

RISK MANAGEMENT POLICY

(Version 2.1)



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SECTION 1: RISK MANAGEMENT POLICY

1.1 Purpose

This policy outlines the approach of the National Federation of Voluntary Service Providers Pension & Life Assurance Scheme (the 'Scheme') to risk management. It is the overarching document pertaining to Risk Management arrangements of the Scheme.

This document describes the principles and concepts behind risk management and sets out the Scheme's approach in terms of governance, organisational structure, and methodology underpinning the management of risks. This document is intended to provide the scheme with an effective framework for identifying, measuring, monitoring, managing, mitigating, and regularly reporting to the Trustees matters relating to risk.

Risk management is intended to assist the Scheme in achieving its objectives. It is, therefore, important to know where to apply available resources to mitigate risk in a cost-effective and efficient manner.

The purpose of this policy is to:

- Set out the Scheme's Risk Management Framework which, together with our risk policies and methodologies, define the minimum standards for the management of risk.
- Document how risk management is implemented to support the achievement of the Scheme's objectives and to comply with its obligations under regulation.
- Communicate the importance of risk management and outline the key roles and responsibilities for the management of risk.

1.2 Scope

The Risk Management Policy applies to all risk accepted by the Scheme, and risks to which the Scheme is exposed.

The Risk Management Policy shall be consistent with the overall objectives of the Scheme and operate across all of its activities.

1.3 Policy Statement

The Scheme will maintain and have approved by the Trustees at least annually:

- i. This Risk Management Policy setting out:
 - The operational and governance structures within which the Scheme operates, manages and reports on both aggregate and individual risks;
 - The risk categories which the Scheme will monitor for current and future risks;
 - The methods used to measure risks; and
 - The Scheme's risk reporting obligation to the regulators.

- ii. The Risk Appetite Statement ('RAS') setting out and considering:
 - The Scheme's risk capacity, appetite, target, tolerance, and limits as appropriate in the aggregate and for individual risks;
- iii. Key policies for the management of Governance risk; Investment risk; Operational risk; Compliance risk; Financial risk; and Trustees' Own Risk Assessment (ORA);
- iv. A Remuneration Policy which will include the Scheme's obligation to ensure remuneration policy and practices do not encourage inappropriate risk taking; and
- v. An ORA process which includes the frequency and nature of regular, and ad hoc assessments, and in addition to being conducted at a minimum of triennial assessment, shall be prepared and approved by the Trustees on any material change in the Scheme's risk profile or operations.

The Scheme shall ensure the maintenance of a risk management system that is effective and proportionate to the nature, scale and complexity of the risks managed by the Scheme.

1.4 Risk Management Responsibilities

The Trustees are responsible for ensuring the effectiveness of the Scheme's Risk Management System, for setting risk appetite and tolerance levels as well as providing all related risk management strategies and policies.

The Scheme's Risk Management Function is responsible for the application of the Risk Management arrangement within the operation of the Scheme on an ongoing basis.

Other service providers such as the Investment Manager(s), Administrator, Internal Audit KFH, Advisor / Intermediary and External Auditor, though not directly responsible for risk management of the Scheme, do have obligations in respect to the management of risk as applicable to the services which they provide to the Scheme, which includes:

- a) Providing data and reporting to support the monitoring of risk management process
- b) Providing specialist advice on risk in their area, including but not limited to support with identification and analysis of risks, identification of potential mitigation options and consideration on the merits and drawbacks of a particular risk mitigation strategy.

The Trustees are ultimately responsible for the Risk Management activities of the Scheme and for all decisions relating to how risk is managed. The Trustees have taken a number of steps to eliminate/ reduce the risk of failing to operate the Scheme in an appropriate fashion including:

- a) Scheduling a minimum of one Trustee meeting per quarter.
- b) Appointing a Professional Trustee.
- c) Ensuring that the Trustees as a whole meet the Fit and Proper requirements.
- d) Appointing a Secretary and Pension Scheme Manager to the Trustees / Scheme. It has been agreed with the Professional Trustee that he would, on a temporary basis, fulfil this role should the Secretary / Pension Scheme Manager resign.
- e) Agreeing to the appointment of external Risk Management Key Function Holders (KFHs) to support the Trustees in the Risk Management and Internal Audit functions and to broaden the overall expertise underpinning the operation of the Scheme.
- f) Carrying out a full review of the IORP requirements and drafting written policies to detail the Trustees obligations under the Code of Practice.
- g) Assess the skills, knowledge, and experience of the trustee board annually.

