



Institute
and Faculty
of Actuaries

Integrated Risk Management - What's it all about?

Adrian Bourne and Helena Mules



Agenda

What will we cover in today's session?

1. Looking at scheme risks as a series of cash flows
2. Linking covenant to funding and investment
3. Identifying correlated scheme risks
4. TPR guidance on IRM
5. Case Studies



Institute
and Faculty
of Actuaries

What does IRM mean to you?

Have you
read tPR's
guidance?

Is IRM a new concept?

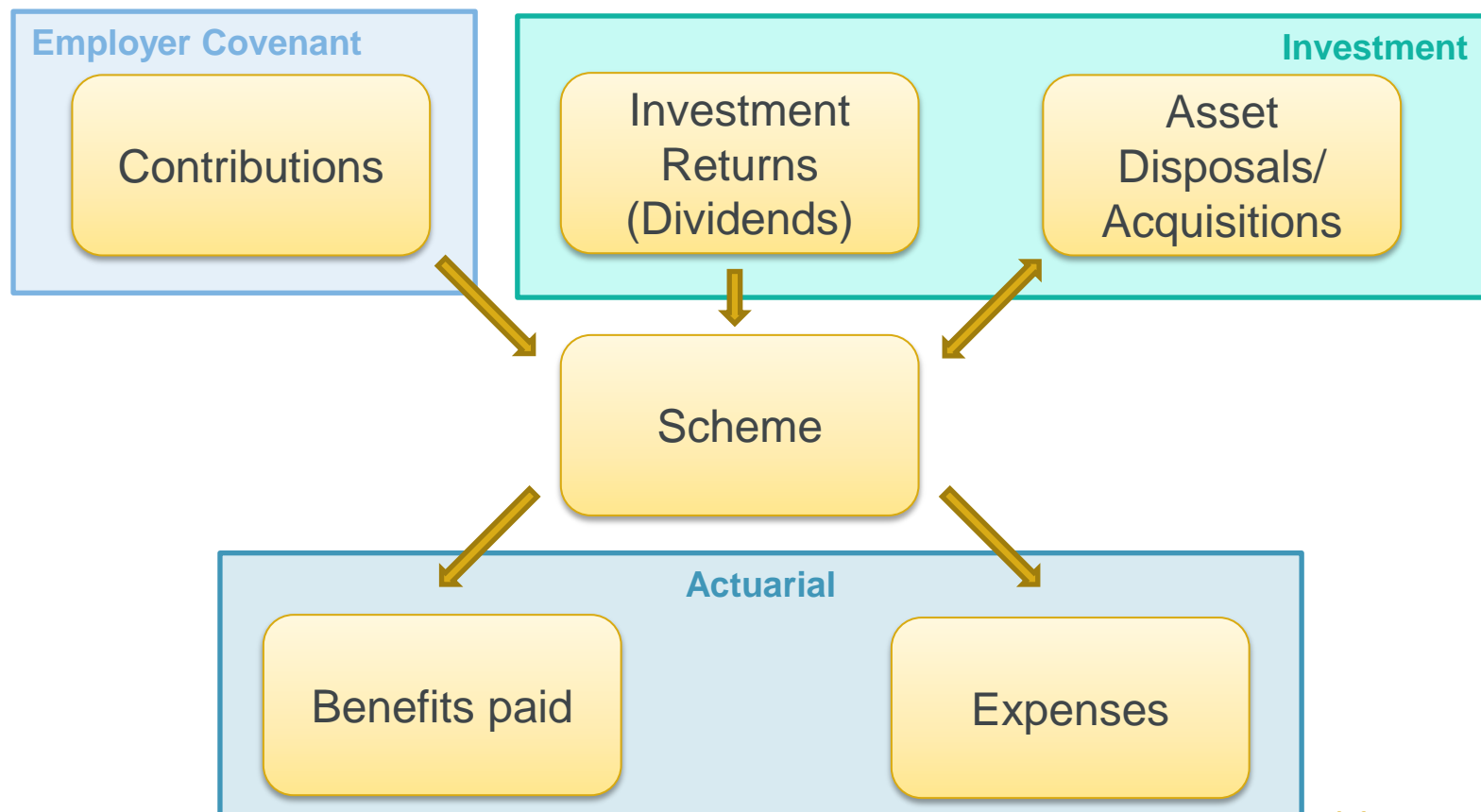
What are your
clients doing?

Has IRM
changed your
advice to clients?



