Summary
- Administrators have been put under increasing pressure since the introduction of the pension freedoms, which delivered a raft of reforms.
- GMP reconciliation tops the more imminent of tasks, but it is being 'hindered' by poor data.
- Data primarily remains a struggle due to existing legacy systems and their constraints.
- Fraud is also causing issues among pension schemes, but despite criticism, regulators are helping administrators tackle it.
- The success of auto-enrolment has proved some areas of administration have run much more smoothly than others.
- More challenges remain for administration, but the industry is continuing to tackle things one step at a time.

Running hurdles

Following the pension freedoms, administrators have been under increasing pressure to perform well under intense and time-sensitive circumstances. Lauren Weymouth explores what the major challenges have been and how the industry has worked together to get to the end of the race

Research conducted by psychologists has found that when put under pressure, business leaders can learn a lot about perseverance using some of the same methods as taught in sports psychology. This is because much like athletes, what can separate good business from excellent business is not training and expertise, but the ability to thrive confidently in high pressure situations.

Over the past year, pension scheme administrators have had to use some of the same athletic perseverance skills to provide quality services under difficult circumstances. Since the freedom and choice reforms were implemented last year, those working in admin have been faced with a perpetual course of hurdles – with very little distance between each one – and a short, competitive timeframe in which they must carefully complete them.

Keeping up

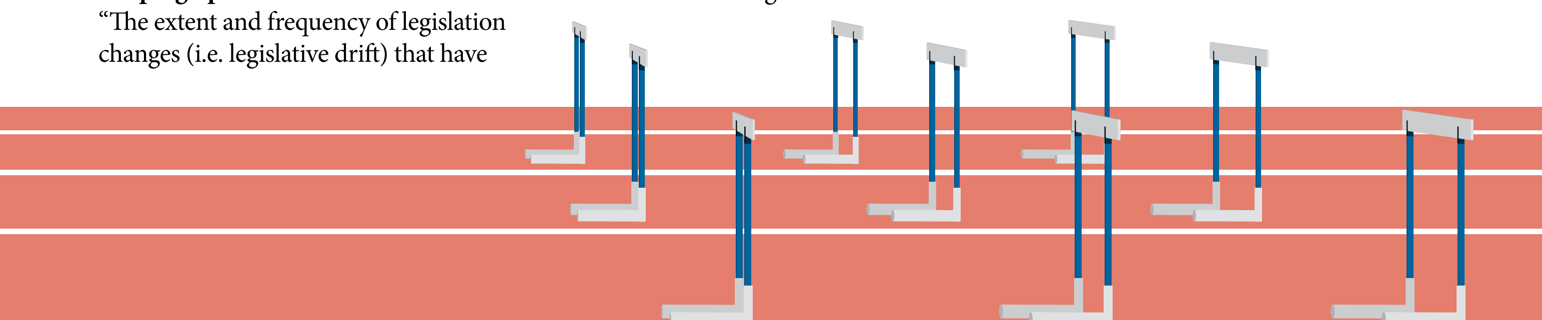
"The extent and frequency of legislation changes (i.e. legislative drift) that have occurred over the past 12-18 months in particular has not been ideal for the industry as a whole," Quantum Advisory partner David Deidun points out.

He explains how it can be felt particularly by organisations that had taken the time to update methods and literature to comply with the new requirements, "only to find that these have been superseded by the next round of changes".

"This, coupled with the need for revised training programmes for the administration teams to ensure that they are up to speed, has been challenging for many organisations," he continues.

As well as dealing with the freedom and choice reforms, which had to be implemented in just one year, schemes have also had to battle with the latest changes to defined benefit contracting out, GMP reconciliation and the tapered annual allowance. All of these ongoing and complex challenges have made working in pensions administration more pressurised than ever.

Mercer partner Alison Coulson describes how the changes have been rapidly delivered on an almost daily basis, which has also created a greater number of more complex and longer queries from members. "The burden on pension administrators increased enormously in 2014/15 as a result of freedom and



choice, and has largely remained at these high levels," she says.

"It is unlikely that we will see a decrease in the near future. This is an industry issue with some administrators being less prepared than others, allowing standards to slip."

