

ACA Conference, 6th February 2015

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Holistic Risk Management for Pensions Actuaries

– looking at risk from the viewpoint of the investor

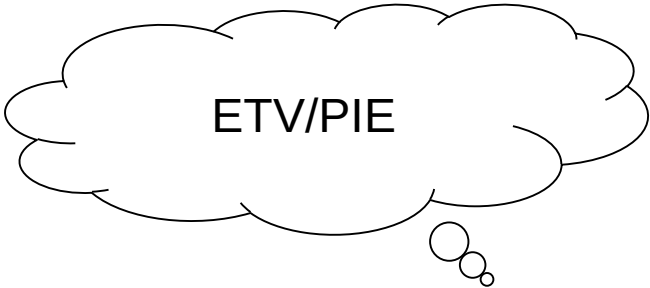


Holistic Risk Management for Pensions Actuaries

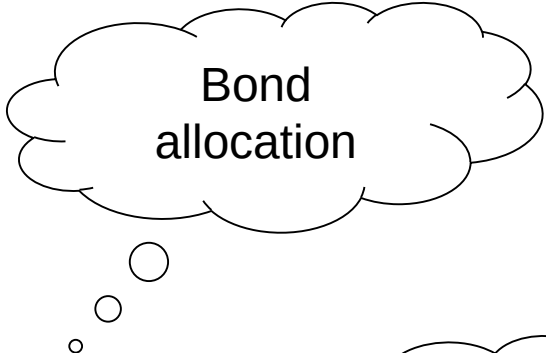
- Overview of presentation

1. Ask a pensions actuary ...
2. Ask a financial sponsor ...
3. What is in a risk framework?
4. What is risk appetite?
5. TPR – integrated risk management
6. Ask an investor (helicopter view) ...
7. FRC & Risk Reporting by sponsoring companies
8. Opportunities in RM for pensions actuaries

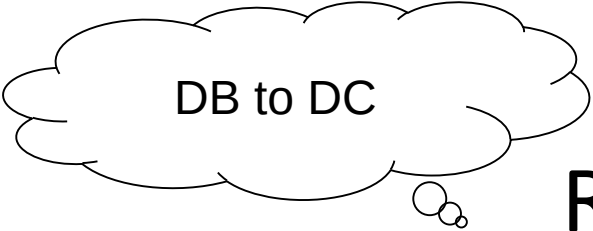
Ask a pensions actuary ...



