

Risk Management

Risk in all its aspects remains central or the most important part of our business. Through active diversification and excellent management we systematically transform it into value. In order to do this we work tirelessly and persistently, being flexible and creative to market need. We track down risks, wherever they are and then create unique and intelligent solutions that add value. We have continued to practice integrated Risk Management through Value Based Management and profit oriented underwriting which enabled us to sustain good performance and profit growth objectives. We have made our underwriting profitable by managing our processes with expertise and a constant view to optimisation.

Risk Management plays a core role in the steering of Janashakthi Insurance. We use a mixture of decentralised and centralised risk management tools and processes for its diverse business functions.

The objective of the insurance risk management function is to provide the business a sustainable competitive advantage by fully integrating risk management into the tactical daily business activities as well as Janashakthi's broader business strategy. The Insurance Risk Management function ensures that

- products and portfolios are structured, underwritten, priced, approved and managed appropriately in compliance with internal and external rules and guidelines.
- the Janashakthi Insurance risk profile is transparent and well understood by management and that it stays within delegated authorities, with a 'no surprises' approach to reporting and monitoring risks.

- both risk and reward are adequately considered in the development of business strategy, during the strategic planning process.
- these steps are understood by Janashakthi's stakeholders, including shareholders, rating agencies, regulators and policy holders.
- the protection and enhancement of the reputation of Janashakthi Insurance.
- achievement of the highest degree of confidence in meeting our customer claims.

Risk Management should not be viewed as a restrictive factor in the day to day business activities of the Company. Indeed, the effective application of methods of Risk Management can in itself open up further opportunities for growth, as it has a direct bearing on efficient and effective use of Company resources with respect to maximising value to the Company. The setting up of strategies and objectives through a carefully formulated Risk Management process ensures that targets are achieved within a framework of acceptable risk.

We at Janashakthi have compiled a sound system of Risk Management, which has been improved upon and strengthened year by year throughout the Company's existence. We will continue to draw upon the real life experiences of the Company in setting its objectives and goals every year after evaluating and analysing the risks associated with the business. We also encourage incorporating best practice developments in the field of Risk in our own operations.

Functional Line	Janashakthi Structure	Tasks
Strategic Level	Board of Directors	<ul style="list-style-type: none"> ● Approves Company Risk Policy ● Defines risk strategy of Janashakthi ● Defines limit system
	Risk Committees <ul style="list-style-type: none"> ● Board Audit Committee ● Investment Committee 	<ul style="list-style-type: none"> ● Monitors solvency, investment and risk profile ● Defines risk standards and business and operating entities limits ● Recommends / approves actions to mitigate risks
Tactical Level	General Management Committee	<ul style="list-style-type: none"> ● Enhances risk dialogue between Strategic Level and operating entities ● Implements internal risk management model ● Reports and communicates Company risk
Operational Level	Operating Entities / Divisions	<ul style="list-style-type: none"> ● Manages risks proactively within company policies and limits ● Reports risk exposures to Tactical Level

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A key element in controlling of risk is the expertise of our management team in identifying risk factors and formulating solutions by which to deal with these risks. The Company focuses on the need for managers to have the capability to make sound judgments.

At Janashakthi we are proud to have a considerable number of experienced individuals at all levels of management who are more than capable of protecting the interests of the Company while searching for and capitalizing on market opportunities.

The Company stresses the need for teamwork and co-operation at all levels of the organization which in turn ensures that managers who are faced with possibly difficult choices and risk factors always have access to a wide range of opinions, information and advice from other managers, field staff, members of the Corporate Management and the Board of Directors.

To support each member of our Corporate Management and other levels of management, Janashakthi Insurance ensures that they are provided with continuous exposure to the latest trends and processes in the global insurance industry. This is described in greater detail in the Human Resources section.

