

Goods in transit: how lessons from retail can transform the financial data supply chain

How the retail industry manages its supply chain could hold the key to tackling systemic risk and achieving transparency in the financial markets. Regulatory mandates call for the financial services industry to collaborate and rethink its own data supply chain, writes Stephen Engdahl, SVP Product Strategy, GoldenSource.

The financial services industry consumes, processes and distributes information on a massive scale. The stability and integrity of the financial markets relies heavily on how that information is handled, and, more specifically, on how it is shared and transmitted across multiple parties.

For many other industries, the design, manufacturing, storage and distribution of a physical product is the core focus and the generation of data is simply a by-product of doing business. However, in financial services, data is the core product. Data is what powers the sector and, unlike other industries, each part of the supply chain, from the manufacturing of “products” through to distribution, is electronic as opposed to physical. Even its warehouses are electronic.

Financial services is an industry of information and is being recognised as one of the most technologically advanced sectors in the world. However, despite this, critical processes often fall short of those in industries with a physical product, such as retail.

Regulations and cost-pressures are forcing firms to face up to this issue once and for all. In doing so, there are some clear lessons to learn from the likes of retail, which have had to build rigorous and efficient supply chains based on that physical product. Here, the supply chain has matured into a set of collaborative processes to benefit both individual firms and the industry as a whole. By putting in place similar building blocks around identification, standards and integration, financial services stands to gain from better risk management, reduced costs and greater business agility.

Building block 1 - identification

The first step for any supply chain is to understand what is being traded and with whom. In retail, barcoding provides a common standard. This allows firms to accurately identify and track products – and who has handled them – and then associate it with other information such as stock levels and location. The result is greater visibility and tighter control over supply and demand.

In financial services, it is essential to have this level of identification in order to achieve the overall goal of regulation; reducing systemic risk in the market. Security identifiers already exist in various forms but the identification of entities has, historically, been less of a priority. That has already started to change with the introduction of the legal entity identifier (LEI). Having this financial services ‘barcode’ is helping firms emulate the controls seen in the retail supply chain. However, it is just one of several pieces in the puzzle.

Building block 2 – communication standards

Retail firms achieve inter-company co-operation and efficiencies along the supply chain by having common standards. One example is the Electronic Data Interchange, which applies a standard format of communication between parties. The challenge in financial services is that there are sometimes different standards for different countries, parts of a transaction process or types of financial instruments.

This becomes a clear problem when looking at specifics such as transaction reporting under EMIR, where both counterparties are reporting the same trade. If both companies are using different formats, reconciliation becomes all the more difficult and prone to errors. [In a report](#) published in May 2014, European repositories warned that up to 60% of derivatives trade reports entering their systems could not be matched across both counterparties. The result is in an incomplete picture of activity across the derivatives markets.

Getting this piece right will be a major achievement and, importantly, will pave for the way for initiatives such as T+2. Having an open and uniform approach will significantly increase firms' chances of complying.

Building block 3 – integration

Methods of identification and communication are critical. However, they mean nothing if firms cannot use them properly to achieve integration across the supply chain. A joined up approach in retail, based on common standards, means firms have full visibility of the entire manufacturing process. Retailers can provide feedback from the sales channel, down the supply chain, to ensure products are designed with ease of manufacturing in mind.

The same benefits are possible with data management in financial services. It is about creating efficiencies through automation across the supply chain rather than simply passing data on and out of sight.

This level of integration also extends to internal visibility. Processes within a retail organisation allow it to scan a product, update and calculate inventory and effectively manage supply and demand. In a similar fashion, financial institutions need sight of the data lineage so they can manage data internally – they need to know where their data comes from, who has handled it and where it is going to next.

The role of an industry utility

It is possible to automate many of the data processes within a firm – such as buying data from vendors, ensuring data quality and managing downstream systems. However, with everyone doing many of the same processes, this leads to a massive duplication of effort, and cost, for little or no competitive advantage.

For a truly efficient supply chain, there needs to be a collaborative approach that suits all parties while allowing for competitive differentiation and innovation. Industry utilities have proved successful elsewhere and could provide an obvious answer for data management in financial services – specifically, the separation of the commoditised parts of the process. These include the creation of raw data, manufacturing and capturing of events; the aggregation of data feeds and the management of quality and distribution; plus the acquisition phase, which includes data purchasing, standardisation and warehousing. Firms could then focus resources on areas that deliver real business value, such as enriching data, transforming it and delivering it to consumers.

Putting all of this in place could be a big undertaking and would require a major shift in thinking. The rewards would be huge but, for many, it might seem out of reach. However, by breaking it all down into smaller initiatives, it becomes far more achievable and realistic. And much of it is already underway – whether it is the introduction of the LEI, the review of messaging protocols and collaboration in preparation for T+2, or the FIBO initiative to define industry standard terms.

Whether in isolation or as a broader united effort, these types of initiatives are valuable and positive steps towards a more beneficial data supply chain – one that manages its product, the data, effectively and with greater visibility. By continuing with this work, the industry will inevitably become more transparent and capable of tackling systemic risk. For individual firms, they would streamline processes, save costs on commoditised data processes and be better equipped to achieve real competitive advantage where it counts.