THE
BRITISH STEEL
PENSION SCHEME

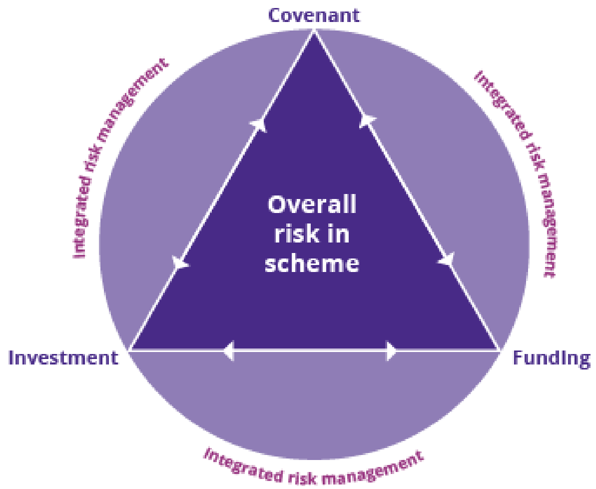
Integrated Risk Management

Derek Mulholland

Director,Pensions

Introduction to IRM

- With the assets that were transferred from the old Scheme, the new Scheme is well positioned to pay benefits securely on a low risk basis but some risks remain
- Integrated Risk Management (IRM) is a tool to help the Trustee identify and manage the factors that affect the prospects of meeting the Scheme objective of achieving full funding on a buy out basis



- IRM considers what could be done should risks materialise thereby allowing the Trustee to put in place contingency plans to cater for the more significant risks
- IRM helps to identify when opportunities arise to reduce scheme risk

BSPS IRM Framework

- An ongoing, iterative control process
- Three key elements:

Risk Management Policy	Sets out the key risks that impact the viability of the Scheme and its ability to meet the Trustee's primary objective of paying benefits in full as and when they fall due. It also outlines the guiding principles for measuring, monitoring, mitigating and managing the risks and the governance around these processes
Annual Risk Assessment	Presents a detailed assessment of the key risks of the Scheme. It also highlights areas where action is required from the Trustee and/or those responsible for management of individual risks
Quarterly Risk Dashboard	Provides regular updates on the Scheme's position

Assessment of Key Risks

▶ Covenant risk	Risk that Tata Steel UK is no longer capable of supporting the Scheme continues to be the Scheme’s largest risk. Although the Scheme is not expected to call on TSUK for financial support, the absence of a substantive sponsor could expose the Scheme to unsustainable PPF levies of 10-30x the current level
▶ Credit Risk	Given the overall allocation to credit (>50%), the Scheme would be exposed to a deterioration in credit market conditions
▶ Inflation Basis Risk	Using RPI linked assets to manage the Scheme’s CPI linked liabilities exposes the Scheme to a change in the expected RPI-CPI wedge
▶ Interest rate and inflation risk	Interest rate and inflation risk is being mitigated as the Scheme builds up its liability hedge
▶ Growth Assets	Disposals of listed public equity and growth property have reduced this risk over the year
▶ Longevity Risk	Over 2019 we have seen an unexpected pick up in longevity improvements

The Trustee is looking to understand the Scheme’s ability to secure member benefits with an insurer. Implementing a buy-in or buy-out would reduce in part (or all) of the key risks

Quarterly Dashboard - Review Flag Guide

	Examples of Indicators
Funding Position	• Best Estimate Funding Level • 100% Buy-Out Funding Level
Expected Return and Risk	• Expected time horizon to full funding • Expected investment return • Risk Capital • VaR (Value at Risk) • Interest rate and inflation hedging
Scheme Performance	• Relative to liability proxy • Relative to Scheme Specific Benchmark
Manager Mandate Adherence	• Breach of the investment guidelines