

Data Is The New Oil

Maximizing Data Asset Value



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“Data is the New Oil”

is a popular viewpoint in data-focused thought leadership and is increasingly relevant for the asset management industry. Just as oil provides the energy required to run our world, data is the fuel that drives all components of the asset management process. Those who can harness its full value are sitting on a vast and valuable reserve; while competitors are left acquiring, managing and consuming an increasingly expensive commodity.

Data is a natural resource multiplying daily that requires intelligence and hard work to refine into information that drives decision making, safeguards investors and promotes profitability. Many firms are drilling deeper and have successfully refined their data assets to glean powerful insights for the benefit of clients, internal decision makers and external analysts.

At a time when the entire industry is under pressure to respond to demands for transparency and detail from customers, internal partners and regulatory agencies, those firms that have invested in data management are now separating themselves from the herd. Data is at the heart of the solution to many of the industry’s near-term challenges; and future business success will demand the development and maintenance of

sound data management architectures and practices to enable opportunity.

This edition of *Industry Perspectives* focuses on specific buy-side opportunities presented through data. Where some firms struggle determining where to start, those firms that have achieved data proficiency are supporting their organization’s evolution and enabling business growth. Four data-dependent areas of opportunity currently commanding significant attention include:

1. **Risk Management**
2. **Outsourcing**
3. **Decision Support**
4. **Regulation**

“Data is just like crude. It’s valuable, but if unrefined it cannot really be used. It has to be changed into gas, plastic, chemicals, etc., to create a valuable entity that drives profitable activity; so must data be broken down, analyzed for it to have value.”

- Michael Palmer, ANA

1. Risk Management

In asset management, risks are inseparable from the investment process.

Recent market events have forced organizations to take a long, hard look at their business and the risks they are exposed to. Credit risk, market risk, operational risk, political risk, capital risk and other threats lurk around every corner of the industry. The widespread adoption of sophisticated alternative investments, such as private equity and real estate, have also introduced new dimensions to enterprise and investment risk management.

Data refinement and delivery is central to exposing risks, connecting risks spread across the enterprise, understanding the depth of potential impact and measuring the effectiveness of mitigation efforts. Prospective and current clients want to know risks are being well managed and they need information extracted from various raw data sets to find comfort.



Firms can successfully manage these risks through sound data management practices. Those who can deliver important information into the hands of those who need to act quickly will be best prepared to weather the storms that inevitably occur.

2. Outsourcing

Asset managers continue to outsource non-core functions to third party service providers.

Keeping pace with continually evolving technologies, regulations, data demands and resource management issues can be daunting to many firms. Partnering with a service provider can clear a path to greater business flexibility and allow access to value-added services and expertise, if managed properly. Additional benefits to outsourcing can include a more flexible cost structure and the ability to augment internal staff unable to fulfill all of an organizations data management demands.

Regardless of the functional breadth of the processes being outsourced, data plays a key role. At a basic level, data is the link that facilitates the distribution of information to both parties. With the data ‘building blocks’ in place, firms can leverage their provider’s data capabilities opportunistically, including supplementing internal



risk and analytic capabilities, efficiently managing benchmark data or the full outsourcing of reference data and pricing services. To support these opportunities, many service providers are committing to significant investments in strategic data management initiatives including:

- More efficient data architectures to support greater plug and play capabilities
- The assignment and evolution of more data-savvy resources within business units supporting outsourced clients
- New technologies to collect, transform, store and efficiently deliver data across product lines
- Expanded servicing offerings moving up the value chain from the back office through the middle office and closer to front office support

An increasing number of asset management firms of all shapes and sizes have found the outsourced middle- and back-office model appealing. Forethought into implementation efforts involving systems integration and the build out of a data-centric operating model can lead to the benefits many investment managers are realizing from these relationships.

3. Decision Support

Information overload is something most asset management professionals can sympathize with.

The raw data available to many investment professionals can often take the form of a ‘data geyser,’ capable of overwhelming staff with so much content that analysis is reduced to a secondary function. Done correctly though, refining mass quantities of data through effective data administration practices can offer every facet of the investment management process useful information. This streamlined intelligence is then employed to support better decision making across the enterprise.

Investment managers, traders, risk managers, compliance officers, operations managers and others engaged in the investment process require refined data to make informed decisions. Their voracious appetite for information is the catalyst that drives innovation. When dependable information is readily available, new products can be more easily identified, product profitability can be more clearly understood, operational efficiencies can be more easily implemented and confident decisions can be made by organizations.

Realistic and integrated data administration and governance practices connect decision makers with those supporting them; resulting in fewer ‘fire drills,’ more energy invested in keeping data quality high and the identification of new opportunities.



4. Regulation

Regulatory topics are dominating industry headlines. Does your firm know where to start?

Dodd-Frank, Basel, Solvency II and other regulatory issues are a source of aggravation, fear or relief depending on where one stands on the given topic. Keeping up with existing and new regulatory demands is an expensive proposition for both technology and operational departments. Flexible data infrastructures can provide competitive advantage by allowing firms to respond faster and with more certainty as they comply with regulatory change.

This competitive advantage can be achieved internally or externally. For those firms that stand on solid data ground, their known ‘baseline’ of data allows them to quickly determine the change and response required to their existing data architecture, feeds or reports. Others find value in partnering with an outsource provider that has the depth of resources to help them stay ahead of regulatory mandates and guide them through the process.

Conclusion

Data management presents serious challenges and possibilities for the investment management industry. The impacts of poor data management are clear:

- Increased Cost
- Increased Risk
- Service Failure
- Lost Revenue

The impact and opportunity that result from data excellence are less familiar but entirely achievable. Each firm has unique needs and considerations that must be accounted for in putting data to its

best use. While there is no ‘one size fits all’ solution for asset managers; there are common attributes including commitment to data excellence, skilled people, consistent budget, a solid architecture and effective processes.

To extract the greatest value from an organization’s data assets, heed John Paul Getty’s advice: “Formula for success: Rise early, work hard, strike oil!”



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