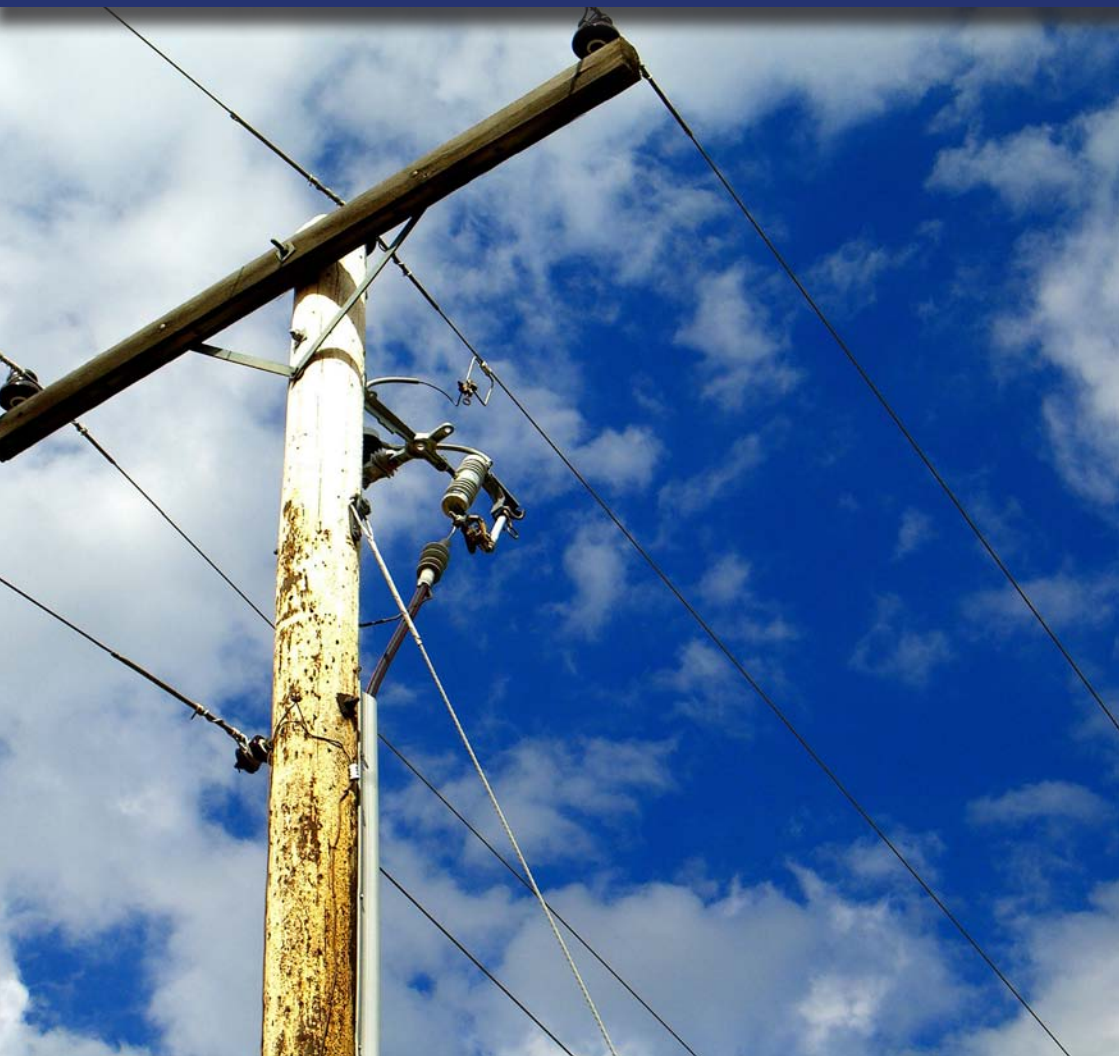


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# HOSTED/MANAGED SERVICES

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# Hosted/Managed Services

**T**he on-site data management model is broken. Resources have been squeezed to breaking point. The industry needs a new operating model if it is truly to do more with less. Can hosted/managed services provide the answer? Can the marketplace really create and maintain a utility-based approach to reference data management? And if so, how can we make these happen?

