

**CHAIN**  
**IQ**

# Managing market data in financial services



# Executive summary

Market Data Services ( MDS) is a key spend category for financial firms due to the integral role of financial information in business stakeholders' workflows and the magnitude of MDS expenditure within a financial firm's third-party costs.

Effectively overseeing MDS can be daunting and demanding, given the constantly changing landscape of the financial information industry and the varied requirements of end-users.

**Demand for MDS is trending upward.** As the complexity of financial markets increases and global interconnectedness expands, there is a greater need for comprehensive and timely market data.

Compliance with regulations such as MiFID II (Markets in Financial Instruments Directive) and Basel III necessitates extensive market data to demonstrate compliance, monitor transactions, and report to regulatory bodies is also increasing MDS spend.

At the same time, Market data vendors continue to **implement price increases leveraging their bargaining power and lack of effective competition** as well as restructuring their commercial models to create additional chargeable data items to increase their revenues.

In general, effectively managing MDS requires a comprehensive strategy encompassing various aspects such as:

- Identifying end user requirements and keeping abreast of emerging technologies and trends
- Expert understanding of vendors services and commercial models to optimize costs
- Preventing and mitigating non-compliant financial and reputational risks resulting from MDS vendors audits

Many organizations understand the need to possess specialized knowledge and expertise to adeptly handle MDS and maximize their return on investment.

Firms are engaging external third-party MDS specialist companies enabling them to capture significant benefits, including (i) cost savings, (ii) access to specialized MDS industry expertise and (iii) scalability, allowing them to focus on their core business activities.



# Introduction

Market data services (MDS) represent a significant portion of a company's third-party spending. Managing MDS can be complex and challenging due to the rapidly evolving nature of the financial information industry and the diverse needs of end-users.

We are also experiencing an explosion in the volume and type of digital data for which there is an insatiable demand for information, with MDS vendors investing heavily in creating new content sets, derived data, and analytics capabilities to meet the growing needs of end-users. The consequence of these trends is that organizations must have data management expertise, continue to carefully evaluate vendors landscape, and make ongoing investments in the latest technologies and capabilities.



To effectively manage MDS, it is essential to have specialized knowledge of market data vendors and their products and services, and a deep understanding of end-user workflows and needs. This requires expertise in intellectual property rights licensing and commercial know-how to negotiate complex licensing models and manage costs effectively.

As end-users continue to use MDS in applications, AI, robots, and hybrid working environments, staying up to date with the latest technologies and trends is critical to ensure that MDS is integrated seamlessly into these workflows. This may require ongoing training and education for staff to stay informed and up to date with industry developments.

These trends are set to continue as MDS vendors continue to introduce increasingly intricate licensing models to cover all data usage scenarios which has led to the creation of new revenues streams resulting in a MDS expenditure increase.

Overall, managing MDS requires a multifaceted approach that involves understanding end-users needs, negotiating with vendors, and staying up to date with the latest technologies and trends. With specialized knowledge and expertise, organizations can effectively manage MDS and optimize their investment in these services.

MDS is a complex area of indirect spend with strong supplier dynamics which challenge both stakeholders and procurement to create value for the organization. In this article, we offer our market insights into the trends in the financial information industry and provide some perspectives into the best approaches clients need to consider optimizing spend and mitigate risk.

# Market dynamic, competitiveness and trends

MDS industry grew by 4.7% to a record \$37.3bn\* in 2022

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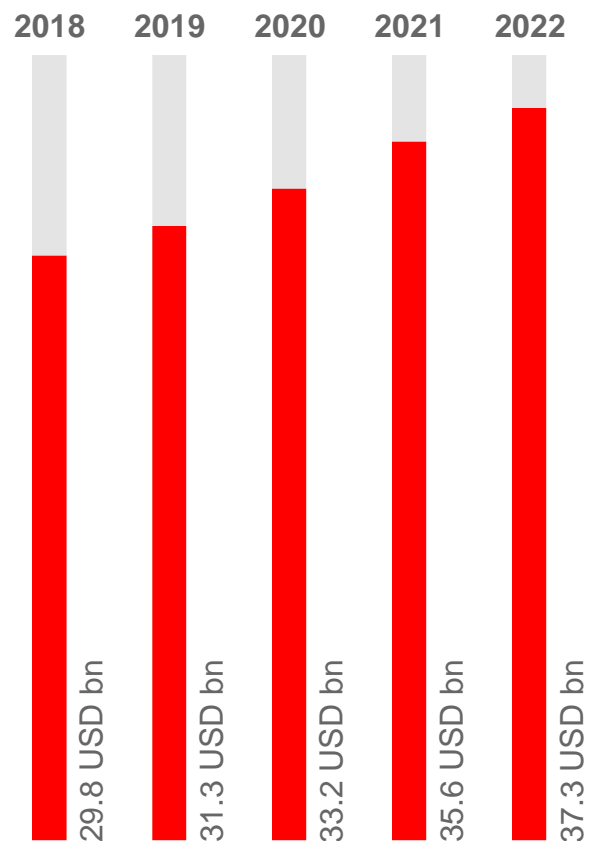
*It has been growing continuously for the past decade due to price increases and demand expansion*

