

Thought Leadership

## Lack of Transparency Drives Fear and Market Volatility

As the Euro zone lurches from one economic crisis to another, the financial services marketplace is struggling to build confidence, from customer mistrust to credit agency downgrading. At the same time, governments are introducing a raft of regulations designed to improve financial transparency and rebuild faith in the financial sector.

The vision is to build a long term, sustainable market that minimises risk and boosts economic growth. This must be underpinned by accurate, consistent, consolidated information policies that support both compliance and an open, transparent, customer centric operational model. Yet by responding only to immediate compliance demands, banking organisations are at risk of creating more information silos and failing to reflect the clear demand for the information transparency that is key to building financial confidence.

As Steve Alexander, Banking & Finance Divisional Director at IPL explains, without accepting the need for Master Data Management that facilitates the restructuring of customer records to ensure both legislative compliance and information transparency, the banking sector will struggle to rebuild its reputation and, hence, play its critical role in underpinning economic growth.



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### Market Volatility

While Europe has finally reached a consensus on the latest Euro rescue package, the financial market remains incredibly volatile. Much of this volatility is driven by fear, as demonstrated by Moody's downgrading of 12 UK banks credit ratings (7th October 2011) which resulted in a sharp fall in share prices.

Whilst Moody's states that the "downgrade did not reflect a deterioration in the financial strength of the banking systems" the fear that such an announcement creates compounds underlying uncertainty in the stability of individual banks and the whole financial system.

But how well founded are these fears? Is it simply that the true state of the market is unknown? Given the continued revelations about the financial security of organisations across the banking sector over the past four years, it is clear that no organisation, government, or credit rating agency, truly understands, or has faith in, the long term viability of these organisations.

This is partly why central authorities are enforcing greater regulation in the form of BASEL III and imposing stress testing for capital adequacy in the pursuit of greater transparency. But this is just one aspect of the increasing scrutiny and ever more onerous rules and reporting requirements now being placed on the banking industry. The 'Know Your Customer' rules, Anti-Money Laundering and Mifid have been augmented by Liquidity and Bank Resolution.

In addition, the Financial Services Compensation Scheme specifically requires visibility of all customer records, so that the Government can guarantee any lost assets.

### Performance Transparency

These initiatives are laudable. They also show a clear government and regulatory commitment to a far more open and customer-led financial services sector. The value of these developments however, will not be realised in the short term. Today, markets have to believe what they are being told and, unfortunately, many banks simply may not have an adequate picture of their own financial performance, risk or exposure due to the complexity of the business model.

As a result, the whole industry is being tainted by the perceived performance problems of one or two institutions. The only way to disprove these preconceptions is to be demonstrably transparent. Indeed transparency is a fundamental pillar of the BASEL Accords.

So how can financial services organisations achieve this level of transparency? How can they balance the need to meet specific legislative compliance requirements and the long term trend towards a far more open and customer centric operating model, with the need to deliver transparency today?



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### Master Data Management

There is a clear need for banks to achieve a full and complete understanding of their data in order to perform accurate analysis and predictive analytics that measure risk in all its forms. Providing structure, discipline and governance to data, Information Management strategies are the cornerstone of such approaches.

With accurate data, an organisation can be confident of the extent of its exposure to a certain risk. And if the exposure is understood, it can be mitigated. Information Management strategies are not belittling the complexity of the problem, but are a way in which to resolve large complex data management issues such as understanding risk in a controlled, knowledgeable and accurate way.

The problem facing the industry today however, is that with so many compliance requirements to address, there is no global operational strategy for Information Management that will support long term requirements. For example, to demonstrate compliance to FSCS, organisations have to be able to show the Government a profile of each customer, including a history of all the products they have with a company and a summary of the assets they would be 'owed' should the worst happen.

Organisations are investing in point solutions to address each compliance requirement; indeed even the so called 'Customer Hubs' risk not delivering the complete financial transparency required, despite centralising information from disparate systems to create a single customer view. While such solutions pull together previously siloed information sources to provide cross-channel customer insight, by approaching this technology with a view to solving a specific issue, such as FSCS, organisations are failing to put in place a framework that will meet future Information Management requirements – and thus undermining the value of the investment.

By taking a Master Data approach to the information management framework to deliver financial transparency, organisations can look beyond immediate demands and consider information requirements for the next ten years. This model will deliver benefits far beyond compliance and market confidence towards improving operational performance and customer relationships. With a single, consistent approach to customer information and the use of data mapping, an organisation can not only match customer records from diverse sources into a single view but, more importantly, ensure that every customer has the same, consistent experience irrespective of channel. Published research shows that above average and best in class organisations have attained greater than 20 percent annual improvement in retention rates, revenues, data accuracy and partner/customer satisfaction rates.

### Conclusion

With the emergence of strong financial institutions in the Far East and Asia, Europe's banks need to be looking far beyond the successful negotiation of the current economic crisis. These organisations need to build confidence globally, amongst agencies, regulators and customers, in order to attract the critical investment that must underpin a rejuvenated European economy. The best way to create confidence, simply put, is to create transparency and be able to believe what is being said.