03

Reference Data Management: Understanding the True Cost

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Reference Data Management:
Understanding the True Cost

03

In Short

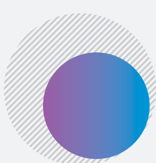
Overall Reference Data Cost

6+ billion
spent in 2015

9% CAGR
in costs until 2020

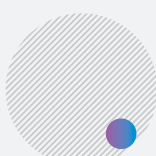
Results from a Recent Accenture/Greenwich Associates Survey

70%



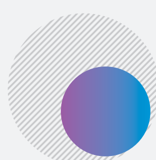
70% of firms indicate data quality affects costs

11%



11% actively measure the cost of bad data

59%



59% understand the problem but cannot quantify the cost

Take Action

Give your CDO the authority and tools to tackle the problem.

In the post-crisis era, firms are struggling to understand the hidden costs of fundamental changes in the investment banking industry. As executives strive to meet profitability targets in this new world, they face a constant drumbeat to reduce costs across the enterprise. In a recent survey of data management professionals working in capital markets, Accenture and Greenwich Associates found that the costs and impacts associated with poor data quality are underestimated at best and sometimes ignored entirely.

Make no mistake: data quality issues are affecting the top and bottom lines of firms across the industry. Pre-crisis underinvestment in data quality now poses a threat to post-crisis control, costs, and future growth and expansion. High capital ratios, changes in risk-weighted asset levels and increasingly stringent regulatory reporting rules are profoundly impacting business fundamentals. Meanwhile, bad data quality is limiting the ability of banks to act decisively and respond effectively.

Grasping at straws

Results from our recent study suggest that data quality is a much larger issue than you might think.[1] Although 70 percent of firms cite data quality as their biggest day-to-day issue, barely 11 percent track or measure the cost of bad data. In other words, most firms have no way of knowing the true impact of bad data on their business performance.

According to Douglas B. Taylor of Burton-Taylor International Consulting LLC, the reference data market for 2015 is up to $3 billion and growing at a 9 percent five-year CAGR. "Unfortunately, many companies buying the data do not have the necessary core competency for cleansing, reconciliation and management," says Mr. Taylor.

Accenture estimates that for each dollar spent on reference data input, another two dollars are spent in cleansing, reconciliation and IT. In other words, the real cost of reference data is roughly three times the banks' cost of acquisition, and the situation is getting worse.

There are many examples of enterprise-wide data initiatives being abandoned due to cost or insufficient benefit. Throwing money at the problem has proved unfruitful, yet more than a third of survey

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respondents are still projecting increases in their data and processing costs. There seems to be a considerable gap between data quality issues and potential solutions. It's time to stop grasping at straws. No single initiative will solve the problem. A broad, holistic approach is the answer.

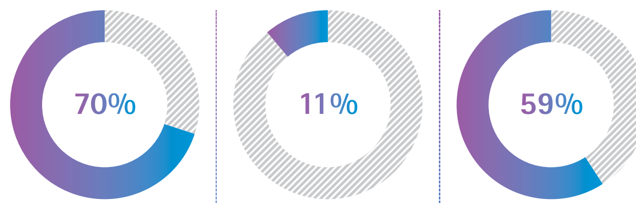
Recognizing quality as a business issue

Many initiatives disappoint because they fail to truly comprehend the problem they are trying to solve. There remains a serious disconnect between the perceptions of business owners, or data users, and internal data solution providers. All too often, users are complaining about the consistency, completeness, structural integrity or functionality of the enterprise's data solutions at the same time that internal data providers are claiming to have built a best-in-class solution.

Just 17 percent of firms that participated in our survey reportedly develop their data management strategies directly in response to the needs of the business. Many approach the challenge as simply an IT or operations issue, completely ignoring the underlying business needs. Others believe that data quality is a matter of governance, but like other issues in the investment banking industry, the problem runs much deeper. Data quality needs to be viewed as an enterprise-wide business challenge impacting all parts of the firm's operations. Virtually all calculations performed by the firm, from capital allocation to regulatory reporting, need to have a margin error built in to account for bad data.

Data quality must be addressed from the top down, with clear ownership from front to back and across lines of business. Departments are often reluctant to relinquish control of the data they consume and eager to manage providers, processes and final results. However, recognizing data as an enterprise-wide asset is a critical step in ensuring that all areas of the business receive what they need and support the corresponding costs accordingly.

Results from a Recent Accenture/Greenwich Associates Survey



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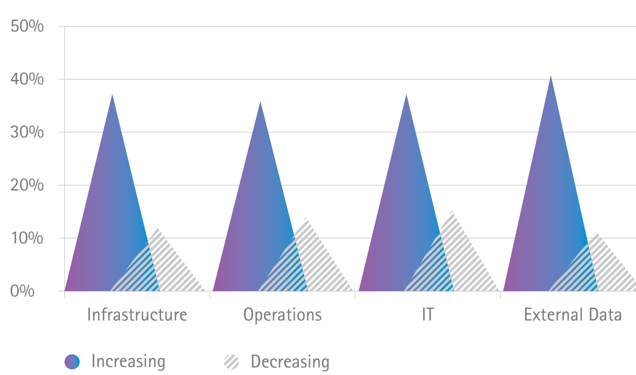
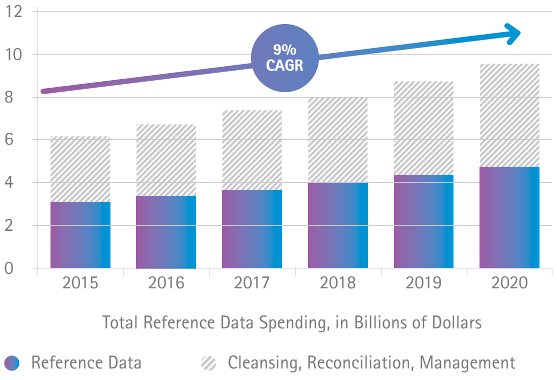
Source: Accenture Research, Greenwich Associates

Data Management Challenges: Costs



Source: Accenture Research, Greenwich Associates

Overall Reference Data Cost



Sources: Accenture Research, Burton-Taylor International Consulting, LLC

> To really affect data quality, the CDO must be seen as a business-focused operational control function, outside of the IT hierarchy. The role must have a clear mandate, a budget and direct support from senior leadership.

