

Jeremy Anderson
Chair of the Risk Committee



Committee members

Jeremy Anderson (from 1 January 2020, and Chair from 14 May 2020)

David Law
Kai Nargolwala
Alice Schroeder
Tom Watjen
Howard Davies (Chair until 14 May 2020)

Regular attendees

- Chair 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 business units and members of the Group Risk Leadership Team are invited to attend each meeting as appropriate.

Number of meetings in 2020:

8

Risk Committee report

Dear shareholder

As Chair of the Risk Committee from May, I am pleased to report on the Committee's activities and focus during 2020. It was certainly an eventful year to step into the role, with the Committee considering key strategic and externally driven changes that will leave an indelible mark on the Group's operations into the future. I would like to take this opportunity to thank my predecessor, Howard Davies, who has served as a Non-executive Director and chaired the Committee since October 2010, for his outstanding contribution. I would also like to take this opportunity to thank my fellow Committee members and everyone on the Prudential team who supported me in my transition to Chair.

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, who is advised by the Group Executive Risk Committee (GERC). I provided feedback on the performance of the Group Chief Risk and Compliance Officer to the Group Chief Executive 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.

The risk governance arrangements for the Group's major businesses were delayed and strengthened in 2020 with the implementation of direct lines of communication, reporting and oversight of the risk committees of these businesses by the Committee. To support the enactment of these arrangements, the terms of reference for the major business unit risk committees were aligned and approved locally and include a standing invitation for the Group Chief Risk and Compliance Officer and Group Chief Executive and the requirement for relevant risk escalations directly to the Committee.

Covid-19 risks and responses

As the Covid-19 crisis started to take hold at the start of the year the Group responded incisively. An additional meeting of the Committee was convened in March to consider the potential impacts and disruption to the Group's people, customers and service delivery and to its solvency, liquidity position and credit risk exposures. At the same meeting the Committee reviewed and approved a recalibration to the Group's Economic Capital (ECap) solvency risk appetite target given the evident shift in the position in the economic cycle triggered by the pandemic. High cadence monitoring, with a focus on solvency and liquidity risks to the Group, was performed through a series of meetings of the Critical Incident Group (CIG), invoked by the Group Chief Risk and Compliance Officer under the Group's Critical Incident Procedures. Key updates from the CIG meetings were provided to the Committee.

In addition to the operational and market impact of Covid-19, the pandemic has accelerated digital adoption at the Group's agency business and increased the user base of Prudential's digital health application Pulse. Increased digitalisation was an emerging focus during 2020 and will remain a prominent theme in 2021. For the remainder of the year, the Committee also considered changes to the Group's sales processes (including the rollout of virtual face-to-face sales processes across its markets and associated regulatory and conduct risk implications) and the impact to sales, claims, lapses and surrenders. The Committee also monitored the operational resilience of the business and its key third parties as well as its information security posture and cyber defence capabilities amidst the crisis.

Regulatory matters

To align Hong Kong's regulatory regime with international standards and practices, the Hong Kong Insurance Authority (IA) has developed a new group-wide supervision (GWS) framework for multinational insurance groups under its supervision. On 24 July 2020 the Insurance (Amendment) (No. 2) Ordinance, being the enabling primary legislation providing for the GWS Framework, was enacted. This primary legislation is supported by subsidiary legislation and guidance material from the Hong Kong IA. The relevant subsidiary legislation, including the Insurance (Group Capital) Rules, was tabled before the Legislative Council on 6 January 2021 and will also come into operation on 29 March 2021. The GWS framework is expected to become effective for Prudential upon designation by the Hong Kong IA in the second half of 2021, subject to transitional arrangements. The framework is based on a principle-based and outcome-focused approach and allows the Hong Kong IA to exercise direct regulatory powers over the holding companies of multinational insurance groups, reinforcing Hong Kong's position as a preferred base for large insurance groups in Asia Pacific and as a global insurance hub. During 2020, the Hong Kong IA engaged with the Group and other relevant stakeholders in the development of the GWS framework, which will be anchored on the requirements for three pillars: capital, risk and governance, and disclosure. Prior to the GWS framework becoming effective, the Group remains subject to the Regulatory Letter signed with the Hong Kong IA, which outlines the interim supervision arrangements from October 2019 when it became the Group-wide supervisor of the Group.

During the year, the Committee has received regular updates from the Group Chief Risk and Compliance Officer on GWS developments as well as compliance with the existing regime and the Group's preparation for the implementation of the new framework.

