UNRAVELING DATA QUALITY DEMANDS: HOW TO KEEP IT SIMPLE?

5 maart 2024
Edward Roozenburg
Amba Zeggen

PROBABILITY & PARTNERS

Agenda VSAE Congres 2024

1. Introduction
2. About you
3. Why is data quality so important?
4. The data quality framework of the Pensioenfederatie
5. Cases & practical solutions
6. Wrap up and closing

About Probability & Partners

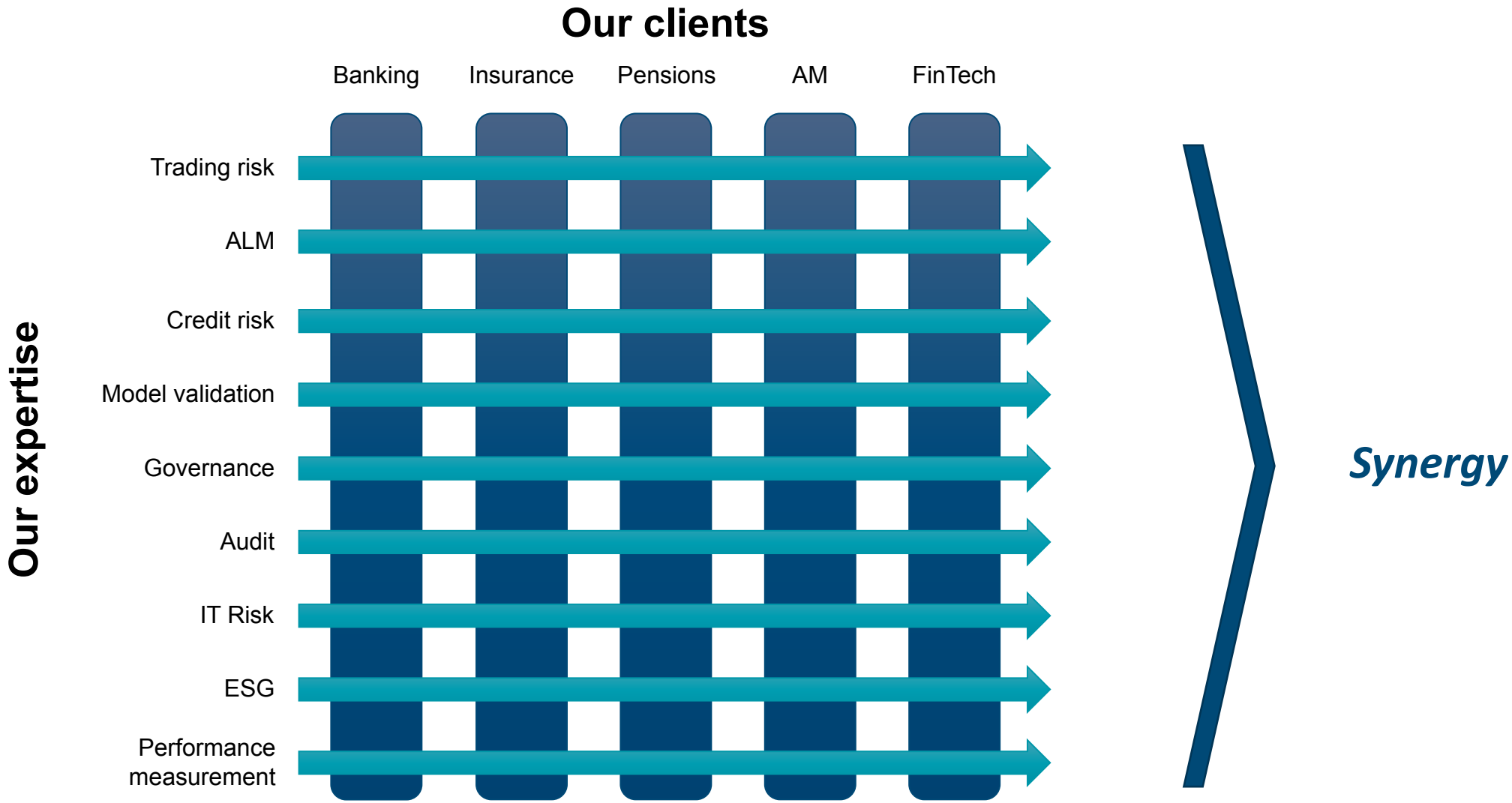
Banking | Insurance | Pensions | Asset Management

