

DUCO

The state of **data reconciliation**

Assessing the current state of data reconciliation maturity
within the financial services industry.



“I HATE THE WAY WE RECONCILE DATA”

Before the pandemic, we released a report explaining the [reconciliation maturity model](#). The aim was to outline the steps that financial services organisations should look to take to automate reconciliation as the world enters the “decade of data”. In it, we covered why data reconciliation is so hard, whether machine learning lives up to its hype when it comes to reconciliation and the five levels of maturity — from manual working to self-optimisation.

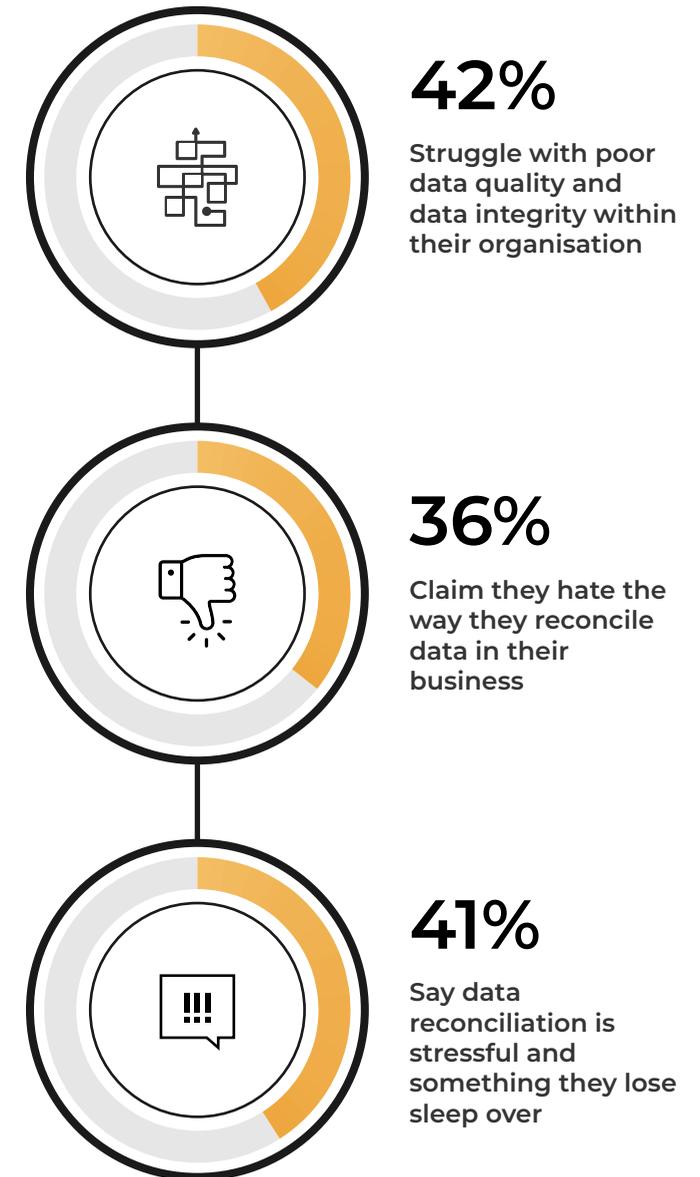
When we published the report, we had no idea how the pandemic would change everything, from the way organisations work as a team to the way they conduct their business. But one of the major areas that the Covid situation really has shed a light on for financial services is the issue of data integrity and data reconciliation.

Before 2020, organisations were spending vast amounts of money on manual data reconciliation, which was often slow and prone to errors. But now, the pandemic has forced organisations to look at ways to become more efficient through automating reconciliation.

As we mentioned in our previous report, there are still some significant challenges to reconciling data. Because these issues still exist today, we at Duco wanted to find out once and for all how financial services organisations are getting on with data integrity and their data reconciliation efforts — and whether many have managed to overcome these frustrating barriers. To find out, we commissioned the help of Censuswide to survey 300 heads of global reconciliation utilities, chief operating officers, heads of financial control and heads of finance transformation working in large financial services organisations.

One of the headline findings was that 42% struggle with poor data quality and data integrity within their organisation. 36% go on as far as to say they hate the way they reconcile data, while 41% say data reconciliation is stressful and something they lose sleep over.

The rest of this report explains why, and what they’re looking to do to make life and sleep easier once more.



METHODOLOGY

This report incorporates data from over 300 heads of global reconciliation utilities, chief operating officers, heads of financial control and heads of finance transformation working in large financial services organisations. All figures, unless otherwise stated, are from Censuswide. Total sample size was 306. Fieldwork was undertaken in March 2021 via an online survey. The figures have been weighted and are representative.

