funds europe

WHAT'S NEXT FOR FUNDS?

MANAGING DATA – A NECESSITY AND AN OPPORTUNITY

A FUNDS EUROPE SURVEY IN CONJUNCTION WITH CLEARSTREAM

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MANAGING DATA – A NECESSITY AND AN OPPORTUNITY

Highlights from the report

Data has been called "the new oil". But standardisation of fund data remains a challenge. Without standards, will the promise of "big data" be fulfilled? *Funds Europe*, in association with Clearstream, chose this topic for the third in a series of research reports about the future of the funds industry. Among the highlights of this survey:

- 82% of respondents think the industry should make it a priority to standardise the data that is supplied by fund companies to distributors and investors
- The biggest challenge preventing standardisation of this data is that fund companies do not have an incentive to change
- 72% believe fund companies should be careful about how much customer-level data they receive, because each piece of data incurs regulatory responsibilities
- 61% do not believe asset managers have enough data about their distribution supply chain to ensure there is no mis-selling under the second Markets in Financial Instruments Directive (MiFID II)
- 63% believe fund managers will outsource their data requirements in future
- 46% think the funds industry is not ready for the General Data Protection Regulation (GDPR)

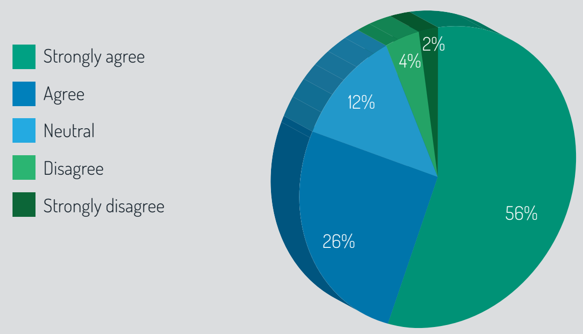
A total of 101 funds professionals participated in the online survey. See 'survey methodology' (page 15) for more information.

MANAGING DATA – A NECESSITY AND AN OPPORTUNITY

DIGITAL TECHNOLOGY HAS LED TO ENORMOUS GROWTH IN THE CREATION AND STORAGE OF DATA. BUT IN THE FUNDS WORLD, DIFFICULTIES CONCERNING STANDARDISATION THREATEN TO LIMIT THE EXPLOITATION OF THIS RESOURCE. A SURVEY BY *FUNDS EUROPE* AND CLEARSTREAM ASSESSED THE ISSUES.

LAST YEAR, RESEARCHERS at IBM estimated that human beings were producing 2.5 quintillion bytes of data every day. To put that in perspective, a quintillion – which is a one followed by 18 zeroes – is a measurement usually used in such contexts as counting the number of molecules in a human brain or calculating the tonnage of the earth. Since global demand for smartphones, social media and location-based services continues to rise, daily data production is rising too.

1. Fund companies supply distributors and investors with a large quantity of data about the products they supply. How much do you agree that standardisation of this data should be a priority for the industry?



Technology firms in Silicon Valley and elsewhere have shown that applying modern analytical tools to very large datasets can lead to impressive discoveries in genomics, healthcare and even the prediction of earthquakes. Many professionals in the funds industry hope to apply similar techniques to the data collected or produced by fund managers.

But the application of so-called "big data" to the funds world is hampered by a lack of standardisation in the industry. This report, the third in a series produced by *Funds Europe* in association with Clearstream, asks if the promise of "big data for funds" will ever be realised.

Setting standards

The universe of mutual funds in Europe is made up of thousands of products from a myriad of asset managers. Many products have similar characteristics, but, as of today, the data about them that is given by fund managers to distributors and investors is not standardised. One firm's way of describing its products differs from the next firm's, meaning data cannot easily be compared.

We asked respondents if they believed that standardising the data given by fund companies to distributors and investors should be a priority for the industry. The result was an

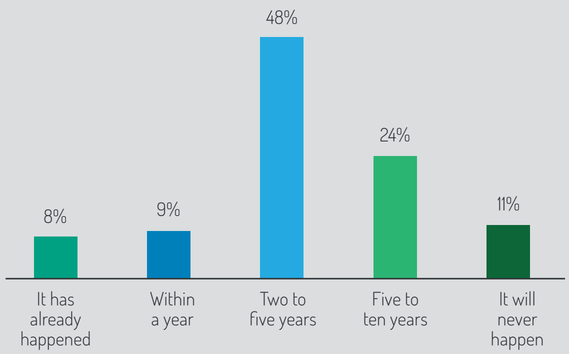
"THE INDUSTRY IS FRAGMENTED BETWEEN LOTS OF ASSET MANAGERS, EACH WITH THEIR OWN WAYS OF WORKING."

emphatic yes. Fifty-six percent of respondents strongly agreed that standardisation should be a priority while a further 26% simply agreed (see figure 1, previous page). The total of 82% who gave their assent to this question indicates strong support among the industry for initiatives to standardise this kind of fund data.

