



RISK APPETITE STATEMENT

1. INTRODUCTION

International Assurance Limited PCC (“IAL”) is a licensed long-term insurance and protected cell company in Mauritius. The Company provides investment, savings, personal life insurance, group life insurance and retirement fund solutions in Africa, the Middle East, Europe, the Americas and Asia through its global network of financial advisors.

The activities undertaken in fulfilment of its responsibilities are overseen by its Board and several Board sub-committees as well as high-level management committees.

The Company is charged with carrying out the duties of an insurance business in the interests of its shareholders and stakeholders. This obligation is enshrined in legislation and is central to the core values of the Company. IAL’s ability to effectively fulfil this mandate rests, among other things, on its reputation as a Mauritian insurance business of the highest integrity and professionalism.

This Statement considers the most significant risks to which the Company is exposed and provides an outline of the approach to managing these risks. All strategic and business plans for functional areas need to be consistent with this Statement.

2. GENERAL STATEMENT OF APPETITE

IAL faces a broad range of risks reflecting its responsibilities as a Mauritian insurance business. These risks include those resulting from its responsibilities in the areas of financial stability as well as its day-to-day operational activities.

The risks arising from the Company's product offerings can be significant. These risks are managed through detailed processes that emphasise the importance of integrity, intelligent inquiry, maintaining high quality staff and public accountability.

Financially, the Company is committed to maintain a level of capital sufficient for a long-term insurance business to accommodate any unexpected losses, both under normal and adverse conditions, and to be perceived as a robust and sound company.

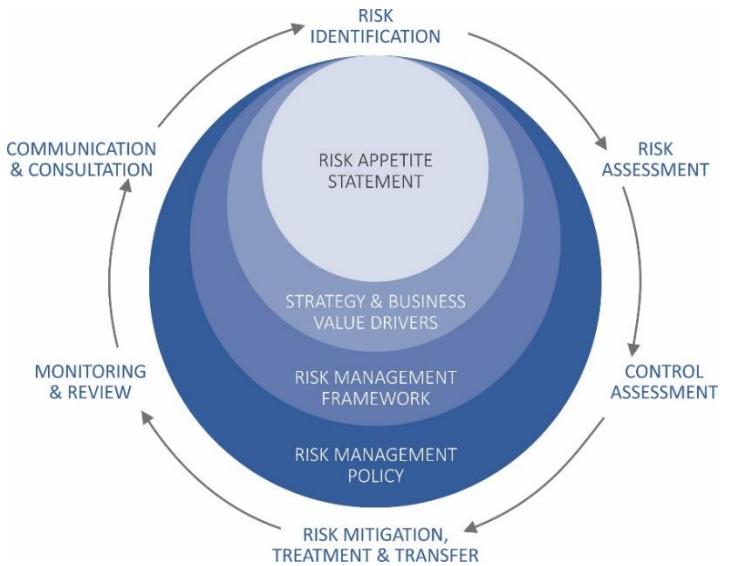
Moreover, IAL commits to deliver to its shareholders an acceptable return for the risks undertaken, and to maintain a stable financing structure and adequate liquidity to meet its financial obligations, ensuring a “going concern” even under stressed scenarios.

In terms of operational issues, the Company has a low appetite for risk. IAL makes resources available to control operational risks to acceptable levels. The Company recognises that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation and efficiencies within business practices.

3. THE RISK MANAGEMENT FRAMEWORK

IAL's risk management framework seeks to ensure that there are effective processes in place to manage risks across the business. Risk management is integral to all aspects of the Company's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasises careful analysis and management of risk in all business processes.

These risks are identified, assessed and managed at both a Company level ('top-down') and cellular or product level ('bottom-up'). The Risk Management Committee has oversight of these processes. This Committee meets at least four times a year and reports on its activities to both the Board and the Board Audit Committee.



4. RISK GOVERNANCE STRUCTURE

Underpinning the Company's risk culture is a risk governance structure that encompasses its principal business operations and risk areas and defines a framework of risk sub-committees, risk reporting and risk controls embedded throughout the business.

The current risk governance structure provides an oversight and decision-making framework within which material risks are continually identified, assessed, controlled, managed and monitored utilising outputs from the Own Risk and Solvency Assessment (ORSA) tests where appropriate. The organisation chart below provides a high-level overview of IAL's risk governance structure:



5. RISK CATEGORIES

By design, IAL's internal risk model takes into account the following sources of risk, classified as risk categories per segment: The Company's attitude towards its key strategic, financial, people and operational risks is described below. IAL's internal risk capital model covers all of its major insurance operations including the Company's assets, liabilities and cash flow.

