

How Agile Data Management Can Power Business Transformation



EXECUTIVE SUMMARY

**DATA
MANAGEMENT
IS ESSENTIAL
TO ENABLING
SUCCESSFUL
BUSINESS
TRANSFORMATION
AND LEGACY
SYSTEM
REPLACEMENT.**

Asset managers today are facing many challenges. Chief among them are competitive pressures that are driving down fees, increasing regulatory costs, and taking attention away from their core competencies. There is also a more intense focus on risk management, for instance, creating new demands for oversight and business continuity plans. Disruption from tech-enabled competitors, such as robo-advisors and algorithm-driven smart beta products, are driving fee compression and also influencing new investor behaviors. As a result, investment firms across the globe have embarked on business transformation initiatives, designed to enable the efficient delivery of more innovative services to maintain and expand their client base.

Business-led transformation programs can range from expansion across asset classes or geographies and the introduction of new products, to digital transformation to enhance service models and improve efficiencies. In many cases they are the result of a merger or acquisition, but can also stem from the realization that industry leadership demands efficiency in the middle- and back-office and an analytical edge in the front-office. Often, business transformation projects have focused on finding more innovative and efficient ways to service their clients. As a result, an asset manager's ability to successfully execute on these types of game-changing initiatives can make the difference between thriving and barely surviving in today's environment.

With these transformation projects playing a key role in the future success and competitiveness of asset managers, Eagle Investment Systems commissioned A-Team Group to conduct in-depth interviews with a chosen sample of senior-level data management executives at asset management firms across North America and Europe. The goal was to better understand the current state of transformation programs as well as how firms are evaluating the importance of data management within these efforts. To support the interviews, an online survey was conducted with 35 respondents. This report delves into the responses to illuminate both the present and near future of the evolving asset management community.

The picture that emerges is that there are many transformation projects taking place throughout the industry and more are on the horizon. There are, however, a number of factors holding projects back. Chief among them are legacy technology systems that have long reached the point of obsolescence. Indeed, legacy technology is identified by nearly all (95%) respondents as a barrier to progress.



Perhaps unsurprisingly, the vast majority of respondents also recognize data management as a crucial component in business transformations. Data can help inform decision-making and drive efficiencies by ensuring accuracy and quality across all processes. It can also be used to measure progress and performance. The findings identify a strong correlation between the ultimate success of transformation projects and the prominence given to data management by senior management.

There is, however, a gap between this understanding and the reality of how effectively data is used in a given organization. There appears to be widespread recognition that, while data is a crucial asset, it is not a core competency for asset managers. As a result, nearly half of the respondents are exploring the use of managed services and one in ten are considering full outsourcing of their data management needs as part of future transformation initiatives.

We value the input of the executives who gave their time to support this research and would like to thank them for their involvement in a very interesting and revealing undertaking.

