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RISK MANAGEMENT





Risk Management

Business Continuity Management during the Covid-19 Crisis

Business Continuity Management is a holistic management process that identifies potential threats that may disrupt critical business operations, provides the framework for building resilience and establishes the capability for effective response to safeguard the interests of relevant stakeholders. The Risk team has worked on and finalized the Business Continuity Plan (BCP) project in early 2020 with a final real testing done with selected staff to test the main system at the Rose Hill Branch. During the Covid-19 crisis, the BCP plans including the Disaster Recovery Plan helped us to deal with this unprecedented situation and the fact that all the employees attended BCP training sessions which facilitated the process for business continuity. MUA was able to continue its main operations with staff working at home and continue helping clients by phone and digital communication channels. The process of easing out of the lockdown has also been dealt with as smoothly as possible using the Pandemic Response Plan and the amended resource allocation where the managers have identified which employees should start to return to the office at specific times.

Risk Management Philosophy and Objectives

As a financial services company active in short and long-term insurance, investments, life insurance and retirement services, MUA is naturally exposed in its daily business activities and strategic planning to numerous types of risk. Examples of such risks are changes in mortality rates, undergoing losses due to man-made or natural catastrophes, losing income ability through operational disruptions, outliving of assets and so on.

Risk management in practice is where companies steadily identify, quantify and manage the various types of risk inherent to the operations. The most vital goals of a sound risk management program are:

- Ensuring risks inherent to our business activities in Mauritius and in the East African market are identified, monitored, quantified and adequately managed;
- Managing the business' exposure to prospective earnings and capital capriciousness;
- To capitalize value for the organization's different stakeholders.

We are fully committed to maintaining our existing strategy of embedding risk management in what we do, as it is a source of value creation as well as an essential form of control. It is an integral part of maintaining financial stability for our customers, shareholders and other stakeholders.

Our sustainability and financial strength are supported by an effective risk management process which helps us identify major risks to which we may be exposed, while instituting appropriate controls and taking mitigating actions for the benefit of our customers and shareholders.

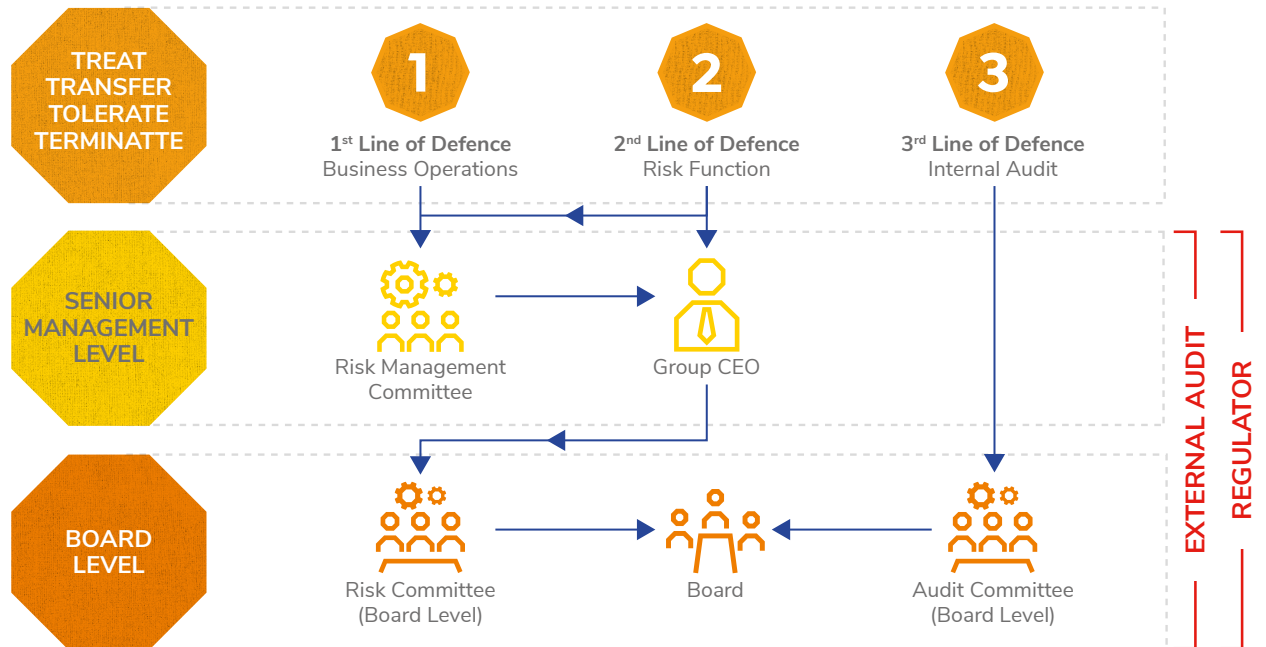
Consequently, our risk management objectives are based on the following:

Open risk culture: Promote a strong risk management culture amongst our staff, driven by a robust risk governance structure and clear risk appetites.

