XPS Group

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Scheme Governance Briefing

Unlocking effective risk management: The role of the own risk assessment in pension scheme governance

As many schemes face regulatory change and make key decisions about their future path, the importance of having a robust governance and decision-making framework is more important than ever. The majority of schemes will tackle their first own risk assessment (ORA) in 2026, and this represents a great opportunity to take stock and assess whether there are any areas for improvement.

In this scheme governance briefing we look at the ORA requirements and how XPS can help you tackle these in a way that adds value for your scheme.

What is an ORA?

The ORA is a vital part of risk management for pension schemes. It provides a structured review of key risks facing a pension scheme, helping trustees to assess, identify and mitigate those risks in line with regulatory expectations. The review should be proportionate to your scheme's size, nature, scale and complexity.

The ORA acts as a cornerstone of governance, linking directly into the effective system of governance (ESOG). By integrating the ORA into your ESOG trustees can:

- **ensure that key risk elements are identified and appropriately managed within the governance framework;**
- **reinforce accountability and transparency across all governance activities; and**
- **apply an objective approach to prioritising areas of concern, supporting more effective strategic decision-making.**

Completing an ORA equips trustee boards with the insight needed to protect members' interests and meet regulatory obligations set out by The Pensions Regulator (TPR). TPR expects trustees to conduct an ORA at least every three years to maintain a consistent and evolving approach to risk management. An ORA should also be completed promptly following any changes to a scheme's governance structure. Trustees must be able to demonstrate competence in understanding and managing the risks identified.

In an increasingly complex regulatory landscape, the ORA is not merely a compliance exercise - it is the trustees' way to look back at their controls, see how they have performed in the 'real world' and whether adjustments are needed to help further improve scheme governance.



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Key areas covered by the ORA

In its general code, TPR sets out the key areas that it expects to see covered in the ORA:

1. **Governance framework and policies:**
   - How risk assessments inform strategic decisions, including policies related to trustee roles, responsibilities and expertise.
   - Practical governance considerations such as record-keeping and contingency planning for when things go wrong.

2. **Risk management:**
   - Consideration of the robustness of a scheme's internal control systems and their alignment with the ESOG.
   - Review of cyber security measures, conflict resolution protocols and continuity planning to ensure operational resilience.

3. **Funding and investment management:**
   - Governance and risk evaluation of funding and investment activities.
   - Monitoring, stewardship, and decision-making practices, including consideration of value for members and the impact of environmental, social and governance (ESG) factors and climate change.
   - Identification, rectification and ongoing monitoring of scheme deficits.
   - Interactions between funding, investment and covenant risks and controls.

4. **Administrative processes:**
   - Assessment of risks related to financial operations, data accuracy and security - particularly in relation to delayed contributions.
   - Evaluation of risks affecting the distribution of benefits to members, including scam prevention and potential reductions in accrued benefits.
   - A further focus on operational efficiency and the reliability of record-keeping systems.

5. **Communications and Disclosures:**
   - Review of trustee approaches to communication methods.
   - Practical considerations around communication requirements and deadlines.

The ORA timeline:

Schemes must document their first ORA within 12 months of the end of the first scheme year that begins after TPR's general code of practice came into force on 27 March 2024.

This means all schemes should expect to complete their first ORA by the scheme year-end date falling between 27 March 2026 and 26 March 2027.

For example, a scheme with a scheme year starting on 1 May must complete its first ORA by 30 April 2026.

To ensure the ORA is embedded effectively into scheme governance, the timeline should be integrated into the governance calendar, including:

- **Preliminary assessments:** Conducted initially to identify scope and risk categories.

  Action progression: The ORA may highlight actions to be undertaken. Trustees should agree timelines for these and monitor progress throughout the governance calendar.
- **Regular reviews:** Where proportionate, this is likely to be at least annually, with interim evaluations as needed.
- **Regulatory reporting:** Align ORA activities with reporting obligations to maintain compliance with TPR expectations.

What does an ORA look like in practice?

