HOW FINANCIAL SERVICES FIRMS USE TECHNOLOGY TO TURN DATA INTO ACTIONABLE INSIGHT

FORWARD-THINKING FIRMS ARE IMPROVING COMPLIANCE BY CREATING NEW REGULATORY FRAMEWORKS FOCUSED ON THREE IMPERATIVES

PLAYING BY DIFFERENT RULES

The dramatic rise in regulatory demands is one of the defining characteristics of post-crisis capital markets. For buy-side and sell-side firms, regulatory challenges have crystallized the importance of accurate, reliable, consistent enterprise data. Once deemed a liability, data in all its forms is now seen as an asset that should be treated more carefully and supported more strategically.

This transformation formed the backdrop for a variety of presentations and discussions at Financial Information Management (FIMA) 2014, a conference covering reference data, counterparty risk and data innovation. Held in London, the event showcased experts in data management, governance, quality, standards and regulatory compliance.

One of these was Bloomberg’s Ken Napolitano, who participated in a panel discussion about the changing role of the CDO and gave a presentation about “regulation-ready” data. The takeaways from both will be important for all firms to consider as the industry heads deeper into what many regard as a new era in regulatory compliance.

THE ROLE OF THE CDO

Five years ago, the role of the Chief Data Officer (CDO) didn’t exist. Today it is one of the fastest-growing executive positions in financial firms. Because the role is so new, its responsibilities are still in flux. Typically, the CDO oversees data policy, control frameworks, governance, management and acquisition. The CDO is also a vital influencer of other executives, informing their view of data issues and building consensus for decisions about technology, strategy, IT architecture and investment.
The panelists agreed that firms are realizing just how much of an asset data can be. Firms are moving away from using data as “the excuse to prevent an organization from advancing,” as one panelist noted. Part of the CDO’s role is helping others understand the implications of this, namely that data should be managed and measured with the same consideration firms give to investment portfolios. The key for CDOs is drawing clear connections between data and its ability to enable growth, increase revenue and strengthen compliance efforts.

“Firms that understand how valuable data is are capitalizing on it,” Napolitano said. “They are transforming data into an asset that translates into real opportunities and benefits that can be quantified for the board.”

It is important to note that the role of the CDO extends far beyond data. Engaging with finance, risk and other operational groups helps create a data life cycle that runs smoothly from the moment of acquisition through consumption and reporting. The panel noted that the days of reconciling data discrepancies at the end of this life cycle are over. Firms need to have the policies and principles embedded in data management to ensure consistency from the beginning of the process onward. Establishing standard data definitions, terms, dictionaries and owners will be critical to this effort.

A CHANGING MINDSET

Napolitano’s presentation, “Better Compliance Through Regulation-Ready Data,” began by acknowledging how counterparty risk and a lack of systemic transparency contributed to the scale of the financial crisis. While firms understand this, many are still not making enough connections to drive transparency, particularly with respect to unstructured data (“dark data”) and other sources of enterprise data that are subject to a growing number of regulations.

In order to control and capitalize on data in this environment, firms need a new approach to four complex challenges: acquiring, organizing, distributing and using data. While all firms intuitively understand that data is a vast, untapped resource for growth and innovation, very few are acting on this belief in a consistent or strategic way. By turning the theory into actual best practices, firms can extract greater value from data and technology, from the desktop to the enterprise.

STREAMLINING WORKFLOW

Adopting a new mindset about the value of data is leading firms to follow emerging best practices for enterprise-level integration and data consistency. These practices may be guided by vendor partners, but they are not vendor specific. They involve field-proven frameworks for integrating fundamental internal systems, such as decision support tools or compliance engines, with real-time market and reference data and analytics as well as applications for managing orders, trades, portfolios, risk and accounting.

They may involve open (non-licensed) APIs that do not lock firms into using proprietary tools, and open symbologies that make it easier to integrate security and entity data from many sources. Strategy informs technology, not the other way around. The end result is workflow that is more efficient in daily practice and more adaptable over time.

“When business strategy informs decisions around technology, the result is workflow that is more efficient in daily practice and adaptable over time.”

— Ken Napolitano, Global Head of Sales, Bloomberg Enterprise Content and Distribution
**BETTER GOVERNANCE**
Underlying every regulation is a concern about governance: where data originates, what processes govern it, whether users are following these rules, and if so, how to prove it to regulators. Firms that internalize a data-centric mindset will be better equipped to enumerate all the data sources, pathways, workflows and systems involved, because they will have invested the time and budget to do so.

