

The new data paradigm

Data has become both an everyday necessity and a key source of competitive advantage for the investment management industry. Regulators, internal users and external customers are all getting hungrier for more, faster and better data, a demand that will only grow.

Regulation

Sweeping regulatory initiatives—from OTC derivatives reforms and accounting standards changes to FATCA/GATCA, Form PF, MiFID II, AIFMD, UCITS and GDPR—require fingertip access to a profusion of accurate and timely customer, position, transaction and exposure information.

To complicate matters, in many cases the data must be enriched to meet the particular filing requirements of each regulation—which often vary from country to country. Plus firms have to prove the data's accuracy and show where it comes from.

Internal demand

Internal customers and risk managers are also calling for more accurate and timely data.

Maintaining a robust investment book of record (IBOR) is a prime example. By providing an up-to-date view of all positions and transactions, a well-constructed IBOR allows front-office personnel to monitor their exposures and make better investment decisions. It supports vital middle- and back-office functions as well, such as calculating daily security-level performance measurement and portfolio attribution, management reporting, and real-time reconciliation against custodians or accounting systems.

Advanced data analytics are coming to the fore too, as firms strive to enhance their client acquisition and segmentation, servicing, product development, risk management, investment modelling and alpha generation.

Client imperative

Changing investor preferences/needs is the greatest risk facing alternative asset managers, according to the EY survey. And the same challenges face the wider investment management community: how to keep pace with increasing performance, fee and service demands, and do it while containing, and preferably reducing, costs.

Digitalization is a particular focus. Digital technology will transform the entire value chain, including new client acquisition, customization of investment advice, research and portfolio management, middle- and back-office processes, distribution and client engagement, notes PwC². How well and to what degree firms embrace technology will determine which will prosper in the years ahead.

Yet without a good handle on their data and how to manage it, firms won't be able to implement the next generation of automation and digital strategies. Data centrality, therefore, will be critical to investment managers' ability to keep pace with, and profit from, the digital revolution.

¹ *At the tipping point: Disruption and the pace of change in the alternative asset management industry*, EY, November 2, 2018

² *Asset & Wealth Management Revolution: Embracing Exponential Change*, PwC, October 30, 2017

8 benefits of data centricity

A comprehensive data management strategy, implemented by a focused team with senior management backing will not solve all an institution's problems. Nevertheless, it does offer varied and significant benefits while any firm that fails to grasp its evolving data management requirements will be left behind:

i) Front-office performance

To generate alpha, notes the PwC report, asset managers need to harness "the power of the largest data sets and the computing power to process data, identify correlations and back test investment strategies."

Leveraging accurate, complete and timely intraday data not only enables front-office staff to identify and take advantage of trading opportunities, but helps minimize risks, stay within trading thresholds and prevent style drift.

ii) Regulatory compliance

A single, controlled data source providing enhanced data timeliness, accuracy, transparency and access will help investment managers comply with their regulatory obligations. It is also extendible, allowing firms to meet future demands without having to start a fresh compliance project for every new initiative.

iii) Customer satisfaction

Higher quality data, delivered how and when clients want, will boost customer satisfaction and retention.

iv) Digital readiness

Data centricity is key to a digital future, by enabling firms to increase automation, improve data quality and service clients the way they want and demand.

v) Analytics insights

Data aggregation layers that create a wide-ranging view across the business enable investment managers to run intelligent analytics that help them better understand customers' demands, and the P&Ls of different client and business lines. Armed with this information, they can better model their businesses going forward, and make client service and sales and marketing more effective.

vi) Cost efficiencies

Successful data management projects can reduce the substantial costs associated with errors, manual processes and inefficient systems. In addition, they can identify unnecessary or duplicated data feeds, enabling firms to adopt a "receive once and publish many" approach.

As the latest Oliver Wyman/Morgan Stanley joint annual report³ notes, data management represents 10%-20% of firms' cost bases. It estimates automation can reduce those costs by ~20% on average and outsourcing by a further ~10%.

Many managers have attempted large scale re-platforming, but have achieved only mediocre savings, while hampering their front-end agility, says the report. "Use of data aggregation software presents a more immediate solution, while rationalization (internally and of vendors) can continue behind the scenes."

vii) Improved IT infrastructure

Sophisticated data technology and policies result in smoother data flows, fewer infrastructure stress points and better system integration.

viii) Business agility

An accurate view and understanding of data gives firms the control and flexibility to outsource (or insource) business functions, keep providers honest and change them where appropriate, since the firm is not beholden to an external party for its data views.

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³ *Wholesale Banks and Asset Managers—Winning Under Pressure*, Oliver Wyman and Morgan Stanley, March 14, 2018

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Achieving data centrality

While a data centric model offers substantial competitive and compliance advantages, getting there is not easy. Data management projects frequently result in over-budget running costs and project fatigue, while taking too long (or failing) to deliver business value.

All too often investment managers' data problems are seen as an IT issue. But regardless of how good the technology is, if quality control is poor, the upshot will be poor data. The desired quality depends then on firms' ability to leverage a single, robust data source.

Data centrality cannot be achieved by implementing a single system. Instead, moving to a data centric environment requires a wholesale change in operating model, spanning:

- Technology solutions
- Processes
- Organizational structure
- Roles and responsibilities
- Culture and education

Nevertheless, technology will be crucial. Creating the right infrastructure requires a combination of systems and services, distributed between outsourced managed utilities that can take over large parts of the commoditized data and in-house capabilities where firms want to maintain control over business sensitive information.

Hub at the heart of the infrastructure

To make it easier to control and manage, and thereby foster consistency, firms need to immobilize their data. The goal is a single master model that enables data to be "managed once and published many."

That model can best be accomplished by a hub-and-spoke infrastructure, built around an automated central data store providing seamless distribution to the system spokes radiating off it.

In-house implemented data hubs will offer significant compliance, risk management and efficiency benefits. But the advantages can be heightened through a managed data service that provides high quality data acquisition, normalization, enrichment and distribution capabilities.

This service becomes responsible for managing the disparate data sources, validating and reconciling the flows, and delivering high quality output. By outsourcing these data operations elements to a specialist provider, asset managers can leverage an efficient, scalable and auditable process, leaving them free to concentrate on their core capabilities.

Key capabilities to look for in a managed data service are:

- Extensive data source connectivity and coverage.
- Excellent counterparty relationship management.

- Open architecture to simplify provider connectivity.
- Highly automated data management and workflow environment.
- Normalization and enrichment capabilities to produce functional data outputs.
- Monitoring tools to check data status and identify and resolve any exceptions.
- Centralized updates to any data provider changes for ease of maintenance.
- Skilled and knowledgeable support team.

Conclusion

The quality of an asset manager's data management capabilities is increasingly central to their success. Moving to a data centric model is an enormous challenge. Large data projects can be lengthy and complex. Too often they become hobbled by internal problems, lose momentum and become the toxic project that struggles to deliver clear business value.

Instituting change requires clearly-defined upfront objectives, dynamic leadership and enterprise buy-in. It also demands strong project control to ensure the proper scope is maintained, progress and its impact is communicated, and the deliverables achieved. The challenge and effort involved may be considerable. But the rewards will be far greater.