

# Purchasing and Supply Management

## 1 Policy objective

- 1.1 To ensure that Aviva optimises and sustains commercial advantage, it is important that minimum standards are applied to the activities of purchasing and supply management. This can be achieved with the use of knowledge, competency and scale, and managed through appropriate supplier relationships, to a level that is acceptable to our regulators and shareholders and is commensurate with Aviva's approach to risk.
- 1.2 This policy defines the standards of governance and practice that must be adhered to by all Aviva staff and those working on behalf of Aviva, engaged in the activity of purchasing and the ongoing activity of supply management (i.e. managing suppliers).
- 1.3 This policy sets out the required governance and risk management for all businesses, provides effective mitigation of associated risk in the purchasing and supply management process and supports the achievements of the group's risk and business objectives.

## 2 Policy owner

- 2.1 The group policy owner for this policy is the director of procurement.
- 2.2 The executive sponsor for this policy is the chief executive, Norwich Union Insurance.
- 2.3 The day to day management of the policy and its provisions will rest with purchasing and supply management (P&SM).

## 3 Primary audience

- 3.1 This policy applies to all Aviva staff; this includes all persons working on behalf of Aviva engaged in the activities of purchasing and supply management.
- 3.2 For this purpose purchasing and supply management is defined as all activities required to undertake purchase or rental of goods, equipment and services, and its subsequent on-going management and eventual termination.

## 4 Scope

- 4.1 The scope of this policy is groupwide and applies to all Aviva operations including businesses and legal entities.
- 4.2 For joint ventures and outsourcing arrangements, senior management should satisfy itself, as far as reasonably practicable, that the systems and controls which are in place are appropriate to monitor and mitigate risk.

## 5 Alignment to risk appetite

### 5.1 Inherent risks

This policy supports management of the following inherent risks:

#### Group oversight risks

##### 5.1.1 Marketplace risk

- The existence of limited and challenging market places or instability in our vendor locations, resulting in difficulty in achieving full value benefits and difficulty in locating alternative sources of supply for pan Aviva arrangements should Aviva need to exit an existing supply arrangement.

#### 5.1.2 Concentration risk

- The exposure of Aviva to unmanaged single supplier actions across multiple businesses, resulting in loss of market leverage, increased risk of business exposure or supplier exploitation.

#### 5.1.3 Value optimisation

- Value opportunities in Aviva's sourcing and supply management activities are not identified, sanctioned and sustained.

#### Business operational risks

The following groupwide operational risks apply to all businesses and relate to engagement with P&SM.

#### 5.1.4 Business requirements and objectives

- At the start of a new purchase, Aviva may fail to define business objectives and risks, and service requirements fully and accurately.

#### 5.1.5 Contingency planning / business information

- Business continuity and disaster recovery plans are not in place or robust enough to ensure that Aviva can resume service within agreed timescales.

#### 5.1.6 Legal risk

- Error, omission or the requirement for non-standard clauses mean that failure to consult group legal can lead to loss of revenue, legal censure, penalties or reputational damage.

#### 5.1.7 Management of the contract

- Requirements agreed when the supply contract was set up are not delivered and best value is realised due to the failures in the supplier management processes.

#### 5.1.8 Concentration risk

- The exposure of Aviva to unmanaged single supplier actions within individual businesses, resulting in loss of control, market leverage, and increased risk of business exposure or supplier exploitation within that business.

#### 5.1.9 Marketplace risk

- The existence of limited and challenging market places or instability in our vendor locations, resulting in difficulty in achieving full value benefits within the specific business and difficulty in locating alternative sources of supply should Aviva need to exit the arrangements.

#### 5.1.10 Clarity of the contract and responsibilities

- Failure to understand the nature of the contract and the responsibilities of the staff of Aviva and the supplier to ensure effective delivery.

#### 5.1.11 Exit strategy

- An appropriate exit strategy is not defined and is not reviewed regularly to ensure an orderly handover can take place without impacting service.

