Pillar III Disclosure

Mercer (Ireland) Limited

June 2021

welcome to brighter

Contents

1

Background

1.1 Introduction

1 January 2014 saw the Capital Requirements Directive IV (2013/36/EU) (“CRD IV”) and the Capital Requirements Regulation (No. 575/2013) (“CRR”) come into effect. CRD IV was transposed into Irish law under S.I. No. 158 and S.I. No. 159.

This legislation consists of three Pillars:

- Pillar I determines the minimum capital requirements of firms to cover credit, market, and operational risk;
- Pillar II requires firms to assess and measure the amount of internal capital requirements it considers adequate to cover the nature and level of the risks to which the firm is exposed; and
- Pillar III requires firms to publicly disclose information relating to their risks, capital, and risk management with the aim of promoting market discipline.

This document sets out Pillar III disclosures for Mercer (Ireland) Limited (hereafter referred to as “MIL”, the “Company” or the “Firm”).

1.2 Regulatory Status

MIL is an Investment Firm authorised by the Central Bank of Ireland (“CBI”) under the European Union (Markets in Financial Instruments), Regulation 2017 (the “MiFID II Regulations”) to provide the investment services of i) investment advice, and ii) the reception and transmission of orders in relation to one or more financial instruments.

MIL is also authorised by the CBI as an “Insurance/ Reinsurance Intermediary” under the European Communities (Insurance Mediation) Regulations (2005) (the “IMR”).

1.3 Scope of Application

These disclosures have been prepared as at 31 December 2019, which is the firm’s financial year-end and are based on the interim ICAAP Report Q4 2020 approved by the Board. This document should be read in conjunction with the Firm’s Annual Report 2019.

1.4 Frequency of Publication

Institutions are required to certify to the Central Bank of Ireland ("CBI") on an annual basis that they have complied with the disclosure requirements. The disclosures are updated at least annually, and whenever any significant events take place that warrant, revisiting the position as outlined in the disclosures. The disclosures will be published as soon as practicable after the approval of MIL's Internal Capital Adequacy Assessment Process ("ICAAP") Report and/ or the publication of MIL's Annual Report.

1.5 Verification

The information contained in the disclosures has not, is not required to be audited by the Firm's external auditors, and does not constitute any form of financial statement. The information should not be relied on in making any judgment on the Company.

1.6 Location of Publication

The disclosures are published on the Firm's corporate website.

2

Mercer (Ireland) Limited

The principal activities of MIL include the provision of actuarial, human resource and investment consulting advice. The Company is split into three primary lines of business:

1. Wealth: Retirement Consulting, Investment Consulting, Insurance Mediation & Pension Administration Services,

2. Health: Insurance Mediation and Consulting; and

3. Career: Share Scheme Consulting, Share Scheme Administration & Reward Consulting.

It is a wholly owned subsidiary of Marsh & McLennan Companies Inc., (“MMC”), its ultimate parent undertaking. The Board does not currently foresee any material practical or legal impediments to the prompt transfer of capital resources or the repayment of liabilities between the legal entities within the MMC.

3

Risk Management Objectives & Policies

3.1 Enterprise Risk Management Framework

An enterprise risk management ("ERM") framework that establishes the governance arrangements and the principles of how risk is to be identified, assessed, managed, monitored and reported supports the Firm's risk management objectives and policies.

The ERM Framework aligns to MIL's documented commercial strategy and supports its implementation by aligning risk limits and controls to the strategy. The ERM Framework provides a situation that supports the realisation of strategy in a sustainable way, within the limitations set out in the Company's risk appetite statement.

3.2 Governance

Board of Directors ("Board")

MIL's Board of Directors (the "Board") has overall responsibility for the Company's systems of internal control and for reviewing its effectiveness. The Board retains ultimate responsibility for risk governance and management within MIL. The Board is responsible for setting the Firm's risk appetite and ensuring that risk is monitored and controlled effectively. The Board has delegated authority to the MIL Board Risk & Compliance Committee to provide oversight across all risks faced by the business.

Board Risk & Compliance Committee ("BRCC")

The Board Risk & Compliance Committee (the "BRCC") is sub-committee of the Board, is chaired by an independent non-executive director ("INED"), acts under the delegated authority from the Board and is responsible for oversight of risk management within MIL.