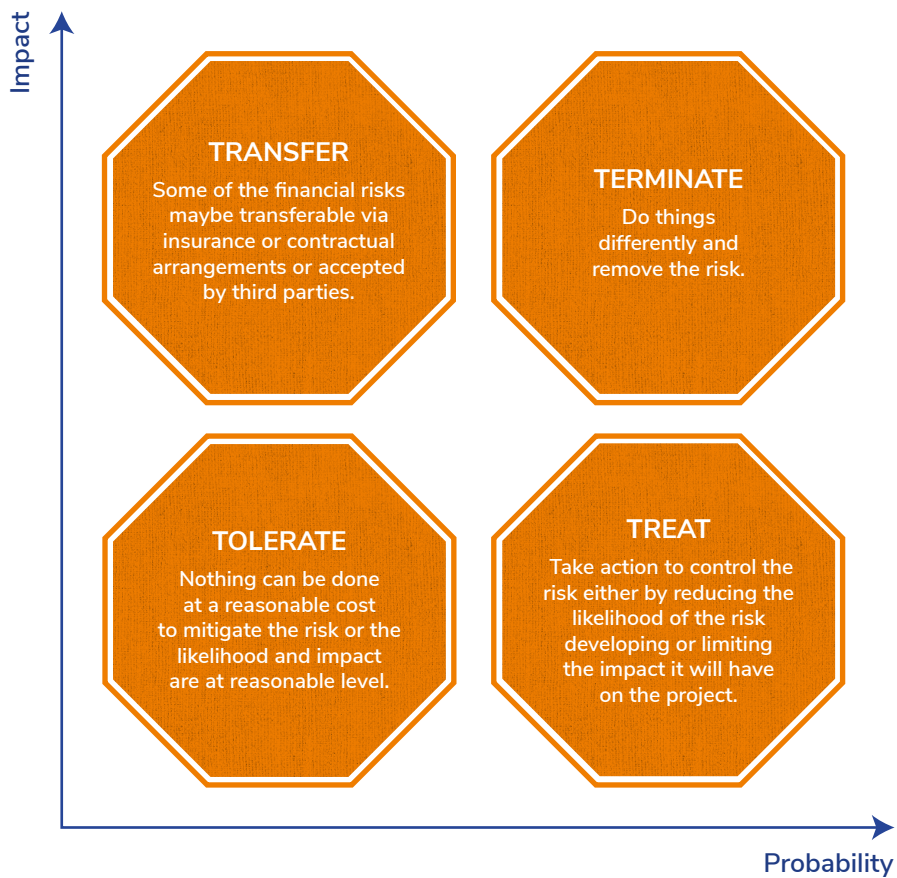
Ensure that sufficient capital surpluses are available to meet the expectations of customers, shareholders and be compliant with regulatory obligations, and to meet our liabilities even if a number of extreme risks were to materialize.

Clear accountability: Our operations are based on the principle of delegated and clearly defined authority. Individuals are accountable for the risks they take on and their incentives are aligned with MUA's overall business objectives.

Risk Management Overview



The Group has a defined step by step approach with respect to risk management. The below diagram illustrates the high level process, whereby risks can be managed through the 4 T's, at each step.



Types of Risks - Inherent v/s Residual

The inherent risk is the one that exists before a company addresses it, that is the risk to the Group in the absence of any action taken to alter either its likelihood or its impact. Every company faces it, not all manage it effectively. These risks are reflected mainly on how a company does business; its complexity, growth, changes; the staffing; technology and the organizational structure.