## Hosted, Managed and Utility services

In this report, we will talk to Paul Kennedy from 1View Solutions Ltd., iGATE Global Solutions' Tom Dalgligh, and SmartStream Technologies' Nick Taplin about the development and future of hosted, managed and utility services in the reference data industry.

We hope you find it useful.

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# A-TEAM Q&A: Hosted/Managed Services

**Financial institutions seem to have a greater appetite for ‘contracting out’ various aspects of their reference data management burden. Hosted, managed and utility-based services are all models that are being talked about in the marketplace. Define these approaches.**

**Paul Kennedy, 1View Solutions Ltd.:** Hosted, Managed and Utility services address various aspects of how to manage technology, process and people in the data management area. The primary goal being to reduce costs rather than improve quality or processes. These approaches relate to the degree on how much of the management of reference data has been contracted out to reduce issue at the “coalface”. What’s really required is new approach where by collaborative data management techniques can create a utility which actually solves issues for each data manager.

Reference data is

often stored redundantly, maintained manually, and is not consistent across the enterprise. And more importantly is not consistent across the industry. The result is significant data discrepancies and incremental costs across the financial marketplace. While hosted/managed/utility services can address issues for a particular firm in terms of technology or process, they have yet to address how to improve reference data management across the industry.

**Tom Dalglish, iGATE Global Solutions:** In general – companies want to be “out of the file business” because it is a pure cost, duplicated by every company. Of the various approaches it seems clear that managed services are gaining the most traction. For many years now, companies have tried outsourcing their data platforms internally – via the standard offshore providers – and the momentum is shifting now

towards externalization (managed services or utilities). We also see the core data providers themselves (e.g. exchanges and underwriters) looking to leverage direct-to-market services. Further, we detect a trend towards “content” over specific providers which moves the emphasis subtly.

For simple definitions:

- A hosted service is the clients software and hardware running in an external data centre
- A managed service is run on behalf of a client and uses third-party agreements with the market data vendors. Software tends to be co-mingled between client and provider
- A data utility service is run on behalf of the provider, sold directly to clients, and leverages OEM/reseller agreements with the data providers

**Nick Taplin, SmartStream Technologies:**

Hosted Models come down to the outsourcing of a purely technical environment to a supplier or third party. The aim in this case is to reduce technology and upgrade costs, but without providing any headcount impact and no data quality or delivery guarantees

Managed services models go beyond hosting element, usually offshore, that aims to save money by reducing headcount. This can lead to a defined cost reduction but is usually a copy of existing processes, meaning that it can take any operational headache elsewhere, but will not tend to solve traditional problems including delivery of quality and ongoing implementation risk

A utility model is very different: this is a combination of centralised technology and services which provide defined mutualised services to many clients under strict SLAs. By interweaving processes and platform into a quality-focused service measured according to its output rather than its inputs, customers know exactly what they are contracting for. A single implementation for all players reduces implementation risk, and carrying out processes once for delivery multiple times massively reduces costs. Feedback from the entire market, and harmonisation of all customers’ data sets leads to higher quality and fewer downstream problems.

The structure means that bespoke services can be added on to cater for

individual requirements, and it can integrate with internal containers and environments, removing the heavy lifting and keeping customers in control.

**Describe how your firm’s initiative/offering fits into this emerging paradigm.**

**Kennedy:** The 1View software allows users to very simply standardise, match, reconcile and integrate their data from multiple sources. The software works by extracting the required data sets from existing systems without change or analysis, then automatically determines the rules necessary to standardise, match and integrate it with previously loaded data. Any business exceptions or mismatches for follow-up action are then flagged to the business owner to reconcile.

1View’s Ref-Data.com provides a bespoke update service for each data user within days of starting. With unlimited sources and online transparency of information sources, it gives 100% coverage of data as all 3rd party sources are available.

**Dalglis:** The iGATE platform is a managed service run in conjunction

with our design and software partners and the active participation of over 130 market data vendors. iGATE's offering, by way of its outcomes-based approach, provides phased integration for our full-scale data management service; spanning hosting, managed services and creating the potential for a true data utility.

