



**Howard Davies**  
Chair of the Risk Committee

**Committee members**

- Howard Davies (Chair)
- Jeremy Anderson (from January 2020)
- David Law
- Kai Nargolwala
- Alice Schroeder
- Tom Watjen

**Regular attendees**

- Chairman of the Board
- Group Chief Executive
- Group Chief Risk and Compliance Officer
- Group Chief Financial Officer and Chief Operating Officer
- Company Secretary
- Group Chief Internal Auditor
- Chief risk officers of the main subsidiaries and members of the Group Risk Leadership Team are invited to attend each meeting as appropriate.

**Number of meetings in 2019:**

Five. (In addition a joint meeting was held with the Audit Committee in April 2019.)

**Risk Committee report**

**Dear shareholder**

As Chair of the Risk Committee, I am pleased to report on the Committee's activities and focus during 2019.

This will be my last report as Risk Committee Chair. Having served as a Non-executive Director and chaired the Committee since October 2010, I will not offer myself for re-election at the 2020 Annual General Meeting. I would like to take this opportunity to thank my fellow Committee members for their diligence and also everyone on the Prudential team who has supported me and the Committee over the years. As announced on 11 March 2020, Jeremy Anderson will succeed me as Chair of the Committee.

**Committee operation**

The Committee assists the Board in providing leadership, direction and oversight of the Group's overall risk appetite, limits and strategy. It also oversees and advises the Board on current and future risk exposures of the Group, including those which have the potential to impact on the delivery of the Group's Business Plan. The Committee reviews the Group Risk Framework and recommends changes to it for approval by the Board to ensure that it remains effective in identifying and managing the risks faced by the Group.

The Committee received regular reports from the Group Chief Risk and Compliance Officer (CRCO), who is advised by the Group Executive Risk Committee (GERC). I provided feedback on the performance of the CRCO to the Group Chief Executive Officer as part of the annual evaluation of the Board and its members. The Committee also received regular reports from the Group-wide Internal Audit function and updates from other areas of the business as needed.

**Regulatory matters**

On 25 March 2019 the Hong Kong Insurance Authority (Hong Kong IA) and the Group signed a Regulatory Letter, which outlines the interim supervision framework applicable to the Group until the Hong Kong IA's Group-wide Supervision (GWS) Framework becomes effective. The required legislative process is expected to be finalised in the second half of 2020. The Committee considered the capital aspects of the Regulatory Letter as well as considering regular updates on GWS developments over the year.

The CRCO briefed the Committee regularly on developments in systemic risk regulation and the Insurance Capital Standards (ICS). We considered the results of ICS field testing in July and the implications of the IAIS announcement in November of a unified path to convergence of comparable group capital standards across jurisdictions. During the year, the Group remained subject to the policy requirements resulting from its prior designation in 2016 as a Global Systemically Important Insurer (G-SII). The Committee therefore considered and approved the Group's 2019 Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan.

**Transformation risk, including the demerger, and other in-depth reviews**

During 2019, a key area of consideration for the Committee was the risk associated with the Group's portfolio of key strategic change initiatives, which included the demerger of M&G plc, as well as, notably, those related to IFRS 17, the Group's digital transformation, LIBOR transition and further implementation of the Aladdin system. During the year, the Committee considered updates, risk opinions, guidance and assurance on this critical change activity. Ongoing reviews were also performed on the financial and non-financial risks to the execution of the demerger. The Committee considered and recommended for approval the risk disclosures included in the Prudential plc shareholder Circular published on 25 September 2019.

In-depth reviews were performed in existing and emerging high risk areas including the interest rate risk profile and asset liability management of our Asia business; Prudential's artificial intelligence and digital transformation initiatives and their associated risks, ethical considerations and governance; together with the reinsurance arrangements in place across the Group.

#### **Risk appetite and principal risks**

During 2019, the Committee reviewed the Group's risk policies and proposed changes to the Group risk appetite statements. Aligned with these reviews, proposals to amend associated limits were also considered. The amendments were recommended and approved to reflect the changes in the Group's risk profile and the evolving regulatory environment following the demerger.

