



**ENTERPRISE RISK MANAGEMENT
FRAMEWORK
(ERM)
Version 2019.01**

Abstract

The Enterprise Risk Management Framework applies to Etiqa Life and General Assurance Philippines. Its purpose is to clarify the company's approach to Risk Management, the general principles to risk management, the organization and governance structure. This framework follows the Maybank Kim Eng Group Integrated Risk Management Framework.

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Version Control

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Version History

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Version 2016 18 th October 2016.01	ALGA Enterprise Risk Management Framework	<ul style="list-style-type: none"> • First Board Approval
Version 2019 1 st September 2019.01	Etiqa Philippines Enterprise Risk Management Framework	<ul style="list-style-type: none"> • Applied change in corporate name • Updated Management Level Committees

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1. Introduction

Risk is a component inherent in all aspects of Etiqa Life and General Assurance Philippines's (ELGAP) business. ELGAP defines risk as the possibility of incurring losses arising from uncertainty and negative impacting the business objectives of ELGAP.

The management of risk is an important driver for strategic decisions in support of ELGAP's business strategies, balancing the appropriate level of risk taken to the desired level of reward while maintaining the sound financial position and adequate capital.

1.1 Objectives

The Enterprise Risk Management Framework ("framework") is intended to institutionalize vigilance and awareness of the management of risk within ELGAP.

The primary objectives of this Framework are to:

- a. provide a holistic documentary standard as a single point of reference in providing direction for the management of all risk elements that ELGAP is exposed to
- b. establish risk principles that are fully integrated into ELGAP's overall risk management structure, process and embedded in the day-to-day management of business
- c. facilitate effective risk oversight through a sound and clearly defined internal governance model, with clear structure of risk ownership and accountability
- d. enhance risk awareness and culture that is guided by the established risk principles, to be seamlessly embedded across the governance structure and business processes
- e. standardize risk terminologies across ELGAP to facilitate a consistent and uniform approach to manage risk

1.2 Scope

This framework applies to all ELGAP employees, agents and financial executives. This framework shall be periodically reviewed and aligned to the ELGAP's business strategy and capital management objectives in ensuring consistency in the management of risk within ELGAP.

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2. Principles of Etiqa Philippines Risk Management

ELGAP risk management is underpinned by a set of principles which serve as the foundation in driving risk management practices and processes. The overall risk management process is viewed in a structured and disciplined approach to align strategies, policies, processes, people and technology with the specific purpose of evaluating all risk types in line with enhancing shareholder value.

The approach to risk management is premised on the following seven (7) broad principles

2.1 Risk Appetite

The risk appetite articulates the nature, types and levels of risk a company is willing to assume. The risk appetite reflects the company's strategies and business objectives set. It is reviewed on a continuous basis to ensure that it remains relevant and reflects any changes.

The risk appetite provides basis for establishing risk tolerance and thresholds around specific risks through qualitative and quantitative metrics. These limits are communicated across the company. Risks are appropriately managed, monitored and escalated to the relevant stakeholders in the event of exceptions.

2.2 Capital Management

Capital management is an integral part of the risk management framework. Capital management ensures adequate resources and efficient capital structure is in place commensurate with the level of risk of a company's business activities.

2.3 Governance and Oversight

Corporate governance is the system of rules, practices and processes by which a company is directed and controlled. A clear, effective and robust risk governance structure includes the role of the company's Board of Directors, risk management committees and its Management Committee (ManCom) with well defined, transparent and consistent lines of responsibility.

2.4 Risk Culture

Culture is the establishment of an environment throughout an organization, from the board level to ManCom to business line management to the employee, which embeds risk awareness and accountability in daily operations.

A corporate culture, guided by strong risk management, is characterized by a strong setting of the tone from the top management, clear communication of risk management objectives, and well defined roles and responsibilities.

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2.5 Adequate Risk Frameworks and Policies

Frameworks outline the guiding principles for the management of risk. These are supported by policies and procedures to ensure that risk management practices and processes are implemented effectively at all levels.

Policies and procedures are to be reviewed regularly to account for new businesses, regulatory guidelines, requirements and leading practices.

2.6 Risk Management Practices and Processes

Risk management is the process by which companies systematically identify, measure, control, monitor and report the various types of risk inherent within their operations. The fundamental objectives of a sound risk management program are to manage the organization's exposure to potential earnings and capital volatility, and to maximize value to the organization's various stakeholders

2.7 Sufficient Resources & System Infrastructure

Resources, infrastructure and techniques needed to enable effective risk management are to be in place. Resources should be made available to appropriately support risk management practices and process

Infrastructure should enable access to reliable, accurate and relevant information on a timely basis and therefore facilitating informed decisions making by management.

