Risk Committee report

Committee focus during 2019

I am pleased to present the Risk Committee's (the Committee) report for the year ended 31 December 2019.

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

During the year, the Committee focused on strengthening the risk culture and control environment, with particular attention given to operational and IT risks. The Committee also focused on the changing macroeconomic and political environment, including preparations for the UK to leave the European Union (EU), the risks posed by the low interest rate environment, cyber threats, climate change and ongoing regulatory change.

The Company's overall risk profile has remained stable throughout 2019 and the Committee continued to review and oversee the strengthening of the Group's operational risk profile and control environment.

Committee membership

I assumed the role of Chair on 5 July 2019. Michael Hawker was the Chair until 31 March 2019 when he stepped down from the Board and the Committee after nine years' service. Glyn Barker and Claudia Arney also retired from the Board and the Committee on 31 December 2019 and I would like to thank them all for their contribution. The members of the Committee as at 31 December 2019 are shown in the table below. Amanda Blanc became a member of the Committee on 2 January 2020 following her appointment to the Board. Details of members' experience, qualifications and attendance at Committee meetings during the year are shown within the Directors' and Corporate Governance report.

Name	Member since	Years on the Committee
Belén Romana García[1]	26/06/2015	4
Michael Mire	12/09/2013	6
Claudia Arney[2]	01/01/2017	3
Glyn Barker[3]	02/05/2012	7
Patrick Flynn	16/07/2019	<1
George Culmer	25/09/2019	<1

1 Chair.
2 Claudia Arney retired from the Committee on 31 December 2019
3 Glyn Barker retired from the Committee on 31 December 2019

Committee purpose

The main purpose of the Committee is to assist the Board in its oversight of risk within the Group, with a 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 associated 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, including significant changes to the regulatory framework. The Committee works with the Remuneration Committee to ensure that risk management and risk culture is properly considered in setting the Remuneration Policy. During 2019 the Committee supported the development of the new primary risk and control metric included in the Company's Annual Bonus Plan and further details on this can be found in the Directors' Remuneration report.

During the year the remit of the Committee was reviewed, and it was agreed that responsibility for controls over financial reporting will remain with the Audit Committee while the Committee has responsibility for all other internal controls. The Committee's Terms of Reference were updated accordingly.

The Committee works closely with the Remuneration and Audit Committees. The cross membership between these Committees promotes a good understanding of issues and efficient communication.

UK exit from the EU

During the year the Committee monitored the negotiations between the UK and EU and reviewed the Group's operational readiness planning, including the appropriateness of the 'No Deal' operational planning assumption against the backdrop of political uncertainty. Management plans included implementing a monthly Steering Committee to oversee preparations and the Committee reviewed the progress made by the Steering Committee and the implementation of the Part VII transfers of insurance portfolios to subsidiaries in Ireland, which were completed by 29 March 2019. More generally the Committee discussed the Group's contingency planning to ensure continuous service to customers in the event of a 'No Deal' exit and also considered customer service capacity planning to ensure that continuous service could be maintained in the event that a 'No Deal' exit occurred concurrently with other risk events (for example extreme weather) and business-as-usual peak demand (for example tax year-end). The resilience of the Group's balance sheet and the effectiveness of financial hedges to help mitigate possible financial market shocks from a 'No Deal' exit were reviewed, together with the progress made by the team working across the Group to ensure EEA to UK data transfers would be legally compliant absent of an EU data protection adequacy ruling. The Committee reviewed the scenario planning for potential fund suspensions, particularly property funds, to ensure that communication controls and cascades were in place.

Control environment

During the year the Committee received updates on disaster recovery, cyber resilience and IT outsourcing, and monitored and challenged the progress made by management.

The Committee reviewed the progress made by management in testing Aviva's ability to recover critical IT services in the event of a disaster and the robustness of the controls to support this on an ongoing basis. The progress made on the disaster recovery testing, and the new facilities provided by the data centre migration, allowed the Committee to support a return to tolerance for Aviva's disaster recovery risks.

In the case of cyber resilience, the Committee requested that management develop supporting management information (MI) for each business to demonstrate the effectiveness of key controls. The cyber scorecard allows each market to track control effectiveness and take proactive actions to address any issues arising. The Committee recognised that progress had been made across the overall cyber risk and control environment, including an improvement in cyber resilience maturity. In addition, there had been demonstrable improvements in Aviva's Cyber and Disaster Recovery controls, and focus will remain on ensuring the controls operate at an optimum level.

