HELPING ASSET MANAGERS NAVIGATE THE DATA SEA

A new global study, conducted by The Economist Intelligence Unit (EIU) and sponsored by Northern Trust, sheds light on how asset managers are dealing with the increasing volume of data they face. In September 2015, the EIU surveyed 201 asset and insurance management executives. All survey respondents are involved in decisions regarding data sourcing, management and strategy. About half work for firms with assets under management exceeding US$5 billion. The firms are evenly split between the United States and Europe, with about 15% of respondents based in the United Kingdom.

WANTED: A CLEAR PLAN AND A FIRM HAND AT THE HELM

The survey showed that, on the whole, managers are finding tools and technologies to help them create tangible benefits from new data. But look closer and the results show wild variance – with some institutions benefiting substantially while others are failing to gain any advantage.

"Data strategy in asset management is fast moving from its infancy to a more developed phase," says Ugo Catterina, senior vice president and head of U.S. internal audit at Allianz Asset Management. "If you don't have a solid strategy and you consider everything at the same level, there is no prioritisation, and the ensuing mayhem makes it extremely difficult to find direction in this ocean of data. But a significant number of asset managers in the United States are starting to tackle data strategy in a professional way."

In other words, the quality of an organisation's data strategy – and the presence of strong leadership to deploy and enforce that strategy – can mean the difference between institutions that successfully navigate their data and those that get lost at sea.

To complement the survey, the EIU conducted a series of in-depth interviews with the following experts (listed alphabetically by organisation):

UGO CATTERINA
Senior Vice President and Head of U.S. Internal Audit, Allianz Asset Management, financial and governance holding company for the asset management business of Allianz SE

SAM HOCKING
Chief Executive Officer, ALTX, next-generation intelligence platform for the alternatives market

NEAL PAWAR
Principal and Chief Technology Officer, AQR Capital Management, a global investment management firm

DAN SHOENHOLZ
Managing Director of Strategy Services, Parthenon-EY Strategy Services, Ernst & Young LLP, one of the world's largest professional services firms

DAVID BLACKWELL
Head of Client Analytics, UBS Wealth Management, global financial services firm

Developed by

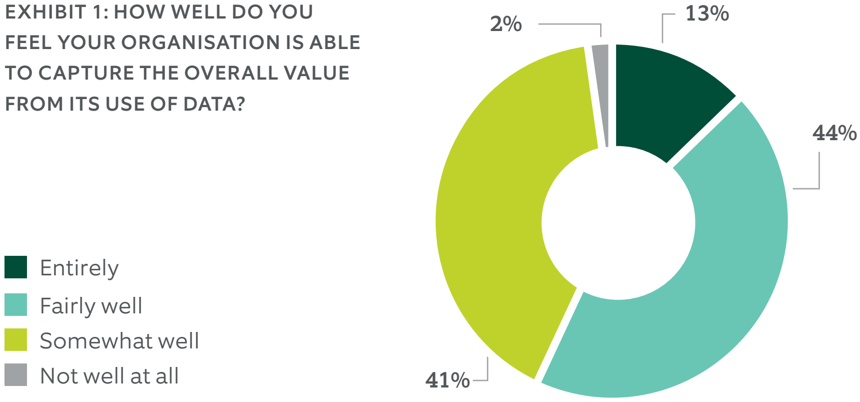
The Economist Intelligence Unit

Asset management has always involved data-intensive business models, yet today's practitioners are confronted with a deluge of new information arriving in a variety of different formats. "You're forced to start thinking about data and analytics in a different way than you did five years ago," says Sam Hocking, chief executive officer of ALTX. "The data that's available about companies – and about people and their activities – is probably at least a hundred times more than we had access to even five years ago. The unprecedented volume has really forced us to start thinking seriously: How do we analyse it?"

Indeed, the need for a clear strategy is growing more urgent as the financial service industry grapples with cost pressures from fierce competition, increased regulation and a plethora of new products and strategies that have multiplied both opportunities and complexities.

The quality of an organisation's data strategy – and the presence of strong leadership to deploy and enforce that strategy – can mean the difference between institutions that successfully navigate their data and those that get lost at sea.