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3. Risk Appetite & Strategy

The risk appetite should enable the Board of Directors (BOD) and Management to communicate, understand and assess the types and level of risk that's they are willing to accept in pursuit of its business objectives.

Developing and setting the risk appetite must be integrated into the strategic planning process and should be dynamic and responsive to changing business and market conditions. The budgeting process should be aligned to the risk appetite to ensure that the projected revenues arising from business transactions are consistent with the risk profile and risk appetite established.

The risk appetite should also provide consistent structure in understanding risk and embedded in day to day business activities and decision throughout ELGAP.

- a. The Board of Directors of ELGAP shall annually confirm the company's Risk Appetite statements. The Risk Appetite must be defined for all risk categories.
- b. Risk Appetite levels shall be assessed using a stressed scenario approach in extreme conditions (1 in 200 year events)
- c. The Risk Appetite shall also include appropriate functional limits which will help to drive the business within the Risk Appetite limits (e.g. functional limits for financial risks are embedded in the investment policy).
- d. The Risk Appetite is approved and managed by the Management Risk Committee, for monitoring and breach resolution. However, the Risk Appetite for financial risks is managed by the Investment Committee
- e. Breaches of Risk Appetite limits must lead to action plans and be reported to the Management Committee and to the Risk Management Committee of the Board.

4. Governance and Risk Oversight

The management of risk broadly takes place at different hierarchical levels and is emphasized through various levels of committees, business lines, control and reporting functions.

The risk governance model provides a formalized, transparent and effective governance structure which promotes active involvement of the BOD and Management in the risk management process to ensure a uniform view of risk across ELGAP.

4.1 Governance Model

The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties between the three (3) lines of defense which include the risk taking units, risk control units and internal audit.



ELGAP's risk governance structure outlines the organization, hierarchy and the scope of responsibilities of all the Governance bodies involved in the risk management function.

The Risk Management function is built around a number of Boards and Committees that have been set-up, including Board of Directors (BOD), the Risk Management Committee of the Board (RMC) and the Management Risk Committee (MRC).

The roles and responsibilities are clarified in the Terms of Reference (TOR) of the committees as attached to the Risk Management Framework. The TOR is subject to review from time to time, and at least annually. The chairman and committee member are tasked to undertake the responsible to review and seek approval for revise TOR and thereafter to lodge a copy with Risk Management Department.

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Main functions of ELGAP's Risk Governance Structure



4.2 Roles & Responsibilities

Board & Board Level Risk Management Committees

- a. Board of Directors (BOD) is the ultimate governing body with overall risk oversight. It is the ultimate decision-making body of ELGAP, and is responsible for:
 - i Defining the appropriate governance structure and delegation of authority to ensure effectiveness of the risk management function.
 - ii Setting the risk appetite based on strategies, growth targets and committed capital.
 - iii Ensuring an appropriate level and quality of capital is maintained for the risk profile and business plan.
 - iv Approving plans and performance targets that are consistent with the risk appetite and risk taking activities.
 - v Delegating specific matters to sub-board committee, such as risk matters to the Risk Management Committee, Audit matters to the Audit Committee and investment matters to the Investment Committee

- b. Risk Management Committee (RMC) assists the Board in fulfilling its supervision and monitoring responsibilities in respect of internal control, including monitoring the risk profile of the legal entities and combined and compared to the targeted level of risk appetite as set by the Board. It is responsible for the following:
 - i Review and approval of risk management strategies, tolerance and risk appetite limits.
 - ii Approval of new and material ELGAP risk management frameworks and policies.
 - iii Review and assessment of appropriate risk exposures, portfolio composition and risk management activities.

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- iv Ensuring sound risk management practices and processes by overseeing the effectiveness of systems, resources and infrastructure.
- c. Investment Committee of the Board (ICB) is the body which carries an oversight function for investment related activities.
- d. Audit Committee of the Board (ACB) assist the Board in fulfilling its supervision and monitoring responsibilities in respect of internal audit.

