Introduction

The United Coconut Planters Life Assurance Corporation (COCOLIFE) is guided by its Mission, Quality Policy and Core Values in the attainment of its vision to become a recognized leader in the life insurance industry

As an insurance company, risk is at the core of our business. Thus, we endeavor to incorporate risk management in all our processes. Managing risk well enhances our reputation and creates opportunities to sustainably grow our business.

Risk management is a primary driver in the achievement of the company's strategic and business plan objectives. The tone is set by top management and is passed down to the smallest unit and finally to individual employees and members of the sales force. It is proactively managed and made part of daily activities and transactions, where applicable.

This Risk Management & Compliance Framework lays down the principles by which the company approaches, analyzes, and monitors risk in the course of managing the business operations and attaining the company's objectives.

This document outlines a strategy for this process. This Framework was developed and approved by the Board of Directors on ______________________, subject to review every two years or when deemed necessary.

Policy Statements

Risk Management

The Board, Management and staff of COCOLIFE are committed to the implementation and maintenance of a risk management system, including the integration of risk management throughout the organization, which is fundamental in achieving the company's objective.
Cocolife's Risk Management Policy aims to:

- Establish the prime importance and urgency of risk management in the company's operations;
- Come up with a common understanding and method in managing risks;
- Promote risk consciousness and make it part of the company's culture; and,
- Interlink the guidelines, requirements and processes of related company systems

Definitions

Definitions

Chief Risk Officer - the most senior executive responsible for risk management of COCOLIFE. He reports directly to the Risk Oversight Committee of the Board and reports to the President and Chief Executive Officer on administrative matters.

Controls - a process, effected by the Board and/or Management designed to provide reasonable assurance regarding the achievement of objectives in (i) effectiveness and efficiency of operations; (ii) reliability of financial reporting; and (iii) compliance with applicable laws and regulations

Event - an incident or occurrence, from both internal or external sources, that affects achievement of objectives.

Impact (or Severity) - result or effect of an event on objectives, which may either be positive or negative. There may be a range of possible impacts associated with an event.

Key Risk Indicators – the metrics used by the company to provide an early signal of increasing risk exposures in various areas of the enterprise.

Likelihood (or Occurrence) - is the possibility of an event occurring. The likelihood can be expressed in both a qualitative and quantitative manner.

Risk - anything that can keep an enterprise from meeting its objectives.

Risk Appetite/Tolerance - the broad-based amount of risk that the company is willing to accept in pursuit of its goals.

Risk Assessment - process of identifying the risks to an institution, predicting the probability of its occurrence, assessing the critical functions necessary for an institution to continue its business operations, defining the controls in place to reduce exposure and evaluating the cost for such controls.

Risk Management - coordinated activities to direct and control an organization with regard to risk.

Risk Owner - the individual who is ultimately accountable for ensuring that the risk is managed appropriately. There may be multiple personnel who have direct responsibility for, or oversight of, activities to manage each identified risk, and who collaborates with the accountable risk owner in his/her risk management efforts.

Risk Register – a documented record of each risk identified. It specifies:

- A description of the risk, its causes and impacts;
- An outline of the existing internal and external controls;
- An assessment of the consequences of the risk should it occur and the likelihood of the consequence occurring, given the controls;
- A risk rating; and
- An overall priority for the risk;

It should also identify time bound future actions or an action plan.

Risk Treatment - is the process of selecting and implementing of measures to modify risk. Risk treatment measures can include avoiding, optimizing, transferring or retaining risk.

Types of Risk

Credit Risk –	The risk that one party to a financial transaction is unable or unwilling to honor an obligation, subjecting the institution to a financial loss. This includes asset default and counter-party risk.
Market Risk –	Risk of reduction in earnings and capital as a result of: • Mismatches in the re-pricing of assets and liabilities; • Market value change in the market value of assets; • Change in the value of assets in foreign currency due to exchange rate fluctuation; and • Change in the market value of assets due to adverse change in credit assessment.
Operational Risk –	Risk of a change in value caused by the fact that actual losses incurred differ from expected losses due to: • Inadequate or failed internal processes; • Quality of people; • Systems technology; and/or • External events
Catastrophe Risk –	The risk that a single event, or series of events, of major magnitude, usually over a short period, leads to a significant deviation in actual claims from the total expected claims.
Strategic Risk –	Risk of the institution not meeting its strategic objectives.

Regulatory Risk –	Risk of change in regulations and failure to comply with regulatory and/or statutory requirements that may have adverse financial, operational or reputational impact to the institution.