EXHIBIT 1: HOW WELL DO YOU FEEL YOUR ORGANISATION IS ABLE TO CAPTURE THE OVERALL VALUE FROM ITS USE OF DATA?



SOURCE: Economist Intelligence Unit (EIU) 2015 Asset Manager Data Survey

85%

ORGANISATIONS CAPTURING VALUE FROM DATA ONLY FAIRLY OR SOMEWHAT WELL

2%

ORGANISATIONS NOT CAPTURING VALUE FROM DATA WELL AT ALL

Adding to the complexity, today's concentrated client-centric focus means that managers must personalise investment strategies and performance assessments. "Increasing competition and commoditisation within the industry requires finely tuned strategies and value propositions that are informed through data and analytics that lead to insights to support a differentiated approach," says David Blackwell, head of client analytics at UBS Wealth Management.

With few established best practices to guide them, most asset managers are still experimenting with how to capture the full value from their data – only 13% of our survey respondents felt they were doing this entirely well (see Exhibit 1 on page 2). Some data is relevant to practitioners' current models, but much is not. And with no established interchange standards, asset managers are forced to expend resources on cleaning and preparing data that is often incompatible or even incorrect. Firms that are successfully navigating the sea of data are establishing a focused strategy under the guidance of effective and informed leadership.

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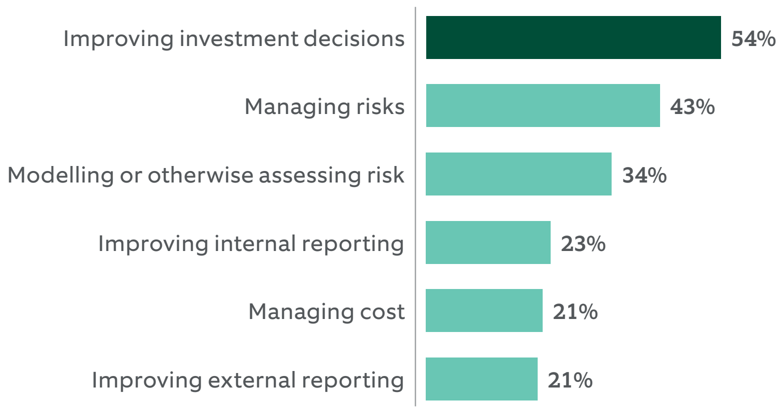
FOUNDERING BUT HOPEFUL IN THE DATA SEA

Most asset managers say that the benefits they achieve from data are broadly aligned with their goals. Survey respondents say their most important goals overall are improving investment decisions, managing risks and modelling or otherwise assessing risks (see Exhibit 2).

EXHIBIT 2: TOP GOALS RANKED AS MOST IMPORTANT IN DEVELOPING THE COMPANY'S STRATEGY

% of respondents citing each option as one of their top three goals



Excluding responses under 20%

SOURCE: Economist Intelligence Unit (EIU) 2015 Asset Manager Data Survey

However, companies aren't seeking more data for growth alone: Growing regulatory demands are the most frequent motivator behind such moves, followed by the need to improve customer satisfaction (see Exhibit 3).

EXHIBIT 3: TOP REASONS FOR ORGANISATIONS TO INVEST IN NEW DATA SOURCES

% of respondents citing each option as one of their top three reasons

SOURCE: Economist Intelligence Unit (EIU) 2015 Asset Manager Data Survey

Despite spending more time and money on data, a surprising proportion of asset managers say they are unable to capture full value from the data they acquire.

Yet, despite spending more time and money on data – and a majority of the survey respondents expect to spend even more money in the next three years – a surprising proportion of asset managers say they are unable to capture full value from the data they acquire. Including the 13% who say their organisation is capable of capturing value "entirely," only a small majority say they capture value at least "fairly well" (see Exhibit 1).

Nonetheless, a majority of survey respondents think the return on their investment (ROI) in data and analytics will improve over the next three years, while a minority says their ROI will decrease. And although experts caution that ROI on data can be very difficult to measure, they say that managers can anticipate improvements in data integration that will make using data easier. Dan Shoenholz, managing director of Parthenon-EY Strategy Services, Ernst & Young LLP says, "We've seen a lot of investment in the last few years in costly infrastructure to enable data analytics – things like servers, information technology professionals, tools to collect and aggregate the data – and we're on the cusp of seeing more activity in the integration and utilisation of this information."