1.5 Risk Management Function

The Trustees have appointed a risk manager KFH from Grant Thornton as the Risk Management KFH to oversee and execute the risk management function of the Scheme. The Risk Management KFH shall:

- a) assist the Trustees in preparing this Risk Management Policy;
- b) assist the Trustees in preparing the Scheme's ORA;
- c) assist the Trustees in gathering information necessary to identify risks to the Scheme;
- d) assist the Trustees in organising, assessing and (where appropriate) measuring and quantifying risks;
- e) identify potential controls that may facilitate mitigation of identified risks;
- f) attend Trustee meetings and advising on matters relating to risk management; and
- g) monitor ongoing management of identified risks and providing the Trustees with appropriate updates regarding same.

The Trustees are satisfied that the Risk Manager KFH can carry out risk management activities in an independent manner and that no conflicts exist.

1.6 Principles

Risk management policy and procedures are guided by the following principles:

- Risk management applies to all aspects of the Scheme's activity
- Risk management is an ongoing improvement process where the Scheme strives to reduce and manage the likelihood and negative impact of risks
- Relevant stakeholders are provided with training and other support to assist them in managing risk in their roles.

1.7 Outcomes

The outcomes of this policy are that:

- Trustees make informed operational and service delivery decisions on behalf of the Scheme while remaining fully aware of risks and impact
- Relevant stakeholders understand their roles and responsibilities in relation to risk management
- Risks and risk impact are minimised through compliance with relevant regulatory, legal and financial obligations, and implementation of risk treatments.

1.8 Policy implementation

All relevant Personnel (i.e., Trustees, Risk Management KFH, any other service providers who are responsible for risk management) are responsible for understanding and adhering to this Risk Management Policy.

Specific monitoring and support activities undertaken by Trustees include:

- Review of the risk register is a standing agenda item for Trustee meetings
- This policy should be referenced in relevant policies, procedures and other supporting documents, where relevant, to ensure that all relevant stakeholders are familiar with it and that it is actively used
- Review of this policy, with support from the Risk Management KFH, every year, following a risk incident and/or following relevant legislative changes.

This policy is implemented in combination with all the Scheme's policies and procedures.

This policy is a statement of the good faith intentions of the Trustees with respect to risk management, taking into account relevant guidance issued by the Pensions Authority.

SECTION 2: RISK MANAGEMENT PROCESS

This section ensures that the Scheme develops and implements consistent risk management strategies and processes to effectively manage and treat risk, in order to safely enhance the Scheme's operation and achieve its strategic goals.

2.1 Principles

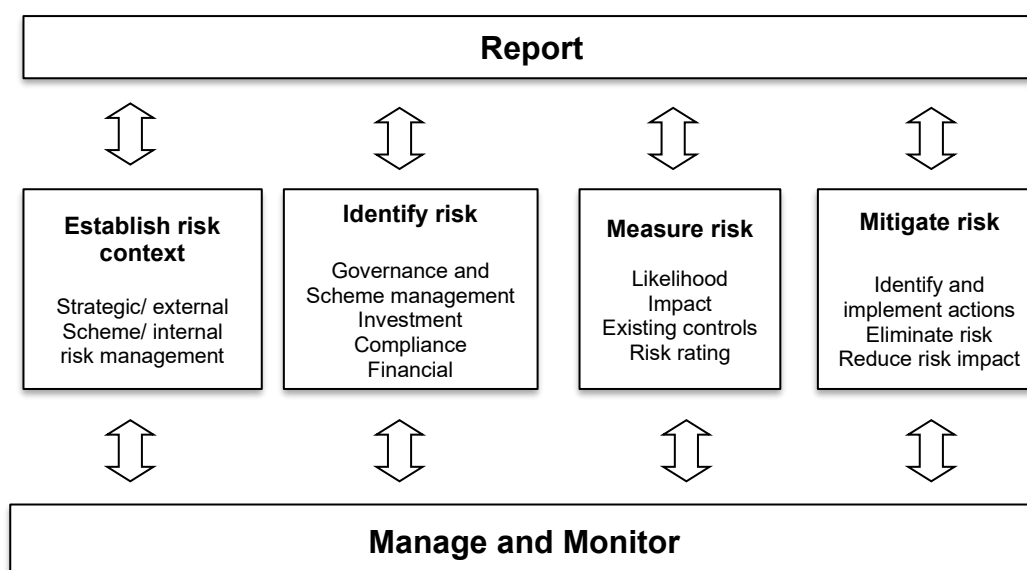
The Risk Management Process is embedded throughout the operations of the Scheme and is used to identify, measure, monitor, manage, mitigate, and report risks.

