New beginnings: why data holds the key for the future of the UK’s life and pensions sector
Hello from Duncan Howorth, Chairman, ITM

Regulation. Legislation. Innovation. All have sparked significant change in the UK savings market in recent years, and placed considerable strain on our industry.

In general we have – for a boring, stuffy old industry – surfed this tide of change remarkably well. Indeed, some of the main challenges – new operational capital requirements arising from Solvency II, increased pricing pressure and adapting to the new digital age – have largely been overcome for now.

Many of our challenges are no different to any other industry, whether that be retail, travel, or utilities. The common thread through every sector in our modern world is data. Data is the lifeblood of our world; it informs every aspect of what we experience on a day to day basis.

In pensions, we have been insulated from the march of progress for too long. Our sector has sheltered behind regulation and complexity and stopped short of bringing our data up to the standard members might reasonably expect in 2017. At ITM, we know that all too well; it’s not unusual for us to receive scheme data literally by the lorryload as we work on bringing schemes into the modern age.

But all that is changing; it has to change. Fresh challenges are on the horizon. Some of those are simply the reasonable expectations of members. Others are more fundamental – not least the Pensions Dashboard. ITM is one of the six technology development partners selected to bring a prototype to market, and we are all too aware of the complexity and volume of data out there.

Whether it be Dashboard, or other challenges, we have to see this time as one of tremendous opportunity. That is particularly true, I think, of life companies, who potentially have a great deal of work to do (although we’ll come to that), but also have the greatest potential to realise tremendous benefits from streamlining data to free up capital and reduce operational costs.

That brings me to our new report – New beginnings: why data holds the key for the future of the UK’s life and pensions sector. It explores exactly how data partnerships can create these opportunities while helping life companies overcome significant hurdles along the way.

I hope you find it both informative and encouraging. Both I and the wider team at ITM would love to hear from you if you have any feedback.

Duncan joined ITM in May 2016 as Chairman, working with the current management team to support ITM’s expansion in the insurance and asset management sectors while also growing the ITM business in its traditional markets of consulting and software. Prior to joining ITM, Duncan was Chief Executive Officer at UK Employee Benefits and International Chairman of Employee Benefits at JLT. Duncan has a wealth of sector experience, with specialisms in developing outsourced solutions for financial institutions and mergers and acquisitions strategies.
Three key challenges

Unprofitable legacy products

Most organisations are now compliant with the capital requirements of Solvency II but further pressures have made certain legacy products too unprofitable to continue. Accurately identifying which products are no longer profitable requires extensive legacy reviews – a major challenge for life companies.

Maintaining margins

Careful reviews of operational business costs are required if life companies are to maintain margins and keep pace with pricing pressures brought about by competition, regulation and government intervention.

Keeping pace with digital customers

Greater choice is something that customers have come to expect in the digital age, while quick transfers between products are also a top priority for time poor consumers. To meet these demands, platforms and systems must show consumers exactly what policies they hold; they must enable customers to make any desired changes; and they must ensure the key information relating to these transactions remains accurate and clearly available to the customer at all times. The Pensions Dashboard is a key development here.

Let’s explore each of these in greater depth. As we do, we’ll consider whether life companies are better served trying to engineer change in themselves, or entering into strong data partnerships to deliver real bottom line transformation.

Unprofitable legacy products:
freeing up additional capital

Capital: the data factor

Solvency II has already demanded a concerted focus and significant allocation of life company resources to reach a point of compliance, but the challenges around capital do not stop there.

Compliant but not streamlined

Many long-established life companies have diverse product sets and numerous policies established over long periods. These legacy books can be the most capital intensive in the business. The problem is that they frequently sit on older systems – often multiple legacy mainframes. Life companies with older systems such as these must make assumptions about legacy books to meet the requirements of Solvency II. Understandably, these assumptions tend to be liberal, particularly when the data are difficult to collate and analyse.

In some cases, products that were once profitable are no longer so, due to changes in the way capital is calculated and applied. As a result, companies have stopped selling certain products and some have exited the market entirely. There has also been a wave of industry consolidation, such as the sale of AXA’s pensions business to UK-based Phoenix Group, presenting further challenges for life companies looking to examine legacy books.

The data opportunity

Now imagine a different scenario. All the data relating to legacy policies that was stored in these old systems is in a single standardised format. Not only that – the data can now be migrated seamlessly into a brand new system and sit alongside a life company’s current product suite. Sound good?

We’re not done yet. This standardised data is deliberately formatted so that it can be compared against other databases. Assumptions can then be checked, significantly improving the accuracy of this data. Armed with more precise data, life companies can narrow the assumptions used to calculate capital requirements, with the potential to free up significant amounts of capital.

