

Master Information Management in Financial Services

How the affects of the capital markets meltdown are shaping trends in the financial services sector's master information management strategies

The recent capital markets meltdown has triggered a significant increase in initiatives launched by financial services institutions to address institution-wide requirements including tightening risk management, stemming customer attrition, and bracing for new compliance regimes. Notably, what these institutions are discovering is that reliable information about customers, agents, securities, and counterparties is critical to the establishment of effective dashboards, spreadsheets, and CRM systems used to resolve these challenges.

This realization, in turn, has triggered a new industry focus on Master Information Management (MIM). While banks and insurance companies were among the first industries to develop an intrinsic understanding of the value of information—and deploy new technologies and assembled organizations to manage it—recent developments have heightened the awareness of the need for exceptional information management practices. These organizations have introduced fresh business sponsorship to information management initiatives that were largely in the exclusive domain of IT and operations.

A renewed focus on risk and exposure

Perhaps the biggest result of the recent market turbulence was a razor-sharp focus on risk and exposure. The questions that most institutional executives wanted answered in the days and weeks following the collapse of Bear Stearns and Lehman Brothers were related to their levels of exposure from these and similar institutions—as well as the asset concentrations on their books that caused the other institutions to collapse. These areas of inquiry were difficult to answer because of the challenges in aggregating counterparty and security information across a complex web of trading infrastructures. While counterparty and security management were mature functions within the organization, the fragmented, application platform-driven way of managing information meant that companies found themselves lacking the information management tools and processes required to aggregate a holistic picture of exposure across business lines and applications.

The loss of customer confidence

The second effect of the financial crisis on these institutions was the loss of customer confidence that had consumer investors looking for new investment opportunities and brokers—sometimes for the first time in a decade. Not surprisingly, when the market is on the rise, customers generally remain loyal to their investment strategies and financial service providers, but when the market turns, nervous consumer investors start to shop around. This market condition provides both a risk and opportunity to financial services institutions, which now need compelling ways to establish and maintain customer loyalty, as well as attractive offers to lure disgruntled investors away from other institutions. In many large financial institutions, this has led to CEO-sponsored “customer centricity” initiatives that focus on stemming attrition and driving market share. These initiatives typically have names like “Circle the Customer,” “One Bank, One Customer,” and “Customer First.” They aim to improve customer satisfaction and create a better client profitability profile. Paramount to

this effort is effective customer segmentation, and the ability to leverage attributes such as income, profitability, and risk rating to make intelligent choices on which customers and prospects to pursue. This insight requires a strong data infrastructure that provides the total customer relationship view across different systems and even different operations across the institution. It also requires reliable insights and intelligence to effectively draw conclusions on “share of wallet” performance and customer profitability once the programs have been launched.

The potential for new regulations and SEC mandates

Finally, the collapse of major institutional banks and the launching of TARP have caused a buzz in Washington about the potential for new regulations and SEC mandates. While the specifics of the regulations are being formed in committees and on K Street, one virtual certainty will be the need for more transparency in capital withholding calculations. This will mean that financial institutions will need to modify established Basel II and related initiatives from an exclusive focus on risk management to one that combines both risk and compliance. Not only will calculations drive capital withholdings, but reporting will need to demonstrate how these calculations were derived, and provide information on the current positions of securities, counterparties, and customers.

This will now have the attention of the federal government as well as other prominent state governments such as New York. As a result, the need for accuracy in these calculations is paramount, and will require much greater information management sophistication than most financial institutions currently have. As with the other challenges discussed earlier, these types of regulatory initiatives will also require effective master information tools and processes in order to provide reliable information into the calculating and reporting apparatus. As with most regulatory frameworks, early attention will focus on reports required for government agencies, followed by the realization that the information being generated is suspect—thereby shifting focus back to fundamental information management practices and requirements.

Driving enterprise-wide data strategy—On CEOs top ten lists

As a result of all of this market turmoil, a strong trend has emerged among financial services firms, elevating the priority for information management processes, technologies and organization—and re-classifying information management from “cost center” to “strategic initiative.” Only a very short time ago, most executives viewed information management as a relatively insignificant hidden cost buried deep in the operations budget. This topic has now reached the prioritized lists of most CEOs in a very short time, which is unprecedented.

The market and business drivers have provided significant impetus for financial institutions to move to a global, enterprise-wide information strategy, but as a practical matter, most institutions are choosing to start with a more localized approach rather than trying to boil the proverbial ocean. Complex organizational relationships, siloed P&Ls and conflicting business practices across units and geographies typically make the launch of a centralized MIM initiative an extremely challenging proposition, fraught with executive confusion and political wrangling. The importance of business requirements should not be underestimated. Successful MIM initiatives must be business driven. This means gaining business executive sponsorship and actively consulting with business stakeholders across different geographies and business units. This, in turn, typically means that an effective way to reach enterprise goals is by starting locally to address the needs of one or two business sponsors, and then building on that success.

