



**Terms of Reference**  
**Risk Committee**

**Last updated**  
**27 September 2018**

## 1.0 Objective

- 1.1 The Risk Committee is responsible to the Managing Board for providing oversight and challenge that the Chief Executive is managing the Group in accordance with the Managing Board's risk appetite requirements and that the Enterprise Risk Management Framework remains appropriate.
- 1.2 As part of this assurance the Risk Committee is also responsible for the oversight of the Risk and Compliance Functions and is the primary forum for independent challenge of issues related to risk, capital, compliance and conduct risk.

## 2.0 Composition

- 2.1 The members of the Committee shall be appointed by the Managing Board. Membership of the Committee shall consist of at least three non-executive directors on the Managing Board.
- 2.2 The Managing Board will appoint one of the non-executive members to chair the Committee. The Chair of the Committee should not be the Chair of the Committee of Management, Managing Board or Audit Committee.
- 2.3 In the absence of the Committee Chair, the remaining members present shall elect one of their number to chair the meeting.
- 2.4 The Company Secretary or his/her nominee shall be the Secretary of the Committee.
- 2.5 Only members of the Committee have the right to attend Committee meetings. However, other individuals such as members of the Executive, may attend meetings at the invitation of the Committee Chair as and when appropriate. The Chief Executive Officer, Chief Finance Officer, Chief Risk Officer, Chief Internal Auditor and external audit lead partner or their senior representative will be invited to attend meetings of the Committee on a regular basis and other non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.6 Attendees are not members of the Committee and they may be collectively or individually requested to withdraw from meetings of the Committee if required to do so by the Chair of the Committee.
- 2.7 The Chair of the Committee is responsible, supported by the Company Secretary and Chief Risk Officer, for agreeing and setting agenda items and for challenging the level of detail and format of Committee submissions. Matters reported should be summarised in a way which allows the Committee members to understand any key issues.

## 3.0 Meetings

### 3.1 Quorum

- 3.1.1 The quorum necessary for the transaction of business shall be two members present in person or in communication with each other by telephone or video conference. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee. To count in the quorum a person who is in communication with the others by telephone or video conference must be able to hear fully, and participate in, the proceedings.
- 3.1.2 Questions arising at a meeting of the Committee will be decided by a majority of votes and (in the event of a tie) the Chair of the meeting will have a second or casting vote unless the issue is material in which case it should be escalated to the Managing Board for a decision in line with the escalation requirements in section 5.0 of these terms of reference.

### 3.2 **Frequency**

- 3.2.1 The Committee will meet no less than four times in one calendar year. Additional ad-hoc/event-driven meetings may be convened by the Company Secretary at the request of any member of the Committee, the Company Secretary or the Chief Risk Officer.
- 3.2.2 Outside of formal meetings, the Committee Chair will maintain a dialogue with key individuals involved in the Police Mutual Group's governance, including the Chair of the Managing Board, the Chair of the Investment Committee, the Chair of the Remuneration Committee, the Chief Executive, the Chief Risk Officer and Chief Finance Officer as they consider it necessary.

### 3.3 **Notice**

- 3.3.1 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no later than three working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate at the same time.
- 3.3.2 Ad hoc meetings to deal with unexpected or unusual events may be called at short notice. However no acts of any meeting of the Committee shall be invalid merely because less than three days' notice of any meeting was given.
- 3.3.3 It shall not be necessary to give notice of a meeting of the Committee to a Committee member who is absent from the United Kingdom.

### 3.4 **Minutes**

- 3.4.1 The Company Secretary shall keep appropriate records of all meetings with appropriate minutes of the proceedings and resolutions so as to provide evidence that the Committee is discharging its responsibilities.
- 3.4.2 Committee minutes are to be circulated by the Company Secretary to all members of the Committee and the Managing Board. Any member of the Committee of Management can request copies of the records and minutes at any time.

