RISK MANAGEMENT

Introduction

MMI's risk philosophy recognises that managing risk is an integral part of generating sustainable 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 in order to assume 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; and
- Create a competitive long-term advantage in the management of the business with greater demonstrated responsibility to all stakeholders.

Risk management enables management to deal effectively with uncertainty and its associated risk and opportunity, enhancing the capacity to build value.

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

The board discharges these responsibilities by means of frameworks and policies approved and adopted by the board and its designated committees that direct the implementation and maintenance of adequate processes for corporate governance, compliance and risk management. The Risk Management framework applies to all the divisions, business units, subsidiaries and activities of MMI.

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 type of risk which MMI is prepared to seek, accept or tolerate in pursuit of its strategic objectives.

The risk appetite includes quantitative boundaries on risk exposure and the group's economic 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 at times conflicting, objectives of creating shareholder value through risk taking, while providing financial security for customers 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 of our clients, with a reputation for innovation and trustworthiness.

Risk Taxonomy

MMI actively manages the following risk categories and types of risk:

Risk Category	Description	Type of Risk	Risk Management
Life Insurance Risk	The risk that future risk claims and expenses will cause an adverse change in the value of long-term (life) insurance contracts. This can be through the realisation of a loss, or the change in insurance liabilities. The value of long-term insurance contracts is the expectation in the pricing and/or liability of the underlying contract where insurance liabilities are determined using an economic contract boundary.	• Mortality risk • Longevity risk • Morbidity or disability risk • Persistency or lapse risk • Expense risk • Business volume risk • Life catastrophe risk • Retrenchment risk	• Managed in terms of the MMI Insurance Risk Management Policy. • The statutory actuary, under the terms of the Long-term Insurance Act, 52 of 1998, ensures solvency and the ability to meet liabilities. He reports to the board, independent auditors and the Financial Services Board (FSB). • The MMI Actuarial Committee, Product Management Committee and Head of life insurance risk support the statutory actuary by providing oversight of insurance risks.
Non-life Insurance Risk	The risk of unexpected underwriting losses in respect of existing business as well as new business expected to be written over the following twelve months. Underwriting losses could result from adverse claims, expenses, insufficient pricing, inadequate reserving, or through inefficient mitigation strategies like inadequate or non-adherence to underwriting guidelines	• Premium risk • Reserve risk • Catastrophe risk • Lapse risk	• Managed in terms of the MMI Insurance Risk Management Policy. • The MMI Actuarial Committee, Product Management Committee and head of non-life insurance risk provides oversight of the non-life insurance risks.

Credit Risk	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 activities but also non-investment activities, for example reinsurance credit risk, amounts due from intermediaries, policy loans and script lending. MMI accepts credit risk on behalf of its policyholders and shareholders.	• Downgrade or migration risk (portfolio quality) • Concentration risk • Counterparty / Default risk • Spread risk	• Managed in terms of the MMI Credit Risk Policy. • The Credit Risk Committee is a sub-committee of GBSM Executive Committee. It is responsible for the approval of relevant credit policies and the ongoing review of the credit exposure of MMI.
Market Risk	The risk of financial loss due to adverse movements in the market value of assets supporting liabilities relative to the value of those liabilities, or due to a decrease in the net asset value, as a consequence of changes in market conditions or as a result of the performance of investments held.	• Equity risk • Interest rate risk • Property risk • Currency risk • Inflation risk • Market concentration risk • Liability basis risk	• Managed in terms of the MMI Shareholder ALM Policy and MMI Client Investment Management Policy. • GBSM Executive Committee provides oversight of the market risk assumed on MMI's balance sheet. • The business unit Client Investment Committees monitor investment performance of all investment portfolios, compares performance against benchmarks and evaluates the appropriateness of investment mandates and benchmarks.

Liquidity Risk	The risk that MMI, though solvent, has inadequate liquid financial resources to meet its financial obligations as and when they fall due or can only secure these resources at excessive cost.	• Funding liquidity risk • Market liquidity risk	• Managed in terms of the MMI Liquidity Risk Policy. • GBSM Executive Committee provides market risk oversight for funding and liquidity risk assumed on MMI's balance sheet. • The business unit Client Investment Committees monitor investments in assets, which are expected to provide cash flows that match liability outflows as and when they are expected to occur.
Strategic, Business and Reputational Risk	Strategic risk is the risk of the current and prospective impact on earnings or capital arising from an inability to implement appropriate business plans, strategies, decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	• Macro-economic • Micro economic – insurance and financial services industry • Business risk • Strategic relationships risk • Strategic implementation risk • Group risk	• The individual business areas, CEOs and MMI Executive Committee members are responsible for the development and execution of business level strategy. • The board sets MMI's overall strategy and ensures that strategic objectives set at a business level are consistent with the overall MMI strategy. • Treating Customers Fairly (TCF) is governed by the Fair Practices .Committee (FPC) of the board.

Operational Risk	The risk of loss arising from inadequate or failed internal processes, people and/or systems, or from external events. This definition includes legal risk but excludes strategic and reputational risk.	• Execution, delivery and process management risk • Client, product and business practices risk • Damage to assets risk • Employment practices and workplace safety risk • Internal fraud risk • External fraud risk • System (technology) and infrastructure failure risk • Legal risk • Compliance risk • Tax risk	• Management and employees at every level of the business are accountable for the day-to-day identification, management and monitoring of operational risks. • Operational risk is managed in terms of the MMI Operational Risk Policy. • The policy is supported by a number of specialist risk policies, including, but not limited to, a fraud risk management policy, tax policy, compliance policy and IT risk management policies. • The combined assurance forums in the business units of MMI oversee the operational risk management process. • The business unit Client Investment Committees are responsible for overseeing investment risk management across the group. • Treating Customers Fairly (TCF) is governed by the Fair Practices Committee (FPC) of the board.