Creating space for a CDO

A Chief Data Officer (CDO) can be the key to success here, assuming the role is well defined. Virtually every bank has a CDO in place, but there seems to be no industry-wide consensus on what that role should entail, with some firms treating it as an IT function and others viewing it as highly theoretical (setting policy without veering into execution).

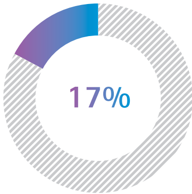
To really affect data quality, the CDO must be seen as a business-focused operational control function, outside of the IT hierarchy. The role must have a clear mandate, a budget and direct support from senior leadership. Specifically, the CDO should have control of the entire data lifecycle–one of the primary barriers to achieving efficiency across the organization. With those elements in place, the CDO can focus on:

- **Governance:** Creating an effective control framework for defining and executing policy throughout the firm.
- **Business solutions:** Identifying strategic and tactical tasks that will drive business value while improving data quality.
- **Rationalization and efficiency:** Identifying and acting on opportunities to improve processes and reduce operational waste.
- **Innovation:** Finding the hidden value in data that has been plagued by quality issues.

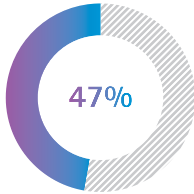
Forty-seven percent of firms in our survey find it difficult to deliver solutions that can adapt to the evolving requirements of their businesses, mainly because their data management strategies are not driven by business needs.

Data Management Challenges: Business Needs

With growing pressures to meet increasing regulatory requirements, meeting the needs of the business becomes an even greater challenge.



17% drive their data management strategy directly from the needs of the business



47% find it difficult to deliver solutions for the changing needs of the business

Source: Accenture Research, Greenwich Associates

Viewing data as an asset

The first step a CDO should undertake is to create a strategy or approach that is practical, tactical and focused on business challenges. Forty-seven percent of firms in our survey find it difficult to deliver solutions that can adapt to the evolving requirements of their businesses, mainly because their data management strategies are not driven by business needs. Too often, we see a rush to action, with a focus on potential solutions: implement this EDM package, plug in this utility or define a firm-wide taxonomy. To be clear: none of these options is inherently bad, but they all fail to address the issue at hand.

Rather than trying to address data needs with a one-size-fits-all approach, careful consideration must be given to the challenges and best practices in each business vertical. Viewing data as an asset instead of a liability can help firms manage it appropriately and see new ways to extract its hidden value.

At this point, the CDO becomes instrumental in driving business priorities for data solutions and securing sponsorship across the firm. To achieve measurable business benefits, the enterprise must take concrete steps to increase data quality instead of embarking on ambitious programs that fail before completion or struggle to deliver the promised results.

Taking advantage of every tool

Beyond hiring a CDO to drive organizational and process change, firms can employ several other innovative tools to help advance their data quality goals.

Analytics

One of the biggest obstacles to improving data quality is finding an effective way to measure it. Most often, firms estimate data quality based on the impact of data errors on their business (e.g., trading errors and regulatory fines). What they really need is an objective way to measure quality that fits within the capabilities of their organization.

Analytics can unlock that metric and shed light on how to improve data procedures. Firms can use analytics to understand which processes use which data, who purchases data and from whom, and where processing bottlenecks exist. Advanced analytics can be incorporated throughout the data management lifecycle to generate data-driven insights for advanced monitoring and running of core operations.

Robotics

When confronted with a data quality challenge, the sheer volume of issues can be daunting–especially when data cleansing costs are fully quantified. The typical solution for repetitive and non-subjective tasks is low-cost business process outsourcing (BPO), but these jobs are prone to error, often require knowledge of in-house processes and/or systems, and are subject to processing peaks and troughs. Investment banks need a scalable, flexible and sustainable solution.

Robotic process automation has the potential to fundamentally change how the world and companies in it operate. Oxford University predicts that 35 percent or more of US jobs could be automated in the next 10 to 20 years.[2] Organizations that have already adopted robotic process automation solutions are driving the change, using robotics technology to eliminate human error from key processes and reduce processing costs by up to 80 percent.

It starts at the top

With the right support, CDOs can be data champions and catalysts. They can help resolve data quality issues by driving pragmatic and cost-effective change in a reference data program and using that success to build a culture of quality throughout the organization.

But, it all starts at the top of the house. Chief operating officers (COOs) at investment banks can begin to tackle the data challenge by asking themselves some key questions:

- How much did bad data cost our firm last year? If an answer is not available and a reliable estimate is not even possible, it is time to take action.
- Do we have a CDO to manage this issue? If not, the time is now.
- Does our CDO have the tools and mandate to succeed? If not, what steps can we take to provide that support?

Let's be clear: the journey to quality data is long, but the steps mentioned above can help ensure that firms are well positioned to reach that goal.

1 https://www.accenture.com/us-en/insight-reference-data-management-capital-markets
2 http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf

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