COVID-19 Sparks Dramatic Disruptions to Wall Street's Data

As the COVID-19 pandemic impacts business operations across the globe, one area not getting enough attention is the disruption of offshore financial data collection services. Without accurate and timely data collection from financial filings, millions of analysts and investors are unable to update their financial models and make informed investment decisions in a volatile market. This supply chain disruption creates a sizeable risk for our data-driven stock market.

COVID-19 Impact on Offshore Data Operations

Many of the world's largest banking and financial services institutions – including Refinitiv, owned by Blackstone (BX) and Thomson Reuters (TRI), Morgan Stanley (MS), JP Morgan (JPM), FactSet (FDS) and Bloomberg – have business process outsourcing (BPO) operations in countries like India.

Large numbers of workers gather in these BPO facilities to plow through the earnings reports of public companies and input the data into computer systems. The work they do is vital, as thousands of Wall Street professionals and millions of self-directed investors rely on this data.

The population densities and relatively weak health care infrastructures in these countries have driven very serious COVID-19-related lockdowns.

As a result, all BPO operations, including financial data collection centers, are seriously disrupted.

Work-from-home has serious logistical, equipment and regulatory challenges that India's BPO industry is not yet prepared to handle. For instance, some workers have been sent home without laptops. Aside from data collection challenges, data security issues loom large in work-from-home settings – just ask Zoom (ZM).

Even the firms that specialize in out-sourcing services, such as Tata Consultancy Services (TCS), Infosys (INFY) and Wipro (WIPRO), are struggling to reign in the chaos and keep clients. For example, Virgin Media decided to reduce dependency on outsourcing and plans to hire 500 call center workers in the U.K.

Pressure To Work in Unsafe Conditions

Compounding the lack of preparedness, workers have expressed fear for their own safety, as illustrated in a recent Reuters article:

- "During the past week, security guards barred employees from venturing outside one of the Mphasis offices in Pune to avoid attracting the police, fearing a forced shutdown, two employees said, declining to be named as they were not authorised to speak to the media."
- "One said a human resources executive told him not to wear a mask as it would "panic people who come to work".

Reports of police brutality and even shutdowns of essential services leave workers unsure of whether they can even go to work, raising more questions about the state of data processing at these facilities.

Potential Disruption Comes at a Critical Time

While the decision to lockdown the country is necessary to slow the spread of COVID-19, it comes at an inopportune time for financial markets. Companies with a 12/31 and 1/31 fiscal year-end date filed their annual 10-Ks in the last few weeks and fiscal 1Q20 10-Qs will be filed in large quantities in the next few weeks. Without timely access to this data, investors may be left without the information needed to make investment decisions.

Disruption in the financial data supply chain could get even worse, as the impacts of the COVID-19 pandemic continue to spread across the globe.

H1B Visa Hoarding Is Not The Answer

Could companies bring these workers back to the United States as a solution? The answer isn't so simple.

In November of 2015, the New York Times reported that large outsourcing companies (such as Tata Consultancy Services, Infosys, Wipro, Cognizant and Accenture) were gaming the H1B visa system to garner a disproportionate share of the annual visa allocation. In theory, these companies could use these visas to bring offshore workers to the United States and man data collection operations here.

There are two problems with that strategy:

1. The U.S. is also on lockdown, so they may not be able to set up such operations.
2. There's likely not enough time to relocate that many people and set up operations, assuming they are deemed "essential services," before companies start reporting 1Q20 earnings results next week.

Moving the data operations on-shore could be a medium-term solution, but it would likely not be a long-term solution because it would no longer offer the cost-savings of operating offshore.

Uncertainty Raises Risk

While it is clear that the offshore BPO operations are under significant duress, it is not clear how the financial data collection firms are handling it.

In the meantime, there's a lot of financial data to be collected in the near future. Next week, thousands of publicly traded corporations will start filing earnings reports. In a few more weeks, all U.S. public companies will file their more detailed 10-Q reports.

There's been no shortage of data to be collected so far this year, either. From mid February to the end of March, over two-thirds of publicly traded companies filed their annual reports, or 10-K filings, by far the most complicated and data-rich financial filings provided by companies.

Pre-Existing Cracks in the Financial Data Supply Chain

A few months before COVID-19 started to spread, professors at Harvard Business School and MIT Sloan published a paper showing that traditional data providers were not collecting financial data as carefully as needed for accurate earnings calculations. Specifically, these offshore operations miss about $0.45 out of every $1.00 of unusual gains/charges on the typical income statement.

The professors went on to show that markets inefficiently value earnings because too few investors are aware of the missing unusual items.

Most investors take for granted that markets operate efficiently, but they are mistaken. As long as everyone relies on the same bad data, this inefficiency will likely persist.

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Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, sector, style, or theme.

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Exploit market inefficiencies:

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