

Whitepaper

# Better Data for Financial Services Companies

**NewVantage Point!** is published by NewVantage Partners, a boutique management consulting firm which serves as trusted advisors and senior consultants to Fortune 1000 clients. NewVantage provides independent, expert, perspectives through executives and industry thought-leaders who have “sat in the chair”. Our goal is to help organizations mitigate the risk of large-scale business and technology transformation initiatives by providing a critical link between business and technology strategy and capabilities. NewVantage Point! is published on a periodic basis to share our perspectives with a broader executive audience.

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## NewVantage Point Summary

The demands of the US Financial Reform Bill will finally force financial services companies to get serious about Master Data Management!

This opinion was voiced by many as I researched and wrote a recent article for In The Black Magazine. The title of the article was “Faster Data”. However, I have come to believe that a more appropriate title may be “Better Data”.

## A single source of finance master data must be the goal

On September 15, 2008, workers in financial services all over the world stared at their screens as they witnessed the largest financial meltdown since the 9/11 World Trade Center attacks in 2001. In boardrooms executives tried to quantify the impact the collapse would have on their companies. They asked their data analyst teams to produce reports that provided transparency into the underlying holdings of their portfolios to help them assess the potential exposure. Company after company found that this consolidated data was not readily available.

The urgency of the requests intensified within weeks when the Dow experienced the largest losses since the great depression. For financial services companies this kind of data asset has never been more important, as market risks and

the Dodd-Frank Wall Street Reform and Consumer Protection Act are compelling companies to rethink their master data management (MDM) plans.

MDM is commonly defined as the discipline of providing processes, business rules and supporting technology to collect, consolidate, match, assure quality and distribute enterprise data. It is frequently referred to as a single version of the truth throughout the enterprise to ensure consistency and control over data assets.

## Start with gaining insight into data integrity

It has been nearly a decade since the introduction, in the US, of the Sarbanes-Oxley Act 2002 which required public company boards, management and public accounting firms to implement an internal framework to demonstrate control over financial reporting. At the time, data evangelists believed this was the motivation companies needed to prioritize their data management programs. However, many companies complied — sponsorship by the business leaders, understanding of the data assets, a defined time-to-value and a clear understanding of the business objective of the program.

With executive sponsorship and a governance structure overseeing the MDM program, the starting point is to gain insight into finance (or any other domain) data integrity including accuracy and timeliness across multiple sources. This daunting but critical task should precede any other activity, especially choosing a technology platform. It enables teams to clearly articulate to stakeholders the scope, impact and benefit of the change. Reducing the number of terms, definitions and rules to a commonly accepted and manageable set that supports the business objectives underscores the success of any MDM program. This task goes hand in hand with a pragmatic approach to defining what the program will deliver.

## Successful MDM programs have stated goals and priorities

While most stakeholders want everything, the Pareto Principle holds true; improving 20% of the data will yield 80% of the benefit. Applying the 80-20 rule presumes that the team has

a deep understanding of what the business critical functions are and where executives want the team to focus. In a Reuters study, risk management was found to be the priority for MDM programs, with regulatory compliance a distant third. Based on these priorities, an MDM program driven by regulatory compliance would not deliver the same business impact as one focused on risk management.

The longer MDM projects take, the less likelihood there is of a successful outcome because of team burn-out, money spent and organizational fatigue. To that end, the Office of Financial Research (OFR) timeframes work in favor of an MDM program's success. The current plan is to give companies 12 months after the OFR finalizes its specifications "to get their arms around their data assets and start submitting it."

## Expect a return on your MDM program

MDM return on investment is well known. Companies such as BNP Paribas that have successfully implemented MDM programs have seen a significant reduction in the cycle-time to produce the necessary operational and current regulatory reporting requirements. However, a Gartner ITxpo study found that companies that fail to look at MDM problems holistically "spend 10 times more on compliance and governance than those that leverage each implementation for multiple requirements."

## About the US Financial Reform Bill

The US Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 was signed into law on 21 July 2010. It has become a catalyst for change motivating financial services companies to pay more attention to their data strategy.

The bill is one of the most overarching laws introduced since the great depression governing the financial services companies from retail banks to investment firms and insurance companies. It is designed to mitigate risks to US financial stability by "enforcing accountability and transparency in the system and end 'too big to fail', to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes."

Michael Atkin of the Enterprise Data Management Council believes this regulation is exactly what the industry needs to mitigate a replay of one of the worst economic downturns the US has seen. "On their own, the financial services companies will not do it, because the cost justification is not apparent," he says.

While it is still unclear what the full implications of the bill are, a higher level of transparency is going to be required, and this will bring with it a whole new set of compliance issues that many companies are unprepared for.

Led by the treasury secretary, with representatives from bodies including the Federal Reserve Board, Securities and Exchange Commission and the Consumer Financial Protection Bureau, the FSOC is charged with identifying and responding to emerging risks throughout the financial system.

The Office of Financial Research (OFR, as represented in the bill, is empowered to collect financial data and perform economic analysis to "make risks transparent" for the council. The bill empowers the OFR, after consultation with the council members, to "require the submission of periodic and other reports from any non- bank financial company or bank holding company for the purpose of assessing the extent to which a financial activity or financial market... poses a threat to the financial stability of the United States."

Experts assume that the OFR may require any financial company (banks or holding companies of any size) to submit data to "identify risks to the financial stability of the United States that could arise from the material financial distress or failure."

## About NewVantage Partners

NewVantage Partners is a boutique management consulting practice established in 2001 and comprised of former C-Level business and technology executives, and senior subject experts.

Our work comprises up-front planning – current state assessment, future state design, business case, execution roadmap, as well as the development of business and technical requirements, business capabilities, and business architecture. We are frequently engaged to provide a critical link between the business and technology organizations of our clients.

NewVantage fosters a commitment to executive thought-leadership through a series of small group executive dinners, and through our executive advisory board comprised of current and former Fortune 1000 business and technology executives and well-known industry thought leaders.

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