

The Management of Risk

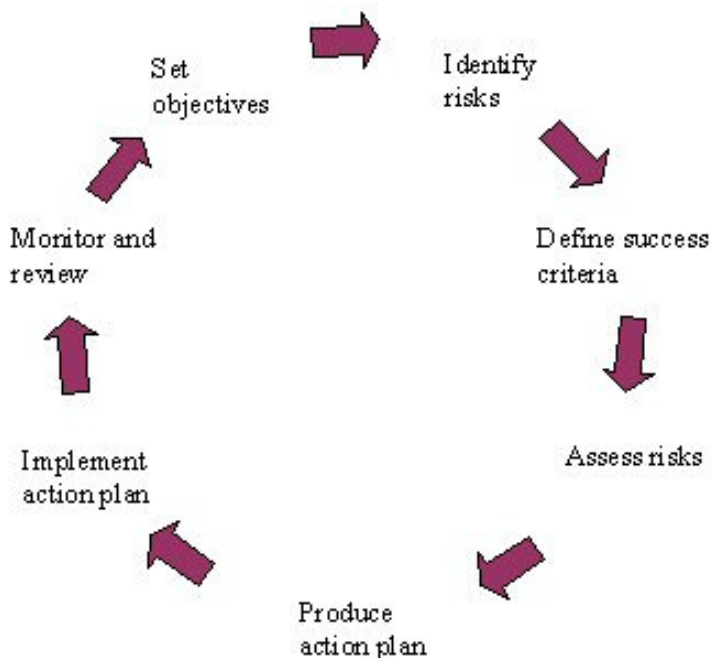
This note is intended to assist fellow trustees and clients following the introduction of Internal Controls and to provide a suggested framework for future management. The Pensions Regulator’s web site provides all the necessary background detail in Code of Practice #9, attached, and at -

<http://www.thepensionsregulator.gov.uk/codesOfPractice/internalControls/index.aspx>

Having adequate Internal Controls in place is a legal requirement. More generally I believe that risk management forms a very important aspect of fiduciary responsibility and I think that being able to demonstrate your controls and management framework will become essential. Unsurprisingly there is increasing Regulator focus on trustees’ governance or internal controls, with particular emphasis on –

1. Employer covenant, assessment and monitoring.
2. Managing conflicts of interest.
3. Scheme specific risk management, starting with a risk register.
4. Trustee Knowledge & Understanding (TKU) and hence trustee training.
5. Member Nominated Trustees (MNTs), transparency and communications.

Historically trustee meeting agendas will have been dominated by topic headings such as legal, actuarial, administration and accounting, investment and communication matters. I suggest a new regular agenda item of Governance, incorporation the above 5 points as standing items of reporting, monitoring and update. The risk management cycle is not rocket science, the quicker you get into the routine or rhythm the better!



The cycle can obviously be adapted for each of the above 5 points.

Risks will be scheme specific, however, to get things started, I would suggest discussion of –

- Investment risk, return and variation
- Pension concentration (my August Snippets refers)
- Litigation (including the Pensions Ombudsman)
- Weakening of employer covenant
- Conflicts of interest
- Global warming

A much longer and comprehensive list is attached for discussion at our next meeting. I’ll be interested in your thoughts on the difficult task of setting success criteria or triggers and measuring outcomes.