The Group Chief Risk and Compliance Officer briefed the Committee regularly on developments in systemic risk regulation and the Insurance Capital Standards (ICS). We considered the Group's FY 2019 ICS results, including the results from the 2020 data collection exercise and the latest developments in the Standards in December. Many of the policy requirements that resulted from the Group's prior designation in 2016 as a Global Systemically Important Insurer (G-SII) have been adopted into the Insurance Core Principles (ICPs) and the Common Framework (ComFrame). The Committee therefore considered and approved the Group's 2020 Systemic Risk Management Plan, Liquidity Risk Management Plan and Recovery Plan.

Transformation risk, including the proposed Jackson separation, and other in-depth reviews

During 2020, a key area of consideration for the Committee was the risks associated with the Group's key strategic change initiatives, which included the Athene reinsurance and equity injection transactions and the Group's digital transformation, as well as those related to IFRS 17 and LIBOR transition. The Committee also considered risk opinions related to the financial and non-financial risks to the execution of the Jackson separation strategy and reviewed the risk disclosures within key in-progress transaction documentation, including those for the Prudential plc shareholder Circular and Jackson's Form 10 Information Statement.

In-depth reviews were performed on existing and emerging high-risk areas including the risks related to the Group's insurance products in Asia and Africa; the product portfolio at Prudential Life Thailand; and the actions for managing the risks from historically low interest rates during the year in Hong Kong, Singapore, Thailand and Vietnam. The latter review formed part of a series of work considering the long-term impact of lower interest rates on product profitability and local business unit solvency. Following a 2019 deep dive review performed on Digital Transformation and Artificial Intelligence (AI), a number of developments resulting from the review were considered by the Committee during 2020. This included progress updates on the development of AI governance and Ethics Principles for the Group.

Risk appetite and principal risks

The Committee performed its regular review of 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 Committee reviewed the Group's annual ORSA report in May, and in light of the change in the Group's risk profile following the Athene transactions and the changes in the economic environment driven by the pandemic, an interim refreshed ORSA update was reviewed by the Committee in September. In addition to the frequent monitoring performed during the most acute phases of the market turmoil in the first half of 2020, we regularly reviewed the strength of our capital and liquidity positions (including the results of stress and scenario analyses) under the Hong Kong IA's Local Capital Summation Method (LCSM) to assess the resilience of the buffer above the Group's regulatory capital requirements.

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 risk committee chairs of the Group's major businesses, with the chief risk officers of Prudential Corporation Asia and Jackson regularly attending 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 45 to 69. During 2020, the Committee considered risk assessments and opinions on key areas covering the risks associated with the Group's Business Plan and executive remuneration.

In respect of our principal risks, we continued to focus on the risks to the Group's financial viability and non-financial sustainability. This includes those arising from the external business and macroeconomic environment in which the Group operates, including the implications of sustained low interest rates; risks arising from the nature of the Group's business and industry; risks around global legal and regulatory compliance; and environmental, social and governance (ESG) related risks. In May 2020, a joint session with the Audit Committee on cyber security included an update on the Group-wide response to Covid-19 related cyber security risks, as well as progress updates on the Group's Privacy Programme and the standardised Information Security Programme across the businesses. The Committee approved a global set of ethics principles for artificial intelligence and complex tools (forming part of the Group Code of Business Conduct) in May, and in December was provided a progress update on the development of the governance in this area.

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The Committee convened an additional meeting in September focusing on ESG risks, in particular climate-related transition risk for the Group's invested assets. Aligned to the strategic focus by the Group on its purpose, culture and values and the adoption of People & Culture as one of the Group's principal risks at the beginning of 2020, the Committee considered how the Group's culture initiative and purpose could be applied to support sound risk management practice, behaviours, conduct and awareness. In December 2020, after a successful period of road-testing, the Committee approved a new Group Customer Conduct Risk Policy.

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 Group Chief Risk and Compliance Officer 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 plans for the year.

Following the demerger of M&G in October 2019, the Committee was focused on overseeing the development and embedding of new governance arrangements across the Group's Asian business, building direct communication and escalation links with the existing local risk committees of the significant businesses. Regular direct communication with each of the local chairs remains a key component of our governance framework, and I have worked closely with the respective chairs of our significant business unit risk committees during the year. At each meeting, I update the Committee on important points raised at local level, and after the meeting I report to the Board on the main matters discussed.

In order to foster a close and collegiate working relationship at the Committee and with the local audit committees, David Law and I chaired a session attended by all of the non-executive directors at the four major Prudential Corporation Asia businesses.