Risk management policies and tools

At Janashakthi, Risk Management principles are applied throughout the Company. As a result, the Company carries out its operations within a clearly defined Risk Policy and Risk Control Framework. Clear accountability is established throughout the operations through clearly defined authority. Individuals are accountable for the risks they take on and their incentives are aligned with overall business objectives. Open Risk Culture is always encouraged, while risk transparency and responsiveness to changes are integral to Janashakthi. Risk Control Procedures in the Company, the functions and responsibilities of all participants are clearly defined. This enables setting standards and developing methods and tools as a basis for consistent company wide risk management. In day-to-day business, our executives in the business units are also responsible for systematically handling individual risks in insurance and reinsurance. Risk management procedures and tools are built into the business steering concepts through the value based management system practiced in the Company. The value based management framework we follow in our Company is structured to ensure that business meets the technically risk adequate price standard for the aggregate of the business unit's portfolio. As an insurance company we diversify our portfolio throughout the broadest possible mix and spread the risk thereby significantly reducing the volatility of the total claims payment.

We are focused on the need for constant vigilance in managing the level of risk that the Company is exposed to. At the same time, we are cognisant of the fact that any type of expansion or capitalising on business opportunities involves an Inherent Risk.

It is the skill and experience of our Corporate Management team, guided by the wisdom of our Board of Directors together with sound practices and procedures which enables Janashakthi Insurance to capitalise on opportunities for expansion, while at the same time protecting the Company, its shareholders, staff, and other stakeholders, from exposure to undue levels of risk.

It is a fact of doing business in any country that a company must accept a certain level of risk in order to grow. Simply put, without risk there is little likelihood of a substantial return on investment.

The volatile nature of the surrounding environment in Sri Lanka makes conducting business activities somewhat more risky than in a more stable society. However, we at Janashakthi Insurance regard the added risk as a challenge that may present enhanced opportunities for growth from time to time while at other times requiring a greater degree of caution. Risk Management is therefore a key discipline in our Company that spans all spheres of business activities.

The manner in which a Company manages its exposure to various risk factors has a direct impact on the sustainability of the organization, both in the long term and short term. The management of risk cannot therefore be left to the discretion of individual managers, but must be dealt with through a standardised process. It is therefore of paramount importance that a company must formulate stringent and detailed guidelines and procedures on the management of risk. This would have a direct influence on the employment of company strategies to ensure that the company achieves its growth targets while at the same time protecting it from overexposure to risk factors.

Core Risks

Janashakthi is engaged in selling a broad range of life and non-life insurance products. Risks from these products arise with respect to the adequacy of insurance premium rate levels and provisions for insurance liabilities and capital position, as well as uncertainty as to the future returns on investments of the insurance premiums. Janashakthi has categorised its total risks into seven main risks for its effective Risk Management Process.

Risks are classified as;

- Insurance risk
- Market risk
- Credit risk
- Liquidity risk
- Reputational risk
- Compliance risk
- Operational risk

Insurance Risks

Insurance risk is the risk of incurring financial loss as a result of a property, casualty, life or health insurance event occurring. This involves the risk of financial loss to the company in the event of an actual claim crystallising and requiring payout from Janashakthi. A claim would be undertaken in relation to any life or general insurance coverage arising from the Company’s principal business activities, mainly from motor, fire, marine, health and a range of other policies underwritten. These risks are managed throughout the organization through a number of procedures including;

1. Pre-launch approval of product design, development and distribution
2. Underwriting approval processes and authorities
3. Exposure limits with ongoing monitoring
4. Modelling and reporting of aggregations and limit concentrations at multiple levels
5. Compliance with financial reporting and capital and solvency targets
6. Extensive use of reinsurance
7. Review and establishment of reserves
8. Regular review and revision of product pricing

Janashakthi has three major categories of insurance risks as follows,

1. Underwriting Risk
2. Reinsurance Risk
3. Reserve adequacy Risk

Underwriting Risk

Janashakthi has two major categories of Underwriting Risks as follows,

1. General Insurance

Under General Insurance, risks covered include property, casualty, fidelity/surety, management liability and mortgage insurance. Risks in the general insurance segment are managed through aggregations and limitations of concentrations at multiple levels: strategic, business and operational levels.

