

**THE ROYAL LONDON MUTUAL INSURANCE SOCIETY LIMITED**

**BOARD RISK COMMITTEE**

**TERMS OF REFERENCE**

**APPROVED BY THE BOARD 5<sup>TH</sup> OCTOBER 2011**

**1. Purpose**

- 1.1 The primary purpose of the Board Risk Committee (BRC) is to ensure that the interests of the members of the Royal London Mutual Insurance Society Limited are properly protected in relation to the risk and capital management frameworks for the Royal London Mutual Insurance Society Limited and its subsidiaries ("The Group"). The Committee must act independently from the Executive.

**2. Authority**

The Committee is authorised by the Board (at the Company's expense) to:

- 2.1 Investigate, or cause to be investigated (in consultation with the Group Chief Executive Officer (CEO) or the Chief Risk Officer (CRO), as appropriate), any activity within its terms of reference;
- 2.2 Commission any reports or surveys which (in consultation with the Group CEO or the CRO, as appropriate) it deems necessary to fulfill its obligations;
- 2.3 Obtain external legal or independent professional advice (in consultation with the Group CEO or the CRO, as appropriate) from such advisers as the Committee shall select, who may at the invitation of the Committee attend meetings as necessary;
- 2.4 Meet for the dispatch of its business, adjourn and otherwise regulate its meetings as it shall see fit, including approving items of business by the written resolution procedure set out in the Company's Articles of Association; and
- 2.5 Delegate any of its duties as appropriate to such persons or person as it thinks fit.
- 2.6 To call any employee to be questioned at a meeting of the Committee as and when required.

**3. Membership**

- 3.1 The Committee comprises not less than three independent non-executive directors appointed by the Board from time to time. Membership of the Committee shall include the chairman of the Audit Committee. A majority of the Committee shall be independent non-executive directors. Appointments

are on the recommendation of the Nomination Committee and shall be made by the Board in consultation with the Chairman of the Committee.

3.2 Appointments to the Committee will be for a period of up to three years extendable by no more than two additional three year periods so long as members continue to be independent and meet any other criteria for membership of the Committee..

3.3 In addition to the remuneration paid to non-executive directors, the Company is entitled to pay further remuneration to members of the Committee to recompense them for the additional responsibilities of membership.

#### **4. Chair**

4.1 The Board should appoint the non-executive Chairman of the Committee and determine the period for which he/she is to hold office. In the absence of the Committee Chairman and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.

#### **5. Secretary**

5.1 The Company Secretary, or his/her nominee, shall act as Secretary of the Committee unless the Committee determines otherwise.

5.2 The Secretary shall minute the proceedings and resolutions of all Committee meetings including the names of those present and in attendance.

5.3 Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members or at the request of the Chief Risk Officer if he considers it necessary. Unless otherwise agreed, notice of the meeting confirming the details and an agenda of items to be discussed, shall be forwarded to everyone required to attend and all other Directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate in good time.

5.4 The Secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly. The company secretariat must promptly circulate minutes of the meeting of the Committee to:

- members of the Committee;
- other directors;
- the external auditors; and
- others as may from time to time be agreed by the Committee.

#### **6. Frequency of Meetings and Quorum**

6.1 The Committee should meet as often as is required and in any case not less than 4 times a year.

- 6.2 At least once a year, the Committee must meet without management with the Chief Risk Officer (CRO) to discuss matters relating to the Committee's roles and responsibilities.
- 6.3 No-one other than members of the Committee is entitled to be present at the meetings of the Committee – it is for the Committee to decide if non-members should attend. It is expected that the following will generally be invited to attend:-
- Group Chief Executive
  - Group Finance Director
  - Group Actuary
  - Chief Risk Officer
- The Committee may invite external advisers to attend meetings where it considers this to be appropriate.
- 6.4 The Board may determine the quorum for meetings of the Committee from time to time. In the absence of any such determination, the quorum will be two.
- 6.5 Sufficient time must be allowed to enable the Committee to undertake as full a discussion as may be required.