Notwithstanding these improvements the Committee believes that further work is required on the overall risk and control environment and that the assessment and the subsequent impact on the Company's 2019 Annual Bonus pool provides a clear statement of the focus on continual improvement across 2020.

Data centre migration

As part of the lessons learned from previous change programmes, the Committee ensured that appropriate governance structures were in place for future programmes. During 2019, a joint multi-entity forum was used for the data centre migration project with assurance provided by an independent expert. This forum operated in support of each legal entity board to ensure appropriate oversight of the programme and the most material IT migrations. As a result of this oversight, and the risk management practices embedded within the programme, the migration of Aviva's data centres was completed with minimal impact to customer service.

Risk culture

During the year the Committee reviewed the overall risk culture within the Group and the balance of risk and control expertise. This is in addition to the annual assessment of the performance of all Group business units and functions against the Group Risk and Control Goal which considered a range of quantitative and qualitative measures and outcomes. As a result, there has been a greater focus on risk culture with additional scrutiny on relevant metrics which forms part of the new operational risk appetite framework and focus will remain on further development.

Committee effectiveness review

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

2020 priorities

The Committee will continue to monitor the political environment, following the UK's exit from the European Union, including progress on trade negotiations and the future regulatory and political relationship. There will continue to be a focus on strengthening the risk and control environment particularly in relation to change activity, cyber risk reduction and ensuring IT service continues to meet customer demands and support the emerging requirements of operational resilience. The new risk reward metric and operational risk appetite should support this momentum while balancing the need to incentivise the required culture and behaviours to ensure controls are sustainably returned to tolerance. The Committee will focus on the potential risks associated with the business growth agenda and cost reduction activities to ensure these stay aligned to our commitment to improve the risk and control environment and deliver great customer outcomes.

In addition, I will continue to ensure a strong dialogue between the Group Risk Committee and our equivalent subsidiary level committees. This will include further developing the strength of the Company's controls around non-financial and emerging risks and how they support overall operational resilience, the horizontal and geographic review of key risks, remuneration processes and the linkage to culture.

Finally, on 11 February 2020 we welcomed Jan-Hendrick Erasmus as the new Group Chief Risk Officer. The Committee will work closely with Jan-Hendrick on his on-boarding and objectives which will be closely aligned to the priorities for the Committee.

Belén Romana García
Chair of the Risk Committee
4 March 2020

Committee activities during 2019

Risk appetite, risk management and risk reporting

- Reviewed reports from the Group Chief Risk Officer (Group CRO), which included updates on significant risks facing the Group, the Group's capital and liquidity position, the control environment, emerging risks and the Company's risk profile, and operational, regulatory and conduct risks
- Reviewed and recommended for Board approval, the Group's risk policies
- Reviewed and recommended for Board approval the Group's Solvency II (SII) capital and liquidity risk appetites
- Approved the Group's SII capital risk tolerances by risk type

Group capital and liquidity, financial plan and stress testing

- Approved the 2019 Group Capital and Liquidity Plan and subsequent updates
- Reviewed capital and liquidity projections including the Group's SII shareholder cover ratio and liquidity cover ratio
- Reviewed updates on credit risk and the Company's credit exposure and reviewed mitigating actions
- Reviewed the development of the Company's strategy from a risk perspective
- Approved the Systemic Risk Plan, the Recovery Plan and the Liquidity Risk Management Plan
- Approved the scenarios for group-wide stress testing to support the Group Recovery Plan
- Reviewed the risks to the 2020-2022 Group Plan

Solvency II internal model

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

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 impact of the decision of the UK to leave the EU, 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

Regulatory, governance and internal audit

- Received risk and control updates from certain business units as part of an updated programme of risk deep-dive reviews
- Reviewed the Group Own Risk and Solvency Assessment (ORSA) Supervisory Report and approved its submission to the regulator
- Received updates on the disaster recovery, IT security, IT outsourcing and cyber risk Major Control Improvement Topics, and monitored and challenged progress by management
- Received quarterly reports from the Group Chief Audit Officer on internal audit which included progress on improving the control environment
- Approved the refresh of Solvency II related Group Business Standards
- Reviewed and approved the annual objectives and performance of the Group CRO
- Reviewed the effectiveness of the systems of internal control and risk management
- Reviewed the Company's reporting on the Taskforce on Climate Related Financial Disclosures requirements
- Recommended the 2020 Risk and Control Goal for approval by the Remuneration Committee
- Reviewed the adequacy and quality of the risk function
- Assessed the performance of all Group business units against the 2019 Group Risk and Control Goal