“Our sustainability and financial strength are buttressed 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.”
RISK MANAGEMENT PHILOSOPHY AND OBJECTIVES

As a financial services company active in investments, life insurance, retirement services and long-term insurance, the Mauritius Union Group is naturally exposed in its daily business activities and strategic planning to numerous types of risk, like change in mortality rates, undergoing losses due to man-made or natural catastrophes, losing income ability through operational disruptions, outliving of assets and so on. Where there is a risk, there is improbability, and where there is improbability, there is exposure to volatility.

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:

• To manage the business’s exposure to prospective earnings and capital capriciousness.
• To capitalize value for the organization’s different stakeholders.

We are fully committed to maintain our existing strategy of embedding risk management in what we do as it is the 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 buttressed 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. The Mauritius Union Group’s risk strategy is to invest its available capital to optimize the balance between return and risk whilst maintaining an appropriate level of economic capital and regulatory capital in accordance with its risk appetite.

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 whilst meeting 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 the Group’s overall business objectives subject to a rigorous monitoring.

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

TREAT

TRANSFER

TOLERATE

TERMINATE

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

Treat: Take action to control the risk either by reducing the likelihood of the risk developing or limiting the impact it will have on the project

Transfer: Some of the financial risks maybe transferable via insurance or contractual arrangements or accepted by third parties

Tolerate: Nothing can be done at a reasonable cost to mitigate the risk or the likelihood and impact are at reasonable level.

Terminate: Do things differently and remove the risk
RISK MANAGEMENT REPORT

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 you do 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.

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 review continuously the internal controls of the inherent risks and to monitor closely the residual risks while taking actions when appropriate.
RISK MANAGEMENT REPORT

RISK MANAGEMENT RESPONSIBILITIES

The Mauritius Union Group 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, systems and controls.

THE 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 COSO ERM Framework is the broadly accepted standard against which organizations can benchmark their internal control activities.
RISK APPETITE

The risk appetite is the level of risk the Group acknowledges and is able 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 inculcate a consistent and rigorous approach to risk management across all the businesses 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, 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 across our businesses.

“Designing risk management without defining your risk appetite is like designing a bridge without knowing which river it needs to span. Your bridge will be too long or too short, too high or too low, and certainly not the best solution to cross the river in question.”

Tj Koekemoer,
Ernst & Young Risk Management Report, May 2012

THE RISK PROFILE

THE RISK MANAGEMENT

EXTERNAL DEVELOPMENTS

CUSTOMER, PRODUCTS & MARKETS

STRATEGIC

Risk Appetite

Risk Strategy

Accountability/Responsibility

RISK MANAGEMENT

BUSINESS PROCESSES

FINANCIAL

INSURANCE

PRUDENTIAL

Strategy & Planning
Customer
Distribution Management
Information Technology & Business Protection
Brand & Marketing Communication
Financial Crime
Corporate Responsibility
People
Environment
Outsourcing
Purchasing & Supply Management
Communications
Health & Safety

Life Insurance
Credits
Financial reporting
Reserving
Unit Pricing
General Insurance Underwriting
General Insurance Reinsurance
General Insurance Claims

Life Insurance Risk

<table>
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<tr>
<th>Strategy &amp; Planning</th>
<th>Customer</th>
<th>Legal &amp; Regulatory</th>
<th>Capital Management</th>
<th>Life Insurance Risk</th>
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<tbody>
<tr>
<td>Business Continuity Management</td>
<td>Distribution Management</td>
<td>Information Technology &amp; Business Protection</td>
<td>Financial reporting</td>
<td></td>
</tr>
<tr>
<td>Brand &amp; Marketing Communication</td>
<td>Financial Crime</td>
<td>Reserving</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Responsibility</td>
<td>People</td>
<td>Unit Pricing</td>
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<td></td>
</tr>
<tr>
<td>Environment</td>
<td>Outsourcing</td>
<td>General Insurance Underwriting</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Purchasing &amp; Supply Management</td>
<td>General Insurance Reinsurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Communications</td>
<td>General Insurance Claims</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Health &amp; Safety</td>
<td></td>
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<td></td>
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</table>

