



## TERMS OF REFERENCE

The Royal London Mutual Insurance Society  
Limited  
Risk and Capital Committee (the “Committee”)

# **The Royal London Mutual Insurance Society Limited**

## **Risk and Capital Committee terms of reference**

### **1 Role**

- 1.1 The role of the Committee is to support the Board of The Royal London Mutual Insurance Society Limited (the "Company") and its subsidiaries (the "Group") in managing risk and capital; and complying with prudential and conduct regulations.

### **2 Membership**

- 2.1 The Committee comprises at least three Directors, all of whom are independent Non-Executive Directors, including at least one member of the Audit Committee and at least one member of the Remuneration Committee. At least one member will have recent and relevant risk management experience and at least one member will have relevant insurance and/or asset management experience.
- 2.2 Only members of the Committee have the right to attend Committee meetings. Other individuals may be invited by the Committee Chair to attend all or part of meetings.
- 2.3 Appointments to the Committee are made by the Board and will be for a period of up to three years, which, subject to satisfactory performance, may be extended for further periods of up to three years, provided the Director still meets the criteria for membership of the Committee.
- 2.4 The Board will appoint the Committee Chair. If the Committee Chair is absent from a meeting, the remaining Committee members present will elect a Committee member to chair the meeting.
- 2.5 Membership of the Committee will be reviewed annually by the Company Chairman in consultation with the Committee Chair.

### **3 Secretary**

- 3.1 The Company Secretary or his or her nominee is the Secretary of the Committee.
- 3.2 The Secretary will be responsible for ensuring that the Committee complies with its terms of reference.

### **4 Quorum**

- 4.1 The quorum is two members. Members may attend in person or by telephone or video conference. A duly convened meeting of the Committee at which a quorum is present will be competent to exercise all of the authorities, powers and discretions vested in the Committee.
- 4.2 Circulated written resolutions constitute a resolution of the Committee.

### **5 Frequency of meetings**

- 5.1 The Committee will meet at least four times a year.

### **6 Notice of meetings**

- 6.1 Committee meetings will be convened by the Secretary at the request of the Committee Chair or Company Chairman.
- 6.2 Unless otherwise agreed with the Committee Chair, notice of each meeting confirming the venue (or medium), time and date together with the agenda and supporting papers will be forwarded to each member of the Committee and the Company Chairman no later than five working days before the date of the meeting. Relevant papers may be made available to other individuals required to attend.

# The Royal London Mutual Insurance Society Limited

## Risk and Capital Committee terms of reference

### 7 Minutes of meetings

- 7.1 The Secretary will minute the proceedings and resolutions of meetings, record declarations of interests and those present and in attendance.
- 7.2 Draft minutes will be circulated promptly to the Committee Chair and subsequently be circulated to Committee members for approval and the Company Chairman. Approved minutes will be signed by the Committee Chair and be made available to the Board.

### 8 Duties

#### 8.1 Advice to the Board

- 8.1.1 Annually recommend the Whistleblowing Report and Whistleblowing Policy.
- 8.1.2 Compliance with the Solvency II laws, regulations and administrative provisions.
- 8.2 **Advice to the Board having taken the advice of the Group Chief Executive Officer, Group Chief Financial Officer, Group Chief Risk Officer and/or the Group Chief Actuary**
  - 8.2.1 Annually recommend the Own Risks and Solvency Assessment (ORSA).
  - 8.2.2 Review and recommend applications to the PRA for major changes to the internal model (including those arising from an accumulation of minor changes) and those related to the matching adjustment application.
  - 8.2.3 Review (at least annually and whenever necessary) and confirm, subject to any improvement requirements, that the systems designed to ensure that the internal model operate properly do so on a continuous basis.
  - 8.2.4 Review (at least annually and whenever necessary) and confirm, subject to any improvement requirements, the ongoing appropriateness of the design and operations of the internal model and that the model continues to reflect the risk profile of the firm.
  - 8.2.5 Assess and advise on the Group's principal, emerging and tail-event/'black swan' risks and how these should impact the execution of the Group's strategy.
  - 8.2.6 Annually, review and recommend the Group's risk strategy, risk preferences and risk appetite statements.
  - 8.2.7 Advise on executive management's assessment of risks associated with proposed material strategic changes including acquisitions and disposals not in the ordinary course of business, major change programmes, significant changes to the Group's governance arrangements or legal structure and new or material changes to third party and intra-group outsourcing arrangements.
  - 8.2.8 Recommend the prosecution, defence or settlement of litigation or alternative dispute resolution involving an actual or potential liability to costs and sums in excess of £5 million or which are otherwise material to the interests of the Group.
- 8.3 **Advice to the Board having taken the advice of the Investment Committee**
  - 8.3.1 Recommend any proposed investments outside of: approved asset classes for investment; delegated limits; policy; or risk appetite.
- 8.4 Advice to the Board having taken the advice of the Group Chief Executive Officer
  - 8.4.1 Extensions, cessations and material reductions in business operations or geographies (having considered the risks of change)
  - 8.4.2 Acquisitions and disposals of subsidiaries, associates, joint ventures and trade investments not in the ordinary course of business (having considered the risks of change)