Jeremy Anderson
Chair of the Risk Committee

How the Committee spent its time during 2020	Feb	Mar	May	Jul	Sep ¹	Dec
Risk and market updates						
Group Chief Risk and Compliance Officer reporting	●	●	●	●	●	●
Updates from significant business risk committees	●	●	●	●	●	●
Risk management						
Group principal risk identification and discussions ¹	●	●	●	●	●	●
— Covid-19 related risks	○	●	●	●	●	●
— Information security and privacy	○	○	●	○	○	●
— ESG including climate related transition risks	○	○	○	●	●	○
Deep dives	●	○	●	●	●	●
Business unit specific risk matters	●	●	●	●	●	●
Risk assessment of Business Plan	○	○	○	○	○	●
Risk function effectiveness	●	○	○	○	○	○
Risk oversight of remuneration	●	○	○	○	●	●
Regulatory and Compliance						
Group regulatory and compliance reporting	●	○	●	●	●	●
GWS	●	○	●	●	●	●
Risk and Compliance Framework						
Internal model development and changes	○	○	●	○	●	●
Group Risk appetite review	○	●	○	●	○	○
Risk limit updates	○	○	○	●	○	●
Risk, Compliance and Security policy framework	●	○	○	●	○	●
Group-wide Internal Audit update	●	○	●	●	●	●
Governance arrangements and terms of reference (including business units)	●	○	●	●	○	●
External reporting						
Full year and half year risk disclosures	●	○	○	●	○	○
ECap full and half year results	●	○	●	○	●	○
Own Risk and Solvency Assessment	○	○	●	○	●	○
Systemic risk reports (LRMP, SRMP, RCP)	○	○	○	○	●	○
ICS results	○	○	○	○	○	●

Note
¹ An additional meeting to the usual scheduled meetings was held in September to discuss ESG risks, in particular climate-related transition risk for the Group's invested assets.

In addition:
 – A meeting was held in June to discuss the risk opinion on the equity investment by Athene in Prudential's US business.
 – Two joint meetings with the Audit Committee were held: in May to discuss cyber security and governance matters (all Non-executive Directors were invited); and in September to discuss Form S-1 Registration Statement.



Key matters considered during the year

Matter considered	How the Committee addressed the matter
Risk and Compliance framework	<p>The Group Risk Framework and risk policies were subject to both their regular annual review and a gap analysis of the Group's policies was performed against the incoming requirements of the Hong Kong Insurance Authority's (IA's) Group-wide Supervision Framework. 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 the Risk, Compliance and Security function 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>
Group Risk appetite	<p>The Committee is responsible for recommending changes in the Group's overall risk appetite and tolerance to the Board for approval.</p> <p>In March, the Committee reviewed and approved a reduction in the Group's Economic Capital (ECap) solvency risk appetite given the change in the position of the economic cycle triggered by the pandemic, and the reversal of this change on the subsequent recovery of the economic cycle indicators.</p> <p>The Committee also performed its annual review of the Group Risk Appetite Statement and associated limits. These are defined in aggregate for financial and non-financial risks by the setting of objectives for its liquidity, capital requirements and non-financial risk exposure. As part of this review, the Committee approved the adoption, following a period of road-testing, of a revised Liquidity Coverage Ratio (LCR) metric and a revision of the LCR trigger level.</p>
Group-wide Supervision Framework (GWS)	<p>Since the demerger of M&G plc, the Group has been subject to the consolidated supervision of the Hong Kong IA as Prudential's Group-wide supervisor.</p> <p>Key updates on GWS developments and implementation progress were provided to the Committee during the year.</p>
Business Plan	<p>As part of its role in overseeing and advising the Board on future risk exposures and strategic risks, the Committee reviewed the risk assessment of the Business Plan, which included key financial risks (including those associated with the challenging macroeconomic and geopolitical environments, being more uncertain than those foreseen in previous Plan assessments, and including prolonged low interest rates) and non-financial risks (including the execution risks in delivering the Group's announced strategy for Jackson; risks to top-line sales growth and increasing third party risk). The analysis review included sensitivity assessments of the impact of various plausible scenarios.</p>
Own Risk and Solvency Assessment (ORSA)	<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 May, the Committee considered the Group's ORSA report, based on the Business Plan, prior to its approval by the Board. An additional interim ORSA report was considered by the Committee in September, produced in light of the change in the Group's risk profile following the Athene transactions and the changes in the economic environment driven by the pandemic.</p>
Stress and scenario testing	<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 September, included an assessment of the financial and operational resilience of Prudential. The Plan concluded that despite the challenging conditions linked to Covid-19 and significant stress experienced in the first half of 2020, the Group's position remained strong and that a range of credible recovery actions remain available, at both Group and business unit level which are considered sufficient to recover the Group's position if it comes under severe stress.</p>



