

EDM Council Primary Research
Finger on the Pulse of Enterprise Data Management
July 2008

This report is based on direct qualitative interviews with the heads of data management from a cross section of 20 leading global financial institutions from all industry segments on the executive management view of data and its relationship to current operational practices.

Bottom Line: *Data content management is absolutely understood as a critical player in meeting business, operational and compliance objectives. Data is at the table, has a heightened prominence in the discussion and is a key part of the overall analysis.*

The efforts of the financial industry to position data management as a business priority have soared over the past year. Most tier one financial institutions have some form of data management program underway and a few are starting to reap the benefits of managing data as a tool for business development. In at least a few circumstances, the notion of centralized data control is being specified as one of the top three strategic priorities by Boards of Directors and as a core requirement to effectively manage operational risk.

Beneath the good news are some organizational challenges. Many companies are still taking a very tactical view of data management. For most of executive management, data is a “low level concern” – understood at the abstract level but not on their strategic radar. Part of the problem is that data has a tendency to become invisible. Well managed data is not “noticeable;” only when data management practices fail does the data draw attention.

The status of the data management program usually filters up via sound bites, which can (and does) ignore the progress that many firms are making in fixing the underlying data infrastructure. The lack of positive visibility has an impact on data management in the competition for funding and resource prioritization. In too many circumstances, the data management culture itself is fragile. Executive management changes, business events like an acquisition or the focus on cost containment can (and have) undermined progressive data management programs that were already well on their way toward the delivery of sustainable business value.

Even though there has been a lot of conversation about EDM, most firms are not really that far down the prime directive path of getting trusted data delivered and integrated into business applications. The majority of financial institutions are still in the “clean and consolidate” mode and engaged with the initial migration of content from their multiple business silos into centralized authoritative source systems. The industry is generally just now gearing up for the challenges of integrating data into consuming applications – which raises a host of new transformation and business requirement challenges based on getting targeted business groups to finally pay close attention to the platform objectives that underpin most centralization initiatives.

In reflection, 2006 appears to be an important year for data management. That’s when many of the leading companies in our industry recognized that their data environment was “in shambles,” started assigning internal stars to hold the reins and got serious about managing data content as a strategic priority. From the perspective of the EDM Council, we’ll refer to 2006 as the beginning of the “age of enlightenment” for enterprise data management.

The Pulse of Executive Management

Bottom Line: *Data issues have not replaced the balance sheet, global profitability, capital optimization, customer relationship management or regulatory satisfaction as the focus at the top of the house. However, the 30 percent of firms with a visionary executive data orientation are surging ahead on information integration and operational efficiency.*

Executive management within the financial industry can be viewed as “data dualistic.” Those with top management buy-in on the importance of proactive data management are moving forward. They clearly understand that “every trade, every business process and every client interaction” relies on data precision and the ability to exchange common data across systems. Those without a strong executive sponsor frequently view data in the abstract and as a “necessary evil” required to keep up with the pace of business but without the clear mandate required for achieving alignment and integration across the organization.

Unfortunately, most financial institutions fall into the latter category. Across the board, executive management understands the importance of data and its relationship to both operational risk and as a factor of input into business processes. But for most, it is a low level concern related to compliance and settlement - and not a part of their active orientation. They care about the issues associated with running the institution with an emphasis on regulatory satisfaction, financial reporting, risk exposure and capital optimization, customer relationships, the balance sheet and global profitability.

For many financial institutions, data management is a task to accomplish. The issue is known, but the operational details are handled at lower levels. Success is evaluated in terms of the short term payback and frequently measured by the cost containment and operational efficiency business case. The mantra is “do it fast, do it right and do it cheap.” They pay attention when their peers get sanctioned because of poor data management, but in the absence of crisis, the mode of operation is “don’t act until burned” and “if it isn’t broken, don’t touch it until you have to.” The lack of recognition of data content management as a foundational building block of operational processes can (and frequently does) cascade throughout the organization ... reinforcing silo operating models ... making it difficult to manage social complexity ... and rewarding tactical workarounds.

On the other side of the coin are a few examples of executive management completely embracing the importance of being proactive in data management. And the difference in orientation is striking. The champion in most of the cases has been an enlightened COO that came from the business and was forced out of their silo culture by virtue of their new enterprise wide responsibilities. And the stories are surprisingly similar. A new COO enters the picture ... does the normal evaluation of operations ... sees process dysfunction ... experiences the difficulty getting buy-in on integration ... is exposed to a lot of data-related complaints ... gets frustrated over data related obstacles to core business objectives ... calls senior management together ... and implements a new operating/governance model as it relates to data management.

Not surprising, it is these organizations that have generally implemented the “corporate data tax” funding model and pulled data out of IT. It is these firms that understand the importance of normalizing and standardizing data points and aligning them with the systems and functions of the financial institution, it is these firms that have adopted the extensible data management approach and it is these firms that are starting to reap the customer relationship value of segmentation, tiering and global account management.