Internal Risk Model

Risk Category	Insurance Products	Investment Products	Corporate / Other	Description
Insurance Risk				
IAL Cover Limits	■		■	The processes of determining the profitability of IAL's products and reporting the results of its long-term business operations requires IAL to make a number of assumptions. This depends on a mix of factors including pricing, policyholder behaviour, expense management and claim incidence and could have an adverse impact on IAL's capital if the results are different from those assumed.
Policyholder Behaviour	■		■	
Reinsurance Cover	■		■	
Underwriting	■		■	
Claims	■		■	
Catastrophe	■		■	
Investment Risk				
Market Instrument Prices		■	■	Uncertainty around investment growth can arise through instrument defaults and market risks resulting from the volatility of asset values as a result of fluctuations in equity prices, interest rates, foreign exchange and property prices. Portfolio liquidity risk is also a key area of focus.
Equity Prices		■	■	
Property Prices		■	■	
Forex Volatility		■	■	
Interest Rate Movements		■	■	Regular stress testing is undertaken to ensure IAL's policyholder's accounts are able to generate sufficient cash resources to meet their fee paying obligations as they fall due in business as usual and in stress scenarios.
Portfolio Liquidity		■	■	
Instrument Default		■	■	
Instrument Concentration		■	■	
Credit & Financial Risk				
Reinsurer Credit Rating	■		■	The risk of loss for IAL resulting from changes to the credit standing of counterparties, issuers of securities and other debtors should there be a default or other significant credit event. Liquidity and cash flow risk is the risk of IAL being unable to generate sufficient cash resources to meet financial obligations as they fall due.
Banks Credit Rating	■	■	■	
Custodian Credit Rating		■	■	
IAL Loans & Receivables			■	
IAL Liquidity & Cash Flow			■	
Operational Risk				
IAL Processes & Controls	■	■	■	The risk of loss arising from inadequate or failed internal processes for personnel and systems, or from external events (other than those events covered under normal business environment risk). Operational risk is recognised as a distinct risk category which IAL strives to manage within acceptable levels through sound risk management practices that are cost effective and fit for purpose.
IAL Systems	■	■	■	
Data Security	■	■	■	
Software Reliability	■	■	■	
IAL People	■	■	■	
IAL Product Design	■	■	■	
Fraud	■	■	■	
Business Retention	■	■	■	
Business & Strategic Risk				
IAL Strategic Plan	■	■	■	Strategic risk is the possibility of adverse outcomes resulting from a weak strategy and competitive position or from excessive exposure to volatility of revenue and cost due to factors such as changes in macroeconomic conditions, inflexible cost structures, damaged reputation or brand, uncompetitive products or pricing and structural inefficiencies.
IAL Capital Structure			■	
IAL Governance			■	
IAL Risk Tolerance	■	■	■	
IAL Product Pricing	■	■	■	
Competition	■	■	■	
Change Management	■	■	■	
Reputational Risk				
IAL Core Values & Principles			■	Risks related to contracts, actions taken and not taken may result from ineffective and incorrect practices. Regulatory and legislative non-compliance may result from inappropriate or inadequate policies, processes and procedures.
IAL Code of Conduct	■	■	■	
IAL Acts & Omissions	■	■	■	
Regulation & Compliance	■	■	■	

Emerging risks and causal factors

IAL also manages and monitors all causal factor risks which may impact on the Company's longer-term profitability and viability, in particular the ability to write profitable new business. For example, such risks and factors include:

Regulatory change – IAL faces considerable regulatory change which may affect how much capital the Company holds, how it operates and how it sells and distributes its products. A change in laws or regulations made by the Company's regulatory body can increase the costs of operating the business, reduce the attractiveness of its products and/or change the competitive landscape. Any changes are also exacerbated by the dangers of failing to effectively interpret the regulatory agenda, implement appropriate procedures and supervisory guidelines and control the costs of regulation?

New technologies – failure to understand and react to the impact of new technology and its effect on customer behaviour and how IAL distributes its products could potentially result in the Company's business model becoming out-dated.

Political risk – governments in some of the markets in which IAL operates may incentivise long-term saving and private pension provision through tax benefits. There could in the future be restrictions and controls on these incentives. Any change in policy could influence the demand for, and profitability of, some of IAL's products. The diversity of the Company's product offering and the geographies in which it operates partly mitigates this risk.

Prolonged low interest rate environment – if current low interest rates continue for a prolonged period it will adversely affect the returns IAL can deliver to its policyholders and in turn the return for the Company from its policyholders' investments, as well as the attractiveness of the historic returns that IAL can market to new customers.

