# Risk Management

The Board recognises that risk management is an integral part of the business operations of the Company and its subsidiary companies ("Group") and that the identification and management of risks will enhance the achievement of the Group's business objectives. The Group has implemented an on-going process of identifying, evaluating, monitoring and managing of risks that may affect the achievement of its business objectives. The on-going application of an integrated enterprise wide risk management framework is aimed at enhancing the internal control by ensuring that risks related to the Group are managed through a systematic and consistent risk management process.

## Accountability and Responsibilities

The Company believes that clear accountability and responsibilities are crucial for the management of risks. The risk management framework of the Group is based on the following principles:-

1. The Board is ultimately responsible for the management of risks. The Board through the Risk Management Committee maintains overall responsibilities for managing the risks within the Group.

2. The Risk Management Committee is responsible for managing the key risk affecting the Group. The Risk Management Committee assesses the adequacy of the existing controls to minimise the key risk areas and review the appropriate risk treatment on those risks.

3. The Risk Management Section of the Company is responsible for managing the risk management system and ensures timely review of the risks affecting each Business Units within the Group. It is also responsible for assisting Business Units in the identification, evaluation and monitoring of risks.

4. The Business Units are primarily responsible for identifying, evaluating and managing risks within their Units. They are required to put in place appropriate risk reduction action plans on areas where risks are rated as high and significant in order to ensure that their day-to-day business activities are carried out within acceptable risk level.

5. The Audit Committee's key role, supported by the Internal Audit Department, is to provide an independent assessment of the adequacy and reliability of the risk management processes, and compliance with risk policies and regulatory guidelines.

## Risk Management Process

The Company has established within its risk management framework a structured approach to enterprise wide risk management. The risk management process encompasses the following four (4) stages:-

**1. Risk Identification**

During the risk identification stage, the Risk Management Section working together with the Business Units set out to identify the Business Units' exposure to current and potential risks that could have an effect on achieving the Group's objectives.

Risks have been classified into nine (9) categories, namely Product Risk, Human Risk, Regulatory Risk, Operational Risk, Financial Risk, External Risk, Customer Risk, Integrity Risk and Supplier Risk.

2. **Risk Evaluation**

In this stage, risks identified are evaluated on their probability of occurrence and their impact severity. It is at this stage that the risk profile for each risk is established. The risk profiles are rated either as High Risk, Significant Risk, Moderate Risk or Low Risk based on the table below.

| Probability | Impact | | | | |
|---|---|---|---|---|---|
| | 1 Insignificant | 2 Minor | 3 Significant | 4 Major | 5 Catastrophic |
| **5 Almost Certain** | Moderate | Significant | High | High | High |
| **4 Likely** | Moderate | Moderate | Significant | High | High |
| **3 Possible** | Low | Moderate | Significant | High | High |
| **2 Unlikely** | Low | Low | Moderate | Significant | High |
| **1 Rare** | Low | Low | Moderate | Significant | Significant |

3. **Risk Treatment**

This is the stage where each risk is treated according to the risk appetite of the Business Units. The risks can be accepted or minimised or transferred or terminated. Risks are accepted if they are within risk tolerance limits and the controls are sufficient to mitigate the risks. Risks will be minimised if they are within risk tolerance limits and controls can be implemented to minimise the risks. In the case where the risks are not within tolerance limits but the function is important to the business operations, the risk will be transferred to a third party through outsourcing. Where the risks are not within tolerance limits and the function is not crucial to the business operations, the function will be terminated and discontinued.

Risk policies and procedures are established for risks accepted by Group.

4. **Risk Monitoring**

Key Risks are monitored through a Risk Management Action Plan. The progress on the implementation of risk policies are reported to the Risk Management Committee from time to time. The Internal Audit Department of the Company play a crucial role in monitoring compliance with the risk management policies and action plans.

## Activities during the year

The Board acknowledges that Risk Management is a dynamic process and is constantly reviewing the key risks affecting the Group to adapt to changes in the social, economic and financial environment in which the Group conducts its businesses.

1. **Continued Risk Assessment**

Throughout the financial year ended 31 December 2008, continuous risk identification have been carried out by the Company and its subsidiary companies, in particular, critical risks that affect the Company and its subsidiary companies have been identified. Some of the critical risks identified were as follows:

**(a) Changes in Regulatory Requirements**

Any changes in regulatory requirements may have an effect on the ability of the Group to distribute its products and services and/or the capital required to underwrite a particular class of product. The Group is constantly engaging the regulators on new requirements and guidelines to ensure compliance and aligning its businesses to changes in regulatory requirements.

**(b) Competitive Business Environment**

The business environment that the companies within the Group are operating is fierce and competitive. The Group faces intense competition from its competitors in the respective fields in which the Group offers its product and services. The Group always emphasise in developing and delivering products and services which meet consumer needs.

**(c) Reputation and Branding**

As a financial services Group, the ability to generate business and retain customers would require good reputation and strong branding. In this respect, maintaining good reputation and strong branding is one of the Group top priority and key aspect. The Group would continue to make its presence through advertisement and promotional campaigns. Any major changes in the Group business operation will be communicated and disseminated to the media.

**(d) Fraud, Internal control and Operational Failure**

Like any other organisation, the Group faces the risk of fraud, internal control and operational failure. Various operational policies and procedures governing the working relationship between human, systems and infrastructures are in place throughout the Group to minimise the risk of fraud, internal control and operational failure. There are Group-wide frameworks and policies which govern the business activities of the Group, which includes but not limited to, the Anti-Fraud Framework, the Enterprise Risk Management Framework and the Anti-Money Laundering and Anti-Terrorism Financing Policy. The internal audit function will provide assurances that these control mechanisms are functioning effectively to minimise the risk of fraud, internal control and operational failure.

**(e) Credit Risk**

Credit risk is the risk of loss from the default by a debtor or counter party, by failing to repay the principal and interest in a timely manner. Credit risks arise in the Group's lending and investment activities. The Group has strengthened its credit policies and step up recoveries through enforcement actions against loan defaulters.

**(f) Stock Market**

Large movement in stock market may have significant effect to the profitability of the Group. Investment returns will soar when the stock market rises and investment returns will decline when the stock market falls. The Group manages stock market risk by outsourcing the investment function to professional fund managers and adopting sound investment and fund management methodologies.

**(g) Business Continuity and Disaster Recovery**

Similar to other organisation, the occurrence fire, floods or any other emergencies may affect the business continuity of the Group. Various safety features are in place in the premises maintained by the Group to guard against fire, flood and other emergencies. The Group also maintain regular offsite backup to its database. Business continuity plans and disaster recovery centres are in place for the core business areas of the Group.

**2. Improved Systems and Processes**

During the year, the Q-Radar Enterprise Risk Management System ("Q-Radar ERM System") has been implemented in stages and training has been provided by the Risk Management Unit to all risk owners. The Q-Radar ERM System proved useful in enhancing the risk management practices of the Group in that it provides a systematic approach to guide risk owners through the identification and evaluation of risks and allows the internal audit to comment on the management action plans to mitigate risks.

In addition, the Company had, during the year, engaged a consultant to conduct a high level corporate governance review on the Group, which, inter alia, covered a review on the board governance structure, internal audit and risk management practices of the Group. As a result of the high level review, a dedicated Chief Risk Officer has been appointed to oversee the risk management function of the Group and the Board has adopted a formal Board Governance Structure which clearly defines the relationship and the escalation process between the Board and its Board Committees, the Board and the Management, the Board and Subsidiary Boards, the Board and Subsidiary Board Committees and finally Board Committees and Subsidiary Board Committees.