The Committee also considered the principal risks facing the Group and received updates on these through the course of the year as well as reports from the chief risk officers of our main subsidiaries, who regularly attend Committee meetings. A fuller explanation of principal risks facing the Group and the way in which the Group manages these is set out in the Group Chief Risk and Compliance Officer's report on pages 51 to 71. During 2019, the Committee considered risk assessments and opinions on key areas covering the risks associated with the Group's Business Plan, the Group's revised dividend policy and executive remuneration, further details of which are noted below.

In respect of our principal risks, we continued to focus on the risks to the Group's financial viability and non-financial sustainability including those arising from the external business and macroeconomic environment in which it operates; risks arising from the nature of the Group's business and industry; and the risks around global legal and regulatory compliance. We regularly reviewed the strength of our capital and liquidity positions (including the results of stress and scenario analyses) and the impact of the transition to the Hong Kong IA's Local Capital Summation Method (LCSM) in determining the Group's regulatory capital requirements.

#### **Information security and privacy**

Information security and data privacy also received attention from the Committee in 2019. We reviewed progress achieved on the implementation of the Group's information security and privacy operating model and received updates on the Group's compliance with the EU's General Data Protection Regulation (GDPR). In April 2019, a joint session with the Audit Committee on cyber security included an update on progress against the Group's key 2019 objectives in this area and included training aimed at enhancing the knowledge of Non-executive Directors on both the increasing regulatory expectations and the threats faced by the Group.

#### **Committee governance**

The Committee works closely with the Audit Committee to ensure both Committees are updated and aligned on matters of common interest. Where responsibilities are perceived to overlap between the two Committees, David Law and I agree the most appropriate Committee to consider the matter. Aligned with the consolidation of the Risk, Compliance and Security functions under the leadership of the CRCO during 2019, the Committee assumed responsibility for Compliance oversight from the Audit Committee with effect from 1 January 2020. The Committee considered and approved the Risk and Compliance plan for the first half of 2020 and will receive a plan for the second half of 2020 at mid-year.

The effectiveness of the Committee was reviewed as part of the annual Board evaluation, which confirmed that the Committee continued to operate effectively during the year and no major areas requiring improvement were highlighted.

## How the Committee spent its time during 2019

	Feb	Apr	Jul	Oct	Nov
<b>Markets and Group risk updates</b>					
Group risk updates	●	●	●	●	●
Main subsidiary updates	●	●	●	●	●
<b>Risk Management</b>					
Group principal risk identification	●	○	○	○	○
Principal risk discussions	●	●	●	●	●
Business unit specific risk matters	●	●	●	●	●
Risk assessment of Business Plan	○	○	○	○	●
Risk function effectiveness	●	○	○	○	○
Risk oversight of remuneration	●	○	●	●	●
Transformation risk	●	●	●	●	●
Demerger financial viability and operation resilience	●	●	●	●	○
Information security and privacy	●	●	●	●	●
<b>Regulatory matters</b>					
Regulatory matters	●	●	●	●	●
<b>Risk framework</b>					
Internal model development and changes	●	●	●	○	○
Group risk appetite review	○	●	●	○	○
Risk limit updates	○	○	●	○	●
Risk policy framework refresh and updates	●	○	●	○	●
Risk-related compliance policies	○	○	●	●	○
Group-wide Internal Audit update	●	●	●	●	●
<b>Governance and reporting</b>					
Full and half-year risk disclosure	●	○	●	○	○
Global Systemically Important Insurer: Liquidity Risk Management Plan, Systemic Risk Management Plan and Recovery Plan	○	○	○	●	○
Own Risk and Solvency Assessment	○	●	○	●	○
Full and half-year ECap results	○	●	○	○	●
Group Regulatory and Compliance reporting	●	●	●	●	●
Committee terms of reference	○	○	○	○	●

