



Pension scheme data

Let's be honest: pension scheme data isn't a hot topic. It doesn't require the intellectual challenge that comes with investment strategy or the financial management that comes with funding discussions.

Often member data falls down the Trustees' agenda in favour of issues which seemingly present a larger risk to a scheme and therefore warrant greater attention.

When the scheme is running well it is easy to underestimate the importance of good quality member data for every aspect of running a scheme, but behind-the-scenes fixes can often mask significant data issues.

Put simply, data is the heartbeat of every pension scheme, and the security of that data has never been more important.

As an industry, we haven't helped the issue. We have, at times, struggled in articulating to clients the wider benefits of investing time in getting data right, aside from a requirement to adhere to record-keeping targets set by the Pensions Regulator (tPR). Those schemes that have taken steps to address tPR guidance often consider that as 'job done' where data is concerned, not recognising that this is only a small piece of the puzzle.

There are a raft of data items that are critical to effectively running a scheme but which are not explicitly covered by tPR's measurable targets (most notably tranching data detailing how members' benefits should revalue and increase), whilst data security is not covered at all by any guidance issued by the Regulator.

With continuing changes to pensions legislation and service delivery continuing to evolve, making sure that the foundations are robust is crucial in making schemes more adaptable. There is a tendency for Trustees to see data integrity either as a 'tick box' exercise or something that only gets addressed when problems arise; the reality is that this is an issue which every scheme needs to tackle head on, no matter what the long-term strategy.

To ensure that the time and effort spent is proportionate, data integrity should be considered in the context of the scheme's wider strategy, rather than just to fulfil arbitrary targets. With that in mind, there are three fundamental areas to reflect on.

Effective ongoing operations

With so much focus on investment strategy, funding and other strategic activity, it is easy to forget how important it is to get the business as usual activity running smoothly. Good quality member data is key to this for a number of reasons:

- Member experience – paying correct benefits and enabling the use of online modelling tools
- Adaptability to change – ability to take advantage of legislative changes in an efficient way (e.g.. Freedom and Choice)
- Understanding liabilities – ensuring that liabilities are accurate and not distorted by data uncertainties.

Poor quality data is often a barrier to Trustees who want to be more progressive and offer members an administration service that is fit for the 21st century. And with continuing changes to pensions legislation, it is absolutely essential to ensure that a scheme's foundations are solid to allow schemes to move with the times.

Enabling "journey planning"

With the vast majority of schemes now closed to accrual and looking towards a long-term goal of de-risking and ultimately discharging liabilities, data quality becomes crucial to fulfilling that aim. There are plenty of cautionary tales of schemes that have underestimated the importance of making sure that data cleansing work is carried out in advance of carrying out de-risking activity:

- Being in a position to make the most of advantageous financial conditions
- Understanding scheme liabilities upfront, with no unexpected liabilities coming to light at a crucial time
- Having the ability to discharge the correct liabilities in bulk.

This is a view shared by buy-out providers. “Good quality data is really important if looking to insure your liabilities. Schemes which can demonstrate high quality data will be more attractive to insurers and may also pay a lower premium when looking to insurer certain risks. In the worst case, missing or incorrect data can lead to transactions being delayed, cancelled or even unwelcome surprises if errors are uncovered years down the line and need to be corrected. Further, if the data is accurate and complete then the process of completing a wind-up is much more likely to be quick, efficient and on budget”, commented Guy Freeman, Head of Origination at Rothesay Life.

Cyber security

This is an area which is only now starting to become a board level issue for corporate entities, but is something that Trustees must begin to consider. With an increasing number of high-profile cybercrimes, online security is becoming a significant issue for individuals and Trustees need to understand how they can actively protect their members’ data.

There is a continuing trend towards online member access for not only defined contribution, but defined benefit members. Whilst this provides significant benefits in delivering an efficient and engaging member experience, it does increase the potential risk of cybercrime. Online member access typically includes access to information including sensitive personal data, bank details and salary information, all of which could be attractive to sophisticated cyber criminals. Trustees need to take greater interest in how their data is protected, not just as a one-off activity but as technology and software continue to develop. Without taking these steps, it will be difficult to provide the necessary reassurance to members to make online access a successful part of scheme operations.

Matthew Martindale, Director in KPMG’s Cyber Security team commented: “Personal data and financial information are two of the key elements which are attractive to cyber criminals who are actively looking for opportunities to take advantage of organisations which have not properly addressed cyber security. There is every chance that a pension scheme or pension provider could be the next big cybercrime news story.”

Conclusion

So, what should Trustees be doing to properly address data integrity?

- Assessing the quality of data that is actually important to the efficient and effective running of a scheme and undertaking rectification work as necessary;
- Treating such activity as a risk management priority; and
- Actively managing cyber risk with administrators to provide comfort to members that their data is safe.

As an industry, we need to get our clients to take data seriously. In the digital world where data is everything, we cannot continue to ignore an issue which is so fundamentally important to every aspect of a pension scheme.

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