The BRCC supports the Board in ensuring that it has an adequate understanding of the current exposures of the Company, future risk strategy and ensuring the adequacy of MIL capital relative to these risks. The BRCC makes recommendations to the Board on the risk appetite, risk management policies and reviews the Company's capability to identify and manage new risk types. The BRCC is mandated to review the Firm's ICAAP to ensure it is consistent with current practice, that the assessed ICAAP risks are appropriate to the business, and to provide a level of validation in advance of Board presentation and approval.

Executive Risk Committee ("ERC")

The Executive Risk Committee (the "ERC") is chaired by the CEO and comprises of senior managers within MIL. The ERC is mandated to monitor adherence to the companies' Enterprise Risk Management Framework. This includes, for example, the monitoring of key corporate initiatives, organisational / operational risks, new client activities, reviews the risks to which the company is exposed, it considers the ICAAP and RAS and has oversight of the capital position of the Firm

4

Risk Analysis

The most significant risk categories identified by the Firm during it ICAAP 2019 are listed below and have been considered by the Firm in its Pillar 2 capital calculations and/ or stress scenarios.

4.1 Financial Risk

Credit Risk

Credit Risk is defined as the risk of a counterparty (e.g. MMC Group including MMC Cash Pool Arrangement, client, financial institution etc.) or group of counterparties defaulting and not meeting contractual obligations due to failed or inadequate people, process and/ or system resulting in financial loss, regulatory sanction and/ or reputational damage. The Firm is exposed to two types of credit risk: counterparty credit risk and credit concentration risk.

The Firm’s counterparty credit risk arises primarily from its cash deposits with financial institutions and from its trade receivables. The risk is managed through adherence to global treasury guidelines that include the selection of a diversified number of high quality credit institutions, and through operating active client approval and credit control processes. All client receivables are aged and, where appropriate, provisions for debts that are not expected to be collected in full are made in accordance with accounting standards.

Credit concentration risk is a component of credit risk, arising from an exposure to a counterparty (or group of connected counterparties) that is so large that it could threaten the solvency of the institution if the counterparty were to encounter repayment problems. A well-diversified client base, meaning there is no significant exposure to any one individual client or group of clients, mitigates the risk.

Pension Obligation Risk

Mercer (Ireland) Limited is the principal employer of the Mercer Ireland Defined Benefit Plan (“the Plan”). The Plan is a multi-employer defined benefit scheme that provides pension benefits to eligible employees of Mercer operating companies in Ireland. The Plan is closed to future accruals.

Pension Obligation Risk is the risk that unexpected contributions may need to be made to the Plan due to adverse changes in the Plan’s funding status resulting in a detrimental impact on the Company’s financial, liquidity or capital position.

Obligations are reviewed on an ongoing basis, and formally as part of the Firm’s ICAAP. Stress testing is carried out on pension obligation risk as part of this process and management considers actions, which could be implemented to mitigate the effects of such deterioration in the funding status. The tests are based on a typical set of stresses that are considered appropriate when considering scenarios of the severity expected once in 200 years, i.e. a 99.5% one-year value-at-risk (“VaR”) or confidence level.

3.2 Operational Risk

The majority of the risk management efforts are focused on operational risk. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

A number of key methodologies and tools have been developed to control, manage and mitigate material operation risks and promote sound risk management practices within the organisation. The methods employed are as follows:

- Ownership, assessment, controls, monitoring & testing and reporting
- E&O and near miss analysis
- Risk and control assessments
- Process & Control Inventories mapping
- Key Risk Controls
- Key Risk Indicators
- Scenario analysis

The Firm maintains a comprehensive insurance programme to cover the risks associated with business interruption; casualty; workers’ compensation; directors and officer’s liability; and professional indemnity exposures. Specialist support functions provide expertise in risk mitigation focusing on areas such as information security; health & safety; risk & compliance; legal; and business continuity management. The key operational risks are developed into scenarios for capital modelling purposes as part of the Pillar 2 assessment.

3.3 Strategic Risk

As part of the Firm’s assessment of risk, the uncertainty in the macroeconomic environment, affecting the Firm’s ability to carry out its business plan or desired strategy, has been considered. The Firm adopts conservative assumptions in all its business planning. There is a business approval process for new service offerings and senior management regularly review client won/ lost data.

