

**The Actuarial Profession**  
making financial sense of the future

Risk and investment conference 2010  
Sally Bridgeland



**Pension fund governance  
a CEO's view**

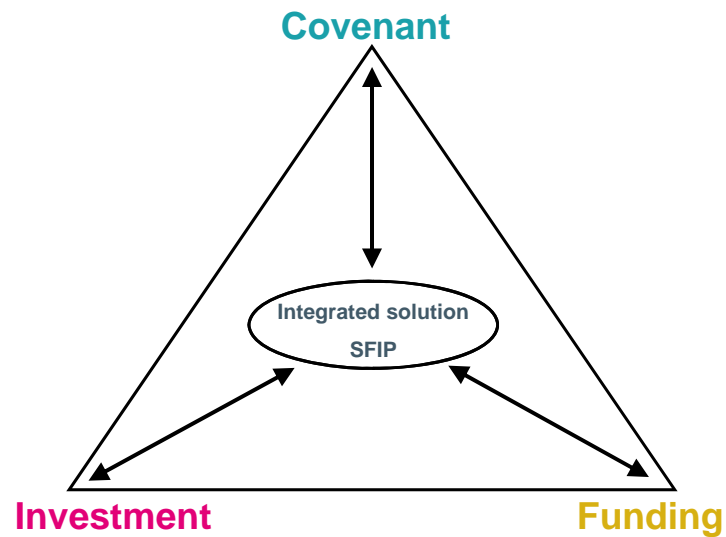
13-15 June 2010

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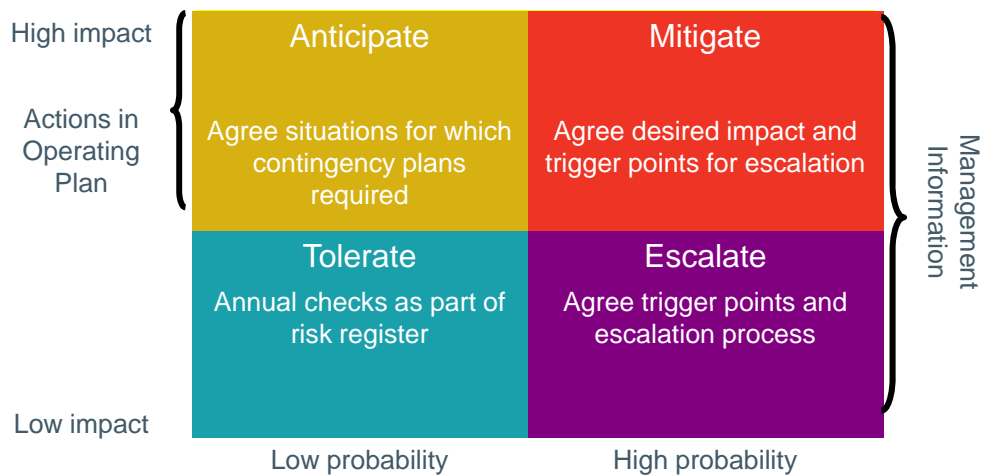
## Questions

- What financial risks do pension fund trustees need to manage?
- What resources and governance structures are needed?
- How should responsibilities and risks be measured and reported?
- Who is accountable for investment decisions?
- How can actuarial advisers and product providers help support pension fund trustees?

## Pension fund financial risks – the eternal triangle



## Managing risks



## Understanding the financial risks

- Data – factual information
- Communication lines – access and reporting
- Capabilities – expertise and advice
- Modelling – exploring the possibilities
- Stress-testing – thinking the unthinkable

*What matters? What should I worry about?*

*What would I do if it happens? How long will I have to react?*

## Our governance journey

- Impetus
  - Ability to act independently
  - Accountability
  - Based on plc structure
- CEO role introduced 2005
  - Governance Principles
  - Scope of delegation
  - CEO and team born
- Governance review 2008
  - Disbanded Finance and Investment Review Committee (FIRC)
  - Clarified role of the Board and the Audit Committee
  - “Mutual Expectations” for behaviour



