



Risk management supplement 2024

Legal & General Group Plc



Within this supplement we set out descriptions of the risks we face, further information on how our risk management framework operates and a narrative description of our appetite in relation to our main risk areas.

Our risk landscape

The risks that are inherent in our business arising from:

- the products we write
- the investments we hold to meet our obligations
- the business environment in which we operate.

Risk management framework

Our risk framework sets out how we manage risk throughout the organisation.

It ensures risks to which we may be exposed are being appropriately identified and managed, and that the risks of significant financial loss or damage to our reputation are minimised.

Risk appetite

Our risk appetite sets the ranges and limits of acceptable risk taking. We have risk appetites and tolerances for different types of risks.

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Our risk management approach supports informed risk taking by our businesses.

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Chris Knight
Group Chief Risk Officer

Our risk landscape

Our risk landscape comprises asset, insurance, financial, non-financial, and strategic risks. Our largest risk exposures, measured by undiversified solvency capital, are to credit and longevity.

1. The products we write

Insurance risk

Longevity, mortality and morbidity

The pricing of long-term life insurance business requires assumptions to be made for future trends in the life expectancy and general health of those whom we insure. There is the risk that actual experience may diverge from our assumptions, requiring an increase in reserves and reducing profits.

Life catastrophe

We also make assumptions about the likelihood of catastrophic events that could cause a widespread loss of life or disability within the pool of the lives we insure. There is the risk that future events could be more extreme than those we have assessed in determining our reserves.

Persistency (lapse)

We are exposed to the risk that product acquisition and set-up costs may not be recovered if policies lapse earlier than we anticipated within our pricing assumptions.

Product expenses

Our product pricing must also take into account the future costs of product servicing. Deviations in actual costs present the risk of reduced product profitability.

2. The investments we hold

Market risk

Investment performance

We invest in a range of investment assets, including equities, bonds, and property, to meet the obligations from the long-term life insurance business that we write and to deliver returns to shareholders. However, there is a risk that the income and value of these investment assets may underperform relative to required targets.

Interest rates and inflation

Interest rates and inflation can affect the value of the investment assets we hold to meet our obligations, as well as the value of the obligations themselves. These factors have an impact on profitability.

Currency

Fluctuations in exchange rates can vary both the value and income from investment assets denominated in foreign currencies, as well as the sterling profits and value of our overseas businesses.

Property

We are exposed to fluctuations in property prices through our investments in residential and commercial property development. Additionally, lifetime mortgages include a no-negative equity guarantee, which transfers an exposure to loss to L&G, should house-price inflation fall below expectations.

Credit risk

Bond default

We hold a significant portfolio of corporate bonds to back our pension risk transfer and annuities businesses. This portfolio is diversified across a range of sectors and geographies. However, it inherently carries the risk of default, which may result in financial loss.

Property direct lending

We also hold property lending and sale and leaseback investments that are inherently exposed to the risk of default by a borrower or tenant, although we seek to protect our interests by taking security over underlying property.

Banks and the issuers of financial instruments

Banking and money market counterparties, the issuers of financial instruments and the providers of settlement and custody services may default on their obligations to us. Such defaults could result in financial loss.

Reinsurance counterparties

Although not directly an investment risk, in using reinsurance in our annuity and protection businesses, we are also exposed to the risk that a reinsurer may default, impacting the payment of claims to us and other obligations, and requiring us to either seek alternative reinsurance arrangements, potentially on less advantageous terms, or bear the reinsured risks directly.

Liquidity risk

Contingent events

Low probability and typically extreme events that, if not adequately planned for, may result in unanticipated requirements for liquidity.

Collateral

Failure to hold sufficient cash or suitable liquid assets to meet collateral requirements for financial instruments may result in unplanned disposals of assets at excessive cost.

Investment liquidity

Exposure to liquidity risk may also arise if the profile of investment assets held to meet obligations to policyholders is not aligned with the maturity profile of policies, or the profile does not adequately take account of the rights of policyholders to exercise options or guarantees. We manage this risk by ensuring that an appropriate proportion of our funds are held in cash or other readily realisable assets to meet maturities and anticipated early withdrawals as they fall due.

Emerging risks

Emerging enterprise risks are risks that are not yet fully recognised or understood by organisations but have the potential to significantly impact their operations, often in unexpected ways. We maintain an emerging risks dashboard that captures views and inputs from across L&G, and helps to monitor the likelihood of emerging risks on the Group's strategy.

