Risk Management Policy

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1 Introduction

1.1 Risk

In the context of life insurance, the term “risk” is a concept of uncertainty over the range of possible outcomes. Risk management is the planned and systematic approach to the identification, evaluation and control of risk.

1.2 Roles and Responsibilities

Following roles and responsibilities imply on different hierarchy levels:

Board Level:

- Review and implementation, of the organization’s Enterprise Risk Management (ERM) program;
- Define risk appetite and risk tolerance limit of the organization;
- Approve any changes to the organization’s risk appetite due to new strategies;
- Approve all strategic decisions.

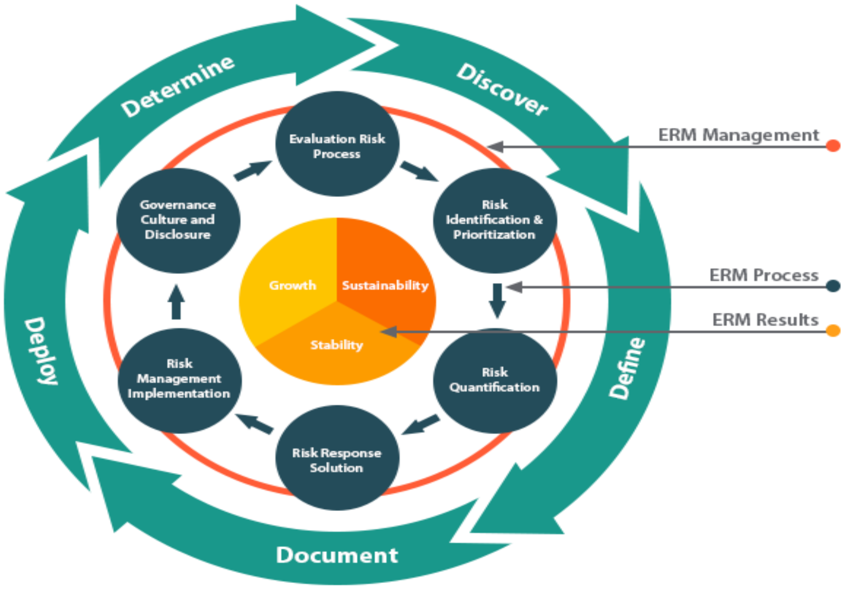
Executive Level:

- Implement plans and priorities within agreed timescales and budgets;
- Ensures the implementation of risk management policy;
- Reviews the effectiveness of risk management policy;
- Determines the appropriate risk mitigation strategies.

Management Level:

- Explains the components of a risk management framework, strategy and architecture;
- Develop risk strategy across function;
- Advises on the appropriate use of methodologies, tools and techniques;
- Approve the technical models built to quantify the risks;
- Implement the risk appetite limits set by the board;
- Suggest/make any material changes to the enterprise’s operations;