ABOUT PROBABILITY

Probability & Partners helps you improve your risk management. We provide the building blocks for a cohesive risk framework. Experienced specialists in every area of risk management work together to ensure an integrated approach. Seamless transition from advice to implementation. Learn more about us.

PROBABILITY
& PARTNERS

Our expertise



About Edward Roozenburg

- Senior Risk Management Consultant at Probability & Partners
- More than twenty years of experience in audit and risk
- Various industries including pension funds

- Managing control frameworks
- Information security officer
- Member of the risk committee

Edward Roozenburg

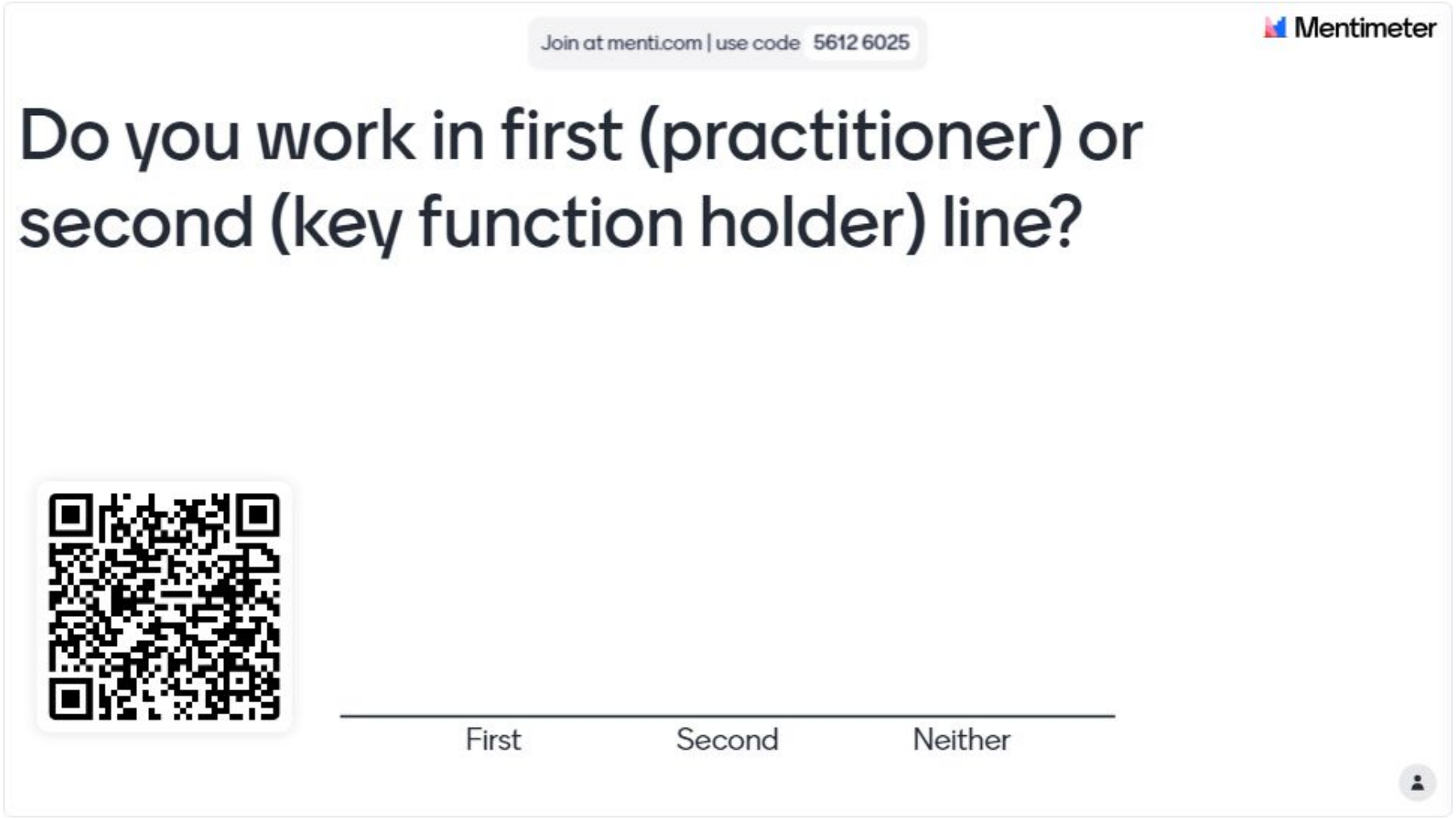
Colleagues present today

Amba Zeggen

Maurits van den Oever

Sander Eggenkamp

About you


Join at menti.com | use code 5612 6025
Mentimeter
Do you work in first (practitioner) or second (key function holder) line?
First
Second