**Taplin:** As far as financial data management goes, there is currently only one broad solution in the market and that is the Central Data Utility (CDU). The CDU is operated by SmartStream and Euroclear in partnership, making full use of Euroclear Bank's position as an existing service provider and infrastructure player in the global market and SmartStream's position in over 1,500 financial institutions through its traditional back office solutions business. Through this partnership market infrastructure benefits including risk mitigation, cost mutualisation and operational efficiency can be achieved for data management. Euroclear and Smartstream are both at the very centre of our target market for the CDU and ideally placed to expand the range of our services to that market,

### **What factors are driving this new appetite for 'contracting out'?**

**Kennedy:** Rising costs and the recognition that building a solution is too expensive, takes too long to build and is too resource intensive to operate.

**Dalglish:** As usual the main drivers are cost, quality and the consolidation of capabilities. We clearly see consolidation in the industry (market data companies buying 'golden copy' capabilities), a plethora of new "EDM-focused" smaller vendors and the re-emergence of the traditional outsourcing companies in a renewed bid to create various utilities or managed services.

At the same time, big companies are trying to exploit their legacy investments through 'industrialization'; whereby they package up a large chunk of systems, parcel them out to a BPO company who will take over the daily operations and build a new – better-stronger-faster - system which they will then seek to leverage for other clients.

Additionally, the cost of change to comply with significant regulations is rising daily; as are the record fines for being out

of compliance. With the TCO for data rising year-on-year and competition to react to change efficiently, organisations are looking outside their own legacy environments to reduce risk and save money.

**Taplin:** There are two main drivers: regulation and cost. The market has tended to go in cycles of insourcing and outsourcing, but it has been hard to quantify the hard value of data management. A perhaps inconvenient truth is that traditionally it has not been straightforward to build a business case for data management improvement. Partially that has been because of a lack of management accounting information and an insufficient recognition of the spread out cost base of maintaining dozens of local copies. More seriously, there has always been an enormous downside in terms of operational risk. With increased regulation and increased strain on heterogeneous operations, many teams are running to stand still in terms of just processing data, let alone improving its quality. They can no longer afford to ignore the costs of remediation and are increasingly being hit with enormous fines for non-compliance and failure to

report.

Streamlining the information supply chain and moving to a shared services model is the only way to permanently and materially lower the cost base.

Data management is essentially a cost base, which is where hosted and managed services came in, but reducing headcount or simply shifting existing processes to a lower cost location does not address quality or STP, both of which the utility is designed to address. From pre-built and constantly evolving business rules to reduction of complexity in security masters, consistency across data sets and symbology management, utilities are designed to proactively help banks work how they should in a best practice enabled end state, not to temporarily reduce the costs of the status quo.

**Where is such an approach most appropriate? And where is it inappropriate?**

**Kennedy:** A collaborative approach to reference data management is best used for data that is publicly available (but may attach license fees) such as the data needed to support the life cycle of a trade. This would

include data that describes Securities, Corporations and Individuals such as identifiers ( e.g. matching the different symbol sets used in the front, middle and back office), the descriptive data of the instrument such as who issued the instrument, its terms and conditions (description, industry sector codes, coupons, payment dates, etc) as a well as corporate actions and counterparty data.

Propriety data such as trades made, positions held and chart of accounts is best supported within the financial institution.

**Dalglish:** Banks are realizing that they have perhaps outsourced some of their key intellectual property and are now making efforts to reverse this trend (think “insourcing”). High volume, market-sourced reference data lends itself to the managed service/outsourced model: a mostly repetitive daily/intraday set of processes capturing/managing multi-millions of records per day. This structure typically require large teams with strong domain knowledge that companies have found contribute to fractured internal technology stacks and inefficiencies.

Where the various data hosting/service/utility

models are perhaps less appropriate and beneficial are for the more esoteric/high-value activities and processes that drive or generate business-value (e.g. analytical data, proprietary models, risk factors, high-frequency trading etc.) It is a general risk/knee-jerk reaction to think that all processes within a bank can or should be commercialized.

**Taplin:** The utility can work in most cases where there is a serious cost overhead, and because it operates under NDAs and with tightly controlled data access security it can actually be used for sensitive data – though we are a way away from regulations or client appetite allowing management of positional/transactional data. As such it is probably not ideally suited to reasonably small organisations with controlled costs and minor problems (they do exist) or for the transactional data requirements of buy-side firms, but it is a good fit for most other firms. It is not a software implementation and in many cases will not require a dedicated team, which means that firms can benefit from an ‘all you can eat data buffet’ style set up whereby they can take as much or as little of the full range of services

as they require without an increase in costs and usually cheaper than buying and implementing their own system, as well as being lower risk. Essentially, there are very few applications for which it is not appropriate.