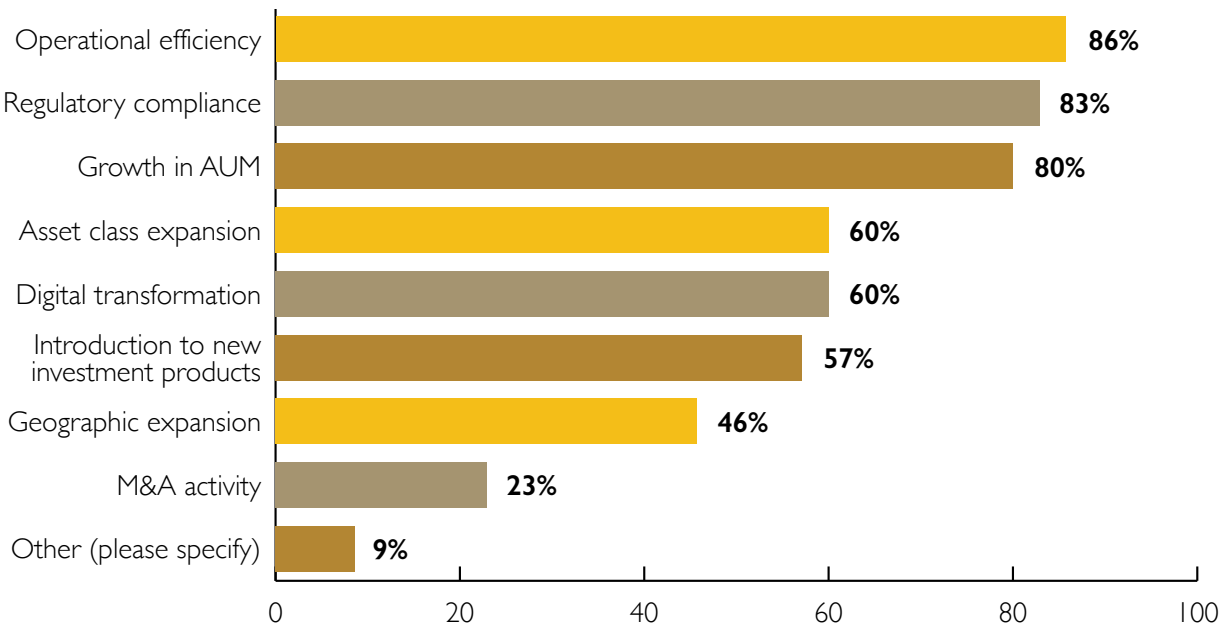


DRIVERS OF BUSINESS TRANSFORMATION

The focus for transformation initiatives can be grouped into two broad categories. The first category relates to business efficiency, with a drive to improve operational efficiencies (86% of those surveyed), ensure regulatory compliance (83%), and adapt their business for the digital age (60%).

The second category is more growth-oriented as asset managers seek to grow and drive their business forward, with a focus on growing assets under management (80%), expanding their asset class coverage (60%), improving their ability to introduce new products (57%) and expanding geographically (46%).

WHAT BUSINESS TRANSFORMATION PLANS DO YOU BELIEVE YOUR ORGANIZATION HAS FOR THE NEXT YEAR TO TWO YEARS?



One respondent explained how the drive for efficiency has been at the center of their business transformation efforts: “We have looked at everything. We looked at the way funds, fund share classes and Net Asset Values (NAVs) are calculated, all of which are underpinned by reference and pricing data. We’ve also had many meetings to evaluate our processes and procedures to look for improvements.”

A data manager also elaborated on how the opening of a new office in the Middle East led to transformation and explained the role his team had in that project: “To support this, the central data management



team needed to create a local support function, which involved training people to follow the same established processes, but this all leverages our re-engineered central hub.”

Another data manager, this time at a US investment manager, explained how transformation has been necessary to support expansion into new products: “Derivatives are a big thing for us right now. We put in a lot of effort to get our people trained in data management so we can support the needs of our business heads and understand the systems that will be used each time new products are created.” He identified the foundational role of data management in the process as “facilitating growth through support, reporting, controls and ensuring regulatory compliance.”

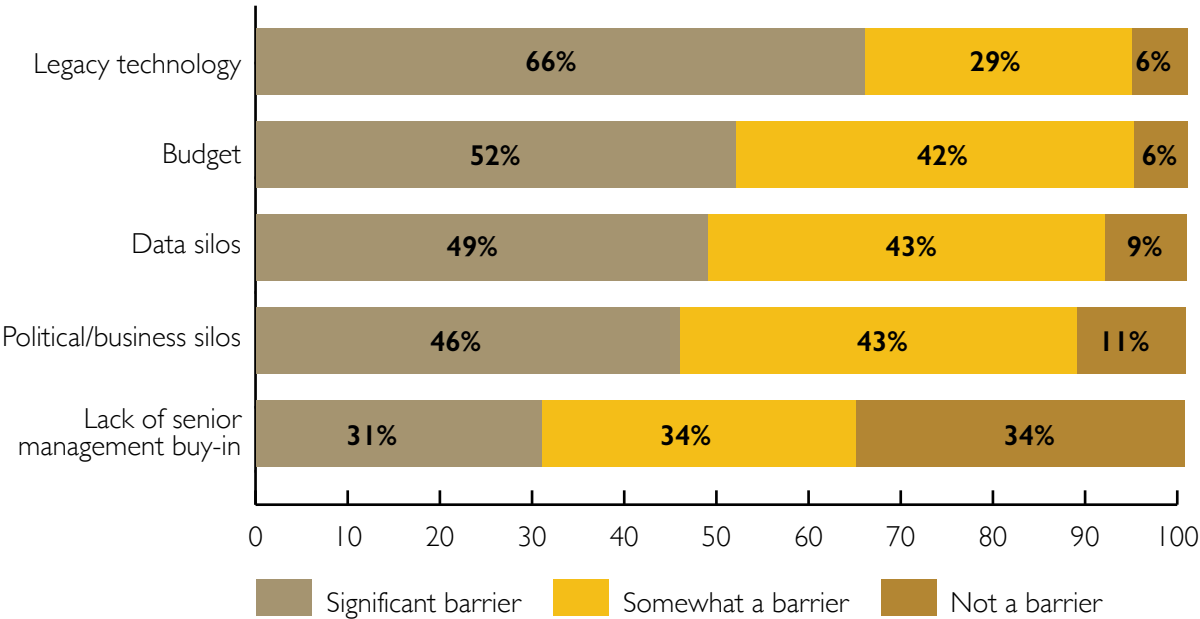
The findings identify a number of drivers for transformation projects that largely boil down to efficiency gains and the pursuit of growth. It’s clear that these drivers will continue to be a factor for firms in the coming years and that transformation projects will remain a feature across the industry.