Neither

About you


Join at menti.com | use code 5612 6025
Mentimeter
How important do you consider data quality in general?
Not at all
As important as it was in the old pension system
Important, but not crucial
Crucial during the transition

Why is data quality so important?

- Wrong data leads to:
  - Wrong assumptions about the consequences of the transition for individuals: There is no substantial assessment possible to check if consequences of the transition are balanced
  - Participants do not get what they are entitled to

Besluit Toekomst Pensioenen artikel 46 lid 4:

Pension funds must therefore be able to demonstrate that data quality is guaranteed before, during and after transition.

Data quality framework Pensioenfederatie

Purpose:

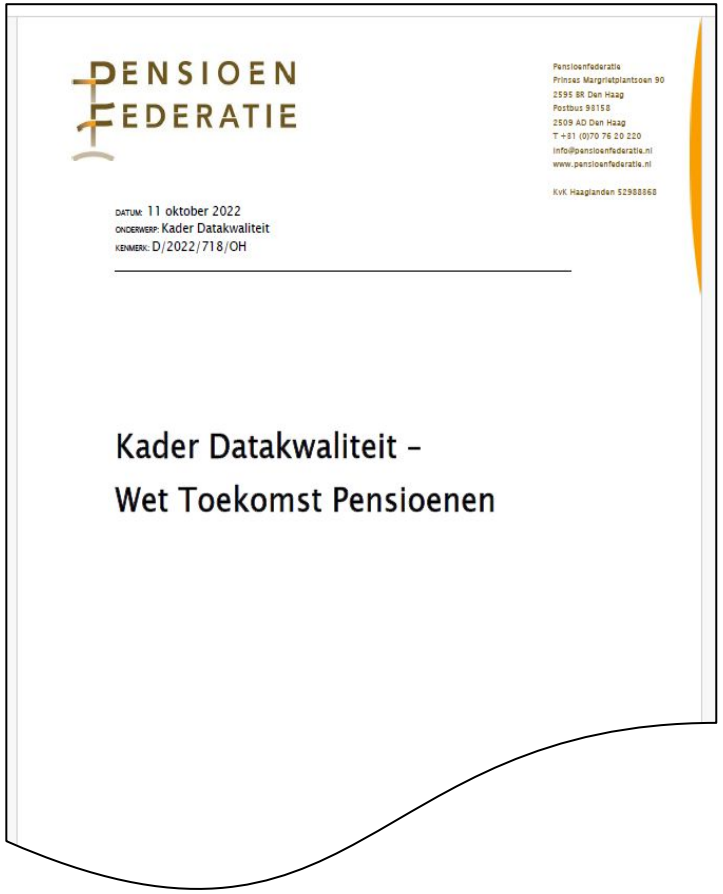
- Facilitate pension funds substantiate and guarantee data quality in a consistent and demonstrable manner before the transition.