A primary goal of Janashakthi in managing its General Insurance operations is to achieve an underwriting profit. To

achieve this goal, Janashakthi must be disciplined in its risk selection, and premiums must be adequate and terms and conditions appropriate to cover the risk accepted.

2. Life Insurance

In Life Insurance, the primary risk is associated with underwriting, which represents the exposure to loss resulting from the actual policy experience emerging adversely in comparison to the assumptions made in the product pricing associated with mortality, morbidity, termination and expenses.

In both General Insurance and Life Insurance, underwriting risks are managed through the application approval process, exposure limitations as well as through exclusions, coverage limits and re-insurance. The risks covered by Janashakthi are managed through limits on delegated under writing authority, the use of actuarial analysis as part of the determination of overall adequacy of provisions for insurance contract liabilities.

Reinsurance Risk

Reinsurance risk refers to the inability of re-insurers to comply with their contractual commitments on time.

Janashakthi uses reinsurance programmes for its insurance risks as follows,

- Facultative to cover large individual exposures.
- Quota share treaties to cover specific books of business.
- Excess of loss treaties to cover catastrophic losses.
- Surplus automatic treaties to cover life and property risks in excess of pre-agreed retention limits.

Reinsurance department conducts periodic detailed assessments of the financial status and condition of current and potential reinsurers. The Reinsurance Department monitors both the nature of the risks ceded to the reinsurers and the aggregation of total reinsurance recoverable ceded to reinsures. Such assessments may include, but are not limited to, identifying if a reinsurer is appropriately rated and has sufficient financial capacity. Janashakthi diversifies its underwriting risk by means of reinsurance arrangements with companies who have high ratings.

Our reinsurers and their respective ratings are as follows,

Life Insurance Business

Name of Re-insurer	Credit Rating	Agency	Date Affirmed
Hannover Re	A	A M Best	16-07-2008
Partner Re	AA -	A M Best	20-01-2009

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General Insurance Business

Name of Re-insurer	Credit Rating	Agency	Date Affirmed
Best Re	A-	A M Best	18-08-2008
China International	A-	A M Best	26-03-2008
Egypt Re (MISR Re)	A-	A M Best	15-08-2008
FAIR Pool	-	-	-
GIC India	A-	A M Best	28-12-2007
Hannover Re	A	A M Best	16-07-2008
Malaysian Re	A-	A M Best	20-11-2008
Mile Re	B + +	A M Best	06-08-2008
NITF	-	-	-
Partner Re	AA-	A M Best	20-01-2009
Scor	A-	A M Best	14-11-2008
Toa Re	AA-	A M Best	25-08-2008
Trust International	A-	A M Best	27-06-2008

Janashakthi believes that no exposure to a single reinsurer represents an inappropriate concentration of risks to Janashakthi, nor is Janashakthi's business substantially dependent upon any single reinsurance contract.

Reserve Adequacy Risk

This refers to insufficient provisioning of reserves for intimated claims and Incurred But Not Reported claims.

Janashakthi Insurance takes all the necessary actions to make sure that the total insurance liabilities of Janashakthi Insurance (both reserves and capital) are tested for adequacy taking into account the insurance premium rate levels and the uncertainty of future returns on investments. This is done by evaluating insurance liabilities on current best estimate actuarial assumptions plus a risk margin, ensuring that the reserves remain adequate based on current assumptions.

With regard to Life Insurance, the Life Fund is subject to bi-annual review by an independent Consultant Actuary. The actuary also decides the provision of reserves to meet policyholders' liabilities, claims outstanding and certifies the solvency margin as rules made by the IBSL under section 105 and section 26 of the Regulation of Insurance Industry, No 43 of 2000 as his review process.

