

Effectively Managing the Cost of Market Data

Maulik Nagpal

Market data costs constitute an increasingly large share of the overall cost base of investment banks. The reliance on market data has been increasing over the last few years, primarily due to higher levels of automation in processes, stricter regulatory requirements, and higher complexity of products. However, this increased cost base has only recently become an area of focus for the COO office, given the massive cost-cut targets set by investment banks in recent times.

The number of data providers has also grown significantly, and banks now have access to multiple offerings for the same requirement. Besides building collaborative long-term relationships with vendors, selecting the right offering that potentially covers multiple requirements and making optimum use of available resources are key to having an efficient and sustainable market data program.

Global market data/analysis spending (in USD billions)

Source: Burton-Taylor International Consulting LLC

There are a number of sources of inefficiency in managing market data across the process chain - from procurement and vendor management to demand and usage control. The cost of these inefficiencies is especially high for global bulge bracket investment banks that spend millions on market data every year.

To overcome these inefficiencies, investment banks need to develop a comprehensive firm-wide framework to be able to ascertain control over all aspects of data management.

- **Vendor Management:** Maintaining firm-wide procurement relationships, carrying out vendor consolidation, and conducting contract reviews.
 - **Data Requirements:** Conducting reviews of user base and available data sources, training users, creating an appropriate data license model, and reviewing the number of required licenses.
 - **Data Usage:** Monitoring usage, eliminating duplication of data retrievals, and ensuring
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compliance with vendor contracts.

- **Change Management:** Providing a roadmap for transition from legacy/underutilized data sources and involving users in the transition process to overcome resistance to change.

Banks can use different approaches to bring about efficiencies in their market data environments and gain significant and sustainable cost savings.

- **Reviewing inventory of market data sources used at the firm level**

Conducting an annual review of the usage of market data sources can help identify opportunities for optimizing market data sources, while meeting user needs. We frequently see instances where clients continue working with a legacy data provider, despite the availability of superior alternatives from both cost and data coverage perspectives. There are also instances where banks have the opportunity to select alternative products from an existing data provider, which could truly meet current needs (while optimizing the overall cost of ownership). Any such transition would need to ensure that the effect on current users is limited. For example, models that use legacy data sources may need to be transitioned to drive users to adapt to this change.

- **Tracking ongoing data usage**

Investment banks need to set up a process to track the usage of market data sources. This will help generate meaningful firm-wide reports that help recognize trends in usage, control duplicate requests, and create opportunities to save costs.

- **Centralized library function**

A centralized library team with global coverage could provide an alternative to optimize the usage of data resources while providing the benefits of re-usability through a global central repository.

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