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Data integrity: the key to successful automation

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Summary

Are there opportunities for firms to significantly reduce costs and risks by automating more manual processes and controls? The answer seems to be 'Yes, but...'. If it was easy, it would have been done efficiently & effectively already.

TORI and Gresham work together on projects that automate manual controls and deliver significant, measurable benefits.

Senior managers face the challenge of balancing the need to automate to reduce costs and risks and improve service levels while being stuck with legacy infrastructure and the need to support constant change (regulatory and products/services).

We spoke to a select group of senior professionals from diverse sectors, including investment banks, retail banks, asset managers, life insurance firms, and custodian banks to get their insights. We then discussed our findings with a broader group of senior industry professionals.

This paper describes these challenges and our proposals for addressing them.

In summary, the feedback was that the reality for senior managers in many firms is:

- Need to deliver more (new products, services, markets) for less.
- Limited remaining quick wins.
- Fragmented technology infrastructure with multiple enduring systems.
- Unclear, inconsistent data duplicated across systems without visibility of data lineage and a reconciliation framework.
- Need to enhance speed, accuracy, and control for regulatory compliance (e.g., T+1 settlement, Consumer Duty, Operational Resilience/DORA).
- Minimal funds for discretionary changes.
- Scarce knowledge of end-to-end processes, leading to bottlenecks.

Key Takeaways

1. Significant progress made in process automation, primarily through Robotic Process Automation (RPA).

2. Diminishing returns on heavy RPA investments, leading to a focus on simplifying processes.

3. Data inconsistency and variations create challenges for both manual controls and RPA due to multiple systems with differing data representations.

4. Programmes to reduce and rationalize systems are complex and slow and will have limited near-term impact on day-to-day operations.

5. Centralized data control projects face difficulties in managing the volume and speed of data changes.

6. Poor and inconsistent data impact regulatory compliance, ESG considerations, and the adoption of next-gen technologies like AI and blockchain

7. Any control requiring manual intervention introduces the risk of human error and should ideally be fully automated; having fully understood and quantified the risk, as there is a cost to automation (rule of diminishing returns)

8. Firms have multiple manual controls. There is no consistent definition or counting methodology.

9. Mixed attitudes towards adding new manual controls, ranging from acceptance to avoidance. Avoidance can mean having to pass on new business opportunities.

10. Varied views on how the 2nd Line of Defence should oversee controls built by the 1st Line of Defence, with challenges in balancing central oversight and local control.

11. Cost reduction focus has led to system implementations with reduced functionality and a reliance on manual workarounds.

12. The shift to T+1 settlement in the US in 2024 poses challenges for identifying exceptions within reduced processing windows.

13. Limited funds available for discretionary change due to the cost of supporting regulation-driven change.

14. High staff turnover in Operations Roles and dissatisfaction with outdated interfaces.

15. Concerns that some may prefer to keep the current situation hidden rather than address the issues.

Insights for future projects

1. Focus on data

Multiple systems with duplicated but varying data are a reality. There are significant benefits that can be realised by taking a tactical approach (alongside strategic golden source / data lake projects) and making sure that what's there is consistent and useable. Some firms are already implementing this approach by identifying and promptly rectifying data discrepancies in near real-time, ensuring that their existing infrastructure operates efficiently and consistently.. within the limitations of a lack of a centralised data strategy and a data consumption framework

A data strategy that focuses on integrity – cleansing data and ensuring consistency between systems – will support:

1. **Process flow improvement**

- **First optimise current automation**
  - Understand how good data is today
  - Understand how it can be improved
  - Improve it
- **Measure the impact on automation.**
  - Assess the potential for further enhancements, both in terms of speed and scope. Our view is that current limits haven't been reached and there is further to go before diminishing returns kick in.
  - Use improved data understanding and quality to refine processes effectively.

