PASA Data Working Group

Use of AI in Pensions Administration - Embrace the Opportunity with Caution

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1. Introduction

Artificial Intelligence (AI) is quickly becoming part of our lives and holds significant potential for transforming administration. In October 2024, TPR published its **Digital, Data, and Technology (DDaT) Strategy**, outlining a five-year plan to enhance schemes by reducing burdens, improving risk targeting through innovative data collection and fostering market competition with AI-driven insights for better saver protection.

However, AI introduces unprecedented risks and challenges which need to be carefully managed to safeguard saver interests and maintain trust. The **FCA's April 2024 AI Update** emphasised a principles-based approach to AI regulation, promoting safe and responsible use of AI in UK financial markets and leveraging AI to drive beneficial innovation.

This Guidance aims to:

- Remind the reader AI requires high quality data. Keep data at the top of your priority list!
- Provide practical examples of how AI is being/could be deployed into administration
- Outline the necessary measures to mitigate risks associated with AI deployment in administration, with actions trustees can take to help understand how AI is being used for their scheme(s)

2. Data is the Bedrock of AI

Data is the foundation of AI, providing the essential information AI systems need to learn and perform tasks. Without data, AI wouldn't be able to make predictions or offer useful insights. The quality of data is crucial because it directly affects how well AI can work and its accuracy. Good, diverse data helps AI understand complex patterns and situations. In essence, data is what powers AI, helping it to innovate and improve various aspects of life and industry.

If administration is to capture the opportunities from AI, the data quality focus will only need to get stronger. High-quality data ensures AI models are trained accurately, leading to better predictive capabilities and more reliable outcomes.

Trustees should have high confidence in their scheme's member and governing data, with in-depth quality analysis and strong data management prior to implementing AI led processes.

3. Examples of Implementations

While AI is still in the early stages of industry adoption, there are noteworthy examples of how AI technologies have started to be integrated into administration to enhance efficiency and member services.

Below are a selection of practical examples:

- **Chatbots and Virtual Assistants** - Several pension providers have implemented AI-driven chatbots and virtual assistants to handle common saver enquiries. These AI systems can provide instant responses to questions about membership details, pot sizes, contributions and general pension information, enhancing member service availability and response time

- **Predictive Analytics for Member Engagement** - Several providers have started to leverage AI to analyse saver data and predict behaviours, such as the likelihood of early retirements or member choices. This predictive capability enables tailored journey planning and communications and product developments

- **Fraud Detection and Risk Management** - AI algorithms can detect unusual patterns in transaction data indicating fraudulent activity. By continuously monitoring data and its flows, these systems can flag potential fraud events for further investigation, thereby enhancing security measures

- **Automated Documentation and Processing** - AI has been implemented to automate processing of routine documents and forms. For example, change of personal details and beneficiary updates. This automation reduces processing time and minimises errors associated with manual data entry

- **PDF/scanned File Scrubbing** - AI technology is developing to review document files to extract data effectively. Examples of this include extraction of historic member data and improvement of electronic member records, as well as extraction of benefit requirements under Scheme Rules and production of draft benefit specifications

- **Investment Management Optimisation** - Asset managers are utilising AI to analyse market trends and optimise investment strategies. AI models can process vast datasets to identify opportunities and risks more quickly than traditional methods, improving portfolio performance and risk assessment

- **Member Feedback Analysis** - Some administrators employ AI to analyse member feedback from surveys, emails, and social media. Natural Language Processing (NLP) is used to assess sentiment and identify areas for service improvement, enabling organisations to align their strategies with member needs and expectations

- **Intelligent Knowledge Management** - Organisations are using AI to automatically categorise, tag and retrieve pensions-related knowledge from various sources, streamlining data retrieval and management

These implementations demonstrate AI's potential to enhance various components of administration by improving efficiency, personalising member interactions, bolstering security and optimising financial outcomes. While operational efficiency is the predominant early focus, as AI technology and familiarity and trust around it continue to evolve, its role in the pensions sector is likely to expand further, offering new solutions and improvements more widely.

As organisations embrace these possibilities, they can redefine their operational framework advancing the industry while safeguarding saver interests. By doing so, they'll enhance their competitive edge but also contribute to a more innovative, responsive, and secure pensions ecosystem.

4. Important Risk Management Considerations

AI offers transformational opportunities for scheme administration, but the risks are significant and must be carefully managed. To support the effective implementation of AI, we've set out below examples of key risk management considerations, with actions trustees can take to help understand how AI is being used for their schemes, the personal data held and the saver experience.