CENSUSWIDE
+
THE SURVEY CONSULTANTS



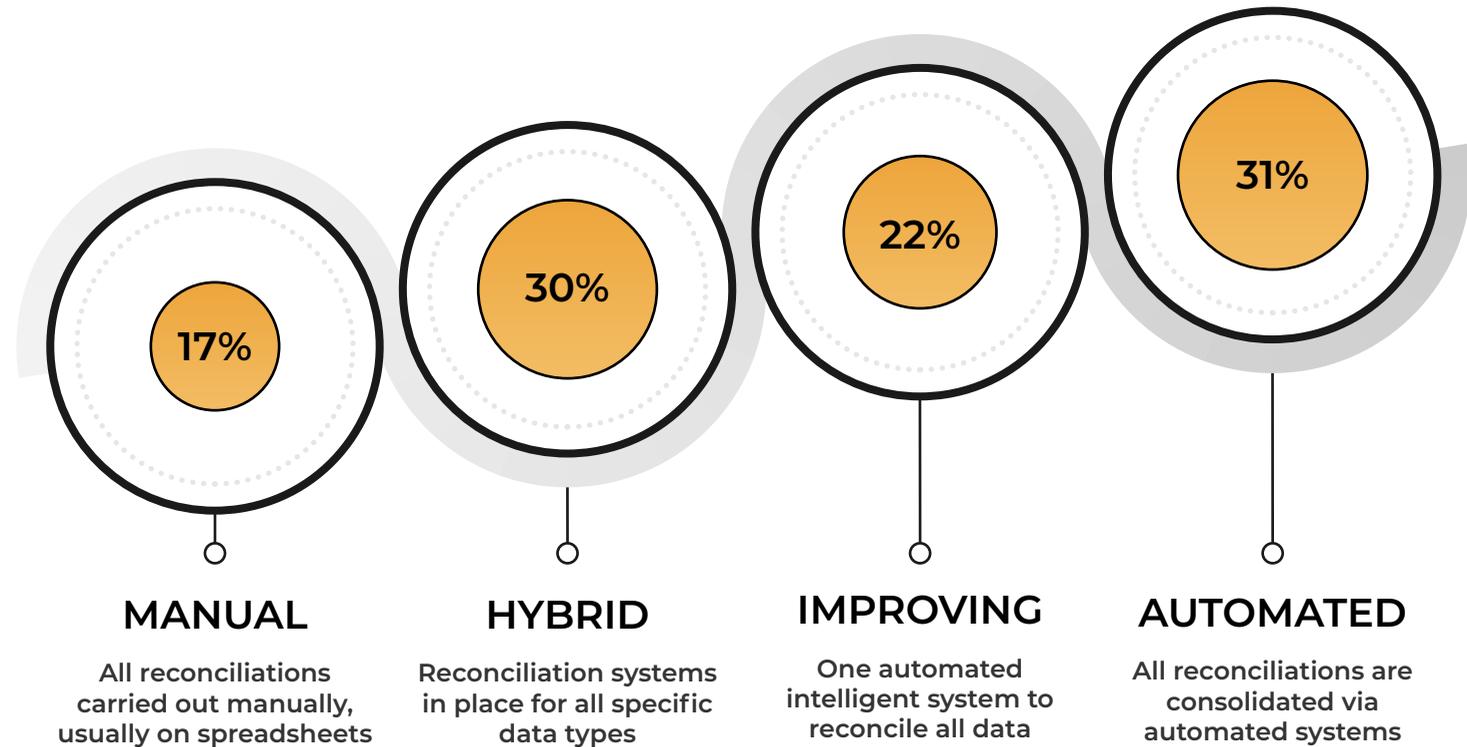
RECONCILIATION WITHIN FINANCIAL SERVICES

THE CURRENT STATE OF PLAY

Before we assess what financial services organisations are doing with regards to improving reconciliation, it makes sense to first look at where along the reconciliation maturity model they currently are. The reconciliation maturity model ranges from a completely manual approach to a single intelligent system to reconcile all different types of data with many steps in between, as we show on the right. The good news is that there aren't many financial services organisations that rely totally on manual systems.

Despite the fact that more than half of financial services organisations are in stages 3 and 4, there is a long way to go towards full automation, and still a big opportunity for firms to reduce manual systems to save money.

WHAT STAGE OF DATA RECONCILIATION BEST DESCRIBES YOUR COMPANY'S CURRENT POSITION?