The risk management principles of the Scheme are to:

- Ensure that risk management processes support and enhance the services provided to its members
- Have a structure for the continuing review of risk

2.2 Overview of the Scheme's Risk Management Process

The diagram below shows the process on how risks are identified, measured, monitored, managed, mitigated, and reported.



2.3 Communication and consultation

Communication and consultation is undertaken with the Scheme's Personnel to ensure understanding and engagement in risk management.

Communication mechanisms include:

- Agenda items and discussion at trustee meetings, e.g. emerging risks
- Risk management reporting to the Trustees, and regular review of the Risk Register.

Communication and consultation is undertaken with external stakeholders (if appropriate) as part of the Scheme. Mechanisms include:

- Performance reporting
- Annual reports

SECTION 3: RISK MANAGEMENT FRAMEWORK

3.1 Risk Appetite

Risk Appetite refers to the level of risk that the Trustees are comfortable to retain, after risk mitigation has taken place to achieve the Scheme's objectives. This is considered in respect of individual key risks, while also taking account of interactions between key risks.

The Trustees shall agree the Scheme's risk appetite for taking particular key identified risks and document it in the RAS.

The Trustees recognise that its assessment of Risk Appetite may vary over time for any given area of risk. These assessments are maintained under review as part of the annual review of the Scheme's Risk Register.

Key Risks:

Governance and Scheme Management Risk: The Scheme has **no appetite** for breakdowns in its governance processes or breaches of the IORPII requirements.

Investment Risk: The Scheme has a **low appetite** for investment risk caused by market movements and strives to ensure that Scheme members will receive investment returns in line with expectations. The Scheme outsources the management of member funds to an Investment Manager and has **no appetite** for any errors. Accordingly, the Investment Manager operates a suite of controls to ensure that member assets are managed appropriately as required by regulation.

Regulatory and Compliance Risk: The Scheme has **no appetite** for breaches or non-compliance with laws or regulation or any other scheme requirements.

Financial Risk: The Scheme has **no appetite** for payment to incorrect individual / incorrect beneficiary or loss of funds due to fraud. The Scheme has **low appetite** for immaterial financial errors that don't negatively impact members.

Operational Risk: The Scheme has **no appetite** for material operational errors or breaches and a **low appetite** for immaterial errors.

3.2 Risk Identification

Based on the above assessment of the risks facing the Scheme, the Trustees will consider the risk management actions to be taken in respect of each risk. This may include decisions to accept, avoid, and transfer or to seek to control aspects of the risks concerned. Where the decision is to seek to control aspects of a specific risk, the Trustees will determine the nature and extent of those controls, based on the assessment of the risk.

Risks are identified through formal and informal processes such as monitoring of regulatory requirements and regular audits.

3.3 Risk Assessment

The Trustees assess the risks considering both the estimated likelihood of a risk event occurring and an assessment of the potential adverse impact of the risk event were it occur.

The Trustees assign likelihood and impact score to each risk based on the criteria set out in the Scheme's risk score matrix below. These probabilities and impact scores will be combined to provide overall risk score for each risk. The risk score will be recorded in Scheme's Risk Register allowing for comparative analysis between risks and over time.

See Appendix B for impact and likelihood assessment and Appendix C for risk assessment matrix.

3.4 Risk treatment

Risk treatment involves identifying and implementing actions to eliminate risks or reduce their impacts. In treating risk, the scheme trustees ensure that:

- The cost of implementing risk treatments is balanced with the expected and actual risk reduction outcomes
- If eliminating risk is to discontinue an activity, remove an identified risk item, or avoid new or potential risks
- Risk reduction activity involves implementing reasonable and practical steps to reduce risks and minimise loss.
- Major risks and their responding treatments are logged in the scheme's Risk Register
- Risks that are substantially mitigated by the existence of a specific scheme policy may not be required to be recorded in the Risk Register

3.5 Risk monitoring and reviewing

The Trustees monitor and review risks and their treatment strategies as part of effective risk management and ongoing quality improvement.

Monitoring and reviewing activities include:

- Risks identified through the Scheme's Risk Register are reviewed and updated annually by the Risk Management KFH
- The Trustees review the Scheme's Risk Register annually through relevant meetings and by its inclusion as a standing agenda item at all Trustee meetings.
- Previously identified risks may become de-activated through a monitoring and review process, where the likelihood and impact of loss/member detriment is assessed as non-existent or negligible.
- The Scheme's risks are also reviewed and their status is updated following a risk incident, such as to funding issues, damage to reputation, complaints escalated to Internal Dispute Resolution (IDR) or not meeting compliance requirements.