3. Non-financial risks

Technology

We operate in an environment where we place significant reliance on a combination of IT systems and manual processes.

Any vulnerabilities or breakdowns in our systems and processes, along with the loss of key personnel, or errors and omissions, could lead to financial loss or adversely impact our customers and reputation.

We also encounter technology-specific risks, including breaches of confidentiality, system or data integrity failures, and challenges in adapting promptly and cost-effectively to changing environment or business requirements. Our primary focus remains managing technology risk to ensure the ongoing competitiveness and stability of L&G.

Information security and cyber threats

We are also exposed to information security and cyber threats. This landscape remains both complex and dynamic, with emerging and evolving risks. We manage this by continuous monitoring and implementation of robust security measures.

There are potentially material correlations between all the above risks, with a single event leading to losses on multiple risk types. These correlations are difficult to estimate, although they would tend to be more acute as the underlying risk scenarios become more extreme.

Data

Effective data governance and management have become crucial as organisations increasingly depend on intangible assets to generate value. L&G is dedicated to establishing and sustaining a robust data foundation to mitigate risks such as poor business decisions, financial losses, reputational damage, or regulatory sanctions stemming from issues or limitations in the quality, storage, retention, accessibility, use or transformation of data assets.

Change

There is a significant volume of change being delivered to meet strategic objectives, adhere to regulatory requirements and build a resilient operating model.

Operational resilience

Our operating environment requires that we ensure our important business services can be delivered within defined impact tolerances. Additionally, we must restore the Group's broader business systems and processes on a timely basis to minimise impacts and disruptions to customers and other stakeholders. Our ambition extends beyond compliance to the regulation; we aim to set broader standards across the Group by embedding a 'resilience by design' approach into our change initiatives.



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An assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future performance, solvency or liquidity is set out on pages 44 to 53 of the 2024 Annual report and accounts. Notes 8 and 16 to 18 of the financial statements further describe how the above risks relate to our businesses and the control techniques that we apply to manage them.

Third parties

We collaborate with outsource providers and essential supplier services to deliver our business services. The failure of a service provider to meet expected and agreed standards due to poor performance or financial issues could result in financial loss or harm to our reputation.

Health and safety

Where we directly engage in housebuilding and commercial property development activities, or act as the operator of retirement villages and affordable homes, we may also be exposed to construction risk, including health and safety, project delivery and other liability risks.

People

We depend on the knowledge and expert judgement of our people. The failure to recruit, retain, and effectively manage a workforce with the right skills, behaviours, and culture alignment may impact our ability to deliver the Group's business and strategic objectives.

Compliance and conduct

The markets in which we operate are highly regulated. Changes in regulation or legislation can require changes to our products or business processes. A breach of legislative or regulatory requirements may result in failure to deliver good customer and client outcomes, or financial penalties, remediation costs, and damage to our reputation.

Climate and nature related risk

The deterioration of the health of ecosystems on which we and all other species depend is the biggest challenge our generation faces. The potential physical impacts resulting from the changing climate, along with the necessary mitigating actions, have wide-ranging impacts. While we cannot predict exactly how the world will respond to climate change, we know that the changes required are profound, introducing additional uncertainty.

The risks arising from climate change and nature loss that we are exposed to fall into three broad categories:

- transition risk: impacts on asset valuation and the economy from the process of transitioning towards a low-carbon economy
- physical risk: impacts on asset holdings or changes to insurance liabilities as a result of more frequent and severe weather events and longer-term shifts in climate
- corporate risk: impacts on the Group from exposure to regulatory censure, litigation risks, or adverse customer and client perception of the Group.

Financial crime

As a global financial firm, we are exposed to the risk of illicit funds being used in and around our business through money laundering (including terrorist and nuclear proliferation financing), internal and external fraud, involvement with sanctioned parties, bribery & corruption, and tax evasion. The landscape is dynamic, constantly evolving, and varies in severity across the global business and product type, and is managed through robust control frameworks aligned to those risks and regulatory requirements.

Risk management framework

Our risk framework sets out how we manage risk throughout the organisation. It ensures risks to which we may be exposed are being appropriately identified and managed, and that the risks of significant financial loss or damage to our reputation are minimised.

We deploy a 'three lines of defence' risk governance model:

- business divisions are responsible for risk taking within the parameters of our risk appetite and accountable for managing risks in line with our risk policies
- risk functions led by the Chief Risk Officer provide objective challenge and guidance on risk matters
- Group Internal Audit provides independent assurance on the effectiveness of business risk management and the overall operation of the risk framework.

