

CTO Corner

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Good Data – A Key to Competitiveness

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Our industry is challenged by the continuous introduction of new technologies and changing consumer behavior that is being embraced and taken advantage of by new innovative start-up market entrants. It is becoming increasingly necessary for companies to make hard decisions regarding how to reduce and allocate scarce resources without sacrificing profitability, customer service and innovation. This requires knowing which processes and activities are most important to improve and streamline, and which businesses to expand, and which to shrink or shed. It requires knowing which represent the greatest cost, greatest potential for revenue growth and the greatest impact on customer satisfaction, using enterprise-wide standard cost accounting data¹.

One thing that makes this task difficult is that it involves judgment regarding how to allocate revenue and cost across business units that share one or more common utilities and an overlapping customer base. We need standard, transparent ways of allocating cost and revenue to the various business products, processes and distribution channels.

Added to this complexity is a lack of data standards, including definitions, formats and meanings, and meta data, across different lines of business and products. This lack of standards has been criticized for making it more difficult for firms and regulators to understand the full impact of the credit crisis on its counterparties, customers and risk, and has resulted in a global industry-wide legal entity identifier (LEI) standardization initiative², which BITS and The Financial Services Roundtable has supported, working in concert with SIFMA and other trade associations.

Lack of data standards and poor data quality, also make it difficult for companies to know many other important things, such as the ability to gain a single view of its customers, including knowing all the interactions, credit exposure and business being done with its customers. Decision-making is based upon having good data. When we base our analyses on data, the data needs to be accurate, and we need to know what we don't know.

This is leading to enterprise-wide initiatives to develop data content³ and meta data⁴ standards to reduce ambiguity, simplify aggregation and analysis, and implement effective data quality and data security/access controls.

¹ For example, it would allow an FI to better understand expenses and ROI, to make better judgments (e.g. the real cost and revenue contribution of a branch) and better management decisions regarding how to best allocate asset income and resources against various channels and businesses based upon better information as to their relative cost, revenue contribution and importance to the customer.

² The recent LEI standardization effort is an example of these past differences and the motivation for not just enterprise-wide but industry-wide standardizations of terms, definitions and naming conventions.

³ For example, standard customer identifiers and contact data definitions, syntax and semantics

⁴ For example, data provenance (authors, history of updates, updated lineage); business rules and constraints for data protection, maintenance and quality control)

BITS has formed a Data Governance/Quality Group where members exchange information and are developing guidelines in this area by addressing questions such as:

- What's the recommended data governance organizational structure(s)?
 - How are the stakeholders' needs reflected and addressed?
 - What are their respective roles? (IT, Business, Finance, Risk) and functions (e.g. Data Custodians, Data Stewards, Data Quality Control, Data Governance staff)
 - Who owns it? (IT, Business, Finance, Risk)
 - How many Full Time Equivalent (FTE)s are required? Dedicated? Side job?
 - How are the extended organizations needs best represented and managed – contractors, customers, remote users?

- What is the focus of the Data Governance Program and the metrics of success?
 - Policy, Standards, Strategy
 - Data Quality
 - Privacy/ Compliance/ Security
 - Architecture/ Integration
 - Data Warehouses and Business Intelligence (BI)
 - Management Alignment

I believe that a focus on standard data and cost accounting is needed, not just at an enterprise-wide basis but at an industry level. This is the time for our industry to consider collaborating to arrive at common data standards⁵, and generally-accepted industry average costs and metrics for many of our primary activities and processes. Having industry average costs for our primary activities and platforms would serve to:

- overcome objections that the industry is not transparent enough with respect to its costs;
- provide justification for various industry fees;
- enable FIs to price each function/feature individually with supporting justifications;
- overcome objections that we are subsidizing one customer segment or product for another – you pay for what you use and cost (if there are any subsidizations, it would be a conscious government-supported subsidization of one or more customer segments/demographics)⁶;
- provide an industry benchmark for an FI to measure itself against without disclosing any proprietary cost information;
- increase trust and confidence in our industry by improving understanding of the industry' contribution to the economy and welfare of our nation, and the risks and costs involved in doing so, as well as providing confidence that we are measuring and managing that risk.

For example, knowledge of industry standard costs for various payment processing components and functions could allow an FI, justified by industry standard costs, to unbundle or charge separate fees for each payment processing feature, such as:

- Cost for baseline payments operations of settlement and clearing
- Cost for good funds
- Cost for real time, same day
- Cost for overdraft protection
- Cost for sweep account

⁵ Such as standard LEI and Product codes

⁶ An example of such conscious subsidization is in the telecommunications industry, where the cost of telecommunications in sparsely populated rural areas is subsidized through government-approved fee structure.

- Cost for deferred payment
- Cost for paper records and record-keeping
- Costs for extending credit

Available industry standards on costs that vary by customer segments, such as the cost default and collections, could even be used to justify different fee schedules for different customer segments.

Other key financial products and processes that could benefit from the establishment of granular industry average costs include:

- Loans and mortgages
- Fraud and identity theft protection

Clearly standardizing and quality controlling data across the enterprise is key to being a competitive and innovative organization, and standardizing key data elements across our industry will grow importance as we are increasingly scrutinized by public and regulators alike.