

Risk Committee report

Risk Committee report

Committee focus during 2020

I am pleased to present the Risk Committee (the Committee) report for the year ended 31 December 2020.

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 held additional meetings to focus on the COVID-19 global pandemic and received regular updates on the developing risks including the broader view of risk coverage by business units response, the prioritisation decisions around risk management, the Company's scenario planning and the impact on the Group's capital and liquidity. The Committee also spent significant time on the ongoing volatility of interest rate risk exposure and financial stability risk arising from the clearing and settlement considerations connected to the UK's exit from the European Union (EU).

The Committee held joint sessions with the Customer, Conduct and Reputation Committee (CCRC) in order to further support the oversight of conduct risk management. In November 2020, the Committee further assessed its role again, and concluded that the oversight of conduct risk topics would be enhanced if the CCRC became a sub-committee of the Risk Committee. This further aligned the oversight of conduct risks with other operational risks.

The Committee continued to review and oversee the strengthening of the Group's operational risk profile and control environment, supported by the development of the operational risk dashboard.

Committee membership

George Culmer and Amanda Blanc stepped down from the Committee on 27 May 2020 and 6 July 2020 when they became Chair and Chief Executive respectively. The members of the Committee as at 31 December 2020 are shown in the table below. Jim McConville and Mohit Joshi joined the Committee on 1 December 2020 and bring significant experience in retail financial services and operational and IT transformation. 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 (Chair)	26/06/2015	5
Patrick Flynn	16/07/2019	1
Mohit Joshi	01/12/2020	<1
Jim McConville	01/12/2020	<1
Michael Mire	12/09/2013	7

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 RMF. 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 2020, a review of the Terms of Reference was carried out to provide greater clarity to the role and responsibilities between the Committee and CCRC to support appropriate oversight of conduct risk issues. As a result, the Committee held joint meetings with the CCRC to further assist co-ordination between the two Committees when assessing Conduct Risk matters, particularly when monitoring the impact of COVID-19 on customers and markets. This co-ordinated approach to oversight was formalised through the CCRC becoming a sub-committee of the Risk Committee to bring together committee oversight of all operational risk matters into one area. The Committee Terms of Reference were also clarified in respect of oversight of operational controls, with the Audit Committee overseeing controls over financial reporting, and the Risk Committee overseeing all other operational risk controls. The Committee also works closely with the Remuneration and Audit Committees. The cross membership between these Committees promotes a good understanding of issues and efficient communication.

COVID-19

During the year the Committee spent a substantial amount of time on the impact of COVID-19 and the operational, economic and insurance exposure. The Committee met on a more regular basis and held additional meetings to receive updates on the solvency position of the Group; the balance sheet and capital related management actions that were being taken; the operational readiness of the Group; the insurance risk exposure; and engagement with the regulators.

During 2020 there was significant market volatility and changing government stimulus and the overall recovery analysis continued to adapt to these changes.

The operational resilience pilot exercise supported the Group's approach to COVID-19 resilience activities, for example exceptions on provision of devices and alternate mobile working. This ensured that a strong internal communications cascade was in operation with full colleague support being provided. As part of operational readiness, the Group made the decision that new business was de-prioritised in order for staff to deal with existing and vulnerable customers and in particular claims. The Committee focused on the safety of employees, particularly those with underlying health conditions and ensured that management had plans in place to protect employees, and accommodate working from home, while ensuring that all critical services were maintained.

The Committee considered the overall impact of COVID-19 on the Group strategy and the consequences and trade offs made over the period, structural change and customer behaviour. The Committee's working scenario for COVID-19 was considered more prudent than the scenario devised by the Monetary Policy Committee of the Bank of England. The Committee welcomed that customer actions taken by the Group in response to COVID-19 had been positive and were generally ahead of the regulatory agenda.

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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.

In regard to cyber resilience, the Committee requested regular updates on the people, education, training and cultural aspects of the cyber programme to support the overall cyber risk and control environment. The Committee recognised that progress had been made, including an improvement in cyber resilience maturity.

The Committee also received deep dive sessions into the Company's cloud model and associated opportunities including cloud governance, controls and assurance, the developing regulatory position and the Group's Cyber position in order to provide a holistic view of the risks and opportunities to the Group.

During 2020, the Committee encouraged the development of the enterprise risk dashboard, specifically to include categorisation of risks across our different markets, risk appetites and focus on regular updates on key developments. This aligned to the financial risk appetite chart requested by the Committee, with the inclusion of updates on the operational risk and control environment and route to Green plans. During the most critical first wave of the COVID-19 period the dashboard was refreshed every two weeks to consider current and emerging risks on a regular basis.

The Committee requested horizontal deep dives, which included change management and the governance of the global change portfolio and material change programmes for 2020. The Committee welcomed the enhanced reporting and requested that further change updates were provided throughout the year with enhanced risk reporting against each completed and in-flight programme, a clearer risk landscape in respect of change and a risk assessment of first line programme success measures and objectives.

The Committee also received a deep dive session on France and its capital position and sensitivity to interest rate risk volatility. As part of this the Committee discussed the risk appetite based on the current strategy, the actions and plans taken during 2020 and currently underway, contractual commitments both to customers and our commercial partner and other strategic options. As part of the review of France the Committee focused on the misapplication of regulatory rules which had taken place and requested an overview of the additional validation work that was conducted in response.

The Committee requested updates on the Canadian risk environment, insurance risk and learnings on GI policy wordings and control processes. The Committee challenged the processes to ensure they were leading to the right customer outcomes.

Global Climate Change

During the year the Committee received an emerging risk deep dive on global climate change, including the current context, interconnected risks, alternative scenarios and the work being undertaken in Aviva to address the issue of climate change as part of Aviva's new climate strategy. The Committee also considered the regulatory expectations and data assurance processes that would be part of the climate related financial disclosure.

Committee effectiveness review

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

2021 priorities

The Committee will continue to monitor the impacts and associated risks as a result of COVID-19, the regulatory landscape and the UK's exit from the European Union. There will continue to be a focus on strengthening the risk and control environment, including mobilisation of a Risk Improvement Delivery Programme over the next two years.

In addition, I will continue to ensure a strong dialogue between the Group Risk Committee and our equivalent subsidiary level committees and the new reporting structure of the CCRC into the Committee.

Belén Romana García

Chair of the Risk Committee

3 March 2021

Committee activities during 2020

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
- Received regular updates on the global COVID-19 pandemic and associated developing 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
- Approved recommendations made by the Group CRO in his 90 day observations
- Approved mobilisation of the Risk Improvement Delivery Programme in 2021

Group capital and liquidity, financial plan and stress testing

- Approved the 2020 Group Capital and Liquidity Plan and subsequent updates
- Reviewed capital and liquidity projections including the Group's SII shareholder cover ratio¹ 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 2021-2023 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
- Reviewed the findings from France actuarial model review undertaken by Ernst & Young

¹ This is an Alternative Performance Measure (APM) which provides useful information to enhance the understanding of financial performance. Further information on APMs, including a reconciliation to the financial statements (where possible), can be found in the 'Other Information' section within the Annual Report and Accounts.

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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 UK's exit from the EU
- 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 (OSRA) 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 SII 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 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 2020 Group Risk and Control Goal