The core elements of our risk management framework are set out below.

Risk appetite

The Group's risk appetite statement sets out our overall attitude to risk, and the ranges and limits of acceptable risk taking. The Group Board's Risk Committee leads an annual review of the Group's risk appetite, assessing the continued appropriateness of our key measures and tolerances relative to the risk exposures of the Group. Additionally, as part of the annual planning cycle, assessment is made of the level of risk taking proposed in the Group plan and the capacity for risk taking within the overall appetite framework.

The Group's risk appetite is approved by the Group Board on the recommendation of the Risk Committee and the Group Chief Executive Officer. The regular management information received by the Group Board and the Group Risk Committee includes our risk appetite dashboard setting out actual positions relative to the key targets and limits set in our risk appetite.

Risk-taking authorities

We cascade the parameters of our risk appetite to our business managers through 'risk and capital mandates', empowering managers to make decisions that are consistent with our appetite for risk.

Our mandates articulate the product types and features that may be written; the asset classes that may be held; the target capital positions and ranges of earnings' volatility within which the overall profile of risks should be managed; and tolerances for specific risk exposures. Activities that would result in a business operating outside agreed parameters require formal approval.

Risk policies

Risk control

We set formal policies for the management of financial and non-financial risks. The policies specify our overall strategies for ensuring each risk type is managed in line with our risk appetite and the minimum control standards that should be applied in managing our significant risk exposures.

Risk mitigation

We deploy a range of risk management techniques to manage, mitigate, and control risk exposures in line with our risk limits. For example, we use derivative instruments to hedge unrewarded risks as part of our asset liability management activity; and reinsurance programmes to transfer significant aggregations and concentrations of insurance risk exposures.

Our framework of controls includes documented underwriting policies and structured delegated pricing and underwriting authorities. It also includes investment policies which take into account the nature of our liabilities, guarantees, and other embedded options given to policyholders.

Risk appetite

Our risk appetite sets the ranges and limits of acceptable risk taking. We have risk appetites and tolerances for different types of risks.

Market risk

We have an appetite for market risk within our pension risk transfer and annuities businesses, and our shareholder funds, where we are rewarded for taking exposure to the risk. In particular, we have an appetite for selected risks associated with equity, bond, and property investments as the asset class may provide higher investment returns relative to the risk-free rate over the medium-term and enable the optimisation of risk-adjusted returns.

We have limited tolerance, however, for significant losses or volatility from these market risks, and so we seek to set clear investment risk limits which must be adhered to by our businesses. We also have limited tolerance for significant mismatches in interest rates where asset cash flows are expected to cover liability cash flows over a long-term horizon, and risks arising from fluctuations in inflation. Where hedging instruments exist, we seek to remove both these risks. Similarly, we have a limited tolerance for developed country currency risk relative to the base currency of our investment assets and will selectively hedge these currency risks.

Credit risk

We have an appetite for selected credit risk to the extent that accepting this risk enables us to optimise policyholder and Group risk-adjusted returns. In particular, default risk is an inherent factor in bond investments. However, we have limited tolerance for significant losses from single or interrelated counterparty failures, and therefore set credit rating-based exposure limits for investment portfolios as well as limits on exposures to specific sectors and single counterparties, and trade out positions if appropriate.

We also have an appetite for property lending counterparty risk where we can assess the risk of default on loan repayments. By taking the risk we are able to optimise Group risk-adjusted returns, including those derived through a diversification of credit risk. We have limited tolerance, however, for significant loss from the failure of property lending counterparties and require that lending is subject to formal underwriting and secured on physical property assets.

We recognise that there is an inherent risk of reinsurer default. However, we have limited tolerance for significant financial loss or operational disruption from a reinsurer default event, and we will seek to set and monitor credit risk-derived exposure limits for each reinsurance counterparty with which we do business.

We have limited tolerance for the risk of default by banking and money market counterparties, the issuers of derivative financial instruments, or the providers of settlement and custody services, and will seek to actively manage all such exposures against our defined counterparty exposure limits.



Risk appetite continued

Insurance risk

We have an appetite for longevity, mortality and morbidity risk where we expect to add value by accepting such risks, and have the capability to assess, price for, and monitor trends in the risks assumed.