”

## The main drivers sustaining this steady growth are:

- Prominent vendors hold a quasi-monopolistic situation (Exchanges, Ratings Agencies, Index Providers) and can impose above inflation price increases.
- Vendors continue to introduce annual price increases (double digits in some cases) and the current inflationary environment exacerbates such price hikes increasing MDS spend.
- Revenues in MDS enjoy a high annual recurring ratio (subscription, royalties, asset based) and are therefore very sticky as product switching is time consuming and costly.
- Regulatory requirements, alternative sources of information and Environmental, Social and Governance (ESG) related data are fueling demand for additional MDS services.

## MDS Industry Annual Revenue



“

*Market dynamics and competitiveness favors the suppliers creating a unique set of circumstances to manage for buyers*

”

\* Burton International

# Increased demand for financial information



***We are seeing from our client base that demand for additional sources of information continues to expand, for ESG and alternative data***



## ESG data



- Needing to meet regulatory obligations, the increasing importance of ESG factors in investment decision-making has led to the rise of ESG investing and the need for ESG-related financial information. Large financial institutions are creating departments geared to support the increasing and evolving ESG needs of various constituents within the organization.
- Spending on ESG is expected to continue to grow with new regulations in the US and APAC further fueling demand for ESG data in the coming years.
- Due to the unstructured nature of the ESG market (unregulated, lack of standards) and the diverse requirements for ESG data across financial institutions, adopting a centrally coordinated approach in managing and procuring ESG data is essential to prevent each department from buying and managing data in silos, reducing operational and third-party costs, and extracting the maximum value of the ESG data currently licensed.

## Alternative data



- Alternative data information that traditional market data providers do not commonly cover. It is unstructured and difficult to obtain and includes things like credit and debit card transactions, web data, social media sentiment, and satellite imagery.
- In 2022, alternative data generated \$4.4 billion in global revenues and is expected to grow 52.1% annually between 2023 and 2030 (source: Grand View Research).
- Financial institutions use alternative data to gain additional insights beyond what is available through traditional sources, which can help them generate alpha (excess returns) for themselves and clients.

## Compliance risk



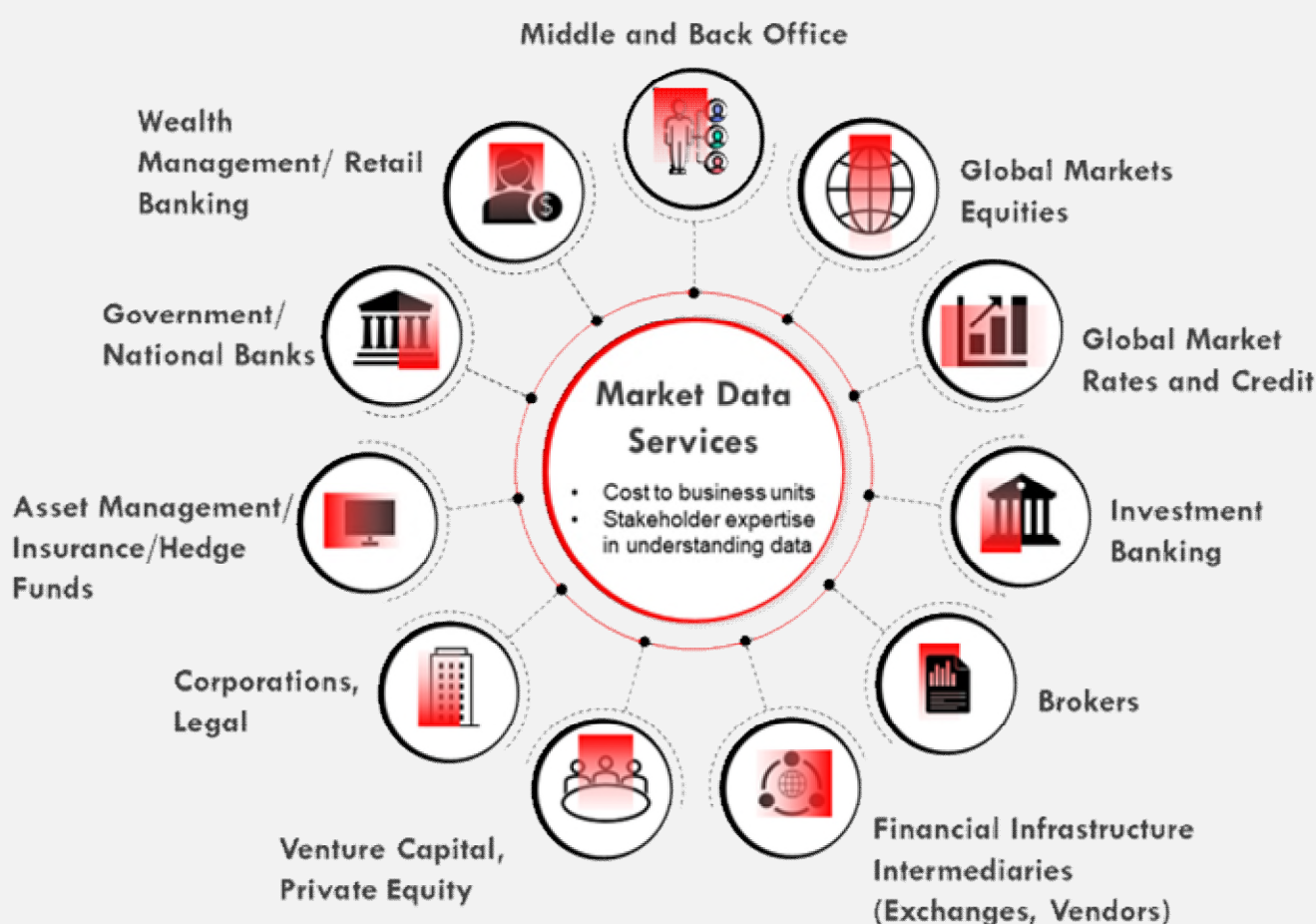
- Companies are licensing more and more data sets from different vendors, which means they must deal with more relationships and different licensing agreements.
- One of the consequences of trying to manage a myriad of licensing models across the vendor community is the high risk of non-compliance due to convoluted, evolving data usage policies and firms' complex applications landscape.
- MDS vendors carry out regular audits of their clients and non-compliance could result in serious financial and reputational risks, therefore establishing a Market Data Governance framework to ensure compliance to MDS licensing terms is paramount to mitigate potential audit findings fees.