Thus, successful enterprise information management programs leverage the work of those that have already been launched within specific businesses or regions to address specific problems. For example, capital markets firms typically have extensive experience addressing data needs for trading, risk management, and Basel II compliance. Many retail and wealth management business units have embarked upon customer-centricity initiatives to maximize marketing and cross-sell effectiveness. The successful enterprise initiative should utilize the technical assets and personnel from these existing programs to minimize risk and avoid common pitfalls. This method can prove to be less threatening to individual business units and also provides pre-established, tangible business requirements upon which to expand moving forward.

The priority focus on MIM and expansion of institution-wide initiatives has changed the level of focus, resources, and responsibility given the chief data/information officer. In many organizations, this role has now been granted unprecedented opportunities to improve the ways in which the institution manages information—no longer as a cost center, but as an enabler for achieving strategic advantage and growth across the enterprise. Organizations that take a more tactical IT or operational view of data management will do so at their own peril.

Focus on data governance

While it can be argued that financial institutions were among the first to have dedicated teams to manage information, today’s best practices for effective MIM move beyond traditional teams established for areas of focus like securities management or counterparty management. Rather, companies are aligning organizationally to formulate holistic information management approaches. This means centralized responsibility for both structured and unstructured information—and alignment of cross-business unit expectations around information format, content, and rules. This is a far different approach than was taken in the aforementioned purpose-built initiatives, which often focused on one data class for one business owner.

The challenges for today’s chief information/data officer in driving holistic information management initiatives within major financial institutions center on how to address the broad range of cross-business requirements, while effectively harnessing the technical expertise for broad-based technology and tool deployment. The resolution calls for the delivery of business solutions that cut across data classes, leveraging resources that may have been traditionally aligned to only one specific type of data. For instance, credit risk solutions depend on effective counterparty and securities data as well as share-of-wallet analysis—which requires insight into both customers and products.

The new reality of data classes in financial services

The answer to this challenge has been the introduction of a matrixed organization with people dedicated to business needs and others focused on technology enablement. In this way, data definitions and structures are managed for the greater good rather than meeting only siloed needs. The following table illustrates the new reality of financial services institutions for specific data classes:

Measuring the impact of MIM

Data Class	Traditional Owner	Emerging Business Constituencies
Customer	Marketing	<ul style="list-style-type: none"> • Risk Management • Compliance (AML/KYC) • Fraud • Customer service • Office of CEO
Security Master	Trade operations	<ul style="list-style-type: none"> • Risk management • Compliance
Counterparty	Risk management	<ul style="list-style-type: none"> • Trade operations • Office of CEO
Agent/Broker	Sales	<ul style="list-style-type: none"> • Finance • Marketing

The newly elevated and strategic significance of information management has led to a trend where executives of leading financial service institutions are now demanding the same level of accountability that they would for other significant business investments. Organizations must secure executive buy-in for MIM initiatives and establish metrics to track and ensure that the initiatives are meeting the business requirements and delivering their intended ROI.

This mandate requires that an organization be able to quantify impact in terms of relevant business metrics. For instance, if “share of wallet” or “average number of products per company” is a critical corporate measurement, then information management must be tied to these metrics. In these examples, this could be done by measuring improvements to marketing effectiveness or reduction

in marketing costs toward the achievement of this goal. A metric such as “number of duplicates” holds little meaning, and does not characterize strategic or business impact relevance, whereas “customer satisfaction” or “reduced cross-sell cost” may be much more valuable.

The following are some examples of typical metrics of successful MIM initiatives:

Data Class	Data Metric	Correlated Business Metric
Customer	<ul style="list-style-type: none"> • Percent deliverable address • Percent duplicate • Percent with valid SSN/FICO 	<ul style="list-style-type: none"> • Avg. products/customer • Cost of customer acquisition • Attrition rates • Default rates • Customer profitability
Counterparty	<ul style="list-style-type: none"> • Percent duplicate • Percent not in hierarchy • Valid credit rating 	<ul style="list-style-type: none"> • Cost of capital reserves • Trade settlement failure rate • Percent of trades with default credit rating
Security	<ul style="list-style-type: none"> • Percent duplicate • Percent valid CUSIP number 	<ul style="list-style-type: none"> • Trade settlement failure rate
Agent/Broker	<ul style="list-style-type: none"> • Percent duplicate • Percent not in hierarchy 	<ul style="list-style-type: none"> • Share of agent book • Percent commissions paid correctly first time

Deriving and quantifying these impacts is not trivial. Today’s financial services institutions are investing a great deal of time before they begin to ensure proper alignment on these metrics, thereby securing long-term business support.

Summary

Master Information Management (MIM) is gaining momentum in the financial services industry. Managing information is now critical in order to drive strategic risk management, customer-centricity, and compliance initiatives at the CEO level.

Successful initiatives have the following criteria in common:

1. Anchored to a clear business justification addressing critical business requirements, and having business executive-level sponsorship
2. Meet new challenges while maximizing the insights and benefits of the entire enterprise
3. Establish cross-organization data governance
4. Define effective methods for measuring meaningful business outcomes

By following these principals, EMC Consulting is helping today’s leading financial services organizations establish information management approaches that deliver true business impact in meeting the critical requirements of these organizations.

This new reality brought upon by the financial crisis has now cast a new light on some very old topics, benefiting information managers with increased attention, budget, and autonomy.



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