We have a low tolerance for not achieving our target reward for risk as a result of policies lapsing at a faster rate than that anticipated. Similarly, we have a low tolerance for negative variances on product expense assumptions. We seek to manage both these risks by investigations and monitoring experience and reflect the conclusions in our product design and reserving strategies.

We have limited tolerance for an accumulation of catastrophe risk by geographic location and will seek to use a combination of underwriting, geographic concentration limits, and reinsurance to manage such exposures.

Liquidity risk

We do not seek exposure to liquidity risk, but accept that a degree of exposure will arise as a consequence of the markets in which we operate, the products that we write and through the execution of investment management strategies. We seek to ensure that we meet our obligations as they fall due and avoid incurring material losses on forced asset sales in order to meet those obligations.

At Group level, we seek to maintain sufficient liquid assets and standby facilities to meet a prudent estimate of the Group's cash outflows, as identified through monthly forecast and annual planning processes.

Direct lending, sale and leaseback investments, and lifetime mortgage business are inherently illiquid forms of investment, with limited secondary markets to realise the value of assets outside agreed redemption terms. Given the illiquid nature of our annuity and other liabilities, the Group is able and willing to take advantage of the premium offered by illiquid assets. The Group, however, sets limits on the overall exposure to illiquid investments, taking account of the nature and type of liabilities that the assets are held to meet.

Non-financial risk

We accept a degree of exposure to operational risk where exposures arise as a result of core strategic activity. However, we have very limited appetite for large operational losses due to the likely customer and client impact, reputational damage, and opportunity costs.

We aim to implement effective controls to reduce operational risk exposures except where the costs of such controls exceed the expected benefits. We have no tolerance for property-related safety risks and seek to closely manage our exposures.

Climate-related risk

We accept a degree of exposure to climate change-related risk, but we manage our business to align with the mitigation of climate change beyond the 1.5°C 'Paris' objective and to be resilient to the risks of different climate outcomes.

We have also set ourselves ambitious climate goals as we recognise that actions taken today can influence the likelihood of different climate outcomes, and have an impact on future risk exposure.

We use a number of controls to reduce our exposure to climate-related risk:

- an established framework for progress towards our climate commitments
- application of exclusions and environment-related escalation
- physical risk controls
- review of our existing tolerance framework to incorporate climate considerations
- active engagement.

Risk identification and assessment

Review process

We operate a risk identification and assessment process under which all our businesses regularly consider changes in the profile of existing and emerging risks. The assessment process evaluates the risks that are inherent in our products as well as those that are presented from changes in the environments that we operate in.

Scenario planning

We undertake scenario analysis of emerging and uncertain future events to assess possible outcomes and to develop proactive management responses. We also have a proprietary climate scenario modelling toolkit which informs our approach.

Own risk and solvency assessment (ORSA)

Our risk identification and assessment process forms part of our broader ORSA process, our ongoing assessment of the risks to which L&G is exposed, and an evaluation of the sufficiency of resources to sustain the business strategy over the horizon of the Group plan.

Risk appetite continued

Risk management information

Our risk management information framework is structured to report on and support the review of ongoing and emerging risks and assess actual risk positions relative to the risk limits and targets that we set.

Risk oversight

The Chief Risk Officer and his team, who are independent of the business line, support the Group Board and its Risk Committee in articulating acceptable risk taking and ensuring the effective operation of our risk and capital framework.

This includes ongoing assessment of the Group's capital requirements to confirm that they meet regulatory solvency requirements.

The Chief Risk Officer also provides objective challenge and guidance on a range of risk matters to business managers, including the risks implicit in product developments, business transactions and new asset classes, and strategies for managing risks in line with the Group's overall risk appetite.

Risk committees

The Group Board has ultimate responsibility for the Group's Risk management framework. The Group Board's Risk Committee, supported by the Chief Risk Officer, serves as the focal point for risk management activities. Details of the operation of the Risk Committee are set out in the full 2024 Annual report and accounts.

Beneath the Risk Committee is a structure of formal risk oversight committees providing more focused review and challenge of specific risks to the Group, and reviewing the effectiveness of frameworks in place to manage those risks.

Culture and reward

We have a well-established culture and reward process reflected in executives' remuneration. Performance measures focus on the delivery of effective risk management, business strategy, customer and client outcomes, and culture.

Voice survey

We listen to our people through the Voice survey, fostering a diverse, inclusive and positive environment.

Registered office:

One Coleman Street,
London
EC2R 5AA

T 020 3124 2000
F 020 3124 2500

group.legalandgeneral.com

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