And we’re still not done. Accurate data also opens another potential avenue of capital release – reinsurance. When the accuracy of data is improved and provided in a standardised format, reinsurance firms find it much easier to evaluate risk. Fewer assumptions mean a more competitive price when approaching the market. Furthermore, reducing the administrative burden of sample checking data makes transactions quicker, making it easier to take advantage of (often narrow) windows of opportunity brought about by favourable market conditions.

The data opportunity is created by releasing capital back into the business to be used for internal investment, increased innovation, to reduce borrowing or deliver capital back to shareholders. And of course, when it comes to delivering clean data to third party aggregation services such as Pensions Dashboard, the opportunity cost of not standardising data is overwhelming.

Opportunities are better with a partner

We know that data can be a hard thing to get excited about – or budget approved for. Selecting a data partner can be hard work as well. So here are some traits to help you identify the right partner:

• A long track record of data analysis and migration, ideally across multiple products and systems is an excellent start. Custom-built proprietary technology specifically designed for savings, pensions and investments is a further bonus.

• By being able to also run the operational side of legacy policies, a data partner can enable life companies to maintain a relationship with legacy customers where policies cannot be migrated to a new system.

• If a life company has policies going back to the 1980s, 1970s or beyond, the data is often inaccurate and incomplete. In-house manual operational management in these cases is both costly and time consuming but the right data partner can help.
Maintaining margins: pricing pressure and legacy products

A little context

Let’s remind ourselves of the environment in which we’re operating. Competition, regulation and government intervention have all led to considerable pricing pressure (even caps) in the market. Initially this impact was most keenly felt in new business pricing, but there is also pressure to reduce prices on existing legacy business.

A key driver of this pressure is the requirement for each workplace pension provider without a Board of Trustees to have an Independent Governance Committee (IGC). Since 2015 provider IGCs have been making recommendations including the removal of policy and exit fees and simplifying charging structures for legacy products. Margins are therefore coming under pressure and there is a far greater focus on costs.

Products were previously grouped into three baskets – long-term saving, short-term saving and protection – with a corresponding product suite for each. Today, customers want much greater flexibility while the government is encouraging retirement savings in a bid to reduce future welfare costs.

Against this backdrop, life companies now need to reengineer and create new products faster than ever whilst still servicing legacy products. ‘Past’ and ‘future’ are increasingly separate. These different streams require different objectives and skill sets from the teams attached to them.

The headache of legacy systems

The FCA is putting pressure on insurers to offer value for money to existing and/or long-standing customers (as well as new business), making a sound understanding of the impact of new charges on legacy policies an extremely important consideration for life companies. To make things just that little bit more challenging, life companies also need to work harder than ever to retain existing business too, as the reduction and removal of exit charges makes it easier for customers to switch companies.

We’ve already noted that many life companies have several old legacy systems, all housing a range of policies. The cost of maintaining and operating these systems means there are significant benefits to migrating data to brand new ones. Sound logical? Maybe so, but while data analysis and migration are essential elements for a modern life company, these complex and difficult tasks are performed so infrequently that it is simply not cost-effective for firms to retain their own specialists in-house.

And this is where data partners come in. Instead of employing an in-house data specialist full-time, many life companies prefer to outsource this role to specialist data partners. Data partners are experienced in the latest technology and working practices for this field and take an unconstrained approach to the task.

Easing the headache

While data quality is critical, it’s not the whole story. Data analysis plays a vital role too. We’ve talked about the positive impact this combination can have on capital requirements under Solvency II and the same can be said of capital reserves in a more general sense.

All insurers hold capital reserves against the unknown, but many hold capital unnecessarily. The right data analysis can expose unclaimed assets or over-stated liabilities. By bringing these points into the light, good quality independent data analysis can result in lower capital reserves and operational costs.

Insurers who have outsourced the administration of legacy books may feel that the data issues we have discussed here are too remote to cause any concern. But those issues and the benefits that can arise from addressing them are just as real and just as pertinent. It’s all about having the right data partner helping you in the right way and recognising the extent to which data is at the heart of operational and financial success.

The business of change

Undoubtedly the biggest area of ongoing investment is the development of digital delivery and customer engagement across online platforms. These platforms are changing customer expectations, making self-service of existing policies and direct processing of new business the norm. Most life companies have developed wealth platforms where customers can see details of all their policies, so they can make changes and implement decisions directly and independently online.

Each of these digital developments reflect why it is now more important than ever for life companies to ensure that the information the customer sees is consistently correct. It’s the least that’s expected of them. While this is not so difficult in relation to new and recently purchased policies that originated on the new system, it is far harder to maintain this level of accuracy and consistency when it comes to legacy policies.