---

**Key matters considered during the year**

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
<b>Risk framework</b>	<p>The Group Risk Framework and risk policies were subject to both an annual review and a further specific update to ensure compliance with the Hong Kong IA Regulatory Letter. Changes were recommended by the Committee for approval by the Board.</p> <p>Annually, business units are required to assess and certify their compliance with the Group Risk Framework and associated policies as part of the annual Group Governance Manual certification process. The certification process is facilitated by Group Risk and Compliance and subject to oversight by the Committee.</p> <p>The Committee conducted its annual review of risk effectiveness in February. It also considered the effectiveness of, and approved updates to, the Group Risk Mandate which formally sets out the purpose and responsibilities of the Group Risk function and its effectiveness in overseeing the key risks to the Group.</p> <p>The Committee also reviewed the methodology and calibration of the Group internal model.</p>
<b>Risk appetite</b>	<p>The Committee is responsible for recommending changes in the Group's overall risk appetite and tolerance to the Board for approval.</p> <p>The Committee considered the revised Group Risk Appetite Statement and associated limits that would apply after the demerger of M&amp;G plc. These were defined in aggregate for financial and non-financial risks by the setting of objectives for its liquidity, capital requirements and non-financial risk exposure.</p>
<b>Hong Kong Insurance Authority (IA)</b>	<p>In August 2018, it was announced that the Hong Kong IA would become the Group-wide supervisor for Prudential plc after the demerger of M&amp;G plc.</p> <p>Key updates on the discussions with the Hong Kong IA on the regulatory requirements applying immediately following the demerger, and those anticipated in the longer term, were provided to the Committee as part of the CRCO's regular reporting.</p>
<b>Business Plan</b>	<p>As part of its role in overseeing and advising the Board on future risk exposures and strategic risks, the Committee reviewed Group Risk's assessment of the Business Plan, which included key financial risks (including those associated with the macroeconomic environment, such as prolonged low interest rates) and non-financial risks (including those from the regulatory environment) to the post-demerger Group. The analysis reviewed included sensitivity assessments of the impact of various plausible scenarios.</p> <p>As part of its review of the risk assessment of the Business Plan, the Committee approved proposed changes to Group Approved Limits.</p>
<b>Own Risk and Solvency Assessment (ORSA)</b>	<p>The ORSA is a key ongoing process for identifying, assessing, controlling, monitoring and reporting the risks to which the Group is exposed and assessing capital adequacy over the business planning horizon.</p> <p>In April, the Committee considered the Group's ORSA report, based on the Business Plan, prior to its approval by the Board. An additional ORSA report was considered by the Committee in October which included a forward-looking assessment of the demerged Group's capital and liquidity position, and the outcome of a range of stress and scenario testing to inform the Committee of potential future capital solvency and liquidity levels.</p>
<b>Stress and scenario testing</b>	<p>The Committee is responsible for reviewing the outcome and results of stress and scenario testing, which is a key risk identification, measurement and management tool for the Group.</p> <p>Stress and scenario testing is a key component of the Group's ORSA and the risk assessment of the Business Plan, as described above, as well as its Recovery Planning and Reverse Stress Testing (RST).</p> <p>The Group's Recovery Plan, considered by the Committee in October, included an assessment of the effectiveness of the post-demerger business's recovery options under market and idiosyncratic scenarios. An updated year-end 2018 RST exercise was performed for the post-demerger Group, which confirmed that it remains resilient to all business model failure scenarios considered. The Committee recommended the Group's Recovery Plan and RST Report for approval by the Board.</p>