## Flexibility designed for our capabilities

- Suits our in-house resource
  - CEO team/Trustee support (7)
  - BP Investment Management (BPIM)(30)
  - BP Pensions & Benefits (60)
- CEO and executive team designed for independence
  - Seconded to Trustee company
  - Take the trustee view
  - CEO advisers + Board advisers
- Recognise interdependence
  - Softer side of the sponsor covenant
  - Build goodwill, explore ideas together
  - “Mutual advantage”



Testing the flexibility of a hard hat



Investment Conference 2010

## What's different about us?

- CEO is a trustee company director
  - Ability to act as the Trustee and make decisions
- No Investment Committee
  - Improved clarity about who is, and isn't, making investment decisions
- In-house investment manager
  - Fund manager has single client



Range of activities



## Governance documents

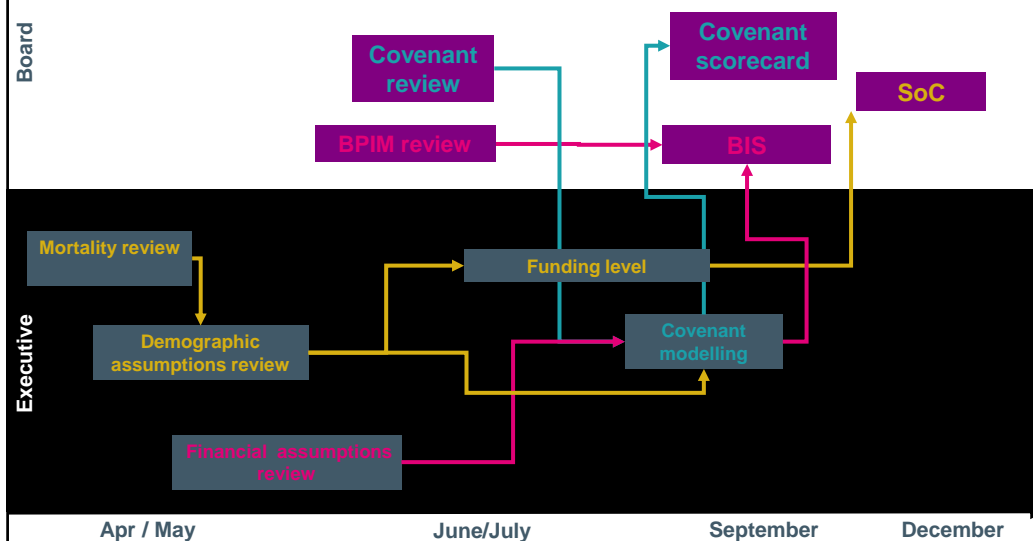


Oil rig under construction

- Governance Principles (incl Executive Limitations)
- Statement of Funding and Investment Principles (SFIP)
- Annual funding and contribution review (SoC)
- Benchmark Investment Strategy (BIS)
- Investment Management Agreement (IMA) and Guidelines
- CEO's performance contract
- Mutual expectations



## Annual financial risk review



## The CEO's role

### CEO Team

- Regular review meetings
  - Quarterly
    - Performance review
    - Outlook
  - Fortnightly catch ups
    - Head of BPIM
    - VP Pensions and Investments
- Take supporting advice
- Spring
  - Review data and assumptions
- Summer
  - Model covenant reliance

### Board

- July
  - Review investment performance for previous year
  - Review covenant
- September
  - Agree covenant scorecard
  - Agree benchmark investment strategy for following year
- December
  - Agree Company contributions
  - Set investment objectives for next calendar year



## Covenant reliance

- SFIP
  - Integrated funding and investment
  - Legally binding
  - Annual funding and contribution assessment
- Short recovery period
  - 5 years if below 100%
  - 2 years if below 90%