Understanding AI capabilities and limitations

Considerations

It's essential for organisations to comprehensively understand the capabilities and limitations of AI technologies being employed. AI systems are tools to augment human decision-making, not replace it. Misjudging AI's capabilities can lead to over-reliance, overlooking critical human oversight needs.

Key Steps for Pension Providers and Administrators

- Conduct thorough assessments of AI systems to understand their operational capacities and limitations
- Stay informed on developments in AI, ensuring the systems in use are up-to-date and compliant with current standards

Action for Trustees

Ask your administrator to set out their key considerations in assessing the AI technologies they're deploying, including both capabilities and limitations. Trustees should be aware of information which doesn't consider the limitations of the technology and focuses only on benefits

Ensuring data privacy and security

Considerations

AI systems require vast amounts of data to function effectively, which heightens the risk of data breaches and unauthorised access. Protecting saver data is paramount

Key Steps for Pension Providers and Administrators

- Implement robust data encryption and access controls to secure sensitive saver data
- Regularly audit AI data usage practices to ensure compliance with data protection regulations
- Establish clear policies for data retention and anonymisation
- Understand where data within AI is stored, geographical location and storage facilities. Ensure higher risks from data storage are mitigated

Action for Trustees

Ensure you understand how data is being stored and used, and that adequate data security is in place. Please refer to data security Guidance

Mitigating data bias and discrimination

Considerations

AI systems can inadvertently perpetuate biases present in data, leading to discriminatory practices and saver disenfranchisement

Key Steps for Pension Providers and Administrators

- It's important AI is implemented responsibly, with diverse datasets and professional expertise to train AI systems, minimising bias risks
- AI outputs should be continuously monitored for signs of bias or discrimination, employing corrective action where necessary
- - Establish procedures for member feedback, allowing for the identification of potential bias issues

Action for Trustees

Understand how data bias is being mitigated, and how saver feedback is being incorporated

Decision-making transparency

Considerations

The opaque nature of AI decision-making processes, often referred to as 'black boxes' pose challenges to transparency and accountability

Key Steps for Pension Providers and Administrators

- Develop clear documentation of AI decision-making processes and criteria
- Implement channels for stakeholders to review and challenge AI decisions
- Maintain detailed records of AI system updates to ensure audit trails and operational management

Action for Trustees

Understand how AI is making decisions that impacts the scheme and savers. Ensure all decision making is reviewed and material decisions continue to be made by the trustees with advice and documentation. Consider including warnings/caution to savers in communications about using AI to make financial/retirement decisions

Human review and oversight

Considerations

While AI can manage numerous tasks, human review and oversight, balancing AI outputs with human judgement, is critical to ensure accuracy, fit for purpose and bias management. AI will serve to enhance productivity and experiences, but shouldn't replace human quality controls and interactions with savers

Key Steps for Pension Providers and Administrators

- Define clear roles and responsibilities, ensuring human review and oversight in AI driven processes
- Define an AI lead, with the skills and capabilities to keep up to date with AI technology
- Train employees to effectively collaborate with AI systems, requiring critical analysis over automated outputs
- Remember the saver experience and keep access to a human led contact route

Action for Trustees

Ask administrators how AI is implemented alongside the team. Understand saver interactions with AI and human support. Trustees should seek out training and support in using AI

Scheme-Specific AI Applications

Considerations

UK pension schemes and legislation are complex with scheme-specific requirements and complexities shouldn't be overlooked

Key Steps for Pension Providers and Administrators

- Ensure the AI tools can be used effectively within the specific context and complexities of different schemes

- Conduct workshops focusing on AI applications and tools relevant to specific schemes handled by the organisation
- .Encourage collaboration sessions with AI specialists to address scheme-specific challenges and opportunities

Action for Trustees

Ensure you understand how your scheme specifics are being applied and allowed for the AI tools used by your administrators and other providers

5. Conclusion

AI offers remarkable potential to enhance administration functions, but organisations must proceed with responsibility and caution.

While most AI use today focuses on improving efficiency and accuracy, more advanced models, such as AI agents, are beginning to demonstrate the ability to plan, initiate and execute multi-step tasks with minimal input. For administrators, this could eventually support activities such as automatically preparing and submitting data extracts for dashboards, coordinating annual benefit statement workflows across systems or triaging saver queries and generating suggested responses with supporting documentation. These developments remain at an early stage but highlight the importance of laying strong data and process foundations today.

By adopting the measures outlined in this Guidance, organisations can mitigate risks and ensure AI contributes positively to the industry while safeguarding saver interests. Continuous improvement, regular evaluation, and proactive risk management will be crucial in navigating the evolving landscape of AI in pensions administration. Be curious, with caution.

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