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RISK MANAGEMENT IN THE AGE OF VOLATILITY

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VUCA

- Today's world is defined by volatility, uncertainty, complexity, and ambiguity (VUCA).
- Global markets, politics, climate and technology all contribute to this turbulence.
- Pension funds, being long-term investors, cannot avoid risk, but must manage and anticipate it effectively.

KEY QUESTIONS FOR TRUSTEES

1. What are the risks to the overall strategy for meeting their scheme objective?
2. What are the probabilities of these risks materializing?
3. How can these risks be mitigated?
4. What are some good practices for scheme risk management systems?

How do we protect member assets while still achieving growth?

RISK

- Risk is the probability of an event occurring that will hinder the scheme from achieving its key objective of providing an adequate retirement income.

- Risk management encompasses the identification, analysis, and response to risk factors that form part of the life of a scheme.

RISK MANAGEMENT

A pension scheme's risk management framework is the process designed to provide reasonable assurance regarding the achievement of objectives in terms of:

1. Effectiveness, Efficiency and resilience of operations
2. Reliability of financial reporting
3. Compliance with laws and regulations

RISK MANAGEMENT

- Effective risk management means attempting to control, as much as possible, future outcomes by acting proactively rather than reactively.
- Risk management offers the potential to reduce both the possibility of a risk occurring and its potential impact.

STEPS IN RISK MANAGEMENT

Identify the risks

The first step in Risk Management is to identify the existing and possible threats that the scheme might face. These may be:

- Reputational
- Operational/Procedural
- Financial/Investment
- Compliance
- Longevity
- Communication

STEPS IN RISK MANAGEMENT

Techniques for Risk Identification

- SWOT Analysis: Evaluating strengths, weaknesses, opportunities, and threats.
- Scenario Analysis: Considering different future scenarios and their potential impact.
- Risk Audits: Regular reviews of processes and controls.

STEPS IN RISK MANAGEMENT

Analyze the risks
Determining the probability of the risk occurrence and the consequences.

Perform qualitative or quantitative analysis to determine the magnitude of the threats consequences and how to mitigate them.

Risk analysis includes:
- Probability - Likelihood of a risk occurring.
- Impact - Magnitude of the consequences of a risk materializing.

STEPS IN RISK MANAGEMENT

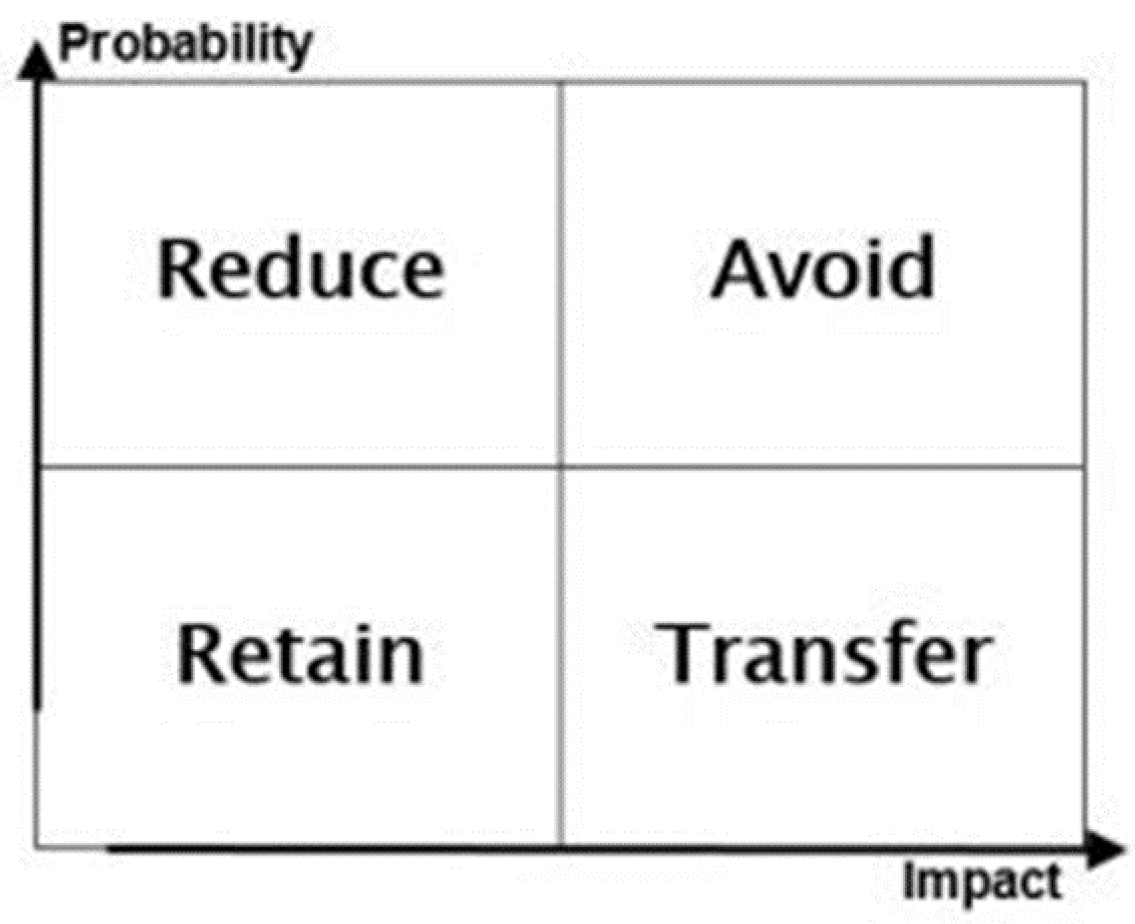
		IMPACT			
LIKELIHOOD	Very High (4)	4	8	12	16
	High (3)	3	6	9	12
	Medium (2)	2	4	6	8
	Low (1)	1	2	3	4
		Low (1)	Medium (2)	High (3)	Very High (4)

