

Managing Risk in the LGPS

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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)

The Risk Management Process



The Risk Management Process

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.

The Risk Management Process

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.

The Risk Management Process

Risk Control:

- Risk elimination
- Risk transfer
- Risk control

The Risk Management Process

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.

Risk in the LGPS context

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

Risk in the LGPS context

LGPS risk areas:

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

Risk in the LGPS context

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

Risk in the LGPS context

Employer risk:

those risks that arise from the ever-changing mix of employers; from short-term and ceasing employers; and the potential for a shortfall in payments and/or orphaned liabilities

Risk in the LGPS context

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

Risk in the LGPS context

Administration risk:

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

Overlaps with:

- Resources and skills
- Compliance

Risk in the LGPS context

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 LGPS stakeholders or the wider public.”

Risk in the LGPS context

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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Participating organisations include:

Barnett Waddingham
Essex Pension Fund
Hyman Robertson
Norfolk Pension Fund