Guidelines

Governance and Management

The system of internal controls covers not only financial controls, but also controls relating to: governance, operations, risk management, laws, regulations, rules, directives, guidelines as well as internal policies, processes and procedures.

Primary Responsibility

The Strategic Business Units have their own distinct risk profile and have the primary responsibility of identifying, assessing, managing, and reporting risk.

Risk Oversight

The Risk Management and Compliance Division provides independent views to the businesses. It reviews, evaluates, and reports risks to the Risk Oversight Committee (ROC). Heads of the Business/Support units are resource persons of the ROC and their attendance may be requested during committee meetings so that silos are eliminated, risk profiles are shared, and risk awareness across the institution is improved.

The Board of Directors

The Board of Directors (BOD) is responsible for defining the level of risk tolerance and for the approval and oversight of the implementation of policies and procedures relating to the management of risks throughout the institution.

They also ensure that the Risk Management & Compliance Division is given adequate resources to enable it to effectively perform its functions. To ensure this, the Risk Management & Compliance Division shall be afforded with adequate personnel, access to information technology systems and systems development resources, and support and access to internal and confidential information.

The Risk Oversight Committee (ROC)

The Risk Oversight Committee (ROC) is responsible for the development and oversight of the risk management program.

The members of the ROC shall possess a range of expertise as well as adequate knowledge of the institution's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

It shall:

- oversee the system of limits to discretionary authority that the board delegates to management;
- ensure that the system remains effective;
- that the limits are observed; and,
- that immediate corrective actions are taken whenever limits are breached.

The company's Risk Management & Compliance Division and the Chief Risk Officer shall communicate formally and informally to the ROC any material information relative to the discharge of its function.

The Risk Management and Compliance Division

The Risk Management & Compliance Division is responsible for overseeing the risk-taking activities in COCOLIFE and its subsidiaries, as well as in evaluating whether these remain consistent with the approved risk-appetite and strategic direction. The division shall be responsible for identifying, measuring, monitoring and reporting risk on an enterprise-wide basis as part of the second line of defense. It shall directly report to the ROC or the BOD, as applicable.

The Chief Risk Officer

COCOLIFE shall appoint a Chief Risk Officer (CRO), who shall head the Risk Management & Compliance Division, the CRO shall be independent from executive functions and business line responsibilities, operations and revenue-generating functions.

Risk Management Framework

Principles

COCOLIFE recognizes that risk is an inherent component of the business. As such, risk should be managed via a Risk Management Framework. There should be programs to increase risk awareness at all levels of the organization, how it is managed, and the role of each and every individual in the organization.

COCOLIFE's vision for risk management is to have a culture in which risk is managed in an integrated manner that will enable the company to:

- Achieve its strategic objectives

- Meet its financial and operational goals, and
- Become an industry standard in the responsible management of risks

Approach

The company is committed to implementing a process by which strategic, operational and project risks are identified, communicated, monitored and regularly reported, as appropriate to the Board of Directors through the Risk Oversight Committee. To facilitate this, a risk management framework has been developed by the company that proactively and systematically identifies, monitors, and manages risks.

The risks identified will be determined and monitored by those with accountability in specific areas who will be supported by appropriate training, educative tools, and assistance from the Chief Risk Officer.

Risk Appetite

Risk appetite influences the types of risks that the company is willing to assume and/or avoid and guides decision making, clarifies strategic intent and helps to ensure that choices align with the strategic plan and direction of the company. The Risk Appetite is set by the Board of Directors and is cascaded to management for alignment.

Risk Identification and Analysis

Calculated risk taking is an integral part of the business model of COCOLIFE. These risks are varied and may either have a detrimental or beneficial impact on the company. Thus, risk identification and the recognition and understanding of these risks that exist or may arise from corporate activities is vital.

The company has four (4) main ways in which it can effectively manage risk:

1. Accept the risk and make a conscious decision to not take any action.
2. Accept the risk but take some actions to lessen or minimize its likelihood or impact.
3. Transfer the risk to another individual or organization, by, for example, outsourcing the activity.
4. Eliminate the risk by ceasing to perform the activity causing it.

Process

The company maintains a risk register that identifies and registers key strategic risks. This is constantly updated and formally reviewed and reported, in part or in full, to the Risk Oversight Committee. The Risk Register is informed by the risk registers developed at Strategic Business Unit levels.

Risk prioritization or how COCOLIFE decides to manage individual risks is determined following a risk assessment based on a systematic analysis of both the impact and likelihood ratings of each risk.

The risk assessment process starts by identifying the appropriate risks. These risks may initially be rated without considering the controls that currently exist to mitigate the risk.

