

SOUND RISK MANAGEMENT PAYS FOR ITSELF

Everyone manages risk. We assess and respond to risks throughout our daily lives. But we do not always have to manage the risks faced by others. That is part of what makes trusteeship of a retirement fund so challenging. Recognising the difference that we can make by identifying and responding to the key risks to which the fund and its members are exposed is an important start.

We make risk-management decisions when we alter our driving route, on the tennis court and at the chess board. We frequently judge the risks that we face in our every-day activity. That does not mean, however, that we are good risk managers, or that we recognise the benefit of sound risk management for the decisions that we make.

This article suggests that understanding why risk management is so important represents the all-important start to better trusteeship and better member outcomes.

Not just a regulatory requirement

Risk management in retirement funds has a bad rap. In many countries, the regulator has instructed trustees to undertake it. That alone might make us a little resistant. Being required to limit our speed on the roads does not make it a bad thing. It is the same with financial-sector regulation. Many regulators require trustees to identify, assess and control the risks that face the fund. Some of these risks have financial consequence and are obviously important. Others might be more dangerous, but in insidious ways. Operational risks, like accounting errors or poor communication to members, can have significant consequences.

Decision-makers tend to prioritise action, asking what they need to do. Sound risk management, however, starts with a thoughtful approach. Before rushing to the 'what' of risk management consider the 'why'.

Understanding the reason why

Industrial concerns understand the maintenance imperative. They ensure that moving parts are well oiled. They replace small items whose breakage could have enormous consequences for production lines.

They are risk managers, recognising that identifying the things that could go wrong and addressing them is well worth the effort and cost, because the consequences of failing to do so could be so much greater.

When I choose between wine and water, I am exercising risk management. When the amber light provokes a movement to the brake or the accelerator, I am a risk manager. We manage risks all the time. Wouldn't it be better if we did so deliberately and carefully? Developing the habits of risk management changes the way we approach all our challenges. This gives us a better chance of **delivering better outcomes for the members of our retirement funds.**

Why?

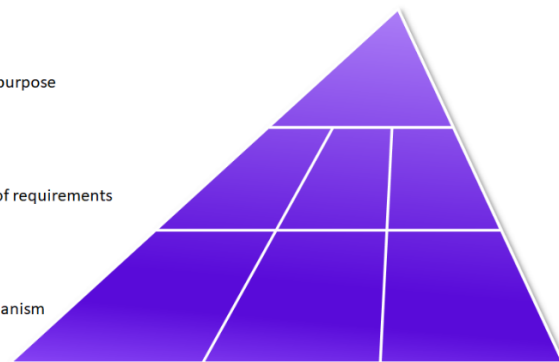
Statement of purpose

What?

Specification of requirements

How?

Delivery mechanism



Financial entities typically find it more difficult to sustain this level of proactivity and attention to detail. The main reason for this is that losses, let alone potential losses, are less tangible. A communication failure or poor investment decision are not easily detected. Even with hindsight, the consequences of an error are often not clear. How do the trustees know which risks they should be tackling first if the results of failure are opaque?

Herein lies the essential challenge of risk management: its benefits are not immediately evident. On top of that, it is hard work. Yet it often takes just one preventable disaster to drive home the reality that paying attention to risks is a worthwhile activity.

Identifying and describing the core rationale for risk management is critical. The rest will fall into place.

A journey, not a destination

Following the 'why' and the 'what' is the 'how'.

Risk management calls for discipline and perseverance. The task is never complete, not only because risks are difficult to identify, but because it takes discipline to protect against them. But risk management delivers great reward. It changes the way we think about our challenges and the way we respond to them. It crystallises our priorities. It makes us much better at deploying our resources. And it helps to avoid disasters.