Market Risks

Janashakthi Insurance is exposed to market risk to the extent to which the market value of surplus can be adversely impacted due to movements in financial markets; these include interest rates, equity prices, foreign exchange rates

and real estate prices. Changes in financial market prices impact the market value of Janashakthi's current asset portfolio and the calculated market value of Janashakthi's insurance liabilities.

The Company has laid down Company Investment Guidelines, which have been approved by the Board of Directors. These guidelines specify the effective management of the Company's investments, assets and liabilities. These guidelines are intended to maintain a diverse range of investments, which will optimise returns while mitigating risks. This includes a system of constant monitoring, in order to respond rapidly to changes in Macro Economic and Micro Economic situations.

In addition, an Assets & Liability Management Report is made available to the Company's Investment Management Committee. This Committee considers the guidelines laid down, as well as all other available MIS, to maintain an Investment Product portfolio, that balances the Risk Profile of the portfolio vs the level of acceptability of the return sought therefrom.

Credit Risks

Credit risk is the risk of incurring unexpected financial losses inherent in the credit portfolios related to (unexpected) changes in the underlying creditworthiness of debtors, or the recovery value of underlying collateral (if any).

The creditworthiness of external parties including business partners, clients, banks etc, determines the level of Credit Risk that any company is exposed to. The financial viability

of such organizations that the Company has dealings with, on a frequent basis, is of paramount importance as it directly affects the financial strength of the Company.

Janashakthi continuously monitors the creditworthiness and financial stability of all institutions and individuals with whom we have dealings, in order to ensure the safety of the Company's financial assets. Strict credit limits are imposed on all such parties, following a strict evaluation of their stability and business activities.

The Company maintains a stringent policy of monitoring the payment of premiums on all policies, and takes firm action to cancel policies where dues are not paid within the stipulated time period granted for credit.

The Company has also implemented a provisioning policy for long outstanding premium receivables and outstanding debts are checked and confirmed before settling claims.

Liquidity Risks

Liquidity risk is being unable to meet liquidity commitments at increased cost or ultimately the inability of the Company to meet obligations that become due, because of an incapability to liquidate assets or obtain adequate funding. It includes both the risk of being unable to fund portfolio assets at appropriate maturities and rates and the risk of being unable to liquidate a position in a timely manner at reasonable prices. It can be defined in terms of maturity mismatch between assets and liabilities while at others it is defined in terms of asynchronous timing of cash inflows and cash outflows from the business.

This risk arises from short-term inability to meet financial requirements, which may be caused, by a variety of factors in day-to-day business activities.

At Janashakthi we continue to maintain a policy of investing a sufficient portion of the Company's funds in government securities and other investment options which ensure the rapid access to liquidity.

Reputational Risk

Reputation risk is defined as the current and prospective impact on earnings and capital arising from negative public opinion.

Acting with integrity and preserving Janashakthi's reputation is of paramount importance. Complying with relevant laws, regulations and ethical and internal standards, in both letter and spirit, is a prerequisite for this. This may affect the ability to establish new relationships or services or continue servicing existing relationships. This risk may also expose an institution to litigation, financial loss, or a decline in its customer base. Managing reputation risk is therefore an essential part of

Janashakthi's business strategy, taking into account all stakeholders, whose perception of Janashakthi determines its reputation. Risks or uncertainties, both positive and negative, are carefully managed, as reputation risk does not exist in isolation – rather, all risks may impact on reputation.

Within Janashakthi everything centres on people and trust. Janashakthi's Board of Directors and Senior Management share a clear vision of reputation management that goes well beyond the compliance and operational risk functions itself and drives the process of delivering on that vision. Janashakthi therefore expects the highest levels of personal conduct and integrity from all its employees and managers in order to safeguard its reputation.

Compliance Risk

Janashakthi believes that good compliance management is in the best interest of its customers, shareholders and staff, and is important for the way Janashakthi does business. Complementary to this, effective control and management of operational risks leads to more stable business processes and lower operational risk costs.