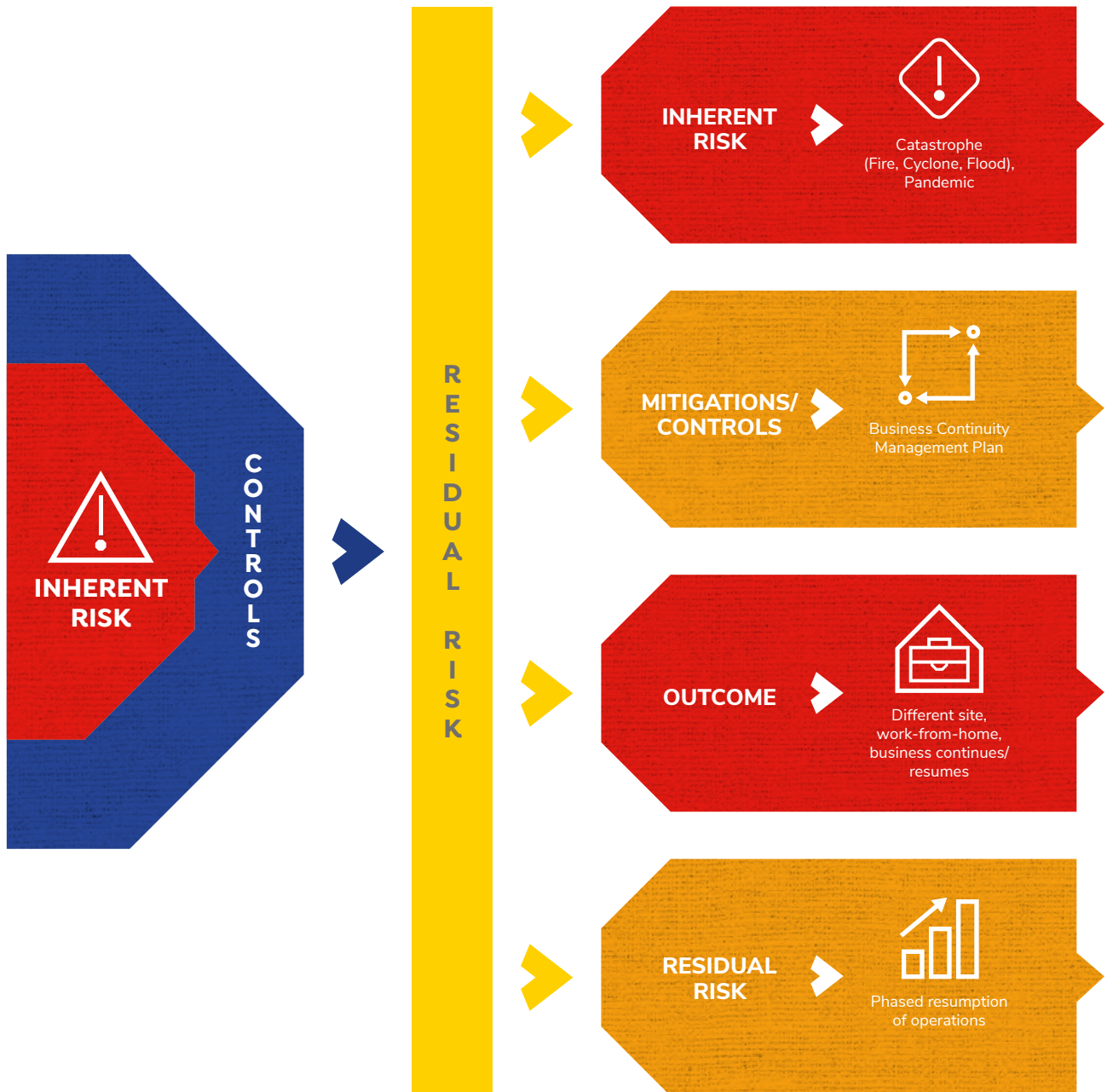
The residual risk is also known as “vulnerability” or “exposure”. It is the risk that remains after the company has attempted to mitigate the inherent risk.

Adopting the approach of Enterprise Risk Management within the group, where management provides assurance and internal audit provides reassurance, management is responsible for:

- Assessing the inherent risk (i.e., before mitigation and controls);
- Assessing the effectiveness of existing risk mitigation and controls;
- Determining the residual risk (i.e., the risk that remains after mitigation and controls are implemented);
- Determining whether such exposure is within the company’s risk appetite for that type of risk, and if not, taking additional steps to mitigate the risk;
- Providing reasonable assurance to the Board that the controls are both effective and efficient in managing the exposure so that it remains within the Board - approved appetite for that type of risk.

Risk Control Framework

The diagram below illustrates how the Group's risk control framework minimizes the number of inherent risks to residual ones. The duty of the risk management is to continuously review the internal controls of the inherent risks and to closely monitor the residuals risks while taking actions where and when appropriate.





(Virus, Hackers)
Cyber Threats



Onboarding high risk motor
insurance clients (e.g. high
claims history, risky vehicle
make and model)



Non-Compliance to laws and
regulations. Example: delay in
data retrieval or implementation
of changes in processes/IT
system to be compliant



Nat-Cat Risk: World-wide
climate change with a higher risk
that our region is severely
impacted



Cyber Security
Framework



Underwriting
guidelines



Setting up of cross-functional
steering committees with
stringent schedules and
deliverables according to
mile stones



180-degree assessment of
coverage, RAS, RTL to evaluate
worst case scenario and ensure
adequate coverage



Prevention from loss
of data, protection
(downtime)



Strong client base



Prevention of reputational risk
and RAS breach



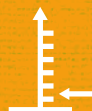
Contained financial losses
under Nat-Cat



Contained Cyber Risk



Despite the improved loss
ratio, deal with the current
claims' frequency and severity