WHAT'S HOLDING BACK PROGRESS IN BUSINESS TRANSFORMATION?

There are a number of roadblocks that serve to slow the commencement of business transformation, including budgetary issues and a lack of senior management buy-in. However, the most commonly cited gating item was legacy technology, which often sprawls across entire organizations, and was identified as a barrier by 95% of respondents, with two thirds noting its impact by identifying it as a significant barrier.

WHAT ARE THE BARRIERS TO INVESTING IN A STRONG DATA MANAGEMENT FOUNDATION TO SUPPORT BUSINESS TRANSFORMATION?



While many of the existing re-engineering programs have sought to reduce the reliance on legacy systems, there are many years of transition to go at most firms we spoke to. For example, one respondent, a data management director, explained that his firm “started a couple of years ago on a major transformation program that is outsourcing middle-office functionality and driving improvements across the organization, and we have a couple more years to go.”

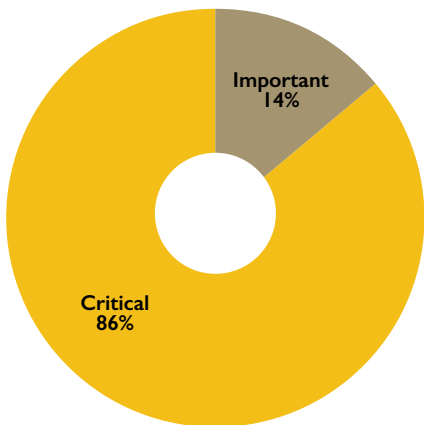
Legacy systems are so entrenched and asset managers are so heavily reliant on them that there is a fear about the unknown impact of decommissioning them. In addition, the prospect of a large technology overhaul is daunting enough to further delay the inevitable, however a foundational first step was revealed in the survey results: data management.



AT THE HEART OF SUCCESSFUL BUSINESS TRANSFORMATION

It is clear from the research that high-quality data is seen as central to any successful business transformation. Underscoring its significance, 86% of those surveyed described it as ‘critical’, with the remaining 14% still regarding it as ‘important’.

HOW IMPORTANT IS HIGH QUALITY DATA TO SUPPORTING THESE BUSINESS TRANSFORMATION PLANS?