The domino effect

Naturally, with so much to be working on simultaneously, certain areas of administration have been much further down priority lists than others. Among these is the quality of data. As the raft of reforms have swept in, there has also been a gradual switch over to digital, bringing with it a whole new set of both administrative and data challenges.

Many legacy products, systems and processes still exist, says DST Systems head of financial services Ian Bentley, which means so do their constraints, leaving administrators struggling to keep up.

"For example, if an employee web-based service is launched and its use is mandated across the scheme, then a consistent service experience can easily be delivered," Bentley explains. "However, if it is not mandated across the scheme, then there is a requirement to deliver the service to employees at a high standard through multiple channels."

Data issues have always been somewhat of a challenge for pension schemes, but they are currently causing the most problems as a result of auto-enrolment, which has caused a dramatic increase in the number of pension schemes, members and subsequently member data.

Aon Hewitt's *Pensions Administration Survey 2015* last year showed that while issues such as GMP reconciliation are more of an immediate priority for schemes, their ability to respond is being 'hampered' by the fact that most of this data is of poor quality.

Despite the importance of GMP reconciliation, Aon Hewitt's survey revealed 21 per cent of respondents think the quality of their data will hinder the delivery of the projects and 20 per cent think it will add to the cost.

"All the priority projects identified by respondents are expected to be negatively impacted by the quality of scheme data – suggesting a real disconnect between what schemes see as important and the means they are able to devote to them," the company's UK outsourcing commercial director Stephen Ruse highlights.

Although the preparation time for GMP has been long running, many schemes have still found the whole process a challenge. Bentley argues that the main issue is that GMP needs to be done manually in many cases as many of the legacy systems and processes do not readily cater for its requirements.

"On the whole, administrators have not been prepared for GMPs and there has been a need to upskill many of their employees and also to align many of the legacy systems and processes to facilitate the reconciliation approach," he notes.

Resisting the sting

Despite the underlying struggle to improve data during times of more imminent changes, one area the administration sector has been unable to procrastinate in – and has increasingly

become affected by – is pension liberation fraud.

During 2015, the RSM *Pensions Fraud Risk Report* found over a third of pension schemes had reported experience of fraud. The report showed that the proportion of pension scheme fraud has more than doubled since 2013, rising from 17 per cent up to 37 per cent by September last year.

The increase in figures have largely come as a result of the freedoms, which have prompted a spike in people wanting to transfer out of their existing schemes. However, unfortunately transfers and other member transactions are often the areas most commonly targeted by fraudsters.

Xafinity head of proposition development Paul Darlow stresses that the industry needs to "re-double its efforts" in protecting members from scams by communicating with members to better understand the background of transfer requests and to check for the 'tell-tale' signs of scams.

Historically, Deidun explains, most administration teams were oblivious to the extent of the potential fraud that was to occur and the steps that would be necessary to close down potential avenues for those where fraud would be committed. But now, there is more capacity for schemes to prepare for such events.

"We will never close all of the possible methods for committing fraud, but we do believe that we can reduce the numbers dramatically," he says. "More effort needs to be made by all organisations involved in the administration of pension schemes as this is certainly a problem that is on the increase."

Regulation

Regulators are often at the brunt of this criticism, with the industry claiming it is their job to provide better guidelines and information to help support schemes and their members.

However, Coulson argues there is actually only so much regulators can do to help administrators prevent such occurrences anyway. More generally, she says it isn't necessarily down to regulators to control the quality of administration being delivered scheme members. "Regulation is only as powerful as the underlying core values of the administrator, and how the spirit of the regulation is interpreted," she says.

"It is all too possible for an administrator to fail to meet high standards, without breaching regulation. The culture and values of the organisation, understood and lived by every employee, will have a significant and direct impact on the quality of the administration services being provided."

With the increasing pressure to meet high expectations in an environment that is inundated with change, threatened by fraud, overloaded with data and criticised for lack of priorities, it has become increasingly clear it is unlikely there will ever be a hurdle-free run for the administration industry.

But with millions of people now enrolled into a pension scheme and GMP reconciliation being near to completion, they've certainly made headway.
So while the future for the industry remains unclear, one thing we do know is that despite all of these obstacles, administrators certainly know how to perform under pressure.

Written by Lauren Weymouth