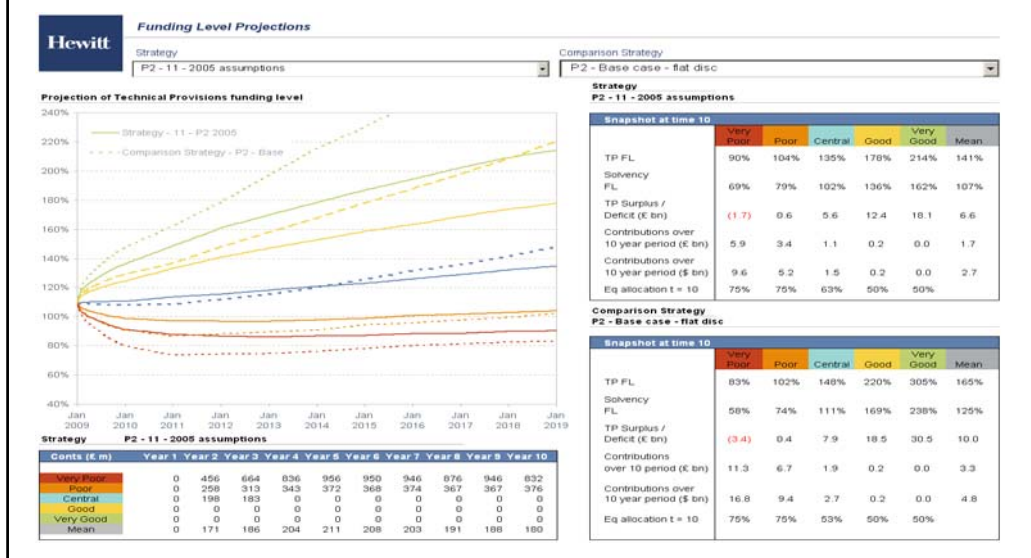
BP ultimate

### Covenant modelling

- Quantify covenant reliance
  - Balance sheet
  - Cash contributions
- Used to assess
  - Covenant capacity in the covenant scorecard
  - Impact of investment strategy changes



