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"If you don't have effective risk management, you don't have effective management."

Chance or Choice: Guidance on Effective Risk Management and Internal Control in Local Government (SOLACE/ZM, 2000)



What is risk?

Personal perception

Corporate perception



What is risk?

"The chance of something happening that will have an impact on business objectives"

"The effect of uncertainty on objectives"



Key risk tools

Risk Policy:

- the risk philosophy of the organisation, and in particular attitudes to, and appetite for, risk;
- explain how risk management is to be implemented;
- detail risk management responsibilities, and;
- highlight procedures that should be adopted in the risk management process.



Key risk tools

Risk Management Strategy:

- How will risk be treated and managed
- The governance processes, systems and tools that the organisation will use to manage risk

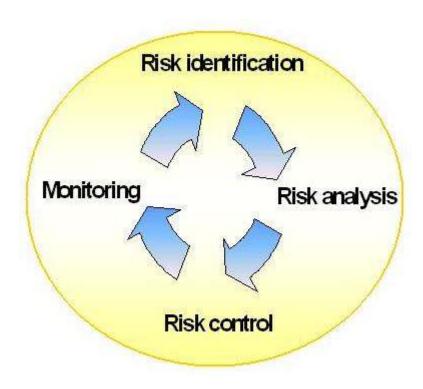


Key risk tools

The Risk Register:

- name of risk
- strategic objective affected by the risk
- risk category (ie investment risk)
- cause of risk
- potential impact of risk
- owner of risk
- risk rating score
- current controls
- additional control measures
- date of assessment
- risk status (using for example the "traffic light" system)
- direction of travel (improving/worsening/no change)







Risk identification:

- formal risk assessment exercises
- internal audit reports;
- performance measurement exercises;
- informal staff liaison sessions;
- liaison with other organisations, regional and national associations, professional groups etc;
- civil and criminal liability case law;
- service delivery plans developed by the organisation;
- business or service continuity plans developed by the organisation.



Risk Analysis:

- an assessment of their frequency and probability of occurring;
- an assessment of their severity and impact;
- an assessment of existing controls, and;
- cost effectiveness of additional controls.



Risk Control:

- Risk elimination
- Risk transfer
- Risk control



Risk monitoring:

- the risk control approach taken achieved the desired outcome;
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate;
- greater knowledge of the risk and potential outcomes would have improved the decision-making process and;
- there are any lessons to learn for the future assessment and management of risks.



- LGPS funds are risk management tools.
- Not just about investment risk!
- Investment risk is different
- Risk policy should be aligned with corporate risk policy



LGPS risk areas:

- Investment risk
- Liability risk
- Employer risk
- Resource and skill risk
- Administrative risk
- Regulatory and compliance risk
- Reputational risk



Investment risk:

- Inappropriate long-term investment strategy, including not making appropriate allowance for longevity and other demographic factors.
- Assets and an asset category including managers not delivering the required return.
- Systemic risk with the possibility of interlinked and simultaneous financial market volatility.
- Insufficient funds to meet liabilities as they fall due.
- Inadequate, inappropriate or incomplete investment and actuarial advice is actioned.
- Counterparty failure.
- Equities, industry, country, size and stock risks.
- Fixed income, yield curve, credit risks, duration risk and market risks.
- Alternative assets, liquidity risk, property risk, alpha risk.
- Money market, credit risk and liquidity risk.
- Currency risks.
- Macroeconomic risks.



Risk in the LGPS context Liability risk:

- long-term pension fund risks including:
- inflation
- life expectancy
- other demographic and workforce
- interest rate
- wage and salary inflation



Employer risk:

those risks that arise from the everchanging mix of employers; from shortterm and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities



Resource and skill risk:

Risks that can arise from:

- Inadequate staffing levels for the roles required
- Inadequate knowledge and skills for the roles required
- Inadequate resources to support staff in their roles



Administration risk:

- ICT failure
- Data quality
- Data protection
- Provider failure

Overlaps with:

- Resources and skills
- Compliance



Reputational risk:

"the current or prospective risk to the successful achievement of corporate objectives arising from adverse perception of the image of the administering authority which might give rise to a lack of confidence or trust on the part of LPGS stakeholders or the wider public."



Regulatory and compliance risk:

Risks arising from:

- General pensions legislation
- Scheme specific legislation
- Best practice and other guidance



\Thank you. Any Questions?

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\"Managing Risk in the LGPS" will be published in November 2012.

Participating organisations include:

Barnett Waddingham Essex Pension Fund Hyman Robertson Norfolk Pension Fund