How:

- Six phases of the data quality framework

Result:

- Substantiated assessment of the data quality
- Funded conclusion feasibility of the transition


PENSIOEN FEDERATIE

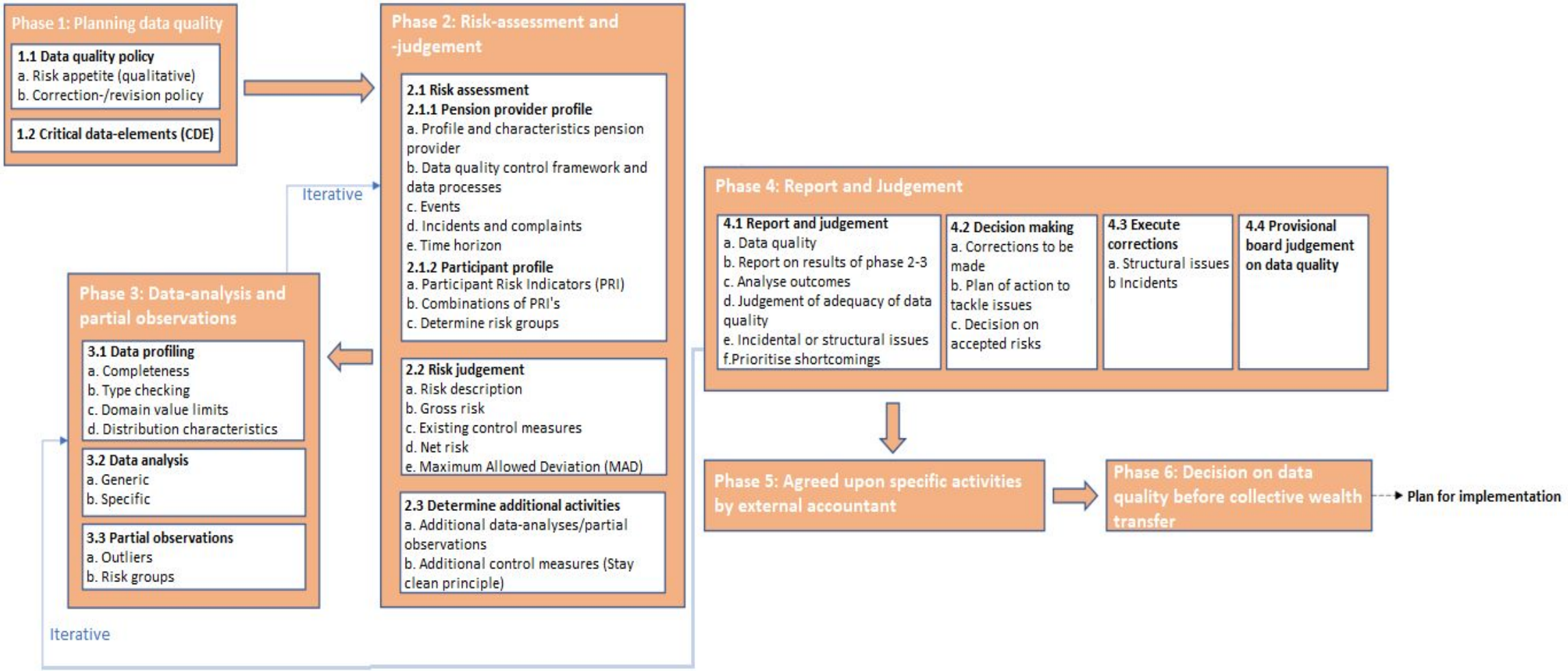
Pensioenfederatie
Prinses Margrietplantsoen 90
2595 BR Den Haag
Postbus 93158
2509 AD Den Haag
T +31 (0)70 76 20 220
info@pensioenfederatie.nl
www.pensioenfederatie.nl

