

Administration and Data Governance

Viewpoint – April 2014

Administration and data have never before been under the spotlight in the way they are now. Skeletons are falling from cupboards, one after another; a domino effect. This is for two main reasons: The Regulator's stance on data; and the effect of data on de-risking exercises and liabilities.

Here are five themes that emerge, time and time again, based on real examples from the projects we work on.

1 Governance

The first is based on an outsourced client. Administration was transitioned from one administrator to another a few years back. Transition was too quick and corners were cut. The current administrator has not proposed a conditional data audit and the Trustee Administration Committee were reluctant to commission one. They were not convinced it was necessary - "why can't cases be checked as they arise?"

This is not the first time we have seen this stance. So many Trustees are still reluctant to face the reality and commit resources and money to an issue that can potentially lead to bigger problems, both from financial and reputational perspectives.

Some administrators have also been reluctant to propose audits of conditional data. We wonder why: are they hiding from the inevitable question of why and who is to blame when the audit uncovers issues?

More importantly, shouldn't it be part of the administrator's role to whistle-blow, internally or externally, when they suspect the data is poor?

2 Scale

A client wanted to undertake a series of liability management exercises. Two and a half years later and the data was finally in a position to allow them to begin!

They did not spend much time debating whether to cleanse and rectify. There was a clear purpose driving them to get data right. However, they had not appreciated just how big a data exercise can become.

They had a large number of pensioners and poor data meant that a significant proportion of their pensioners were either under or overpaid.

The Trustee and the Company worked collaboratively in addressing the issue as they were facing substantial financial and reputational risks.

The more cupboards they opened the more skeletons fell. Not only data specialists were needed but legal, actuarial, communication and project management skills were required at costly expense.

Two of the biggest challenges they faced were:

- sizing the scope of the cleansing work and of the rectification, and;

- developing realistic project plans.

There is no question that sometimes data exercises can end up being bigger than anticipated and Trustees need to have the governance in place to:

- decide how much to do;
- identify the biggest risk areas; and
- determine priorities.

3 Contributions

Key considerations we often come across are all around 'who pays':

- who pays for the initial data audit?
- who pays for the cleansing work?
- who pays for the benefits rectification, and
- who pays for an independent quality assurance once it's all 'complete'?

There is no one answer that applies in all circumstances. A lot will depend on the contracts in place, or what was reported to the Trustees by the Administrator or an Auditor and what Trustees decided to do in the past.

The good news is that for new outsourcing or new transitions, data due diligence is a much more critical activity. Contracts have also improved significantly in the last few years and items such as data accountability, data responsibilities, and even how to manage overpayments, are finding their way in to new administration agreements.

4 Investments

We often find ourselves helping Trustees address conflicts in large data exercises.

The Administrator can be internally conflicted. They know they have problems and some of their own creation. There is sometimes a conflict when Administrator and Actuary are from the same firm; for example when the Actuary has to work out the liability resulting from bad data for potential litigation.

Even data specialists can be conflicted. For example, when the Trustees want the Administrator to pay for an independent data audit, who becomes the client of the data auditor? And who undertakes an independent quality assurance of the cleansed data?

5 Communications

The last key theme, and one that most Trustee Boards are addressing (or should be addressing), is how to ensure robust oversight of data quality?

Ultimately, data quality is a Trustee responsibility and they need to ensure that clear responsibilities are allocated and reported to them or the relevant Trustee Committee, perhaps through:

- regular stewardship reports;
- compliance certificates;
- risk reports.

Trustees should consider appropriate service levels and take the time to deliberate on what lessons have been learnt, and more importantly implemented, to stop data deteriorating again. The obvious lesson is the importance of the due diligence process on scheme acquisitions, mergers or outsourcing.

Other lessons include:

- the importance of absolute clarity of responsibility for data quality;
- unambiguous provisions within the administration agreement; and
- the desirability of independent assurance from time to time.

In conclusion: Data cleansing should not be about ticking boxes

The fact that data issues can be allowed to escalate to the extent that Trustees cannot be confident that members are getting the right benefits appears to be largely down to gaps in historic governance practices. The absence of data audits, whatever the reason for this, has meant that data issues have been left to escalate unchecked.

A favourite example is a story I heard a few years ago:

A scheme discovered 20 people approaching retirement with the same date of birth as one of the administrators. On further investigation they discovered 20 people with the same address!

The boxes were ticked but the data was not any better!