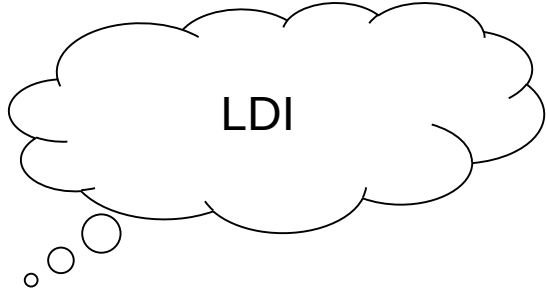
ETV/PIE



Bond
allocation

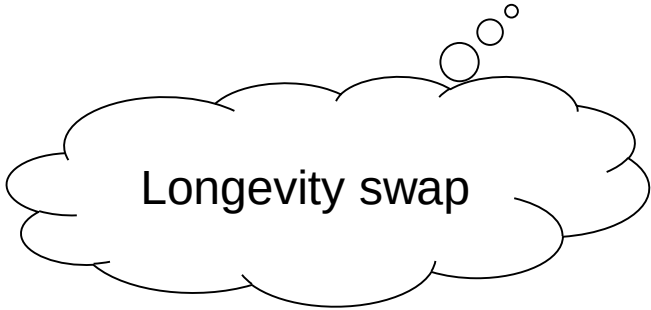


DB to DC

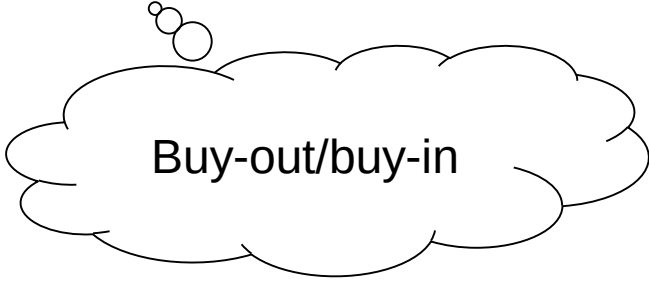


LDI

Risk management

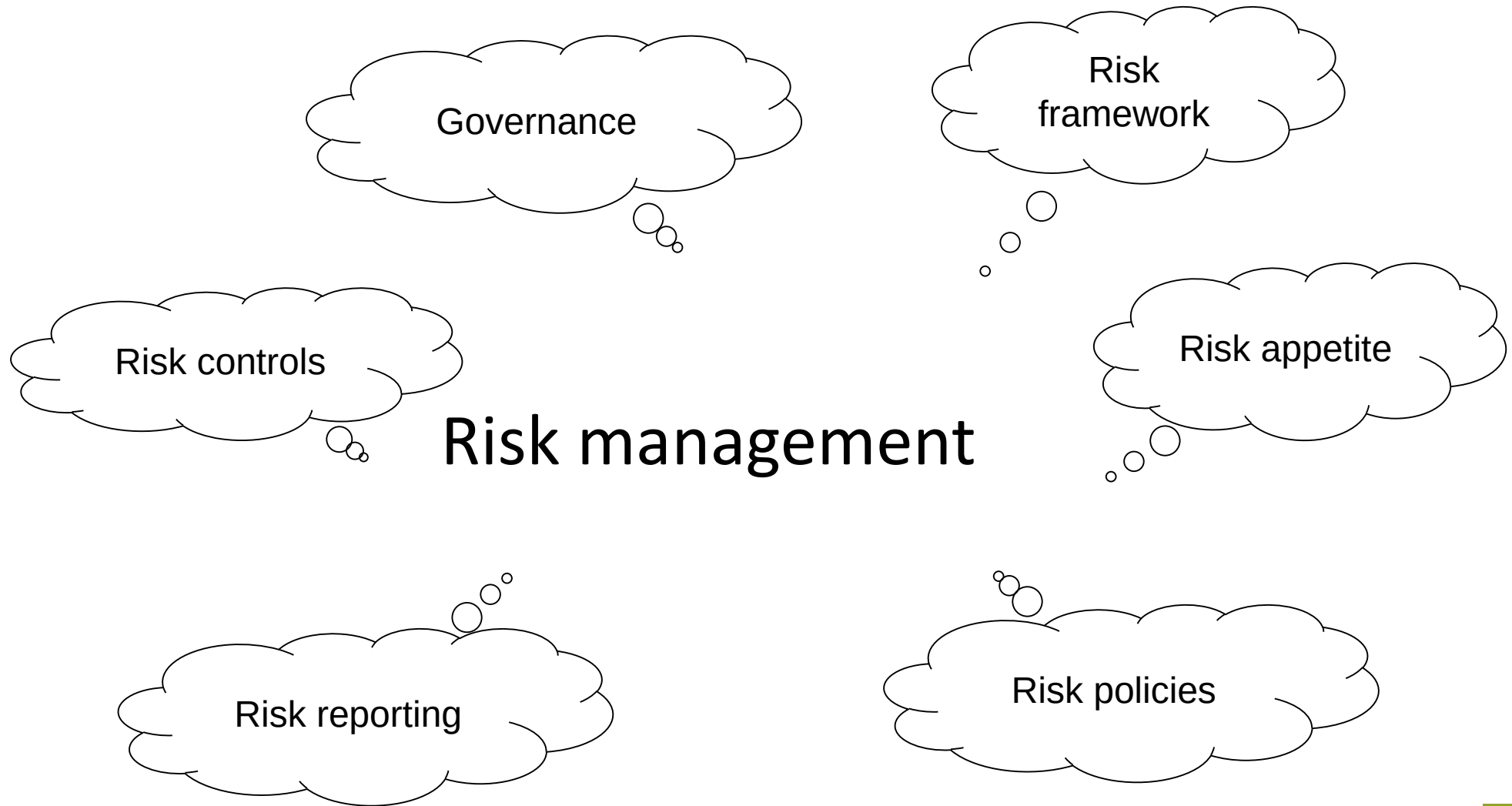


Longevity swap



Buy-out/buy-in