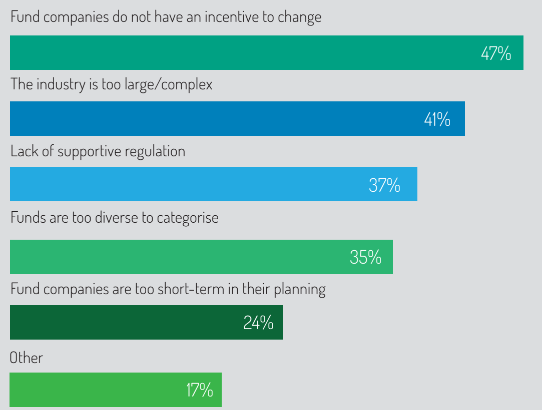
But standardisation is not an easy target to achieve. The funds industry in Europe is fragmented between lots of different asset managers of various sizes, each with their own separate ways of working. We asked our respondents if they thought the funds industry could achieve a significant level of standardisation of fund-related data, and how long this would take.

The most popular answer was "in two to five years", which was chosen by 48% of respondents (see figure 2). A further 24% thought it would take longer – between five and ten years – while a pessimistic minority (11%) said "it will never happen". There

2. Do you believe the funds industry will achieve a significant level of standardisation of fund-related data?



3. What do you think are the main challenges preventing standardisation of fund data?



"Within fund companies, data is too diverse to standardise. There is also no incentive to do so, and the data analysts who produce the numbers are under significant pressure from sales teams to report 'the larger number'."

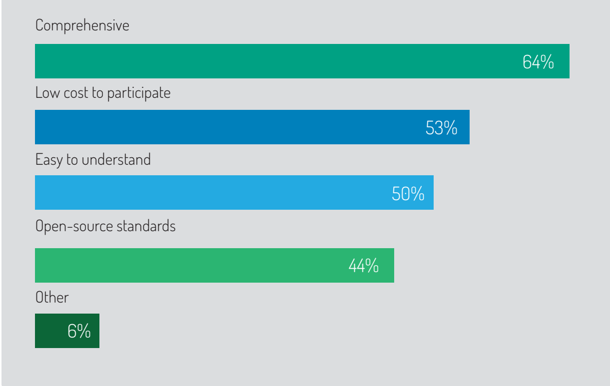
QUOTE FROM A RESPONDENT

were some positive responses. Eight percent of people who replied to this question said they felt a significant level of standardisation of fund-related information had already been reached.

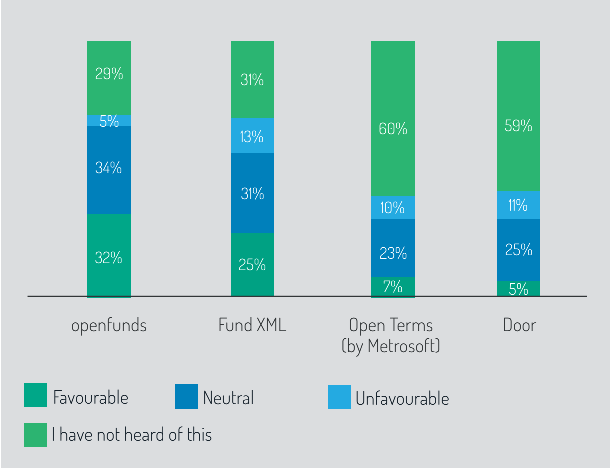
"GIVEN THESE CHALLENGES, INITIATIVES TO STANDARDISE DATA HAVE A DAUNTING UNDERTAKING AHEAD OF THEM."