#### 5.1.12 Internal or external change

- Aviva fails to commit resources during the purchasing and supply management process when organisational or operational change diverts resources elsewhere.

*P&SM may grant the businesses some authority to manage their purchasing activity locally where a recognised purchasing team exists. The businesses must follow standard practices, governance and risk frameworks created by P&SM.*

## 5.2 Risk appetite

In addition to the risk appetite statements specified in the risk management and internal control policy, the specific risk appetite statements in relation to this policy are below.

The group has no appetite for failure to manage and mitigate material risks associated with all stages of purchasing and supply management activity. The requirement to engage purchasing and supply management will ensure the delivery of a fair and transparent professional process and will contribute to the delivery of the following risk mitigation benefits:

- Early and effective engagement with P&SM may mitigate lost benefits of between 1% and 30%.
- Management of our supply relationships could prevent the loss of value benefits of up to 75%.
- Supply base engagement results in improved supply chain knowledge, supplier relationships and maintains our market position without compromising our reputation.
- Utilising our contracted / preferred suppliers minimises risk and unnecessary costs of up to 30%.
- Engagement with P&SM ensures that a full commercial approach is undertaken, including the appropriate involvement of business protection, corporate social responsibility (CSR) and legal thus maintaining the reputation of Aviva.

## 6 Minimum standards

### 6.1 Risk management and control

The key risk processes and principles covering the inherent risk areas above are set out in this section.

#### 6.1.1 Planning / change

Management information for purchasing and supply management risk should be used to provide insight, inform the operational planning process and influence resource allocation including capital.

#### 6.1.2 Risk appetite

Risk appetite statements and tolerances should be clearly defined and refreshed on a regular basis (at least annually) and as an integral part of the planning process. Risk appetite should be defined for a business as usual situation within an established business and also needs to be sufficiently flexible to deal with a variety of situations (e.g. rapid market expansion, managing significant change) and should support rather than constrain sensible risk taking to deliver business strategy.

#### 6.1.3 Risk analysis

Regular reviews (at least on a quarterly basis) of P&SM systems and processes must be actively performed to ensure inherent purchasing and supply management risks are effectively managed.

#### 6.1.4 Controls

Appropriate controls must be in place to ensure the following requirements are met:

- i. The provisions of the risk management and internal control policy must be applied to the management of purchasing and supply management policy risks.
- ii. Any purchasing and supply management activity must not result in any conflict with the standards and controls within Aviva's policies.
- iii. Standard practices, governance and risk frameworks created by P&SM must be followed by the businesses. These represent the most effective and efficient manner of ensuring that the resulting contracts provide best value and manage risk.
- iv. Processes must be in place to effectively engage with purchasing and supply management, and businesses must be capable of undertaking spend analysis, e:auctions and implementing supplier scorecards.
- v. Purchasing and supply management or recognised locally established purchasing function must be engaged early in the purchasing process, according to the conditions detailed below. For the regions, the international purchasing program (IPP) team should be engaged to make sure that the best commercial deals are sourced, including competitive bidding.
- vi. For clarity, 'engaged early in the purchasing process' means before any direct supplier engagement; development of request for information (RFI) and request for proposals (RFP); issuing RFIs and RFPs; or negotiations of any sort. This includes projects of a sensitive or highly confidential nature and in all cases where the supplier is detailed as a major supplier to Aviva as detailed in the implementation guide.
  - P&SM must be engaged by UK and international businesses that do not have a recognised purchasing function - where an individual contract value with a supplier exceeds or is anticipated to exceed £50k (or local currency equivalent).
  - P&SM must be engaged for expenditure in all international businesses, where an individual contract value with a supplier exceeds or is expected to exceed £250k (or local currency equivalent).
  - P&SM must be engaged below the mandated financial thresholds where project complexity is a cause for concern and in all cases where significant risks are identified or if it is a material outsourced contract.
- vii. The engagement thresholds above detail the minimum single contract value thresholds for the engagement of purchasing. Businesses must not artificially disaggregate supplier spend to avoid the provisions of the above.
- viii. Evidence must be provided to P&SM on a half yearly basis of business compliance to the policy thresholds detailed above, demonstrating supplier activity above and below the thresholds.
- ix. Where an opportunity to take additional services from an existing supplier would result in the financial threshold for purchasing engagement being exceeded then P&SM should be contacted.
- x. All contracts irrespective of value must be entered onto an agreed contracts management system and businesses must ensure they can report against each arrangement.
- xi. Once a contract is established, the business is responsible for managing the on-going relationship. Businesses must use the practices detailed in the supplier relationship management framework.