However, as we enter the decade of data, we predict that financial organisations are naturally going to place more importance on moving up the maturity model anyway because the cost of not doing so will become too much to bear. Once a critical mass of organisations have moved up the model, the technology world will begin to talk about a fifth stage of the model — self-optimising.

This is the future of data reconciliation, where technology spots errors and automatically corrects them, all but eliminating the need for intersystem reconciliation. The technology to underpin this “holy grail” is nearly ready — but financial services organisations won't be able to take advantage of it until they get to stage four of the maturity model.

THE WILL TO CHANGE

The good news is that most organisations want change where data reconciliation is concerned, and there are external and internal pressures to improve.

Externally, financial services organisations are facing major pressures from the market in which they operate and the regulations with which they must comply. 46% of financial services organisations in our research say they want to get ahead of the competition, while another 46% say they want to reduce the risk of non-compliance with regulation and associated fines.

It's no surprise that regulatory concerns are mounting given that requirements have tightened in recent years. A whole host of regulations, including BCBS 239, Sarbanes-Oxley, Basel III, SFTR and changes to MiFID, EMIR and Dodd-Frank are driving organisations to guarantee that appropriate systems and procedures are in place to effectively manage and control operational risks.

Internally, financial services organisations are facing significant business-level pressures. When asked to list their challenges, nearly half (45%) say better operational agility is their biggest internal driver, while 40% say they want to reduce the risk of fraud and 37% want to become more operationally resilient.

While agility and fraud are big drivers, often the biggest business case for change is simply cost control. And when businesses begin to assess the cost of ownership of technology from data normalisation, data prep and infrastructure to hosting, running and upgrades, the opportunity for technology rationalisation becomes clear.

WHAT ARE THE MOST IMPORTANT DRIVERS TOWARDS DATA AUTOMATION WITHIN YOUR BUSINESS?

External drivers

To get ahead of the competition



46%

To reduce the risk of non-compliance with regulation and associated fines



46%

Internal drivers

To improve operational agility



45%

To reduce the risk of fraud



40%

To improve operational resilience



37%

And as we begin to explore the technological reasons for wanting change, the problems become starker. Organisations are now at a point where their systems and processes are at breaking point.

Nearly half (44%) of organisations say the amount and complexity of data they now have to handle as a business is unmanageable with their current systems and processes.

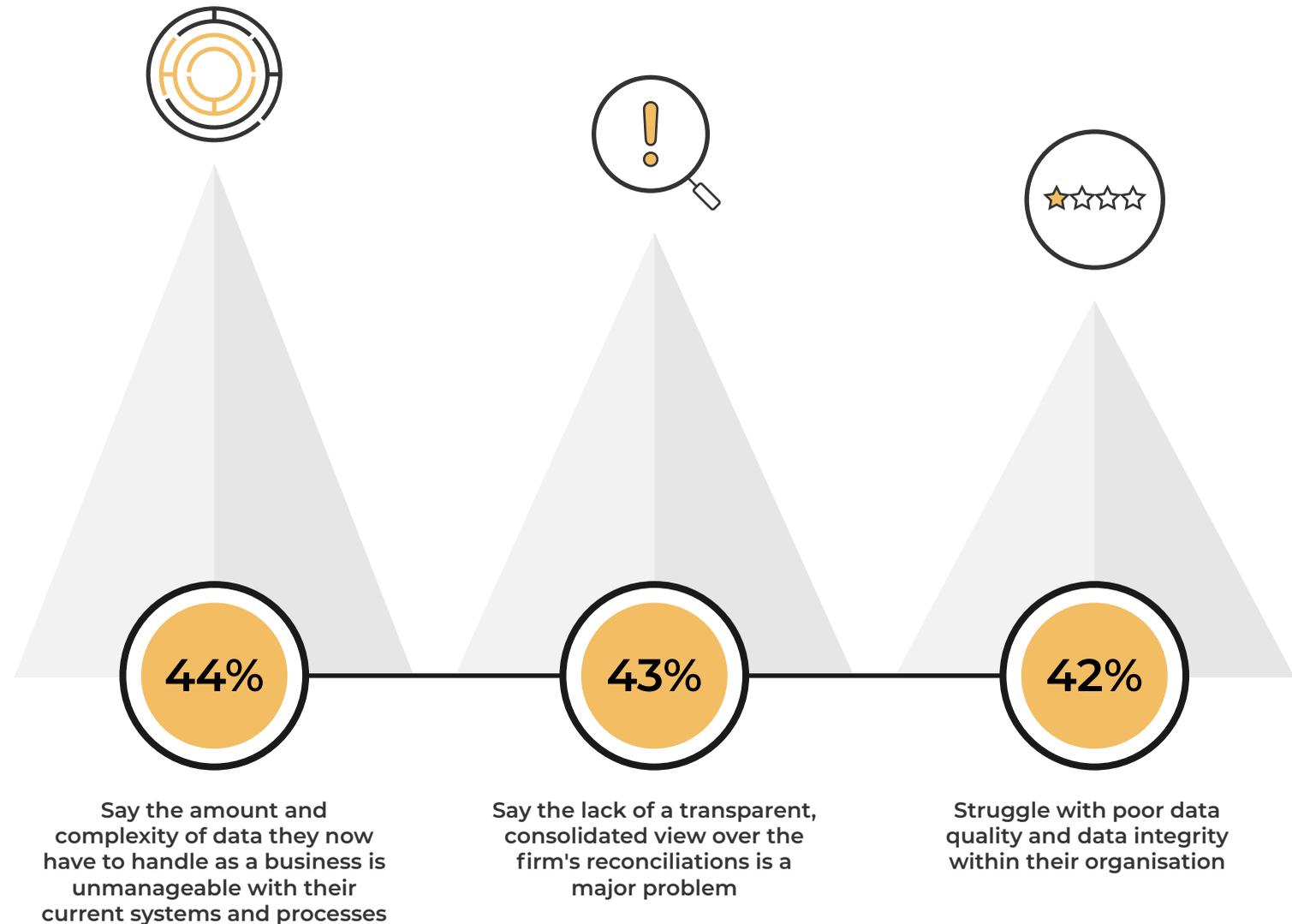
And that complexity is leading to transparency issues — 43% say the lack of a transparent, consolidated view over the firm's reconciliations is a major problem.

