

Inside Reference Data

Are Utilities Changing Data Management?

Buy-side firms consider shared services as sell-side adoption increases



Both buy-side and sell-side firms seem to be embracing

mutualization along with centralization of technology and operations teams, as their executives told audiences at NAFIS conference.

While third-party shared services for reference data have existed in one form or another for years, the concept of data utilities has really gained traction in financial services in the past two years.

At a time when the sell side is under increasing regulatory and cost pressures, utilities offer the promise of mutualizing the cost of reference data. But are they being adopted as readily as the vendors that offer them would like to have you believe? And how are they affecting data management in firms?

Delegates to the North American Financial Information Summit, which took place in New York in May, heard from buy-side and sell-side representatives, as well as Philippe Chambadal, then CEO of SmartStream but now the company's president.

SmartStream partnered with tier one banks last year to evolve the Securities Product Reference Data (SPReD) utility, developed from the vendor's existing Reference Data Utility (RDU) managed service and intended for the collection, cleansing and validation of reference data across asset classes.

In response to a question about whether the pace of adoption of utilities, and the RDU in particular, is slow, Chambadal said that, on the contrary, change has been fast. "We started this five years ago with reference data management and reconciliation. We went from almost zero percent [then] to 71 percent of revenues last year and 77 percent this year," he said. "The pace is actually very, very quick. As their revenues are not coming back, the firms have no choice but mutualization and we have seen the pace accelerate."

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Goldman Sachs is one of the co-founders of SPReD. Chris Sherman, a vice president at the firm, said the rate of adoption is picking up. "With the regulation and the cost-control environment we are in today, there's more and more need for us to come together. And we are getting to shortening the settlement cycle with T+2," he said. "There is increasing need for our processes not to chase down exceptions. The firms that are leveraging like-for-like data are going to be in a better place."

Don Callahan, global head of market data infrastructure, global banking and markets at HSBC, added that the buy side is starting to recognize the benefits too, as "they use the reference data we source."

Shared services such as SPReD are a major driver of the centralization of data management in organizations. Sherman said Goldman Sachs has long had centralized operations and IT. "We did this many years ago. We have a centralized reference data operations team that I'm a part of, and our technology team also manages our enterprise reference data. We already have the tech and ops sides together, so the ability to invoke the change [to SPReD] lies upon our shoulders. We bring this in and manage those changes to our reference data systems and then our consumer base as well. The biggest challenge is the stakeholder engagement internally in our firm."

The drivers are less clear on the buy side, said Sandeep Sahota, managing director and head of data management at the Canadian Pension Plan Investment Board (CPPIB), which manages assets for Canada's public pension system in multiple asset classes. The CPPIB is interested in shared services but must be able to show how it will drive alpha, he said.

"There are rewards around going down this path but, from a pure asset management perspective, what is the alpha generation? What is the value generated by going down the path of centralization?" he said. "And what does it mean for our investment professionals? Am I helping them with investment selection? Am I helping them with discovery? What is the longer-term value relative to the risk of changing all the plumbing? How do I start that conversation in a way that people see the true alpha of going down that path?"