



## **TERMS OF REFERENCE**

### **BOARD RISK COMMITTEE**

Adopted by the Board on 17<sup>th</sup> April 2018

#### **1. Introduction**

The Shepherds Board Risk Committee (“BRC”) assists the Board of the Society (the “Board”) in meeting its obligations under the Friendly Societies Act 1992, the Financial Services and Markets Act 2000, the Financial Services Act 2012 and the European Union’s Solvency II Directive. The BRC provides a forum for oversight of risk management across the Society and its subsidiaries.

#### **2. Purpose**

The BRC is established under the Authority of the Board to:

- 2.1 assist and advise the Board in exercising its responsibilities to ensure the Society has sufficient resources to meet its overall solvency needs, taking into account its risk profile, approved risk tolerance limits and business strategy;
- 2.2 assist and advise the Board in exercising its responsibilities for all aspects of the risk management and internal control systems and frameworks;
- 2.3 advise the Board on all aspects connected with the current and future risk strategy including the determination of risk appetite, tolerance, risk measurement, management and mitigation procedures; and
- 2.4 provide oversight of the risk management and compliance functions and to ensure the effective operation of risk management policies and systems and documented procedures and other internal controls.

#### **3. Membership**

- 3.1. The Committee will be appointed by the Board and will comprise of at least three Non-Executive Directors, and such Executive as the Board see fit. The Board will nominate one of the non-executive members of the Committee as Chairman of the Committee.
- 3.2. The Board may also elect to appoint an Independent Expert to the BRC from outside the Society in order to enhance its effectiveness.
- 3.3. The BRC will invite additional attendees from executive management.

- 3.4. Any member should have the skills and experience necessary for them to make a useful contribution to the work of the Committee.

#### **4. Meetings**

- 4.1 Meetings will normally be held a minimum of four times a year. In case of need, the Chairman may call a special meeting of the Committee. Attendance may be by teleconference call with the consent of the Chairman.
- 4.2 The agenda will be prepared by the Company Secretary and agreed with the Chairman of the BRC with reference to the Finance and Risk Director. The agenda and support papers will be circulated to all members and invited attendees at least five days before the next meeting.
- 4.3 Minutes of the meetings will be taken by the Company Secretary or such other person as the Chairman nominates, and will then be circulated to Committee members and to Board members prior to the next meeting.
- 4.4 Two Non Executive Directors are required to constitute a quorum. No business will be conducted in the absence of a quorum. A meeting will terminate as soon as it becomes inquorate.
- 4.5 The BRC may request any attendees to leave the meeting in order that the Committee members can discuss matters confidentially.

#### **5. Responsibilities**

The Board Risk Committee is a body that will:

- 5.1 ensure the establishment, development and maintenance of an effective and well-integrated risk management system that covers at least:
- Underwriting and reserving
  - Asset-liability management
  - Investment
  - Liquidity and concentration risk
  - Operational risk
  - Reinsurance and other risk-mitigation techniques
- 5.2 advise the Board and make recommendations on the Society's overall risk appetite, tolerance and strategy, taking account of the current and prospective financial and macroeconomic environment;
- 5.3 review the Society's risk profile and capital against its risk appetite and strategy and review the drivers of change in the risk profile and their implications;
- 5.4 advise the Board on the implications of proposed strategic changes or strategic transactions, ensuring full Board understanding of any impact on the Society's risk profile;

- 5.5 consider the method and assumptions used to prepare the Society's Solvency Capital Requirement and make recommendations to the Board;
- 5.6 direct the Own Risk and Solvency Assessment (ORSA) and Capital Management Strategy, ensuring not less than annually the completion of a regular Own Risk and Solvency Assessment and the regulatory reporting requirements of all risk related matters;
- 5.7 review the scenarios and stress tests that the Society uses to assess the adequacy of its capital and liquidity, and the reverse stress testing carried by the Society, and to consider any management actions required as a result of these outcomes;
- 5.8 ensure that the Society's investment funds are managed within risk budget set by the BRC, reviewing the risk profile within those funds and recommending changes to asset allocation ranges for consideration by the Board where required, while also ensuring the continued application of the "prudent person principle";
- 5.9 ensure that systems and processes are in place to enable existing and emerging risks to be identified, measured, mitigated, monitored and reported, and review the management actions required in response to changes in the risk profile and emerging or potential risks;
- 5.10 assist the Board to foster a culture within the Society that encourages good stewardship of risk and demonstrates the benefits of a risk based approach to internal control and management of the Society;
- 5.11 ensure compliance with all relevant statutory requirements including Solvency II, and other regulatory requirements including those in respect of prudential and conduct risk;
- 5.12 review the Society's summary complaints reports to identify any systemic problems or material breaches of compliance;
- 5.13 review and recommend for Board approval the statements to be included in the Annual Report and Accounts concerning risk management; and
- 5.14 have an over-riding responsibility to ensure that through its work the best interests of the Society's members and customers are always considered and protected.

## **6. Relationship with other Committees**

- 6.1 Delegate the oversight of Operational Risk to the Executive Operational Risk Committee and review and monitor regular reports of its work.
- 6.2 Delegate the oversight of Conduct Risk to the Executive Conduct Risk Committee and review and monitor regular reports of its work.
- 6.3 Review and monitor on an ongoing basis the performance of Executive Management as regards the assessment and management of risk, liaising with the Remuneration

Committee as to the impact of any remuneration structures on risk management, and as to any level of any bonus award relating to risk as a Key Performance Indicator.

- 6.4 Make recommendations to the Audit Committee on the priorities for the Society's Internal Audit plan.
- 6.5 Review minutes and reports of the Audit Committee to ensure that any issues affecting the agenda of the BRC are identified and addressed.

## **7. Escalation and Reporting Structure**

The BRC will report directly to the Board. Matters that are deemed to be outside the responsibilities of BRC will be submitted to the Board for consideration and/or guidance.

## **8. Authority**

- 8.1 The BRC may inspect any records of the Society and seek information from any of its Employees; and
- 8.2 The BRC may seek external legal and professional advice if this is required for it to fulfil its duties and responsibilities.

## **9. Self Appraisal**

On an annual basis the BRC should formally appraise its performance against its role and objectives and minute the extent to which it has met its requirements, together with an action plan should any shortcomings be identified.