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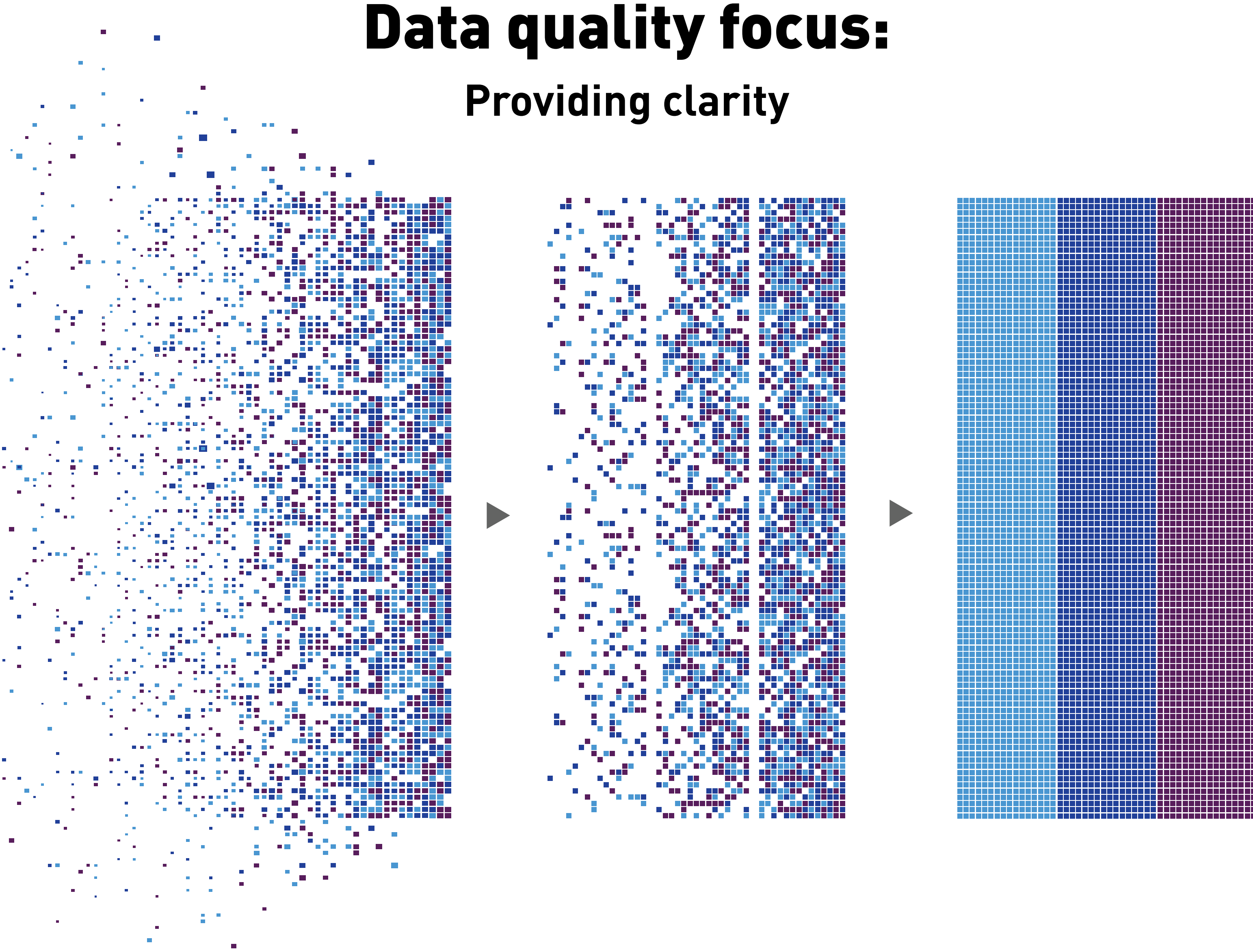
Data quality focus:

Providing clarity



EQ Paymaster at Equiniti managing director of products and services Duncan Watson

Maintaining data quality

Duncan Watson explains why being diligent about data quality is a daily duty

Wouldn't we breathe a collective sigh of relief if there was a simple fix to ensuring the common and conditional data underpinning pension schemes was perfect – or as close as could be? It would be the Holy Grail of data management. But with so many moving parts – swathes of new and historic data, complex systems and processes, changing regulation and requirements – it is no wonder that data quality is becoming an increasing concern.

The problem is that, often, data issues are viewed as a problem to be fixed when they should be seen as part of the everyday. Assessing and understanding data is an ongoing strategic necessity. It is not enough to treat closing gaps and spotting errors as a standalone job because, in today's fast-moving world, it's inevitable that tomorrow will raise yet another question – or two. Fixing and maintaining data quality needs to become an inherent behaviour, not a one-off project.

