

# Group Risk Committee report



## Toby Strauss

Chairman of the Group Risk Committee

### The composition of the Committee

The Committee is composed entirely of independent non-executive directors. The table below sets out its membership during the year.

Members
Toby Strauss (Chairman)
Henrietta Baldock
Nilufer von Bismarck (from July 2021)
Philip Broadley
Lesley Knox
George Lewis
Ric Lewis
Julia Wilson (retired March 2021)

Other attendees at Committee meetings include the following:

Group Chairman; Group Chief Executive; Group Chief Financial Officer; Group Chief Risk Officer; Group Chief Internal Auditor; Representatives of the external auditor, KPMG LLP.

The role of the Committee is to assist the Board in the oversight of the risks to which the group may be exposed and to provide the Board with strategic advice in relation to current and potential future risk exposures. This includes reviewing the group's risk profile and appetite for risk and assessing the effectiveness of the group's risk management framework. The group's approach to the management of risk is set out in more detail on pages 52 to 59.

The work of the Committee is supported by the Group Chief Risk Officer and the Company Secretary, who assist the Committee chair in planning the Committee's work and ensuring that the Committee receives accurate and timely information. The Committee met five times during 2021.

### Group Chief Risk Officer's report

The Committee receives at each meeting a formal report from the Group Chief Risk Officer. This report brings to the Committee's attention key factors in the operating environment of the group's businesses and an assessment of the potential risks that may emerge. The review includes analysis of risks arising from the macro-economic outlook and conditions in financial markets, together with geopolitical, legislative and regulatory change risks that may impact the group's businesses, and risks associated with the implementation of the group's business strategy.

Alongside the Group Chief Risk Officer's report the Committee is provided with management information on risk appetite, comparing actual positions relative to the group's risk appetite statement and quantitative analysis of the group's exposures to financial and operational risks, including risk-based capital requirements in relation to the core risks implicit in the group's businesses. The Committee also receives an

assessment of the overall profile of conduct risks for the group; analysis and trends in complaints data and a suite of customer service metrics designed to enable the Committee to assess the management of the customer journey across the group's financial services products.

### Assessing the risk impacts of Covid-19

The Committee has continued to engage with executive and operational management during the pandemic to consider the responses being taken to the range of risks presented by Covid-19, and the wider impacts for our businesses from the global lockdown.

As well as ensuring the wellbeing of those at Legal & General, the Committee has considered the actions taken to maintain the availability of customer facing services, and the resilience of supporting business activities.

The Committee has also considered assessments on the effects of the lockdown for the global economy and our investment portfolios, including the outlook for credit assets. Reviews of credit exposure have included sectors at risk from the global economic downturn and the longer-term impacts from changes in behaviours as a result of the pandemic. Trends in mortality for the group's UK and US protection businesses, and offsetting effects with the group's annuity portfolios have also been evaluated.

### Focused business and risk reviews

Focused 'deep dive' reviews of particular risk areas are undertaken at each Committee meeting. The purpose of these reviews is to enable Committee members to examine the risk profile of the core business lines and to consider the robustness of the frameworks in place to manage the key risk exposures. Committee members are invited to participate in setting the agenda for these deep dive reviews, considering both the current operating environment and emerging risk factors. Below are examples of some of the key reviews that took place during 2021, and the areas of focus by the Committee.

- Operational risk management within LGIM: consideration of the operational risks implicit in LGIM's core institutional investment management business, the appetite for those risks and the control processes deployed by management.
- Outsourcing and supply chain risks: review of the group's framework for oversight of third-party supply and service arrangements, and the group's approach to ensuring compliance with new regulatory standards to be implemented in 2022.
- Financial crime risks: assessment of the evolving types of financial crime risk to which the group may be exposed, and the evolution of the group's risk management framework in response.

- LGC risk appetite: the approach, measurement and metrics used to assess risk within the different asset classes in which LGC invests and the approach to ongoing monitoring of investment risks.
- Construction and building safety risks: a review of the group's approach to managing safety risks within property construction and house building businesses and the group's response to ensuring compliance with regulatory developments.
- Reinsurance risk management: a review of the group's approach to setting reinsurance exposure limits and broader reinsurance strategies for the group's PRT and protection businesses.
- Operational resilience: a review of the group's capabilities to ensure continuity of business operations and the availability of important business services.
- Risk profile of Workplace Savings: a review of the end-to-end customer journey within the Workplace Savings business, the key risks, and the controls to ensure good customer outcomes.
- Liquidity risk management: the group's approach to managing the different liquidity risks to which we may be exposed, and the forecasting, monitoring and reporting on related liquidity requirements.
- Property risk: a review of the different types of property investment-related assets held by Legal & General and the return and risk characteristics of those assets.
- People risk: review of the dynamics of people-related risks, including emerging risk factors from new ways of working and the long-term trends in the UK employment market.
- Transition from IBOR: monitoring the group's preparations for the transition to SONIA in 2022.

The Committee also takes an active role in the group's recovery and resolution planning, which have been put in place in line with the UK regulatory requirements relating to systemically important insurers.

### Risk appetite

At its July meeting, the Committee undertook a detailed review of the operation of the group's risk appetite framework and the key measures and tolerances used to determine acceptable risk taking, recommending some refinements to the Board, including the addition of measures for climate-related risk exposures. In December, the Committee considered the risk profile of the group's strategic plan and its alignment with the group's overall risk appetite.

### Risk-based capital model

The group's risk-based capital model (internal model) is used to determine the capital requirements for the group and forms the calculation engine for the Solvency II internal model. As well as reviewing and using the output of the model in its understanding of the group's risk profile, the Committee is the focal point for model governance with specific consideration of the:

- key assumptions, methodologies and areas of expert judgement used within the model.
- activities undertaken to validate the outputs of the model.
- development of the model to ensure that it reflects the business lines and risk profile of the group.
- processes to ensure that changes applied in the model are undertaken in a controlled manner, and in line with model development plans.

### Own Risk and Solvency Assessment (ORSA)

The ORSA is an ongoing assessment of the risks to which Legal & General is exposed and an evaluation of the sufficiency of capital resources to sustain the business strategy over the plan horizon. Over the course of the year, the Committee considered different aspects of the group's ORSA process. This included the review of proposed stress tests and scenarios to be used in the evaluation of capital adequacy, the profile of risks within the group's strategic plan and how they may change over the planning period, and the group's overall capacity to bear the risks identified. A formal ORSA report is subject to annual review by the Committee prior to formal approval by the Group Board.

### Risk governance

Sound frameworks of risk management and internal control are essential in the management of risks. During the year, the Committee has received updates on the continued development of the risk governance framework.

### Risk-based remuneration

The Committee advises the Remuneration Committee on risk matters to be considered in reviewing bonus pools.

This will be my last report as Chairman of the Risk Committee. I will be standing down from the Board at the end of April 2022 and Sir John Kingman will succeed me on a temporary basis as interim Chairman of the Committee.



**Toby Strauss**

Chairman of the Group Risk Committee