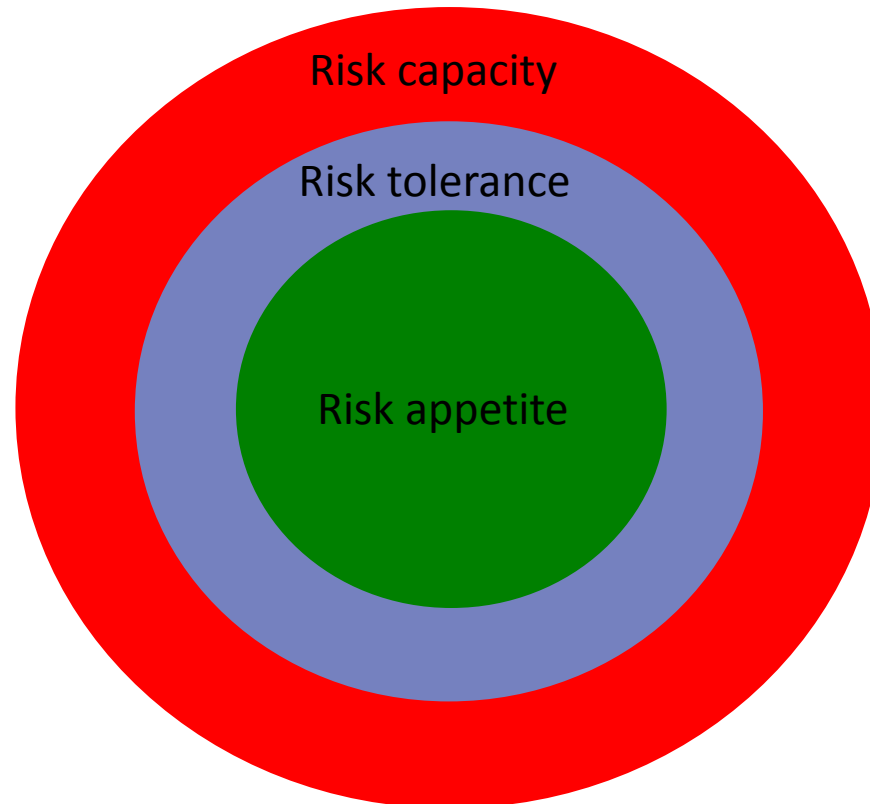
Ask a financial sponsor ...



What is in a risk framework?

- Overall risk definition
- Risk exposures
- Principles and minimum standards
- Roles and responsibilities
- Internal control system

What is risk appetite?