> Fixing and maintaining data quality needs to become an inherent behaviour, not a one-off project.

The importance of this switch is only becoming more apparent.

Research recently carried out by Equiniti with *Pensions Age*[1] revealed that most companies want to improve data quality but not because it will be better for members or ensure schemes can engage in cost-effective liability management exercises with insurers. Instead, data has moved from being a regulatory or compliance problem to an all-encompassing corporate and reputational risk for trustees and sponsors.

Indeed, there's the cost risk of having poor data but there's also the reputational risk. There are rectification costs where a member is paid incorrect benefits or discovers an error in their data. Other risks include benefit fraud, inaccurate buy-in or buyout costs, lawsuits and – very importantly – resultant reputational risk. There are significant profitability implications too. Actuarial valuations on the scheme's liabilities may be inaccurate meaning that sponsors' contributions are inaccurate.

Despite these clear and considerable issues, confidence in data quality still seems to be high. Our research looked at both common data (which includes identifiers such as name, National Insurance number, date of birth, address and expected retirement date) and conditional data (which is additional detailed data required for the administration of a pension scheme). We found that 89 per cent of companies believe that their common data meets The Pensions Regulator's expectations. Nearly as many (80 per cent) say their conditional data would stand up to such scrutiny.

If everything is in order, why is now the time to take action?

When we delved deeper into the research we found that the level of confidence in data quality diminished, with 61 per cent of trustees and administrators saying they intended to carry out additional data integrity testing outside those required by the regulator.

This clearly suggests an underlying concern and shows a gap between perception and reality when it comes to data quality. Without quality conditional data, it is not possible to accurately calculate and pay benefits – clearly impacting members and trustees alike. It also hinders the all-important actuarial valuation.

The pressure is only going to increase and the spotlight is expected to continue to shine on this area for the foreseeable future for numerous reasons.

The Pensions Regulator

Firstly, data integrity is one of the top priorities of The Pensions Regulator. It expects schemes to continually monitor their processes and their member data. It is only a year since it released a media statement suggesting not enough progress had been made on data quality in recent times. The then-executive director Andrew Warwick-Thompson stated: "It's disappointing that we are not seeing more schemes taking their duty to keep proper records more seriously. We've made clear what our expectations are and many schemes, across all scheme types, are not meeting them. By adding record-keeping measures to the scheme return, we will be able to target our interventions more specifically at those failing in their duties."

As a result, the regulator has now added new questions to scheme returns for 2018 onwards that will require schemes to disclosure both their common and conditional data scores.

The pensions dashboard

Of course, the incoming pensions dashboard will also require large data sets to be accurate and shareable. Any question as to whether the dashboard will go ahead were put to bed by Guy Opperman, minister for pensions and financial inclusion, who stated recently: "Be in absolutely no doubt: the dashboard will happen."

2019 may sound a long way off but it will be here before we know it. Besides this, waiting to address data concerns leaves pensions open to two years of potential errors and reputational issues which, as we all know, can flare up overnight through social media platforms and the press.

Changing demands

The dashboard recognises that people need, and are calling for, more information about their pensions. They expect high standards and accuracy but, with an average of 11 jobs over a lifetime and potential involvement in the same number of schemes in addition to their state pension, this will be a challenge. As people's working patterns become more complex, so too do pensions.

Automation

Another consideration for those looking to either engage their members through self-service or create efficiencies is automation.

"You can automate the life out of a pension scheme but, if the data underpinning the scheme is inaccurate, the automation will produce the wrong results"
Duncan Watson, Equiniti

Four manageable steps to trigger change

If (or indeed, when) changes are needed, what could action look like? This is not a simple process and it can seem daunting and all-consuming. There are however several steps you can take straight away that will set you on the path to better quality data.

- **Step 1 - Integrate.** Identify how to integrate data into everyday strategy rather than a one-off project. What governance controls, reporting and risk management processes are already in place that could or should also consider data quality?

- **Step 2 - Specify.** Record what your data processes need to achieve in order to ensure alignment of everyone who will be involved (as well as avoid project creep). What would good quality data look like for your scheme?
- **Step 3 - Research.** Read all the documentation already produced on data issues and options in your organisation. From end-to-end, review what workflow processes look like.
- **Step 4 - Plan.** Map out at a high level what the cycle will be to continually improve and maintain your data. Which systems, teams and individuals need to be involved and what will their roles be? What could be streamlined and where are the gaps?

It is from here that the process becomes more complex and technical. It requires companies to carry out a robust assessment of their current data set, run systems checks for data gaps, make an honest assessment of the state of play, identify and rank risks, plan priorities and actions, streamline systems and then finally start to fix issues and audit on an ongoing daily basis.