As analytics practices catch up with infrastructure investments, performance is likely to improve. But they caution that current strategies will not get the most out of this investment. "I see two critical ingredients [for optimal data strategy]: focus and flexibility," says Shoenholz. "The organisations that are going to see the most velocity and the best ROI – especially in this immature environment characterised by rapid change – are going to be those that revisit their data strategy frequently and deploy resources in a focused way to harness the power of the new information."

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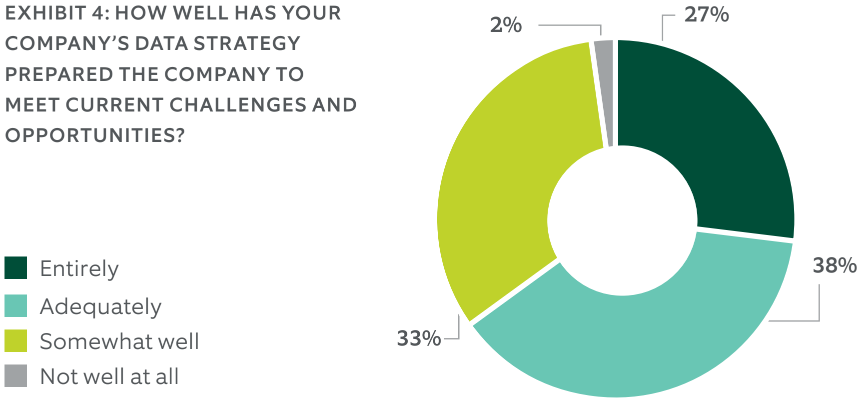
Managing Director of Strategy Services, Parthenon-EY Strategy Services, Ernst & Young LLP

DIFFERENT STRATEGIES, COMMON CHALLENGE

If focus and flexibility are two of the most important characteristics of an ideal data strategy, the survey suggests that most firms remain far from that ideal. When asked about their current data strategy's attributes, just over one-quarter of respondents say that their strategy is "entirely" prepared to take advantage of current opportunities and to meet current challenges – with almost two in five saying that their strategy is no better than adequate (see Exhibit 4). Worse, only 13% say that their strategy is "entirely" flexible, ready to face whatever developments the future might hold.

EXHIBIT 4: HOW WELL HAS YOUR COMPANY'S DATA STRATEGY PREPARED THE COMPANY TO MEET CURRENT CHALLENGES AND OPPORTUNITIES?



SOURCE: Economist Intelligence Unit (EIU) 2015 Asset Manager Data Survey

Different specialties use data in their own ways, but they share a common goal: to use a high-quality strategy to harness the growing flow of data, thereby guiding the business. "It doesn't surprise me that there's this broad range of specialties all grappling with the same issues," says ATLX's Hocking. "People [in every specialty] are all trying to understand how to use the data to be more effective. These are some of the most fundamental challenges that financial services asset management is facing. How do you really understand the data you're getting? How can you harness it to create an actionable item?"

"It's fundamentally a people problem," UBS's Blackwell says. "It's not only about technical foundations or system and data architecture – it's also about a lack of analytics expertise and all that's required to hone that expertise. It's about getting people who know how to frame the myriad data in ways that deliver meaningful, actionable insights that drive the business."

Shoenholz, at Ernst & Young, adds that much of the data now attracting attention has been around for a long time, but the industry lacked the tools to use them until recently. "There's an explosion of data, in part because of investments that companies have made in data tracking and manipulation capabilities," he says. "Individual securities performance, trading patterns of investment professionals on the floor – even five years ago these things were nearly invisible or at least much harder to measure and to manage. Now our tools have gotten more powerful and the ability to store volumes of data for interpretation has increased exponentially." In other words, he says, tracking and managing this data have evolved from a practical impossibility into a necessity over a very short span of time.

While the need for better data strategies is widely recognised, the absence of industry-wide standards for data interchange means that users cannot generate truly useful information without considerable outlay.