### 3.5 **Decisions made outside of meetings**

- 3.5.1 The Committee may reach decisions outside of meetings in writing (invariably by email) at the discretion of the Chair of the Committee, taking into account the materiality and timeliness of the decision required and provided all members of the Committee respond to confirm their approval of the decision. In exercising this authority the Chair must balance the need for urgency with the overriding principle that each Committee member has a right to participate in the decision and has responsibility for the outcome, should be given as much information as possible, the time to consider it properly and an opportunity to discuss the matter prior to the conclusion of a decision.
- 3.5.2 It shall not be necessary to receive a response for a decision made in writing from a Committee member who is absent from the United Kingdom at the time the decision is concluded through the responses of all other Committee members.
- 3.5.3 The decision will be valid and effectual as if it had been approved at a meeting of the Committee that had been duly convened and held, on the basis that all those entitled to participate in the decision and responsible for the outcome have had the opportunity to consider the matter and confirm their position.
- 3.5.4 Unless the Chair of the Committee exercises their discretion otherwise due to time being of the essence, decisions made outside of meetings should be put to members of the Committee with at least 5 clear working days' notice to respond.

### **3.6 Record keeping**

- 3.6.1 Records of all Committee meetings including but not limited to committee packs and minutes will be kept at Alexandra House, Lichfield in hard and soft copy and maintained by the Company Secretary.
- 3.6.2 A copy of any decisions made outside meetings in writing, any supporting documentation provided and all Committee member responses will be presented to the next formal meeting of the Committee following the decision and noted in the minutes of that meeting as a formal record of the decision.
- 3.6.3 All Committee records will be retained in perpetuity.

### **3.7 Maintaining Terms of Reference**

- 3.7.1 These terms of reference are reviewed on an annual basis and at any time a change is identified as required. The Committee is responsible for this periodic review and submitting any recommended changes to the Managing Board for approval. The Managing Board or Company Secretary may also recommend changes to the terms of reference at any time.
- 3.7.2 No changes to the terms of reference may be submitted for approval to the Managing Board without the prior consideration of the Company Secretary in order that any implications for the Delegated Authority Matrix can be assessed and no amendments are made to the standardised aspects of the terms of reference that apply to all sub-committees without the Company Secretary's approval. The Company Secretary is responsible for executing the required changes and presenting the updated version to the Committee for review and to the Managing Board for approval.
- 3.7.3 The Company Secretary will maintain records of each approved version of the terms of reference for a period of 10 years in line with regulatory requirements for the retention of Governance Map records.

### **3.8 Effectiveness & Training**

- 3.8.1 The Committee shall arrange for periodic reviews of its own effectiveness and recommend any changes it considers necessary to the Managing Board.
- 3.8.2 The Chair of the Committee is responsible for ensuring Committee members are provided with appropriate and timely training, both in the form of induction arrangements for new Committee members and an ongoing basis for all members.

### **3.9 Conflicts of Interest**

- 3.9.1 Each member of the Committee should consider whether they have any conflicts of interest prior to participating in meetings of the Committee and making decisions regarding the business of the Police Mutual Group. In the event an actual or potential conflict of interest exists the Committee member should discuss the matter with the Committee Chair, if and how the conflict should be managed or mitigated, confirm the conclusion of that discussion at the affected meeting and report the conflict to the Chief Risk Officer in order that it can be recorded in the Conflicts of Interest register.

## **4.0 Duties**

### **4.1 Allocated duties**

- 4.1.1 The following duties are allocated to the Committee within which it will consider any matters that it determines as being appropriate. The Committee is concerned with the conduct of the business of the whole Police Mutual Group and its authority extends to all relevant matters relating to any activity in the Police Mutual Group.

## 4.2 Risk objectives and appetite

The Committee shall assure itself that:

- 4.2.1 the Chief Executive is managing the Group in accordance with the Managing Board's overall risk objectives and risk appetite requirements and that any breaches are addressed promptly; any material breaches to be escalated to the Managing Board for approval of remedial actions.
- 4.2.2 risks to the business plan and capital implications are adequately identified and assessed as part of the business planning process and that appropriate mitigants, management actions and contingency plans are in place;
- 4.2.3 any prospective material strategic transactions (acquisitions, disposals, mergers, joint ventures) accord with the Managing Board's risk requirements and that risks are appropriately assessed;
- 4.2.4 the risks including capital, compliance and conduct implications of proposition and product design principles and policies are clearly articulated and managed;
- 4.2.5 the risk, capital, compliance and conduct implications of major business changes or initiatives including but not limited to significant processes and procedures, extensions into new business areas, geographical areas (including offshoring), new products, significant changes to existing products, material changes in regulated activities, ceasing to operate a material part of the Group's business accord with the Managing Board's risk requirements and that risks are appropriately assessed; and will
- 4.2.6 make recommendations on appropriate risk adjustments or criteria adopted by the Remuneration Committee for the purpose of framing remuneration policies and incentives as well as setting performance objectives to ensure they promote appropriate risk taking culture and behaviour.