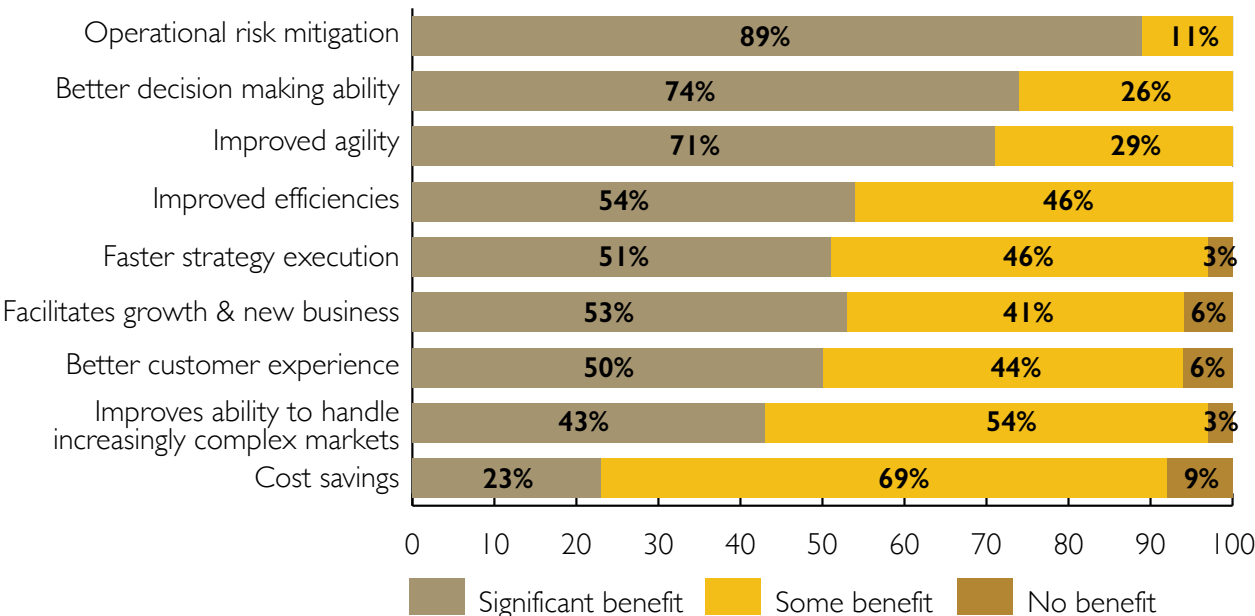


When asked about the specific benefits to the business of having a strong data management foundation to support these transformation programs, respondents cited improved operational risk mitigation, better decision-making capabilities, and improved efficiencies.

A head of investment technology elaborated on the front-office benefits of delivering the right information at the right time and in the right format: “Data management’s role is to make

sure that all the information they need is available to our portfolio managers before markets open, enabling them to make informed

WHAT ARE THE BENEFITS OF A STRONG DATA MANAGEMENT FOUNDATION TO THE BUSINESS?





decisions. This involves us focusing on data quality to deliver a single source of the truth that we trust.”

Several of the respondents that are either undergoing or have already completed re-engineering projects elaborated on the centrality of strong data management in the process. A US-based asset manager, for example, that is in the midst of an 18-month re-engineering project has streamlined ‘legacy technology debt’, involving 42,000 man-hours of work. He explained that part of the project involved examining data silos and security master data, then consolidating them into a single securities master database with data stewards appointed to ensure ongoing maintenance. “The result has been an overall improvement in operational efficiency, better data quality and lower costs.”

Another asset manager, this time based in Europe, explained the central role of data in post-merger integration: “We had to undergo major systems integrations, including changing our EDM platform, as a result of our newly acquired companies. We’re now expanding use of that platform to create a European arm of our global asset management platform.”

Despite the unanimous recognition of the importance of data quality and appealing benefits to be reaped among the respondent sample, the extent to which they also had senior-level executives’ buy-in to data management strategies varied. There was a high correlation between those firms that had strong senior-level support and those that were making large investments in re-engineering systems and processes.

Crucially, these respondents were also more likely to report that their current data management operations helped their organization and delivered value to the enterprise. One firm, currently undergoing a merger, has achieved efficiencies and improved business and investment practices. Highlighting the prominence it has given data management within the integration: “Data management is seen as key to the merger. It is represented as an individual work stream in the merger project and overlays several other work streams.”