The general code of practice sets out areas that the ORA should cover **but** there is no fixed template. This gives flexibility for schemes to tackle this in a way appropriate to their circumstances.

Given many schemes' busy agendas, trustees should use the ORA to focus on identifying any material unmitigated risks and determining how best to address these to add value. In some ways it's like answering the questions of 'What's keeping the trustees awake at night?' and 'Are the protections in place giving a suitable level of comfort?'.

XPS views the key steps of the ORA process as:

- **Plan ahead.** Will the ORA be completed by the whole trustee board, or sub-committees designated to consider certain areas? Will advisers carry out most of the work, or will it be tackled by the trustee board? It's worth bearing in mind whatever approach is taken, this is an 'own' risk assessment so the trustees need to make sure that the output reflects their own views.
- **Break the ORA down into manageable sections.** The topics naturally separate into groups under the ORA, and so could be spread over a regular meeting cycle, for example.
- **Link it with the ESOG** and any trustee effectiveness assessment that might have been carried out. A lot of schemes have been through the process of assessing how their governance framework measures up to TPR's ESOG requirements and the ORA is a natural extension of this process. The ORA picks up on how well risks are being mitigated in each area, with reference to any documented policies or processes where relevant.
- **Assess the level of concern in each area.** Is it an area that worries you? Are any mitigation measures appropriate? By carefully going through this process it is possible to highlight where the scheme's governance framework is working well and whether there are any priority areas to tackle.
- **Make use of the output.** There is a requirement to document the ORA findings and this document should be made as useful as possible. In particular it can feed a list of prioritised actions into the future business and governance plans.
- **Look to the future.** The ORA is intended to be an evolving process, so it is worth planning how to tackle future assessments, building on the first one.

At XPS we can help trustees meet their requirements in a pragmatic and structured way, using our specially developed ORA tool. Please get in touch with XPS_ORA@xpsgroup.com or your usual XPS contact for further information.

Building on your existing governance framework:

The ORA builds on existing governance practices and does not require a complete overhaul. Many pension schemes have already adopted processes that align with ORA principles, using essential governance tools, such as:

- **Risk registers and integrated risk management plans.**
- **Governance policies and controls, including cyber security, remuneration and internal dispute resolution.**
- **Contracts with service providers, service level agreements, and key performance indicators.**
- **Trustee training logs and development plans.**
- **Trustee effectiveness assessments.**
- **Effective system of governance gap analysis.**

Trustees are expected to evaluate how effectively their risk management and internal governance structures operate in practice, pinpointing areas for improvement. Preparing for the ORA involves reflecting on how the scheme is governed, how decisions are made, how risks are monitored and mitigated, and what controls may be needed to strengthen governance.

How to get ahead on your ORA - Trustee effectiveness assessments:

A Trustee effectiveness assessment is a way for trustees to evaluate how effectively they operate as a collective decision-making body. It is often difficult for trustees to objectively consider their own performance as a group and working through an assessment can help with assessing operations, governance practices and decision-making processes. These insights can then feed directly into the ORA helping to identify strengths and areas for improvement within the scheme's governance framework.

XPS has a trustee effectiveness service. For more information please get in touch with your usual XPS contact.

Next Steps

The first ORA deadline will arrive quickly and many schemes have less than 12 months to go. We would really encourage trustees to engage now and plan out how they can best tackle their scheme's ORA.

At XPS we understand that whilst there is work to do, this doesn't have to be an onerous process and should build smoothly onto the ESOG work carried out over the last year or two. Most importantly, we believe that this shouldn't just be seen as an exercise in ticking a regulatory box. This is a real opportunity for trustees to look back at their controls to see how they performed in the 'real world' and identify any gaps or areas for improvement within your risk management and decision-making framework. Overall we believe that trustees who tackle the ORA in a productive manner will increase the chance of a successful outcome for their scheme's journey adding value along the way.

Find out more

If you like support with your pension scheme governance or a discussion on how to approach your first ORA please contact XPS_ORA@xpsgroup.com or our XPS experts; Emily Sturgess, Stuart Mallett or Aaron McNulty.



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