

Data Cleansing: Q & A

In this issue's clinic, we ask industry experts about the importance of data cleansing

THE QUESTIONS

A: Why is it so important to conduct a data cleansing exercise?

B: When is the best time to initiate this, and why?



RELATED LINKS @

www.engagedinvestor.co.uk
Visit our website for more clinics on de-risking

- Enhanced Transfer Values (ETV)
- De-risking techniques



TONY READ
MARKETING MANAGER
AEGON

A: A typical trust-based pension scheme has probably been around for a long time and is therefore likely to have gone through many changes, eg legislation, benefit alterations, perhaps different administrators may be different IT systems plus the employer may have been taken over along the way. All these can play havoc with having reliable data and yet at the same time data is fundamental to the efficient running of a pension scheme because otherwise trustees cannot be sure they are fulfilling their key duty of paying benefits to the right people at the right time for the right cost.

Also the Pensions Regulator issued a consultation paper last year followed by a final guidance paper this year setting out their approach to the testing and measurement of member data. They will assess progress of schemes over 2009 with a view to considering whether any form of compulsion may be necessary in future.

B: In addition to the above there are other specific times when it would make good sense to initiate such an exercise; for example defined benefit schemes considering a buyout or buyin. I would recommend a data management exercise is begun as soon as the buy out/in decision has been made because it is not a quick process whereas trustees are likely to want to move quickly if market conditions produce a favourable annuity cost. In addition reliable data enables life offices to come up with the most competitive possible price.

A company might become insolvent and the defined benefit scheme potentially enters into the Pension Protection Fund (PPF). During the assessment period the PPF would expect a data management exercise to be carried out.

There are a number of anecdotal stories about the importance of data management. One buyout provider has said that incorrect data can add as much as 5 per cent to the cost of buy out. In another instance we came across a case where the exercise established the deferred members' benefits had been bought out some years previously. Good reasons indeed to do that data management exercise now – it may yet produce surprisingly good results for the trustees and employer alike.



PAUL THORNTON
CHAIRMAN, PENSIONS ADVISORY
GAZELLE

A: According to a recent survey of insurance providers carried out by Gazelle, this is one of the issues which can cause delays and major frustration in the closing stages of a transaction, as can a failure by the buyer to specify, and by the provider to correctly interpret, the benefits to be insured. (In our experience other major problems can arise where the scheme's own mortality experience does not conform to the insurer's expectations and pricing assumptions based on postcode analysis, and where the scheme's corporate bond portfolio to be transferred does not conform to the insurer's usual investment criteria – these also need to be addressed well in advance of the closing stages.)

In the absence of clean data, errors will either be left to be discovered in later years, which can be dealt with by the scheme itself if it is continuing in existence but obviously not if it later winds up (at which point it will need to buy insurance to cover the risk of unidentified liabilities emerging after the scheme is closed), or by paying a higher price for the provider to take on the risk of the unidentified liabilities which might emerge in the future. Neither of these options are very attractive or cost-effective!

B: Clearly the sooner the better. Ideally, and if the standard of scheme administration is fully satisfactory in the first place, data inadequacies should already have been dealt with. However if data is known to be incorrect or incomplete and there is no possibility of rectifying this at economic cost, then accepting that there are data problems may be the only option. In this situation, addressing it up front with insurers at the outset is essential as leaving it for later will simply cause delays at a more crucial stage of negotiations, which is frustrating for all parties, adds to costs and could well result in missed opportunities, and hence a higher cost, as market conditions fluctuate.



MARGARET SNOWDON
OPERATIONS DIRECTOR
LUCIDA

A: It is impossible for trustees or sponsors to understand the true magnitude of their pension liabilities if they do not have clean and coherent data. Member data and scheme information (benefit basis, operational practices, etc.) can have a significant impact on the true cost of the pension provision and without clean data it is impossible to fund the scheme accurately or pay the right benefits to the right people at the right time. A data cleansing exercise should be conducted regularly to ensure that you're able to fulfill your promise to your members, and that you do not receive any unexpected surprises.