- xii. Where a contract exists across more than one business, the relationship will be managed by the business with the greater interest either by value or criticality. Where there is no clear business lead P&SM will advise.
- xiii. Where the purchasing requirement exceeds the delegated authorities defined in the mergers and acquisitions policy, business management are responsible for obtaining the appropriate approval from the group capital management sub-committee (GCMSC) prior to the completion of any third party agreements.

**A. Corporate social responsibility**

- i. Aviva takes its commitments to corporate social responsibility seriously. We must be clear and consistent with our suppliers, our expectations of them and their commitments to Aviva. In support of this Aviva will ensure that:
  - All new suppliers sign the Aviva supplier code of conduct.
  - All renewed and potential suppliers going through a sourcing process sign the Aviva supplier code of conduct.
  - A CSR performance improvement plan is established for the top five suppliers in each business.
  - All sourcing arrangements have a CSR weighting of a minimum 10% in the final decision making process.

**6.1.5 Actions**

Where differences in risk appetite and the residual risk profile have been identified by the risk analysis process, remedial action plans must be put in place. In instances where controls are deemed to be deficient, these action plans should include improvements in both the control design and its operation. In all cases action plans should contain SMART (specific, measurable, achievable, realistic and time-bound) actions with progress reported on a regular basis to management.

**6.1.6 Line management and reporting**

Procedures must be established to enable the reporting of P&SM risk related issues to local management and group senior management on a regular basis.

Clear lines of internal accountability, responsibility and reporting must be established. Primary responsibility for managing P&SM related risks rests with the head of business. Appropriate internal controls must be in place, operating effectively and staff must be adequately trained.

- i. Operational risks must be effectively represented and reported through the business' local risk framework.
- ii. P&SM will review and report its key risk controls quarterly.
- iii. In order to deliver against the policy provisions P&SM must be engaged by the businesses. P&SM has a number of tools that support the governance, compliance and risk agenda; these tools deliver spend management, order processing and contract recording and management.
  - For each contract P&SM will report the conformance to and use of the sourcing process.
  - Policy compliance will be reviewed half yearly demonstrating the relationship between spend and the existence of a valid contract.
  - The Oracle i-Procurement system will be operational in a small number of UK businesses, this will detail the number of invoices received and paid without an associated purchase order number.

- Businesses should work with P&SM to undertake an agreed number of purchasing auctions per annum and the process by which these are delivered.
- All UK and international business will provide a half yearly statement set against their internal assessment of the level to which this policy is embedded, which will be reviewed by P&SM.
- The P&SM hospitality register and register of interests must be used by the businesses. A report will be provided to the local policy owner on a half yearly basis detailing all reporting against these registers.
- The business' local policy owners and risk managers must meet with P&SM quarterly (in line with group risk reporting timescales) to review their risk reports and detail their actions to mitigate risks within their supplier contracts. These reports will demonstrate conformance to the sourcing process.

