Reference data management challenges are well known in the capital markets industry

With legacy built-for-purpose silos that often do not align, firms are spending millions of dollars on reference data from multiple sources in disparate formats which require continuous cleansing and reconciliation. Despite significant effort and billions in expense across the industry, these problems have not been resolved, and in many ways seem to be getting worse.

To help better understand this problem, Accenture undertook a study in partnership with Greenwich Associates among 133 buy- and sell-side professionals globally. We interviewed the people most affected by reference data – from the front office business owners through the middle and back office, to the operations and IT professionals responsible for data management – to determine where the reference data disconnect lies and what can be done to set firms on the right path, once and for all.

During the study, 10 challenges emerged across four key themes that were consistently identified across all survey demographics:

- **Quality**: Despite significant investments in time and money, quality issues continue to plague the industry.
- **Costs**: Shrinking margins require increasingly creative approaches to managing costs.
- **Control**: Regulatory requirements are driving ever-increasing burdens for proving effective control processes.
- **Change**: Firms continually struggle with balancing streamlining business operations while responding to continual industry change.

Of these four themes, costs and quality were by far the dominant issues across the enterprise. Exacerbating these challenges is the fact that all too often, short-term financial results trump rational business planning for substantial long run optimization. The near term impact of addressing these issues in a way that is meaningful to margins and return on equity is simply too much to bear. This dynamic often leads to further disconnect of objectives between the users of reference data and the IT functions which create, manage and support the solutions. Accordingly, firms need to take a deeper look inward for meaningful, holistic approaches to data management and reference data if they are ever to solve for the challenges facing their businesses.
The haphazard approach to data management is clearly highlighted by quality and cost challenges

Data quality is top of the list, having been cited by 70 percent of respondents as one of their most pressing issues and a concern that clearly impacts costs.

Despite the pervasive nature of data quality challenges, only half of those citing this issue as a major concern has any formal metrics in place to measure the problem, and a vastly smaller fraction actively measures the cost of bad data. At the same time, many respondents are seeking a way to demonstrate to their leadership the true cost and risk of poor data quality.

Increasing costs are being driven by a number of factors, but one of the main issues highlighted in the study was the growing regulatory burden. Forty-seven percent of respondents indicated they are struggling to meet regulatory requirements, yet less than half has a formal regulatory change program in place and only 37 percent has a standardized approach to dealing with regulatory change.

In terms of actual costs, according to the Accenture/Greenwich Associates Survey, study participants highlighted three categories of costs that were of concern:

1. **Internal costs**
   Control over internal costs is ranked as one of the top three issues, yet 36 percent expect operating costs and 37 percent expect IT costs to rise over the next 12 months, versus 14 percent and 15 percent expecting decreases, respectively.

2. **External costs**
   External data licensing (vendors and exchanges) makes up 33 percent of the overall reference data spend, totaling over $2 billion across the industry. Almost half of the respondents expect that number to increase as data demands rise and providers become stricter with their licensing.

3. **Infrastructure and platform costs**
   While not as urgent as other cost areas, firms still face cost reduction pressures. Thirty-four percent of respondents are managing multiple infrastructure platforms for reference data and 38 percent see their costs continuing to rise.

   Interestingly, it would also appear that the internal alignment of reference data objectives is not being adequately addressed, as a mere 17 percent of firms drive their data management strategy directly from the needs of the business. In other words, the tail is wagging the dog.

   Clearly the old models of business alignment and cost containment for reference data management are less than optimal and negatively impacting banks return on equity. What can and should be done?

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**Data Management Challenges: Data Quality**

- 70% of firms believe data quality is a major concern that affects costs
- 36% of firms have a formal metric in place to measure data quality
- 11% of firms actively measure the cost of bad data

**Data Management Challenges: Business Needs**

- 17% of firms drive their data management strategy directly from the needs of the business
- 36% of firms source new data feeds to help the business expand to new markets; while 40% source new data feeds to meet new product demands
- 47% of firms find it difficult to deliver solutions for the changing needs of the business

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Source: Accenture Research, Greenwich Associates
Market utilities may be considered as a viable solution bringing the potential for cost savings, improved data quality and shared leading practices. Still, questions remain. As such, there are a number of recent stories to help in the success of these shared services. They will likely continue to gain traction in the marketplace as a primary cost savings function driven by the realization that reference data is non-proprietary and non-differentiating in terms of product or service delivery.

