How financial services firms use technology to turn data into actionable insight

Faced with greater challenges and an expectation to do more with less, buy-side firms are figuring out how to create competitive advantages with trusted, reliable data.

What makes data valuable?

For thriving investment management firms, growth brings unexpected challenges: trading in new regions and asset classes, more regulatory guidelines to follow, greater demand for transparency and more pressure to operate efficiently. Of course, firms are expected to do all of this with less resources and lower costs.

In this situation, consistent and accurate data becomes increasingly valuable — and the key to managing growth in an efficient, cost-effective way. This is the issue buy-side thought leaders explored recently in a panel discussion hosted by Bloomberg about how best to utilize trusted data across the front, middle and back office.

Attended by representatives from more than 150 buy-side firms, the discussion offered an important perspective on how the industry is developing, implementing and evaluating best practices for data management with respect to buy-side workflow.

When data meets workflow

Inconsistencies and discrepancies insinuate themselves into buy-side workflows because of the inherent complexity in the process and the number of decision makers across the front, middle and back office. Workflows involve four pairs of data, all of which operate according to different rules and schedules. Intraday and historical data typically come from different sources, as do data from the firm and data from the market. Static data performs differently than derived data such as portfolio and risk analytics. Firms must also manage data that originates internally and externally.
Enterprise-wide Impact

Data issues affect the whole enterprise. To survive, firms need to keep regulators and investors informed with better transparency. Firms are dealing with risk across asset classes and portfolios in ways that change how counterparties are evaluated. Portfolio managers demand better data to make decisions, while traders need better data to improve outcomes. And virtually all firms want to bolster client service and sales. Data is not necessarily the only solution, but it is a unifying theme for these issues. Firms that succeed are turning data into a competitive advantage through superior governance, foundational consistency and close alignment of data with the firm’s business goals.

Firms that are handling these challenges successfully have figured out how to turn data into a competitive advantage.
THE COST OF INCONSISTENCY
The direct costs of inconsistent data include multiple feeds and sources as well as the systems used to manage them. Indirect costs are higher and include all of the labor required to connect these systems to one another. The largest costs are unquantifiable. Some regulators indicate high-quality KYC/AML data is essential to a firm’s survival. Huge write-downs ostensibly caused by accounting errors could be data problems in disguise. In other words, firms that establish data consistency across the enterprise tend to make faster, better decisions and simplify supporting infrastructure.

ESSENTIALS OF EDM
Concerns about data quality have gained traction among C-level audiences as firms emphasize at all levels that technology platforms are not very useful unless they are nourished with good data. (This trend can be seen in how CIOs now vastly outnumber CTOs.) Off-loading data management tasks to an Enterprise Data Management (EDM) provider is a proven way to improve time to market for new sources of data and gain visibility into how vendor data gets cleansed and validated. As a managed service, EDM gives firms a way to stop worrying about complex integrations and focus instead on using trusted data in portfolio and risk management applications.

THE IBOR INITIATIVE
An Investment Book of Record (IBOR) is fast becoming the financial industry’s answer to the problem of inconsistencies between data in trading systems and in accounting systems. Essentially a continuously updated positions master, the IBOR is designed to reconcile the push and pull between front and back office, creating a “single version of the truth” that the front office can use to make investment decisions with confidence.

COMPLIANCE CONCERNS
What keeps CCOs up at night is the prospect of missing a violation of a regulatory rule because the proper data was not available. Poor-quality data could also result in misevaluating a client mandate and, in a worst-case scenario, losing the client’s business. With these two simple examples, it is clear that validated data is vital for a firm’s profitability and reputation.

ULTIMATE OBJECTIVES
Asked to distill trusted data down into a few critical goals, the panel named three: consistency, transparency and timely delivery. To illustrate the importance of all three, a panelist shared an anecdote about a large asset manager that kept its private equity, real estate, equities and fixed income businesses separate but wanted to understand risk in a more holistic way. This led to closer discussions with counterparties, followed by requests for detailed exposure assessments. Because each line of business defined counterparties differently, retrieving the data took up to three weeks of manual work, by which time the assessment was out of date. Accuracy is not enough. Efficiency counts.

BEST PRACTICES
Although internal work-arounds remain a popular way to solve data issues, firms that are enjoying the most success tend to follow two best practices. First, they are using the objectives of the business to drive technology decisions. With a clear view of strategy, firms can more easily determine which data tools to invest in, how much work to take on internally and how much help to enlist from third-party providers. Second, firms are focusing on getting governance right. They are solidifying data definitions and building a consistent view of counterparties.
COMPREHENSIVE ADVANTAGES
Firms that invest in trusted data should expect a corresponding return. According to the panel, these advantages can be extensive. Superior data brings peace of mind while it helps reduce costs and improve efficiency. From a compliance perspective, trusted data streamlines troubleshooting. A reliable data foundation speeds time to market for new asset classes and geographies. Managed solutions do this too, making it easier to fulfill client requests, such as using a specific price provider for a given asset type. And overall, trusted data allows the management team to make better, faster decisions about investments, risk, IT and resource allocation – so it can pursue and realize new opportunities faster.

HOW ARE FIRMS ADDRESSING DATA ISSUES?

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<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>24%</td>
<td>EDM Solutions</td>
</tr>
<tr>
<td>30%</td>
<td>A Single Comprehensive Platform</td>
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<tr>
<td>46%</td>
<td>Internal IT Efforts</td>
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Source: Audience snap poll

The bottom line

1. DATA AFFECTS THE ENTIRE ENTERPRISE.
The effects of inconsistencies, discrepancies and other data issues in buy-side workflow can be felt across the front, middle and back office and will affect decisions made by portfolio managers, risk teams, compliance officers, executives and many others.

2. LET STRATEGY INFORM TECHNOLOGY.
Firms that are experiencing growth will be better able to manage data by starting with the business strategy. Technology should align with the strategy and support key objectives, not the other way around.

3. TRUSTED DATA IS A HUGE ADVANTAGE.
Because data affects the entire enterprise, solutions that deliver trusted, reliable data have similarly wide-reaching benefits. Firms that figure out how to improve data quality will be better able to deploy new strategies, reduce costs and improve performance.
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.

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