Compliance risk is defined as the risk of damage to Janashakthi's reputation as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies and procedures or ethical standards. In addition to reputation damage, failure to effectively manage compliance risk can expose financial institutions to fines, civil and criminal penalties, payment of damages, court orders and suspension or revocation of licenses. A failure (or perceived failure) can adversely impact customers, staff and shareholders of Janashakthi.

Compliance management is fundamental to driving value. The pursuit of long term business sustainability requires proper conduct of business activities in accordance with the high ethical standards of Janashakthi's Business Principles. These principles not only reflect laws and regulations, but are also based on Janashakthi's core values: integrity, entrepreneurship, professionalism, responsiveness and teamwork.

Clear and accessible policies and procedures are embedded in Janashakthi business processes in all business lines. An infrastructure is in place to enable management to track current and emerging compliance issues and to communicate these to internal and external stakeholders. A comprehensive system of internal controls and audit creates an environment of continuous improvement in managing compliance risk. Janashakthi understands that good compliance involves understanding and delivering on the expectations of customers and other stakeholders, thereby improving the quality of key relationships based on honesty, integrity and fairness.

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The Scope of the Compliance function

The Compliance function focuses on managing the risks arising from laws, regulations and standards which are specific to the financial services industry and which are issued by legislative and regulatory bodies relevant to insurance business, or by Janashakthi Group Compliance. The Compliance function actively educates and supports the business in managing areas such as anti-money laundering, conflicts of interest management, sales and trading conduct and customer interest and protection.

The following Compliance risk areas have been defined and highlighted for particular attention:

- Client related integrity risk: this includes Financial Economic Crime – money laundering, other external crime and fraud. Following Customer and Business Partner Due Diligence processes and monitoring business transactions are key contributors to how this risk is managed.
- Personal conduct related integrity risk: this includes market abuse and personal insider trading. Business principles and (local) codes of conduct and specific policies on outside positions by Janashakthi officers, inducements, including gifts and entertainment assist with management of these risks.
- Financial services conduct related integrity risk: the primary focus of this area of compliance risk is on marketing, sales and trading conduct, conduct of advisory business, transparency of product offerings, customer interest and protection. To assist with management of these risks Janashakthi has complaint handling processes, internal standards with respect to new product approval and product review and policies for data protection and privacy.
- Organisational conduct related integrity risk covers: conflicts of interest, anti-trust and relationships with third parties and intermediaries. Policies and measures in place to manage this risk include conflicts of interest policies and procedures, regulatory registration requirements and outsourcing and Merger and Acquisition policies and due diligence processes.

Janashakthi has a Whistle-blower Policy and procedure, which encourages staff to speak up if they know of or suspect a breach of external regulations or internal policies or business principles. The Whistle-blower Policy ensures that staff is protected when raising issues.

The Organisation of Compliance

The Chief Compliance Officer reports directly to the Managing Director and is responsible for developing and establishing the company-wide Compliance Policy. The Chief Compliance Officer also establishes minimum standards for Compliance

and assists and supports the Board of Directors in managing Janashakthi's Compliance risks.

Janashakthi uses a layered functional approach within Business Line Compliance to ensure systematic and consistent implementation of the company-wide Compliance Policy, minimum standards and the Compliance Framework. The departmental Compliance Officer has the responsibility to assist the department in managing compliance risk within that business unit.

To ensure robust compliance risk management, Corporate Compliance, in close cooperation with business line Compliance and the business operations, has developed policies, processes and tools to assist with management of compliance risks. This set of compliance risk management processes and tools consists of the following components:

- Compliance chart (outlining the local scope of compliance in terms of laws, regulations and standards);
- Compliance risk identification and assessment;
- Compliance risk mitigation, (including implementation of standards, procedures and guidelines);
- Compliance risk monitoring (adherence to the Compliance Policy, its minimum standards and applicable legal and regulatory standards; quarterly reporting);
- Incident management;
- Training and education;
- Action tracking;
- Provision of compliance advice;
- Compliance governance.