1.3 Scope of the Risk Management Policy

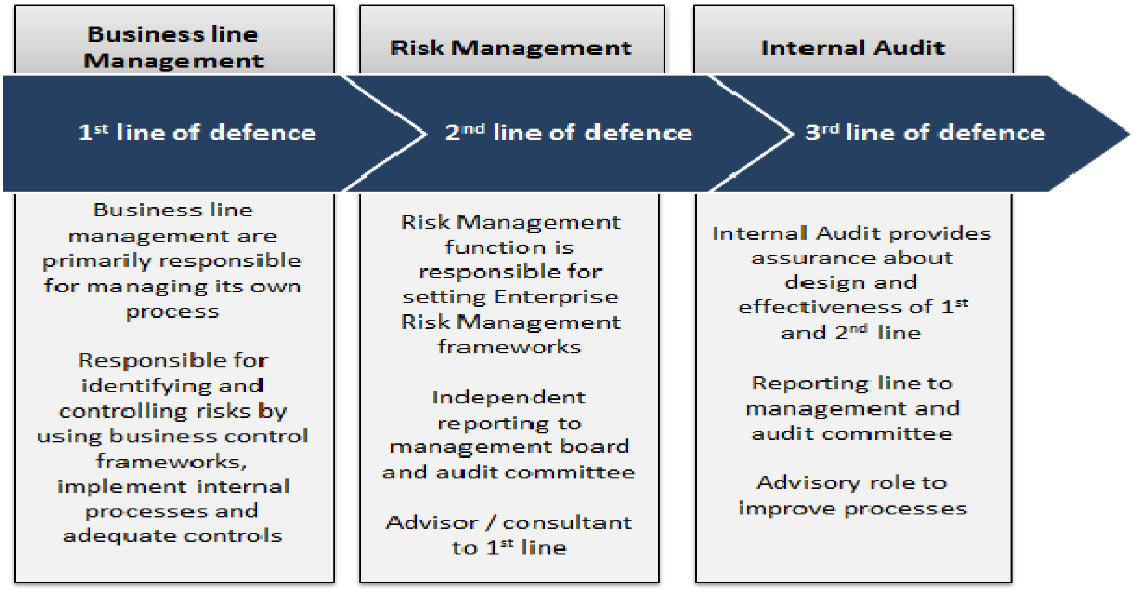


1.4 Policies and Procedures

- Well-defined risk preferences, appetite, tolerances and limits
- Escalation procedures when the limits are approached or breached
- Portfolio risk assessment of assets and liabilities and their inter-relationships
- Effective assessment of results and feedback mechanisms
- Risk mitigation supported with cost benefit analysis
- Risk and reward assessment of opportunities
- Business continuity for the organization in the face of extreme events
- Efficient and effective use of capital or other options in the reinsurance and capital markets

1.5 The Risk Management Model

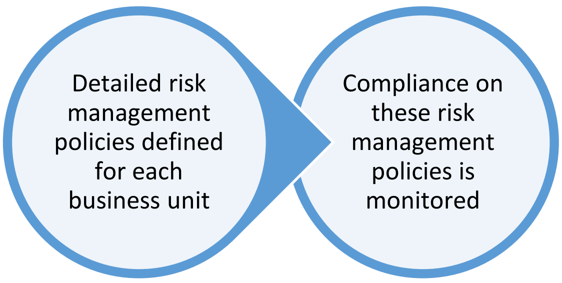
The “**three lines of defense model**” involves categorizing various parts of an organization into one of three lines of defense, each of which has a role in managing risk. The first line is carried out as a part of day to day management of an organization. The 2nd and 3rd lines of defense provides independent oversight, monitoring and reporting activities. It seeks to provide assurance to the Boards on activities and risks undertaken by the business.



The “**Policy and policing model**” involves the CRF setting risk management policies and then monitoring the extent to which these policies are complied with. The problem with this approach is that it is too hands-off. For the risk management function to be effective it is important that it is involved heavily in the day to day business activities.

Under “**partnership model**” model the risk function interacts closely with the first line business units, with each working to maximize returns subject to an acceptable level of risk. This can be achieved by embedding risk professionals in the first line units and ensuring that there is a constant dialogue between the teams and the risk function. Care should be taken that the risk function does not get immersed so much within the first line units that it is rendered incapable of giving an independent assessment of the risk management approaches carried out. We propose a hybrid risk management model. The model will mainly be focusing on the “three lines of defense” model with processes from the “policy and policing” model.

The central risk function will set out detailed risk management policies and monitor compliance of those policies. This is so that the CRF does not immerse itself too much in the day to day activities, such that a holistic view of risk is compromised. Finally, all the three lines of defense; the first line units along with the central risk function and the audit function will partner to maximize risks subject to agreed risk limits/appetite.



1.6 Risk Appetite Framework

1.7 Risk Capacity, Risk Tolerance and Risk Limits

Risk Appetite
- The amount of specific risk and aggregate risk that an organization chooses to take during a defined time period in pursuit of its objectives

Risk Tolerance
- The level of risk to which an organization is willing and able to be exposed, taking into account the organization's financial strength, its nature, scale and complexity, the organization's liquidity, and the physical resources needed to adequately manage the risk.

Risk Limit
- The threshold used to monitor the actual risk exposure of a specific risk or activity unit of the organization to ensure that the level of actual risk remains within the risk tolerance.

Reporting Structure for Risk Limit & Risk Tolerance

Risk Limits are effective by assessing them using the following five criteria:

- Limits must be measurable.
- Quantitative Limits are preferable, where feasible.
- Limits should be sufficiently binding as to potentially restrict the business.
- Limits should be unambiguous.
- Limits should be expressed in the language of the business.

2 Risk Management Procedure

The figure below illustrates the core components of the risk management system at Askari Life.