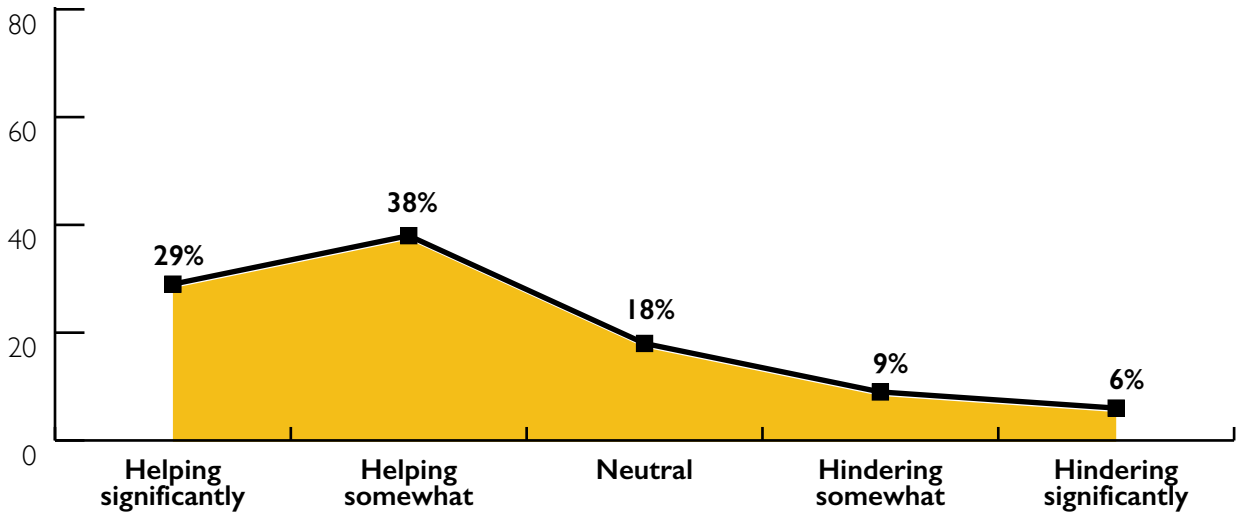
Among those asset managers where data management was not viewed as a strategic function within their business transformation programs, there was frustration about inefficiencies and the lack of control and quality of data, as well as a concern about the resulting impact on the ability of the business to perform.



A DIVIDE BETWEEN MODERN AND LEGACY OPERATIONS

Just under a third of respondents believed their current data management operations were significantly helping their organization’s business transformation program, and just over a third said they were somewhat helping. However, there are still 15% of firms that believe their current data management operations are hindering their organization’s business transformation plans to some extent.

ARE YOUR CURRENT DATA MANAGEMENT OPERATIONS HELPING OR HINDERING YOUR BUSINESS TRANSFORMATION PROGRAMMES?



Delving into these responses, the majority of those latter respondents were at firms where there had been no re-engineering initiatives and they recognized that their data management operations, saddled by legacy systems, were behind their peers.

The stranglehold of legacy technology sprawled across the asset management organization continues to be the number one challenge for data managers and is holding back progress on their business transformation plans. Ninety-five percent of respondents identified this as either a significant barrier or somewhat of a barrier.

A respondent articulated the view of many executives we interviewed, saying, “Legacy technology remains a significant challenge. Our re-engineering programs have helped but there are still more years of transition to go to decommission legacy systems that we are so heavily reliant on but also scared to turn off.”

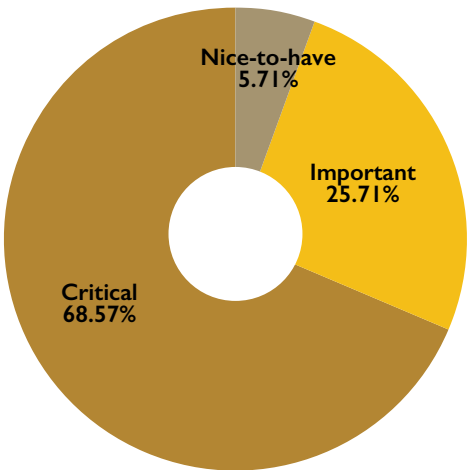
Without a modernized technology foundation, critical drivers to data management success, including the ability to enforce data governance and metrics, could not be leveraged.



CRITICAL BUT CHALLENGING TO ACHIEVE

Over two-thirds of those surveyed believe a strong data governance framework is critical to delivering high performing data management in support of business transformation plans, while most of the remaining respondents still view it as important. Similarly, two-thirds believe that metrics and dashboards that enable understanding and analysis of data quality are critical.

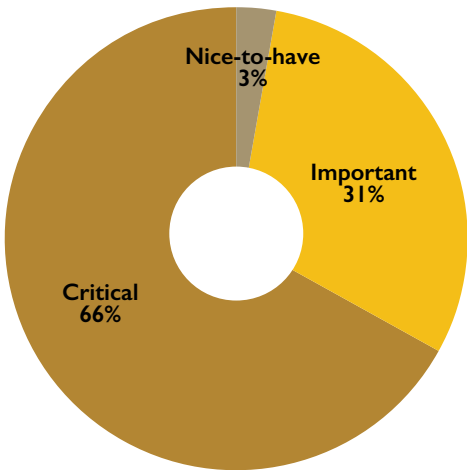
HOW IMPORTANT ARE METRICS OR A DASHBOARD INTO YOUR DATA QUALITY IN ENABLING BUSINESS TRANSFORMATION?