Those on the coalface of data reconciliation agree.

36% say they hate the way they reconcile data, while 41% say data reconciliation is stressful, and something they lose sleep over.

Things are only getting worse as time goes on and as companies grow. 45% are worried that data inconsistency and lineage issues are holding them back as the company grows, leading to different systems, processes and reconciliation techniques across the business — further complicating the situation.

THE CURRENT TRUTHS AROUND DATA



THE STRUGGLE TO CHANGE

Yet despite this acknowledgement of the need to shake things up and drive efficiencies, businesses are not finding it easy to make changes. Part of the reason why is because 69% of organisations don't have a wider overall data management strategy.

Understandably, with multiple processes at play, many of which are manual, people seem at best timid and at worst sceptical about making any fundamental shifts to the status quo. Whilst almost half (49%) of businesses accept that internal reconciliations are necessary, they also express concern at their expense. 44% believe that reconciliation without manual processes would be too challenging due to the different types and sources of data they are dealing with. And more than two fifths (42%) go further, saying that the benefits of data automation are not worth the risk of disrupting the business in order to improve reconciliation processes.

These reservations and, in some cases, misconceptions around the disruptive nature of introducing automation means that many firms are refusing to contemplate moving towards a fully automated approach. In short, because of the reliance on manual processes and the perceived notion that switching would be too difficult, companies cannot imagine themselves achieving the holy grail of self-optimising data automation.

Over a third (38%) of organisations can never imagine a position in which their company uses a machine learning enhanced system to handle the entire reconciliation lifecycle, from onboarding to downstream integration.

However, despite this reluctance, there is an indication that attitudes are steadily, albeit slowly, starting to change. Almost half of businesses (46%) say data reconciliations are more important to their business in 2021 compared to previous years, and a further 45% say they are actively investing in ways to improve data reconciliation.

ATTITUDES TOWARDS CHANGE



49%

Believe that internal reconciliations are expensive for their company, but they are necessary



44%

Believe the different types of data they have to deal with as a company makes it difficult to reconcile anything without manual processes



42%

Believe that the risk of disrupting their business to improve data reconciliation is not worth the benefits of data automation



AUTOMATION AND MACHINE LEARNING TO THE RESCUE

With this in mind, it's vital the financial services industry makes a serious case for automation and machine learning. It won't be a case of completely starting from scratch, as the research shows that a huge majority (92%) of companies are already benefitting from machine learning in data reconciliation to some degree. 33% say they are using machine learning for some of their data, and 47% say it plays a role in how they reconcile most of their data.

Although only 13% say they use machine learning for all of their data, these figures certainly show more of an appetite for automation than might be expected, given the reservations expressed throughout the research results.

So how can more businesses join the elite 13% club and boost this figure?



INTRODUCING A NEW APPROACH TO DATA AUTOMATION

The answer, we believe, is including reconciliation in a wider data management strategy. This means using an ecosystem of no-code, cloud-based tools to automate and control financial, operational and commercial data across an organisation. With its use of fully customisable, low-cost solutions that can sit alongside or on top of legacy systems, this approach is the key to not only successfully managing data, but to unlocking the full benefits of that data for the business.