### What are the main perceived benefits?

**Kennedy:** Immediate implementation, simplicity of use, outputs tailored to needs and consistency of results.

**DalGLISH:** It is almost always a quality and cost discussion; as well as a desire to exit a practice that now has dozens, if not scores of solutions in the market that simply did not exist 10 or 15 years ago. This, coupled with the ability to take data management ‘off balance sheet’, and the ability to ramp up/down services in short time frame compared to hiring/firing internally are key benefits.

A hot topic is the ability to react to changing market conditions – regulatory, new instrument/asset class types, changing standards – more efficiently than is generally possible given the inertia of internal controls and change management policies so prevalent in large companies.

**Taplin:** The number one perceived benefit is cost reduction. For many firms this is a pure cost model, and if they are looking to outsource they will simply go for the provider who promises to reduce their upfront costs by x%. The trouble with front loading cost reductions in this way is that there is no guarantee that as time goes by and requirements change, these costs won't creep or shoot back up to their pre-outsourcing levels or above.

What the CDU is trying (and succeeding) to encourage people to think about is the long term cost reduction – a phased reduction in costs for the sake of a long term lower TCO is what we aim for, transitioning services and processes in a sustainable way to ensure that costs are managed throughout the life of the project, and in fact reducing as more firms come on board and help us to mutualise both the costs of existing services and the addition of new services or new service elements, such as particular workflows, technological advances or even simple things like new feeds or new regulations and reports. It aims to be a service that evolves and gets cheaper over time.

### What are the main

### objections, and where do they come from within financial institutions?

**Kennedy:** There is often a hesitation from institutions when it comes to sharing data outside of the firms firewalls but this softening for public or non-commercial data such as LEIs as well as a growing acceptance that placing data in “the cloud” can be done with the required levels of security and control.

**DalGLISH:** Complexity, continuity of service and – ultimately, culpability. If your chosen outsource/managed service entity fails to deliver against solid SLA's it will be a very challenging discussion at the executive board level when things go wrong. There is a fear of not being in control of your own data – though one can make a very strong argument that banks already are not in control of their data; hence these new opportunities in the marketplace. There is also recognition that previous attempts to create managed reference data services met with untimely ends. And the ‘jumping on the data bandwagon’ activity we have seen recently by some strong players is causing some concern at the CDO level;

who do I pick, can they do it, how to I hedge my data strategy? Our integrated technology and operations approach is to be open and transparent as to our methodology and engage clients, data vendors and industry partners to foster a strong collaboration between all parties.

**Taplin:** Well, it's new, which causes consternation. Firms are worried about the security of their data and about the control they will be able to exercise. It's important to remember though, that in a utility:

1) Data security is built into the design – we have to enforce this to comply with data vendor requirements. They are happy for us to process their data, but we have to provide cast iron guarantees that, for example, no-one will get it unless they pay for it. The technical design of the platform is such that all data is ring fenced and only accessible to the target client, so data is completely safe with us.

2) Just because we aim to deliver cost reductions and quality improvements through mutualisation, it doesn't mean that there is no scope for custom requirements to be accommodated. From small technical features

like integration with downstream formats and schedules and straight through processing of data requests, to more bespoke services like new security setup, symbology mapping and full outsourcing of some or all processes. The CDU is designed to adopt both market best practices and customer specific requirements.

### **What about the argument that there can be no 'one size fits all'? How can this be addressed?**

**Kennedy:** We believe the Ref-Data.com model does fit all, as it allows users to interface with their own data, to see all the possible values for a data attribute and allows the users to drive the business rules on how data will be used.

**Dalglis:** It is almost assured that this is the case; there is no one size fits all. Put 10 companies in a room and you get 50 data models and thousands of different rules. The key to this is to provide a series of flexible, self-defining data models and rules constructs; so that the end result can be sourced from an internally consistent data model and augmented/translated into the legacy companies' data models. iGATE identify at

least seven types of data models to facilitate this: the vendor, matching, vendor-linked, cross-reference, strategic (internal), client-specific (legacy) and distribution data models. As and when industry data models mature, we can easily slot-in a particular client-specific data model to vend to our clients. Sadly, the bulk of effort in (new system) adoption stems from the sins of the past: most data in legacy systems data has been mangled to the point of being unrecognizable from its original sources. The main challenge all services face is preserving the craft of legacy mappings until companies can leverage a truer standard.

