Change is inevitable

Mark Johnson explains why the pensions industry needs to keep up to date with evolving technology

As individuals we consume vast amounts of information on a daily basis - all of which is possible because the technology used to access this information has evolved over time. The times when our access was reliant on paper records such as newspapers or bank statements sent in the post are all a distant memory.

With the internet age and smart phone apps, consuming information now seems so easy. The reality is that implementing these technological solutions is not as straightforward as many people may think and requires time and effort. Bring this into a commercial environment and this can equate to a significant amount of cost.

As consumers, we insist that information is available on demand, relevant and more importantly secure. If we are unable to track a breaking news story in real time, or realise that our personal information has been compromised, then we would consider this a major failure on our information provider's part.

So should the technology used in the pensions industry be held to the same standard in terms of innovation and development in information management?

The short answer is yes.

Playing catch up and moving ahead

It is safe to say that the pensions industry has been a little slow to adopt and implement new technologies. Until now the appetite for this kind of innovation just hasn't been there, but slowly and surely this is all changing.

Defined benefit schemes are perhaps further behind the curve than defined contribution arrangements but there is scope for further development in the technological solutions for both these areas.

For DC arrangements there is a daily requirement to process transactions, which means that large insurance companies have no option but to invest in technology. Commercially this has been driven by a need to operate these funds efficiently so that costs remain low. Members and/or trustees wanting the option to access their funds online and instigate transactions such as switching investment funds also plays a part. More recently, auto-enrolment has also been a key factor as insurance companies and employers seek efficient ways of meeting their statutory obligations with straight-through-processing.

For DB arrangements the appetite for real time information simply hasn't been there. Until relatively recently it was perfectly acceptable to administer schemes on legacy systems or even, in some cases, member record cards. On the topic of monitoring liabilities it is also not unheard of to receive results for a triennial actuarial valuation one year after the valuation date. This has led many in the industry to ask - how effective can de-risking strategies be when the key decision makers aren't able to put their hands on up-to-date information?

The Pensions Regulator released a new Code of Practice 03 (Funding Defined Benefits), which came into force in July 2014 and revolves around trustees managing risk and giving due consideration to the management of the employer covenant. TPR outlined that effective risk management should be an ongoing process rather than a point in time snapshot that is not revisited for a year or, even three in the case of some smaller schemes, as material changes can occur between actuarial valuations and over relatively short periods of time.

The governance of pension schemes is therefore high on the trustees' agenda and advisers to pension schemes are coming under increasing scrutiny to ensure that they are adding value to the management of the scheme. The pension technology market therefore needs to act quickly to develop and support this changed environment.

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Traditional pension administration software solutions that have been used across the industry for many years are no longer adequate, but alternative approaches are being developed. The evolution of cloud computing means that solutions are being offered 'in the cloud', meaning that software is no longer just an application that runs from within a trustee's or adviser's office. All of the main suppliers of pension administration software are starting to think about and offer cloud-based solutions so that trustees, administrators and even members now have the ability to access their scheme from any device and from any location. This is leading to an improvement in scheme automation and straight-through-processing.

The asset/liability modelling solutions on offer are also generating interest amongst trustees and corporate pension sponsors. With many new products being brought to the market, the era of valuation results being a year out of date are set to be a thing of the past. The actuarial status quo is starting to be challenged, with technological advances meaning that more complex calculations can be carried out in real time. Valuations no longer take hours to run and, providing up-to-date scheme membership data is in place, results (including triennial valuations) can be available in a matter of seconds.

So what should the future hold?

As TPR is committed to improving data standards across the industry, we could ask the question "what if pension administration platforms had both common and conditional audits as an integrated module that was accessible securely on any device via the internet"? Trustees, and even TPR could track the results in real time and be alerted to issues as they arise. Data management plans and schemes' progress on improving the quality of data could be monitored closely to ensure that advisers are not ignoring this important issue.

Some DB schemes already offer online access to an individual's information, but the scope of the information presented is usually dependent on the quality of the information held. What if the quality of the data stored could be relied upon and the level of scheme automation was at an acceptable level? It is not inconceivable that members could view indicative quotations on the level of their benefits in the future. After all DC members have had this option for some time.

There are already several solutions that offer daily actuarial valuations but can we be confident that they are based on real time information? We need to ask questions such as how the membership/asset data made its way onto the valuation system. Valuation and administration software should ideally be a single integrated system accessing data held on a single database and the days of migrating data between administration and actuarial systems should be a thing of the past. The manual manipulation of data between separate systems increases the risk of errors but is also a costly exercise that occurs for every actuarial valuation. In the quest for providing a better-value and higher-quality service this shouldn't be an acceptable way of working.

In the future, true daily actuarial valuations - based on live scheme data rather than rolled forward approximations - will give trustees the power to de-risk when the conditions are right. Buying out liabilities will be a more efficient task when assets/liabilities can be calculated on demand rather than relying on data that is out-of-date. The speed at which these complex actuarial calculations can be computed means that trustees will have the ability to model and view the impact of different assumptions and how these impact on the funding level of their scheme.

In conclusion, technology is evolving and the pensions industry has no option but to evolve with it. And this could lead to fundamental changes in the way advisers deliver solutions to the pension schemes they manage. The traditional model for delivering these services could be turned on its head. Watch this space.

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