3.6 Reporting and Record Keeping

Risks identified in the Scheme's Risk Register are reported to the Trustees by the Risk Management KFH in the scheduled Trustee meetings. Related discussion and outcomes are recorded in minutes of meeting.

SECTION 4: OWN RISK ASSESSMENT (ORA)

The purpose of the Own Risk Assessment (ORA) process documentation is to establish a systematic approach to identifying, evaluating, and managing risks that could impact the performance and stability of the scheme. The Trustees have adopted an ORA process to identify and assess material risk that threatens the achievement of the Scheme's objectives. The process sets out:

- When and how often an ORA will be performed and the circumstances under which an additional ORA would be required;
- The qualitative and quantitative information necessary to undertake the ORA and methods used to collect this information;
- The role of the Risk Management function in the performance of the ORA, including the Trustee Board and the Risk Management KFH; and
- How the results of the ORA are to be integrated into the management of and decision-making for the Scheme by the Trustee Board;
- Ensuring that the ORA provides a true assessment of risk and does not seek to rationalise the Scheme's current position regarding risks.

This process applies to all aspects of the scheme's operations, including governance, investment, operational, and compliance risks.

The Own Risk Assessment process is set out in Appendix D.

APPENDIX A: RELEVANT POLICIES

- Risk Appetite Statement
- Risk Register
- Own Risk Assessment Process
- Fit and Proper Policy
- Remuneration Policy
- Outsourcing Policy

APPENDIX B: IMPACT AND LIKELIHOOD ASSESSMENT

Risk likelihood

Rating	Description	Probability of Occurrence in next 10 Years
5 - Very Likely	Expected to occur in most circumstances	>90%
4 - Likely	Will probably occur in most circumstances	71-90%
3 - Possible	Will probably occur at some time	31-70%
2 - Unlikely	Could occur at some time	10-30%
1 - Rare	May only occur in exceptional circumstances	<10%

Risk impact

Rating	Description
Catastrophic	- Extended disruption to critical business activities. - Scheme objectives is not met and business continuity is threatened.
Major	- Temporary disruption to critical business; - Scheme objectives may not be met.
Moderate	Extended disruption to non-critical business activities; requires monitoring.
Minor	Temporary disruptions to non-critical business activities.
Insignificant	Negligible disruption to business activities.

APPENDIX C: RISK ASSESSEMENT MATRIX

The risk rating assists in determining if the risk is acceptable or unacceptable. A low rating risk may be expected and acceptable with minimal treatment response, whereas a high rating risk is not acceptable and therefore requires a response to minimize or eliminate risk. The risk score (assigned ranging from 1 to 25) is assigned to each risk is based on risk impact multiplied by likelihood.

IMPACT					
LIKELIHOOD	1 Insignificant	2 Minor	3 Moderate	4 Major	5 Catastrophic
5 Very Likely	5	10	15	20	25
4 Likely	4	8	12	16	20
3 Possible	3	6	9	12	15
2 Unlikely	2	4	6	8	10
1 Rare	1	2	3	4	5

RAG RATING

RISK RATING	RISK SCORE	RESPONSE REQUIRED
High	17 to 25	Requires immediate action to mitigate the risk
Medium	8 to 16	Requires short-term action to mitigate the risk
Low	1 to 7	Manage by routine procedure

APPENDIX D: OWN RISK ASSESSMENT

ORA Responsibility

The Trustees are required to carry out an ORA every three years, or at such other times as may be legally required. In the event of any significant change to the scheme's risk profile, an updated ORA should be completed without delay and within three months of the change. Where it is considered appropriate by the trustees, the ORA update may be limited to the assessment of the risks impacted by the change.

A 'significant change' ORA does not satisfy the requirement to carry out a full ORA, which must continue to be completed at least once every three years. Significant changes to the scheme's risk profile may arise from internal factors such as significant changes to scheme rules, procedures or governance, changes to investment policy or employer covenant changes. Significant changes to the scheme's risk profile may also arise from external factors such as the financial market, international public health events or significant geo-political shocks, changing legislation and regulation, service provider changes or major service issues.