What are the obstacles to achieving standardisation? We asked respondents to select from a list of factors. The most popular answer was "fund companies do not have an incentive to change", which was chosen by 47% of respondents

4. When assessing the merits of standardisation initiatives, which are the most important factors?



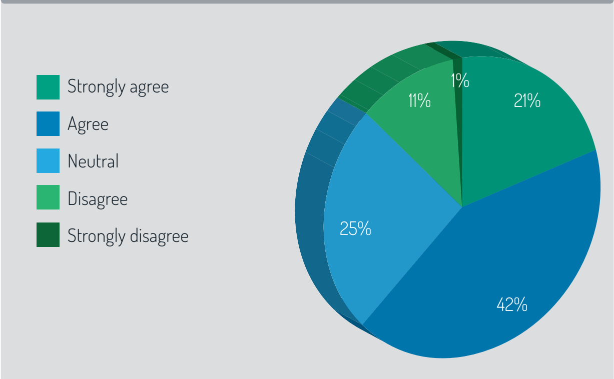
5. Please state your level of confidence in these standardisation initiatives



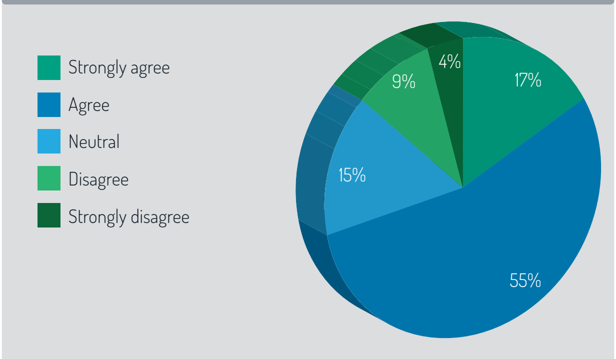
(see figure 3; respondents could choose more than one factor in this question). The second-most popular answer was "the industry is too large/complex" while the third-placed factor was "lack of supportive regulation".

If respondents selected "other" as a factor, they were asked to

6. How much do you agree with this statement: "The growth of 'big data' will transform fund distribution by showing fund companies precisely who buys their products"?



7. How much do you agree with this statement: "Fund companies should be careful about how much customer-level data they receive because each piece of data incurs regulatory responsibilities"?



describe what obstacles they had in mind. Some of their quotes appear on arrows in this report. These responses identified an interesting range of challenges, including a lack of senior-level commitment to standardisation efforts, the requirements of consultants and investors for customised data, and the problem of decentralised, mismanaged and sometimes differently designed databases that exist even within the same company.

"IN GENERAL, THE RATIO OF RESPONDENTS WHO HAD NOT HEARD OF THE INITIATIVES WAS HIGH."

Given these challenges, standardisation initiatives have a daunting undertaking ahead of them. We asked respondents to tell us what qualities these initiatives should have. The most popular option, chosen by 64% of respondents, was that standardisation initiatives should be comprehensive (see figure 4, previous page; respondents could pick more than one answer for this question). The second-most popular quality was a low cost to participate, followed by "easy to understand".

The 6% of respondents who selected "other" were asked what quality they had in mind. Their comments included the views that standardisation initiatives should reduce workload, include incentives to participate, and include manufacturers, distributors and data aggregators, such as Morningstar.

"Distributors and data aggregation platforms demand data in their specific formats. Funds competing for shelf space have difficulties to advance their standards beyond specific markets."

QUOTE FROM A RESPONDENT

Which of the existing funds industry standardisation initiatives are viewed most favourably by our respondents? To find out, the survey sought responses to four existing initiatives that are aimed at improving standardisation of some element of the funds business.

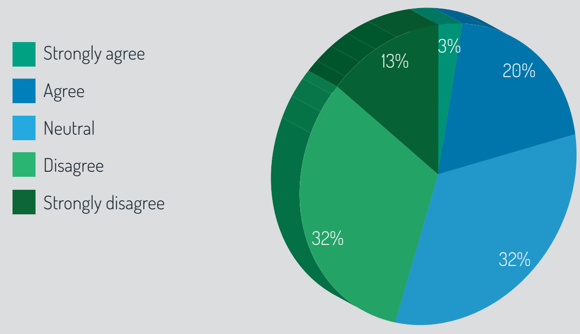
The openfunds initiative, founded by a group of Swiss banks and fundinfo, a platform, was the top choice as it was viewed favourably by 32% of respondents (see figure 5 on page 7; a mistake in an early version of the survey rendered openfunds as "Open Fund"). Fund XML, an initiative that uses the computer language XML, was viewed favourably by a quarter of respondents, while Open Terms by Metrosoft was viewed as favourable by 7% and Door, a platform for due diligence for funds, was viewed as favourable by 5%.

The proportion of respondents who had not heard of the various initiatives was generally high – for instance, 29% of respondents were unaware of the top choice, openfunds. These results indicate that the standardisation initiatives have some work to do to build recognition of their programmes.