## **7. Conduct of the Meeting**

All attendees shall be present in person unless telephone attendance has been agreed in advance.

## **8. Responsibilities of the Committee**

- 8.1 To monitor use of capital in the Group so as to ensure that it is optimally structured to meet ratings, regulatory and risk benchmarks.
- 8.2 To provide independent assurance and challenge of the risk management and oversight arrangements of the Group's Executive including risk information received, whether key risks are managed to an acceptable level and cost (Note: where it feels appropriate the Committee should consider seeking external input).
- 8.3 To provide advice to the Board on the Group's risk management, including the oversight of current risk exposures of the Group, by reviewing and recommending to the Board action(s) on significant risk issues, trends, practices, litigation and loss events that have implications for the Group.
- 8.4 To develop proposals annually for consideration by the Board of the Group's overall risk appetite and tolerance and ensure the future strategy of the Group aligns with it.

- 8.5 To review annually and recommend to the Board the Group's overall risk and capital management framework taking into account the recommendations of the Executive Risk Committee (ERC).
- 8.6 To monitor the effectiveness of the Group's overall risk and capital management frameworks through ongoing review and independent assurance including:-
  - oversight, review and challenge of major changes to the Internal Model; and
  - formal review of the annual report on the design and operation of the Internal Model, including the annual validation report.
- 8.7 To monitor the implementation of, effectiveness of, and compliance with, approved risk policies and standards on risk and the resultant action in respect of policy breaches.
- 8.8 To provide advice, oversight and challenge to embed and maintain a supportive risk culture throughout the Group.
- 8.9 To oversee and challenge the design and execution of stress and scenario testing within the Group.
- 8.10 To oversee the management of material breaches of risk limits and material incidents and the implementation of remedial actions where these have Group-wide implications.
- 8.11 To oversee and challenge, in respect of material transactions and proposed strategic proposals that are subject to approval by the Board, the due diligence undertaken in relation to risk and the implications for the approved risk appetite and tolerance of the Royal London Group, drawing on independent external advice where appropriate and available, before the Board takes a decision whether to proceed.
- 8.12 To provide qualitative and quantitative advice to the Group's Remuneration Committee on risk weightings to be applied to performance objectives incorporated in the incentive structure for the Group's Executive.
- 8.13 To provide a risk report for inclusion in the annual Report and Accounts.
- 8.14 To review annually and approve the Group's policies in relation to strategic, financial and, operational risks, including the process for identifying and assessing business and environmental risks and the management of these risks by the Company.
- 8.15 To review annually and recommend to the Board the assignment of risk management responsibilities, including the interaction between the Board and the boards of other operating subsidiaries across the Group, whilst recognising the authority of their respective boards to determine risk management frameworks and policies acceptable to the nature, scale and complexity of the businesses.

8.16 To recommend to the Board the appointment and removal of the CRO.

8.17 To review annually and approve the terms of reference of the ERC.

## **9. Reviewing effectiveness**

9.1 The Committee must review annually its terms of reference and its own effectiveness and recommend any necessary changes to the Board.

9.2 The Board must review the Committee's effectiveness annually.

## **10. The Committee and employees**

10.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information that it requires from any employee and all employees are directed to co-operate with any request made by the Committee and to provide it with any information that it requires.

10.2 The Executive must keep the Committee properly informed of matters that are relevant to its terms of reference.

## **11. Reporting Procedures**

11.1 The Chairman shall report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

11.2 The Chairman of the Committee should attend the annual general meeting to reply to questions that may be raised on the Committee's activities.

11.3 The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed

## **12. Other Matters**

12.1 The Committee shall have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required.

12.2 The Committee shall 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.

12.3 The Board must make funds available to the Committee to enable it to take independent legal or other professional advice on any matter within its terms of reference when the Committee reasonably believes that it is necessary to do so.

**13. Availability of terms of reference**

The terms of reference of the Committee will be included on the Company's website and will be made available to members on demand.