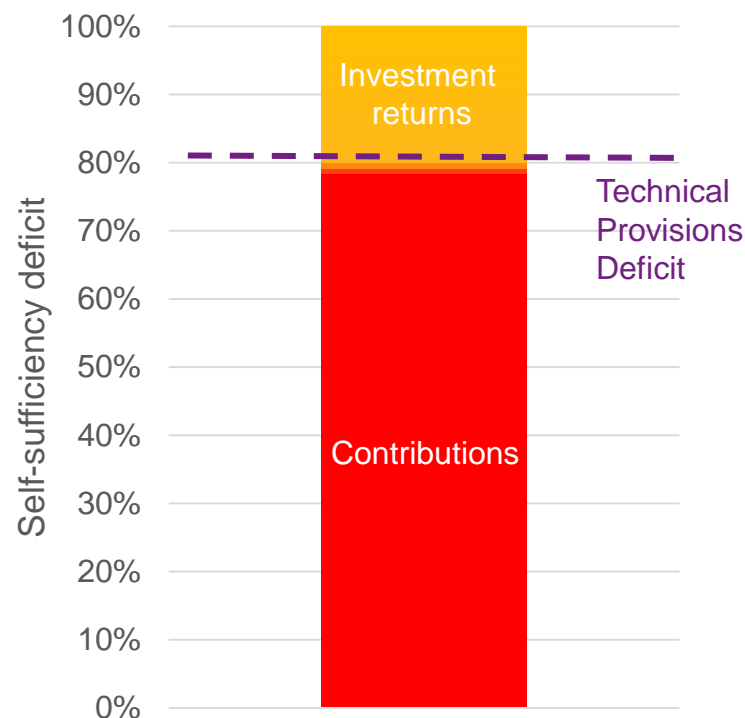
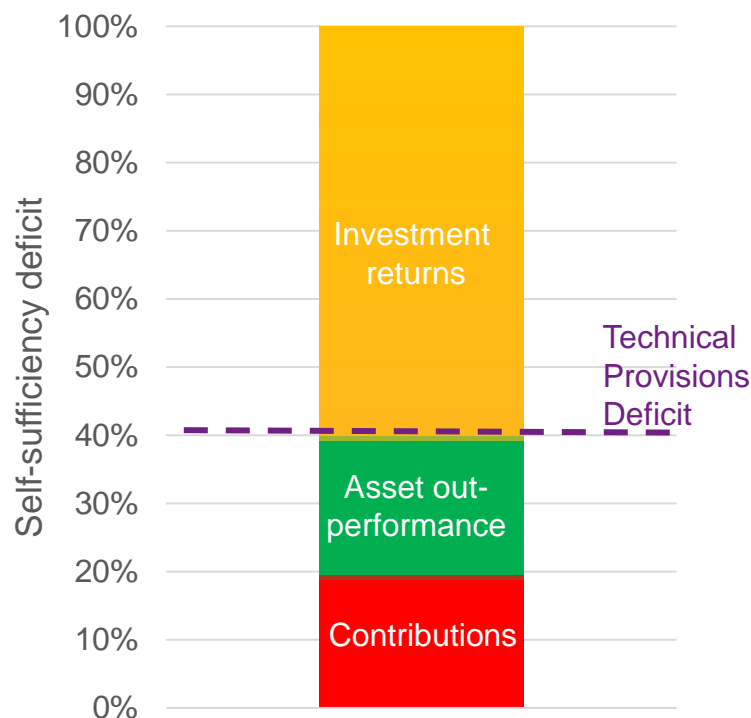
Institute
and Faculty
of Actuaries

A pension scheme is just a series of cashflows....



Technical Provisions: Defining the split between covenant and investment

When might you see these scenarios?



Institute
and Faculty
of Actuaries

IRM and covenant assessment

Assets at 31.12.15	Estimated funding deficit at 31.12.15	Est. NET solvency deficit at 31.12.15	VaR95
£171m	£62m	£85m	£60m
	Annual contributions of £8 and investment returns	Total solvency deficit £147m – ultimate target?	Risk underwritten by the covenant

Employer covenant is underpinning up to £207m of risk



- **Funding deficit/Recovery Plan payments** – compare to free cash flow to understand affordability
- **Solvency deficit** – taken into account in insolvency analysis/net asset coverage
- **VaR** – potential need for additional contributions, considered as an impact on affordability



Institute
and Faculty
of Actuaries

Contributions: Free Cash Flow and Affordability

Identifying Free Cash Flow

Operating cash flow	£x	
Less: maintenance capex	£x	Discretionary Non-
Less: schedule debt repayment	£x	
Less: interest/tax	£x	
Free cash flow	£x	
Less: scheme contributions	£x	Discretionary
Less: investments	£x	
Less: dividends/share buybacks	£x	
Net cash inflows/outflow	£x	

The Scheme should get an equitable share of free cash flows taking into account the demands of the Scheme and the Employer

Challenge is projecting into the medium to long term...