Together with the Pensions and Lifetimes Savings Association[2], we have produced two Made Simple Guides that provide a more detailed checklist to assessing, fixing and maintaining good quality pension scheme data, for both the public and private sector.

Data at the heart of strategy

Trustees and administrators can look at their data as an exercise and fix it there and then but this is a reactive, piecemeal option.

Adopting a data strategy is the long-term solution. It should become a habit to be looking at data and checking it is appropriate, accurate and aligned.

There may not be an effective one-off solution to improving data quality but there is a way to make it manageable and that is about adopting a mindset that puts data at the heart of strategy and integrating it into everyday planning and processes.

Written by EQ Paymaster at Equiniti managing director of products and services Duncan Watson

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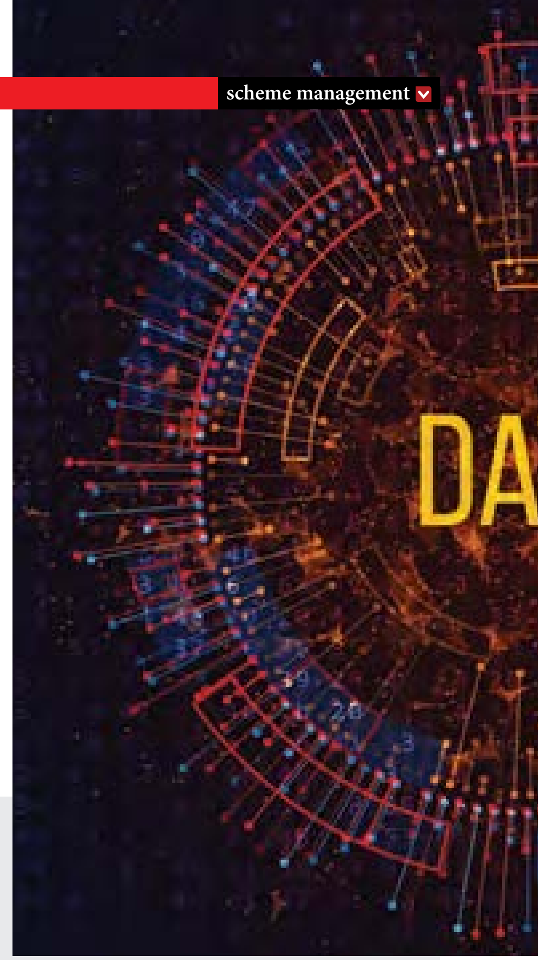
[1] http://www.pensionsage.com/pa/images/Equiniti-datasurvey_PA_April17.pdf
[2] https://www.plsa.co.uk/Resources-Made-Simple-guides



Growing pressure

The need for pension funds to ensure it has good-quality data is coming from a number of sources. Nick Martindale finds out more

Summary
• A greater focus from The Pensions Regulator has increased the pressure on schemes to improve their data quality.
• Other factors have also helped, including the end of guaranteed minimum pensions and moves towards de-risking.
• More work remains to be done but legislation and a requirement to report on data scores in scheme returns means this is only going to become more important.

The emphasis placed by The Pensions Regulator (TPR) on ensuring pension schemes have accurate and up to date data in recent years, including setting targets for common information and outlining best practice for conditional data in 2010, has at least brought the issue firmly into the spotlight, for trustees, providers and members.

Drivers for change

Pressure from the regulator is not the only factor that is forcing schemes to improve data quality, though.

"The driver for this has not been guidance, advice or nudging trustees and administrators to do the right thing," says Trafalgar House's business development manager Joe Anderson.

"It has been because an end to guaranteed minimum pensions has compelled trustees and administrators to reconcile, match and improve their contracted-out liabilities within a fixed timescale. The byproduct of this is that administrators have been forced to review and improve these key data items by a fixed date."

Being able to respond to members' ability to access pension funds has increased the pressure to maintain high-quality data throughout the life of a member, rather than focusing on those approaching retirement, says Willis Towers Watson LifeSight operational compliance and risk manager Louise Williamson.

"A key driver has been the increased movement and portability of member assets, whether in DC-to-DC transfers for consolidation purposes such as the move to a master trust, or DB-to-DC transfers for enhanced transfer values, or a move to a drawdown arrangement. All of this movement means that members' data needs to be complete and accurate to discharge liabilities at any time."

Other factors have also added to the urgency, says Equiniti Pension Solutions' head of pension regulation and compliance Peter Scott, including greater scheme automation and more involvement of members through direct web access; preparing for liability management exercises such as pensions increase exchange and enhanced transfer value exercises; and legislative requirements such as General Data Protection Regulation (GDPR) and the Institutions for Occupational Retirement Provision (IORP) Directive II.