Scenario testing is used to assess the Firm’s vulnerabilities under moderate economic stress scenarios, considering the mitigating actions, which could be implemented to reduce the effects of the scenarios on the Firm’s capital adequacy. In determining, the Firm’s Pillar II capital requirement consideration is given to the results of stress scenario testing and planned merger and acquisitions.

The transition of the business of JLT Financial Planning Limited in 2020 and approved transition of the business of Mercer Financial Services Limited in 2021 have been considered as part of MIL’s interim ICAAP Q4 2020.

3.4 Business Risk

Reputational Risk

Reputational Risk is defined as the risk of an adverse event occurring that sustained significant media coverage at the Company or MMC group level due to inadequate people and processes (including Company culture) and/ or external events resulting in reputational damage and financial loss and/ or regulatory sanction. The Firm comprises entities that are wholly owned subsidiaries of Marsh & MMC. There is a risk that an event elsewhere in the MMC group of companies could affect the Firm. This exposure is minimised by effective management at a MIL and MMC Board level, including stringent policies and analysis of current market trends and threats to achieving the global MMC strategy.

5

Capital Resources

The Firm’s capital resources at 31 December 2019 are shown below. The Firm has no innovative Tier 1 instruments.

	€'000's
Share Capital* & Reserves	80,824
CET1	-
Additional Tier 1 Capital	-
Regulatory Adjustments to Tier 1 Capital	
Intangible Assets	(1,866)
Pension & Related Deferred Tax Adjustments	(407)
Total Regulatory Adjustments	(2,273)
Tier 1 Capital after Regulatory Adjustments	78,551
Tier 2 Capital	-
Tier 1 & Tier 2	78,551
Total Capital Resources	78,551

* Mercer's share capital is comprised solely of ordinary share capital

6

Capital Adequacy

This section provides a summary of the Firm's approach to determining its regulatory capital requirement.

6.1 Pillar I Capital Requirement

The Firm's Pillar I capital requirement has been determined as the higher of:

1. CRM minimum requirement;
2. The sum of Credit Risk and Market Risk requirements calculated under the Standardised Approach; and
3. The sum of one quarter of the Firm's fixed overheads and the Firm's additional capital requirement[1], as calculated in accordance with instructions issued by CBI.

Therefore, the Firm's Pillar I capital requirement is €24,196k.

6.2 Pillar II Capital Requirement

The Firm's Pillar II capital requirement has been determined as the higher of:

1. An exhaustive risk profile assessment in line with the Firm's ERM Framework, measured by the internal capital. The risk assessment focuses on the material risks faced by the Firm as summarised in the above Risk Analysis. For each material risk, an assessment is made of the potential loss it could cause were it to materialise under a severe scenario, consideration is then given to the effectiveness of the mitigating controls in place and the effects of insurance to determine the capital requirement.; and
2. An Orderly Wind Down.

Therefore, the Firms Pillar II capital requirement as at 31 December 2019 based on the internal ICAAP Report Q4 2020 is €14,886k.

[1] The Firm's additional FRA requirement removed by the CBI as of 7 October 2020.

As at 31 December 2019, the Firm’s Pillar I capital requirements is higher than its Pillar II capital requirement, therefore the Pillar I capital requirement is adopted as the Firm’s current regulatory capital requirement.

6.3 Capital Adequacy

Capital adequacy assessment with the Firm is an integral part of day-to-day management and decision-making processes such as strategic planning, limit setting and business line performance evaluation. The Firm’s capital adequacy position is continuously monitored and regular reported to the CBI. Based on this monitoring, the Board is able to consider the need to change any capital forecasts and plans accordingly.

As part of ICAAP, stress and scenario tests are used to consider the impact of a severe worsening in macro- economic conditions as well as the simultaneous crystallisation of a number of the major risks on the Firm’s capital adequacy. The ICAAP is performed at least annually or more frequently if there is a material change in the internal or external business environment and the Board is presented with an ICAAP Report.