Institute
and Faculty
of Actuaries

Correlated Risks

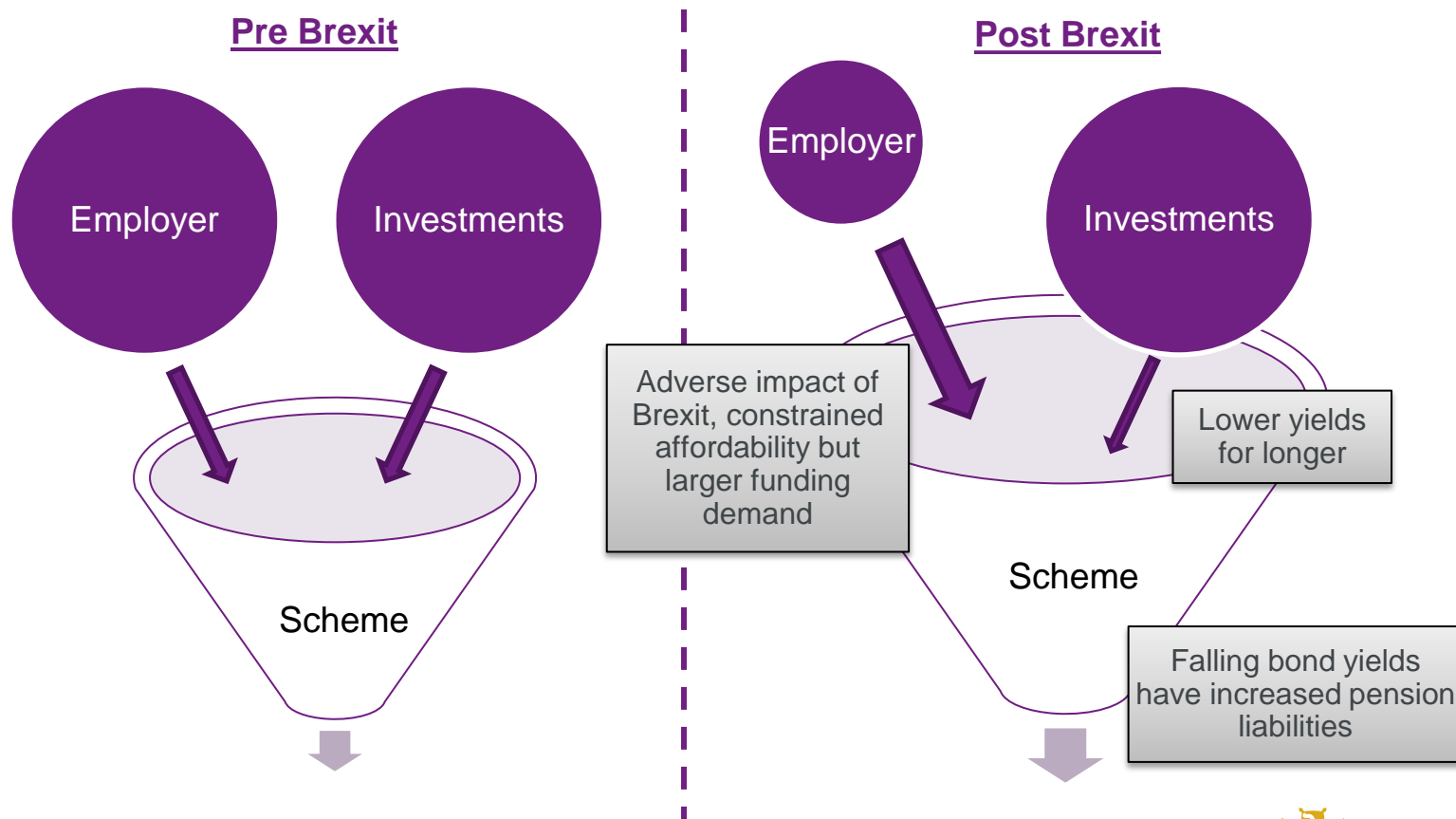
Risks should be considered in combination and the overall impact on the Scheme evaluated. For example:

1. A fall in **UK GDP** may adversely impact a **domestic** focused **sponsor** as well as a **UK equity** focused investment strategy
2. An increase in **inflation** may impact **sponsor costs**, reducing free cash flow whilst also increasing **scheme liabilities**
3. Improvements in **mortality** might adversely impact **scheme liabilities** but may represent a covenant improvement to a **life insurer**



Institute
and Faculty
of Actuaries

Brexit: A perfect storm (for some schemes)?