## Covenant modelling

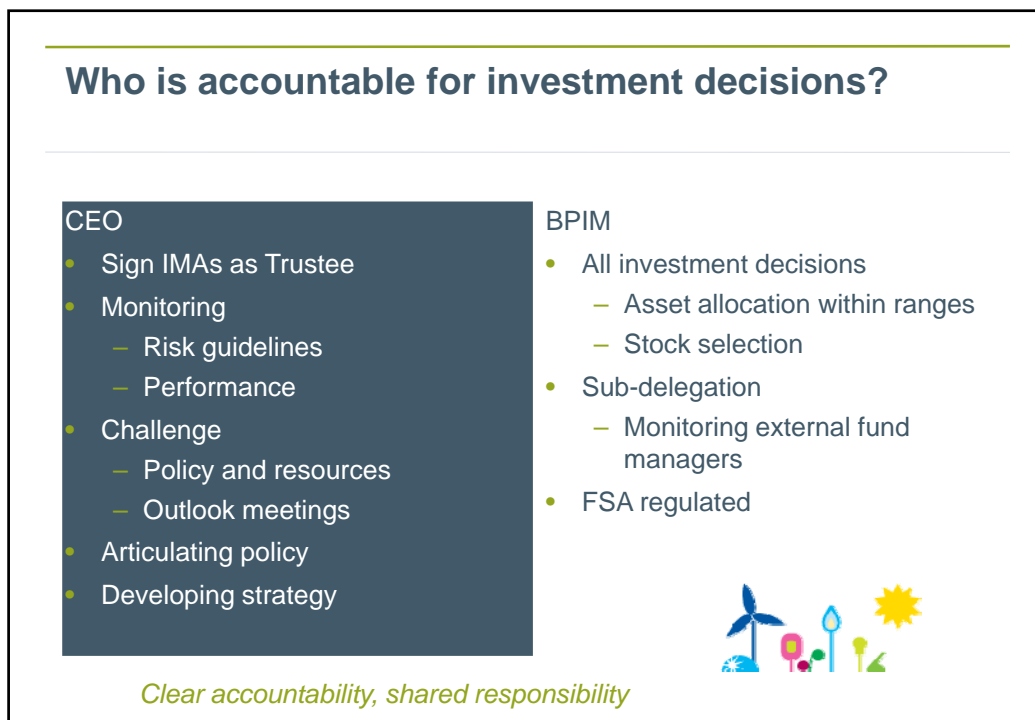
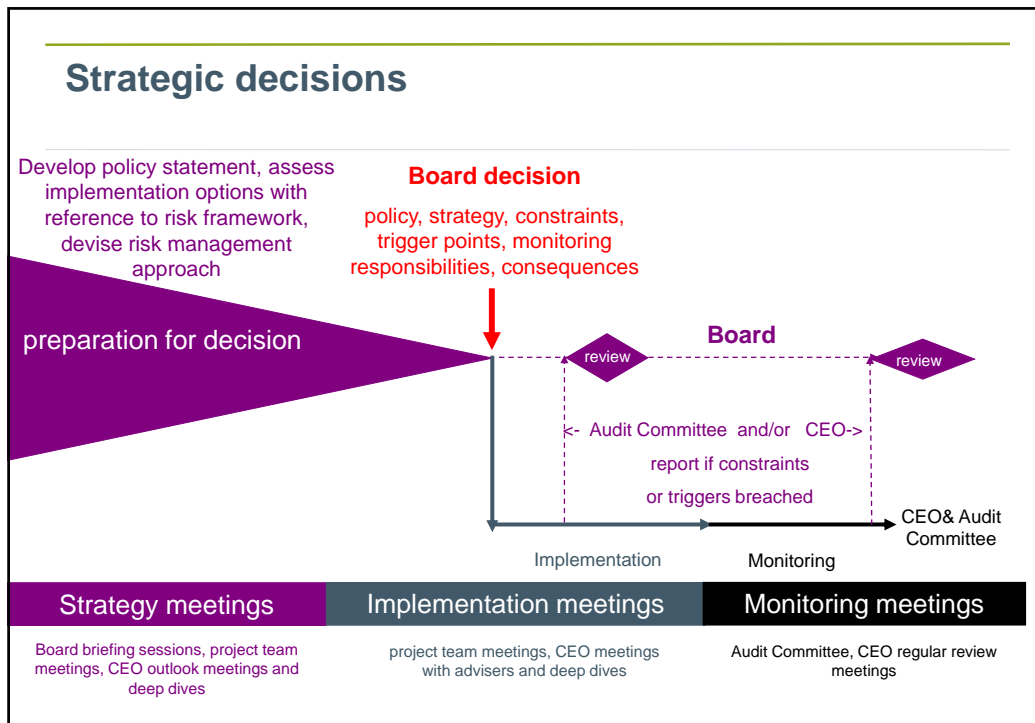


## How are responsibilities and risks measured and reported?

- CEO Reports to the Board
  - Performance
  - Strategy
- CEO Reports to the Audit Committee
  - Risk
  - Implementation
- Deep dive meetings
  - Insight into advice
- Board Intranet site
  - Audit trails and advice
- Weekly CEO e-mail updates

*Designed to suit BP's culture*







## How can actuarial advisers and product providers help support pension fund trustees?

- Understand the non-financial risks faced by the client
  - reputational, political, operational
- Respond to particular situations and the client's business and culture
  - what does risk mean?
  - what does diversification mean?
- Be bold and professional when governance structures are not fit for purpose
  - continuous improvement may be needed before a decision can be made

## Questions or comments?

Expressions of individual views by members of The Actuarial Profession and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

