

2007 lakkyara

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**Data management essential to
business expansion at asset managers**

For asset management firms to continue expanding while meeting growing customer and regulatory demands for disclosure, they need to develop an efficient database infrastructure consisting of reference data shared by different operations.

Common issue for expanding management firms

In recent years the asset management industry has racked up solid gains in assets under management and related income, led by growing sales of investment trusts at banks and post offices. Encouraged by this tailwind, asset managers have been beefing up their sales support divisions in a bid to expand their operations.

In the long term, heavier competition from global companies and firms in other industries may reduce industry-wide profitability.

Asset managers therefore need to achieve scalability of business processes. This will enable a limited number of employees to perform more work at a higher standard of quality while allowing the business itself to grow.

Importance and utility of data management in front- and middle-office operations

Japanese asset management firms introduced back-office systems at a relatively early stage and have successfully used shared systems to standardize and streamline workflow processes.

In the front and middle office, however, process standardization has been complicated by the rapid pace of change, and processes still tend to depend on individuals. Efforts to improve efficiency by automating manual operations often fall into a vicious cycle in which time and personnel constraints lead to makeshift measures dependent on end-user computing, increasing process reliance on individual staff members and reducing workflow scalability.

In middle-office operations in particular, growing customer demands for disclosure coupled with more stringent regulation, exemplified by the so-called J-SOX law, have dramatically increased the operational burden in the areas of compliance, risk management, and external reporting. In front-office operations as well, the diversification of investment assets and strategies has forced asset managers to collect and manage a wider range of data, resulting in a heavier burden on those supervising the investment process.

One factor that has made front- and middle-office operations more onerous is that these operations now require massive quantities of data, including issue attributes, ratings, benchmarks, and portfolio balances. Leaving this data collection and management up to individuals leads to the duplication of data entry and management tasks and could become the greatest bottleneck to future business expansion.

An effective solution to these problems would be to create a shared internal database containing the data required for all operations along with a data management system charged with compiling accurate data. Putting such a system in place not only enhances efficiency (cost savings) and reduces operational risk but should also improve the quality of operations by incorporating feedback from users of the data.

Reference data management has become more important with Basel II

Asset management firms need access to a wide range of data. Reference data, which consists of issue attributes, issuer attributes, and the correspondence between the two, is the most important. Below we will

use ratings data as an example to show that reference data management is the most important aspect of general data management.

Ratings include issuer ratings, which are assigned to borrowers, and issue ratings, which are applied to individual debt issues. But not all issues have been assigned ratings. In practice, when an issue has not been given a rating, the issuer's rating or the rating of another debt issue from the same issuer is often substituted in what is called an "implied rating." To do so, however, the relationship between the issuer and the issue must be fully understood. Using ratings data thus requires not only compilation of ratings data but also management of reference data.

The Basel II capital regulations were implemented at end-March 2007. Compliance with the new standards will require both banks and asset management firms to compile ratings data.¹⁾ For banks to have an accurate understanding of their risk assets, they must make individual risk asset calculations for each issue contained in their funds, and the standard practice is for the asset managers providing the funds to include this task in their package of services. Now that Basel II has been adopted, asset management firms will face an urgent need to compile ratings and reference data and establish data management systems.

Towards more efficient data management

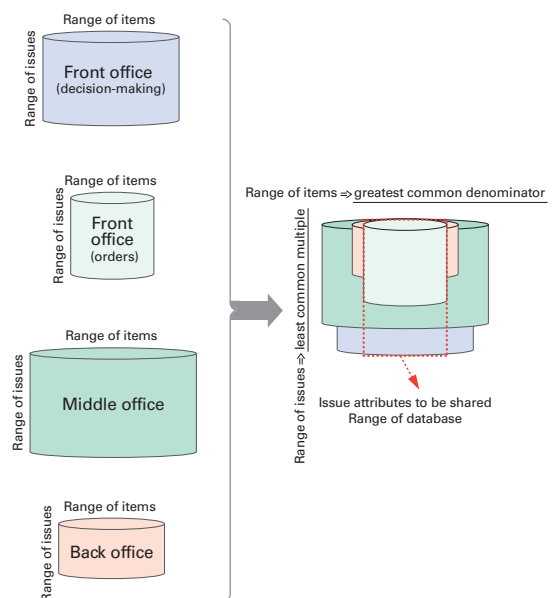
In addition to the consolidation of numerous databases, efficient data management requires efforts to promote the internal release and use of this data. A minimum standard of quality must be upheld to ensure that users can trust the data. A dedicated data manager with the expertise and authority to respond appropriately to user feedback is also needed.

Typically, the type of data and the standard of quality required will vary for different operations, making it difficult to decide exactly which data should be shared throughout the company. Here we would like to make a proposal,

using as an example the issue attributes that are a type of reference data. As shown in the accompanying Exhibit, the range of items is the greatest common denominator for all operations, and the range of issues is the least common multiple for the same. The greatest common denominator is used for the range of items because selecting items used by as many people as possible improves cost performance. It is important here to ensure that data quality meets the standards of the most demanding users. The least common multiple is used for the range of issues because even a small shortage of issues will often make the database unusable. Hence it is necessary to cover all the issues that are required as a minimum in each operation.

It would be realistic for asset managers building data management systems to start with this range of data and then work gradually to enhance its quality, timeliness, and coverage.

Exhibit. Consolidating issue attribute databases at an asset management firm



Note

1) The standardized approach of Basel II is characterized by a more detailed classification of risk weightings than in Basel I and the use of ratings supplied by external rating agencies.

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