VIEWPOINT

Data quality is a corporate risk management issue

As Covid-19 pushes more businesses than ever into the digital world, it has never been more critical to ensure data quality and security are at the top of the agenda for every board

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Within the insurance industry risk management is at the core of what we do. However, as businesses become more digitised, the corporate risks organisations need to manage are evolving and these new risks are now making it on to agendas at a boardroom level.

Boards are now familiar and cognisant of the potential of a cyber attack but are only just getting to grips with differing global data privacy regulations and the potential damage poor data quality can have on the end customer's experience and a business's operating costs.

Data is the lifeblood of any organisation and it is imperative information passed around the organisation is of high quality and fit for purpose. Boards also need to grapple with and implement appropriate controls so if things do go wrong, systems and processes exist that limit exposure. Black box automation or artificial intelligence (AI) solutions for underwriting or claims management also create a real danger, particularly in situations where data bias can influence customer outcomes.

Companies that suffer data breaches do not just face the wrath of regulators due to business disruption, though; customer confidence also plummets and the value of the brand erodes. These are the type of headline-grabbing nightmares companies dread and that risk is clearly understood at a board level. However, other less well-recognised yet equally fatal threats, such as poor data quality, the unethical use of data, data-driven operational failures and bias in AI systems, are much less understood and these risks often do not even reach the boardroom.

Regulation

Regulators are alive to these new risks and are already introducing broad direction on data risks for businesses under the banner of operational resilience or open finance initiatives. Standards and working protocols are aimed at ensuring firms consider the effect of poor data integration on a business's ability to operate in the digital world.

In its Annual Sector Views 2020 publication, the Financial Conduct Authority has made a call on businesses to recognise data misuse can increase potential harm to customers by compromising certain segments of their customer base and isolating those that are most vulnerable. The Chartered Institute of Insurance (CII) and rism management association Airmic are also reviewing their recommendations in respect of data practices and introducing digital and data risk management guidelines and professional standards.

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What can insurers do to ensure they keep data risk to a minimum, over and above implementing ISO 27001 Cyber Essentials or placing all of the accountability with a risk manager?

Data and ethics need to be brought into the heart of the boardroom. Leaders need to understand and be able to openly discuss the storage and ethical use of data before implementing solutions. Every organisation needs to devise and have a clear understanding of their ethical responsibilities in respect of the data they are collecting, so when they make strategic decisions they can be sure they are doing the best they can to protect customers by minimising the risk of accidently introducing a data bias into their product.

Businesses that choose to operate digitally, by definition, collect and process significant levels of customer data. Firms need to help customers understand what they do with that data; they should remove confusing or technological terms when explaining to customers how they will use their data. By making data practices simple, open and also by understanding the value of the data, firms can significantly reduce the risk of introducing bad decisions by the board and the wider business.

Those moving to trading digitally need to appreciate most technologies depend on protocols and standards to operate and these standards will develop over time, therefore an understanding of the options and a strategic way forward are critical to positioning businesses within that data economy.

Reporting and monitoring

Firms must also invest time, money and energy into understanding data quality. To manage the risk, they must have proper systems of reporting and monitoring in place. Firms that do not understand the quality of the data cannot properly mitigate against any operational risks associated with poor quality data. One of the most successful ways to improve data quality and remove operational inefficiencies is to work with common data standards across an insurer's own organisation and external parties. Using data and integration standards through the use of application programming interfaces (APIs) – which allow different technology solutions to pass data – will ultimately allow businesses to trade more quickly and with trust.

In the London commercial insurance market, the need to modernise and adopt online trading is well established and with the impact of the Covid-19 pandemic, the use of trading platforms has increased significantly. Using these new platforms through APIs is now a necessity rather than choice and ultimately it will reduce data risks through the application of defined, controlled protocols that are not subject to human error.

Finally, regardless of whether firms have a chief data officer or not, they need to take accountability for their data security and have it at the heart of their risk management practices. As the Covid-19 crisis pushes more businesses than ever into the digital world, it has never been more critical to ensure good data management is at the top of the agenda for every board. ■

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