



RL MARKETING (CIS) LIMITED

CAPITAL REQUIREMENTS DIRECTIVE

Pillar 3 Disclosure

Period ending 31 December 2019

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1. Introduction

Background

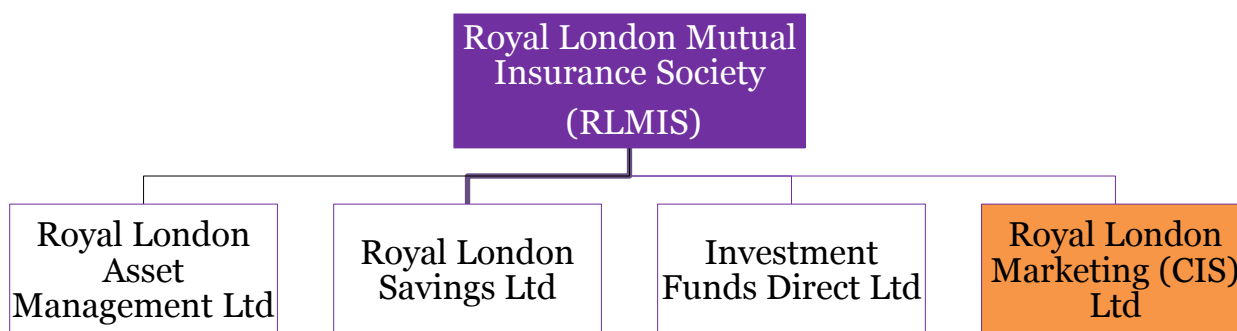
The Capital Requirements Directive (CRD) introduced the need for investment firms under this new legislative framework to publish certain information relating to their risk management and capital adequacy. Its aim is to promote market discipline by providing key data on risk exposures and risk management processes.

The disclosure of this information is known as Pillar 3 and is designed to complement the two other pillars of the CRD, namely the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The disclosure has been prepared in accordance with the Capital Requirements Directive (CRD IV), Part Eight of the Regulations (Articles 431-455).

The CRD three Pillars:

- | | |
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| Pillar 1 | The minimum capital requirements, through the application of measurement rules, of firms to cover credit, market and operational risk; |
| Pillar 2 | Designed to complement the existing Pillar 1 requirements by assessing the need to hold additional capital in relation to the actual risk profile of the business, which is achieved through the Internal Capital Adequacy Assessment Process (ICAAP), as reviewed by the Prudential Regulation Authority (PRA); |
| Pillar 3 | A set of disclosure requirements which enable external parties to assess information on firms' risks, capital and risk management procedures and capital adequacy. |

RL Marketing (CIS) Limited (RLM CIS) was established in 1997 and is a subsidiary of The Royal London Mutual Insurance Society Limited (RLMIS). The Board is supported in its duties by the operation of staff within RLMIS to provide an appropriate level of oversight and governance. RLM CIS is subject to the new prudential requirements of the EU's Capital Requirement Directive IV (CRD IV), the Capital Requirements Regulation (CRR), the IFPRU sourcebook of the FCA and any relevant technical standards issued by the European Banking Authority (EBA). RLM CIS is authorised and regulated by the Financial Conduct Authority (FCA) and is categorised as a non-significant investment firm under IFPRU 1.2.3. The structure below shows the subsidiaries of RLMIS which fall under the remit of the CRD:



RLM CIS was originally established in order to provide banking products to customers of the Co-operative Insurance Society (CIS) as a collaborative effort between CIS and the Co-operative Bank and is also the ISA manager for the CIS life insurance ISA offering.

RLM CIS' current income is solely generated from trail commission on previous third party product sales of a unit linked bond (now closed to new business).

RLM CIS' main outgoings are miscellaneous expenses such as customer redress and FSCS levy.

2. Governance

The FCA's Principle for Business No. 3 requires the Directors to take reasonable care to organise and control the affairs of the company responsibly and effectively, with adequate risk management systems.

The RLM CIS Board of Directors has responsibility for the overall risk governance and management of RLM CIS. The RLMIS Board has ultimate responsibility to define the Royal London Group's risk appetite, benchmarks, tolerances and underlying limit controls.

As a wholly owned subsidiary of the Royal London Group, RLM CIS will adhere to the risk management objectives and policies set out for companies within the Royal London Group. The Financial Statements to the Report and Accounts for RLMIS detail the governance structure in place for the Royal London Group companies and the approach taken to risk management generally. This specifically covers the Royal London Group's management of the various categories of risk faced by the Group.