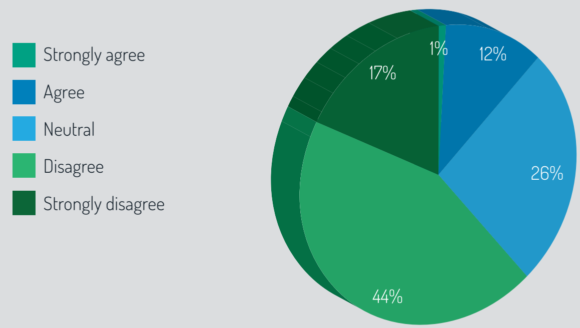
The end investor

Fund-related information given

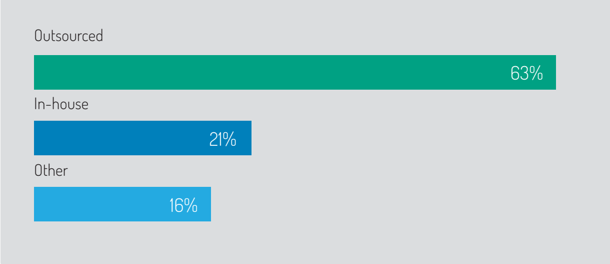
8. In Europe, many asset managers have operated an omnibus model in which their distributors have handed them a single netted-off transaction rather than telling them exactly who their end investors are. Do you think this model is viable in future?



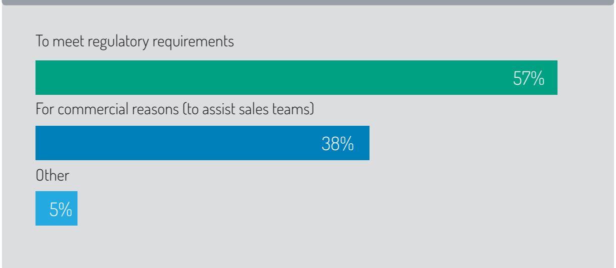
9. Under MiFID II, asset managers are supposed to exercise oversight of their distribution chain to ensure there is no mis-selling. Do you asset managers have enough data to do this?



10. How do you think fund managers will handle their data requirements in future?



11. Which is the most important factor driving the acquisition of distribution-related data by fund managers?



by asset managers to their distributors and investors is only one type of fund industry data. Another type is the information gathered by distributors about end investors. Historically, this information has not necessarily been shared with fund managers. As far as the retail market is concerned, fund managers have generally been happy not to know who their end investors are, so long as the money keeps coming in.

But technology may help to change this situation. We asked respondents if they agreed that "The growth of 'big data' will transform fund distribution by showing fund companies precisely who buys their products." In all, 63% agreed with the statement (of which 21% strongly agreed: see figure 6 on page 8).

The argument in favour of greater data exchange between distributor and fund manager is that this information can be useful to the sales departments of asset management companies. However, there may be a cost attached to owning this customer-level data, especially if it pertains to individual retail investors rather

"FUND MANAGERS HAVE BEEN HAPPY NOT TO KNOW WHO THEIR END INVESTORS ARE, SO LONG AS THE MONEY COMES IN."

than, say, an institution. The costs that exist occur usually because of requirements imposed by regulators.

To test our thesis, we asked respondents if they agreed that "Fund companies should be careful about how much

"A major challenge is that senior management do not have a long term technological view on how information will be exchanged and how important it is to fuel systems."

QUOTE FROM A RESPONDENT

12. Please prioritise these sources of data in terms of usefulness to fund managers' sales teams

Source of data	Ranking						
	1st	2nd	3rd	4th	5th	6th	7th
Fund distributors, such as platforms	67%	9%	9%	5%	4%	1%	5%
Financial advisers/private banks	6%	46%	17%	18%	7%	4%	2%
Third-party data providers (eg. EPFR Global)	10%	12%	36%	15%	13%	9%	5%
Market infrastructures, such as Clearstream	2%	13%	17%	37%	17%	9%	5%
Traditional media (Financial Times, Bloomberg)	0%	6%	10%	14%	32%	18%	20%
Search engines (Google)	5%	9%	6%	6%	18%	33%	23%
Social media	11%	4%	6%	5%	9%	25%	40%

customer-level data they receive because each piece of data incurs regulatory responsibilities." A majority, 72%, agreed with this statement (of which 17% strongly agreed: see figure 7 on page 8). This finding reveals a concern among our