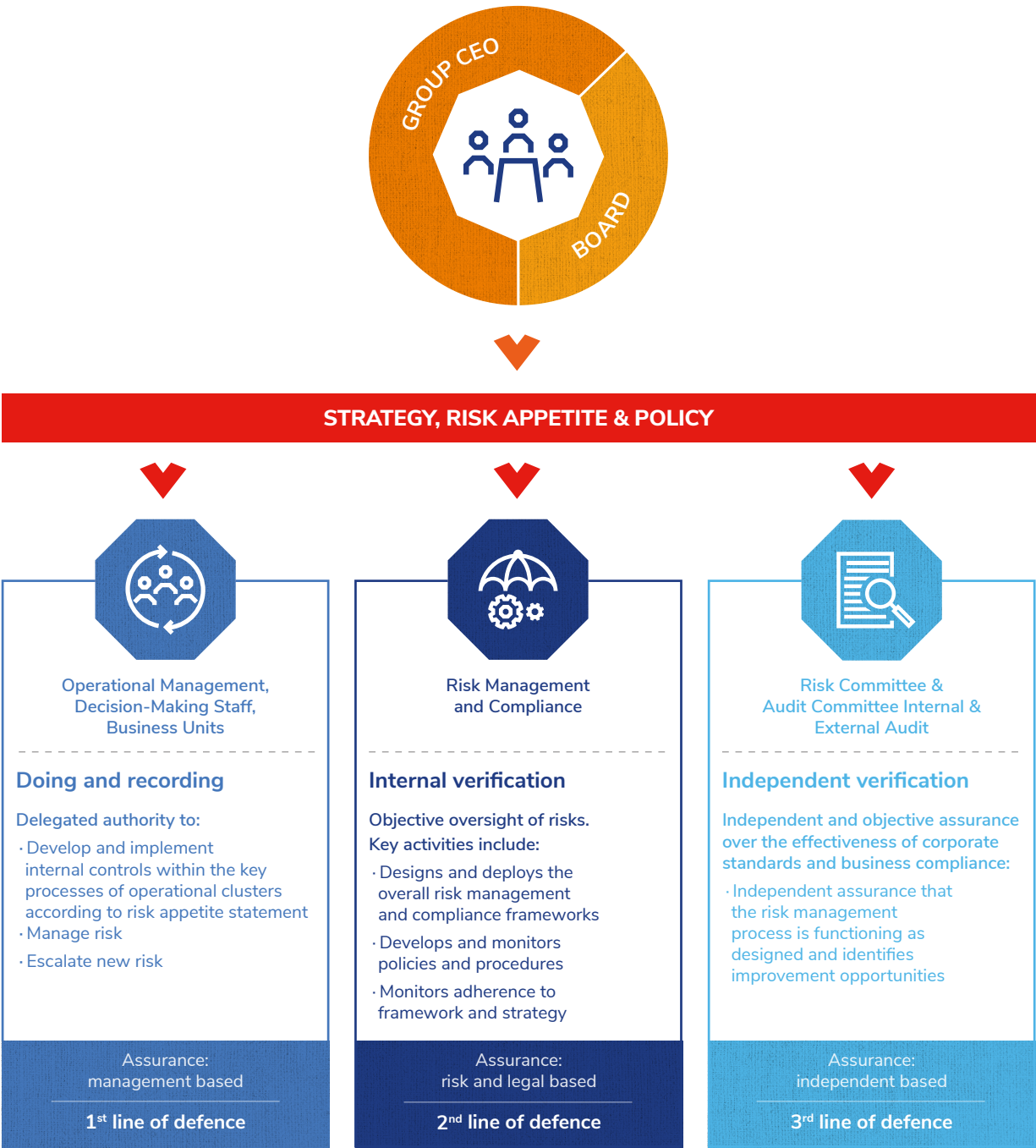
Minimised risk of delay and
visibility on potential delays
so that corrective actions
still possible



