

Risk Committee report

The Risk Committee has an important role in supporting the Board in the oversight and management of risk.



“During the year the Committee reviewed the Group’s current and projected capital and liquidity position, risk environment and risk profile relative to appetite, focusing on current and emerging financial and non-financial risks.”

Belén Romana García
Chair, Risk Committee

I am pleased to present the Risk Committee (the Committee) report for the year ended 31 December 2021.

The Company’s approach to risk and risk management together with detail on the principal risks that face the Group are explained within the Risk and risk management section of the Strategic report.

The Committee found an improving picture over the year, especially from an operational risk perspective, with improvements in issue remediation and returning risks to tolerance. The Committee also considered risk management in relation to the divestment programme and monitored the management of any risks arising through the disposal processes.

During the year, I was delighted to welcome Andrea Montague as Group Chief Risk Officer (CRO).

Committee membership

Martin Strobel was appointed to the Committee on 1 November 2021 and brings experience in the financial service sector. Shonaid Jemmett-Page was also appointed to the Committee on 14 February 2022 and brings experience of the financial services, digital and sustainability sectors. Additionally, on 21 February 2022, Andrea Blance was appointed to the Committee. Andrea

brings extensive experience of the financial services industry and a detailed understanding of risk and regulation. The members of the Committee as at 31 December 2021 are shown in the table below. Details of members’ experience, qualifications and attendance at Committee meetings during the year are shown within the Directors’ and Corporate Governance report.

Name	Member Since	Years on the Committee
Belén Romana García	26/06/2015	6
Patrick Flynn	16/07/2019	2
Mohit Joshi	01/12/2020	1
Jim McConville	01/12/2020	1
Michael Mire	12/09/2013	8
Martin Strobel	01/11/2021	<1

Committee purpose

The main purpose of the Committee is to assist the Board in its oversight of risk within the Group, with a focus on reviewing the Group’s risk appetite and risk profile in relation to capital and liquidity, operational and reputational risks and reviewing the effectiveness of the Group’s Risk Management Framework (RMF). The Committee reviews the methodology and internal model used in determining the Group’s capital requirements and associated stress testing and ensures that due diligence appraisals are carried out on strategic or significant transactions. In addition to the risks inherent in the Group’s investment portfolio, the Committee reviews the Group’s operational risks, including significant changes to the regulatory framework.

The Committee works with the Remuneration Committee to ensure that risk management and risk culture are properly considered in setting the Remuneration Policy.

Committee focus during 2021

During the year the Committee reviewed the Group’s current and projected capital and liquidity position, risk environment and risk profile relative to appetite, focusing on current and emerging financial and non-financial risks. The biggest risks related to the macroeconomic implications of the COVID-19 pandemic, albeit with signs of recovery emerging in the second half of the year. Strong focus also remained on balance sheet and financial risk management, particularly as the divestment programme completed during 2021. The Committee reviewed and approved proposed changes to the Group’s internal model for determining its capital requirements before submission for approval to the PRA.

The Group’s risk appetite framework was refreshed during the year, with revised risk appetites, preferences and tolerances considered and recommended by the Committee for the Board’s approval. Climate risk and conduct risk were integrated and defined within the risk appetite framework in order to further support risk-based decision-making.

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Committee activities during 2021

Risk appetite, risk management and risk reporting

- Reviewed reports from the Group CRO, which included updates on significant risks facing the Group, the Group's capital and liquidity position, the control environment, emerging risks and the Group's risk profile, and operational, regulatory and conduct risks
- Received regular updates on the COVID-19 pandemic and associated developing risks
- Reviewed and recommended for Board approval the Group's risk policies
- Monitored the impact of the divestment programme on relevant risk appetites
- Worked with Customer Conduct and Risk Committee on climate-related and other sustainability risk
- Reviewed and recommended for Board approval the Solvency II capital and liquidity risk appetites
- Approved the Group's Solvency II capital risk tolerances by risk type
- Reviewed and approved the appointment of the new CRO
- Approved mobilisation of the Risk Improvement Delivery Programme in 2022

Group capital and liquidity, financial plan and stress testing

- Approved the 2021 Group Capital and Liquidity Plan and subsequent updates
- Reviewed capital and liquidity projections including the Group's SII shareholder cover ratio and liquidity cover ratio
- Considered updates on credit risk and the Company's credit exposure and reviewed mitigating actions
- Reviewed the development of the Group's strategy from a risk perspective
- Approved the Systemic Risk Plan, the Recovery Plan and the Liquidity Risk Management Plan
- Approved the scenarios for Group-wide stress testing to support the Group Recovery Plan
- Reviewed the risks to the 2021-2023 Group Plan.
- Reviewed the risks associated with the capital return to shareholders announced with the Full Year 2021 results

Solvency II internal model

- Undertook a review of the internal model components and approved changes to the internal model

External factors

- Reviewed regular updates on the performance of the Group's investment portfolios and on the external economic environment, and assessed the implications on the Group's asset portfolio
- Monitored cyber security risk and reviewed the results of simulated security attacks against the Group
- Monitored the impact of the UK's exit from the EU
- Reviewed the most significant emerging risk scenarios affecting the delivery of the Company's strategy