TPR: Integrated Risk Management (IRM)

What is it?

Framework within which trustees and employers

- assess covenant, investment and funding risks and their interaction;
- take decisions about how to manage/monitor these risk; and
- consider actions to taken if risks materialise.

Key benefits to stakeholders

- Risk identification
- Better decision making.
- Collaboration
- Proportionality
- Efficiency
- Risk management
- Transparency

IRM is a mindset as well as a process

What does IRM look like in practice?

Step 1: Understand

Understand what is needed and how to put IRM framework in place



Step 2: Risk identification/assessment:

- Covenant, investment and funding risks
- Assess risk capacity/appetite



Step 3: Manage Risk

Set strategies and make contingency plans



Step 4: Document process

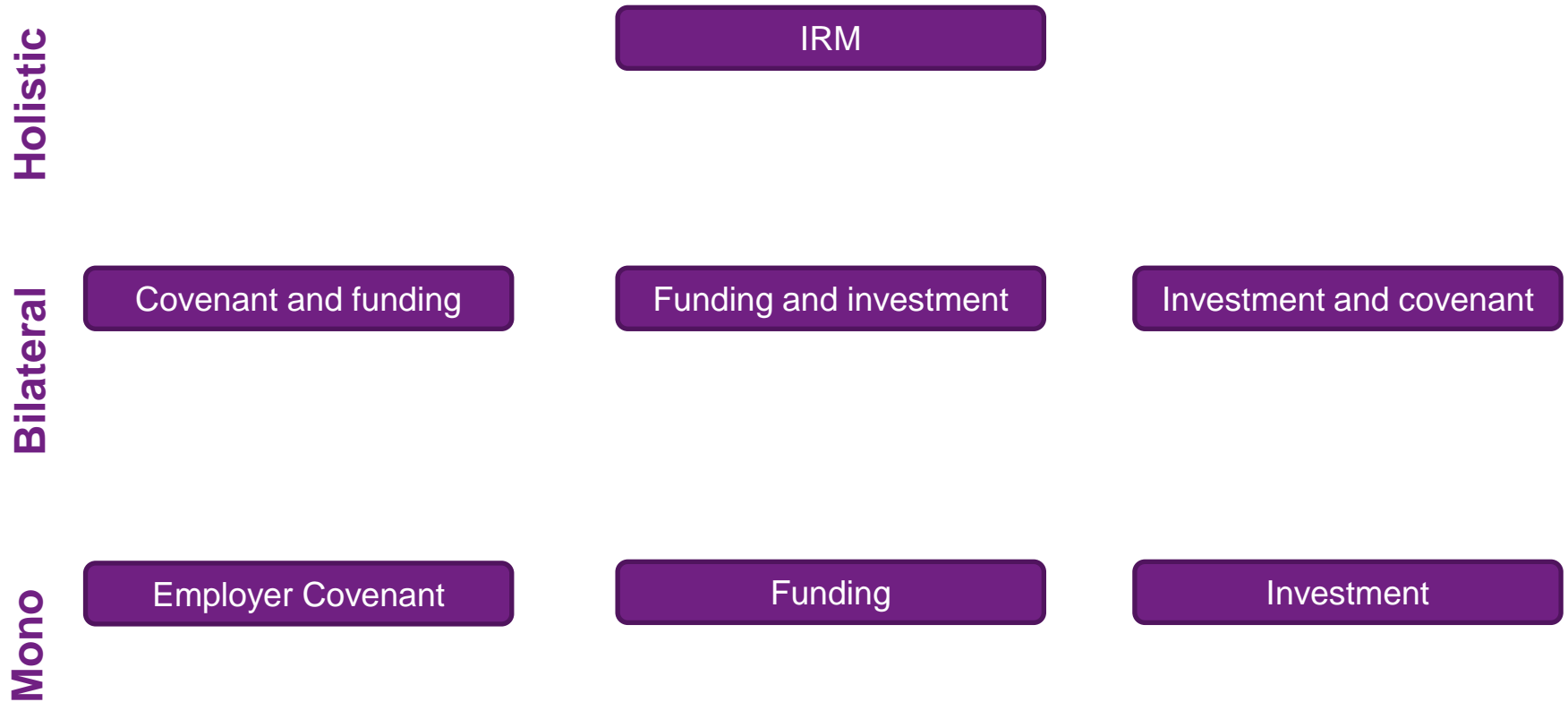


Step 5: Monitor/ implement plans



Institute
and Faculty
of Actuaries

Steps 2 and 3: What processes to implement?