This information can be found in the Report and Accounts for the Royal London Group and on the Corporate Governance section of the Royal London website at www.royallondon.com.

The RLM CIS Board of Directors will determine whether actual performance was above, below or in line with the Group's tolerance level. They determine whether any adjustments need to be made, either to the statement of risk appetite, budget or forthcoming business plan. The Royal London Group maintains a Risk Appetite statement which is applicable to all Royal London Group entities, including RLM CIS.

The RLM CIS Board is responsible for setting the RLM CIS strategy and ensuring that all key risks are effectively and efficiently controlled. Systems of internal control are designed to ensure effective and efficient operations, including financial reporting, and compliance with laws and regulations. The RLM CIS Board delegates responsibility for the implementation of the RLM CIS strategy and the day-to-day management of risk to senior management working on its behalf.

It is the responsibility of the Royal London Group Risk & Compliance Team to provide appropriate advice and guidance, not restricted to operational matters. Further specialist or technical knowledge may be obtained externally as circumstances dictate.

RLM CIS is integral to the overall Royal London Group structure. Controls are reviewed by independent governance committees within the Group and by a dedicated Risk & Compliance department, Group Internal Audit as well as the firm's external auditors, who review the control environment within RLM CIS.

The remuneration policy of RLM CIS is under the overall control of the Royal London Group, under the oversight of the Group's Remuneration Committee. Information on the remuneration policy, the link between pay and performance, and quantitative information can be found on the Royal London website at <http://www.royallondon.com/about/corporategovernance/remuneration/>

3. Disclosure

This information has been prepared purely for the purpose of explaining the basis on which RLM CIS has prepared and disclosed certain capital requirements and information about the management of risks relating to those requirements, and for no other purpose. It therefore does not constitute any form of financial statement on RLM CIS nor does it constitute any form of contemporary or forward looking record or opinion of the RLM CIS business.

These disclosures have been taken from historical and projected information based on the year end statutory accounts as at 31 December 2019.

RLM CIS regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If RLM CIS deems a certain disclosure to be immaterial, it may be omitted from this Statement.

RLM CIS regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the firm's investments therein less valuable. Further, RLM CIS must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

This information has been subject to internal review but has not been audited by the Group's external auditors.

Although Pillar 3 disclosures are intended to provide transparent capital disclosures on a common basis, the information contained in this document may not be directly comparable with other companies of a similar nature.

This disclosure document has been provided by RLM CIS in accordance with the requirements of Pillar 3 and Part Eight of the Capital Requirements Regulations (CRD IV) (Articles 431-455). Unless otherwise stated, all figures are as at 31st December 2019. Further disclosures will be issued on at least an annual basis, or more frequently in the light of relevant activity in the business.

4. Risk management objectives and policies

RLM CIS, as a separate subsidiary of the Royal London Group, follows the Governance principles and practices prescribed by the Group. The Group's approach to risk management can be found within the notes to the Annual Report and Accounts, which may be accessed at <https://www.royallondon.com/about-us/corporate-information/key-financial-information/annual-reports/>.

The ICAAP is an intrinsic component of the overall governance framework within RLM CIS, involving significant integration between the risk and finance functions.

All functions supporting the RLM CIS operation have participated and self-assessed their own risks and these assessments are subject to challenge from the Risk & Compliance teams. Senior management have acted proactively in identifying the material risks and assessing the capital requirements taking into account the future business and risk profile. The Board receives regular information to help it determine whether effective risk mitigation is being achieved.

The ICAAP is formally reviewed by the Board and is further considered as part of the annual business planning cycle. Should business plans / significant re-positioning dictate, interim reviews will be undertaken. Management information will allow the Board to regularly monitor RLM CIS' business against the ICAAP framework and use it to make adjustments throughout the year and whenever else this may prove necessary.

To support this process the following management information is provided to the executive members:

- Accounting reports to RLM CIS Board
- Risk papers to RLM CIS Board
- Meetings between Head's of Risk & Compliance and Executive Directors
- Annual Strategic plan preparation and challenge

5. Capital adequacy

In addition to the capital adequacy reporting requirements of the Financial Conduct Authority, RLM CIS has prepared an ICAAP. The ICAAP, which sets out RLM CIS's approach to assessing the adequacy of its internal capital, is subject to at least annual review by the RLM CIS Board and any material events that may impact the ICAAP are subsequently raised at the appropriate Board Meeting.