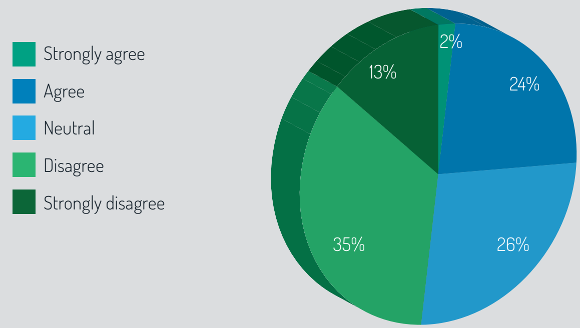
"A CONCERN EMERGED THAT DATA MAY SOMETIMES BE MORE TROUBLE THAN IT'S WORTH."

respondents that acquiring the wrong type of customer data, or too much of it, may be counter-productive. In other words, data may sometimes be more trouble than it's worth.

The reason asset managers have been able to survive and prosper without necessarily knowing who their end investors are is that distributors have generally handled the administration of end user accounts. This has been a fairly convenient model for asset managers as it relieves them of a great deal of administrative work. But some industry commentators have predicted the model will have to change.

We asked, "In Europe, many asset managers have operated an omnibus model in which their distributors have handed them a single netted-off transaction

13. Do you agree with this statement: "Know-your-client and anti-money-laundering procedures are generally efficient and do not need improvement"?

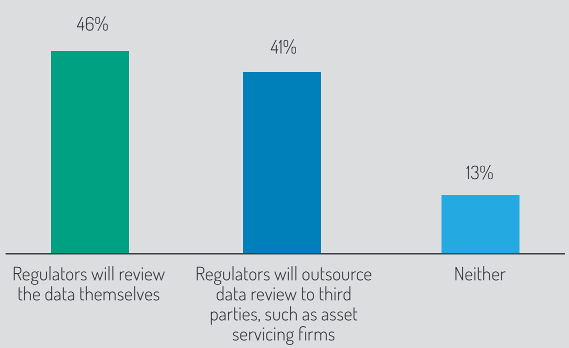


rather than telling them exactly who their end investors are. Do you think this model is viable in future?" Respondents seemed to have doubts about the omnibus model; they were about half as likely to agree that it was viable than disagree (see figure 8 on page 9). However, there was not a majority either for or against.

An irony of the funds industry is that regulation, which for years has deterred asset managers from holding data on their end investors, may in future lead asset managers to gather more information about their customers. Specifically, the second version of the Markets in Financial Instruments Directive (MiFID II), with its emphasis on transparency and fairness, puts some onus on fund manufacturers to ensure that their funds are not being sold to the wrong people.

We asked, "Under MiFID II, asset managers are supposed to exercise oversight of their distribution chain to ensure there is no mis-selling. Do asset managers have enough data to do this?" Only 13% of respondents thought asset managers had enough data (of which only 1% held the view strongly: see figure 9 on page 9). The majority, a total of 61%, thought asset managers were deficient in this regard. This finding suggests a concern that some asset managers will struggle to meet their responsibilities under MiFID II.

14. How do you expect European regulators to handle data they have requested under regulations?



Given the widespread expectation that data will become a greater focus of fund managers in the years ahead, it is logical to ask if the managers themselves will be able to handle this workload, or if they will rely on service providers to assist them. Our respondents tend toward the view that third parties will be needed. When asked how fund managers would handle their data requirements in future, 63% of respondents said these functions would be outsourced (see figure 10 on page 10) compared with 21% who said the functions would be handled in-house.

The 16% of respondents who chose "other" were asked to say what they had in mind. Several of them predicted fund managers would adopt a hybrid model including some outsourced data functions and some in-house. One respondent suggested that large companies would do it in-house and small companies would outsource. Another said, "in theory it should be insourced but in all likelihood it is extremely

"THE LIKES OF GOOGLE AND TWITTER ARE VIEWED WITH SOME SCEPTICISM."

"The main challenges preventing standardisation of data are decentralised and sometimes differently designed databases within the same asset manager company."

QUOTE FROM A RESPONDENT

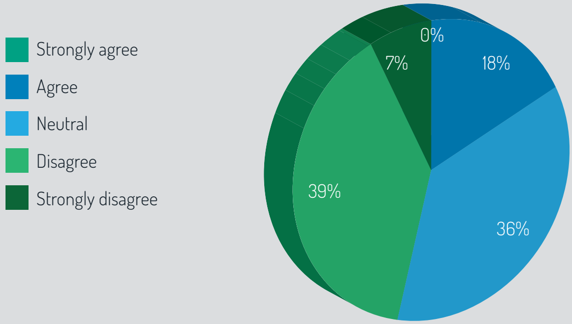
difficult to sell data challenges to senior executives within a fund management company, therefore it is highly likely it will be outsourced".