#### Escalation of breaches

- i. Material breaches of this policy, including any identified issues that could lead to a breach, should be notified to the group policy owner and the regional chief risk officer immediately (within 24 hours). Where breaches are identified that are material at group level, the group chief risk officer should also be notified.
- ii. The materiality of a breach or issue can be determined by reference to the delegated authority limits for risk management that outline the relevant escalation protocols.
- iii. The group policy owner will advise the relevant oversight committee (i.e. ORC) and executive sponsor of any material breaches. As primary responsibility for risk management lies with line management it is expected material breaches will be also reported up through functional management.
- iv. All material breaches should be documented through the quarterly risk reporting cycle. On a half yearly basis P&SM will also publish details of non compliance and policy breach to the following:
  - Business chief executive
  - International purchasing program sponsor
  - Group policy owner / director of procurement
  - Local policy owner / sponsor within each business
- v. Where agreement cannot be reached through the above route, the escalation route should be through the committee structure. For IPP activity the IPP steering group will first debate unresolved issues with escalation to the IPP sponsor and business CEO prior to escalation through the committee structure.

## 6.2 Responsibilities

### 6.2.1 Business

Head of business:

- Ensures that the business manages P&SM risk and operates in line with the minimum standards in this policy.
- Maintains an appropriate control structure and culture to manage P&SM risk exposure within appetite.

- Meets management information reporting requirements to demonstrate that P&SM risks within the business are being managed effectively.

Local policy owner:

- Acts as a local subject matter expert and provides guidance in relation to the policy.
- Ensures that the requirements within this policy are understood by the business to assist them in implementing local compliance monitoring arrangements.
- Escalates any areas of concern directly to the group policy owner where issues cannot be resolved locally.
- Will engage in budget and spend reviews with purchasing every six months to identify sourcing opportunities and to develop a purchasing activity pipeline.
- The local policy owner within each business is responsible for engaging with P&SM every six months to develop and review the following:
  - P&SM book of work for that business and supporting service level agreements (SLAs).
  - Ensuring that all sourcing initiatives mitigate risk within business as usual operations.
  - Ensuring appropriate ownership with clear accountability and responsibility.
  - Managing conformance to group policy requirements.
  - Engaging with the group policy owner half yearly to review the governance, compliance and risk statements.
  - Delivering action plans to mitigate identified risks.
  - Ensuring that risk management practices are fully cascaded throughout that business.

### 6.2.2 Region

The responsibility of the region is to provide appropriate oversight and challenge, as part of the second line of defence, in order to satisfy itself that the businesses in the region operate in line with this policy.

### 6.2.3 Group

The group policy owner:

- Maintains the integrity of policy content and develops adequate guidance material to support implementation.
- Acts in an advisory capacity to set the risk appetite and provides guidance on establishing the control environment to ensure risks are managed within appetite.
- Provides advice, support and technical guidance in relation to the policy, including application for waivers and notification of breaches.
- Defines the management information required from the business for the oversight committees to discharge their governance oversight and also provides technical advice and reports to these committees as appropriate.
- Approves the strategic plan for the international purchasing program. This includes priority setting, conflict resolution and the management of the executive reporting agenda. The international purchasing program steering group will act as the gatekeeper for all initiatives and will

provide approval for all strategic decisions and vendor performance management decisions.

- Is responsible for obtaining reasonable assurance that their policy requirements are being adhered to by the business. For the purchasing and supply management policy this will be achieved through the above committee's formal reporting and the business' visits to review evidence of good practice.
- Obtains satisfaction from the businesses that the risks are being effectively managed.

Other responsibilities:

- P&SM are responsible for ensuring that all purchasing activity and its associated processes are designed and delivered in such a way that risk mitigation is inherent in all activities as part of business as usual.

#### 6.2.4 Committee

Operational risk committee:

- Oversees the implementation and maintenance of this policy including the group's aggregate operational risk exposure from purchasing and supply management activity on behalf of the Aviva executive and recommending to the executive committee the level of the group's operational risk appetite.

Corporate reputation and stakeholder engagement committee (CRSEC):

- Oversees the group's aggregate business standards risk exposure on behalf of the ORC.
- The committee is required to make recommendations to the ORC regarding the level of Aviva plc's business standards risk appetite. The CRSEC shall be accountable to the ORC.