## Key matters considered during the year continued

Matter considered	How the Committee addressed the matter
<b>Global Systemically Important Insurer (G-SII)</b>	<p>The FSB has endorsed a new Holistic Framework for systemic risk management to be implemented by the IAIS in 2020 and suspended G-SII designations until a review is undertaken in 2022.</p> <p>In 2019, the Group remained subject to G-SII measures due to its prior designation in 2016. The Committee therefore considered, and recommended for approval by the Board, updated deliverables associated with this designation. These included the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan. Many of the G-SII measures have been adopted into the Insurance Core Principles and ComFrame – the common framework for the supervision of Internationally Active Insurance Groups (IAIGs). As Prudential is expected to satisfy the criteria of an IAIG these measures are anticipated to continue for the Group.</p>
<b>Transformation activity and demerger of M&amp;G plc</b>	<p>During 2019, a key area of consideration for the Committee was the demerger of M&amp;G plc from the rest of the Group, which contributed to the portfolio of key strategic change activity across the Group. The Committee's work included overseeing the conflict management process around the demerger. The Committee also discussed the appropriate governance arrangements for the Group's subsidiary risk committees post-demerger and associated transitional arrangements.</p> <p>The Committee was provided with updates on demerger and transformation activity throughout the year, and considered the results of risk opinions, guidance and assurance work. It received regular updates on the Group's portfolio of key strategic change initiatives, including those related to IFRS 17, the Group's digital transformation, LIBOR transition and implementation of the Aladdin system.</p> <p>Ongoing analyses of the key financial risks to the execution of the demerger under various stress scenarios were provided to the Committee, as well as progress updates on operational separation activity.</p> <p>In particular, the Committee considered and approved changes to the following items, which were all updated to appropriately reflect the position of the demerged Group: risk assessment of the Group Business Plan; risk framework and policies; risk appetite and associated limits; ORSA report; and G-SII deliverables.</p> <p>The Committee also considered the risk disclosures included in the Prudential plc shareholder Circular in advance of its publication.</p>
<b>Group principal risks</b>	<p>The Committee evaluated the Group's principal risks, considering recommendations for promoting additional risks and changes in the scope of existing risks. The Committee received regular reporting on principal and emerging risks, external events such as the UK's exit from the EU and the Hong Kong protests and mitigating actions over the course of the year within the Group CRCO's regular report to the Committee. Further information about how the Group identifies emerging and principal risks can be found in the Group Chief Risk and Compliance Officer's report.</p> <p>These reports also provided the Committee with: regulatory updates; developments in the Group's internal model; the implications of the developing global capital standards including the engagement with the Hong Kong IA on the development of an industry group capital and risk management framework; and developments in relation to the Group's designation as a G-SII.</p>
<b>Deep dives</b>	<p>As part of its risk oversight responsibilities, the Committee also considers the result of 'deep dive' risk reviews performed over the year.</p> <p>In 2019, these focused on risks embedded within the assets and liabilities and the portfolio of products in our US and Asia businesses and the Group's digital transformation initiatives.</p>
<b>Information security and privacy</b>	<p>During 2019, updates were provided to the Committee on progress made in the implementation of the operating model for information security and privacy.</p> <p>In April, in a joint session of the Risk and Audit Committee, an update on cyber security was provided on the latest regulatory expectations, an assessment of the threats facing the Group and the means to enable appropriate oversight.</p> <p>The Committee received regular updates on Group-wide information security and privacy metrics providing a view of security posture across the businesses.</p> <p>Specifically in the key area of data privacy, the Committee received an update in February on progress on residual Group-wide activity to ensure compliance with General Data Protection Regulations. In November, the Committee was provided with an update on Group-wide privacy activities and emerging privacy regulations in the US and Asia.</p>

---

**Key matters considered during the year** continued

<i>Matter considered</i>	<i>How the Committee addressed the matter</i>
<b>Jackson oversight</b>	<p>The Committee received regular updates on the Jackson business throughout 2019 including in relation to the financial risk oversight of the business, which remains a key area of focus. Updates were provided to each Committee meeting on the effectiveness of the hedging programme and the impact of market movements on Jackson's estimated Risk Based Capital ratio.</p> <p>The Committee approved changes to limits used in the monitoring of the market and credit risks of the Jackson business.</p> <p>Additionally, the Committee considered the results of in-depth reviews performed on the methodology and assumptions of a tool for the estimation of Jackson capital adequacy under stress. In October, the Committee approved Jackson's adoption of the NAIC Variable Annuity Reform Framework.</p>
<b>Remuneration</b>	<p>The Committee has a formal role in the provision of advice to the Remuneration Committee on risk management considerations in respect of executive remuneration. It considered risk management assessments of proposed executive remuneration structures and outcomes during the year, making related recommendations to the Remuneration Committee for their consideration. The assessments considered included those relating to executives of M&amp;G plc at the point of demerger and proposals relating to the Jackson bonus pool.</p>
<b>Compliance and audit reporting</b>	<p>The Committee received regular reporting on key compliance risks and mitigation activity throughout the year. It also reviewed and approved updates to regulatory compliance risk-related policies including changes to the regulatory communications policy in advance of the transfer of Group-wide supervisory responsibilities from the PRA to the Hong Kong IA in October.</p> <p>The Committee received updates from Group-wide Internal Audit throughout the year relating to effectiveness of risk management and internal control systems and other matters relating to its responsibilities.</p>