To foster and advance this, iGATE has pioneered true chain-of-custody, data lineage capabilities that allow us to track every column, in every row with respect to data segregation, entitlements and distribution restrictions. We feel this capability sets our platform apart from others and will find favour with data aggregators keen on preserving their intellectual property.

**Taplin:** This is much like the second part of my previous response – the reality is that actually one size fits most. The reason



that firms struggle so much at the moment is because every time they have taken on a new system or bought a new business, they have integrated them from a position of difference, which is of course the same as not integrating them at all. So instead of looking at what was the same and then working with the outliers, they have ended up with multiple security masters, redundant data subscriptions, repeated processes etc. The CDU tries to harmonise all of these disparities, and then as I said before, work on customising the 5% that's left over.

One simple example is that Bloomberg and Reuters both have different names for the ISIN field. That means that just to identify the same instrument according to a globally standard code, firms all have to go through a mapping process. That's before you factor in additional values such as exchange codes (for which the MIC is a standard but not universally applied), instrument classifications, currencies etc. Every firm managing every field, every translation table, for every feed across every asset class is incredibly inefficient, and actually for the most part there is a sensible and immutable

value for most data which we can establish once and then provide across the board. Once you get rid of all that noise, that's when you get to the point where one size no longer fits all, but by that stage it has become far simpler to work with the specificities of customer classifications, internal codes, price hierarchies and so on.

### **How can your organisation help financial institutions reach their reference data management goals?**

**Kennedy:** 1View can merge and reconcile all forms of data from instrument reference data, to a firm's trading and position data, customer data, settlement instructions as well as credit exposure across multiple jurisdictions, all within one platform. Its ability to rapidly integrate a wide range of data sets, in days not weeks or months, allows firms to target the key issues they have in data management such as enabling new data for Fatca or Solvency II or creating a complete data overview for instrument data.

**Dalglish:** The iGATE iTOPS Framework delivers a Managed Service

Business Model focused on the customer's business outcomes. Our recognised leadership in this space and various ISO-compliant certifications speak to these capabilities and, quite frankly, our key partnerships with UBS, MarkIt, JWG and over 130 data vendors places us in a rather unique position to deliver solid enterprise data management centered on cost management, data quality and standardisation.

**Taplin:** We already offer a fully operational data utility. We have our own technology platform, already implemented, and our own operations centres which are up and running and processing data right now for some of the biggest names in the industry. Any firm that comes to us will benefit not only from this experience and a comparatively short time to market, they will also be partnering with Euroclear. We are not only a safe pair of hands, we are also very experienced in this space, used to responding to and delivering against customer specific goals. In summary we offer the opportunity to benefit from a market-wide initiative which will reduce costs, increase efficiency, and improve data quality which will not only reduce the cost of

data management itself but can also dramatically cut costs elsewhere in the back office process flow.

**How do you see this approach playing out over the next 12 to 18 months?**

**Kennedy:** Collaborative Data Management enabled by 1View and Ref-Data.com creates a new, radical and uncomplicated approach to data management that can create accurate, consistent and timely data just for individual firms but also at an industry level within a few months.

**Dalglis:** Well, it seems clear that the boundaries are being drawn and the key players will all bring

their best game. It's certainly our position that we are uniquely positioned to demonstrate clear leadership and dominance in this space over the next several years.

**Taplin:** We are seeing a huge surge in the industry towards a utility model. I think that the biggest firms see it coming and all want to be involved, getting themselves into a position where they can not only benefit from being customers of a utility service but partners in the provision of it. I also think that a lot of these firms are hurting because of not only the crisis but the massive fines we are seeing as a result, and they have realised that they have to start responding.

I also think that for the utility concept to deliver to its fullest potential, there cannot be a huge number of them – in an ideal world there would be a single one, in fact; so I think in the next 12 to 18 months we will see one pre-eminent utility provider emerge with the participation of one or more banks, getting into a position to provide services to the rest of the industry. Personally I am hoping that the utility can become a useful co-operative where all financial institutions can play nicely with one another to their own benefit and that of their customers. At the moment I also don't really see that there is anyone in a position to take full advantage of this market shift apart from the CDU.