TPR – integrated risk management

2013 funding statement

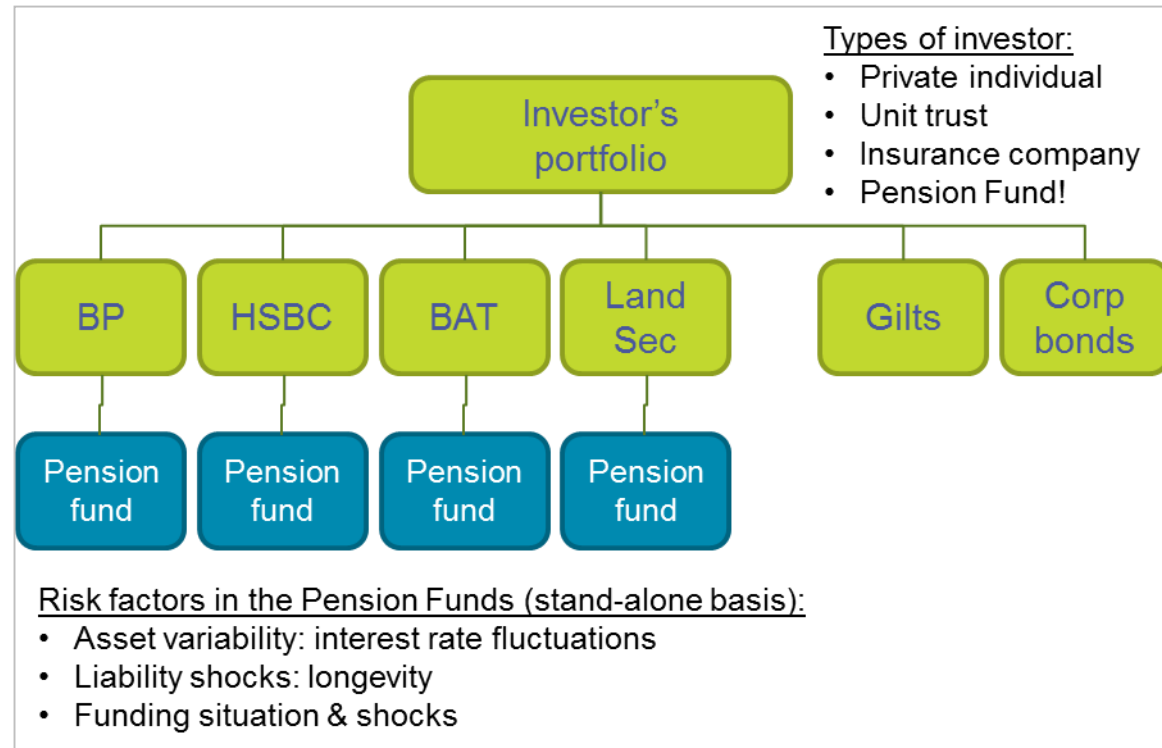
- Covenant, investment and funding

2014 code of practice

- Covenant, investment and funding
- Set appropriate risk appetite
- Appropriate management actions and contingency plans
- Framework to assess, monitor and control

Ask an investor (helicopter view) ...

- Total view of risk across the investor's portfolio

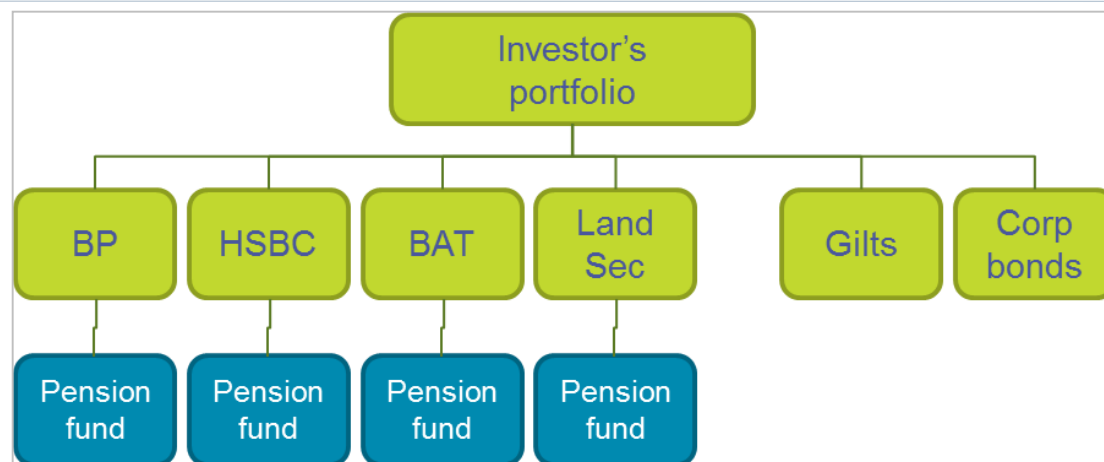


To assess his risk-reward profile, the investor wants to know:

- What risks accumulate across his portfolio:
 - Both systematic risks, and large specific risks (concentration / “clash” risks)
- For the diversifying risks, which are the peak stand-alone ones

Helicopter view of risk across the investor's portfolio:

- Questions for analyst to ask



Source of risk	Manifestation of risk	Impact on investor
Assets in Pension Fund	Interest rate fluctuations	Adds to portfolio beta?
Liabilities in Pension Fund	Longevity trends / shocks	Can accumulate across sponsoring companies
Size of Pension Fund	Relative to market cap	Specific risk
Funding ratio	Performance of covenant	Specific risk
Failure of hedging instruments	Reverse stress test	Tail risk event: specific, as long as not all hedged with same provider!
Valuation risk of liabilities	X% of standard annuity tables	Specific risk

FRC & Risk Reporting for listed FTSE companies [“sponsoring companies”]

Required from 2015 year-end R&A, i.e. Spring 2016

- Principal risks & uncertainties:
- Robust assessment: stress and scenario tests
- Reverse stress tests
- Long term viability statement: 3 to 5 years worth of risk

Opportunities in RM for pensions actuaries

Source of risk	Opportunities for actuaries
Pension Fund: stand alone	See slide 2
Pension Fund + sponsoring company	See slide 6 - TPR
Sponsoring Company disclosure	See slide 9
Sponsoring Company + investor viewpoint	See slide 8