Still, there is a gap between this understanding and the reality at investment management firms today. Many firms are working on data governance initiatives, but it is early days and there is still much work to be done. The majority of respondents believe their current governance framework to be “somewhat effective” and most only have high level metrics.

Data governance is seen as a difficult goal to achieve, given the scope and complexity of processes across the enterprise, and also due to the need to get understanding and buy-in from so many people within the organization in order to make any defined governance policies effective.

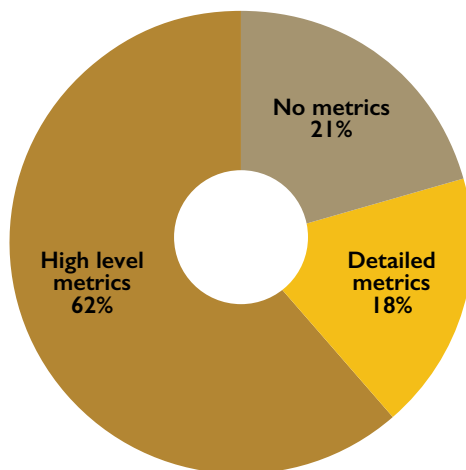
HOW IMPORTANT IS A STRONG DATA GOVERNANCE FRAMEWORK TO SUPPORTING BUSINESS TRANSFORMATION?



Given these challenges, it is not surprising that nearly half (46%) of survey respondents had a chief data officer (CDO) with responsibility for driving data management in support of business transformation and to spearhead data governance initiatives. While at some organizations there is a very active CDO (“Our CDO is very involved in the steering team and core project teams”), this is



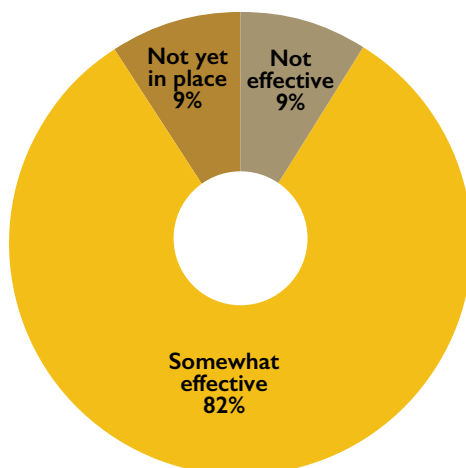
DO YOU CURRENTLY HAVE METRICS ON YOUR DATA QUALITY?



not universally the case. In some instances where a firm does not have a dedicated CDO it may still have someone in charge of overall data management strategy and operations, despite not having the title of CDO. Additionally, a couple of firms were seeking someone to fill a newly-appointed CDO role.

At 63% of firms, the business heads got involved in driving data management initiatives. In many cases this depended on the business groups. As one manager said, “Some business heads are very close to data management and realize that having good data makes life easier, but others are completely oblivious and don’t understand why they can’t just get whatever data they want.”

HOW EFFECTIVE IS YOUR DATA GOVERNANCE FRAMEWORK CURRENTLY?