## **The Royal London Mutual Insurance Society Limited**

### **Risk and Capital Committee terms of reference**

- 8.5 Advice to the Remuneration Committee
  - 8.5.1 Confirm the alignment of the Group Remuneration policy with risk appetite.
  - 8.5.2 Identify events that have been detrimental to the Group including events that have exceeded the Board's risk appetite for the Remuneration Committee's consideration in making proportionate adjustments to Executive Directors' and designated employees' remuneration.
- 8.6 Advice to the Audit Committee
  - 8.6.1 Review and recommend the risk related disclosures of the annual Single Group Solvency and Financial Condition report.
  - 8.6.2 Review and recommend all notes to the accounts quantifying and describing risk exposures.
  - 8.6.3 Review and recommend statements included in the annual report, half year report, prospectuses and circulars concerning risk management.
  - 8.6.4 Recommendations for internal audit work.
- 8.7 Advice to the Nominations and Governance Committee
  - 8.7.1 Recommend changes to the terms of reference of the Committee having conducted an annual review of the effectiveness of the Committee's performance to ensure it is fully discharging its responsibilities.
  - 8.7.2 Recommend the appointment and dismissal of the Group Chief Risk Officer and the SMF16 .
- 8.8 Advice to the Disclosure Committee
  - 8.8.1 Review the risk related disclosures of the Regular Supervisory Report and recommend them for inclusion in the final report.
- 8.9 Other duties
  - 8.9.1 Annually determine whether the Group's Risk Appetite Framework remains suitable to support the Group's values, culture and strategic objectives. Oversee executive management's implementation of rectification plans for any breaches of risk appetite, notifying the Board of actual or likely material breaches based on limit triggers or other identifiers.
  - 8.9.2 Steer how the ORSA is to be performed and undertake a robust assessment of the framework of risk management and internal controls that enables the strategic, financial (other than financial reporting) and operational risks of the Group to be assessed and managed.
  - 8.9.3 Ensure ORSAs are materially consistent with assumptions in the ICARA of all regulated non-insurance subsidiaries.
  - 8.9.4 Review the quarterly model change report which is submitted to the PRA.
  - 8.9.5 Review the procedures for identifying, assessing, controlling, mitigating and overseeing the material risks faced by the Group and ensure these procedures allow proportionate investigation of such matters and appropriate follow up action.
  - 8.9.6 At least twice a year, monitor and review the effectiveness of the Group's controls with the exception of financial controls which are the responsibility of the Audit Committee.
  - 8.9.7 Monitor compliance with the Group's Risk Management System, the Internal Control System (with the exception of Financial Reporting Data and Control Framework which is reviewed by the Audit Committee), and the capital management framework.