RISK CAPACITY
# RISK MANAGEMENT REPORT

## PRINCIPAL RISKS

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<tr>
<th>Strategic Risk</th>
<th>Owner</th>
<th>Management and Mitigations Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operational Risk</td>
<td>Heads of Support Functions</td>
<td>- We work towards efficient and customer-friendly processes while having a strong risk-based approach to minimise exposure and ensure robustness of processes.</td>
</tr>
<tr>
<td>Financial Risk</td>
<td>Chief Financial Officer</td>
<td>- Capital are held with comfort margins over minimum statutory and other capital requirements, including a minimum level of capital requirements of the Insurance Act 2005 and the Insurance Rules and Regulations 2007.</td>
</tr>
<tr>
<td>- Information Technology</td>
<td></td>
<td>- We ensure that there is a maker and checker for each financial reporting process while having in-built controls in our systems.</td>
</tr>
<tr>
<td>- Legal &amp; Regulatory</td>
<td></td>
<td>- 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.</td>
</tr>
<tr>
<td>- Financial Crime</td>
<td></td>
<td>- We measure on-going our liquidity risks through cashflow testings.</td>
</tr>
<tr>
<td>- People</td>
<td></td>
<td>- We monitor performance of our outsourced activities.</td>
</tr>
<tr>
<td>- Outsourcing</td>
<td></td>
<td>- We have a Health &amp; Safety committee in place to promote cooperation between the employer and employees in instituting, developing and carrying out measures to ensure the health and safety of employees.</td>
</tr>
<tr>
<td>- Health &amp; Safety</td>
<td></td>
<td>- We have a Health &amp; Safety committee in place to look after all CSR related activities.</td>
</tr>
<tr>
<td>- Purchasing &amp; Supply Management</td>
<td></td>
<td>- We have launched e-documents for insurance policies to be in line with our philosophy of reducing carbon footprint.</td>
</tr>
<tr>
<td>- Communications</td>
<td></td>
<td>- Information shared to internal and external stakeholders is well structured and managed.</td>
</tr>
<tr>
<td>- Sarbanes-Oxley</td>
<td></td>
<td>- We ensure that the objectives of our employees are aligned with the company’s business objectives and are reviewed annually.</td>
</tr>
<tr>
<td>- Compliance</td>
<td></td>
<td>- We establish 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.</td>
</tr>
</tbody>
</table>

### Operational Risk

- **Information Technology**
  - Improved performance of our IT systems across the board; focussing on the development of future system capability is key for us. With significant changes underway, we are monitoring risks associated with out 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.
- **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.
- **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 instituting, 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.
- **Sarbanes-Oxley**
  - We ensure that there is a maker and checker for each financial reporting process while having in-built controls in our systems.
- **Compliance**
  - We continuously monitor the ratings for our Reinsurers through reinsurance rules and regulations.
- **Purchasing & Supply Management**
  - 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 instituting, 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.

### Financial Risk

- **Capital Management**
  - We ensure that there is a maker and checker for each financial reporting process while having in-built controls in our systems.
- **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 on-going our liquidity risks through cashflow forecasts, asset allocation and maturity profile and run scenario tests.
### RISK MANAGEMENT REPORT

#### PRINCIPAL RISKS

<table>
<thead>
<tr>
<th>Insurance Risk</th>
<th>Heads of Business Lines</th>
<th>MANAGEMENT AND MITIGATIONS EXAMPLES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life Insurance Risk</td>
<td>Actuarial</td>
<td>- We make sure that the recommendations of the actuarial reports are firmly implemented</td>
</tr>
<tr>
<td>Life Insurance Product Development and Pricing</td>
<td></td>
<td>- 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</td>
</tr>
<tr>
<td>Unit Pricing</td>
<td></td>
<td>- We have a unit pricing guideline and governance framework in place</td>
</tr>
<tr>
<td>General Insurance Underwriting</td>
<td></td>
<td>- Underwriting guidelines are set for all transacted business and pricing refined by analyzing comprehensive data</td>
</tr>
<tr>
<td>General Insurance Reinsurance</td>
<td></td>
<td>- Excess of loss (XOL) are determined by the business head and are approved by the Board annually at renewal</td>
</tr>
<tr>
<td>General Insurance Claims</td>
<td></td>
<td>- We have appropriate controls in place for the detection of fraudulent claims</td>
</tr>
</tbody>
</table>

#### 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 African subsidiaries.

The committee provides an independent and objective oversight 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

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

The World Bank started a consultation exercise in September 2014 and subsequently published a market report in March 2015. A seminar was held on 08 September 2015, whereby World Bank consultants presented a Risk Management Framework paper to representatives of the insurance industry for their comments. Following the several consultations, the FSC Mauritius published the “Insurance (Risk Management) Rules 2016 and relevant returns rules” on 31st October 2016, which shall be fully effective on 1 July 2017.

The main features of these rules are:

1. Risk Appetite Statements
2. Risk Management Strategies
3. Forecasted Business Plans
4. Own Risk Solvency Assessment (ORSA) Framework
5. Liquidity Policy
6. Designated risk management function; and
7. Defined responsibilities and roles and reporting lines within the insurer for the management of material risks.

We have been preparing for this since the last couple of years, ensuring that our business practices are aligned with the new rules as they become clearer. ORSA, however, is fundamentally a new regime and there will be inevitably further developments as regulatory understanding of its practical operation evolves.