Management Level Risk Management Committees

- a. Management Committee (ManCom) assures the board that the company take the adequate decisions regarding risks and return and to make sure adequate controls exist and are fully operational. The ManCom ensure that the management of risk is in line with the approved risk appetite, strategy, risk frameworks, policies, procedures and risk management practices and processes established
- b. Management Risk Committee (MRC) is the advisor to the RMC concerning all Risk related topics, including limits, exposures and methodologies.
- c. Management Investment Committee (MIC) is responsible for the investment strategy and operations. It will carry out its responsibilities within the limits set by the Investment Committee of the Board, such as following the Risk Appetite and ALM constraints.
- d. Internal Audit Committee (IAC) is responsible for the monitoring and follow-up of audit findings.
- e. Group Advisory Committee (GAC) is responsible in ensuring the over-all profitability of the Group Insurance Business of the Company.
- f. Product Development Committee (PDC) is the governance body responsible for the creation, development, submission for IC approval, implementation of new products and services. The committee shall also review, manage and revise existing products. The objective of the PD Committee is to coordinate and manage the whole process of product development and product management for the specific product line that derived from overall marketing plan of ELGAP's Businesses
- g. Underwriting Committee (UWC) The purpose of the Committee shall be to review and monitor the Company's underwriting strategy, risk tolerances and performance, and to approve and review policies, guidelines, processes and procedures relating to the underwriting of insurance risks undertaken by the Company.
- h. Claims Committee the governance body responsible for the decision whether to approve or deny insurance claims filed against ELGAP. The objective of the Claims Committee is to ensure that all claims filed shall arrive at a decision that is in the best interest of the company, its policy owners and shareholders.

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- i. Dep Ed Committee is responsible in ensuring the over-all profitability of the Dep Ed Loans & Insurance Business of the Company
- j. Information Technology (IT) Steering Committee is the governance body responsible for the review, prioritization and approval of IT Projects
- k. Human Resources Committee is the governance body responsible for the approval personnel request and human resource management matters
- l. Occupational Health & Safety (OSH) Committee shall be the governing body responsible for ensuring a healthy and safe workplace
- m. Medical Operations Committee (MOC) shall be the governance body to address the issues and improve Medical Insurance Services to the valued Customers. The committee ultimately aspire to maintain the No. 1 position in Medical Insurance provider in the Life Insurance Industry

Operating Level Committee

First Line of Defense

- a. Risk Taking Units consist of business / front-line and support units with the ultimate responsibility to manage day-to-day risks inherent in its business, activities and risk exposures. These units ensure that the business operates within the established strategies, risk policies and procedures. Established within the business sectors, the embedded risk unit ensures effective risk oversight, implementation of risk frameworks, policies and procedures, clarity in the risk management practices.

Second Line of Defense

- a. Risk Control Units consist of risk management and compliance functions providing an effective risk oversight and guidance over the effective operation of the internal control framework.
 - i. Risk Management establishes risk frameworks, policies and procedures to identify, assess, control, mitigate, monitor and report all risk types which forms part of businesses day-to-day operations. It is also responsible for communicating risk strategies and creating risk awareness within the entire organization.
 - ii. Compliance establishes compliance framework and policies, provides advice and guidance on all areas of regulations, and surveillance over the effectiveness of the compliance controls embedded in the business i.e. risks of non-conformity / non-compliance with applicable laws and regulations as well as internal regulations

Both functions provide guidance in the implementation and execution of the established frameworks, policies and tools

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Third Line of Defense

- a. Internal Audit provide reasonable assurance via regular and independent assessment and validation that:
 - i Risk management and compliance frameworks, policies and tools are sufficiently robust and consistent with regulatory standards.
 - ii Controls to mitigate risks are adequate and effectively executed by the Risk Taking Units.
 - iii Adequate oversight by the Risk Control Units over the Risk Taking Units.

The internal auditors of the Maybank Group provide independent assurance of the effectiveness of the risk management approach and are the third line of defense.

For specific roles and responsibilities on the above, refer to the respective TOR's. In addition to the specific roles and responsibilities, empowerment may be given or an additional mandate granted to a committee or designated personnel by the Board / Board delegated committee.

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5. Risk Culture

Risk culture is a vital component in strengthening the risk governance structure of ELGAP and forms a fundamental tenet of strong risk management. It serves as the foundation upon which a strong enterprise wide risk management structure is built.

It stems from the conduct of staff, businesses and the organization as a whole in ensuring that customers, either internal or external, are treated fairly and their interest upheld at all times.

Risk culture aligns the businesses objectives and attitude towards risk taking and risk management through the risk appetite by establishing the way in which risks are identified, measured, controlled, monitored and reported.

Risk culture can be strengthened by having a strong tone from the top that establishes the expected risk behavior, and then operationalized by the tone from the middle. Both levels are responsible to articulate and exemplify the underlying values that support the desired risk culture. This is driven by a clear vision for an effective approach to risk, ingrained at all levels and built into the behavior of each individual.

In line with the evolving market environment and dynamics within ELGAP and across industries, a strong risk culture requires constant attention to ensure that the material risk developments are appropriately identified, properly understood, actively discussed and strategically acted upon.

