

Group Risk Committee report



Toby Strauss

Chairman of the
Group Risk Committee

The composition of the Committee

The Committee is composed entirely of independent non-executive directors. The table below sets out its membership during the year.

Members
Toby Strauss
Henrietta Baldock
Philip Broadley
Lesley Knox
George Lewis
Ric Lewis
Julia Wilson

Other attendees at Committee meetings include: the Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Conduct Risk Director; Group Chief Internal Auditor; Chief Executive Officer LGC; Representatives of the external auditor, KPMG LLP.

The role of the Committee is to assist the Board in the oversight of the risks to which the Group may be exposed and to provide the Board with strategic advice in relation to current and potential future risk exposures. This includes reviewing the Group's risk profile and appetite for risk, and assessing the effectiveness of the Group's risk management framework. The Group's approach to the management of risk is set out in more detail on pages 44 to 47.

The work of the Committee is supported by the Group Chief Risk Officer and the Company Secretary, who assists the Committee chair in planning the Committee's work and ensuring that the Committee receives accurate and timely information. The Committee met five times during 2020.

Group Chief Risk Officer's report

The Committee receives at each meeting a formal report from the Group Chief Risk Officer. This report brings to the Committee's attention key factors in the operating environment of the Group's businesses and an assessment of the potential risks that may emerge. The review includes analysis of risks arising from the macro-economic outlook and conditions in financial markets, together with geopolitical, legislative and regulatory change risks that may impact the Group's businesses, and risks associated with the implementation of the Group's business strategy.

In addition to the Group Chief Risk Officer's report, the Committee is provided with management information on risk appetite, comparing actual positions relative to the Group's risk appetite statement; and quantitative analysis of the Group's exposures to financial and operational risks, including risk-based capital requirements in relation to the core risks implicit in the Group's businesses.

Group Conduct Risk Director's report

At each meeting the Committee receives a report from the Group Conduct Risk Director. This provides the Committee with an assessment of the overall profile of conduct risks for the Group; analysis and trends in conduct risk indicators including complaints data, and the results of reviews undertaken by the group conduct risk monitoring team, as well as evaluation of changes in the conduct risk landscape as regulatory approaches evolve. The Group Conduct Risk Director's report is accompanied by a suite of customer service metrics designed to enable the Committee to assess the management of the customer journey across the Group's financial services products.

Assessing the risk impacts of Covid-19

The Committee has engaged extensively with executive and operational management over the course of the pandemic to consider the responses being taken to the range of risks presented by the disease, and the wider impacts for our businesses from the global lockdown.

As well as ensuring the wellbeing of those at Legal & General, the Committee has considered the actions taken to maintain the availability of customer facing services, and the resilience of supporting business activities.

The Committee has also considered assessments on the effects of the lockdown for the global economy and our investment portfolios, including the outlook for credit assets. Reviews of credit exposure have included sectors at risk from the global economic downturn and the longer-term impacts from changes in behaviours as a result of the pandemic. Trends in mortality for the Group's UK and US protection businesses, and offsetting effects with the Group's annuity portfolios have also been evaluated.

Focused business and risk reviews

Focused 'deep dive' reviews of particular risk areas are undertaken at each Committee meeting. The purpose of these reviews is to enable Committee members to examine the risk profile of the core business lines and to consider the robustness of the frameworks in place to manage the key risk exposures. Committee members are invited to participate in setting the agenda for these deep dive reviews, considering both the current operating environment and emerging risk factors. Below are examples of some of the key reviews that took place during 2020, and the areas of focus by the Committee.

- Credit risk management: Reviews of the Group's credit portfolio and its resilience to stressed market conditions.
- Longevity risk management: Review of the nature of longevity risks within the Retirement businesses and the work of the longevity risk team to measure and price for the risk.
- Responding to climate risk: Assessment of the approach and progress in responding to the risks of climate change and the delivery of policy commitments within the Group's TCFD.
- The management of direct investments: Consideration of the credit and operational risks within the Group's portfolio of direct investments and the operation of the risk management and oversight framework.
- Outsourcing and supply chain risks: Review of the Group's framework for oversight of third-party supply and service arrangements, the management of modern slavery risks within the supply chain, and key contract dependencies.
- Protection claims management: The Group's approach to assessing and settling protection claims and ensuring balanced customer outcomes.
- Building safety risks: Review of construction and asset ownership risks including the use of cladding materials.
- Reinsurance counterparty risk: Evaluation of risks associated with reinsurance arrangements.
- Operational resilience: Assessment of the Group's capabilities to ensure continuity of business operations and continued availability of important business services.
- Transition from IBOR: Monitoring the Group's preparations for the transition to SONIA.

The Committee also takes an active role in the Group's recovery and resolution planning, which have been put in place in line with the UK regulatory requirements relating to systemically important insurers.

Risk appetite

At its July meeting, the Committee undertook a detailed review of the operation of the Group's risk appetite framework and the key measures and tolerances used to determine acceptable risk taking, recommending some refinements to the Board. In December, the Committee considered the risk profile of the Group's strategic plan and its alignment with the Group's overall risk appetite.

In addition to this aggregate view of acceptable risk taking, the Committee also considers, as part of the Group's overall transaction approval process, the appetite for specific risks associated with transactions, particularly where the transaction is material in the quantum of risks being assumed or aspects of the transaction may present risks that are relatively new to the Group.

Risk-based capital model

The Group's risk-based capital model (internal model) is used to determine the capital requirements for the Group and forms the calculation engine for the Solvency II internal model. As well as reviewing and using the output of the model in its understanding of the Group's risk profile, the Committee is the focal point for model governance with specific consideration of the:

- Key assumptions, methodologies and areas of expert judgement used within the model.
- Activities undertaken to validate the outputs of the model.
- Development of the model to ensure that it reflects the business lines and risk profile of the Group; and
- Processes to ensure that changes applied in the model are undertaken in a controlled manner, and in line with model development plans.

Own Risk and Solvency Assessment (ORSA)

The ORSA is an ongoing assessment of the risks to which Legal & General is exposed and an evaluation of the sufficiency of capital resources to sustain the business strategy over the plan horizon. Over the course of the year the Committee considered different aspects of the Group's ORSA process. This included the review of proposed stress tests and scenarios to be used in the evaluation of capital adequacy, the profile of risks within the Group's strategic plan and how they may change over the planning period, and the Group's overall capacity to bear the risks identified.

A formal ORSA report is subject to annual review by the Committee prior to formal approval by the Group Board.

Risk governance

Sound frameworks of risk management and internal control are essential in the management of risks. During the year, the Committee has received updates on the continued development of the risk governance framework.

Risk-based remuneration

The Committee advises the Remuneration Committee on risk matters to be considered in reviewing bonus pools.