Accenture believes there are a number of reference data applications that would be better applied through the use of a utility model such as know your customer (KYC), anti-money laundering (AML) and corporate actions. Having developed our own Managed Reference Data Service for securities 10 years ago, we know both the benefits that can be gained and the challenges involved in integrating a utility solution. Also, the study results show that only 11 percent of respondents are actively considering implementing a utility, indicating that the challenges are more deeply ingrained within their organizations. One client described his problem as a house with bad wiring, having different power needs in each room and needing extension cords and power adapters throughout. Plugging a new electrical utility into the house might give him cleaner power, but won’t reduce the mess inside, and won’t reduce the risk of fire. Issues like governance, consolidation, data quality management and adoption still need to be dealt with.

For those firms that want to shift the paradigm from negative to positive once and for all, it is time to consider a fresh approach. The days of the five-year Enterprise Data Management overhaul program seem to be coming to an end as firms arm the war stories of others that tried this approach and failed to either complete the program or realize any potential benefits. The trend now seems to be to plan and act tactically within the guidelines of a broader, medium to long-term strategy plan.

To date, most reference data solutions have been reactionary in nature, driven by regulatory change or business need and constrained by the desire for real- or near-time results to satisfy quarterly financial goals. This can result in poor cost/benefit ratios and, in many cases, failure of the entire effort. We have seen many well-intentioned change programs cut short, often before they have begun, when the realities of budget constraints become apparent. This leads to suboptimal solutions being put into place simply because no up-front investment is required. For example, a surprising number of firms still find themselves in a position of manually copying data between systems, which is obviously costly and time consuming, but doable with minimal overhead. More often than not, the next solution has been to simply offshore or outsource these processes, which yield upfront cost savings from lower labor rates but ignore other cost savings opportunities such as improving data quality.

Alternatives need to be considered across the entire cost spectrum and over a longer-term time horizon. From Accenture’s point of view, there are a number of potential solutions. One example is related to current manual data management functions, which is an area where robotics can have a meaningful impact on costs and data quality. Repetitive manual functions, once in a robotic solution, become much less expensive and easier to manage while at the same time improve quality owing to much of the human error factor being removed from the value chain. This also digitizes the process, allowing for layered analytics, which can be used to assess the impact and cost/benefit of various reference data sources.

Data Management Challenges: Data Utilities

- 26% of firms currently use data utilities
- Of those actively considering a utility, 79% of firms are looking to improve quality and 64% are looking to reduce cost
- 11% of firms are actively considering using a utility

Source: Accenture Research, Greenwich Associates
How Accenture Can Help

Accenture offers a wide range of services and capabilities in data management, from strategy to implementation.

Define the data vision
Establish a strategic vision for what data is required to support the company strategy, how data would be managed by the business and how it would be enabled by technology
Champion and encourage awareness of the true cost and effective use of data across the company
Identify data which could be acquired to create value

Establish data policy and governance
Set a policy which would allow the company to comply with data-related regulation (ensuring legal/compliance responsibilities are clear)
Embed and enforce the data policy through processes
Establish control frameworks to ensure correct data management

Deliver data fixes and a delivery program
Deliver data architecture components (master data management, metadata, data profiling tools, enterprise data warehouses)
Deliver large data-related programs (e.g. Basel III)
Deliver value added data remediation (e.g. fix data to reduce adjustments)

Establish data services for the business
Provide data quality management services
Facilitate data exploitation (e.g. reporting competency center)
Improve enterprise knowledge about data assets available (e.g. knowledge base of what data is available and how to use it)
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About Accenture

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