In addition a monthly report is submitted by each Head of Division, to the Chief Compliance Officer, confirming that all required / stipulated / existing controls, processes, procedures and compliance actions required for that month, have in fact, been effected. This report is reviewed by the Managing Director and a summarized report is submitted monthly for the review of the Board of Directors.

Operational Risks

Operational risks are inherent part of Janashakthi's business operations. Operational risks and losses can result from business interruptions, bad management or fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorization, information technology failures or external events.

Janashakthi believes that effective operational risk management leads to more stable business processes and lower operational risk costs. The operational risk management function comprises operational, information and security risks.

This is done by raising operational risk awareness, increasing transparency, improving early warning information and allocating risk ownership and responsibilities. It is the responsibility of group and local Operational Information and Security Risk Management to support general management in managing operational information and security risk (hereafter referred to as operational risk).

Janashakthi has defined operational risk as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes the risk of reputation loss as well as legal risk; whereas strategic risks are not included. The following eight risk categories are recognised.

- Control risk is the risk on loss due to non-compliance with business policies or guidelines;
- Unauthorised activity risk is the risk on loss caused by unauthorised employee trading, approvals or overstepping of authority;
- Processing risk is the risk on loss due to unintentional human error during (transaction) processing;
- Employment practice and workplace safety risk is the risk of loss due to acts inconsistent with employment, health or safety laws, or agreements, from payment of personal injury claims, or from diversity /discrimination events;
- Personal and Physical Security risk is the risk of criminal and environmental threats that might endanger the safety of Janashakthi personnel within Janashakthi locations and Janashakthi assets or might have an impact on the Janashakthi organisation;
- IT risk is the risk of loss due to inadequate data or information security of systems;
- Crisis management and Business Continuity Planning/ Disaster Recovery Planning risk is the risk of loss due to external events (e.g. natural disasters, criminal activity and terrorist attacks) leading to a situation that threatens the safety of people within Janashakthi or the continuity of business conducted;
- Internal and external fraud risk is the risk of losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations or the law.

Personal and Physical Security

Janashakthi has established policies on Personal and Physical Security. Entities need to ensure that all policy requirements are maintained. The Janashakthi Corporate Physical Security policy and minimum determine functional requirements about the areas of physical access security, theft protection, fire protection, cash and valuables protection, utilities and infrastructure protection and supporting security devices. Security plans per location are based on a risk assessment.

All (major) Janashakthi assets (e.g. premises, information, equipment and valuables) must have a nominated asset-owner, which is accountable for the adequate protection of its entrusted Janashakthi asset.

Crisis Management

Crisis Management includes the process to detect, assess, solve and evaluate a crisis. The policy has prescribed requirements around planning and testing of crisis management organisation, crisis communication, building evacuation, emergency actions and business continuity and disaster recovery.

In this context, it is important to note that Janashakthi has in place an IT Contingency and Business Recovery Plan as well as a Corporate Disaster Recovery Plan.

This plan covers locations, staff, resources required to speedily recommence operations in the event of inability to access any of the key offices, buildings of the Company, located around Colombo.

Information security

The operational information and security risk management function operates with the mission of ensuring the confidentiality, integrity and availability of information and associated information processing assets through the disciplined use of risk management practices. The operational information and security risk management function is comprised of information security specialists within all Business Units and Business Lines, and is coordinated overall at the Janashakthi Corporate level.

The operational information and security risk management function has defined a comprehensive suite of policies, standards and guidelines, and compliance is measured and monitored on a regular basis.

The operational information and security risk management function actively measures and monitors information risk within the key risk areas of the Company. The result of this process is used by Janashakthi Business Units to budget, plan, and implement appropriate risk mitigation actions.