Other experts point out that increasing data velocity is focusing greater attention on its historical – and fluctuating – nature, which also highlights the need to have a solid strategy. "We've seen increasing interest in how data has changed over time: What did we believe the data looked like at the exact time when we were making that decision?" says Neal Pawar, principal and chief technology officer of AQR Capital Management. "Temporal data has what we call a valid time and a transaction time," he continues. "The valid time pertains to when that data was true in the world and the transaction time is when it was true in our database. There can be a lag between the two, because of the time required to process the data."

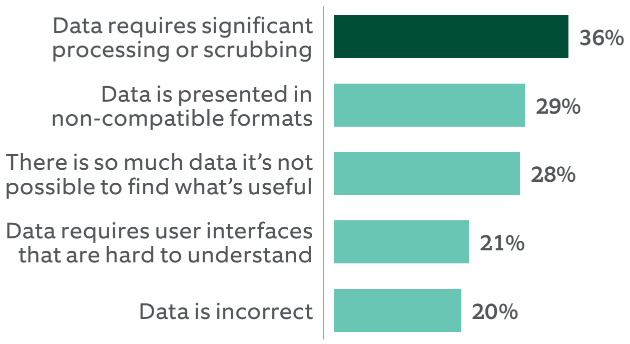
START BY IMPROVING THE DATA ITSELF

While the need for better data strategies is widely recognised, a number of pain points stand in the way. The root problem is that asset managers acquire data from providers that have collected it for various purposes using many different methods. The absence of industry-wide standards for data interchange means that users cannot generate truly useful information without considerable outlay. Executives are forced to allocate considerable time and labour to processing and scrubbing purchased data, dealing with incompatible formats and separating useful from non-useful data. And some of that data is actually wrong: One in five survey respondents say that incorrect data is one of their top challenges (see Exhibit 5).

Blackwell points out that inaccurate data has not necessarily been entered incorrectly; it may have been entered in one way in one system and another way by someone else in another system for a different purpose. "So when you bring data sources together, they disagree," he says. "The driving force is the fact that you've got disparate systems serving disparate functions. The ultimate objective is a single source of truth: what some call the 'golden copy' of data." Without that golden copy, Blackwell says, as much as 70% of analysts' time can be spent on managing raw data, cleaning it and preparing it for analysis. This means that only a fraction of analyst work-hours is left to extract insights and guide strategic decisions.

EXHIBIT 5: TOP DIFFICULTIES FACED IN GETTING AND SHARING DATA

% of respondents citing each option as one of their top three difficulties



Excluding responses under 20%
SOURCE: Economist Intelligence Unit (EIU) 2015 Asset Manager Data Survey

Moreover, scrubbing the data often is insufficient – firms frequently must reconcile information from multiple sources. "You need to buy at least two – possibly more – then scrub them, reconcile them and eventually store them in what often ends up as a proprietary format. From that process comes a set of exceptions, which you then want humans to go through, looking things up manually, cleaning any of the outliers and picking which of the multiple sources is correct."

Piling on to the compatibility problem is the fact that vendors impose licensing requirements that limit the feasibility of third-party data preparation services. " [Data vendors] benefit from the fact that there is redundancy not only across organisations, but potentially within organisations, and they obviously benefit from that in terms of the number of data licenses that they're selling," says Pawar. He notes that a few third-party firms are making inroads in this area, but they lack economies of scale, since licensing requirements prevent them from replicating work done for one client to serve another. "The way we scrub data is not proprietary – the secret sauce is in the models, not in our ability to parse Bloomberg data feeds," he adds. "So the idea of a custodian or transfer agent or some independent party providing this as a service resonates tremendously with most of us in the industry."

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NEAL PAWAR
Principal and Chief Technology Officer, AQR Capital Management

28%

TOP DIFFICULTY IS TOO MUCH DATA TO FIND WHAT'S USEFUL

These daunting obstacles in the pursuit of the golden copy leave the majority of asset management executives with strong reservations about the reliability and the utility of their data. And these reservations are likely to become a serious problem as the volume, velocity and variety of data that asset managers need to manage if they are to thrive continues to grow. This makes alignment of data strategy with business goals an even more critical concern.