Identify Risk → Risk Assessment → Plan → Implementation → Monitoring the Results

2.1 Identify Risks – Risk Categories

The risk classification standards include 3 levels of risk categories:

- Level 1 risk represent the primary risk categories.
- Level 2 represent risks at the departmental/business unit level.
- Level 3 represent risks that prevail within the business units/departments.

2.2 Risk Assessment

2.2.1 Risk Scales

Risk assessment involves rating each risk against two dimensions: Impact and Likelihood. The 'impact' aspect of risk assessment involves considering what the potential impact of the risk would be on the organisation. It is scaled between 1 and 10, where 1 reflects insignificant impact and 10 reflects severe impact. The 'likelihood' aspect of risk assessment involves deciding how likely it is that the risk will occur. It is also scaled between 1 and 10, where 1 reflects rare likelihood and 10 reflects an almost certain likelihood.

The combined matrix of likelihood and impact shows an overall picture of the nature of risk. This forms Askari Life's risk rating heat map:

	LIKELIHOOD:	Rare	Unlikely	Possible	Likely	Almost Certain
SEVERITY:		2	4	6	8	10
Severe	10	20	40	60	80	100
Major	8	16	32	48	64	80
Medium	6	12	24	36	48	60
Low	4	8	16	24	32	40
Insignificant	2	4	8	12	16	20

2.2.2 Risk Actions

According to the ratings derived from the risk heat map of Askari Life, the description and frequency of review is determined as shown below:

RATING		DESCRIPTION	FREQUENCY OF REVIEW
0-20	**Low**	High Enterprise level capabilities to address risks, Controls successfully implemented, Contingency plans regularly rehearsed	N/A
21-45	**Moderate**	Medium to High Enterprise level capabilities to address risks, Controls successfully implemented most of the time, Enterprise not vulnerable except in extreme conditions	Once in 2 years
46-70	**High**	Medium to Low Level Enterprise capabilities to address risks, Partially complete controls, Contingency planning to some extent	Annually
71-90	**Very High**	Low Enterprise level capabilities to address risks, Initiated but incomplete controls, Insufficient contingency plans	Semi-Annually
91-100	**Extreme**	Lack of Enterprise level capabilities to address risks, Inadequate contingency planning, Enterprise highly vulnerable to risks	Quarterly

2.2.3 Risk Evaluation

Common risk quantification methods include:

- Stress Tests and Scenario Analysis.
- Stochastic Modelling.
- Hybrid Methods.

2.3 Plan

2.3.1 Objective of Risk Planning

2.4 Implementation

2.4.1 Risk Treatment

The risk treatment process calls for an integration of risk appetite with financial planning. The risk treatment process ends with clearly defined risk limits and authority guidelines.

- Consistency of risk appetite and financial planning

The risk treatment process includes consideration of both the current risk appetite and the prospective plan of the organization. When the risk appetite and the financial plan are closely linked, various options can be more easily evaluated.

- Risk limits and authority guidelines

Askari Life will identify, monitor, quantify and manage risks through the development of risk-specific policies. These policies shall be supported by specific authority guidelines which identify the individuals and/or committees that have the authority to accept such risks, as well as guidelines as to who has responsibility for the ongoing monitoring, measurement and management of such risks.

2.4.2 Strategic treatment of risk

2.4.3 *Risk Mitigation*

- Reinsurance & Hedging Programs
- Changes in mix of business, distribution, or target markets
- Capital market products & alternative risk transfer (ART)
- Implementation of policyholder awareness, education programs, or loss control measures
- Changes in process controls

2.5 Documentation and Communication

For the purpose of Documentation, we prepare and update our "Risk Register" on a continuous basis. It contains information such as how each risk will be quantified, how will it be measured, how are we going to mitigate the risk.

Finally, communication is very important to the ERM process. This includes internal communication to ensure effective risk management across the board, and external communication to demonstrate the quality of risk management to a number of stakeholders.

3 Risk Monitoring and Reporting

It is important to ensure that the effectiveness of the risk management process used is monitored. It is important that risk monitoring is aligned with the strategic goals and objectives and incorporates appropriate reference to the risk limits, risk tolerances and overall risk appetite and preferences defined by management.

The process of reporting risk involves preparing a risk report or dashboard which monitors the key risks, measurement relative to the defined risk appetite for the organization, and the impact of risk treatment strategies employed. The risk report is typically prepared and conveyed to the senior management team, the risk management committee and the board of directors.

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