From our perspective, we accept that enterprise-wide data control is just now starting to penetrate the ranks of executive management. We are generally pleased and surprised that it has emerged as among the top strategic themes by at least a few of the leading financial institutions. We believe this trend will continue as both customers and regulators mature their data orientation. It was put succinctly by one executive management voice that said “the most elegant way of extracting management and business intelligence is useless if the data is bad.”

The Pulse of Business Management

Bottom Line: *Business users are myopic (particularly in the front office) and focus on functionality rather than data management. Silo mentality is alive and well – which presents a real problem in that the full extent of data challenges are mostly visible when the firm takes an integrated (i.e. full transactions chain) view of business processes.*

Just like executive management focuses on the core challenges of running the financial institution, business management focuses on software and systems functionality as it relates to their business process orientation of “trade, comply and manage risk.” They don’t often understand the role of data quality, the culture of new operating models, the systemic challenges of data integration or the details of semantics management as among the essential components of enhanced functionality.

That’s not to say that business users don’t get the value of data that is “fit for purpose” for all their precision intensive applications. They clearly do – but they usually don’t have the time or inclination to peel back the layers of the onion as it relates to the details of data management. One executive put it in clear terms by noting that business can help drive data priorities because they feel the pain from trade breaks, missed opportunities and long time-to-market cycles. But that really means that data is not viewed as a business driver, it only hampers business if you don’t get it right. In general, business users find data “boring, the domain of the back office and task driven.” And until the regulatory driver in the form of KYC/AML emerged, there was little passion behind data management from the business.

In fact, data management obstacles are still mostly invisible to the power players in the front office. It is the people that work for them – meaning those that write the reports, do the data mining or run the scripts that see the true extent of the problem. And then, it is usually one or two people within the business group that have part time responsibility for data management. But (of course) these are not the people that hold the organizational alignment and funding reins for data. In many cases there is no group buy-in to data management as a priority, let alone the “glue that holds business together.”

Silo culture and ‘master of the universe’ mentality are part of the problem. Most business users focus on a limited number of asset classes or manage activity within a single portfolio. They don’t have an enterprise wide view and don’t experience the full extent of data challenges because they use source systems. This is a real gap because the full extent of data challenges are mostly visible as you move through the transactions chain. It is the integrated processes where there are multiple transformations that illustrate the data management objective.

That’s why business units respond so well to operational metrics. These put the reality of data management into business terms and help smooth the pathway to get business to fund data initiatives. More important, meticulous documentation of operational metrics helps demonstrate that the problems are consistent across business silos and that there are a lot of redundant

processes – both of which are essential to make the business case of “better service at slightly cheaper cost.”

Perhaps it goes without saying, but data groups that have established a direct line of reporting to the business (i.e. those that have defined critical data elements and understand their sensitivity to variance) are the ones in the best position to make data management a sustainable activity. But getting close to the end applications is easier said than done and can be stymied by both multiple levels of organizational bureaucracy and by the unwillingness of business to give up what they already own.

The Pulse of Data Management

Bottom Line: *It's time to stand and deliver on the promise of data management. Many data groups are in the process of going live with initial high visibility applications and are immersed in connecting the data dots throughout the organization. Integration is the operative concept and credibility is on the line.*

There is nothing like crunch time (multiplied by a substantial credibility gap) to get the data management pot boiling. And for many that means moving from the initial build-out to “go live” with downstream applications. The error logs and incident reports have validated the business plan. The blood letting is mostly under control. And promises have been made about improving the quality of data, expanding business capabilities without increasing costs and automation through enterprise wide integration into the shared utility.

Up until recently however, many financial institutions have focused their efforts on the consolidation and normalization of content into their centralized source systems along with the process of transforming their operating model for managing the new cross-asset platform. Firms are now engaged in integrating the data into consuming applications and dealing with the “unravel and reconnect” dilemma. This means constant and more intensive dialogue with business on scope and underlying requirements, expansion of data capabilities that were previously undocumented, the challenges of data transformation into pre-existing application environments, some issues with architecture design, long IT development cycles and dealing with the “do it myself” orientation of independent business groups.

In addition to the challenges of project management and integration, there are a few other operational issues on the minds of data executives. The first is expansion of the data management function beyond “assets under management.” In general, most financial institutions manage active assets fairly well. But as projects get closer to front office delivery, the requirement is for significantly more assets and expanded data capabilities to meet the needs of research, pricing and investment modeling.

Closely associated with the expansion of assets and data sets are the challenges of data stewardship. This is not about the concept of stewardship (which is already in place) but rather the expansion of the functions associated with data set-up, corrections, change management and business analysis. As scope and requirements expand, governance needs to keep pace. The significant growth in the number of assets that need to be managed and the addition of new data sets to meet evolving requirements puts pressure on both the staffing levels and competencies required to keep up with the pace of innovation.