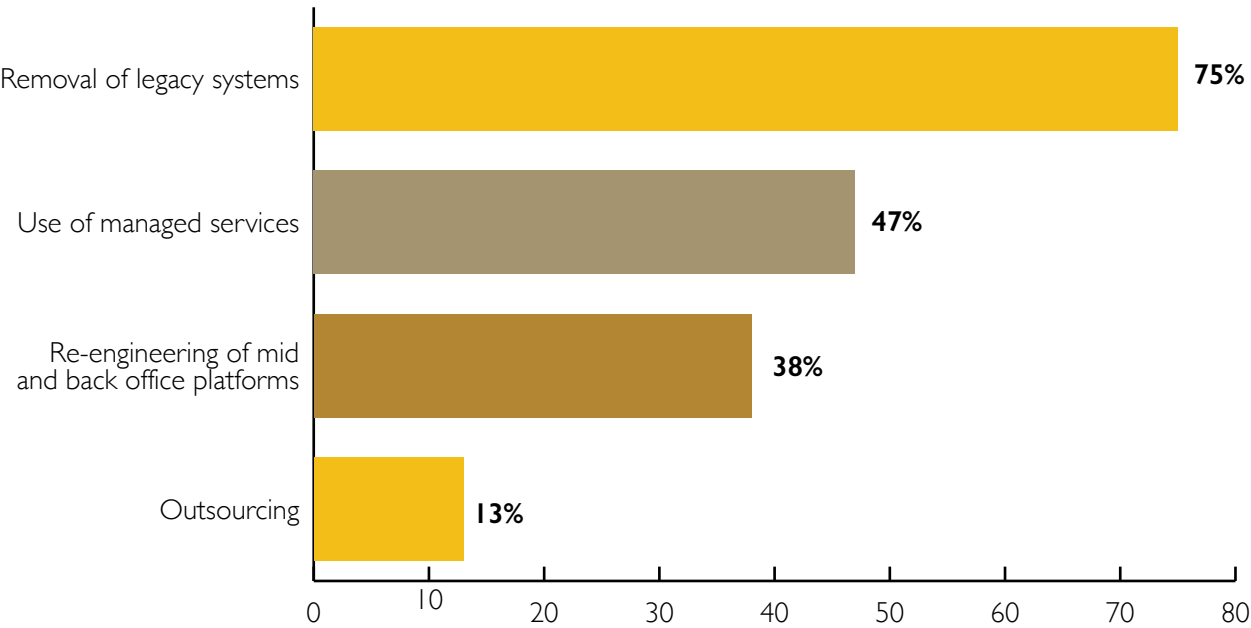
SETTING THE STAGE FOR FUTURE TRANSFORMATION

With data management’s connection to successful business transformation clear, attention returns to the ongoing removal of the legacy systems that limit the power of a strong data management core. Three quarters of all respondents identified legacy system replacement as a requirement for a future shift in how their firm manages data. As the complexity, volume and speed of information required in today’s marketplace increases, it is apparent that overburdened legacy systems simply cannot keep up.

Offering a glimpse at an increasingly popular alternative to re-engineering, nearly half of asset managers plan to explore the use of managed services. Managed services can enable the business to leverage its data assets without the overhead of managing technology, which removes manual and labor-intensive processes and simplifies operations. This suggests a growing realization among asset managers that while the data is critical to their business, the process of managing and maintaining data may not be a core competency of the organization as a whole.

Finally, over a third will embark on new or extended programs to re-engineer their mid- and back-office platforms, while a much smaller percentage might consider a full outsource of their data management services.

WILL FUTURE BUSINESS TRANSFORMATION INITIATIVES REQUIRE ANY OF THE FOLLOWING TO SHIFT HOW YOU MANAGE DATA?





CONCLUSION

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This research exposes a number of challenges facing asset managers when it comes to business transformation initiatives, with the prevalence of legacy technology systems emerging as the primary barrier. As a result, legacy system replacement is a key feature and goes hand in hand with many transformation programs. This is likely to continue to be the case as asset managers look to the future and embark on further business transformation initiatives.

In re-evaluating their technology systems, asset managers must consider the strength of their underlying data management infrastructure and processes. It's clear that those asset managers that have placed data management at the heart of their infrastructure and operations are more agile in their ability to respond to business demands and have yielded more successful results. Those faced with the need to transform systems and operations in order to meet business goals should ensure they have a strong data management platform and governance in order to ease transitions, reduce risk, and increase the rate of success of transformation programs.

There is no doubt that organizations are recognizing the importance of data management in the success of business transformations. The growth in the role of the CDO supports this, but there is also no question that it can be complex to master, particularly given how dynamic the investment management industry is. It is unsurprising that firms are therefore planning to evaluate managed services and outsourcing of data management as part of future transformations in an effort to reduce that burden and focus on core competencies.

It is here that third-party vendors, such as Eagle Investment Systems, and consultants have a pivotal role to play. Once firms recognize the drag legacy systems can have and resolve to replace them, engaging third parties can help ensure data management is baked into the DNA of the new solution.

For example, Eagle's data-centric approach is often the starting point when firms look to further implement investment accounting and performance measurement solutions. Ensuring data accuracy throughout legacy system replacement efforts, including the introduction of managed services or outsourced solutions, is critical. This approach can ultimately help to reduce the operational burden and empower decision-makers by delivering data in the right format at the right time.

Business transformations will continue to be a feature as asset managers evolve to contend with all of the new pressures facing their businesses. It's clear that those firms that recognize the need to put data at the heart of their organization will achieve the most successful transformations.



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