Ensuring customers see accurate information on legacy data

Get a handle on exactly what information the customer can see on legacy policies. A life company simply cannot afford to migrate poor data to a new system if it wants to maintain accuracy. The data must also be in a particular format in order to migrate seamlessly to the new system, requiring an audit and assurance on the quality of that data before policy information is migrated.

Getting dashboard ready

We couldn’t talk about digital change without focusing on the upcoming Pensions Dashboard. We’ve touched briefly on some of the plans and significance of the dashboard in the introduction to this report but a closer look tells us more about the crucial role that data will play in both its development and day-to-day running. Being able to view details of all your pension savings in one place, including State Pensions and final salary schemes, is no mean feat. According to the Department for Work and Pensions, any one person can have 11 employers over their working life, meaning they could end up with almost a dozen private pensions at retirement.

To tackle this undoubtedly vast challenge the Association of British Insurers (ABI), on behalf of HM Treasury, has enlisted the support of technology partners to cover key areas of focus, including data. Providing the additional connections required by some pension firms to share data with the dashboard will be a particular point of development, along with overcoming the challenges associated with locating each one of each individual’s pensions on every system across participating providers. The dashboard also aims to offer links to ‘lost’ pension pots with previous employers while yet more legacy challenges are likely to arise from those firms that are closed book.

To make all of this happen it will be absolutely vital for the industry to work together to agree processes and implement data sharing standards if it wants to create the type of efficient pensions system that can meet the vision of the ‘open’, ‘flexible’ and ‘reliable’ dashboard.

This provides a real incentive for life companies to analyse, cleanse and standardise legacy data well ahead of the 2019 deadline so they can enjoy the longer-term benefits of a more streamlined system when the dashboard comes into force.
We’ve talked about the three key data challenges we see facing life companies and how those challenges can, with a little effort and expertise, become opportunities.

Let’s step back from that for a moment and focus on the difference a data partner in general, and ITM in particular, can make to how effectively and efficiently a life company works with its data.

First, let’s look at the ‘before’ picture. Confusing isn’t it? Multiple streams of data ricocheting from one function to another in constant chaos. Operating in this manner places a much greater pressure on resources, drives up costs and increases the risks involved.

Existing state

Existing state

New state

New state

See the difference? That’s the difference a good data partner such as ITM can make to a life company; simplification across multiple business areas by streamlining, cleansing and managing data. The process of using data for its many purposes is quicker, cleaner and safer. Better all round.
About ITM

Established as a pioneering data consultancy in 2003, ITM has emerged as an industry leader in data, risk and administration management. In our role as a key business partner to administration providers, we have cleansed and migrated several million data records, advising more than 1,500 schemes on data and benefit compliance, legacy system migrations and pension fund de-risking issues.

At ITM, we can spearhead the system development that life companies need to manage legacy problems, by servicing legacy data clearance and providing tactical solutions for various products that don’t ‘fit’ in the system. We work in partnership with all our clients, using a high-tech approach to interrogate databases so we can establish legitimacy and consolidate the data into a more efficient system. One recent client project yielded a c.40-fold return on their investment, before taking the ongoing reduction in operational costs into consideration:

// ITM’s systems and technical capabilities alongside HB Consulting’s guidance and oversight has helped us to manage a number of complex pension data projects. As a result, trustees and members are receiving a better service. We’ve taken some pragmatic steps with the assistance of ITM and HB Consulting enabling us to resolve a number of claims issues and reunite members with their benefits. As a result we’ve got a better understanding of the liabilities on the book and simplified the ongoing administration. //

ITM has delivered many systems and data rationalisation projects, including the decommissioning of legacy and under-utilised platforms. These solutions are built on proven, swift and repeatable methodologies for mapping vast quantities of member data across to new (target) systems. This tech-focused, people-light method makes projects much more cost-effective.

We have also built our own proprietary technology. eDAaRT facilitates the migration and cleansing of data through a series of sophisticated tools and processes.

What you should do next

We hope this paper has made a clear and logical case for the capital and cost benefits that can be achieved by running a data management programme for life company legacy policies and systems, particularly in the context of the Pensions Dashboard.

If you would like a free, no-obligation discussion with one of our experts please contact:

Caroline Parker
Client Development Manager
07714735511
carolineparker@itmlimited.com

Duncan Howorth
Chairman
020 7648 9990
duncanhoworth@itmlimited.com
New beginnings: why data holds the key for the future of the UK’s life and pensions sector

March 2017

For further information:
ITM PR: the lang cat
Mark Locke
marklocke@langcatfinancial.com
T: 0131 202 5994

itm
Solution delivered...

For further information:
ITM PR: the lang cat
Mark Locke
marklocke@langcatfinancial.com
T: 0131 202 5994