Macroeconomic growth – the prolonged slowdown in global economic growth, particularly in Europe, Asia and Emerging Markets, could precipitate a wider prolonged economic slowdown, which could adversely impact IAL's policyholders' investments' performance, customer retention and new business levels.

New and emerging latent claims – new claims on policies written a long time in the past may arise as a result of future court judgements.

6. RISK APPETITE

Risk appetite expresses the level of risk that IAL is willing to assume within its risk capacity in order to achieve its business objectives, as defined by a set of minimum quantitative metrics and qualitative standards. Risk capacity is defined as the maximum level of risk IAL can assume in both normal and distressed situations before breaching regulatory constraints and the Company's obligations to shareholders and stakeholders.

Risk appetite is an integral element in IAL's business planning processes via its Risk Management Strategy, to promote the appropriate alignment of risk, capital and growth targets, while at the same time considering risk capacity and appetite constraints from both financial and non-financial risks. IAL leverages the stress testing process to test the compliance of the strategy also under stressed market conditions. Top-down risk appetite serves as the limit for risk-taking for the bottom-up planning from the business functions.

The Board reviews and approves IAL's risk appetite and capacity on an annual basis, or more frequently in the event of unexpected changes to the risk environment, with the aim of ensuring that they are consistent with the Company's strategy, business and regulatory environment and the shareholders' and stakeholders' requirements.

In order to determine IAL's risk appetite and capacity, the Company sets different triggers and thresholds on a forward-looking basis and defines the escalation requirements for further action. IAL assigns risk metrics that are sensitive to the material risks to which the Company is exposed and which are able to function as key indicators of financial health. In detail, IAL assesses a suite of metrics under stress and compares them to the Company's defined risk appetite levels.

7. IMPLEMENTATION OF IAL'S RISK APPETITE AND TOLERANCES

All management and staff are responsible for the implementation of, and compliance with, this Risk Appetite Statement. IAL's Risk Appetite Statement is published on the Company's Team Collaboration intranet.

Risk Assessments

The Company maintains a Risk Register of the business risks it faces in its day-to-day operations and the control framework which is in place to mitigate risks. The Risk Register takes into account risks from within IAL and external sources and are reviewed regularly. The Risk Register is also updated when there are key changes in policies, structures or functions.

All risks which are judged as unacceptable are reported to the Risk Management Committee and action plans to reduce these risks to acceptable levels are reported, where appropriate, to the Board.

All risks which are judged as having a residual risk equal to medium or above are reported to the Risk Management Committee quarterly.

Business unit managers are required to manage their specific operational risks in a manner which is consistent with this Risk Appetite Statement and to manage and address any risks outside appetite or agreed tolerance levels.

Stress Testing

Stress testing is a key focus during the Company's strategic planning process. Stress testing occurs throughout IAL and assists in ensuring that the Company's three-year plan has sufficient flexibility to remain appropriate over the time horizon and during times of stress. Through the use of stress testing and scenario analysis, IAL is able to assess the performance of its business units and products in the anticipated economic environment and evaluate the impact of adverse economic conditions on the portfolios. Stress testing also assists IAL in understanding its core assumptions in its business plan and informs the setting of capital requirements. Stress test results also inform the setting of other risk metric limits.

Stress testing and scenario analysis are central to the monitoring of material and emerging risks, helping IAL to understand the sensitivities of the core assumptions in its business plan to the adverse effect of extreme but plausible events. Stress testing allows the Company to formulate its response and mitigate risk in advance of conditions exhibiting the stresses identified in the scenarios.

Actual market stresses, which occurred throughout the financial system in recent years, have been used to enhance the stress scenarios IAL employs. In addition to the Company's internal stress testing, other stress testing exercises are undertaken using the regulators prescribed assumptions. IAL takes into account the results of all such stress testing when assessing its internal and regulatory capital requirements.

The Company's Risk Management Committee exercises governance oversight and approval authority over stress testing results.

Reporting and Monitoring

This Risk Appetite Statement is complemented by a number of specific risk metrics which assist management in assessing whether outcomes are consistent with IAL's risk appetite.

Performance against these metrics is tracked and reported to the Risk Management Committee on a quarterly basis. Reporting systems are maintained to provide assurance that the risk appetite is effectively incorporated into management decisions.

Review

This Risk Appetite Statement is reviewed annually, or whenever there is a significant change to the Company's operating environment. This review is coordinated by the Risk Management Committee. Proposed changes to the Risk Appetite Statement are endorsed by the Board following review by the Risk Management Committee.