Risk Score	Rating
0 – 3	Low
4 – 6	Medium
6 – 9	High
10 – 16	Very High

STEPS IN RISK MANAGEMENT

Manage the Risks

1. Take the risk, when it is tolerable and insignificant. Where the cost of prevention, limitation or transfer may outweigh the risk itself.
2. Implementation of measures designed to reduce the impact on the scheme or reducing the likelihood of occurrence.
3. Transfer the risk when it is too high and it can be transferred to a third party e.g. insurance policy
4. Terminate the risk when it is too high, cannot be reduced and is beyond the risk appetite or implementing countermeasures which eliminate the impact on the fund or scheme.



RISK REGISTER

Goals/Objective	Risk Description	Risk Level	Control	Frequency	Owner	Review Status
Ensuring compliance with pension legislation	Failure to comply with pension legislation	High	Establish a mechanism where all trustees are alerted whenever there are any changes to pension law and other legal issues that might impact the scheme.	On-going	BOT	
			Undertake Trustee training on compliance requirements for pension funds.	Semi Annually	BOT	

GOOD PRACTICES FOR SCHEME RISK MANAGEMENT

1. Appropriate Mechanisms
2. Management and Oversight Culture
3. Investment Risk Control
4. Operational and Outsourcing Risk Control
5. Control and Monitoring Mechanisms
6. Information, Reporting and Communication

PRINCIPLES OF EFFECTIVE RISK MANAGEMENT

- **Risk Awareness:** Trustees and service providers must recognize that risk management is a shared responsibility.
- **Risk Appetite & Tolerance**: Define clearly what levels of risk are acceptable for the scheme.
- **Diversification:** The first line of defense - diversify across asset classes, sectors, and geographies.

PRINCIPLES OF EFFECTIVE RISK MANAGEMENT

- **Liquidity Management:** Maintain a balance between long-term investments and short-term liquidity needs.
- **Scenario Testing & Stress Analysis:** Model “what if” situations currency shocks, inflation spikes, or equity market crashes.
- **Governance Oversight:** Regularly review investment and risk policies; ensure accountability and documentation.

ROLE OF TRUSTEES IN SAFEGUARDING MEMBER ASSETS

- Trustees are fiduciaries, not speculators their duty is prudence over performance chasing.
- Approve and monitor a comprehensive risk management framework, not just rely on service providers.
- Demand risk-based reporting from fund managers and administrators.
- Ensure compliance with RB Act, regulations and guidelines and alignment with the scheme’s strategic plan.
- Promote capacity building - trustees must continuously train to understand emerging risks (cyber, ESG, geopolitical).

ROLE OF TRUSTEES IN SAFEGUARDING MEMBER ASSETS

- Ensure a strong risk culture is established within the BOT and its agents. This is accomplished through committed leadership, clear identification of responsibilities, and a continuous and comprehensive evaluation process.

SAFEGUARDS FOR SCHEMES

- Develop and update a Risk Management Policy.
- Conduct annual risk assessments with a clear action plan.
- Align the Investment Policy Statement (IPS) with risk appetite and funding level.
- Use risk dashboards and heat maps for board-level monitoring.
- Regularly engage actuaries, investment advisors, and auditors to identify emerging vulnerabilities.
- Build resilience through governance - timely meetings, proper minutes, decision tracking.

TAKEAWAY

- Risk is inevitable - loss is not.
- The goal is not to eliminate risk, but to understand, anticipate, and manage it.
- Safeguarding member assets in this age of volatility requires:
  - Disciplined governance
  - Diversified investments
  - Informed trusteeship
  - Continuous adaptation
- Ultimately, good risk management is good member protection, it ensures that retirement promises made today are deliverable tomorrow.

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