Risk Committee report

Committee focus during 2018

I am pleased to present the Committee's report for the year ended 31 December 2018.

The Company's approach to risk and risk management together with the principal risks that face the Group are explained within the Risk and risk management section of this report.

During the year the Committee's focus remained on the political environment, in particular Brexit planning, economic outlook, outsourcer contagion risk, the emerging strategic risks posed by technology changes, risks posed by climate change, the heightened risk of cyber threats and data security, together with ongoing regulatory change.

The Company's overall risk profile has remained fairly constant throughout 2018. The Committee continued to review and oversee the strengthening of the Group's operational risk environment and ongoing monitoring of the businesses' capacity to deliver a number of mandatory and strategic change projects underway.

The Committee continues to monitor the current risk environment, with IT and operational risk remaining as significant themes. This aligns to the Committee's focus on cyber and IT, which includes cyber security, transformation of IT infrastructure, and the ability to deliver data digitally to meet the needs of our customers.

Due to the ongoing Brexit negotiations between the United Kingdom and the European Union, the political landscape has remained volatile in 2018, with the Committee continuing to monitor the political environment, Brexit planning and preparation activities.

Committee membership

The members of the Committee are shown in the table below. Details of their experience and qualifications are shown in the Directors' biographies, and attendance at Committee meetings during the year is shown within the Directors' and Corporate Governance report. There were no changes to the composition of the Committee during 2018.

Name	Member Since	Years on the Committee
Michael Hawker[1]	01/01/2010	9
Glyn Barker	02/05/2012	6
Belén Romana García	26/06/2015	3
Michael Mire	12/09/2013	5
Claudia Arney	01/01/2017	2
Keith Williams	03/08/2017	1

1 Chair. Michael Hawker will retire from the Risk Committee with effect from 31 March 2019. The appointment of the new Risk Committee Chair is well advanced, and will be announced following completion of the relevant regulatory approval process.

Committee purpose

The main purpose of the Committee is to assist the Board in its oversight of risk within the Group, with particular focus on reviewing the Group's risk appetite and risk profile in relation to capital, liquidity and franchise value and reviewing the effectiveness of the Group's Risk Management Framework. The Committee reviews the methodology used in determining the Group's capital requirements and stress testing and ensures that due diligence appraisals are carried out on strategic or significant transactions. In addition to the risks inherent in the Group's investment portfolio, the Committee reviews the Group's operational risks, and significant ongoing changes to the regulatory framework, while monitoring the prudential regulatory requirements across the Group. The Committee also works with the Remuneration Committee to ensure that risk management is properly considered in setting the Remuneration Policy, and is responsible for promoting a risk awareness culture for the Group.

Cyber

Given the importance of cyber security to the Group, all cyber activity is governed in one portfolio of transformation activity to ensure efficiency, transparency and the ongoing ability to manage the holistic execution alongside specific people, process and technology delivery. During the year the Committee reviewed the linkage between the Group's cyber environment and customer satisfaction, which remained a key theme of the Cyber Major Control Improvement Topic (MCIT).

The Committee reviewed the Group's Cyber Dashboard, which focused on seven capabilities (threat led strategy, governance, security engineering, detect and respond, assurance, culture and recovery) and further enhanced how the Group assesses and manages cyber risk. The dashboard provides the Group with a strong framework and a simplified process with consistent measures which enables the Committee to review the progress of the Group's capabilities for the benefit of all stakeholders. The Group also recently completed external benchmarking on the Cyber Controls and reviewed these controls within the Operational Risk & Control Management (ORCM) framework to provide increased clarity, rigour and understanding within the business units of the Group's requirements.

Work is progressing to further strengthen the cyber and disaster recovery controls, which the Committee will monitor closely to ensure they continue to evolve with changes in the shifting environment and threats as they emerge.

IT infrastructure and security

A particular focus for the Committee during 2018 was the monitoring of the IT security culture within the Group and it was recognised that the culture had further improved through the delivery of a refreshed training programme and strengthened security awareness. Service improvement was also a key area of focus in 2018 with significant effort on identifying, understanding and addressing the underlying causes of IT service matters. In recognition of the fundamental and long-term nature of the challenges around IT security, the Committee continues to review the strategic approach to IT service remediation and improvement.

During the year the Committee challenged the risk management of the Group's IT estate and ensured business focus on network availability remained a priority to support our customer and business needs. The proposed transformation of the IT infrastructure in 2019 is a key part of supporting the end to end business process and provides enhanced capacity for the future. The Committee recognises that the risk cultural awareness in the businesses has been strengthened further, especially in relation to overall application governance and business prioritisation and remains satisfied that the appropriate steps are being taken to mitigate the risks of a complex IT estate.