KvK Haaglanden 52988868

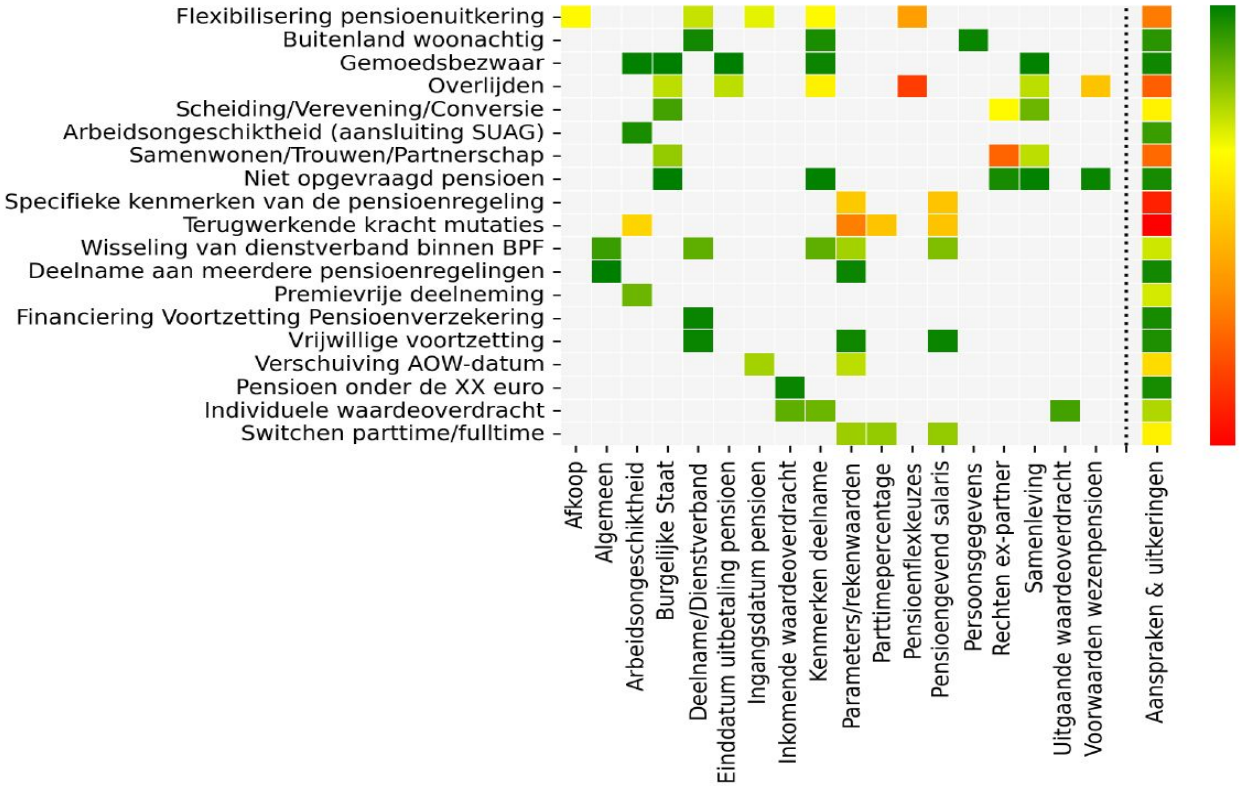
DATUM: 11 oktober 2022
ONDERWERP: Kader Datakwaliteit
KENMERK: D/2022/718/OH

Kader Datakwaliteit –
Wet Toekomst Pensioenen

Six phases of the data quality framework



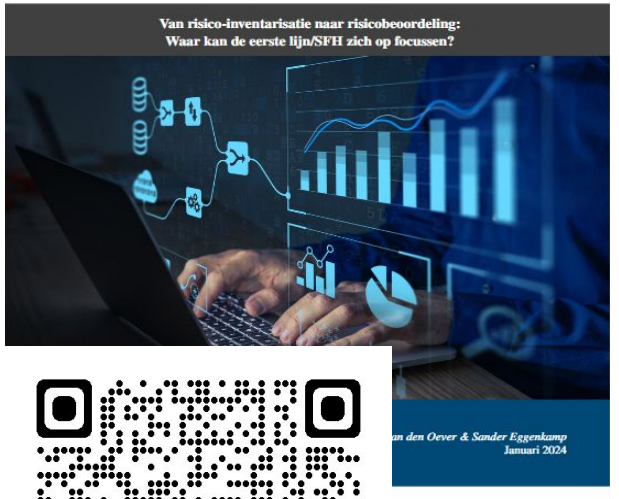
Linking risk indicators, data, and pension rights



Figuur 3: Subdomeinen KDE geraakt per DRI.