Institute
and Faculty
of Actuaries



Institute
and Faculty
of Actuaries

Case Studies

1 December 2016

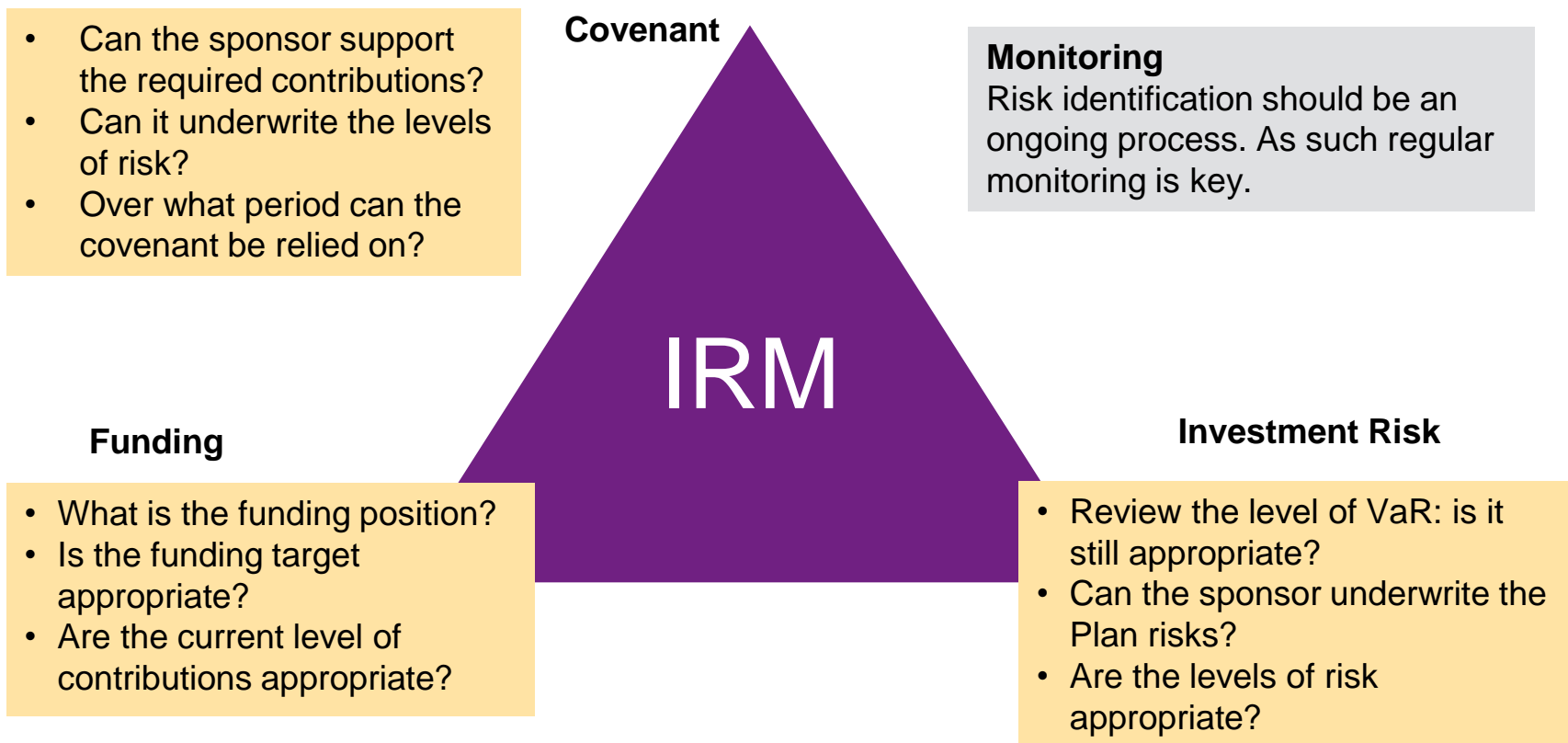
ertise
ponsorship
Thought leadership
Progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Case Studies

- Split into groups of 3 or 4 people
- Two different case studies
 - How covenant impacts on funding and investment decisions
 - Setting an IRM plan
- 10mins to read and discuss case studies
- Group debrief and discussion of each case study



IRM Recap



Institute
and Faculty
of Actuaries