Partners

Clearly, regulation is a big influence on fund companies' attitudes towards data. This observation was confirmed when we asked respondents which was the main factor driving the acquisition of distribution-related data by fund managers. A majority, 57%, said that meeting regulatory requirements was the main factor (see figure 11 on page 10), while 38% said "commercial reasons (to assist sales teams)" was most important.

This finding indicates that regulation is such an important influence on decision-making at fund managers that it outweighs commercial imperatives. Perhaps fund company

15. Is the funds industry prepared for the General Data Protection Regulation (GDPR)?



managers are reasoning that the necessity of avoiding regulatory fines is greater than the need to raise new money.

There is, of course, no reason that fund companies cannot do both – acquire data for regulatory purposes while also using it to influence their marketing efforts. Since many potential sources of data are available for fund manager sales teams, we asked our respondents to rank a selection of them in order of usefulness. In figure 12 on page 11, the sources are arranged from top to bottom in ascending order of average ranking, meaning that the top source was, on average, deemed to be the most useful and the bottom was deemed to be the least.

Fund distributors, such as platforms, topped the list; they were ranked as the most useful source by two-thirds (67%) of respondents. Financial advisers/private banks, which were ranked second by 46% of respondents, came next, beating third-party data providers on average. At the bottom of the list, search engines and social media were deemed the least useful sources of information to sales teams. This ranking suggests our respondents view their traditional partners, such as fund platforms and private banks, as the most helpful allies, while the likes of Google and Twitter are viewed with some scepticism.

Regulation, of course, is generally seen as a burden to fund companies, and perhaps no aspect of regulation is more burdensome than know-your-client (KYC) and anti-money-laundering (AML) procedures, which can make the process of onboarding new clients a lengthy and tedious endeavour. Our survey revealed dissatisfaction with these procedures in that only 26% of respondents thought they were generally efficient and in need of no improvement (of which 2% held the view strongly: see figure 13 on page 11). This finding suggests significant appetite for technical solutions to make KYC and AML simpler.

As for the regulators themselves, respondents were divided about how the data collected by regulatory bodies would be analysed. Although 46% said they thought regulators would handle the data themselves, a similar proportion (41%) felt regulators would outsource data review to third parties such as asset servicing companies (see figure 14 on page 12). A cynical minority (13%) opted for "neither", indicating perhaps that these respondents believed the data assiduously collected for the benefit of regulators would go unanalysed.

To finish the survey, we asked a question about a large piece of regulation that has ramifications across almost all industries, not only the financial ones. The General Data Protection Regulation (GDPR) aims to give individuals control over their data by imposing regulatory demands on organisations that collect and store such data. Was the funds industry ready for GPDR, which was implemented on May 25, 2018 (about a week after the survey closed)? The findings were not encouraging. A total 46% of respondents said the industry was not ready (of which 7% held the view strongly: see figure 15, previous page). We can only hope that since the survey closed, the funds industry has swiftly put its data privacy policies in order.

"THERE WAS SOME CYNICISM ABOUT THE PRACTICAL OBSTACLES TO ACHIEVING BETTER DATA POLICY."

Hard work ahead

This survey has revealed that data management at fund companies is an increasingly important function, both for regulatory reasons and to help steer marketing campaigns and distribution efforts. But our survey found a persistent concern among respondents that standardisation is hard to achieve, as well as a lack of awareness of some of the main initiatives in this area. There was also some cynicism about the practical obstacles to achieving better data policy. As one respondent put it, "Data is too diverse within the fund companies to standardise. There is also no incentive to do so, and the data analysts who produce the numbers are under significant pressure from sales teams to report 'the larger number'."

When we also consider the separate problem that owning customer data can itself be a costly matter, it is not difficult to see why many fund manufacturers have been happy to offload their data responsibilities to distributors and other service providers. Whether such a strategy will be tenable under regulations such as MiFID II remains to be seen.

Clearly the industry must work hard to overcome these challenges if the benefits of "big data for funds" are to be unlocked. **f**e

SURVEY METHODOLOGY

A total of 101 professionals drawn from *Funds Europe*'s readership, who work in various positions across the funds industry, participated in the survey, conducted online between February 26 and May 16, 2018. Because of drop-outs, the number of responses for some questions was less than the total.

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