KDE: Kritische data-elementen.
DRI: Deelnemersrisico-indicator, een event of gebeurtenis in het leven van een deelnemer die veranderingen in de data ten gevolge heeft

PROBABILITY & PARTNERS



Read the white paper on our website

Workshop objectives

- The framework provides substantial guidance. However, funds need to specify specific topics in more detail.
- In this workshop we will discuss possible framework implementation issues and identify areas where further elaboration may be useful.
- We will exchange experiences based on case studies.

The aim is to exchange experiences and gain some insight on the following three topics:

1. Underpinnings of the MTA (Maximaal Toegestane Afwijking).
2. The optimal relationship between the MTA and the limit values from the correction policy.
3. The relationship between the existing process controls and the controls that are relevant for the risk analysis of the data elements.

CASE 1: HOW TO SUBSTANTIATE MTA?

MTA = MAXIMAAL TOEGESTANE AFWIJKING (MAXIMUM ALLOWED DEVIATION)

Case 1: Description pension fund

- Pension fund, approximately Euro 3 billion, with approximately 20.000 participants that have an average salary scheme (CDC) under the FTK.
- There have been several mergers and acquisitions in the past period. There were industry-wide collective labor agreements for the majority of employees, which covered the pensions, but there are also a limited number of employees with specialisms that were not covered by the collective labor agreements. The former companies have made separate company-wide agreements with these specialists about their pension scheme.
- After the several mergers, most employees do follow the industry standards except for some of these specialists who do own their specific rights from the past. Some specialists have been compensated around the merger for giving up some of there rights.
- There have been some questions about the data quality in the past as a result of the mergers and the merger of the pension administrations. However, findings in the past have al been corrected and recent research shows a high level of data quality.
- Given the high level of data qualtiy there is an ambitious correction policy which state that all discovered deviations from 1% should be compensated with a minimum of 40 euro's totally.

Case 1: How to substantiate the MTA?

- Pension funds have to define the MTA, Maximum Threshold Amount (Maximaal Toegestane Afwijking):
  - Counts for each individual pension.
  - Result of qualitative analysis of the risk profiles of the fund and of the participants.
  - It defines when extra safety measures are needed and is at the base of the decision if the transition can continue.
  - Can be a percentage or an absolute number.
- Why is it important?
  - A low MTA increases the risk that the transition can not continue. A high MTA increases the risk that the transition continues and that participants do not get what they are entitled to.
  - The amount of the individual pension claim is a factor to take into account when defining the MTA.

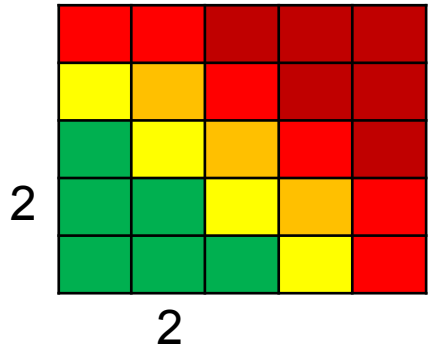
Case 1: How to substantiate the MTA*)?

1. Define an MTA based on the pension fund description of case (1)
2. Motivate your MTA choice.

*) **MTA = Maximaal Toegestane Afwijking (Maximum Allowed Deviation)**

Practical solution Case 1

1. What is the chosen risk appetite for the fund?



2. How is this defined in financial terms?

Impact rating	Financial	Legal	Reputation	Operations
Very high	…	…	…	…
High	…	…	…	…
medium/high	27mln	…	…	…
medium	22,5mln	…	…	…
low	15mln	No legal interference	No reputational damage	…

How to substantiate the MTA?

