

Looking into the EDM Crystal Ball

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It seems like only yesterday we were talking simply about reference data with lots of debate over definitions, an underlying focus on operational efficiency and a business case cut straight from the technology ROI rulebook. My, my how quickly things have changed. Reference data has evolved into EDM. Risk mitigation has replaced operational efficiency. And most of the financial institutions we're dealing with are more concerned with measuring the quality of the data than they are in crafting a cost justification business case.

The more interesting phenomena are the degrees to which these shifts have taken hold within the financial industry. Financial institutions have embraced the notion that data meaning matters. A precise and predictable data content infrastructure that provides a level of confidence and trust among business units is the objective of EDM. It is required to drive business processes, it is needed to mitigate operational risk and it is a pre-requisite to be able to comply with the increasing amount of global regulation coming at the industry from all regimes. With that as backdrop, here are a few concepts we believe will be in focus during the coming year.

Operational Risk Mitigation

Enterprise data management was born under the mantra of operational efficiency. And make no mistake – cost containment is now and always will be a core goal. That being said, the current driver is about managing risk rather than reducing costs. And there are a lot of risk factors for financial institutions to worry about. Precise data is needed to reduce risks related to investment analytics. Accurate data is needed to ensure reporting consistency from data pulled across disparate data warehouses. And consistent data is required for efficient asset servicing. There is a clear and direct relationship between data management and risk mitigation. We believe 2007 will see the creation of processes to determine “data/risk relationships” – after all there is significant risk from bad data and the new data risk coefficient will become a clear factor of input into business equations.

Regulation

Financial institutions are in the midst of recovering from the shock of regulatory requirements and will begin to seriously focus on regulatory implementation in 2007. Best execution, auditable tracking of transactions, KYC/AML, full disclosure, real-time

reporting to ensure price transparency, and the requirement for adequate capital as a hedge against risk are common threads across the regulatory landscape. We believe that electronic regulatory reporting (ERR) will become increasingly desired by regulators and that automated comparisons across regulatory regimes will become the norm. And ERR is not possible without EDM.

Supply Chain

Management of the financial information chain of supply is an area of opportunity. We anticipate a number of core trends in this arena. The first is on the implementation of the core data element identification standard required for efficient data management. The goal of standard data taxonomy will ride the coat-tails of the work being done in conjunction with the DTCC re-engineering initiative. As progress takes place, the standard taxonomy issue will get pushed further up the supply chain resulting in proper data markup at the point of origination.

Secondly, the requirement for a standard legal entity identifier will come face-to-face with the problems related to the current ISO business model. We'll all shortly learn that commercial incentives are required to move this initiative from the realm of theory to business reality – and that allowing market forces to effectively operate is not “standards heresy”. Finally, as the desire to address the root cause of data problems begins to flourish, financial institutions will work toward building stronger and deeper strategic relationships with data vendors – as it relates to both commercial models and data manufacturing processes. Some vendors will see this trend as a challenge to their existing notions of added-value, while others will embrace the opportunity to enhance their data processes to better match the needs of their clients.

EDM Governance

This coming year will see EDM mature as an organizational discipline and become recognized as an essential component of operational infrastructure. EDM will continue to move from being resident in IT to being a component of operations. More financial institutions will elevate data management to c-level. The primary data management challenge will be “proper execution” on an enterprise-wide basis. Integration consultants, platform connectors to applications and business process outsourcing will be the hot areas of innovation.

That's our quick view into the EDM crystal ball. Rants, raves and alternative points of view are strongly encouraged.

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