BUILDING THE NEXT GENERATION OF DATA INFRASTRUCTURE

A Northern Trust Perspective

We've seen a great deal of innovation in how the industry approaches the challenges presented by "big data." But we've also seen a strong appetite for even more improvement.

To be useful, data needs to go beyond just being accurate; it must be "actionable" information. Through this lens, a true "best practice" solution for data management must successfully achieve four things:

1. **Aggregation:** Capturing data from multiple sources, centralising the data and providing a presentation and data-delivery layer.
2. **Normalisation:** Translating and formatting data from each source consistently, enriching the data by sourcing missing values.
3. **Verification:** Validating the accuracy of received data through reconciliations, overriding valuations where needed, running data-quality checks and resolving any issues or discrepancies.
4. **Integration:** Integrating systems, business processes and data-delivery formats to enable seamless delivery to external systems and to make the aggregated data source the "golden copy" of data for counterparties.

The industry has developed systems to handle aggregation, normalisation or verification separately, but finding a solution that manages all three can be more challenging. But the real key to unlocking the data puzzle is integration. Fund managers and administrators need a system that not only synthesises the necessary data, but does so in a way that's flexible enough to meet a wide array of needs.

While we believe that developing this integrated data infrastructure needs to be an industry-wide effort, the funds that find solutions first and best will reap the benefits. You can read more about our thoughts on developing the next generation of data infrastructure in our paper, *"The Next Frontier: Overcoming the Challenges of Transparency"* by visiting **northerntrust.com/nextgendata**.

WHO'S AT THE HELM?

To successfully navigate the sea of data, asset managers must continually modify their approaches to data and analytics – and ensure that they're aligned with the needs of the business. Asset managers in organisations that excel at capturing value from data more often report that they have what they need to support decision-making. This correlation applies to every use for data included in the survey, and we found even stronger relationships between capturing value and flexible data strategies.

Executives who say their organisation captures value from data "entirely" or "fairly well" say twice as often as other respondents that their data strategy is entirely or mostly flexible (see Exhibit 6). Notably, agility is also correlated with the frequency with which data investments are reviewed relative to strategic goals. For example, 71% of those who say they assess performance monthly say their data strategies are "mostly" or "entirely" flexible, compared with only 53% who measure success annually.

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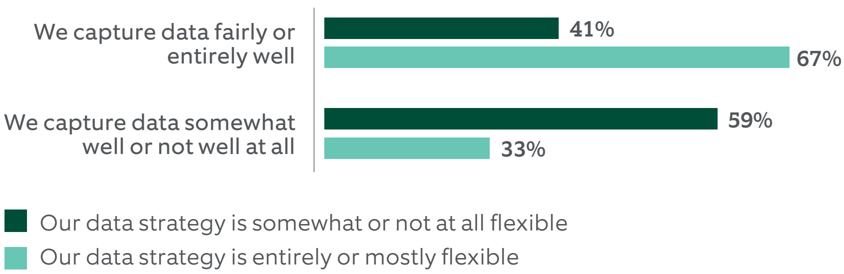
EXHIBIT 6: FIRMS WITH MOSTLY OR ENTIRELY FLEXIBLE DATA STRATEGIES TEND TO CAPTURE MORE VALUE FROM THEIR EXISTING DATA

by reported level of data strategy flexibility



SOURCE: Economist Intelligence Unit (EIU) 2015 Asset Manager Data Survey

Catterina, at Allianz, suggests that prioritisation is key to achieving a more flexible data strategy. "It seems pretty basic, but if you don't really know where your critical data is – where the data that you really need is – it creates a lot of problems in terms of flexibility," he says, going on to add that while intermediaries can potentially play a bigger role in standardisation, the ultimate burden of developing strategy still lies with the end user. "Asking all of the intermediaries on the market to come up with a sort of unified solution would probably be impossible," he says. "It would definitely be helpful if the big players like transfer agents and custodians could work on the quality of data and providing more standardised communication, but at the same time the users need to develop a more sophisticated strategy that enables them to allocate resources to the data that is most critical."