## 4.3 Enterprise Risk Management Framework (ERMF)

- 4.3.1 The Committee shall review and make recommendations to the Managing Board on:
  - the continuing appropriateness of the Group's ERMF in light of the size and complexity of the business, the risk landscape and Managing Board's risk appetite requirements;
  - the extent to which the ERMF is being embedded and adhered to;
  - relevant initiatives for promoting and strengthening a risk aware culture;
- 4.3.2 The Committee shall review and approve on behalf of the Managing Board the Risk Policy Statements pertaining to the six principal risk categories set out below and associated Level 1 policies, as set out in the Risk Appetite and Corporate Policy Framework.
  - Capital Risk
  - Insurance Risk
  - Market Risk
  - Liquidity Risk
  - Operational Risk
  - Conduct Risk

#### 4.4 Risk Exposures

The Committee shall seek assurances from the Chief Executive that:

- 4.4.1 the risks inherent in the Group's strategy and business plans including the capital, liquidity, compliance and conduct implications are properly understood and can be appropriately mitigated in line with the agreed risk appetite;
- 4.4.2 the risks inherent in the Group's investment strategies including investable asset classes and risks including capital, liquidity, market, credit, regulatory, operational and conduct implications are properly understood and can be appropriately mitigated in line with risk appetite and policyholder expectations.
- 4.4.3 the risks inherent in any borrowing facilities; or lending facilities with bodies corporate including capital, liquidity, credit, regulatory and operational and compliance implications are properly understood and can be appropriately mitigated in line with risk appetite.
- 4.4.4 the design and execution requirements for stress testing & scenario analysis proposed by the Chief Risk Officer are carried out;
- 4.4.5 the vulnerabilities identified through the Group's stress and scenario testing programmes are being appropriately addressed;
- 4.4.6 arrangements for managing financial crime, including fraud risk and prevention of bribery, remain appropriate;
- 4.4.7 the design and operation of the Group's conduct risk framework is demonstrably ensuring fair customer outcomes for customers, including new and long standing customers and customers of products which are no longer open to new business, through the identification and management of conduct risks and adequately considers and evidences the consideration of regulatory requirements;
- 4.4.8 the delivery of fair customer outcomes is monitored and managed against conduct risk metrics which, together with any remedial actions where those outcomes are outside the risk appetite set by the Managing Board, are evidenced and documented;
- 4.4.9 the insurance portfolio for the Group is appropriate and sufficient relative to the financial risks the individual policies are intended to mitigate. The portfolio includes but is not limited to insurances that are mandatory by law or regulation.

#### 4.5 Capital & Liquidity

The Committee shall review and provide appropriate challenge on the following prior to Managing Board approval:

- 4.5.1 the approach for determining solvency, and regulatory and risk based capital requirements, making recommendations to the Managing Board where necessary in relation to significant changes in methodology or assumptions for Pillar 2 reporting;
- 4.5.2 the adequacy of short, medium and long term capital plans to achieve objectives relating to quality, quantity and liquidity within the risk appetite set by the Managing Board including any relevant run-off plans;
- 4.5.3 the allocation of capital to products and subsidiaries to deliver the business plan is consistent with risk appetite limits and adjusted as risk exposures might change in line with business performance and/or market conditions;
- 4.5.4 the on-going appropriateness of the Standard Formula and other adopted models and recommend them for final approval to the Managing Board;

- 4.5.5 material risk and capital reports such as the Regular Supervisory Report (RSR) and ORSA Reports and recommend them for final approval to the Managing Board;

#### 4.6 **Key Functions**

The Committee shall:

- 4.6.1 safeguard the independence of the Chief Risk Officer and the Risk and Compliance functions;
- 4.6.2 oversee the adequacy and quality of the Risk and Compliance functions in line with the needs of the Group and regulatory expectations, and to request independent assessments of the effectiveness of these functions periodically;
- 4.6.2 approve the scope and coverage of the respective Risk and Compliance Plans;
- 4.6.3 oversee any material findings and conclusions arising from the activities of the Risk and Compliance functions;
- 4.6.4 review regular reports from the Money Laundering Reporting Officer on the adequacy and effectiveness of the Group's anti-money laundering systems and controls
- 4.6.5 approve the mandate of the Chief Risk Officer, the Risk Function and the Compliance function;
- 4.6.6 approve the appointment, succession planning and continuation in office at any time, including the suspension or termination of service of the Chief Risk Officer.
- 4.6.7 The Committee Chairman is responsible for monitoring the performance of the Chief Risk Officer as part of their reporting line to the Committee Chairman including approving the Chief Risk Officer's objectives and conducting their performance review in consultation with the Chief Executive Officer as part of the Chief Risk Officer's dotted reporting line to the Chief Executive Officer.

