Risk management report

Introduction

MMI's risk philosophy recognises that managing risk is an integral part of generating shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound risk management practice.

Risk management strategy

MMI's key risk management strategies are to:

- Understand the nature of the risks MMI is exposed to, the range of outcomes under different scenarios, and the capital required for assuming these risks.
- Manage shareholder value by generating a long-term sustainable return on the capital required to back the risks assumed.
- Ensure the protection of client interests by maintaining adequate solvency levels.
- Ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk-adjusted basis.
- Create a competitive long-term advantage in the management of the business with greater responsibility to all stakeholders.

Management and the Board

Risk management enables management to deal effectively with uncertainty and its associated risks and opportunities, enhancing the capacity to build stakeholder value.

The MMI Board is ultimately responsible for the end-to-end process of risk management, and for assessing its effectiveness. Management is accountable to the Board for designing, implementing and monitoring the risk management process and for integrating it into the day-to-day activities of the group.

The Board discharges these responsibilities through frameworks and policies approved and adopted by the Board and its designated committees, which direct the implementation and maintenance of adequate processes for corporate governance, compliance and risk management. The risk management framework applies across the business.

The chief risk officer (CRO) of MMI is the head of the risk function in the business, who is supported by individual risk type heads, segment-level risk management teams and their respective CROs. The head of the actuarial function provides assurance to the Board on the accuracy of calculations and appropriateness of the assumptions underlying the technical provisions and capital requirements, both from a regulatory and internal perspective.

Risk appetite

MMI's risk appetite is formulated by the Group Executive Committee and approved by the Board Risk, Capital and Compliance Committee, and expresses the level and types of risk which MMI is prepared to seek, accept or tolerate in pursuing its strategic objectives.

The risk appetite includes quantitative boundaries on risk exposure and the group's capital requirements, supported by a detailed risk strategy. The risk strategy, which is also approved by the Board Risk, Capital and Compliance Committee, provides a qualitative specification of MMI's appetite for exposure to the different types and sources of risk.

The setting of risk appetite is fundamentally driven by the dual, and sometimes conflicting, objectives of creating shareholder value through risk taking, while providing financial security for clients through appropriate maintenance of the group's ongoing solvency. MMI's appetite for exposure to the different types and sources of risk is aligned with the strategic vision of MMI to be the preferred lifetime Financial Wellness partner, with a reputation for innovation and trustworthiness.

Risk taxonomy

Business performance and strategic risk

For MMI, these are risks that can adversely affect the fulfilment of business and strategic objectives to the extent that the viability of a business is compromised. This includes strategic choice, strategic execution, business volume, expense and reputational risks, and the impact of the macroeconomic and business operating environment.

Long-term insurance risk

Long-term insurance risk for MMI is the risk that future claims and expenses will cause an adverse change in the value of long-term life insurance contracts through the realisation of a loss, or the change in insurance liabilities. The value of life insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic boundary. It therefore relates to risk exposures across mortality, morbidity/disability, retrenchment, longevity, life catastrophes, lapse and persistency. MMI also has exposure to health insurance risk in India and its African subsidiaries outside South Africa.

Short-term insurance risk

Short-term insurance risk is defined as the risk of unexpected underwriting losses in respect of existing short-term insurance business as well as the new business expected to be written over the following 12 months. Underwriting losses could result from adverse claims, increased expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines. It covers premium, reserve, lapse and catastrophe risk exposures.

Credit risk

This is the risk of losses arising from the potential that a counterparty will fail to meet its obligations in accordance with agreed terms. It arises from investment and non-investment activities, such as reinsurance credit risk, unsecured lending, amounts due from intermediaries, policy loans and scrip lending.

Market risk

This risk is defined as the risk of losses arising from adverse movements in the level and/or volatility of financial market prices and rates. This includes exposure to equities, interest rates, credit spreads, property, price inflation and currencies.

Liquidity risk

This is the risk that, though solvent, the organisation has inadequate cash resources to meet its financial obligations when due, or where these resources can only be secured at excessive cost. MMI differentiates between funding liquidity risk (the risk of losses arising from difficulty in raising funding to meet obligations when they become due) and market liquidity risk (the risk of losses arising when engaging in financial instrument transactions due to inadequate market depth or market disruptions).

Operational risk

This is the risk of losses resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Compliance risk

This is the risk of legal or regulatory sanctions, material financial loss or loss to reputation that MMI and its businesses may suffer as a result of its failure to comply with legislation, regulation, rules, related self-regulatory organisational standards or codes of conduct applicable to the activities of MMI and its businesses.

Market conduct risk

This is defined as the risk of the organisation not delivering on fair client outcomes, which could result in loss of trust, reputation and market share with our clients and in the industry.