

Group Risk Committee report



TOBY STRAUSS
Chair 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 Chair

Philip Broadley

Lesley Knox

Rudy Markham until 25 May 2017

Julia Wilson

Other attendees at Committee meetings include: the Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Chief Internal Auditor; and representatives of the external auditor, PricewaterhouseCoopers 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 48 to 53.

Committee activities during 2017

The work of the Committee is supported by the Group Chief Risk Officer and Group Company Secretary who assist the Committee Chairman in planning the Committee's work and ensuring that the Committee receives accurate and timely information. The Committee met six times during 2017.

Group Chief Risk Officer's report

Each meeting, the Committee receives 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 macroeconomic 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.

The Group Chief Risk Officer's report is supplemented 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

The Committee also receives at each meeting a report prepared by 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; and evaluation of changes in the conduct risk landscape as regulatory approaches evolve.

Focused business and risk reviews

Time is allocated at each Committee meeting to carry out focused 'deep dive' reviews of a particular risk area. 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. The adjacent page gives examples of some of the key reviews that took place during 2017 and the areas of focus by the Committee.

- Pricing reviews: assessments of the frameworks in our protection, pension risk transfer and lifetime mortgage business that ensure pricing reflects the risks implicit in products whilst providing value for money to our customers.
- Brexit Contingency Planning: maintaining oversight of activities within LGIM to mitigate the possible loss of EU passporting rights, and more broadly the resilience of investment strategies to market shocks.
- Reinsurance counterparties: the approach to counterparty selection, the setting of exposure limits and the monitoring of actual positions relative to key tolerances.
- General Data Protection Regulation (GDPR): ahead of GDPR implementation in May 2018, assessing areas of change for the group's businesses. A further readiness assessment will be undertaken in 2018.
- Mortality and morbidity: consideration of the relative mortality and morbidity experience for our UK and US protection businesses and developments in our approach to underwriting these risks.
- Financial crime: an assessment of the group's profile of fraud, money laundering and bribery/corruption risks and the proportionality of the control environment.
- Liquidity risk: the effectiveness of liquidity management processes for stressed and extreme market scenarios frameworks.
- LGIM risk management: an annual review of LGIM's operational risk management framework and global operating model.

The Committee has also taken an active role in the development of the group's recovery and resolution plans, which are being put in place in line with the UK regulatory requirements relating to systemically important insurers.

Risk appetite

In July, as in previous years, 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 a number of 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 where aspects of the transaction may present risks that are relatively new to the group. In this context during 2017, the Committee evaluated the risk profile and appetite for the larger pension risk transfer deals undertaken as well as transactions utilising risk syndication techniques. The Committee is also responsible for recommending to the Board risk appetite levels for particular business lines.

Risk-based capital model

The group's risk-based capital 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 independently validate the outputs of the model
- ongoing development of the model to ensure that it reflects the business lines and risk profile of the group
- 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 including the review of the:

- proposed stress tests and scenarios to be used in the evaluation of capital adequacy
- profile of risks within the group's strategic plan and how they may change over the planning period
- 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 of 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.