After this initial assessment, the risks are re-assessed, taking into account the existing mitigation controls and documented accordingly.

By assessing both risks without and with mitigation controls, we are able to make an analysis on the effectiveness of the controls in place to mitigate the risks. This is an important step in testing assumptions about the effectiveness of existing controls.

This process is driven by the following steps:

Step 1: Linking Identified risks to objectives

The first step is to ensure that the identified risk is a risk to the realization of the company's objectives. Potential Risk Categories include:

- **Strategic** - are those that can affect an organization's ability to achieve its overall objectives and goals
- **Financial** - refers to the process of coping with uncertainties that result from financial market
- **Compliance** - refers to the organization's exposure to material loss and legal penalties as a result of non-compliance with applicable laws, regulatory requirements and other compliance obligations (ex. contractual commitments)
- **Operational** - refers to losses resulting from inadequate procedures, policies and systems within an organization, failures of the organization's core processes (not achieving intended outcomes)

Step 2: Determining the impact of the risk

The second step is to determine the impact the risk would have on the company. To achieve this, qualitative risk ratings and criteria have been agreed: (To be filled out on columns 5 & 9 of Annex A)

Severity/ Impact Scale	
5-Severe	At least in a 1-in-10 event
	at least 10% chance of occurrence
4-Major	Not in a 1-in-10 event
	less than 10% chance of occurrence
3-Moderate	Not in a 1-in-20 event
	Risk Description
2-Minor	Not in a 1-in-100 event
	less than 1% chance of occurrence
1-Negligible	Not in a 1-in-200 event
	less than 0.5% chance of occurrence

Step 3: Determining the likelihood of the risk occurring

The second level on which the risk is assessed is the likelihood of the risk occurring. The following definitions of likelihood have been agreed: (To be filled out on columns 4 & 8 of Annex A)

Likelihood/ Frequency Scale	
5-Almost Certain	At least in a 1-in-10 event
	at least 10% chance of occurrence
4-Probable	Not in a 1-in-10 event
	less than 10% chance of occurrence
3-Likely	Not in a 1-in-20 event
	Risk Description
2-Unlikely	Not in a 1-in-100 event
	less than 1% chance of occurrence
1-Rare	Not in a 1-in-200 event
	less than 0.5% chance of occurrence

Step 4: Multiplying the Impact and Likelihood Ratings to produce the Risk Rating

The final step is to multiply Impact by Likelihood to produce the Overall Risk Rating.

Impact x Likelihood = Overall Risk Rating

Given that we have used a three-scale rating for Impact and Likelihood, this will result in a number between 1 and 25.

RISK ASSESSMENT HEATMAP

Likelihood/ Frequency Scale						
	5-Almost Certain	Medium	Medium	High	High	High
	4-Probable	Low	Medium	High	High	High
	3-Possible	Low	Low	Medium	High	High
	2-Unlikely	Low	Low	Medium	Medium	High
	1-Rare	Low	Low	Low	Medium	Medium
		1-Negligible	2-Minor	3-Moderate	4-Major	5-Severe
		Severity/ Impact Scale				

Risk Outlook Description:

- High or Red- Immediate or urgent management attention/action is necessary
- Medium or Amber- Management action or monitoring is necessary to address the potential risk or avoid unwanted risk exposure
- Low or Green- No significant or material potential risk exposure is expected. Current risks are being managed/mitigated by existing measures

The following definitions have been agreed to categorize the overall risk ratings:

RISK RATING BASIS OR REFERENCE

Likelihood / Frequency Scale		Severity/ Impact Scale	Direct/ Indirect Financial/ Operational Loss	Fines and Sanctions/ Impact to Financial Reporting	Customer /Reputation	Business Interruption/ Physical Security	Strategy
5-Almost Certain	At least in a 1-in-10 event	5-Severe	Direct loss/ Near Miss/ Increased Cost of doing business which is greater than 10% of Net Income or greater than Php 50M	Significant penalties and fines, including punitive action against accountable individuals or closure of business	Widespread extreme customer detriment and/or systemic negative market impact/ National negative media coverage with loss of substantial market share. Has reached government regulators	Significant operations/ services disruption to multiple critical functions/services across one or more business areas, or multiple fatalities to employees or third parties	Internal or external event that can lead to a long-term (6+ years) impact to Cocolife's strategy and/or business model
	at least 10% chance of occurrence						
4-Probable	Not in a 1-in-10 event	4-Major	Direct loss/ Near Miss/ Increased Cost of doing business which is between 8% to 10% of net income or Php 40M to Php 50M, whichever is lower.	Significant penalties and fines, OR punitive action against accountable individuals or suspension of business operations	Severe damage/impact. Has affected customers from a regional level (or a certain major area) and has reached national media attention from low tier news sources (tabloids, radio, etc.) with substantial loss of market share	Significant operations/ services disruption to multiple critical functions/services across one or more business areas requiring immediate management attention, or hospitalization to multiple employees or third parties	Internal or external event that can lead to a medium-term (3-6 years) impact to Cocolife's strategy and/or business model
	less than 10% chance of occurrence						
3-Likely	Not in a 1-in-20 event	3-Moderate	Direct loss/ Near Miss/ Increased Cost of doing business which is between 3% to 8% of net income or Php 15M to Php 40M, whichever is lower.	Systemic breaches with or without adverse impact to business operations or reportable to the regulator	Moderate damage/pact. Has affected a large group but concentrated within a geographic area. Media attention is confined to a specific area. Can be remedied by compromise/agreement with the parties involved	Limited or significant operations/service disruptions to a non-critical/critical function and/or service resulting to service/business delays of 1-3 days, or hospitalization to employees or third parties	Internal or external event that can lead to a short-term (1-3 years) impact to Cocolife's strategy and/or business model
	Risk Description						
2-Unlikely	Not in a 1-in-100 event	2-Minor	Direct loss/ Near Miss/ Increased Cost of doing business which is between 1% to 3% of net income or Php 5M to Php 15M, whichever is lower	Non-systemic breaches with adverse impact or mandatory report to regulator	Minor detriment to a small group of customers. Local media attention is quickly remedied with public awareness and public relations activities. Not a concern	Limited operations / services disruption to a non-critical function/service, or with injury report and/or first aid to employees and/or third parties.	Internal or external event that can lead to a less than 1 year impact to Cocolife's strategy and/or business model
	less than 1% chance of occurrence						
1-Rare	Not in a 1-in-200 event	1-Negligible	Direct loss/ Near Miss/ Increased Cost of doing business which is not greater than 1% of net income or Php 5M, whichever is higher	Non-systemic breaches with no adverse impact or not reportable to regulator	Non-significant. Very minute. Has no impact to the usage, acquisition, retention, and sales of products/services. Reputational damage controlled internally	Limited operations/services disruption to a non-critical function/service, or no injuries to employees or third parties	Internal or external event that can lead to an immaterial impact to Cocolife's strategy and/or business model
	less than 0.5% chance of occurrence						

Key points to note when applying risk ratings

a) Only risks that are rated “Major” or above will be taken forward into the action planning stage at the strategic level. Risks with lower overall risk ratings, however, will still need to be monitored and reviewed by risk owners, particularly if the risk changes or the controls become vulnerable.
b) When assessing a risk, the impact and likelihood of the risk will vary widely, depending on the exact nature of the risk. It is important, therefore, to detail the exact nature of the risk in the “risk context” part of the risk register.

   A “major” risk rating would be achieved by any of the following:

   - “Impact = 5, Likelihood = 3, Risk Rating = 15”; or
   - “Impact = 3, Likelihood = 5, Risk Rating = 15”; or
   - “Impact = 4, Likelihood = 4, Risk Rating = 16”.

   At the action planning stage, management can then determine the risk treatment that needs to be applied to manage this risk down to a level that the organization deems tolerable.

Education

Creating a risk aware culture in the company is a crucial part of implementing and sustaining a robust risk management program. In addition to providing training and support for those with responsibilities in the areas of risk and compliance, opportunities should also be provided for all staff to engage in regular training opportunities about relevant risk and compliance issues. Further, tools and/or information will be developed and assembled to raise awareness about risk management and statutory compliance obligations.

Monitoring and Review

Responsibility for monitoring and reviewing risks identified in strategic, operational and project risk registers lies with risk owners, management and the board. It is the expectation of the Board that any strategic risks are brought to its attention by the Risk Oversight Committee and or the members of the Management Committee. It is the expectation of Management that any emerging/new strategic risks are brought to its attention by risk owners within departments and units.

At all times, risks should be reviewed and monitored such that the controls are evaluated.

Annex A

Risk Register

			Risk Assessment Rating or Score (Inherent Risk Rating)				Residual Risks (Residual Risk Rating)				
Process	**Risk Category**	**Risk Descriptio n**	**LIKELIHOOD**	**IMPACT**	**OVERALL**	**Existing control**	**LIKELIHOO D**	**IMPACT**	**OVERALL**	**Risk Treatment (Proposed, Future and/or Action Plan)**	**Responsible**