Information for trustees and employers

A quick guide to

integrated risk management

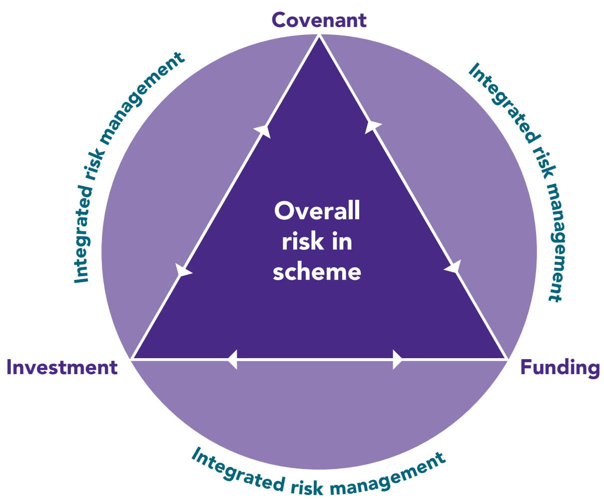
This quick guide is for smaller schemes, who may have limited resources, detailing how they could benefit from integrated risk management (IRM) and how to get started.

It's designed to be used alongside our full guidance on IRM and it may be helpful to use this guide as a starting point for discussions at board or trustee/employer meetings.

Adopting IRM helps trustees and employers identify and focus on what's really important for their scheme – helping to save time and costs in the long run.

What is IRM?

IRM is a way to help trustees identify and manage scheme funding risks. It proposes taking a holistic approach and looking at how risks around the employer covenant, funding and investment strategy are all linked and inter-dependent.



The diagram shows the three main risks as a triangle, with employer covenant, investment and funding risks at each corner. Each edge of the triangle examines the relationship between two risks. IRM is the surrounding circle that encompasses all these risks together. It examines the interrelationship of all the risks and how a change in one type of risk could impact the other two.

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Benefits of IRM

Some benefits of IRM are:

- better decision-making, because trustees and employers have a better understanding of risks and how they interact with each other
- open and constructive dialogue about risks to each other's strategies, which can result in better working relationships between trustees and employers
- more effective risk assessment, contingency planning and monitoring, as a result of focusing on the most important risks and the relationships between them
- greater efficiency due to more effective use of trustee, employer and adviser resources

Adapting IRM for your scheme

IRM doesn't need to be too complex and most schemes should be able to apply the key steps. The level of detail needed depends on the scheme and employer circumstances, as well as their needs and resources, allowing it to be proportionate.

You may already be applying an IRM approach in the way we set out in our guidance. If you are, you can use the guidance as a self-assessment tool.

There are five important steps associated with effective IRM, which can be seen in the diagram on page 3.

IRM is not a 'one and done' process. Risks and contingency plans should be reviewed and monitored on a regular basis to ensure that the level of risk the scheme is exposed to remains at an acceptable level for trustees and employers. Contingency plans should be reviewed and refined regularly so they are still relevant and fit for purpose.

The IRM process

Step 1
Initial considerations to put an IRM framework in place

Step 2
Assess key risk areas individually – impact and probability

- Covenant: see covenant guidance
- Funding: see DB funding code
- Investment: see investment guidance

Assess risks bilaterally

- How the funding plan should reflect the employer covenant
- How the investment strategy should reflect the employer covenant
- How the funding plan should reflect the investment strategy

Consider all risks together – links, impacts, concentrations

Assess risk capacity (trustees/employer)

Identify risk appetite (trustees/employer)

Step 3
Manage risk

- Set strategies
- Look at funding and contingency plans

Step 4
Document decisions

Step 5
Monitor scheme risks and act as planned to deal with those that arise

Steps 2 to 5 may overlap, be done in parallel, or be undertaken more than once

Case examples

Here are some examples to help illustrate how trustees of a scheme with limited resources might get started and how IRM can bring to light issues that have previously gone unnoticed.

Example 1 – Proportionate use of external experts

The trustees of a scheme decide that their scheme actuary is the best person to initially co-ordinate putting in place and implementing their IRM approach. This is due to the trustees' inexperience in this field. They want to learn, and consider it important to get to grips with the scheme risks as they are assessed. As a result, they are clear in their instructions that they want to be involved in building their IRM framework and, to save on costs and expenses, after it has bedded in they intend to take on responsibility for running it themselves.

Guidance: It may be a good use of limited resources for trustees to seek help in setting up the IRM framework so they can run it subsequently.

Example 2 – Assessing risks together

When assessing investment risk previously, the trustees looked at the employer covenant and reasonably assumed that it had good prospects and risk capacity.

When the trustees undertook a more detailed review using an IRM approach, they looked at the most likely economic events that could impact on investments and why. This enabled the trustees to identify whether there was some material sensitivity to particular economic scenarios and how the employer covenant would look in these scenarios. They identified a particular concentration of risk in one of the scenarios that could impact on the covenant, as well as the scheme's investment strategy. The trustees and employer agreed to monitor this risk closely and have a plan of action in case it should materialise.

Guidance: Integrated risk assessment can identify areas of risk (in this case between the investments and the employer covenant) that may be overlooked when analysing individual risks.

Our full guidance on IRM includes many more example scenarios and practical advice on implementing an IRM approach. We've also produced a checklist for applying an IRM approach. You can view and download both from our website at **www.tpr.gov.uk/db-irm.**