

How Banks and New Venues Can Create a Future-Proofed Data Business



commissioned by

 EOSE

 @TradingTechIns

 Search TradingTech Insight

www.tradingtechinsight.com

 **A-Team**
Insight

INTRODUCTION

If you are a bank or a new trading venue, you may be aware that there is significant value in the market data that is generated by your business activities. But you may not know how best to monetise that data effectively, which could mean that you are missing out on the opportunity to generate revenues that could improve your bottom line.

Market data vendors have generated eye-watering revenues over many years by leveraging contributed data they receive from banks, brokers and other market participants. Many exchanges now make more money from their data than from their core listing and trading businesses, with total industry revenue estimated at \$5.9 billion¹. Interdealer brokers (IDBs), too, generate some \$250 million in revenues globally from their data as a result of building a data sales engine within their organisations. Data is a lucrative business.

Why banks have missed out on the data monetisation opportunity

But it's a different picture for banks and other sell-side firms. They have been aware for many years of the value of the data they provide free of charge to vendors and IDBs and know that their data is then leveraged by those vendors and brokers to generate revenues. But they have been stymied in any attempts to claw back the fees they incur from receiving vendor data to which they contribute, or to find a way to extract any value from their data.

Now, however, the focus at banks is shifting from years of wringing out as many costs from their business as possible, to exploring revenue generation as a way to improve the bottom line. Many banks are now considering how to realise the value of their data, and once the first move is made, we'd expect a cascade response across the banking industry.

This comes at a time when technology is making it easier than ever for banks to track, understand and control the scope of the usage of data across their user bases and beyond.

The opportunity within the expanding venue landscape

In recent years, wide-ranging regulations like the EU's MiFID II have spawned new entrants to the market in the form of trading venues, among them multilateral trading facilities (MTFs), organised trading facilities (OTFs) and systematic internalisers, as well as innovative new trading capabilities offered by traditional

exchanges (such as periodic auctions, for example). At the same time, the cryptocurrency market has seen an explosion in the number of exchanges offering trading facilities, each of them spitting out market data in one form or another.

While many of these emerging venues have focused, quite rightly, on establishing their businesses and building liquidity, they also need to realise (like banks) that there is value in their data assets and they should be seeking to effectively monetise it.

There's a right way and a wrong way to monetise your data

It might seem easy to come up with a pricing model, start sharing your data with the world, and then sit back and watch the revenues roll in. But through decades of experience, we've learned that there are many nuances and pitfalls that can cost your business, not only in terms of missed revenue opportunities but also through lost clients (both for the data but potentially also for order flow to your core business), if you deliver a poor data experience.

For a start, it can be challenging to introduce fees for previously non-fee-liable data services. Many banks and brokerage firms provide their clients with pricing and analytical services, often offered as a value-added resource aimed at cementing the client relationship. It can be surprising to clients when those services suddenly become fee-liable; indeed, the switch to charging for previously free data can damage client relationships that have been built over many years, and in worst-case scenarios could result in the loss of a client.

Managing this particular minefield takes great care, attention and expertise. Get it right and you can future-proof your data business to ensure flexibility for future growth while building a new revenue stream. But getting it wrong can be dangerous, in terms of wasted expense and damaged client relationships.

1 2017 estimate from market research firm Burton-Taylor International Consulting.

SEVEN STEPS TO CREATING A FUTURE-PROOFED DATA BUSINESS

To make sure you avoid the pitfalls, here are some of the key aspects you need to consider when establishing or expanding your data business.

Define your objectives

Why do you want to create a data business? Is it purely to generate revenue or is it also to build on your client relationships? The answer to this question will significantly impact the approach you take, the policies you put in place and your approach to governance.

Assign a value across your data sets (and what to do if you don't want to charge)

This can be a tricky area. More established players may find it more difficult to vary from the rates and fee structure they currently have. New providers can start from scratch and so have much more flexibility in their approach.

But understanding the market value of your data can be difficult. It depends on the strength of your coverage of particular instruments and geographies, as well as the competitive landscape and distribution channel, knowledge of which can only come with experience.

What if you don't want to charge for your data? You should still assign a value to your data whether you are charging for it or not, and all consumers of your data should sign an agreement that recognises the value (in terms of a monthly fee), but you can waive that fee if you don't currently intend to charge. What this does is create a perceived value for your data rather than having it considered worthless. It also enables you more easily to adjust your pricing policy going forwards. You might decide next year to waive 50% of the fee, and because the agreement is in place you can use this as a way to introduce fees for your data.

Controls

You need to ensure you protect your organisation and your data assets in your terms about how others can use your data, to ensure you maintain control and that they cannot profit from your data.

These controls might be parameters such as the minimum value of trading required to access your data, restrictions over redistribution (such as to other desks, their websites or other partners), the use of your data in derived products (such as indexes, tradeable instruments, or composites). You can either put restrictions on,

or require payment for, such use.

Getting an agreement to use your data doesn't automatically mean that you will get more business as a result. Your clients may even use your data as a way to trade against you. But putting controls around its usage can offer some way of protection.

Agree who owns your data

Protecting the IP of your data and how you attribute revenues internally is essential to a successful data business.

Definitions of usage

It's imperative to define how consumers may use your data, as this will govern licensing and entitlements. Is the primary point of access via a web-site or through some form of direct delivery such as a data feed? What are consumers allowed to do with the data, with respect to redistribution to other internal users or more broadly to other sites and out to external users, such as customers? What are the limitations about using your data to create new, derived data sets, and what happens if the consumer makes that derived data available commercially?

It's also important to understand the timeliness and frequency of updates for your data. Is the data delivered dynamically in real time, is it delayed or is it provided as a snapshot? Is real-time data made available on a polled or inquiry-response basis? These considerations may govern your obligations under service level agreements and as such must be clearly defined and outlined in terms and conditions and contract.