The following shows the Firm’s capital requirement and capital adequacy at 31 December 2019:

	€000’s
Credit Risk (Standardised Approach)	8,418
Market Risk (Standardised Approach for FX Risk)	307
Operational Risk	4,361
Reputational Risk	1,800
Strategic Risk	0
Internal Assessment of Capital Needs Pillar 2	**14,886**
Fixed Overhead Requirement	12,098
Additional capital requirements[1]	12,098
Internal Assessment of Capital Needs Pillar 1	**24,196**
Minimum Regulatory Capital Requirement (higher of Pillar 1 and Pillar 2)	**24,196**
Total Capital Resources	78,551
Surplus Capital Resources	**54,355**
Excess Capital over Regulatory Requirement	**325%**

6.4 Credit & Market Risk

The Firm's capital requirement for credit risk under the standardised approach is calculated as 8% of the risk weighted exposure amounts for each of the applicable standardised credit risk exposure classes.

CREDIT RISK

Exposure Class	Exposure Value	Risk Weight	Risk Weighted Exposure Amount
	€'000	%	€'000
Public Sector	1,742	100%	1,742
Central Governments or Central Banks	-	100%	-
Corporates	28,252	100%	28,252
Institutions	73,429	100%	73,249
Institutions @ 20%	109	20%	22
Regional governments or local authorities	104	100%	104
Retail	216	100%	216
Other	1,455	100%	1,455
Total			**105,220**
Credit Risk Capital Component - 8% of risk weighted exposure			**8,418**

MARKET RISK

Currency	Net Long Positions (debtors) €'000	Net Short Positions (creditors) €'000	Gross Exposure (higher figure) €'000
GBP	-	3,599	3,599
USD	119	-	-
SGD	2	-	-
CAD	-	6	6
CHF	-	210	210
SEK	-	2	2
NZD	-	22	22
AUD	-	1	1
Total			**3,840**
Market Risk Capital Component - 8% of gross exposure			**307**

7

Remuneration

The Firm is subject to the remuneration requirements of MiFID II and CRD IV. This section provides further information on the Firm’s remuneration policies and governance, as well as quantitative information on remuneration.

7.1 Decision Making Process For Determining Remuneration Policy

A Mercer Ireland Holdings Limited Group Remuneration Committee (GRC) has been set up to oversee the remuneration process for its subsidiaries, which include this entity. The GRC meets annually or as required throughout the year and, inter alia, is responsible for:

- Determining, and agreeing with the Board the policy for the remuneration of the Firm’s employees that: is consistent with and promotes effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk; is in line with the business strategy, objectives, values and long-term interests of the Group; and includes measures to avoid conflicts of interest.

- Undertaking a periodic review at least annually of the remuneration policy and the list of Identified Individuals.

- Approving the broad policy and framework for variable remuneration plans, including share incentive programmes and extraordinary pension arrangements (but not including matters normally reserved for the trustees such as ill health)

Approving the remuneration packages of all Executive Directors and all Identified Individuals annually. No individual will be involved in determining or approving his or her own remuneration. This will include base salary, bonuses and performance-related payments, discretionary payments, long-term incentive awards, share options and pension contributions.

COMPOSITION OF THE GRC

The current members of the GRC are:

- Tom Geraghty (Head of Mercer Europe)

- Vincent Sheridan (Non-Executive Director and Chairman of MIHL and MIL)

The GRC is supported, where appropriate, by the other senior executives both in Ireland and overseas. In addition, the Remuneration Committee will consider advice from the Chief Risk Officer Europe in setting individual remuneration awards, including where there are concerns about the behaviour of the individuals concerned or the risk exposure of the business undertaken.

7.2 Link Between Pay & Performance

MIL's discretionary bonus award annually rewards and incentivises excellent performance and aligns the success of the Firm with that of the employee. Bonuses are intended to reflect contribution to the overall success of MIL and to recognise employees who take a long-term view of MIL development.

Employees are assessed throughout the year and rated based on their individual performance and behavioural and technical competencies, and relative to their peers, against their goals. MIL uses a 'Balanced Scorecard' approach to setting and measuring against performance goals.

The Remuneration Committee annually reviews the balance between fixed and variable pay for Identified Individuals. Identified Individuals receive a salary and bonuses and non-executives receive fees.

The table below provides an analysis of the remuneration provided to the 12 employees that were categorised as Code Staff during 2019.

Total €m	
Fixed [1]	1.971
Variable [2]	1.139
Total	3.110

The Firm's total remuneration for Code Staff in 2019 was €3.110m.

1. Includes base salary and other cash payments (excluding variable pay) and Employer pension contributions earned during 2018. 2. Includes total bonus and awards granted in February 2018.

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