Bad loss ratios

Risk Management Responsibilities

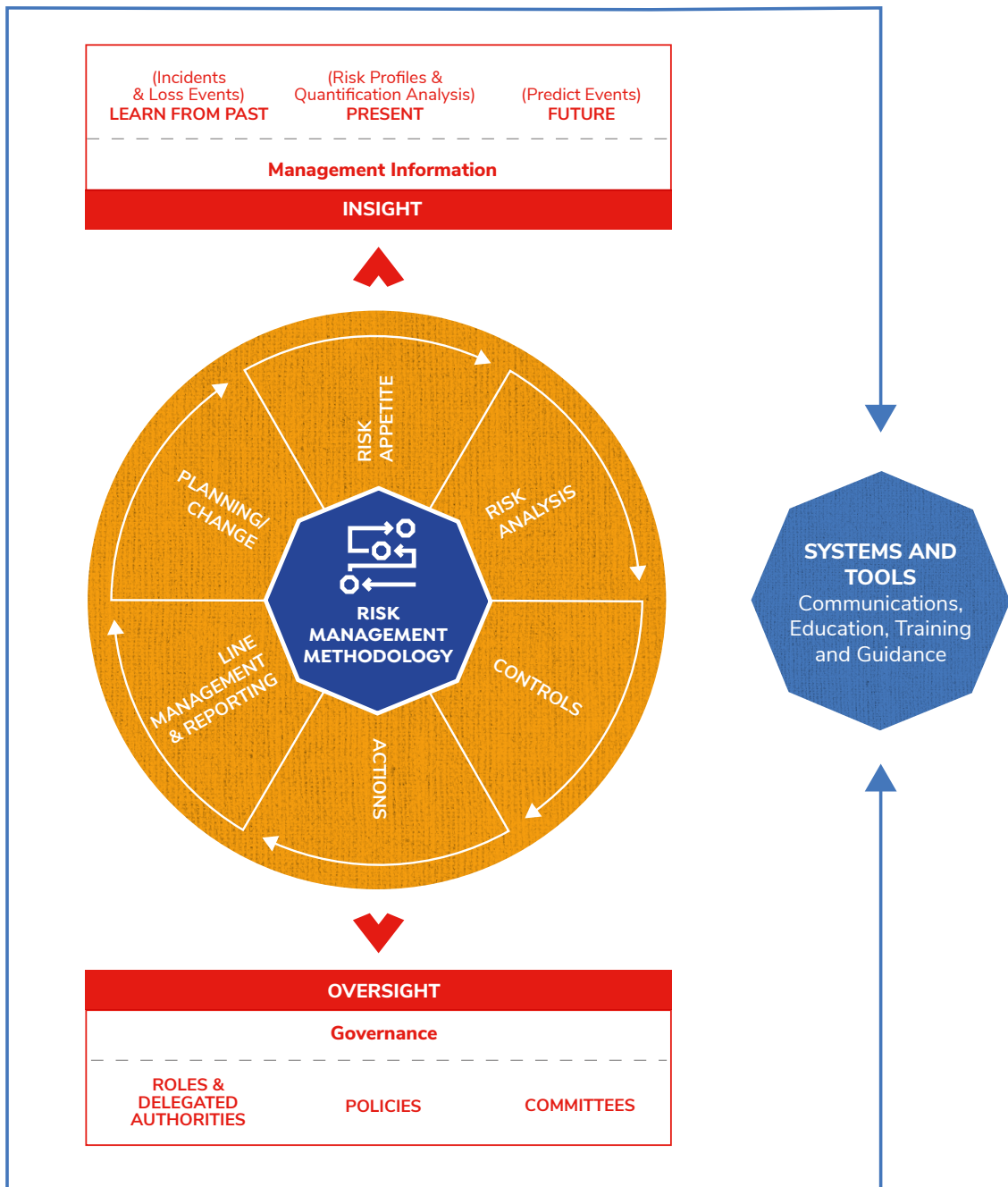
MUA has adopted the ‘three-lines-of-defence’ model where ownership for risk is taken at all levels in the Group. This model is widely adopted by financial services companies globally. It clearly sets out the risk management responsibilities across the business and is consistent with the current regulatory risk-based approach, encompassing corporate governance, processes and controls.



Risk Management Framework

The Group Audit and Risk Methodology is fully risk-based and aligned on COSO (Committee of Sponsoring Organizations of the Treadway Commission) Enterprise Risk Management (ERM) Framework. The COSOERM Framework is the broadly accepted standard against which organizations can benchmark their internal control activities.

MUA's risk management framework forms an integral part of the management and Board processes as well as the decision-making framework across the organisation. The key elements of the risk management framework are illustrated below:



The Risk Management Process

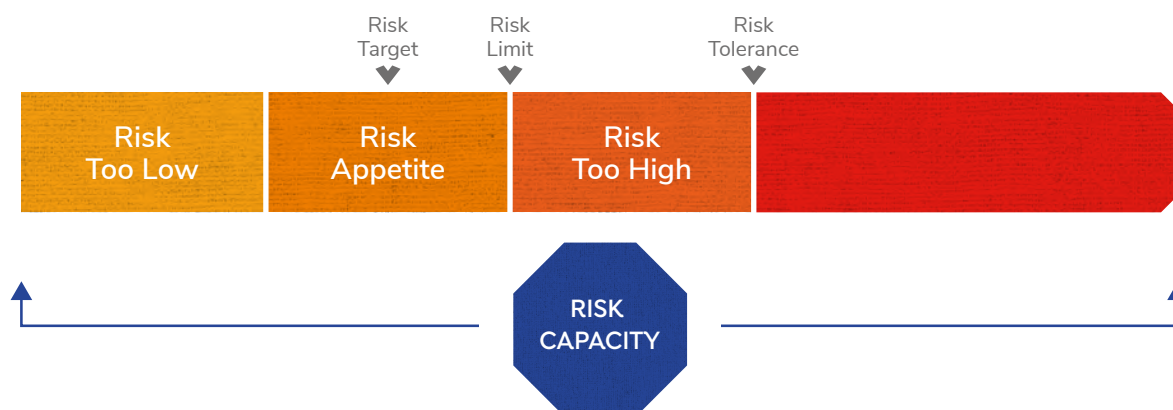


The Risk Management Process involves 5 steps:

1. Identify risks: consists of defining potential risks that may have a negative impact on MUA.
2. Analyse risks: involves scrutinising the different risks which have been identified to determine: The impact of the risks; and the likelihood of the risks arising.
3. Evaluate risks: the company determines whether the identified risks are acceptable or unacceptable.
4. Treat risks: the four main risk treatment strategies are:
 - Risk acceptance
 - Risk avoidance
 - Risk transfer
 - Risk mitigation
5. Monitor and review risks: is the ongoing process of managing risk.