RLM CIS has adopted the basic approach in its measurement of operational risk; this is commonly referred to as the Basic Indicator Approach. Senior management intend to manage the RLM CIS capital base so that the majority of assessed risks have sufficient capital provided to allow RLM CIS to maintain its business without further capital injection. The Board meet regularly and receive financial reports on profitability and capital.

The paragraphs below show RLM CIS' defined risk categories and provide a statement of the level of risk exposure assessment, together with a summary of the risk mitigants in place where applicable.

5.1 Credit Risk

Credit risk is the risk that a counterparty is unable or unwilling to fulfil its financial obligations as they fall due. The sources of credit risk are all considered to be low risk. Credit risk arises from:

- Cash and cash equivalents – the company has cash holdings but the risk of default of any RLM CIS money is captured in the counterparty risk capital held within the Royal London CIS long-term business Individual Capital Assessment.
- Default of trail commission by a third party product provider – the company is reliant upon commission income from a third party product provider. Without this, capital may be eroded more quickly in the event that there was no commensurate or significant reduction in the cost base.

5.2 Business Model and external risk

Business risk arises from changes to the company's business, specifically the risk of not being able to carry out the company's business plan and desired strategy, including the ability to provide suitable products and services to customers. In a narrow sense, this is the risk that the company suffers losses because income falls or is volatile relative to the cost base. However, in a broader sense, it is the company's exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks. For example, but not limited to:

- Trail commission from third party product provider – the company receives trail commission from past sales. There is a risk that higher than expected lapses for these policies will reduce this expected income stream.

5.3 Operational risk

Operational risk is the risk of loss / negative impact to RLM CIS resulting from inadequate or failed internal processes, people and systems or from external events (such as regulation, sector environment). This includes legal and financial crime risks.

These operational risks have been identified through assessments and scenario analysis. Due to the nature of RLM CIS' operations, the key operational risks for RLM CIS are in relation to the outsourcing of key activities to:

- Royal London Group Functions, for the provision of financial returns and compliance with regulatory requirements, and
- Capita, for administrative handling of the business

A strong control environment, supported by skilled staff is designed to mitigate the possibility of these risks materialising. This ensures that regulatory returns and statutory accounts are promptly and accurately completed, SLAs setting out the quality of service to be provided to RLM CIS are in place and monitoring of service standards are regularly undertaken.

5.4 Liquidity risk

This represents the risk that adequate liquid funds are not available to settle liabilities or when the company experiences sudden unexpected cash outflows. However, the overwhelming majority of the company's assets are held in highly liquid form as cash deposits and are more than adequate to meet creditors as they fall due for settlement, accordingly the company is not considered to be exposed to liquidity risk.

5.5 Interest rate risk

RLM CIS is exposed to risks to earnings and capital arising from adverse movements in interest rates. RLM CIS holds cash deposits; the interest income from which is affected by interest rates. Whilst the risk is acknowledged, it is considered that any movements in interest rates are unlikely to have a material impact on RLM CIS.

5.6 Capital requirement

As at the end of 2019, RLM CIS' Pillar 1 capital requirement was £0.1m being the higher of its fixed overhead requirement and the total of its credit risk requirement.

The fixed overhead requirement is calculated at 25% of relevant expenditure. Credit risk is calculated using the simplified Standardised Approach as per the relevant CRR articles. The credit risk exposure values are calculated according to the table below: -

	Rating	Value (£m)
Institutions	20%	0.1
Total		0.1

The credit risk requirement is determined as £0.1m and is the biting value for the Pillar 1 capital requirement.

5.7 Capital resources

Tier 1 capital after deductions is £6.0m which consists of paid up share capital of £5.0m following deduction of cumulative retained losses of £0.98m.

Tier	Element	£000's
Tier 1	Paid up share capital	5,000
	Disclosed reserves & current year's retained profits (verified by external audit)	980
	Total Tier 1 Capital	5,980
Tier 2	Total Tier 2 Capital	-
	Total deductions	-
	Total capital base	5,980

6. Notices

This Disclosure is based on RLM CIS' ICAAP review dated June 2020 and is subject to periodic review and update. The next formal review is scheduled for June 2021. The information contained in this disclosure has not been audited by RLM CIS' external auditors.

RLM CIS is a subsidiary of the Royal London Group and is authorised and regulated by the Financial Conduct Authority (reference number 188391). The registered office address of the company is, 55 Gracechurch Street, London EC3V 0RL.