“ Without clean data it is impossible to fund the scheme accurately or pay the right benefits ”

B: Anytime is a good time, but before a valuation allows for immediate results to be seen. If you are considering buyout, you should cleanse your data before requesting quotations. Now is a very good time to carry out data cleansing, so that you can be ready to start the buyout process when conditions favour you. Another opportune time for cleansing is before embarking on other liability management exercises like early retirement programmes, enhanced transfer values and trivial commutation projects. Cleansing will ensure you get the best results for your efforts. In fact, data cleansing could be described as a de-risking strategy in itself.



ANDY REED
DIRECTOR, DEFINED BENEFIT SOLUTIONS
PRUDENTIAL

A: While not exactly the kind of exciting label that makes you leap out of bed in the morning, 'data cleansing' is one of the most important steps trustees can take towards de-risking. In the long run, data cleansing can save trustees both time and money. Furthermore, tPR is currently focusing schemes on their record keeping and data cleansing forms a key part of this (details can be found at www.thepensionsregulator.gov.uk/guidance/reco rdKeeping/index.aspx).

Whatever your aims, data cleansing is simply good practice. It is difficult enough for trustees to manage pension scheme risks, without having to contend with inaccurate member data skewing their assumptions. Not knowing the exact benefits you need to provide for each member of the scheme (and their dependants) could result in some scary surprises. Each scheme has unique circumstances regarding the specific liabilities and associated risks, and having accurate data makes it easier to identify the risk 'hot-spots' in your scheme. Really understanding your membership also enables you and your advisers to assess the best solutions for your scheme.

Poor data can actually be a barrier to implementing de-risking solutions. In some cases, providers will refuse business involving poor quality data – regardless of the scheme's ability to pay – or will charge for the additional data risk. Some schemes have missed out on transacting when the timing was otherwise right, which can have a material impact due to volatile markets. Having 'clean' data gives providers a clear indication that the trustees are serious about transacting, rather than simply dipping a toe in the water.

The more accurate your data, the more accurate the quotes you receive for any de-risking solutions will be – thus reducing the risk of significant variances when you actually transact. In fact, with accurate data you may require fewer quotes to get to the point of transacting, which will cost you less.

B: There is no time like the present. Leaving data cleansing until you actually want to transact a de-risking solution could lead to huge disappointment – not to mention additional fees for re-quotes, or increased costs for handing over any data risk. Data cleansing is not an overnight process, so the sooner you start, the better.



MICHAEL CHATTERTON
HEAD OF SETTLEMENT SERVICES
WATSON WYATT

A: Scheme sponsors and trustees cannot afford to bury their heads in the sand over data issues. Data may be good enough for ongoing administration, but the same data can still cause problems when stakeholders take actions to de-risk their schemes.

The price of buying out Insurers now undertake increasingly in-depth due diligence of data quality prior to fixing any price for buyout and rightly use conservative assumptions for pricing data that is unavailable.

Buyout costs can be reduced by recording evidence to the contrary, for example verified marital status, contingent spouse's pensions and lump sum commutation experience, which are often not recorded.

Where there is doubt over the quality of pension scheme records, insurers will include margins for risk in their pricing or, in the extreme, refuse to quote. The poorer that data, in terms of completeness or reliability, the greater the margin for risk incorporated in the price will be.

Clean data is crucial to ensure a competitive and transparent quote process, enabling lower risk premiums and competitively priced liability assumptions.

The effectiveness of liability management exercises Sponsors are now seeing the benefits of good data when considering the effectiveness of liability management exercises, such as enhanced transfer value (ETV) exercises.

As an example, in many schemes the addresses held for deferred pensioners may be out of date; the more members who can be engaged the higher the chances of a successful exercise. If members' current telephone numbers are also held, effectiveness can be further improved using scripted outbound calling to encourage take-up.

B: Data cleansing can be a long process If data cleansing is not carried out in advance of a buyout process, then any issues are likely to be discovered during negotiations. At this point there may be an additional risk premium to pay, the buyout may be deferred, or an indemnity required pending further investigation.

By building data cleansing into their strategic planning, sponsors can prevent missing vital windows of opportunity.

The best time to cleanse data is as soon as the sponsor accepts that some de-risking is a real possibility in the scheme's future. Leaving it until buyout may be too late.