It is the process of tracking risk management execution and continuing to identify and manage existing and new risks.

Risk Appetite



The risk appetite is the level of risk the Group acknowledges and is willing to accept in the pursuit of its strategic objectives.

The strategic and operational planning process supports the Group in optimally exploiting its opportunities. This involves the consideration of the portfolio of opportunities identified by businesses, leading to decisions by the Board in relation to the opportunities the Group wishes to pursue.

Capital is allocated to businesses to support delivery of these plans. The Group's required returns will be reflected in the targets set for businesses, including targets for return on capital employed, growth in business and profitability and dividend payment expectations.

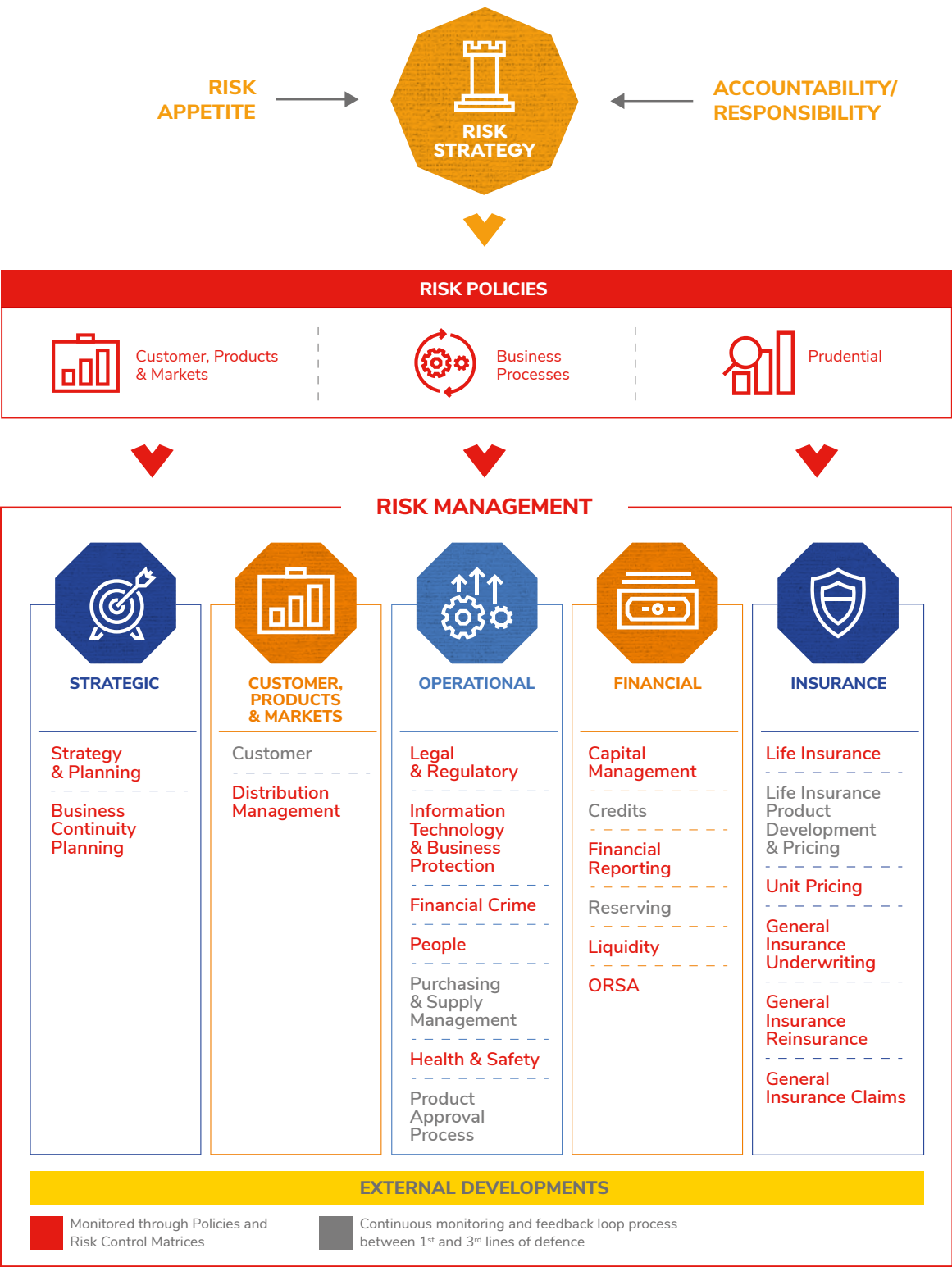
The Group's business plan, capital allocation and business targets are therefore a key component of the Group's risk appetite. Risk appetite will accordingly continually evolve and be reviewed.