The integration objective should be viewed in the context of operating in a silo culture (which is alive in every organization particularly in the front office). The current culture is for

business to manage workflow and processes independently - and this is unlikely to change. Rather than forcing the entire firm to operate in a consistent manner, the goal is to make data a utility that fits into the operating structure of the business units.

The notion of an internal reference data utility as a low-cost, shared service that is recognized and trusted by all silos is a common “operational efficiency” objective of most financial institutions. And while the concept is relatively straightforward, the reality is not - because it means an adjustment to the ingrained culture of how business units operate (i.e. firms must inspire the lines of business to overcome their silo orientation) as well as being able to make the difficult shift from reactive to proactive data management. A shift that most firms admit they have not made.

Unfortunately, many firms report that it is hard to make the utility model work outside of their small niche. In some part, this is because of the trust gap that exists in our industry and which must be addressed in order to give business users confidence in execution. Perhaps more than any other component, gaining credibility is the key to success in rolling out data initiatives. But the truth is that most business users don’t trust the ROI promises of data management. They’ve heard it all before and they have been burned in the past by IT-led efforts. And to make matters worse, IT is a critical partner of the data objectives, burdened by long IT development cycles and therefore data is often found guilty by association.

Without a doubt, data management groups across the industry have a lot on their collective plates. Data is generally recognized as a triangle between operations, IT and the business and is mostly understood as a shared responsibility. Most leading firms are now standing at the integration precipice and looking squarely at the core value proposition. The golden ring that some have discovered is that (even though it might mean more work up front) the integration and extensibility pathways are always easier if the data is right. There is no better question than “now that we have all this clean and available data; how do we best use it to advance business objectives?”

The Pulse of Funding

Bottom Line: *Most agree that the financial industry needs to change how data management gets funded. The ideal is a modified “corporate data tax” and an ability to separate funding from project prioritization. The best advice: “don’t try to change corporate culture to get funding; change the funding model and corporate culture will follow.”*

The effectiveness of data management programs (like everything else) always boils down to funding. Broadly speaking, there are three funding models currently in use by financial institutions. The first is the “corporate data tax model” with mandated funding for core services. The second is the “contributed funding model” based on business views of value and ROI. The third is the “commercial model” enabling business to buy data services based on requirements as needed. And while the debate over which model is the best is not over, those firms that fund data management centrally clearly have an easier path toward the delivery of sustainable business value.

The overwhelming majority of financial institutions employ some form of contributed funding (i.e. begging business units) approach to data management. The biggest challenge they face is the dependency on alignment across the transactions cycle for maximum effectiveness. And all it really takes is one powerful business head to say “take a hike,” “sorry we don’t have

time for that now” or “we’re doing that ourselves” to undermine the benefits of data as a horizontal utility or STP as the objective.

The centralized funding or data tax model (in place at about 15% of the firms) operates from the premise that data is a core service and an essential component of business operations. As such, it shouldn’t be up for negotiation. The analogy is that data is like electricity and that most of us pay our electricity bill regardless of whether we’ve purchased a new appliance. In fact, there are a plethora of data project components (including metadata, delivery architecture, new feed integration, business analysis on requirements, etc.) that require investment funding and need to be part of the operating model. The objective is to get business to acknowledge data management as critical to meet ongoing organizational objectives if firms are going to cut through the current funding culture that exists. One executive described it perfectly by noting that the task is to “fund the goal, not the short term deliverable.”

In the majority of centralized funding circumstances, the data expenditures required for normal business operations were mandated based on a simple allocation formula (i.e. business unit headcount). The goal for these companies is to reduce the amount of energy required to get funding and to eliminate “back door” negotiation on data projects so that energy can be better applied to meet delivery and integration objectives. Data expenditures required for new initiatives were fully vetted by strategic “business prioritization committees” and are usually funded centrally as an investment in infrastructure.

Centralized funding is not the only viable method of paying for data initiatives. In some instances, firms that have a very successful data culture have embedded data management funding and prioritization into the normal business planning process. In essence, the data management group does “what it is paid to do” with the business making decisions on priorities by directly tying the budget into the P&L process.

In these circumstances, the financial institution has been successful in creating a holistic view of the transactions process for strategic planning by ensuring that the business units have ownership over the full business lifecycle. Their goal is to align data with the total cost of ownership for meeting the business objective. Data is appropriately viewed as simply one component of the business decision. The key is to fully engage with the business units on service requirements as part of the overall budget process. The result is both a better (shared) understanding of requirements and “skin in the game” from the business units.

