THE CHURCH OF ENGLAND

Our Integrated Risk Management framework has been developed to manage the risks that could ultimately result in members of our schemes failing to receive the benefits they are entitled to.

Types of Risk

We operate a variety of pension schemes, each with different features and levels of complexity. The risks we face are inter-related and superimposed on each other:

Integrated Risk Management circles
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We operate in a legal and regulatory environment that we have little control over, and which is subject to change. Our operations encompass the management and processing of member, employer and financial data and assets, so we are exposed to operational risk. We are trustee to several defined benefit schemes which involves managing the inter-related risks of investment, funding and covenant, all of which themselves are also affected by operational and regulatory risk.

Our approach

Our integrated risk management framework ensures appropriate controls and processes are in place to ensure:

- Risks are identified, assessed, reported and monitored
- Risks are managed and mitigated (where possible and appropriate) in an integrated manner

Our staff and external advisers provide risk management information, tools, analysis and insights to the Board.

A second line of risk management is provided by the independent functions of the internal and external auditors.

Our approach to risk management is embedded via three key elements:

- Risk appetite
- Risk management processes
- Risk governance

Risk appetite

Risk appetite expresses the desire or target level of risk that we are prepared to accept in the pursuit of our objectives. Taking on too much risk, or indeed too little risk, can increase the likelihood of failure to meet our objectives to unacceptable levels.

Risk appetite is set by the Board and is expressed for each risk type, linked where possible to quantitative metrics that provide a measure of the tolerance, or operating limits, for different risks. Decisions are recorded in meeting minutes and reflected in each scheme's formal documentation, which is published on the Board's publicly accessible website.

Risk management processes

We have implemented risk management processes to identify, measure, monitor and report risks across our operations. These processes are supported by a risk-aware culture, which is reinforced by employee training and communications, and is subject to audit. We operate within the Risk Management Policy adopted by the Church of England's National Church Institutions.

Risk governance

Effective risk governance starts with clear roles, responsibilities and delegations. We combine this with specific policies, business standards and processes.

The Board has primary responsibility for the organisations risk management framework but delegates the oversight of the framework to the respective committees of Audit, Investment, Pensions and Housing.

The Executive are responsible for identifying and managing risks at operational level, enforcing risk management policies in their areas of responsibility and escalating risk issues promptly.

The Internal Audit team has an independent reporting line into the CEO and access to the Chair of the Audit Committee. It audits the policy, framework, and operation of risk management across our organisation and provides assurance to the Audit Committee on the effectiveness of both these arrangements and specific activities identified in the annual audit plan.

Approach specific to Defined Benefit (DB) pension risk

The Board uses independent legal, covenant, actuarial and investment advisors in order to assess, monitor and manage DB pension risk. Our staff and advisors (legal, covenant, actuarial and investment) work bilaterally and multilaterally to ensure an integrated approach.

Covenant risk

The Board believes that it is ultimately the employer covenant that underwrites investment risks and funding risk held within its DB schemes. The Board manages the covenant risk of the funders of its DB schemes in the following ways:

- We encourage all funders to keep us informed of developments that could affect their covenant and regularly remind them of their responsibilities.
- We work with colleagues in the National Church Institutions to identify early warnings of issues which could affect funders' covenant positions.

- We proactively engage with funders where we learn of events that may lead to heightened covenant risk.
- We seek advice from our covenant advisors as and when we can see issues developing and take appropriate action to mitigate the risk where possible.
- We commission our covenant advisors to undertake extensive covenant assessment work to coincide with each triennial valuation. This work includes assessment of financial strength and security, stress testing the ongoing viability of funders under various economic scenarios and determining what level of contributions is reasonably affordable. It also involves an in-depth review and discussion with a subset of funders at each valuation.

Investment risk

The Board believes that strategic asset allocation has a greater impact on its ability to meet liabilities than manager or stock selection. The Board also believes decisions around strategic asset allocation should principally reflect a scheme's long-term objectives, the characteristics of the underlying liabilities and the covenant of the funders. The Board manages investment risk in the following ways:

- We engage with funders both formally and informally ahead of valuations.
- We seek to determine a long-term objective for each scheme with its funders, then align the scheme's strategic asset allocation to deliver that objective.
- We commission our covenant advisers to assess the ability of funders to underwrite investment risk and we engage with funders to assess their appetite for investment risk.
- We diversify our holdings, including into less liquid markets given the cash flow profiles of our schemes, to reduce the volatility of returns within and across asset classes.
- We take opportunities to reduce risk through hedging strategies when it is cost effective to do so.

Funding risk

The Board is mindful of the power it has to set contribution rates and the responsibility it has to exercise that power in a measured and proportionate way. The Board seeks to achieve an appropriate balance between a contribution rate that is sufficient to minimise risk to members' benefits that comes from underfunding, and a contribution rate that is not too high so as to be detrimental to covenant. The Board manages funding risk in the following ways:

- We set prudent Technical Provisions, based on actuarial and covenant advice, reflecting the strategic asset allocation, and which is appropriate to the characteristics of the underlying liabilities and the covenant of the funders.

- We set the term and structure of Recovery Plans according to what funders can reasonably afford, based on covenant advice.
- We will investigate with our legal and covenant advisors the possibility of other sources of funding support where funding is constrained. Where it is appropriate to do so, we will seek to put in place a bespoke Individual Payment Plan, which is a legal binding document that formalises the additional support pledged by the funder.
- Where a funder notifies us they are restructuring, we proactively manage the process to ensure there is no detriment to the relevant scheme and we collect employer-cessation debts when they fall due.

Documentation

The Board's approach at scheme level is set out in the formal documentation for each scheme and is published on our website. The principal formal documents for each scheme comprise:

- A Statement of Investment Principles, and a Statement of Funding Principles
- An Annual Report and Accounts

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