Finally, you may be able to add value to your data by delivering it with related or adjacent data sets that lend context or otherwise help the consumer understand the data and what it means.

Creating the data product

You have to decide what data will make up your data product or sets. Where does the value reside and what do clients want? What are they willing to pay for that data?

Here there can be challenges over confidentiality of data, where your organisation might be concerned about potentially revealing confidential information that might identify individual clients. So you need to look at levels of aggregation of data and exactly what fields you might be comfortable delivering.

You also need to ensure that you can deliver data quality, which may raise issues internally around timeliness, cleansing, mapping and other data issues. Bad data could have knock on effects, not only for your data business, but also for the trading relationship.

Delivering the data product

Traditionally data is delivered via third-party vendors, with whom you would need to effectively negotiate terms that make sense both for you and for the vendor. This can be particularly difficult for new market entrants to do as they need to find a way to establish credibility and be taken seriously. But you also need to figure out how to connect, how to manage permissioning, and the contract and terms that make sense.

You could seek to distribute via third-party platforms and delivery systems. There are pros and cons to such an approach. Piggybacking on a third-party distribution network can be a fast way to market, exposing your data to a large number of clients without having to build out expensive infrastructure. At the same time, such an arrangement typically attracts redistribution fees, often charged as a percentage of revenues, which can cut into overall revenues and profits.

Alternatively, you may want to consider delivering directly to clients. This approach may meet with resistance due to the technology overhead for both you and the clients, who not only have to invest to support a new direct connection, but also have to consider how to manage ongoing technical or data format changes and more. Increasingly cloud-based or managed services are being used and this could be a route to consider.

And who are you selling the data to? Do you need to offer it to all your clients or just your favoured clients, and if you do the latter are there regulatory concerns around transparency?

Given these considerations, you need to decide on the best approach and most viable for you with the least amount of overhead.

FUTURE-PROOFING YOUR DATA POLICIES

All of the factors described above are a way to create a framework that enables you to adapt and be flexible in the future and ensure that you are maximising the opportunity for revenue generation. But if you rush to get an agreement in place and get it wrong, it can take years to unravel or make changes.

So how do you get this part right?

To do that you need to call on industry experience in order to understand the many nuances of building an effective data business and to avoid the pitfalls...

Why outsource?

The cost of entry into the commercial data business can be very high if attempted by an inexperienced team. Not only do you risk losing the firm's investment, but mistakes can result in longer-term pain in terms of reputational damage and lost clients.

Outsourcing your entry into the data business can speed up time to market and get you generating revenue more quickly. Partnering with an expert outsourcing provider can bring a professional data service to market at a fraction of the cost of using a team of full-time employees, especially those with experience.

An expert partner can help you define your data product and set up commercial and physical delivery processes to get you up and running in order to seize an emerging opportunity. This kind of approach can help you avoid the mistakes that often plague data startups by inexperienced teams.

By leveraging the experience of our team – which has deep expertise in building data businesses – we can help venues expand their data capabilities while continuing to focus on their core activities, and aid banks and brokerages that don't have the resource to drive through what's needed to leverage the value of the firm's data. Furthermore, our data professional can insulate your team from being the bad cop that has to go to clients to ask for money for something they have been getting for free, mitigating the risk of damage to those valuable customer relationships..

If you want to understand the value of your data and how best to monetise it, you can access our questionnaire on our website.

ABOUT EOSE

EOSE provides a flexible, modern approach to commoditising your data assets. Whether you are already a data provider and need an extra pair of hands or are setting up your data business from the start, we can help.

Using EOSE data product development and sales experts will reduce your time to market and enhance your data products while allowing you to focus on your core business. The EOSE team each have decades of experience in data product and business development, data sales and managing the data business within organisations. Working across exchanges, vendors, brokers and other financial institutions we have developed relationships crucial to the development and sales of market data.

EOSE as an outsourcing service provider use our core competencies and vast experience to deliver the best value for money and best route to market for data asset commercialisation. We operate a fee for service model making your data function more agile and efficient.

Our services start with a set up and go option to build your market data business for you and with you. Next, we offer on-hand help for those of you who already have a data business and need an extra pair of hands – perhaps to expand or during a product launch. Finally, we have our full managed service where we take over and run the data business for you – ensuring you get the best results with minimum outlay.

To find out more:
Visit: www.eosedata.com

E O S E

ABOUT A-TEAM GROUP

A-Team Group helps financial technology vendors and consultants – large and small – to grow their businesses with content marketing. We leverage our deep industry knowledge, ability to generate high quality media across digital, print and live platforms, and our industry-leading database of contacts to deliver results for our clients. For more information visit www.a-teamgroup.com

A-Team Group's content platform is A-Team Insight, encompassing our RegTech Insight, Data Management Insight and TradingTech Insight channels.



A-Team Insight is your single destination for in-depth knowledge and resources across all aspects of regulation, enterprise data management and trading technology in financial markets. It brings together our expertise across our well-established brands, it includes:



RegTech Insight focuses on how data, technology and processes at financial institutions are impacted by regulations. www.regtechinsight.com



Data Management Insight delivers insight into how financial institutions are working to best manage data quality across the enterprise. www.datamanagementinsight.com



TradingTech Insight keeps you up to speed with the dynamic world of front office trading technology and market data. www.tradingtechinsight.com

You can tailor your experience by filtering our content based on the topics you are specifically interested in, across our range of blogs with expert opinions from our editors, in-depth white papers, supplements and handbooks, and interactive webinars, and you can join us in person at our range of A-Team Summits and briefings. Visit www.a-teaminsight.com

Become an A-Team Insight member – it's free!
Visit: www.a-teaminsight.com/membership.