By employing this over-arching, self-optimised level of automation, businesses get a detailed view of data across the enterprise. With this level of insight, they can better understand the performance of their operations, uncover and address weaknesses and identify new opportunities, all of which drives greater efficiency and agility across the organisation.

One of the additional benefits of this approach is how it can build on existing architectural ideas such as data fabric. Data fabric is an ecosystem approach that works by enabling data to traverse disparate systems, no matter what those systems are, where they live or what kind of data they process and store.

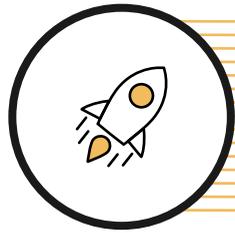
With this kind of approach, organisations do not need to replace the disparate systems they have invested in with a “single source of truth” for data, and instead can benefit from systems sharing information seamlessly. The approach we outlined above complements data fabric by enabling non-technical users to create their own systems thanks to no-code, and benefit from the data in disparate systems.

We put our view of data automation to our research participants, and the reaction was both encouraging and motivational. There is still work to be done, but nearly half (49%) of businesses agree that managing data this way is the future.

42% say they would investigate the use of machine learning in 2021 for the purposes of data automation.

And a further 40% say the Covid-19 pandemic has prompted an increased interest within their business to adopt machine learning techniques for data automation. More than a third (37%) agree that they would have suffered less as a business if they used data automation at the start of the pandemic.

THE FUTURE IS AUTOMATED



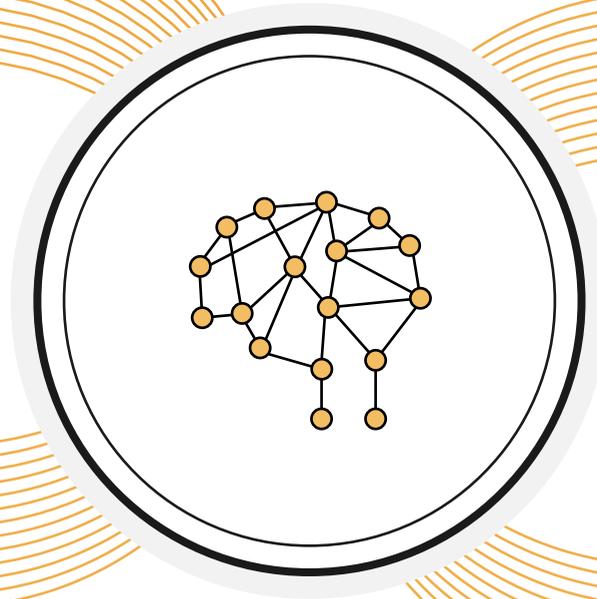
49%

Agree that intelligent data automation is the future, and financial services organisations will need to embrace it to survive



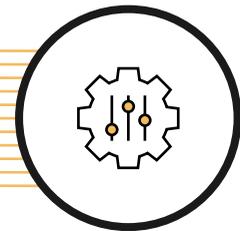
40%

Say Covid-19 has increased their interest in machine learning for data automation



42%

Say they will investigate the use of machine learning in 2021 for the purposes of intelligent data automation



37%

Say they would have suffered less as a business if they used intelligent data automation at the start of the pandemic

A BRIGHTER, AUTOMATED FUTURE

What the study shows is that, while there is still some nervousness around the perceived disruption that a move to automation and machine learning will involve (and a lingering loyalty to manual processes), the appetite to become more automated is becoming overwhelming.

The pandemic was a catalyst for change within financial services, but growing industry trends such as the internal and external pressures we mentioned before continue to compel organisations to make the changes necessary to ensure business can prosper.

Within just a few years, we will see financial organisations move further up the reconciliation maturity model, and in doing so become much more agile while saving considerable amounts of money.

The nirvana of self-optimisation is within reach, and data automation is the path.

About Duco

Duco, a leading data automation company, is helping businesses to unleash their potential by removing the friction around data. Duco's cloud-based, no-code platform brings together data quality, reconciliation, data preparation and management, giving firms the tools they need to increase business agility, reduce risk, stay compliant with regulation and dramatically improve efficiency. Over 10,000 users across 30+ countries process billions of data records every week using the platform. Duco is headquartered in London, with offices in New York, Edinburgh, Wroclaw and Singapore. Customers include global banks, investment managers, insurance firms and challenger fintech companies, such as Societe Generale, ING, Man Group and Currencycloud. For more information go to www.duco.co