In both the “centralized funding” and “data as a service provider” models, we’ve noticed two concepts on the minds of the heads of data management. The first is the underlying goal of being able to effectively separate data management funding from the establishment of organization-wide priorities. This is a delicate balancing act and one that requires skillful management if it is to be successful. On the one hand, aligning data objectives to the budget promotes both transparency and consistency on service requirements. On the other, it emphasizes tactical approaches to data objectives and reinforces the silo mentality that exists within our industry.

The key to the balancing act is management of the underlying governance model associated with funding and prioritization. In most financial institutions, the governance approach can generally be described as getting all the core stakeholders around the conference table to craft priorities. This is viewed by many as a faulty model. Horizontal negotiations don’t work in most firms because it is exceedingly hard to get business heads to look at the world with an enterprise view and few are ready to give up any of their priorities. The net result is that there

is more lobbying after the fact than during the meetings. Silo perspectives almost always lead to competition for prioritization. The constant message is that if priorities are tied to funding, the institution winds up compromising on clear strategic (and frequently multi-generational) objectives. The fundamental goal is a cross-functional ownership of data, not individual priorities all competing for attention.

The second (and related) challenge is about the time required to manage the allocation component of the funding process. Across the board, the heads of data spend an inordinate amount of time on allocation processes. They are constantly forced to sell the funding/allocation message to the business units. The funding sale is certainly possible, but it is clearly recognized as a “painful negotiation” which requires a lot of effort and political capital to “get and keep the business units in alignment.”

These governance challenges are compounded by the residual mistrust by the business units on both the ROI promises associated with data and the assurance that the money they allocate will be used as expected. This is one of the reasons why data culture is currently so fragile. It is usually one executive visionary that understands data as operational infrastructure and is able to keep silo mentality in check. When they depart - silo operations, political jockeying and functional myopia frequently resurface.

Conclusion

The importance of managing data as content (where precision and quality matter) is slowly gaining a foothold in the financial industry. Over the past three years, the industry (in general) has evolved from the cultural challenge of “what and why” to the recognition of data management as an important “task to perform” to staring at the harsh “reality of integration” into existing technology environments. The good news is that data is now at the table as one of the factors of input for most business, risk, compliance and reporting objectives.

That being said, data management still has a ways to go before it is truly accepted as a critical component of business operations. In all but a few cases, executive management still views data management as an abstract concept and a low level concern. The notion of data integration has not achieved the level of cognition it needs to become an organizational mandate. In fact, the culture of data management that is slowly emerging remains very fragile and can be easily undermined by management changes and the challenges of business transition – both of which occur on a regular basis.

Most tier one financial institutions are currently engaged in at least some aspect of data management. Most of the activity is still focused on the “clean and consolidate” function associated with getting data cleaned, structured and centralized into authoritative source systems. Virtually every firm is now facing the point of initial program rollout and integration of the internal reference data utility “as a service” into business applications across the firm is at the top of the data management agenda. For many, this is a “moment of truth” in terms of credibility and confidence in execution from the business.

There are still quite a few obstacles standing in the way of delivering on the promise of data as an enabling asset. Firms are struggling to deal with the politics of short-term/horizontal funding; the lack of internal standards (semantics and identifiers); the challenges of obsolete architecture and systems that don’t talk to each other; scalability beyond assets under active management; extension of the data management program into pricing and corporate actions; the

burden of reactive operations; and the alignment of data stewardship with the pace of front office operations.

The art and practice of data management is clearly maturing. Executive and business management understand data better and they value it more. In order to continue to advance toward to goal of sustainable business value, we've gleaned the following list of essential actions for your consideration:

- Transitions take time and occur incrementally. Success can be achieved through close alignment with the tactical and short-term ROI needs of the business. Buy-in is based on relationships. Build credibility on execution capability as the first order of business. Pick your spots carefully, get as close as possible to business applications, verify requirements and deliver according to specification.
- Be transparent and document everything. Operational metrics and SLA's help the business get oriented on the challenges of data management (which are not well understood) and are essential to justify funding requirements. It's important to inspire the business to overcome their silo orientation and transparency is the key to earning their trust.
- The "all in costs" of multiple point solutions are roughly equivalent to the costs of EDM - plus the integration and extensibility pathways are always easier if the data is precisely defined and tagged. Standardizing key data points (metadata) and ensuring the flow of data between systems is the key to EDM.
- It's impossible to get all business processes to operate on a consistent basis. Centralization of the problem makes data slow and cumbersome. Federated centralization is the more reasonable way to proceed. The operating model of a utility with elementized data components is easier to adapt to the operating structure of the business units and the easier pathway toward integration.
- Everything is evaluated based on the immediate ROI. If it is not there, business often concludes that the project is not worth the investment. Treat all components of data management as a straightforward business decision.

Respectfully submitted,
Michael Atkin, Managing Director
EDM Council Inc.
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