

Risk Appetite Statement

Risk Monitoring & Reporting

Long-Term Funding

We are the final backstop for members, so we must build reserves to protect our ability to pay our members in all but the most extreme of circumstances.

We seek to ensure that we will be fully funded, including a funding margin for self-sufficiency at the funding horizon, currently 2030.

The target funding level, currently 110%, represents a 90% confidence level of being able to pay compensation as it falls due.

We expect to be able to achieve this goal by setting a funding strategy, which is cognisant of financial market volatility, but enables us to balance our liabilities and investment returns, within agreed risk limits. We wish to avoid needing to use our power to vary compensation.

In developing an investment strategy, we aim to hedge the inflation and interest rate exposures of our liabilities (including claims in the assessment process and claims we believe will enter the assessment process) in normal circumstances, and takes a conservative level of investment risk to target an investment return that exceeds the growth of liabilities over the long-term.

We are willing to accept longevity risk, however we are prepared to transfer this risk to a third party if the risk is significant and hedging costs are reasonable.

We monitor our success in moving towards this long-term funding objective using a stochastic risk-model (Long-Term Risk Model) and other tools, and publish key statistics.

Our investment strategy (published in our Statement of Investment Principles) and target level of investment risk are reviewed annually.

Monitoring metrics:

- Probability of success
- A downside risk metric
- Investment risk vs budget
- Hedging success
- Levy levels compared with claims

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Short-Term Funding

We accept that we may see short-term volatility of our funding level, which may come from, for example, our remit to protect members of pension schemes after sponsor default or from the investment risk we take in our asset portfolio.

We have no immediate external constraints on our funding level, so if it changes significantly in the short term we will ensure that our response is consistent with our long-term funding strategy rather than immediately responding to restore our funding level in the short-term.

We monitor our funding position monthly based on an actuarial review of our liabilities and a detailed valuation of our assets. We also regularly monitor the asset mix in our asset portfolio relative to our target allocation, and the level of risk in the universe that we protect.

Monitoring metrics:

- Current funding level
- Anticipated funding level allowing for Contingent Liabilities
- Claim levels
- Risk levels in the universe
- Asset allocation
- Levy collection

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Liquidity

We need to ensure that we will always be in a position to meet our financial obligations to our members, trading counter-parties or service providers, so we have very limited appetite for any cash flow impairments.

We maintain our investment strategy so that at all times there is sufficient liquidity to meet foreseeable cash outgo, when it falls due, both in normal and under stressed financial market conditions.

Operations

We believe that to be the best we can we need to set and follow the best practice across the industries we operate in. We set ourselves new standards for process effectiveness, efficiency and resilience, whilst acknowledging our limited appetite for exposure to operational risks.

We will remain compliant with relevant laws and regulation and we expect all employees, including non-executive directors to maintain integrity and model good governance, conduct, ethical and inclusive behaviour at all times.

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We monitor our liquidity position continuously to ensure that liquidity remains available.

Monitoring metric:

- Liquidity ratio in normal and stressed scenarios

We set appropriate indicators to enable us to monitor and manage our exposure to operational risks and escalate key risks and areas of concern.

Monitoring metrics:

- Reporting of operational risk exposure against appetite
- Senior Manager and Certification Regime
- Key Risk indicators (KRIs)

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Governance

We are well governed, ensuring there is clarity regarding roles and responsibilities, and clear lines of accountability and authority. We have no appetite for non-compliance with legal and regulatory requirements.

We expect all decisions to be made on the basis of the best information available at the time, considering both opportunities and the risk of poor outcomes. We will not accept unauthorised decision making.

We monitor the effectiveness of Governance through a demonstration that decisions have been made with reference to risk appetite and within the requirements set out in appropriate governance documents. Decision making will be documented and agreed actions tracked to completion.

Monitoring metrics:

- Review of Authorisation & Appetite adherence
- Regular review of governance components
- Track Committee Schedule, Committee Attendance