Key considerations

Applying an integrated risk management (IRM) approach

Information for trustees

This checklist will help you meet your main objectives as trustees by applying an IRM approach to your scheme. Members' benefits need to be paid as they fall due, and risks to achieving this need to be managed. A balance needs to be drawn between the employer supporting the scheme and having the ability to grow. You need to consider all risks in this context, and IRM is a way of doing this.

Step 1: Initial considerations	
Issues to consider	**Notes**
Have you decided who will be involved in the process ?	Look at who will have responsibility for co-ordinating the process and who will be involved in assessing risks.
How will you engage with your employer?	IRM works best when trustees and employers work together. Both parties then understand each other's capacity and appetite for risk.
How might you involve your advisers?	You may need more help in the early stages so you could ask an adviser to take the lead in the initial set up of an IRM framework, running it yourself later as it becomes familiar.

Step 2: Risk identification and initial risk assessment	
Issues to consider	**Notes**
Where should you start?	First, examine the risks from the scheme's current position. Starting with the employer covenant assessment is sensible as this is where you may have the least information and it is important to understand the extent to which the covenant can underwrite the other risks to the scheme.
Do you have a clear understanding of the employer covenant and associated risks?	A covenant assessment should include appraising the level of reliable cash flow available to help underwrite risks, how risks to the covenant may arise, how likely they are and their potential impact.

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Step 2: Risk identification and initial risk assessment continued...	
Do you have a clear understanding of the scheme's funding and investment strategy risks?	You should identify scenarios (such as interest rate movements, investment market movements, changes to life expectancy) where material risks could arise. You should assess how likely these are and what the impact would be.
Once you've considered risks individually, have you considered how they affect each other?	Look at how the risks in one area impact on the other two – are there any interdependencies? For example, how does covenant risk affect funding risk and vice versa? How does covenant risk affect investment risk and vice versa? Once you have considered all the risk types in pairs, you should consider all the risks together, re-addressing the same questions.
Have you discussed and collaborated with the employer on the analysis?	Ongoing engagement with the employer will enable trustees to start a dialogue. Does the employer agree with the assessment? Are the trustees and employer comfortable with the level of risk revealed? If not, can both parties agree what action is needed for them to be comfortable?

Step 3: Risk management and contingency planning	
Issues to consider	**Notes**
Do you need to apply any risk management strategies now?	If after the assessment you find that you or the employer are uncomfortable with the risks, you should work with the employer to see how the covenant can be strengthened, or the funding and investment strategies modified to resolve this. Have you planned what action to take if you or the employer become uncomfortable with the level of risk in the future?
Have you planned what action to take if the scheme and employer risk appetites are exceeded in the future?	You need to agree with the employer what actions need to be taken in various scenarios so you can move swiftly should such scenarios arise.

Step 4: Documenting the IRM framework and the decisions reached	
Issues to consider	**Notes**
Do you have a process for documenting your decisions and the agreed IRM framework?	Clear documentation of decisions is part of good scheme governance. It promotes shared understanding, continuity and consistency of decisions. It also allows action to be taken quickly, as well as providing a clear overview of the agreed strategy. Using existing documents as much as possible to record IRM is fine and will help to control costs.

Step 5: Risk monitoring	
Issues to consider	**Notes**
Have you decided how often you will monitor and review risks?	If risk levels approach the agreed comfort limits, you should monitor more often. As a minimum, you should consider conducting high level monitoring at least once a year.
What sort of risk indicators/ triggers are appropriate for your scheme?	You should base suitable indicators and triggers around the specific risk scenarios identified in Step 2. Broader indicators could include: interest rate movements, inflation expectations, investment market movements, scheme investment performance, scheme funding deteriorating (or improving) to a specified level, scheme liquidity needs as it matures, changes in employer covenant, dividends and changes in bulk annuity markets.
Have you considered creating a financial risk dashboard?	This could be used to monitor the key measures (such as risk parameters and performance indicators) for material risks.

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