The research suggests that a key component of a successful data strategy is centralised decision-making led by a person or team that has a holistic view of the company's needs and the ability to collaborate with different levels of the organisation. Experts stressed the need for strong leadership to develop, implement and enforce a strategy that is closely linked with business objectives. However, the survey results suggest that many firms are a long way from that: Nearly one in five say they have no central leader. Of those that have centralised this role, a majority of respondents say that setting data strategy is a C-level responsibility, but that group is nearly equally divided between those pointing to information and technology leaders, investment strategy leaders and the C-suite as a group. Responsibility for assessing performance against strategic goals is similarly distributed.

This dispersion of responsibility is not surprising, because the application of data analytics is shared across different parts of the organisation. "The C-suite will have the overall responsibility for ensuring investment strategy is followed and goals are met," Shoenholz says. "The IT team will be responsible for execution and delivery of information to support it and the CIO who likely reports to the CEO will have his/her hands on this issue at all times. It's nothing short of critical for any investment firm to link their analytics effort with the broader strategic goals of the organisation – and strong coordination among the range of stakeholders is essential to make that happen."

The value of this level of coordination is illustrated by the survey findings. Respondents from organisations with C-level responsibility for data strategy more often say that they always have the data they need in nearly every category – whether for making investment decisions, modelling/assessing risk, internal and external reporting or ensuring transparency. And more than two-thirds (69%) say that their strategy is at least adequately able to meet the organisation's current challenges and opportunities, compared with only 57% of those without C-level leadership.

NEARLY

1 in 5

FIRMS HAVE NO CENTRAL LEADER OF THEIR DATA STRATEGY

EFFECTIVE STRATEGY AND LEADERSHIP ARE KEY TO CAPTURING FULL VALUE

The survey participants believe they have been broadly successful in using the deluge of data to meet regulatory requirements, improve their investment strategies and meet new business objectives. Moreover, many expect to achieve higher return on data investment over the next three years. Yet a surprising number – more than four out of five – say they are not yet able to extract full value from the data they acquire. Existing data strategies, on average, do not adequately prepare firms to tackle the challenges they face, and many strategies lack the flexibility to respond effectively to the unexpected.

Experts who were interviewed for this study are unanimous in their view that dealing effectively with these challenges requires strong leadership and the correct processes to ensure that data are managed effectively on an enterprise-wide basis. Most important, asset managers need to focus their data strategies on the information that supports their business goals – and develop a sharper focus on extracting insights that improve business decisions. In a setting with few established best practices, they must remain both flexible and adaptable, continuously evaluating performance as methods change to ensure that they are capturing full value from data.

Companies that can act quickly on these realities stand to gain competitive advantage. Capturing greater value from the data they acquire is clearly a benefit in itself in terms of cost effectiveness. But even more important, the insights these firms gain from data analytics will be critical to optimising business strategy in an extremely dynamic and heavily regulated market.

A surprising number say they are not yet able to extract full value from the data they acquire. Existing data strategies, on average, do not adequately prepare firms to tackle the challenges they face, and many strategies lack the flexibility to respond effectively to the unexpected.

LEVERAGING YOUR SERVICE PROVIDER'S EXPERIENCE

A Northern Trust Perspective

Meeting the wide variety of demands from your board, investors, regulators and auditors requires organising vast amounts of data – data that must be tracked, classified and reported in multiple ways. Not only must the data be accessible, but the labelling and classification must be flexible to allow you to meet your various reporting requirements. We also have seen increasing demands by investors and fiduciaries for data transparency.

In this environment of multiple nuanced rules and reporting requirements, and a wide variety of needs, how can you efficiently meet the challenge?

Fortunately, you don't have to tackle it alone. Service providers, such as your custodian or administrator, also have an interest in managing the flood of data. Many service providers have developed their technology to deliver data that are more flexible and timely. Capitalising on their understanding of the drivers behind the data needs, nimble service providers can help you identify synergies in seemingly disparate reporting requirements and can leverage flexible methods of extracting and presenting data to quickly meet a variety of needs.

Global Locations

Abu Dhabi	Guernsey	New York
Amsterdam	Hong Kong	Riyadh
Bangalore	Kuala Lumpur	Singapore
Beijing	Limerick	Stockholm
Chicago	London	Tokyo
Dublin	Luxembourg	Toronto
Frankfurt	Melbourne	

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