Regulatory, governance and internal audit

- Received risk and control updates from set business units as part of an updated programme of risk deep-dive reviews
- Reviewed the Group Own Risk and Solvency Assessment Supervisory Report and approved its submission to the regulator
- Received updates on the disaster recovery, IT security, IT outsourcing and cyber risk Major Control Improvement Topics, and monitored and challenged progress by management
- Received quarterly reports from the Group Chief Audit Officer on internal audit which included progress on improving the control environment
- Approved the refresh of Solvency II related Group Business Standards
- Reviewed and approved the annual objectives and performance of the Group CRO

Reviewed the effectiveness of the systems of internal control and risk management

- Reviewed the Company's reporting on Climate Related Financial Disclosures requirements
- Recommended the 2022 Risk and Control Goal for approval by the Remuneration Committee
- Reviewed the adequacy and quality of the risk function
- Assessed the performance of all Group business units against the 2021 Group Risk and Control Goal

The Customer, Conduct and Reputation Committee (CCRC) continued to operate as a sub-committee of the Risk Committee, with a particular focus on customer, conduct and reputational risk issues, and delivery of Aviva's Sustainability Ambition. The Committee received regular updates from the CCRC throughout the year and the cross membership between the Committees continued to promote a good understanding of issues and enabled efficient communication. The Committee also continued to work closely with the Remuneration and Audit Committees on risk and control matters.

COVID-19

During the year the Committee considered that the biggest threat to the Group's capital and liquidity position remained the macroeconomic implications of the COVID-19 pandemic, albeit this became more remote during the second half. Continuing areas of uncertainty include credit spreads and downgrades, inflation, interest rate movements and the risk of commercial property price volatility on the commercial mortgage portfolio.

Employee wellbeing has remained high on the agenda and the Committee discussed the actions being taken to manage the resulting People Risk, including resource stretch as the economy recovered in the second half.

The Committee was kept updated and supported the proactive steps undertaken by the business in relation to specific customer threats, which included customer focused education and awareness in response to increases in investment scams targeting customers during the COVID-19 pandemic.

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Control environment

Through the continued development of the Group risk dashboard, the Committee received regular updates on the risk profile, residual risks, key concerns and outlook across all markets and risk appetites. Whilst the insights gained from the dashboard demonstrated improvement in the management of risk and controls across the Group, they also enabled the Committee to request deep dives in certain areas and markets, including the management of People Risk, the lessons learnt from a Cyber incident in India, and regarding customer data strategy and risk management.

The Committee also received regular updates on the transition from the London Interbank Offered Rate (LIBOR) to the Sterling Overnight Indexed Average (SONIA) transition, disaster recovery, operational resilience, IT, technical debt and monitored and challenged the progress made by management. Regular deep dive sessions were presented to the Committee by our core markets, providing an overview of current and emerging risks, the relevant operating environment, and performance against business plan, as well as the adequacy of the models within that market. These deep dives supported and informed the Committee's review and monitoring of the Group's risk and control environment and enabled the Committee to monitor the implementation and embedding of the Risk Improvement Delivery Programme (RIDP) within each market.

During 2021, the Committee oversaw the progress of the RIDP, in particular the consideration and recommendation of the revised risk appetite framework which provided an opportunity to reduce complexity across the business. The Committee encouraged management to ensure that the risk appetite framework provided a clear overview of the interrelating parts of the Group's risk appetite, current position against limits and exposures, with benchmarks to assess how the current position against risk types compared to the Group's peers. Following the output of RIDP, the Committee discussed the revised risk appetite framework, statements and risk preference methodology, with a particular focus on ensuring they reinforced the linkage between strategy, risk appetite and risk preferences.

In addition to monitoring the operational risks associated with the divestment programme completed during the year, the Committee tracked the impact of the divestments on the debt management programme and the return of capital. The Committee also monitored the impact of the divestment programme on the Group's solvency, leverage and liquidity positions against risk appetites, tolerances and limits.

Climate Change

Whilst the CCRC oversees the progress made against the targets contained with Aviva's Sustainability Ambition announced in March 2021, management of Climate Risk was introduced as a key pillar of the revised risk management framework approved during the year, and is managed in close collaboration between the Committee, the CCRC, and the Audit Committee. As such, during the year the Committee took significant interest in the sustainability agenda and the metrics and reporting that underpin it. The Committee supported the CCRC and Audit Committee on the oversight of progress as reporting in this area continued to evolve throughout 2021.

The Committee also reviewed the scenarios to be included in the 2021 Group Recovery Plan (RCP), with one of the recommended scenarios to be tested being climate change related shock. As part of its focus on emerging risks, the Committee also reviewed and discussed the Group's response to the Prudential Regulation Authority's 2021 climate biennial exploratory scenario exercise.

Committee effectiveness review

The Committee undertakes a review of its effectiveness annually. More information can be found in the Directors' and Corporate Governance report.

2022 priorities

Ahead of my retirement from the Board following the 2022 AGM, I will ensure a smooth handover to the new Committee Chair.

The Committee will continue to monitor the impacts and associated risks arising from the regulatory landscape, global climate change and sustainability, with a particular focus on consideration of emerging risks. There will continue to be a focus on strengthening the risk and control environment, including the mobilisation of RIDP.

In addition, focus will remain on ensuring a strong dialogue between the Group Risk Committee and our equivalent subsidiary level committees.

Belén Romana García

Chair of the Risk Committee
1 March 2022