

# Market Data: Are you paying too much?



Catalyst can do a short appraisal to show you the potential savings in your Market Data Services.

If you want to know more, contact us on +44 (0) 870 901 4155.

Imagine subscribing to a premium satellite TV package but watching only one channel. You would be spending good money on a service that wasn't being used. It would also be easy to downgrade to a basic package that had no negative impact on your viewing habits. The case for changing the subscription is compelling.

Like other subscription services, the procurement of Market Data is a practice that frequently develops high levels of redundancy and waste over periods of time.

In the present cost constrained environment, financial institutions are seeking to remove redundancy and waste from their processes and services. Market Data might hold the key.



The credit crunch means some tough decisions are having to be made to cut costs. Usually, this is a matter of deciding which resources or services can be cut without an unacceptable loss of performance or service. The decision becomes a hunt for the lesser of two evils.

Imagine then, if there was one significant cost that not only would not be felt if cut, but through reducing this cost, you could also improve control of risk and help fuel future growth. Instead of being a painful exercise, cutting this cost would be a positive experience that wins plaudits for the improvements it brings as well as the substantial amounts of money it saves. Too good to be true? Read on.

Having good quality, timely market data is an absolute necessity for traders. They need the right data for the markets in which they trade, at the right time. In addition, other data and communication services can be essential. But this often prompts a 'better safe than sorry' approach among individual traders, who would rather have access to all potentially valuable feeds than to lack critical information.

While this may make sense at an individual level, it can lead to a firm-wide overspend that runs into millions of pounds, as services and feeds are duplicated and without the benefits of single vendor or global contracts. After staff costs, market data is often the highest single cost incurred by a bank, making it an obvious target for savings. Paradoxically, it is often overlooked when services are scrutinised for signs of waste and non-value add.

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Lack of a firm-wide perspective can also lead to inadequate policing of procedures, leaving a firm in breach of contractual obligations with ensuing penalty fees. At a time when the public (now technically shareholders) want to know that banks have control of their business, it pays to be squeaky clean.

Most of the tier-one banks recognise the need for a firm-wide approach to the provision of market data, and align this with their strategic planning process. They know all the information and infrastructure they need to have in place to make long term strategic decisions about market data services.

But not all banks are so systematic and thorough. During the last few years of unprecedented growth, market data may have slipped off the radar screen, resulting in growing costs and increased exposure to risk of non-compliance with vendor contracts. Now that times are tough, it pays to take a good hard look at how you are managing your market data.

Catalyst has developed an approach to stripping out unnecessary costs that make this a proverbial 'no brainer'. The case studies described below shows that substantial savings can be made along with improved compliance control. They make a compelling case for taking immediate action to reap the benefits.

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## Case Study: Catalyst saves tier-one bank £3.3m with smart market data integration

A tier-one global capital markets business asked us to identify savings from static and reference data, with a £3m target

### Challenge:

- The firm had acquired another major bank six months previously, but had not yet realised the integration savings from market data contracts
- We conducted a “due diligence” review for the client to assess the size of savings opportunities and committed to a target of £3m savings per year

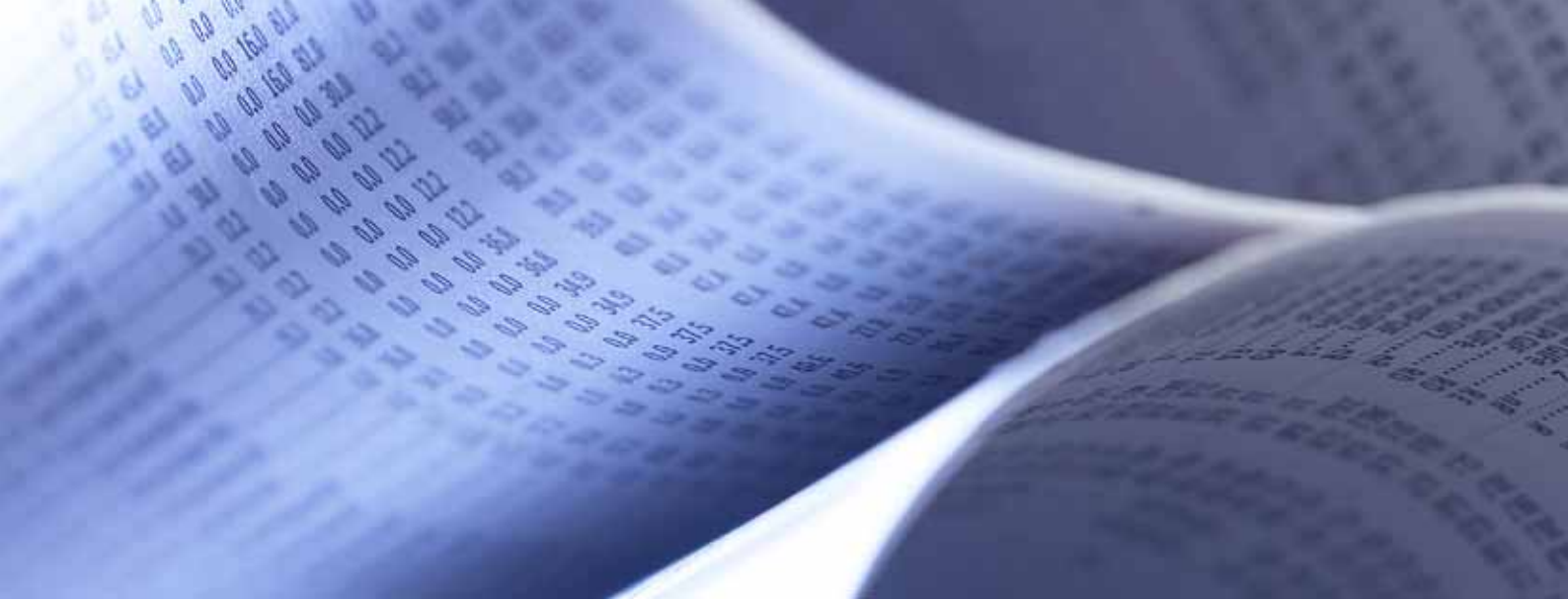
### Solution:

- Catalyst were engaged to identify cost savings specifically in the area of static and reference data
- We reviewed the databases of vendor contracts and the contracts themselves
- The Reference Data Management systems were reviewed for use of reference data
- We identified duplication between the merged entities

- We discovered opportunities that were missed at the time of integration
- Identified redundant vendor contracts
- Identified contracts which had been cancelled, but were still being paid for
- Worked with the client’s Market Data team to re-negotiate with vendors, cancel contracts and sign new ones
- MIS during the assignment tracked our progress throughout

### Results:

- Cost savings were qualified up to £3.3m, 12% of the total spend
- During the assignment, £550,000 of savings were actioned; a return on investment for this assignment of 266%
- In addition, £1.1m of charges were removed from the Market Data cost centre and re-categorized to the correct business unit



The case study above highlights how easy it is to lose track of how market data is being used, and by whom. In this instance significant amounts of money were being spent for no added value to the business. In other situations, there can be breaches of contract with potentially embarrassing fines if the vendors conduct audits.

Surprisingly, banks do not always apply a common sense approach to the management of their market data. One tier-one bank, in its move to new offices, decided to create a market data desktop to give every trader full access to every service. Having access to all the premium products felt good, and fitted in with the feel of the highly functional new office. No one complained.

Some time later, during a cost cutting drive, the bank suspected there may be savings to be made in their use of market data, and asked Catalyst to help identify them. What they did not realise was that this saving amounted to more than £10 million.

To achieve this saving, Catalyst created a profile for each trader based on the services they needed and most frequently used. Each service was challenged to see if it was necessary or simply a 'nice-to-have', and whether a cheaper alternative was available. The cost of providing feeds that were tailored to each role was 25% lower than the current blanket coverage. The case for change was irrefutable. The new profile was also used to assess the market data needs of new hires, ensuring these savings continued to accrue over time.

In this case the bank had simply been profligate in deciding every trader would receive every available product. Often the choices made are less obvious, making it harder to root out savings.

In the case of the Fixed Income division of one bank, market data was being sourced from two premium providers. The decision was made to eliminate one of these without a corresponding loss of service. Catalyst analysed current usage statistics to identify which should be the primary provider, and then analysed each access to the other provider and conducted an investigation to identify an acceptable equivalent.

**“Surprisingly, banks do not always apply a common sense approach to the management of their market data”**

While the new service was capable of meeting traders' needs, getting them to accept what appeared to be a stripped down service proved difficult. This was particularly so in the Tokyo office, where the number of screens on a trader's desk was seen as an indication of success and status.

Catalyst's approach was not to spread the new service over several screens, but to do the opposite. A new desktop environment was designed which enabled all the data to be put on one screen. Next we worked with the most successful trader (who happened to have four layers of screens on his desk!) and showed him how the new system would work. He was moved onto the latest technology, with just one screen on his desk.

Very soon, less became more, and the other traders flocked to be put onto the new, simple and elegant system. The change was more than just cosmetic, however. The saving for the star trader alone was in the region of £75,000 - £80,000 a year. Multiplied by the 150 people who were also moved over to the single supplier, the savings become substantial: paying back the investment many times over.

In London a 22% cost saving was achieved, while in Tokyo the figure was close to 40%.

These are the headline figures that capture attention. Annualising these benefits into ongoing efficiency savings requires organisational changes that are more difficult to embed. Catalyst achieve this by focusing on the following:

- Aligning market data provision with the business objectives to ensure it becomes an enabler rather than a cost
- Achieving full visibility of data and costs across the organisation to improve decision making
- Selecting a toolset to produce the necessary fully reconciled, automated reports that provide visibility to the business.
- Re-engineering market data processes to achieve sustainable savings including headcount reductions and improved operational efficiency in Market Data Services.

Taken together these additional actions ensure that we deliver more than a simple one-off cost cutting exercise. Many organisations have failed to achieve the full cost savings, or sustain them over time, through approaching the exercise as a 'cull'. By adopting a comprehensive and systemic approach based on sound principles of change management, Catalyst have shown how to achieve real benefits while avoiding the pain usually associated with cost reduction.

Catalyst work by doing a short appraisal to identify the opportunity for savings and make the business case. Once the potential benefits are seen, the case for change is compelling.

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