They will understand that not all data is created equal. Knowing the operational purpose of data, including which data adds the most value to the business, makes it easier to set priorities and develop a governance policy that is efficient, effective and enforceable. If firms have reliable, well-organized data that supports the business strategy, it becomes easier to demonstrate the data lineage for virtually anything regulators want to know.
LOWER TCO
What the crisis made apparent was that conventional ways of acquiring and managing data do not hold up when firms are forced to do more with less. Redundant data sources and bespoke distribution systems set the stage for discrepancies. Data capitalization starts with abandoning pre-crisis practices and making trusted enterprise data the top priority. When data is consistent across the business, it eliminates the cost of resolving data disputes, fixing errors and rechecking work. Consolidating data sources also helps firms avoid paying for the same data twice.

EASIER REGULATORY COMPLIANCE
Pre-crisis, compliance was a “we’ll get to it later” task. But a massive increase in regulatory demands makes this unsustainable. Regulatory awareness must be embedded across the enterprise, from the front office to the back. Global regulators have made market rules and principles more comprehensive and cross-border, and this has concentrated regulatory efforts on three key imperatives:

• **Systemic risk reduction.** Firms can address systemic risk by managing data more efficiently. Again, open standards, identifiers and technologies are important. Open identifiers are less costly than proprietary offerings and easier to manage because they lack data dependencies. The LEI, for example, helps every firm understand risk more accurately. Open APIs enable firms to code applications once and switch data sources at any time without rework. When firms take advantage of open solutions, it creates more pressure for vendors, exchanges and other providers to support them as well.

• **Capital adequacy and solvency.** Regulatory requirements for capital adequacy involve data-intensive, complex calculations. Firms need a clear plan for systematic data aggregation and integration into risk engines and regulatory reporting processes, as opposed to relying on error-prone manual processes. More effective hedging of counterparty and security exposures will help reduce capital requirements as well.

• **Transparency.** Embracing transparency is a big change that is essential for regulatory compliance. With each new regulation that has emerged, firms have often struggled to find IT resources, business analysts and capital to meet the immediate need. Firms that accept transparency are investing in consolidated, comprehensive solutions that simplify how to retrieve and report data related to securities, prices and transactions. These solutions give firms the ability to handle any regulatory request with much greater ease.
REGULATION-READY DATA
Because data is central to these efforts, firms need to source it from providers that understand and address regulatory needs. Many reports require data aggregation across business units, often by region or counterparty. “Regulation-ready” data makes it faster and easier to aggregate positions across classifications, as well as identify instruments affected by Basel II and III, Solvency II, FATCA, MiFID 2, EMIR and others.

With a stronger, more holistic compliance solution, firms can focus limited resources on more complex challenges, such as building data models to comply with Basel III directives for risk aggregation and reporting. Compliance can also be a competitive advantage. Asset managers with proven Solvency II solutions, for example, are more attractive to insurers. In this and other cases, compliance affects how much capital institutions must withhold for risk management. The more precisely firms can articulate risk, the better they can use capital and the more revenue they can generate.

THE BOTTOM LINE

1. **Data drives everything.**
To extract more value from enterprise data, firms need to let go of traditional, pre-crisis data management practices and make accurate, trusted data the top priority. Firms need to source data from providers that understand and have internalized regulatory needs.

2. **Not all data is created equal.**
When firms can establish how different kinds of data add value to the business, they can set priorities more easily, make targeted investments and develop governance and compliance frameworks that are intuitive, efficient and adaptable as needs change.

3. **Compliance is a state of mind.**
When regulatory readiness is embedded in the data and technology used across the front, middle and back office, firms can respond more quickly to current and new regulatory demands with speed and cost efficiency.
MORE POINTS OF VIEW
The discussion doesn’t end here. Experts at Bloomberg are engaging in conversations about these concepts in many ways with professionals from across the financial industry.

Many firms believe a legal entity master (LEM) is an important opportunity to streamline workflow. But questions remain about ownership, technology and data governance.

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Financial firms are focusing on the operational purpose of data and collaborating closely with providers to gain new insight and realize the full value of current data assets.

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