International purchasing program steering group (IPPSG):

- Approves the strategic plan for the international purchasing program. This includes priority setting, conflict resolution and the management of the executive reporting agenda. The steering group will act as the gatekeeper for all initiatives and will provide approval for all strategic decisions and vendor performance management decisions.

Strategic sourcing committee (SSC):

- Ensures that purchasing and supply management activity is appropriately managed across the Aviva business. The committee will meet quarterly to review the operation of the policy, governance and risks created by purchasing activity. The committee will be attended by all business leads and held prior to risk and governance reporting timescales.

## 7 Waivers and exceptions

- 7.1 In exceptional circumstances, and on a case by case basis, a waiver or exception may be granted to this policy.
- 7.2 All requests for a waiver or exception in respect of any requirements of this policy must be discussed with the regional chief risk officer. Applications should be forwarded to the group policy owner (cc group chief risk officer) with a supporting detailed business / operational justification signed by the business head requesting the waiver or exception.
- 7.3 The group policy owner, in liaison with the group chief risk officer, will decide upon the application and advise the region of the outcome. The group policy owner will

provide details to the relevant oversight committee (i.e. ORC) and executive sponsor of any waivers or exceptions granted.

## 8 Reference to supporting materials

### 8.1 Implementation guide

This policy is supported by a detailed implementation guide to aid communication and on-going management.

### 8.2 Supporting policies

The following Aviva policies support the activities of purchasing and supply management and should be referred to when undertaking sourcing and supply management activity:

- Risk management and internal control
- Corporate social responsibility
- Financial crime
- Outsourcing
- Business protection

### 8.3 Other information

The following internal information can be accessed to provide additional information on the policies, practices, governance and risk frameworks surround sourcing and supply management activity:

- Purchasing and supply management pulse site
- Purchasing and supply management arena site
- International purchasing program site
- Group CSR sites
- SRM practice pulse site

### 8.4 Risk and control matrix

This document demonstrates the linkage between the inherent risks, control objectives, and illustrative key controls and key indicators (qualitative and quantitative) that can be used to provide insight and evidence as to whether the inherent risks the policy is seeking to address are being mitigated adequately in practice.

A matrix should be maintained for each policy. Gathering evidence through indicators will provide the insight into the effectiveness of the internal control environment, and so limiting the need for detailed testing.

### 8.5 Glossary

A central glossary is maintained within the risk management and internal control policy. Specific terms unique to this policy are attached in the technical glossary provided.

## 9 Contact details

### Group policy owner

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Director of procurement

Norwich Union procurement

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## Technical glossary

Term	Definition
<p>IPP</p>	<p>International Purchasing Program, Aviva's international purchasing programme (IPP) was established in 2005 the IPP team provides commercial support to local teams on major projects such as outsourcing or new technology investments and provides the tools and systems to enable successful Sourcing and Supplier Relationship Management (SRM) activities. IPP acts as a Centre of Excellence in sharing best sourcing practice and supports the implementation of the Aviva group purchasing policy.</p> <p>The programme aims to do two things:</p> <ul style="list-style-type: none"> <li>• Firstly, to reduce costs in each business by adopting strategic sourcing techniques and</li> <li>• Secondly, to develop a sustainable program of cost reduction over the longer term by continuing to develop a world class purchasing team with suitable tools and processes</li> </ul>
<p>PCMS</p>	<p>Purchasing Contracts Management System (PCMS) is the system for registering and managing global and local contracts.</p>
<p>Supplier relationship management</p>	<p>Ongoing management of buyer and supplier relationships is essential to the delivery of sustainable added value. Relationship management is focused on long-term value improvement and generating competitive difference.</p>
<p>Sourcing process</p>	<p>The good practice purchasing process for managing the contracting and award of third party supplier contracts, whether these are 'material' or otherwise. This can be found on the purchasing sites on Pulse and Arena.</p>