Policies and Procedures

To instill a consistent and rigorous approach to risk management across all the business segments in which we operate, we observe a set of formal risk policies. These delineate risk management and control requirements for the Group's operations. As our business responds to changing market conditions and customer needs, we regularly monitor the appropriateness of our risk policies to ensure that they remain up-to-date.

We regularly identify and review risk exposures. Where risks are outside of tolerance levels, action plans are required. Similarly, controls are regularly reviewed for effectiveness and corrective actions implemented where necessary. This helps to provide assurance to the various risk oversight committees that there are appropriate controls in place for all our core business activities, and that the processes for managing risk are understood and followed consistently.

The Risk Profile



Critical Risks



STRATEGIC RISK

Definition: The risk of a negative impact on the company's value, arising from the adverse effect of management decisions regarding business strategies and their implementation. This risk reflects on the compatibility between strategic goals, business continuity management and the resources deployed to achieve those goals. Strategic risk also includes the lack of management's ability to effectively analyse and react to external factors (e.g. market conditions/ natural catastrophes) which could affect critical operations of the Group and prevent critical services to be resilient.



Owner:

Group CEO



MANAGEMENT AND MITIGATION EXAMPLES

Strategy & Planning

We agree, monitor and manage Strategic Targets. Emerging risks are identified and managed using established Risk Management Framework.

Business Continuity Management

We have a Business Continuity Management plan in place which includes a Disaster Recovery plan.

Critical Risks (continued)





Definition: Operational risks are risks of loss and/or the opportunity gain foregone resulting from inadequate or untried internal processes, human error and system malfunctions, fraud or from external events. Most organizations such as MUA accept that their people and processes will inherently incur errors and contribute to ineffective operations. In evaluating operational risk, practical remedial steps should be emphasized in order to eliminate exposures and ensure successful responses.



Owner:
Heads of Support Functions

MANAGEMENT AND MITIGATION EXAMPLES

Information Technology

Improved performance of our IT systems across the board, while focusing on the development of future system capability is key for us. With significant changes underway, we are monitoring risks associated with our IT systems' stability, cyber security and internal control environment.

Legal & Regulatory

- We work towards efficient and customer friendly processes while having a strong risk based approach to minimise exposure and ensure robustness of processes.
- Compliance Risk: We have a well-defined and well documented compliance manual in place which provides a clear link between internal and external compliance requirements with the various business and operational processes. We maintain regular communications and awareness sessions with employees with regards to any new changes and development in laws, regulations, supervisory provisions and industrial rules and guidelines.

Financial Crime

We have established procedures in place for money-laundering and fraud management. We provide continuous training to our employees with regards to the inherent risks faced by our business. These include: Proper reporting processes to the Money Laundering Reporting Officer; processes in case of Suspicious transactions; Politically Exposed Persons; and a Whistleblowing Policy.

People

We make sure that the objectives of our employees are aligned with the company's business objectives and are reviewed annually.

Outsourcing

We monitor performance of our outsourced activities.

Health & Safety

We have a Health & Safety committee in place to promote cooperation between the employer and employees in instigating, developing and carrying out measures to ensure the health and safety of employees.

Purchasing & Supply Management

We have a Procurement Policy and committee in place.

Communications

Information shared to internal and external stakeholders is well-structured and managed.

Critical Risks (continued)



Definition: Financial Risks as the term suggests is the risk that involves financial loss to firms. It generally arises due to instability and losses in the financial market caused by movements in stock prices, currencies, reserves, interest rates and more. Our focus is on capital management which is an accounting strategy that strives to maintain sufficient and equal levels of working capital, current assets, and current liabilities at all times.



Owner:

Chief Financial Officer / Head of Investment / Actuarial

MANAGEMENT AND MITIGATION EXAMPLES

**Capital
Management**

Capital is held with comfort margins over minimum statutory and other capital requirements, including a minimum level of capital requirements per the Insurance Act 2005 and the Insurance Rules and Regulations 2007.

Credit

We continuously monitor the ratings for our Reinsurers through credit rating agencies and make sure we purchase reinsurance from the ones with the best ratings.

**Financial
Reporting**

We ensure that there is a maker and checker for each financial reporting process while having in-built controls in our systems.

Reserving

We estimate technical reserves using various actuarial and statistical techniques. Management's best estimate of total reserves is set at not less than the actuarial best estimate.

