

How does risk management impact strategy (and why you should care!)

All trustees and their schemes face external and internal factors and influences that make it uncertain whether they will achieve their objectives or continue to operate in the way they want. Risks are events that may either hinder or enhance your ability to achieve those objectives. Managing risk is therefore iterative and informs strategy setting for achieving objectives, ongoing strategic planning and decision making. Done well, it should guide trustees to navigate the uncertainties of the pension landscape and make the most of opportunities when they present themselves.

A risk management framework will follow the trustees' strategy closely and seek to leave no stone unturned when it comes to making sure that you either stay on track or alter the strategy to compensate.

So how does risk management impact strategy?

There are at least 8 areas where risk management may impact your strategy:

1. In planning

Risk management plays an important role in planning for the future. Through an increased awareness of possible risks, trustees can create a strategy that effectively navigates those risks.

2. Informed decision making

With a more informed understanding of risk, especially emerging risks and opportunities, not only can you plan better, but you can also make quicker decisions across all aspects of your pension scheme. With more information about those risks, decisions can be made with greater confidence.

3. Demonstrates leadership

A strategy, driven by proactive risk management, helps demonstrate to advisers, outsourced providers and your executive support that as a trustee you are serious about following your strategy and achieving your objectives.

4. Improved engagement

Demonstrating leadership leads to greater engagement and the right mindset from advisers and providers. They are better motivated, more productive and on message when supporting you as trustees and your objectives.

5. Improved communication

When risk management is carried out well, everyone involved in running the pension scheme should have a good understanding of how the scheme is being governed, with clear communication and reporting channels. More broadly from a strategic perspective, good risk management can help prioritise visibility of what you need to communicate and how you want to do so, particularly to your members. This will have a big impact on what gets done, how quickly it gets done and whether it is achieving the right outcomes.



6. Financial savings

Incidents will incur both direct and indirect costs. Mitigation of risks will help prevent some of the worse outcomes from happening should a risk event occur, thus saving the scheme and the trustees potentially hefty financial and administrative burden and associated costs.

7. Ensures compliance with regulation

Identification of risks will help trustees and their scheme stay aware of any potential risks and be able to steer a course to minimise their impact. A risk management framework will help ensure that regulations are followed closely and leave no stone unturned when it comes to making sure that the scheme's journey stays on track.

8. Reduces uncertainty

Whilst it is impossible to prepare for every scenario and every issue, a risk management framework can help you establish a system for dealing with both foreseeable and unexpected challenges that may arise. Having an organised and well-established process in place when it comes to risk will help minimise uncertainty throughout all aspects of governing the pension scheme.

What are your next steps?

- Ensure your objectives are fully articulated and shared with all those involved with the pension scheme;
- Embed your risk management framework into everything you do;
- Identify, assess and manage risks across all aspects of the pension scheme;
- Report key risks and control effectiveness – use a dashboard;
- Track all actions to completion to improve the controls in place;
- Make communication an essential part of your risk management framework;
- Access all documents easily;
- Review your strategy in the light of risks on a regular basis.

If you are serious about achieving your objectives, don't put off implementing your risk management framework. Without one, your strategy could be vulnerable to uncertainty and unwelcome surprises.

