

Risk Management

We believe that effective risk management underpins trustee strategy, and may ultimately determine how successfully trustees and sponsoring employers achieve their objectives. Risks should be aligned to objectives so trustees understand what might hinder, prevent or expedite the achievement of their aims.

Our approach to risk management is to align strategic risk management with operational practices. This ensures effective controls are in place and working as they should be to manage identified risks, in line with risk appetite. The key to ensuring that risk management processes enable the right focus on what matters most is good risk reporting, management of information and assurance.

Active assessment of risks in trustee decision-making allows trustees to understand the progress they are making, whilst also keeping an eye on emerging risks that might knock them off course. Being alive to their risks in the context of what they are trying to achieve helps trustees check that they have the necessary resources, capacity, structure, advice and support to do the work they need to do. It also helps them to monitor their strategy, prioritise their activities and support smooth 'business as usual' operations.

A good understanding of scheme-specific risk can lead to a better understanding of the overall governance required, as well as help to establish a broader framework of activity across all areas of plan management and engagement with stakeholders.

We provide advice, facilitation and support on:

- Articulating trustee objectives, agreeing strategy and identifying risks
- Reviewing/developing risk reporting, including dashboards and reviewing assurance reporting
- Assessing and measuring risks, defining suitable scoring methodologies
- Reviewing controls to ensure effective control ownership, management, monitoring/oversight
- Developing and implementing risk management frameworks, reviewing risk governance structures
- Trustee own-risk assessments
- Risk management function holder
- Running risk management/governance workshops
- Development of assurance matrices
- Articulating risk appetite and tolerance levels
- Selection of independent assurance services/internal audit to trustees
- Reviewing and constructing risk registers, with a focus on aligning risks with strategic objectives
- Facilitating contingency/scenario planning (at both strategic and operational level)
- Selection and implementation of online risk management systems



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Risk Management continued

Case Study

Muse Advisory reviewed and developed this large scheme's risk management framework, aligning strategic and operational risks with the trustee's strategic objectives. Firstly, working with the trustee board to articulate its strategic objectives, we helped it identify the strategic risks that could prevent it achieving its objectives. We then facilitated the articulation of the trustee's risk appetite, and worked closely with the trustee executive to embed good risk management practices within the scheme's operations, ensuring that operational risks were within appetite.

We also developed a risk impact classification matrix to help the trustees determine risk materiality and to help the executive agree risk escalation processes.

In parallel, we supported the implementation of a 'three lines of defence' model, to ensure clarity of risk and control ownership (through risk and control self-assessments), and effectiveness of controls and assurance on activities being undertaken, particularly by outsourced suppliers. This included the selection of an internal audit partner and the development of an internal audit work programme.

Our approach helped the client:

- Agree their strategic objectives and identify key risks
- Embed good risk management into scheme operations
- Develop succinct and clear risk reporting that showed key issues, concerns and emerging risks
- Structure agendas with objectives and risks being integral to decisions and discussions on project work and BAU reporting
- Document their risk management framework and implement an annual review process to test its ongoing effectiveness.

Testimonial

"Muse helped us review the trustee's approach to managing risk, introducing and documenting a new risk management framework which set out the Scheme's risk governance and processes, dovetailing with operational risk management practices. Rosanne worked with me to facilitate workshops for the trustee board to agree its strategic objectives, risk appetite and key risks. Together we developed a reporting dashboard for the board, showing risk trends, incident reporting, project risk tracking and horizon scanning of emerging risks. She also worked with the operational risk manager to embed good risk management practices within the in-house trustee executive team. In parallel, Rosanne worked with the governance committee to embed a new internal audit work partner and agree the internal audit workplan. Rosanne brought insights and expertise into risk management practices with other large pension schemes and brought risk alive for our scheme so that we understood its value. The trust she built enabled us to tackle complex issues, whilst developing simple and effective solutions for the trustee board."

Head of Legal and Compliance of Trustee Executive Limited (supporting the National Grid UK Pension Scheme Trustee)

Own-risk Assessments

We think the own-risk assessment (ORA) should enable trustees to embed practical value.

We approach the ORA looking through a good governance lens, framing risks in the context of scheme governance and management to ensure that the approach taken feeds directly into trustee decision-making and scheme operations. Our approach encompasses the framework set out below:

Governance framework

- Board and Committee structure
- Roles and responsibilities
- Knowledge and understanding
- Management of advisers and providers
- Monitoring, oversight, continuity

Control framework and assurance

- Internal controls process
- Controls reporting
- Independent assurance

Informed by
Trustee objectives
Trustee journey plan
Scheme risk profile

Risk management framework

- Risk management function
- Risk management process
- Risk reporting

Documentation and processes

- Trustee policies and processes
- Scheme documents
- Decision-making
- Meeting management

Engaging stakeholders and acting on ORA outcomes



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Own-risk Assessments continued

We review how the various elements of governance and risk management are implemented in practice, so that we can help trustees demonstrate the following:

- How policies are implemented, and underlying processes evidenced to be working as expected
- How effectiveness of risk management is assessed, particularly to support the achievement of trustee objectives
- How the governance structure supports what trustees are trying to achieve, as well as business as usual and smooth scheme operations
- How environmental, social and governance factors are woven into investment decisions
- How risks are identified and assessed
- How conflicts of interest are prevented/managed
- How controls are implemented and tested for their ongoing effectiveness
- How business continuity plans support effective ongoing operations
- How assurance is provided and the quality of that assurance
- How the ORA is integrated into the Scheme's management and decision-making processes



The key output from the assessment is the ORA report, setting out the findings and a roadmap of recommended actions.

Own-risk Assessments continued

Case Study

Muse Advisory reviewed this large DB and DC plan's approach to risk management and is supporting it in the completion of its first ORA. We have worked with the audit & risk committee to ensure risks are articulated in the context of strategic objectives, developing the plan's risk profile – covering key risk exposure, risk appetite and key controls. We are working with them to develop a risk assurance matrix and undertake control self-assessments to test the effectiveness and proportionality of the controls in place, as well as the robustness of the assurance provided.

Through this first ORA, we are reviewing the trustee's risks and risk assessment, risk governance, and control and assurance framework, in the context of the Pensions Regulator's ESOG requirements.

Our approach is helping the client:

- Consider risk from both a strategic and operational perspective
- Review how controls are embedded into scheme operations
- Consider risk reporting that is focused on what matters and is meaningful
- Document their approach to risk management in a risk management policy
- Complete its first ORA in a value-added way, which provides a repeatable future process.

Testimonial

“Muse has provided us with a comprehensive framework to help assess the effectiveness of our existing system of governance and to challenge our existing approach to risk management. With Muse's guidance, we are expecting to see a number of improvements to our risk management framework which will put us in a strong position for when TPR's Single Code comes into force. Muse has helped us to identify and resolve gaps in our governance structure, underpinning our risk management framework. In particular, by aligning our risk management framework with our strategy, the trustee board is supported in achieving its objectives.”

Stuart Dunn, Head of Trustee Governance, DHL Pensions