Pillar 3 Disclosure for Hewitt Risk Management Services Ltd

November 2011

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1 Purpose

All FSA regulated firms within the scope of the Capital Requirements Directive (CRD), are required to undertake an Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP serves to validate the appropriateness of the firm's regulatory capital requirement, to ascertain if its capital resources are sufficient in relation to the risk profile of the business and to assess the appropriateness of the firm's framework for managing risk. Hewitt Risk Management Services Limited (HRMSL) embraces these concepts as they fit comfortably with the firm's approach to regulatory issues and risk management.

This Pillar 3 Disclosure for HRMSL effectively makes the key findings of the ICAAP and the thought processes behind the document, publicly available.

2 Scope

HRMSL is wholly owned by Aon Hewitt Limited (AHL). HRMSL is subject to the CRD. As such, it has produced an ICAAP in accordance with the relevant prudential rules for banks and investment firms (BIPRU). HRMSL is a BIPRU "Limited Licence" firm and as such, calculates its Pillar One capital requirement as the greater of its fixed overhead requirement and the sum of its credit and market risk requirements.

It should be noted that this disclosure relates to HRMSL only and not to any other part of the Hewitt group of companies in the UK.

HRMSL is not part of a UK consolidation group and this disclosure is therefore made on an individual basis.

3 Approach to Risk Management

The Board is responsible for defining the HRMSL strategy and its appetite for risk. The maintenance of a strong capital base is considered essential by HRMSL. This is not only a regulatory requirement but is considered to be a prudent measure.

HRMSL has a low tolerance for risk and the Board is committed to and responsible for maintaining a strong risk management, control and compliance environment and ensuring that an appropriate framework is in place. This framework forms an integral part of the firm's risk management and governance structure, business philosophy and practices.

The framework can be broken down into five key components:

1. **Risk Governance** The Board sets the direction. This in turn is controlled by a mixture of operational and compliance monitoring. This is backed up by the audit function who retain independence from day to day issues and report directly back to the Board.

2. **Risk Appetite** The Board defines the strategy and appetite for risk. This is reflected in the type of business conducted by HRMSL and the close monitoring of performance by the Board.

3. **Risk Identification and Assessment** HRMSL undertakes a regular risk assessment exercise which comprises 3 key meetings:

1. A risk brainstorming session to identify any new risks facing HRMSL attended not only by employees who work within the DCS area but also, on a rotational basis, others who have a key touch point with the HRMSL business. E.g. Consultants, Legal, IT.
2. A risk focus group which takes a more focussed look at newly noted and existing risks. Formally scoring newly identified risks and re-scoring existing risks where needed.
3. An overview and ratification of the above two sessions by the HRMSL Executive Committee.

   Risks are assessed in terms of both impact and probability and the output is provided to Aon Hewitt's Enterprise Risk Committee.

4. **Risk Monitoring and Reporting** Monitoring and reporting risks is a multi-stage exercise.

   - The operational monitoring team monitor the key controls on a daily basis. Where exceptions are found, they devise and implement improved procedures to prevent recurrence
   - Management information is collated and analysed for trends
   - Compliance operates a risk monitoring programme throughout the year which is integrated with other Aon Hewitt businesses in the UK
   - Internal Audit reviews the business at regular intervals
   - The Board of HRMSL meets regularly and receives a full pack of information. This incorporates all relevant data concerning risks that have both crystallised and that could impact in the future.

5. **Stress Testing and Scenario Analysis** An assessment takes place of the Group's potential risks as determined by the "Risk Identification and Assessment" process, above. The assessment takes the form of stress testing, scenario analyses and consideration of their impact on future revenues and costs. It is carried out on at least an annual basis and incorporates the effects of both wider macroeconomic issues and more local HRMSL specific ones. The financial impact of risks crystallising is considered against both the liquidity of the business and its capital adequacy.

4 Capital Resources

Risk type	Pillar 1	Pillar 2	Total (GBP)
Balance Sheet risk (Credit risk & Market risk)	£ 0	-	-
Fixed Overhead Requirement (FOR)	£ 854,000	-	-
Other risks	-	£ 0	-
Aggregated Result	**-**	**-**	**£854,000**
Current capital resource available	-	-	£ 1,738,564
Capital surplus	-	-	**£884,564**

as at 31/8/11

The main conclusions are:

- HRMSL has sufficient capital resources under both Pillar One and Pillar Two.
- Projected earnings and hence capital resources are sufficiently robust over the next three years (to the end of FY14) to withstand the effects of the full range of extreme adverse events considered, and therefore no additional capital is required.

The current capital surplus of £884,564 represents a significant buffer over the capital requirement and within the firm's appetite. This is considered sufficient for the time being, but will be kept under regular review by the HRMSL board as in the short term at least, the figure is variable.

These conclusions may be seen as a reflection of the underlying strength of the business and also of the nature of the investment management industry in general, which is not balance sheet-driven in the same way as deposit-taking financial institutions are.

HRMSL has no direct exposure to market movements, as it is does not trade on its own account. The primary risk is volatility of earnings in respect of assets under management. This risk is mitigated by the variability of the cost base, and given the relatively low level of the fixed costs, it is unlikely that net losses would result even in strongly adverse circumstances. Hence there is little chance of the capital base being eroded by negative earnings.

HRMSL is part of the Aon Corp group which has significant financial resources (see section 2.2) and which could be relied upon for support if required.

5 Contingency Funding

During the early part of HRMSL's existence it has been totally reliant on its parent company for funding. As the business grows, this reliance is reduced with the clear intention of the business being financially self-supporting.

It is believed that this short term reliance on parent funding is quite acceptable given that HRMSL is a wholly owned subsidiary of AHL and a decision was taken by AHL's parent to support this business. There has been a high level of commitment to ensuring HRMSL succeeds and remains well capitalised at all times.

In the longer term, the business has been designed as one that can be financially self-supporting. It needs external services (such as medium term asset allocation advice, manager research, risk/liability modeling and swaps) that, while currently being supplied by AHL, could as easily be supplied by any other provider. This means that if AHL or AHL's parent decide on a different strategic direction, the business model is one that, given time to arrange the provision of these services from a third party or bring them in-house, could survive on its own.

Ultimately, the level of capital held under the FOR is sufficient for an orderly wind down if such a situation was necessary.