Data migration

During the year a number of data migration and functional service activities had not delivered the customer service outcomes we expected or required. The Committee reviewed the lessons learned from these activities and used the insights gained to further enhance risk assessments and monitoring ahead of future migration activity. The Company's data migration risk profile has been driven largely by the Group's external regulatory and conduct environment, and the impact of previous data migration projects. The Committee has further increased its focus on risk management within UK Insurance and Group-wide IT and change projects underway. The risks, governance, regulatory accountability, resource allocation, business prioritisation and project management around the Company's overall change agenda was a particular focus of the Committee's meeting agenda in 2018, and will continue to be a focus as we go into 2019. As a result, the Committee has requested that an enhanced governance structure be established for the most material Group change programmes. This enhanced structure has brought together members of the Board, Non-Executive Director representatives from key operating and regulated group boards, as well as senior executive management. This structure was further supplemented by representatives of the second and third line oversight functions (Risk and Internal Audit) with external third party assurance where appropriate. The enhanced structure supplemented the Committee Chair's ongoing engagement with the Risk Committee Chairs in a number of our regulated subsidiaries.

Capital and liquidity

During the year the Committee reviewed the current and projected liquidity position, risk environment and risk profile including credit cycle analysis and the economic outlook.

While reviewing the risk profile the Committee oversaw the analysis of the Group's current and projected Solvency II capital and liquidity position, which included reviewing forecasted operating capital generation over the plan period. The Committee reviewed the different levels of risk appetite and capital ranges across the Group and reviewed the capital positions in the Group's subsidiaries and Group sensitivities.

Brexit

During the year the Committee monitored the ongoing Brexit negotiations between the UK and EU, and reviewed the Group's operational readiness planning ahead of the scheduled UK departure on 29 March 2019. Specifically, this included reviewing progress in executing the necessary insurance portfolio transfers to subsidiaries in the Republic of Ireland and establishing our fund management business in Luxembourg, which will be the Group's hub to serve clients located in the European Economic Area (EEA). More generally the Committee has also reviewed the Group's contingency plans to ensure continuous service to customers in the event of a hard Brexit, and considered the impact on supply chain. The Committee also considered the potential risk that Brexit could trigger an early general election in the UK. Brexit will remain on the Committee's agenda throughout 2019, whilst we monitor developments and the impacts, both on the external environment and on our business.

Committee effectiveness review

The Committee undertakes a review of its effectiveness annually. More information can be found in the Directors' and Corporate Governance report.

2019 priorities

The Committee will continue to monitor the political environment, the expected exit of the UK from the EU, and the current global economic cycle, particularly the impact around perceived inflated asset values. It will also focus on the economic and market impacts on the Group operationally, together with managing any balance sheet volatility that these may bring. There will be an ongoing and significant focus on further strengthening the control framework, particularly in relation to change management, cyber risk reduction and disaster recovery capabilities of the Group. Particular attention will also remain on emerging risks, and the potential benefits that could be derived from them, particularly around advances in technology across financial services, automotive and healthcare.

Michael Hawker
Chair of the Risk Committee
6 March 2019

Committee activities during 2018
Risk appetite, risk management and risk reporting

- Reviewed reports from the Chief Risk Officer (CRO), which included updates on significant risks facing the Group, the Group's capital and liquidity position, the control environment, emerging risks and risk profile, liquidity risk appetite and operational, regulatory and conduct risk
- Reviewed and recommended the Group's risk policies for Board approval
- Reviewed reports on the updated audit approach under the Group's ORCM Methodology
- Reviewed and recommended for Board approval the Group's Solvency II (SII) Capital and Liquidity risk appetite
- Approved the Group's foreign exchange risk appetite and SII capital risk tolerances by risk type

Group capital and liquidity, financial plan and stress testing

- Approved the 2018 Group Capital and Liquidity Plan and subsequent updates
- Reviewed capital and liquidity projections including the Group's Solvency II shareholder cover ratio and liquidity cover ratio
- Reviewed updates on credit risk and the Company's credit exposure and reviewed mitigating actions
- Received updates on the asset portfolio; including global economics, assessment of macro economic impacts on the equity release market and investment updates
- Approved the Global Systemically Important Insurer Plans, including Recovery Plan and Liquidity Risk Management Plan
- Received the scenarios for group-wide stress testing to support the Group Recovery Plan
- Reviewed the 2019-2021 Group Plan

Internal model

- Undertook a review of the internal model components, reviewed internal model validation reports and governance updates

External factors

- Reviewed regular updates on the performance of the Group's investment portfolios and on the external economic environment, and assessed the implications on the Group's asset portfolio
- Monitored the risk for cyber security, the progress against cyber risks and reviewed the results of simulated security attacks against the Group
- Monitored the potential impact of Brexit, in particular the exit scenarios and regularly reviewed updates regarding the potential impact on our customers and capital and liquidity
- Reviewed the most significant emerging risk scenarios affecting the delivery of the Company's strategy, including EU GDPR

Regulatory, governance and internal audit
- Received updates from the UK Business Units
- Reviewed the Group Own Risk and Solvency Assessment Supervisory Report and approved its submission to the regulator
- Received updates on the disaster recovery, IT security, outsourcing and cyber risk MCITs, and monitored and challenged progress by management
- Received quarterly reports from the Chief Audit Officer (CAO) on internal audit which included progress on improving the control environment, progress on MCITs, and the review of the Internal Audit function

- Approved the refresh of certain Group Business Standards
- Approved the annual objectives of the CRO
- Reviewed the effectiveness of the systems of internal control and risk management
- Recommended the 2019 Risk and Control Goal for approval by the Remuneration Committee
- Reviewed the adequacy and quality of the risk management function
- Assessed the performance of all Group Business Units against the 2018 Group Risk and Control Goal