Focus on data

A data strategy that focuses on integrity – cleansing data and ensuring consistency between systems – will support:

2. Further Automation of Controls:

Enhanced Data for Control Automation

- Better data quality and understanding of available data will support more advanced control automation.
- Intimate understanding of data lineage, data relationships and transformation & overall data metamorphosis will reduce reconciliation and speed up effective control automation
- Improved data quality and control lowers the cost of processing both data and downstream exceptions

Importance of Speed in T+1 Settlement

- In the T+1 settlement environment, rapid identification of true differences becomes crucial

Addressing Current Challenges with Improved Data

- Understand why certain controls are manual and why false positives requiring investigation are prevalent.
- Examine the reasons for extensive manual intervention in data inputs and outputs.

Identify limitations attributed to current technology or organizational constraints (e.g., scalability, feasibility, speed, cost).

3. Refocusing key individuals on process improvement

- Addressing the problem of limited and reducing knowledge of end-to-end processing flows, systems, etc with the same people needed for automation projects, issue investigation and resolution, regulatory projects, etc
- Knowledge of data more widely available, processes running better with fewer exceptions, exceptions better understood with less expert knowledge needed, etc

4. Ensuring that the foundations for next generation technologies are present. You need good data if you want to bring in AI, blockchain, etc

Enhanced data quality not only facilitates control automation but also addresses existing challenges, enabling a more efficient and effective control environment, particularly in time-sensitive contexts like T+1 settlement. As the inevitable proliferation of AI takes effect, Data Quality will be crucial to maximising the benefits of AI.

2. Centralised control over data

This is important to get the necessary level of transparency over the information and data used and what needs to be done to it to improve processes and controls. This doesn't mean that all controls need to be built and maintained centrally but it does mean that the data used, including how it is modified, needs to be managed centrally, even where controls are built and operated locally by end users.

3. Regulatory compliance – Operational Resilience, DORA

As Operational Resilience programmes mature and focus on scenario testing, it will become clear where there are manual controls that need to be automated to achieve the required performance standards.

Interestingly, this approach is similar to that taken by firms with high levels of operational resilience without any regulatory restrictions. They do this to reduce costs and ensure high levels of scalability:

- To achieve high resiliency, firms need to know the details of all operational processes and data flows (Correlation, dependencies, transformation, desired result)
- Understanding how things work at a detailed level drives automation and efficiency (reduced costs and high levels of scalability)

4. Building the Business Case

A few of the firms we spoke to were focused on regulatory and reputational risk and therefore these were the primary drivers for the business case. For the ones where cost is the main driver, the business case needs to be made based on cost savings given the lack of discretionary spending options.

There are two potential approaches. Both focus on the FTE costs that are due to reference data differences and the issues these give rise to

Approach 1:

- **Agree an assumed percentage of Operations FTE effort (eg 10%)**

Approach 2:

- **Carry out analysis to understand the differences, the issues they cause, and the FTE and other costs that could be avoided. This includes:**

  a. FTE effort in collecting and cleaning data

  b. Reconciliation effort where reference data errors are the cause

  c. Client (including internal client) issues and associated resolution costs

  d. Digitisation and automation challenges and limitations

  e. Derive a financial indicator ($) for the potential cost/opportunity cost/ reputational cost for failed manual reconciliations (This may not be a heuristic, but it will serve to provide quantitative measure)

With both these approaches, regulatory and reputational risk costs can also be included in the business case.

TORI is a specialist financial services consultancy and its people are all experienced practitioners. It has a deep understanding of market participants' businesses, including their products and services, client types, front to back flows, infrastructure, 3rd party providers, and regulatory obligations. It has a long track record of providing innovative and effective solutions.

TORI works extensively with firms to support them with Digital and Data Transformation, Operational Excellence, and Governance Risk and Compliance

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If you have any questions or would like further information please contact

Ian Perham ian.perham@toriglobal.com

Costas Liassides Costas.Liassides@toriglobal.com