#### 4.7 **Whistleblowing**

- 4.7.1 Oversee the arrangements for the Police Mutual Group's employees and other specified individuals to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, whilst ensuring that these arrangements allow proportionate and independent investigation of such matters and appropriate follow-up action.
- 4.7.2 Oversee the investigation, assessment and reporting of concerns raised and any recommended follow-up action subject to agreed risk assessment and escalation guidelines whilst maintaining the confidentiality of individual whistleblowers.
- 4.7.3 The Risk Committee Chair as Whistleblowing Champion will provide an annual report to the Managing Board on the operation and effectiveness of the Police Mutual Group's systems and controls in relation to whistleblowing. The report must maintain the confidentiality of individual whistleblowers.

## 5.0 **Reporting and Escalation**

### 5.1 **Reporting**

- 5.1.1 The Risk Committee receives various reports throughout the year although regular reporting includes:

- Chief Risk Officer summary report
- Chief Executive Officer verbal report
- Risk dashboards and key exposures
- Regulatory developments report
- Group Risk report
- Group Key Risks
- Solvency II appropriateness of standard formula
- Pillar II capital reporting prior to Managing Board approval
- Compliance Plan and monitoring plan progress, findings actions tracker and summary of findings
- ORSA report prior to Managing Board review and approval

5.1.2 In addition, the Risk Committee considers mandatory Independent Risk Reviews on the matters set out in Group Risk Function Mandate approved by the Risk Committee, prior to approval by the Managing Board, namely:

- Annual Business Planning
- Any Executive-initiated review of the Business Strategy, re-interpretation of the Strategic Goals or material re-prioritisation
- Any proposed change to the scope, design or calibration of the Executive incentive scheme
- Periodic reviews of the Investment Strategy
- Any acquisition or disposal

Further, event-driven, Independent Risk Reviews triggered in line with the Group Risk Function Mandate will be received. Any decision as to the extent and timing of further escalations and communications of these event-driven reviews will be made jointly by the Chief Risk Officer and Chair of the Committee, on the basis set out in the Group Risk Function Mandate.

5.1.3 The Chair of the Committee shall report its proceedings to the Managing Board and attend Committee of Management and general meetings of Police Mutual Assurance Society Limited prepared to respond to any questions on the Committee's activities.

5.1.4 The Committee shall make whatever recommendations it deems appropriate on any area within its remit where action or improvement is needed.

## 5.2 Escalation

5.2.1 The Committee will escalate to the Managing Board any decision or action required which is in excess of authority limits allocated to it and any other issue which the Committee deems material and or escalation is required in order for the Managing Board and the Committee of Management to effectively exercise their duties. Any material breaches of risk appetite are to be escalated to the Managing Board for approval of the remedial actions required.

5.2.2 The Risk and Compliance Functions, the Chief Risk Officer and other sub-committees will escalate to the Risk Committee, any decision or action required which is in excess of authority limits allocated to the individual, function or sub-committee and any other issue which is deemed material and or escalation is required in order for the Committee to effectively exercise its duties.

## 6.0 Authority

6.1 The Committee is authorised by the Managing Board, when the fulfilment of its duties requires and at the Police Mutual Group's expense, to obtain independent legal or professional advice and secure the attendance of external advisers at its meetings on any matters within its terms of reference. The Committee shall have full authority to commission any reports or surveys it reasonably deems necessary to help fulfil its obligations.

6.2 The Committee is authorised to seek any information it requires from any employee of the Police Mutual Group in order to perform its duties.



- 6.3 The Committee is authorised to call any officer or employee to be questioned at a meeting of the Committee.
- 6.4 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.
- 6.5 The delegations set out in the duties of the Committee and the duties allocated to other sub-committees are also set out in the Delegated Authority Matrix which provides an aggregated picture of the delegation of authority to all corporate committees and the individuals to which those committees have in turn delegated specific responsibilities.