# Understanding End User needs

MDS teams manage many knowledgeable Stakeholders, where many constituents' have distinct and ever evolving sophisticated MDS needs, in an ever-increasing data driven environment.

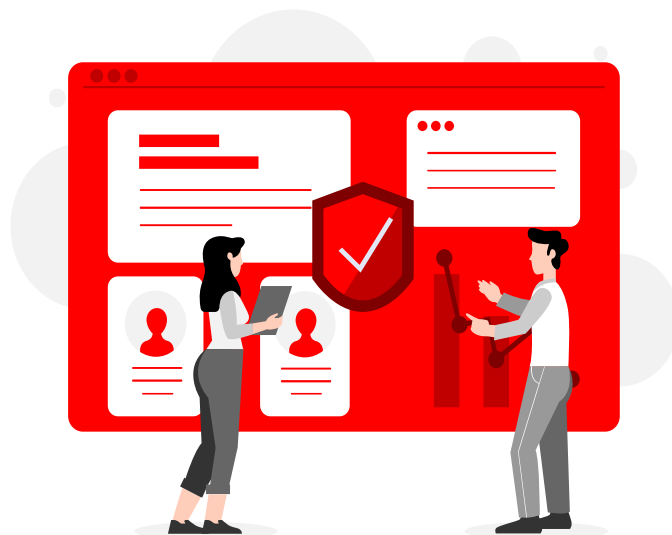
## Key stakeholders



The end users expect the MDS function to understand their workflows, the vendor landscape as well as licensing models to ensure they maximize use of existing products to its full potential, avoid subscribing to duplicate services, prevent redundant costs as well as advising the internal business stakeholders to use the data within the licensing scope of agreed contractual terms.

# Maximising value & reducing risk

*A set of functions, tools, processes and policies must to be implemented to lay the foundations for an optimal set-up to manage this complex MDS environment. Contrary to other third-party spend lines, the management of MDS is multifaceted and can be articulated around the following themes.*



## Demand management and tools

It's essential to centralize demand management to manage market data expenses effectively. This involves assessing the data's breadth, depth, and quality across asset classes and business areas. Several key demand management activities that need to be carried out:

- Review all new data requests and assess user and product needs for contract renewals.
- Meet regularly with business stakeholders to review spending trends, data usage patterns, and identify savings opportunities.
- Use demand management tools and processes to holistically manage MDS.

## Inventory and administration

Deploying an inventory system is the cornerstone to effectively manage MDS effectively. Some of the main advantages of such a system include:

**Business transparency:** An inventory system provides clear insight into the MDS products being used, who is using them, and for what purposes, at a very granular level.

**Strategic oversight:** An inventory system helps determine the overall market data expenditure by the firm.

**Demand management tools and analytics deployment:** Integrating data usage tools to an inventory system helps to optimize market data spend and remove unused and underutilized services.