- Relate it to the total amount of capital or obligations

  15mln / 3billion * 100% = 0,5%

- This forms a basis for defining the MTA.

CASE 2: ALIGNMENT MTA WITH EXISTING THRESHOLDS

MTA = MAXIMAAL TOEGESTANE AFWIJKING (MAXIMUM ALLOWED DEVIATION)

Case 2: Alignment MTA with existing thresholds

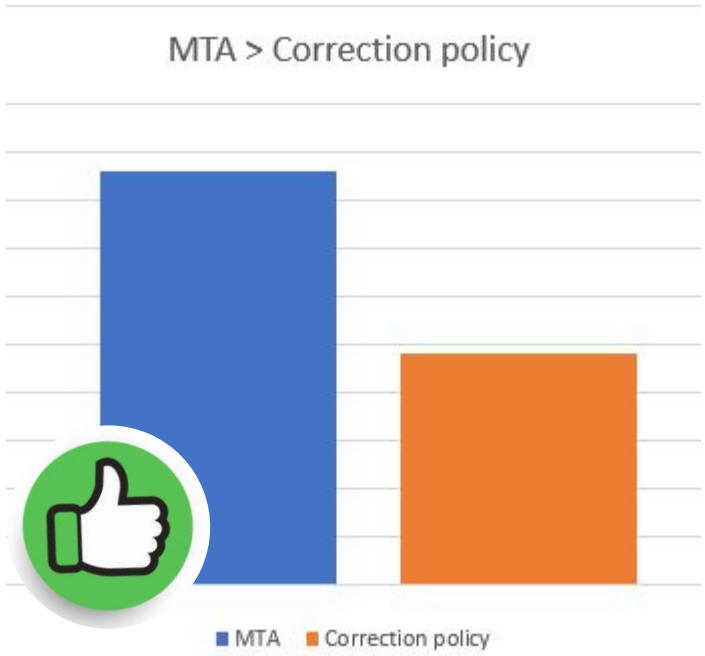
- Many funds already have a correction policy including thresholds that specify when to make corrections in case of for instance incorrect calculations of pension payouts
- These thresholds (limit values) ensure that recovery remains within limits and that a small deviation does not require a lot of administrative costs.
- The MTA can adhere to or deviate from the boundaries of the corrections policy.
- If a deviation is found that is not in line with the MTA, it may or may not need to be corrected. This depends on the limit values in the correction policy. It may be that a deviation falls outside the MTA but does not need to be corrected and vice versa.

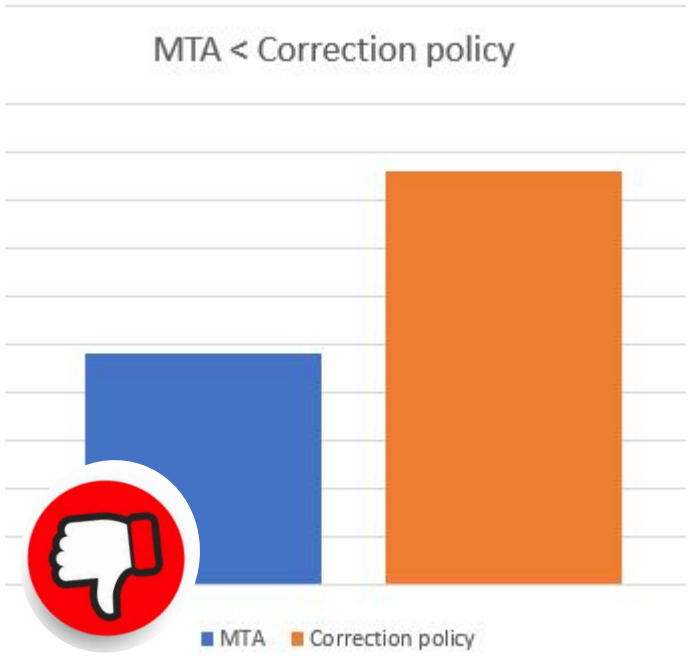
Case 2: Alignment MTA*) with existing thresholds

1. Is it recommended to set the MTA at the same level as the existing thresholds for correction in the correction policy?
2. What are pros and cons?
3. Do you prefer an alternative value for the MTA than the existing thresholds in the correction policy? Justify why.

