

Uniting Entity Data – The Missed Opportunity

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The industry's drive to understand and reduce systemic risk has created fresh challenges around instrument and entity data that put technology under a whole new light. However, in a post-2008 crisis landscape dominated by regulatory reform, compliance is only part of the issue. If firms can address how they manage multiple data sets and deploy a truly enterprise-wide model, they can capitalise on the real opportunity – achieving a competitive advantage.

The regulatory push

One of the main roles of new regulations such as Dodd-Frank and EMIR is to address credit and counterparty risk and bring greater stability to the market. As such, it is vital for firms to understand exposure to clients and counterparties and properly manage the risk associated with doing business with them. Central to this issue is the concept of the Legal Entity Identifier (LEI), with critical regulations in multiple jurisdictions worldwide now calling for its adoption among financial institutions.

Furthermore, other regulations such as FATCA impose a host of additional data requirements regarding client data. All of this is contributing to an important trend in reference data management – which requires firms to shift their focus to corporate 'entity' data.

The complex web of entity data

The challenge is that entity-to-entity relationships are complex; corporate entities can be 'issuers' of securities, trading 'counterparties' and also 'institutional customers'. How these entities are represented within several different data sets is really the heart of the problem – and also the key to delivering an effective response to the LEI requirement.

The real challenge with the LEI is that many firms' data organizations and their underlying technology platforms reinforce the requirement to have the same entity in several different data sets. A typical data infrastructure might include multiple customer, counterparty and security masters, all of which exist in different systems. In terms of security masters, customers that are also issuers will be duplicated in both the issuer master and the counterparty master. If the entity is also a customer, the same entity will appear in at least three or four different data sets.

Compounding this from the perspective of risk, exposure and regulation, is the issue of corporate hierarchies, where a single parent corporation may have hundreds of subsidiaries. This creates problems when firms need to have more than one view of a corporate hierarchy – whether viewing data from one perspective for risk and then another for a legal view.

This fragmentation often relies heavily on manual intervention. A level of manual processing is inevitable in entity data management. However, where this forms

a significant portion of the workflow, firms face a massive duplication of effort. In addition, if these processes are not combined with the right layer of control, there is a clear increase in operational risk.

A strategic response

Since 2008, many institutions have already deployed more robust data management systems to cope with the new and more risk-conscious landscape. The problem is that each new requirement prompted uncoordinated tactical responses. As the challenges continued to evolve, many of these became unworkable. The latest compliance rules are yet more stringent and a more strategic solution is required. The foundation of any strategic solution is a single entity master, which is able to cross-reference the LEI to other identifiers used by the firm, whether proprietary or publicly available.

The reality is that a truly enterprise approach to reference data management is entirely achievable. Firms are already managing instrument, counterparty and issuer data in some fashion today, so LEI adoption doesn't have to be something completely new. Instead, by linking the different data sets together, using key identifiers such as the LEI and using platforms which facilitate data standardization and cross-referencing, they can achieve a real competitive advantage – and the key to achieving this lies in the data model.

The 360 approach

The traditional method of storing multiple disconnected data sets is no longer viable. It's time for a new model that promotes efficiency and accuracy by linking a single entity to its various roles and identifiers. For example, an entity may be an issuer with identifiers such as Ticker or CUSIP; it may be a customer with a DUNS number or a GIIN number; and it may also be a counterparty with a broker code. These may all be related to the entity identified by its LEI.

This more streamlined approach improves data quality, reduces redundancy, and increases auditability. It also allows for the inheritance of characteristics across different contexts for an entity, which can greatly accelerate on-boarding processes.

A crucial benefit of the 360 approach is that it allows firms to get the most from their data by understanding the interconnected roles and relationships across the various assets. This leads to improved visibility of client exposure and eases the process of managing hierarchies. Having a solid entity master accessed via the LEI is the foundation for understanding exposure to specific entities, including improved visibility and more rigorous risk management practices.

Delivering competitive edge and business agility

Perhaps the most significant advantage of a single entity master is that it gives firms a major competitive advantage when it comes to client on-boarding. Being able to on-board quickly means firms are more likely to win business as well as retain clients. With a smooth, centralised process that links different data types, they can maximize the value they can get from every related piece of information in the firm. This delivers significant data efficiencies – so a firm may be able to utilise ratings data pertaining to a particular client from one data set to benefit another. The net result is a process that takes a matter of hours, when before it might have extended to days.

This linking of data sets also improves business agility. Aside from faster client on-boarding, firms can more quickly bring new products to market and expand into new sectors and regions. This also extends to delivering services to customers – by equipping the front office with a single view of each entity, they can more accurately identify opportunities to cross-sell and better understand customer profitability.

Redefining the approach

In this new era of enterprise data management, it is time for firms to step back and reconsider the bigger picture. The old way of doing things has outgrown the demands of not only regulations but also the market and customer needs as a whole. If firms can sever the ties with outdated approaches and redeploy technology to better effect, they stand to make significant gains.

By combining instruments and entities on a single platform, they can get real value from the linkage. Ultimately, by consolidating workflows and data, firms benefit from reduced operational risk, more efficient client service and on-boarding and greater business agility. And as we power into a bull economy, that is a powerful proposition for delivering business growth.