Liquidity

We measure our liquidity risks on an on-going basis through cash flow forecasts, asset allocation and maturity profile and run scenario testing.

ORSA

We have an established ORSA risk policy in place to ensure the annual regulatory Own Risk and Solvency Assessment is properly conducted.



Definition: The main activity of the group is the acceptance of risk under an insurance contract (Life/Non-life) where in return for a consideration (the premium), a policyholder is compensated for pecuniary loss suffered as a result of a specified uncertain future event. The core of our business is to underwrite those policies whereby underwriters evaluate the risk and exposures of potential clients to determine whether coverage can be provided or not and under which terms.



Owner:

Heads of Business Lines / Actuarial



MANAGEMENT AND MITIGATION EXAMPLES

Life Insurance Risk

We make sure that the recommendations of the actuarial reports are firmly implemented.

Life Insurance Product Development and Pricing

Products are developed, approved and managed in line with relevant risk appetite, risk preferences, capital and profitability targets and are vetted by our statutory actuary.

Unit Pricing

We have a unit pricing guideline and governance framework in place.

General Insurance Underwriting

Underwriting guidelines are set for all transacted business and pricing refined by analysing comprehensive data.

General Insurance Reinsurance

Excess of loss (XOL) are determined by the business head and are approved by the Board annually at renewal.

General Insurance Claims

We have appropriate controls in place for the detection of fraudulent claims.

Critical Risks (continued)



MARKET
RISK

Definition: The risk of losses in positions arising from movements in market prices. Market risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets in which he or she is involved. Examples of market risk are: changes in equity prices or commodity prices, interest rate moves or foreign exchange fluctuations. The RAG status for Market risk for the General Insurance for the quarter ending 30 September 2020 was Green.



Owner:
Head of Investment



CYBER
RISK

Definition: Cyber risk is commonly defined as exposure to harm or loss resulting from breaches of or attacks on information systems. Poorly managed cyber risks can leave you open to a variety of cybercrimes, with consequences ranging from data disruption to economic. The IT team works on IT Security Dashboard to report at the end of each quarter to be included in the Risk Report



Owner:
Head of Group Information Systems

Role of the Risk Committee

The Risk Committee is established by the Board of Directors to assist in its oversight of risk and risk management across the Group, including its East African subsidiaries.

The committee provides an independent and objective review of all aspects of risk as presented in our risk profile (Strategic, Financial, Insurance etc.). It also has an oversight of all management committees such as the Risk Management Committee, the Audit Committee and the Assets and Liabilities Committee, to ensure that significant existing or emerging risks are efficiently identified, measured, managed, monitored and reported on a continuous basis.

Regulatory Developments

In 2014 the Financial Services Commission (the 'FSC Mauritius') with the collaboration of the World Bank embarked on a project aimed at strengthening prudential regulations, risk-based supervisory and resolution frameworks for the insurance sector.

The main features of these rules are:

- Risk Appetite Statements
- Risk Management Strategies
- Forecasted Business Plans
- Own Risk Solvency Assessment (ORSA) Framework
- Liquidity Policy
- Designated risk management function; and
- Defined responsibilities and roles and reporting lines within the insurer for the management of material risks

Under the Insurance (Risk Management) Rules 2016, we are in the process of submitting our Own Risk and Solvency Assessment Report and Risk Management Framework for the third consecutive year. We have ensured over the past three years that our business practices are compliant with this new piece of legislation. In alignment with these rules, we now have a Business Continuity Plan in place. Awareness and training sessions have been held with all employees. The disaster recovery aspect of the Business Continuity Plan has also been successfully tested.

In compliance with Section 5(4), our external auditors have reviewed and reported to the Board that our Risk Management Framework is compliant with the rules.

Moreover, as per Section 5(5) of the rules, our statutory actuaries have reviewed and reported to the Board on the effectiveness of our Risk Management Framework.

Risk Team: 2021 Projects

- Continue with the risk reviews in Mauritius and the four East African entities.
- The implementation of a people risk policy in the four East African entities.
- The implementation of a monthly and quarterly risk dashboard in Mauritius and the four East African entities.
- Continue with the risk awareness to all employees to increase the risk culture within the company.
- Assist in MUA projects as per the group's strategy 2021-2023 by monitoring the risk aspects to ensure that there are sufficient controls in place.

The Liquidity Policy in MUA

Liquidity risk is defined as the risk that a firm, though solvent, does not have sufficient financial resources available to enable it to meet its obligations as they fall due.

The objective of this policy is to provide the minimum standards for managing liquidity risk for MUA. It recognises the group has significant cash flow obligations that need to be managed and needs sufficient liquidity to operate efficiently and maintain MUA's reputation in the markets.

For the ORSA reporting, the Risk team has enforced the liquidity policy by requesting that the liquidity policies of both MUA GI and MUA Life to be approved by ALCO.

Section 6.1.7 has been added regarding segregation of liquidity of entities.