## The Royal London Mutual Insurance Society Limited

### Risk and Capital Committee terms of reference

- 8.9.8 Annually review the execution of the arrangements that the Group has in place for employees and other stakeholders to raise concerns about possible financial or conduct impropriety (“whistleblowing”) ensuring that the arrangements allow for proportionate and independent investigation and follow-up action as sponsored by the designated Whistleblowing Champion.
- 8.9.9 Annually review the execution of the processes that the Group has in place for the prevention of financial crime, including money laundering, fraud, anti-bribery and market abuse. Receive an annual report of any identified money laundering, slavery and non-compliance with sanctions imposed by HM Government and other governments of countries in which the Group operates and ensure appropriate action has been taken in respect of any breaches.
- 8.9.10 Annually review the adequacy of the controls that the Group has in place to prevent internal and external fraud, corruption and cyber-related crimes. Ensure actions are taken to improve procedures for risks that are beyond appetite.
- 8.9.11 Annually consider and approve the remit of the risk management and compliance function ensuring it has adequate resources and appropriate access to information, is independent of first line management so enabling it to perform its duties effectively and in accordance with the relevant professional standards.
- 8.9.12 Annually review and approve the Group’s capital management framework including Pillar 2 and Pillar 3 methodology and capital risk limits.
- 8.9.13 Review and approve the capital management actions plan.
- 8.9.14 Monitor the availability and use of capital in the Group so as to ensure that it is appropriately structured to meet ratings, regulatory and risk benchmarks. Review and approve any material capital management actions needed to achieve this.
- 8.9.15 Review the use of the internal model by reviewing the Annual Validation Report and in the event of insufficient use of the model, supervise remedial actions.
- 8.9.16 Annually review and approve the Group’s Recovery Plan and Resolution Pack.
- 8.9.17 Review any proposed changes in mandatory regulations and require management to instigate any necessary changes in procedures and activities.
- 8.9.18 Review and approve proposed contracts and renewal of contracts with Tier 1 Suppliers where there is an increase in risk and annually review the functioning of Tier 1 Supplier contracts.
- 8.9.19 Promote openness and transparency of directors and management with regulators and engage constructively with regulation and regulators’ priorities.
- 8.9.20 Review and approve the risk management function’s annual work programme and any changes to the annual plan.
- 8.9.21 Review and approve the compliance function’s annual work programme and any changes to the annual plan.
- 8.9.22 Regularly receive and review reports on risk and compliance from the Group Chief Risk Officer (SMF4) incorporating the views of the SMF16 (Compliance) and SMF 17 (MLRO) holders.
- 8.9.23 Annually review and approve the policies listed in the appendix and major changes of the following Tier 1 policies:
- Strategic Risk Policy;
  - Customer Outcomes Policy.
- 8.9.24 Annually review the Group Remuneration Policy, considering any risk related events during the year and whether they were appropriately treated by the policy.

## **The Royal London Mutual Insurance Society Limited**

### **Risk and Capital Committee terms of reference**

- 8.9.25 Ensure compliance with the company policies overseen by the Committee, including any external disclosures relating to the policies.
- 8.9.26 Review compliance with project plans where the aggregate expenditure is expected to exceed £50 million.
- 8.9.27 Review and approve Group insurance coverages (with the exception of re-insurance arrangements).
- 8.9.28 Ensure that the Group has appropriate procedures in place to manage non-investment climate-related risks in the short, medium and long-term, and takes appropriate action according to the materiality of those risks.
- 8.9.29 Conduct and annual review of the Group's list of Material Risk Takers.

### **9 Reporting**

- 9.1 The Committee Chair will update the Board on the Committee's proceedings (noting any approvals and recommendations for approval) after each meeting.
- 9.2 The Committee will make whatever recommendations to the Board it deems appropriate on any area within its remit.
- 9.3 The Committee will produce a report to be included in the Company's Annual Report and Accounts on the Committee's activities. The report will be fair, balanced and understandable and apply best practice reporting.
- 9.4 The Committee Chair should attend the Annual General Meeting to answer members' questions on the Committee's activities.
- 9.5 The Secretary will inform subsidiary boards of decisions taken by the Committee that are relevant to their duties.

### **10 Other matters**

- 10.1 As applicable to the Committee's duties, the Committee will ensure compliance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Amendment Regulations 2013, the Corporate Governance Code and the rules of the PRA, FCA and CBI. The Committee will have access to sufficient resources to carry out its duties.
- 10.2 The Committee will be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 10.3 The Committee is authorised to obtain, at the Company's expense, outside legal, risk and other professional advice on any matter within its terms of reference.
- 10.4 The Committee will safeguard the independence and objectivity, and oversee the performance of, the Group Chief Risk Officer and second line risk function. In doing so, the Committee will ensure that the Group Chief Risk Officer is a regular attendee at meetings of the Committee and has unmediated access to the Company Chairman, the Board, the external auditor and regulatory authorities as necessary.

# **The Royal London Mutual Insurance Society Limited**

## **Risk and Capital Committee terms of reference**

### **Appendix**

#### **Tier 1 Policies**

Risk Management

Own Risks and Solvency Assessment ('ORSA')

Procurement and Third-Party Management

Market Risk

Liquidity Risk

Insurance Risk