*) **MTA = Maximaal Toegestane Afwijking (Maximum Allowed Deviation)**

Case 2: Alignment MTA and Limits in practice





The MTA and the threshold values for the correction policy might align, but it's not obligatory. Setting the MTA lower than the limit value of the revision policy would be unusual, as it would mean that a deviation from the MTA would go uncorrected. Therefore, they can either be aligned, or the limit values for revision and correction policies can be adjusted to a lower level than the MTA.

Case 2: MTA and Limits value in practice

MTA and correction policy have a different purpose and are supplementary. So there are different motivations in defining them.

Take into account the following for the correction policy

- 1% has a significant impact for small pensions compared to large pensions.
- Therefore: Correction policy as small as possible and in practice smaller than MTA.

However, the costs of revising and correcting can get easier become lager than the deviation itself:

- Leading to Ineffective costs!

Therefore: **absolute nominal** lower limit of, for example, 5 euros in correction policy

Example: During application migration, a deviation of one cent occurs among large groups of participants. Unfortunately there is no automated solution to correct the mistake. A lot of costs have to be incurred afterwards to repair this.

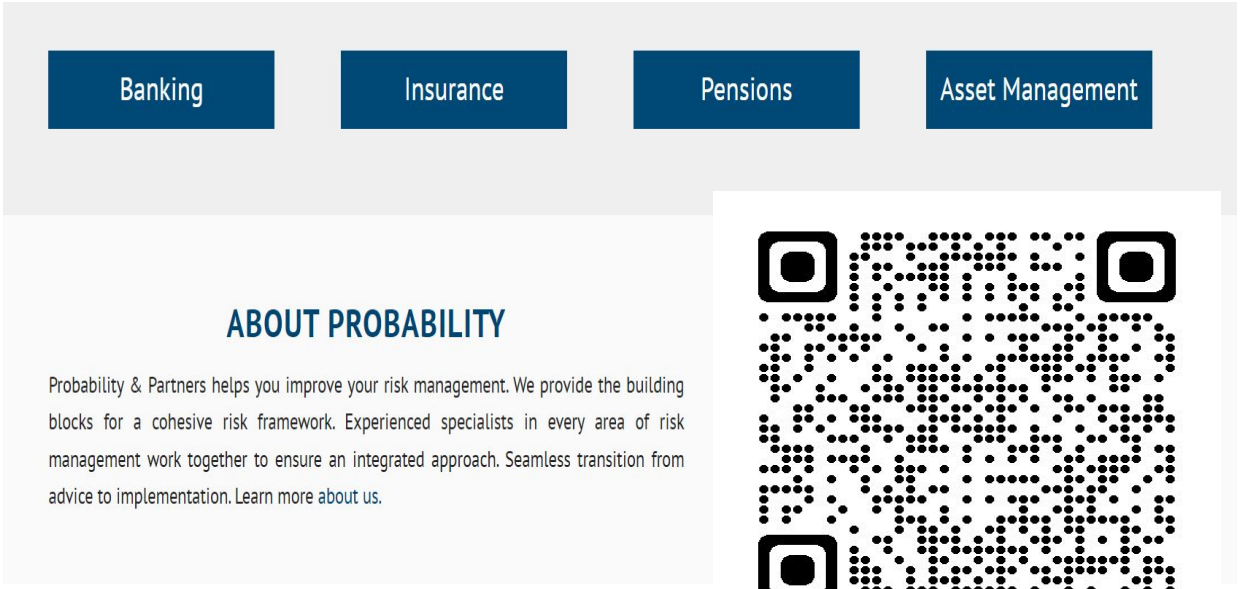
Wrap-up and lessons learned

- Main topics today
- Challenges Pension Funds
- Practical Solutions
- Other insights

Contact

Edward Roozenbrug
Senior Risk Management
Pension Funds

Amba Zeggen
Sector Lead Insurance



https://probability.nl