



EDM Council
Enterprise Data Management



Enterprise Data Management (EDM) – Making the Transition From Why to How

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Financial institutions are run by smart, accomplished and business-savvy managers who clearly understand and agree with the importance of data accuracy, transparency, integration and the need to communicate with precision. The logic is compelling because the value of data control to meet the evolving requirements of doing business in complex financial environments is clear. The EDM Council believes that the challenges facing financial institutions are less about the rationale of data management and more about the realities of enterprise wide implementation and the difficulties in achieving balance among competing business priorities.

Our goal with this article (and future articles to follow) is to stimulate debate on the issues that financial institutions are grappling with as they work to move beyond the logical hypothesis and toward the realization of their enterprise-wide data strategies.

Issue One: There is no current crisis – we have other priorities

Financial institutions face a multitude of business challenges ... from complying with increasing regulatory oversight, to meeting the new requirements of sophisticated customers, to building algorithmic execution systems, to making the shift from trading in products to trading in contracts, to platform re-architecture and migration, to improving modeling capabilities, and the list goes on. Data content management is a component, but not necessarily a driver, of all these activities.

So while the industry certainly “gets it” some believe that there is no present crisis to immediately resolve. The existing data strategy, while fragmented and decentralized, is viewed as still functional. Data access and workflow inefficiencies are annoying but the costs are dispersed. Enterprise-wide content is still an afterthought, not completely recognized as that critical of a problem and (even worse) not the domain of any individual business unit.

Issue Two: The business case is still too fuzzy

There is a significant amount of hand wringing over the business case for data content. Fundamentally it is because the economic justification is more logical than monetary, because there is no clear methodology for calculating ROI, because firms usually measure aggregate rather than specific reasons behind trade and processing errors, because silo-based organizations don't fully understand data relationships, because short term workarounds and brushfire initiatives are possible, because root cause analysis is usually the result of (not the impetus behind) data initiatives and because growth priorities take precedence.

It's even possible that at the end of the total operational business analysis top management might determine that fixing the composite data problem remains a lower priority. So be it. But one thing is clear; the accounting-based business case is narrow and not strong enough to be the driver. If firms are looking at this type of activity as a cost reduction exercise (the typical technology ROI rulebook), they are starting off on the wrong foot. We believe that data management is a symptom of the trade processing disease and about process change. If you don't fix the overall content problem, it will remain hard, if not impossible, to operate in tomorrow's business environment.

Issue Three: Dealing with the politics of implementation

The most important requirement for data management success is overcoming the difficult challenges of classical business silos and operational fragmentation. Top management understanding and business unit commitment to the importance of data control as a building block for operations is the pre-requisite for success. But unraveling long-standing organizational structures is difficult to achieve. To understand why, it is important to remember that the corporate structures of sophisticated financial institutions didn't just spring out of thin air. They are the evolutionary response to changes in the structure of the industry combined with the realities of time-to-market innovation. Speed, creativity and front-office responsiveness necessitated business unit specific data repositories.

However, the new environment requires front-to-back integration and the creation of links throughout the transactions chain. Cross-functional workflow requires a team approach and a commitment to the confirmation and reconfirmation of requirements. Without a composite view and the associated governance structures in place for coordination and conflict resolution, financial institutions will have a hard time responding to process complexity, promoting data flexibility and achieving overall accountability. To summarize what we've learned – bottom-up strategies don't work. IT-driven strategies don't work. And top down strategies only work if there is both business unit ownership of the requirement and a consistent way of managing the politics of implementation. The existing feudal environment is nobody's fault – even though the result can be an organization that is tactically sound, but strategically disjointed.

Issue Four: Understanding data dependencies

The data management process is fundamentally about precision, transparency, granularity and comparability. The relationship between financial institutions data assets and all of the applications to which data is applied extends throughout the transactions chain covering virtually every aspect of operations starting with product development, incorporating trading strategy and moving onward through clearing, settlement and reporting. Understanding these data dependencies is an essential component of understanding why data management is vital enough to be considered as a strategic priority for the industry.

The key point is that the data requirements for efficient operations are not the same for every process in the transactions chain. Problems occur when the data elements that are required for downstream applications are not captured and communicated. The challenge is not only to identify what each function requires, but how they get it from the previous link in the chain and how it is communicated from one process to another. So the pathway to success is not only about defining requirements, it's about ownership of data flow – particularly as transactions become more complex, with shorter timeframes for processing and with ever increasing volumes. Cross-functional communication, a complete understanding of requirements and the ability to capture, store and disseminate data granularity are the keys. Failure to fully understand front-to-back office data dependencies is a process gap that clearly needs to be addressed.

Issue Five: The risk of doing it wrong

One of our members recently reminded me of the significant risks associated with data management with a phrase he termed operational commitment – meaning the ability to meet or exceed the business service objective. Least we forget, unraveling corporate structures and fixing data flow is hard to do. Data requirements are broad. They cover multiple master file types and need to be integrated into dozens of functional processes -- all managed by different business groups and all requiring various degrees of data precision and granularity. To make matters worse, data precision is not limited to internal workflow. It must be passed on through a complex lattice of external supply chain participants, clients and counterparties – entities that are not necessarily structured for cooperation. The bottom line is that EDM projects can be expensive, disruptive to operations and (worse) fail to meet the essential requirements of the business units.

Final Word

In our view, the financial industry is currently standing at a pivot point between the logic of data control and being able to translate that commitment into an effective implementation strategy, pulling the trigger and avoiding project derailment. The key will be our collective ability to raise data content to a level of equivalence with technology as part of a financial institution's core operational infrastructure. The initial signs are promising and we predict that the rising data management tide will lift the entire industry.

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