**Operational efficiencies:** Automating market data tasks through an inventory system can free up the MDS team to focus on value-added activities, increasing operational efficiencies.

**“ Governance is a key enabler for MDS management ”**

## Compliance framework

Implementing a Market Data Governance framework is essential to ensure compliance with MDS licensing terms. Such a framework will centralize the function that oversees the use of data by end-users and applications, ensuring that licensing terms are not breached.

**The Market Data Governance framework should include the following:**

- Ensuring third-party data policies are understood, communicated and adhered to
- Establishing and maintaining systems and tools to track application usage to each licensing policy
- Implementing, reviewing, and updating processes to ensure adherence to exchange and vendor data usage policies

***Overall, a Market Data Governance framework will help mitigate risks associated with non-compliance, ensure adherence to licensing terms, and protect the reputation and financial standing of the organization.***

## Sourcing and procurement

By implementing category plans, the sourcing function aligns MDS with the organization's strategic objectives. It ensures that the right data at optimal costs is available to support business decisions.

Implementing a centralized sourcing function assists with consolidating and optimizing market data vendor contracts and negotiating better pricing and contract terms, resulting in cost savings for the organization.

## Managed services

In our experience in talking to financial institutions, we have observed an increasing trend in considering partnering with third parties managed services in market data.

**The trend is partly driven by the need for:**

- Cost efficiency and gaining third party spend efficiencies from the partners enhanced knowledge of MDS vendor commercial models.
- There is diminishing pool of MDS experts in the market and access to talent is key.
- Managed service providers can quickly scale up or down their services to meet requirements.
- Ensuring compliance to vendors terms and conditions is key to prevent financial fines and mitigate reputational risk.
- The desire to focus on core business objectives.



# Navigating complexity: revolutionizing market data services procurement in the financial sector - case study

*In the intricate network of modern finance, procurement strategies for Market Data Services have become pivotal for organizations seeking a competitive edge. In the following case study, we outline how Chain IQ's approach helped to enable a Financial services client to transform MDS procurement.*

## Expanding client horizons: Chain IQ embracing the scope

**Opportunities analysis with stakeholders created opportunities from all directions:**

- Entire Banking Services sourcing outsourcing, covering MDS, Exchanges/Trading Venues Fees, Direct Execution, Post Trade Services, and Brokerage.
- A comprehensive outlook encompassing Investment Banking, Asset Management, Wealth Management, and Retail.
- All-encompassing MDS subcategories: Research, Exchanges, Index, Ratings, Terminals, News, and Trading Tools.

## Charting the approach

**The client journey hinged on a meticulous jointly agreed strategy:**

- Customized category strategies for each MDS sub-commodity.
- Sourcing leads assigned to centralize vendor communication, ensuring a holistic view.
- Collaborative bond with Market Data Services operational teams, outsourced allies, and business stakeholders for actionable insights.

## Confronting challenges head-on

**The MDS of our client landscape presented many formidable challenges:**

- Dominant vendors exploiting monopolistic advantages, skewing supply markets.
- Rapidly evolving vendor models introducing new complexities.
- Stringent regulatory shifts are necessitating fresh data perspectives.
- Collaborative ties with stakeholders and partners are growing in importance

## A Vision of Excellence: Meeting Client Aspirations

**The Client Stakeholders identified several key aspirations:**

- Optimize MDS spending for streamlined operations.
- Align MDS procurement with diverse business strategies.
- Forge a simplified operating model and potent partnerships.
- Maintain agility for unforeseen projects.

## The results are a compelling outcome:

- *Concluded new deals and renewals, yielding multi-million MDS savings.*
- *Curbed rogue spending, amplified demand management, and maximize data utilization.*
- *Business stakeholders are now partners in revenue pursuits and data monetization.*
- *Skillful resolution of third-party audit findings, curtailing risk and reaping benefits.*
- *Executed stock exchanges strategy, reducing risk and seizing advantageous terms.*

# Conclusion

Market Data Services represent a unique spend category with vendor dynamics, demand and regulatory governance, unlike any other spend area within the financial services industry.

Chain IQ offers MDS services along all the MDS functions (Demand, Inventory and Administration, Compliance and Sourcing/Procurement). Leveraging its multi-client offering and with a unique understanding of the vendor landscape and commercial models, it offers best-in-class MDS practices and delivers operational and third-party cost efficiencies.



# Article by



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## ***About Chain IQ***

Chain IQ is a leading global independent indirect procurement service company. Chain IQ supports its corporate clients across a multitude of industries in more than 49 countries in strategic, tactical and operational procurement services. Chain IQ's growing organization with procurement experts around the globe, both on and offshore, is known for generating significant value through volume bundling from its global clients, digitalization of procurement processes as well as achieving the latest ESG standards.

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