BofA’s New Black-Belt Data Chief Targets Blinding Gaps

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John Bottega’s path to becoming Bank of America Corp. (BAC)’s first data chief started two decades ago in a smoke-filled back office of Lehman Brothers Holdings Inc.

It was 1991, and Bottega was supervising one of several teams scattered across the New York-based investment bank that did pretty much the same thing: entering data on securities, monitoring the accuracy and sucking on cigarettes.

Bank of America Corp.’s Data Chief John Bottega, 54, was recruited from the New York Fed in December as Chief Executive Officer Brian T. Moynihan works to repair relations with regulators that were strained during the tenure of his predecessor, Kenneth D. Lewis. Source: Bank of America Corp. via Bloomberg

“There was a cloud hanging in the room, with everyone huddled over computers typing away,” Bottega recalled in an interview last month. “I recognized that throughout the bank, there were multiple teams doing similar exercises. So I offered up the idea of, ‘Why don’t we do this in one place?’”

While Lehman and the smoke are long gone, the idea of consolidating bank data and improving the quality has gained traction since the 2008 financial crisis. Lehman’s failure, caused by disastrous bets on subprime mortgages, exposed a glaring weakness: Incomplete and overlapping information from hundreds of units can cause executives and regulators to underestimate risk and leverage, Bottega said.

“Did we really know all the interconnected dependencies Lehman had?” said Bottega, who joined Citigroup Inc. (C) in 2006 and later studied the issue as data chief at the Federal Reserve Bank of New York’s markets division. “Most banks may have understood their exposure within their firms, but across the industry, without a consistent way to identify counterparties, determining the impact of a major shock was very difficult.”

Fed Connection

Bank of America recruited Bottega, 54, from the New York Fed in December as Chief Executive Officer Brian T. Moynihan works to repair relations with regulators that were strained during the tenure of his predecessor, Kenneth D. Lewis. The Charlotte, North Carolina-based bank spent more than $130 billion on takeovers under Lewis, creating an array of data systems that weren’t all designed to work with one another.

Bottega’s appointment comes as the largest banks, with some prodding by regulators, step up their ability to monitor firm-wide risks. North American lenders will spend 3 percent more next
year on information technology and 22 percent more than in 2006, boosting their budgets to $56.3 billion, according to Boston-based consulting firm Celent. The improvements could help free $27 billion of capital held because of misclassified assets, Deloitte & Touche LLP said in an April 30 research note.

The gaps hampered regulators' ability to respond to the financial crunch, said Trevor Gee, a senior banking consultant for Deloitte. Regulators demanded information on balances and counterparty positions from firms that were simply unable to supply it, he said.

Data Blindness

“When regulators were calling for data at the height of the crisis to assess how severely these institutions were in trouble, they were finding that what they were getting didn’t even reconcile within the banks,” Gee said. Out of the 10 largest global lenders, at least six now have assigned top data managers such as Bottega, according to Gee.

The hodgepodge of thousands of bank entities meant that regulators had an insufficient grasp of systemic risk, Richard Berner, director of the Treasury Department’s Office of Financial Research, said in a speech last year. His unit was created by the Dodd-Frank Act to support data-collection and risk-monitoring.

“Getting a consistent view of their data is really one of the biggest challenges that big banks face,” said Bart Narter, a senior analyst at Celent.

Writing Code

Bottega, the son of a New York Daily News photographer, said he grew up in Brooklyn dreaming of a baseball career until he was 21. He graduated from St. Johns University with a computer-science degree in 1980, and then wrote code for financial firms including Merrill Lynch & Co. before being named to run the Lehman Brothers data group.

After consolidating support for all Lehman indexes, Bottega became what Gee counts as the finance industry's first data chief. Following stints with Citigroup and the New York Fed, he's now with Bank of America’s global technology and operations group, which has about 100,000 employees and contractors in 40 countries spread across retail and institutional banking units. The company ranks second by assets among U.S. lenders after JPMorgan Chase & Co. (JPM)

Bottega declined to specify what projects he’s working on now. His role will encompass “some of the obvious things of improving data quality, transparency, access to information and attention on regulatory requirements,” he said. “You’ll hear that in every firm, and it’s true here, too.”

Okinawa Karate

On display in Bottega’s 14th-floor office at Bank of America’s New York headquarters are two of
his passions. There’s a wall photograph of Bottega, a fourth-degree black belt in a style of karate that originated on Okinawa, wielding a staff set against the green backdrop of Central Park. On his desk are two plaques from Inside Market Data, a trade publication, citing his contributions to data management.

At the New York Fed, Bottega wrote the first draft of a paper making the case for a universal identification system, a kind of bar code for financial firms. The final 16-page paper, co-written by Federal Reserve statistician Linda Powell, was published in December 2010.

“People wrestled with it for decades, the fact that we have a fractured” network for bank identification, said Tom Price, a managing director at the Securities Industry and Financial Markets Association. “John played a critical role in pulling all of these thoughts together across the regulatory agencies. He created the initiative to push this forward.”

A legal entity-identification system is one of the first projects of the Treasury’s Office of Financial Research. As a test case, the Commodity Futures Trading Commission is scheduled to use a version in July, and finance ministers and central bank governors in the Group of 20 are examining the system.

**What’s Out There**

The push for standard identification eventually will include complex financial instruments, Bottega said. During the crisis, firms had difficulty determining the status of collateral backing securities.

The ascent to Bank of America’s executive ranks hasn’t been without turbulence for Bottega, who lives in South Brunswick, New Jersey. During an earlier tour of duty at Merrill Lynch about a decade ago, Bottega’s division faced mandatory cutbacks. The then-director was about to be let go.

“When his boss realized they were cutting the one guy who knew anything about the underlying data infrastructure of this big bank, they had to scramble to convince John” to stay, said Michael Atkin, a managing director of the Enterprise Data Management Council, an industry group that lists Bottega as chairman.

**Spending to Save**

“Data was undervalued then,” Atkin said. “It was people like John who were involved in it and understood its value who’ve been crying out in the wilderness: ‘Listen, it’s an essential part of your business.’”

The big budgets and staff can still make technology a target during rounds of cost-cutting. Morgan Stanley (MS) is seeking $1 billion in annual savings driven by a technology overhaul that includes merging its three brokerage platforms. JPMorgan said it expects to save $1 billion a year by consolidating trading platforms, a move allowing the New York-based bank to eliminate
3,000 positions.

A major element of Bank of America’s efficiency effort, which may trim as much as $8 billion in annual expenses, is consolidating technology systems to reduce costs and personnel. An example: Moynihan said in September the bank had 63 data centers inherited through acquisitions, a number he wants to trim to less than 10.

The moves, announced before Bottega was hired, largely will be done using the firm’s $3 billion annual budget for technology investments, Moynihan, 52, has said.

Bottega’s position within the company’s top executive ranks, reporting to Chief Information Officer Laurie Readhead, confirms the data managers’ ascent from the early days.

“It went from a room full of folks smoking cigarettes,” Bottega said, “to the finance system recognizing the importance of data.”