Key matters considered during the year

Matter considered	How the Committee addressed the matter
Systemic Risk Management	<p>The FSB has endorsed a new Holistic Framework for systemic risk management and suspended G-SII designations until a review is undertaken in 2022.</p> <p>Many of the policy requirements that resulted from the Group's prior designation in 2016 as a Global Systemically Important Insurer (G-SII) have been adopted into the Insurance Core Principles (ICPs) 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. The Committee therefore considered, and recommended for approval by the Board, the Systemic Risk Management Plan, Recovery Plan and Liquidity Risk Management Plan.</p>
Transformation activity and proposed Jackson separation	<p>During 2020, a key area of consideration for the Committee was the proposed Jackson separation, which contributed to the portfolio of key strategic change activity across the Group. The Committee's work included consideration of risk opinions related to the financial and non-financial risks to the execution of the proposed Jackson separation, reviewing the risk disclosures within key in-progress transaction documentation, including those for the Prudential plc shareholder Circular and Jackson's Form 10 Information Statement and the revision to Jackson's hedge modelling for US statutory standards for calculating reserves and capital.</p> <p>The Committee was provided with updates on other transformation activity throughout the year. 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 and LIBOR transition.</p>
Covid-19 related risks	<p>The impact of the Covid-19 pandemic has been broad, with implications for the Group's solvency and liquidity position and many of its principal risks. At an additional meeting of the Committee convened in March as the crisis started to unfold, the Committee reviewed and approved a recalibration to the Group's Economic Capital (ECap) solvency risk appetite. Key updates focusing on solvency and liquidity risks to the Group from the meetings of the Critical Incident Group, convened by the Group Chief Risk and Compliance Officer under the Group's Critical Incident Procedures, were provided to the Committee.</p> <p>The Committee received regular updates on the nature and extent of the impacts across its principal risks, including the changes to the Group's sales processes (including the rollout of virtual face-to-face sales processes across its markets and associated regulatory implications) and the impact to sales, claims, lapses and surrenders. The Committee also monitored the operational resilience of the business and its key third parties as well as its information security posture amidst the crisis.</p>
Group principal risks	<p>The Committee evaluated the Group's principal risks, considering recommendations for promoting additional risks and changes in the scope of existing risks. In addition to those impacted by the pandemic as outlined above, the Committee also received regular reporting on principal and emerging risks and external events, such as the international responses to the enactment of the national security law in Hong Kong, over the course of the year within the Group Chief Risk and Compliance Officer'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>Additional meetings of the Committee were convened in March and September focusing on Covid-19 driven risks and ESG risks, in particular climate-related transition risk for the Group's invested assets, respectively.</p> <p>The Group Chief Risk and Compliance Officer's reports also provided the Committee with regulatory updates; the implications of the developing global capital standards including the engagement with the Hong Kong IA on the development of GWS; and developments in the area of systemic risk management.</p>
Deep dives	<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 2020, these focused on the risks related to the Group's insurance products in Asia and Africa; the product portfolio at Prudential Life Thailand; and the actions for managing interest rate risk in Hong Kong, Singapore, Thailand and Vietnam. The latter review formed part of a series of work considering the impact of lower for longer interest rates.</p> <p>Following a 2019 deep dive review performed on Digital Transformation and Artificial Intelligence (AI), a number of developments resulting from the review were considered by the Committee during 2020. This included progress updates on the development of AI governance and Ethics Principles for the Group.</p>



Key matters considered during the year

Matter considered	How the Committee addressed the matter
Information security and privacy	<p>During 2020, updates were provided to the Committee on progress made in the operationalisation of the Group-wide governance model and strategy for cyber security management and data privacy risks.</p> <p>In May, in a joint session of the Risk and Audit Committee to which all Non-executive Directors were invited, updates on the Group-wide response to Covid-19 related cyber security risks, and progress on the Group's Privacy Programme and the standardised Information Security Programme across the businesses, were provided.</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>
Remuneration	<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.</p>
Compliance and audit reporting	<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 Personal Account Dealing Policy and the Conflicts of Interest Policy. The Committee also approved, after a successful period of road-testing, a new Group Customer Conduct Risk Policy.</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>