"Until recently, all these have probably been more of an incentive for schemes to sort out their data than the perceived threat of sanction from TPR," he says. "In reality, schemes need to view data quality through the twin lenses of opportunity and risk, which can be both financial and reputational."

Work to do

There are some signs that data quality may be improving. A survey by TPR in September 2017 found 45 per cent of medium-sized schemes and 72 per cent of large schemes have identified gaps in either common or conditional data, with 95 per cent of these claiming to have taken some action to address this in the past 12 months.

"In general, electronic databases are in better shape nowadays but are still incomplete," says Aon partner Gary Cowler. "As the age of the scheme grows, it is likely to get harder to access old files and past key administration staff to tackle remaining cleanse tasks that involve processing historic information. These tasks can involve data gaps dating back for several decades." The focus on GMP reconciliation – as dictated by HMRC deadlines – may actually be taking resources away from other initiatives such as cleansing data, which could have a bigger impact, he adds.

There is, though, more that can be done. Anderson points to research by TPR, which suggests only 41 per cent of administrators have measured common data, with 12 per cent not even knowing

what this is; something which is a particular issue among smaller schemes.

"If fewer than half of administrators are actually following the regulations then surely it's now time for enforcement action to be introduced," he says.

Another problem is that the focus on common data has in some cases created a "false impression of complete data accuracy", adds Anderson. "It's now time for compulsion on conditional tests to be introduced in the same way it was for common data," he says.

Responsibility

Ultimate responsibility for the quality of data rests with scheme trustees and managers, says Scott, although third-party administrators should also work with them to identify gaps and devise ways to improve these.

"Any such plan should have specific data improvement measures, which can be monitored and tracked," he says. "It should also have a defined end date within a reasonable timeframe, with a view to having complete and accurate data."

Providers and advisers also have a role to play, says Quantum Advisory partner Phil Farrell. "Some trustee boards and employers see the time and expense associated with rectifying shortcomings in their data quality as an expensive inconvenience," he says.

"It's important that their advisers explain the importance of good data quality, both in terms of the ability to properly administer a scheme on a day-to-day basis but also over the longer term in areas such as buyouts. It's all too easy to relegate issues like data quality to the back of the to-do list when having to deal with more pressing issues such as scheme funding deficits."

Challenges

There are, still, obstacles to overcome. Cowler points to the cost of cleansing work and the lack of clarity around this until work has commenced. "There's also the pressure to focus on other aspects of running the scheme that have more visible impacts and so are often repeatedly given higher priority," he says.

Cowler predicts a trend towards sub-contracting entire projects out to administration specialists in an attempt to get on top of the issue.

Providers also need to make sure their own systems are up to scratch, warns Altus consultant Jon Dean. "In very many cases, even where members are engaged, address changes still cannot be done online and websites are very poorly designed to attract repeat visits," he says. "This needs to change."

Upcoming changes will also add to the pressure to address the data issue. As well as GDPR, which will mean data processors are liable for errors or failing to safeguard member data, the introduction of the pensions dashboard will also have an impact, says Williamson, especially if it is made compulsory.

"It will require member data to be shared in a simple and transparent way, meaning that any data issues will become very visible," she says. "It is likely that advisers will rely on the information shown in the dashboard, compounding the potential risk exposure."

Dean, meanwhile, points to pressure from banks and retail platforms to aggregate customers' pension portfolios, which could be constrained if providers cannot offer the information required.

"Visibility of poor data, or an inability of a scheme to provide data to a dashboard, will drive an increase in complaints and ultimately transfers to better organised schemes," he predicts.

An even bigger factor could be the requirement for schemes to report on data scores in scheme returns, which should create transparency around leaders and laggards, says PASA director and board member Girish Menezes.

"The Pensions Regulator can then decide what action it needs to take," he says. "A big concern has to be poorly-funded schemes landing in the Pension Protection Fund with poor-quality data. This creates a major cost for the rest of the industry, which funds the data cleanse process through the levy."

Eventually, this could see the war on data reach a tipping point, believes Scott. "In our view, the requirement to reveal data scores in the scheme return and the new-found readiness of TPR to use its statutory enforcement powers will, together with an increasing awareness of the benefits of good-quality data, lead to a steady improvement in data quality, although smaller schemes suffering from a lack of funds or resources may continue to be an issue."

One thing that is certain is that this issue isn't going away, says Dean. "Administrators now hold more data than at any point in the past and are using it in ever-more sophisticated ways," he says.

"The industry as a whole needs to take responsibility for continually driving up data standards, not just when a project, change of provider or TPR demands it."

Written by Nick Martindale, a freelance journalist