To ensure a strong risk culture is developed, the following key essentials are required:

- a. Ensure that the interests, ideals and principles established are aligned to those of the staff.
- b. Promote and implement structured learning programs to create awareness on the importance of effective risk management and continuously improving the way in which risk is managed.
- c. Create transparent and active communication by challenging staff to raise issues and promote honest discussion in achieving positive results.
- d. Ensure that performance and remuneration of staff are consistent with the risk appetite and approach to risk taking, therefore providing an incentive for effective management of day-to-day risk taking activities.
- e. Delegate responsibility and promote accountability for the management of risk within ELGAP's business.
- f. Ensure that decisions relating to risks are critically evaluated to achieve the intended outcome.
- g. Learn from risk culture failures and thereby create an opportunity to strengthen the risk culture by establishing appropriate measures and controls for the future.

Embedding a strong risk culture goes beyond compliance to policies, core values, code of ethics and conduct, it is essentially about the belief, emotion and behavior that "risk is everyone's business" and should permeate in the attitude of each individual.

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6. Risk Management Practice and Processes

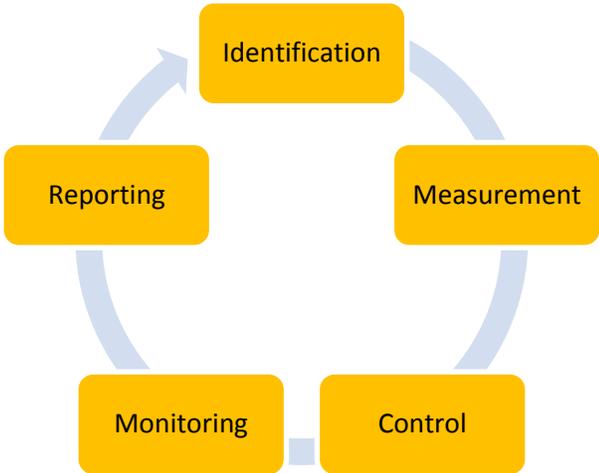
Risk management practices and processes are a fundamental component of the risk principles. It is essential in enabling systematic identification, measurement, controlling, monitoring and reporting of risk exposures.

To enable an effective execution of the risk management practices and processes, a common risk language is an imperative pre-requisite in facilitating a consistent and uniform approach in reference to risks across ELGAP. The standard classification of risks is detailed as part of Maybank Group Risk Universe.

Over and above this, the management of information assets arising from risk practices and processes have to be observed to ensure that all information is properly managed, controlled and protected throughout ELGAP.

The five (5) main stages of the risk management process which form a continuous cycle are as follows:

Subsequent sections outline risk management practices and processes based on the five (5) key stages. Details are documented in the respective risk management policies and procedures.



6.1 Risk Identification

Risk identification is the initial step in the risk management process. This firstly involves identifying, understanding and assessing the risks inherent in all products, activities and business initiatives.

6.2 Risk Measurement

One of the main objectives of the risk management process is that it enables ELGAP to assess, measure and manage risk on a consistent basis. In order to achieve this, risk measurement techniques should be developed across different dimensions of risk factors to ensure continual reassessment and identification of emerging risks.

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6.3 Risk Control and Mitigation

With the identification and measurement of risk, there has to be proper control and mitigation of the identified risks.

6.4 Risk Monitoring and Reporting

An accurate, clear, informative and timely management information system (“MIS”) is fundamental for monitoring and reporting of risk exposures and exceptions to ManCom and Risk Committees on a regular basis and to support compliance to the relevant policies, limits and regulatory requirements / guidelines.

Not only is the monitoring and reporting process essential in capturing existing exposures, it facilitates early identification of emerging risks, prompt decision making and communication of mitigating strategies.

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7. Resources and System Infrastructure

Appropriate system infrastructure and resources are the foundation and enabler to an effective risk management practice and process. As a result, ELGAP should equip itself with necessary resources, infrastructure, and support to perform its roles efficiently.

7.1 Resources

To execute the risk principles, objectives, strategies and processes at the various hierarchical levels within the governance model, all risk functions that are in place must be adequately staffed with the relevant personnel to carry out their responsibilities independently and effectively.

In addition, the requisite skills, qualifications, experience and competencies of staff within risk management should be compatible with the nature, scale and complexity of ELGAP's business activities.

The personnel should be equipped with the required knowledge to understand the various activities and risk profile of businesses and challenge these lines in all facets of risk taking activities.

7.2 System Infrastructure

With the current complexity of business operations and activities, it is critical to have a comprehensive and integrated system to support an enterprise-wide or consolidated view of risks.

Through the established infrastructure, the roles and responsibilities required for the effective management of risk can be performed appropriately.

In addition, effective measures and systems must be in place to facilitate the generation and exchange of information within ELGAP. This is important to ensure a swift response to changes in the operating environment and developments in business strategies.