

Pension schemes face familiar challenges in effectively managing residual risk during the pension risk transfer (PRT) process, namely inaccurate data and unanticipated liabilities.

In the latest article in Heywood's PRT Endgame series, director of PRT, Kelvin Wilson, breaks down residual risk and how advanced analytics can help ensure a smoother process for schemes and insurers on their endgame journey.

### Understanding residual risk

Reliable data forms the foundation of any pension risk transfer project and all stakeholders – insurers, lawyers, advisers, trustees – rely on the accuracy and completeness of a scheme's member personal, liability and asset data to efficiently perform their functions.

PRT insurance coverage will be on risks identified and agreed upon between the scheme and the insurer. If risks are missed, due to incomplete data or unforeseen events, such risks reside with the trustee, sponsor and the scheme – the residual risk! An increasing number of insurers have started to include residual risk cover in their PRT deals but they come at a cost and have traditionally been on larger transactions (above £300 million).

To minimise residual risk, lower the premium for coverage and improve the chances of a successful PRT, stakeholders have a range of data analytics and technology tools at their disposal. While it might not be possible to eliminate data errors or unexpected member claims, a comprehensive or targeted analysis of members' benefit history and accrued amounts will provide needed assurance.

Insurers meticulously assess the risk profile of pension schemes prior to issuing BPA cover. This includes identifying potential data risks, such as the possibility of underestimated benefits due to inaccuracies. While some risks might be excluded through carve-out clauses, there is recognition that leaves

# Managing PRT's residual risks

## ➤ Kelvin Wilson explains how to use advanced analytics to mitigate residual risk in pension risk transfers

trustees and sponsors exposed to potentially significant claims and liability. Traditional trustee indemnity insurance and overlooked beneficiary insurance offer some protection but they are often time limited (below 15 year), and coverage is capped.

BPA insurers have started including residual risk cover as part of their solution to schemes. The cost is, typically, between 1-1.5 per cent of the scheme's liability and would be negotiated during the buy-in and buyout stages of the BPA transaction. Effective due diligence (involving data analytics) completed on the scheme will help manage down the residual risk premium. The key is being prepared.

### Data analytics in mitigating residual risk

We now have more sophisticated tools at our disposal that allow stakeholders to efficiently detect discrepancies, fix them and ensure data integrity. Familiar challenges of time and resource may have previously put schemes off such analysis, but solutions now exist that complete such work in an expedited timeframe, enabling PRT and BPAs to progress more efficiently. Data sourcing and tracing capabilities now complement automated benefit calculation engines. This combination gives the audited records of any necessary changes made to member personal or benefit data.

### Data cleansing and enrichment

Identifying scheme members, their relationship status, dependants, appending spouses, ages and names are core to performing a successful analysis and enrichment of scheme data. Being able to provide these previously unknown information increases the accuracy

of liability calculations by turning assumptions into reality. Maintaining good, accurate and reliable scheme data should be seen as part of good scheme governance, is required by regulation and ultimately brings down the cost of running on or winding-up a scheme.

### Supercharged benefit calculations and audits

Accurate benefit calculations and regular audits are essential in identifying and addressing potential residual risks early. Important legal reviews of benefit rules and specifications can feed into automated calculation software to expedite updated benefit changes. This leads to efficiencies in the residual risk assessment process and helps schemes meet required regulatory standards.

Software that turn spreadsheet calculations into code and which can sit alongside any administrative platform will enhance the capacity of incumbent administrators and provide important, independent verification of benefits administered. A significant reduction in time to identify and rectify benefit calculations is achieved.

Incorporating advanced analytics into the PRT process is essential for mitigating residual risks. An audit trail that involves data cleansing, spouse/dependant append and relevant review of members' benefit entitlement will provide assurance to all stakeholders and help maintain efficiency in the PRT market.



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