

Inside Reference Data

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Outsourcing on the Rise

The financial crisis has led a growing number of data managers to assess outsourcing opportunities. Many struggle with limited human resources, and a need to introduce a more predictable cost structure. This is when outsourcing becomes an important alternative to look at—also for projects aimed at fixing data quality issues.

In July, BNP Paribas and Swift released the results of a survey of brokerage firms in Hong Kong, focusing on back-office outsourcing and where to draw the line. Hong Kong-based Barnaby Nelson, head of business development (Asia), BNP Paribas Securities Services, says there is more talk about all types of

side. “Hedge funds looking to scale their operation look at outsourcing key processes without the anchor of existing legacy operations and are willing buyers,” he says, adding that the traditional buy side is feeling margin squeeze as a result of stiff product competition from hedge funds, as well as exchange-traded funds.

Firms are now becoming more conscious of the benefits of outsourcing, and these benefits are also being looked at as part of data quality projects. Dublin-based Michael McMorrow, enterprise data warehouse designer at AIB Group, says the data quality processes within data management can be seen to fall into

outsourcing options for such tasks. “The verification process is a good candidate for outsourcing in a sustainable and flexible way, where resources can be easily added, removed and replaced over time with little risk,” he says.

This is not necessarily the case for the second part of the process, which could require more analysis. The second part is about analyzing the data metrics, the outputs of the first part of the process. Data managers, who know the systems and processes, can use their knowledge to hone in on data quality suspicions, such as counter-intuitive trends in lending in a specific sector, for example, says McMorrow. “This is less suitable for outsourcing as it takes much longer to grow and create a succession plan for such resources, and from a security angle, the business knowledge required will probably include business-sensitive stuff,” he says.

Vendors are still looking at how to help clients with knowledge-based services as well—a process that would take the outsourcing proposition to the next level. Netik’s Flatley says organizations can go one step further by working with managed service providers, and Netik has discussed the analysis work, related to data metrics, with clients. “The provision of such data metrics absolutely requires more in-house skills and understanding of the data and how it is used by clients, and we are embracing that approach so that our clients can not only source data from us, but also some of the analytics they require,” he says, adding that this is something many clients have asked



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outsourcing today than ever before. “We are seeing greater attention being paid to outsourcing across the market—particularly among small and mid-tier brokers, who are looking to outsource as much as they can,” he says.

With increased pressure on firms to maximize profits, improve efficiencies and create a foundation for growth, outsourcing becomes a more and more viable option. New York-based Rob Flatley, CEO, Netik, says there is also an appetite for outsourcing on the buy

two categories—verifying adherence to prescribed business and technical rules, and assessing the data in the context of business understanding.

The first part of the process can be done by using scorecards or profiling toolkits, or potentially using data mining techniques to surface data correlations. “The key point here is that a ‘stranger’ can perform these mechanical, objective tasks with little or no inherent knowledge of your business,” he says. In fact, firms should be able to look at

for, and the company will very shortly be able to provide such knowledge-based services.

Yet, it is the basic data quality services that firms typically start with when first embarking on an outsourcing strategy. Washington, DC-based Elena Christopher, vice president, financial services at data outsourcing company Mobius Knowledge Services, says the work Mobius does for clients fits into two categories—ongoing or project-based. The process described by McMorrow, in terms of verifying adherence to business rules, is one of the services Mobius can complete for clients on an ongoing-basis. Mobius has a total of 550 employees, but for this type of work, it might only be a case of having three to five staff dedicated to a specific process. It is not the massive outsourcing agreement some might associate data cleansing work with, but it is still an important data quality effort. “We can improve processes, giving clients better data and the time to concentrate on other things,” she says.

The most common work Mobius does is data cleansing, and a lot of the project-based data cleansing work can be seen as tactical. “Clients are looking to do more with less,” she says, adding that data cleansing is often part of bigger technology programs. As firms start investing in technology again, there is a need to clean the data before realizing the benefits of the new implementation. “These are all very mundane things, but at the same time very important,” she says.

After the initial clean-up process, it is less people-intensive to maintain the data. But it is still necessary to dedicate full-time resources to it. Christopher says that unless firms dedicate resources, whether internal or outsourced, to manage ongoing data cleansing and quality after a major initial cleansing project, the quality can degrade quickly—in the range of 10–20% duplicates within one to two years.

The fact that there is a growing recognition that the data is not static—it needs to be maintained—has also strengthened the case for outsourcing data quality efforts on an ongoing basis. New York-based Jennifer Ippoliti, practice director, data management, Wipro Technologies, says more firms are also starting to use data quality tools to identify data quality issues and track them using scorecards. When she managed data quality programs at Lehman Brothers, she set up a strategy where a data quality tool was used to identify probable duplicate clients in the client master, and an offshore team reviewed the list and assessed whether the clients were really duplicates, and if so, whether multiple records needed to be collapsed into one. The data quality tool gave each potential duplicate a probability ranking, so the onshore team reviewed any matches that had a low probability before any changes were made to the data. The same type of set-up, where the on-



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shore team acts as a Level 3 support for the offshore team, could work with a third party outsourcing provider, says Ippoliti.

In fact, this is how Wipro works with some clients in the reference data space. Ippoliti says the Wipro outsourcing team will periodically perform KYC checks for a customer, verifying client risk profiles. The outsourced team completes the checks for the low-, medium- and high-risk clients, while the Wipro client does the very high-risk clients in-house. This process can run smoothly with the help of workflow tools, which Ippoliti says outsourcing providers typically already have, but when she worked on the client-side, they had to design and build their own workflow management tools.

The technology is one of the reasons firms are looking at outsourcing providers to help ensure high-quality data. Broadridge Financial Solutions, has established a partnership with enterprise data management software vendor GoldenSource. Jersey City-based Susan Certoma, chief operating officer, brokerage processing and data at Broadridge, says firms are now looking at outsourcing multiple data areas, particularly with an emphasis on multi-sourcing and benchmarking across vendors. By utilizing a third-party provider, firms can leverage resources, expertise and tools to more efficiently implement and integrate within their environments. These tools include common data language frameworks, business rules integration and workflow management.

To decide which areas to outsource, Certoma says she would separate them into segments. Data focus areas can be separated into various

segments including product and pricing data, client and counterparty data, and transaction and position data. Each of these separately, and in concert, can form the basis for risk analytics and reporting, as well as regulatory and compliance reporting. Basic acquisition of data, such as legal entity information, and simple reporting, such as exposure reporting, are often processes that can be outsourced, while more complex modelling and algorithms are usually maintained in-house.

When Certoma worked on the client side, her firm would develop and implement complex analytics and scenarios for market and credit risk based on the foundation of core data provided by outsourcing. “These functions require extensive financial expertise and advanced technologies. I have not found a vendor who can address all aspects of this type of function,” she says, adding that firms can also see these areas as giving them a competitive edge.

The question now is if the services firms are looking for from third-party providers are available in the market place. The Hong Kong survey by BNP Paribas and Swift showed there are still some areas where firms would like to see improved offerings. When asked what outsourcing providers do not address today in that market, 13% said client and security data maintenance. This could either mean there is scope for providers to expand offerings in this area, or that existing providers may need to up the marketing efforts. But on thing at least is certain—the data quality outsourcing trend is on the rise.