The Trustees with the assistance of the Risk Management KFH will collect qualitative and quantitative information from the various Stakeholders as relevant and appropriate, specifically for the purposes of preparation for the performing of the ORA, including from the Scheme's:

- Registered Administrator;
- Investment Manager(s);
- Risk Management KFH;
- Internal Audit KFH
- Other relevant stakeholder

The Risk Management KFH is responsible for supporting Trustees with the production and delivery of ORA, as well as overseeing the implementation of recommendations or other actions arising from the ORA.

The Risk Management KFH will agree an ORA process with the Trustee and the parameters and key outputs of this process will be documented in the Own Risk Assessment Process.

The Risk Management KFH will ensure Trustees are aware of all statutory deadlines for the preparation of the ORA and, subject to Trustee sign-off, will complete the ORA report within the appropriate statutory time-frame set by the Pensions Authority.

Content of the ORA

The ORA must include consideration of the full range of material risks, including both external and internal factors.

The Trustees shall ensure that the ORA covers the following:

- the risk that members' expectations for scheme benefits will fail to be met (including assessment of the role that member communications may play in mitigating this risk);
- qualitative assessment of the scheme's operational risks that includes assessment of the adequacy, accuracy, and robustness of the scheme's system for maintaining benefit records, the handling of members' communications, issues of general administration, security of the system of handling contributions, and other financial control systems;
- the potential impact of any decisions made by the trustees that may have significantly altered risks to the scheme or to the benefits that its members and their beneficiaries may receive;
- where relevant, the adequacy or lack of insurance arrangements for death benefits; and
- in situations in which the same person performs one or more key functions for both the scheme and the employer, a description of how the scheme will prevent conflicts of interest that could arise due to this duality of roles.

ORA Process

The ORA aims to identify and assess the full range material risks (including both internal and external factors) that threaten the achievement of the Scheme's objectives and to provide a true assessment of these risks. The ORA is also a comprehensive assessment of the overall position of the Scheme, including challenges and risks faced by the Scheme and the risks to members' benefits.

The Trustees will prepare the ORA report, with assistance from the Risk Management KFH. The areas with higher potential risks are the focus of the ORA. Therefore, risks inherently rated as Medium or higher on the Scheme's Risk Register will be assessed as part of the completion of ORA report. Trustees to assess whether controls are in place for respective risks and whether the risks are mitigated by controls in place, mitigated but enhancement is required, partially mitigated or not mitigated. For the purpose of the ORA, controls in place pertains to internal controls in place, safeguards, mitigating actions and/or contingency plans developed by Trustees to address the risks.

ORA Rating

An ORA rating from 1 to 3 (Low to High) will be given to each individual risk on the ORA report documentation after considering whether controls in place address or mitigate the risks.

Rating		Description
Low	1	Risks which present no significant threat to the Scheme and can be absorbed; No action required
Medium	2	Risks which require action but remaining risk level is not material
High	3	Risks which are material and cannot be absorbed by the Scheme; Immediate action required

Risk Mitigation and Strategies

The Trustees will review the actions and determine the appropriate risk mitigation strategies. The risk mitigation strategies are defined as follows:

- **Reduce** - take steps to reduce the likelihood of a risk happening or the impact should it occur.
- **Avoid** - take measures to avoid the risk from occurring; this may require compromising other resources or strategies to ensure that the trustees are doing everything possible to avoid the risk.
- **Transfer** - passing the risk consequence to a third party.
- **Accept** - accepting the risk as it stands due to the possibility of reward outweighing the risk or probability of the risk occurring is minimal or the negative impact is minor.

The Risk Manager to agree remedial actions with the Trustee and a plan to take forward the results of the ORA to inform future strategic decisions.

Action Plan Monitoring

The action plan will be monitored, and progress will be presented to the Trustees during the quarterly trustee meeting. The report will contain the following:

- Actions Taken;
- Progress made;
- Issues encountered; and
- Any necessary adjustments

ORA Integration

This ORA will be integrated into the management and decision-making process of the Scheme and the decision-making process through:

- Presentation of the initial findings of the ORA to the Trustees by the risk management key function holder;

- Discussion of the assessment by the Trustees with the risk management key function holder and other stakeholders, as required;
- Agreement by the Trustees on the action plan that includes clear responsibilities, responsible person, deliverables and timeline;
- Agreement and sign-off of the ORA by the Trustees;
- Implementing the action plan and monitoring the status

The discussions, decisions taken and the factors considered will be documented in meeting minutes.

The Trustees will take into account the ORA carried out in respect of the Scheme when making any strategic decisions. Supporting evidence will be kept on file.