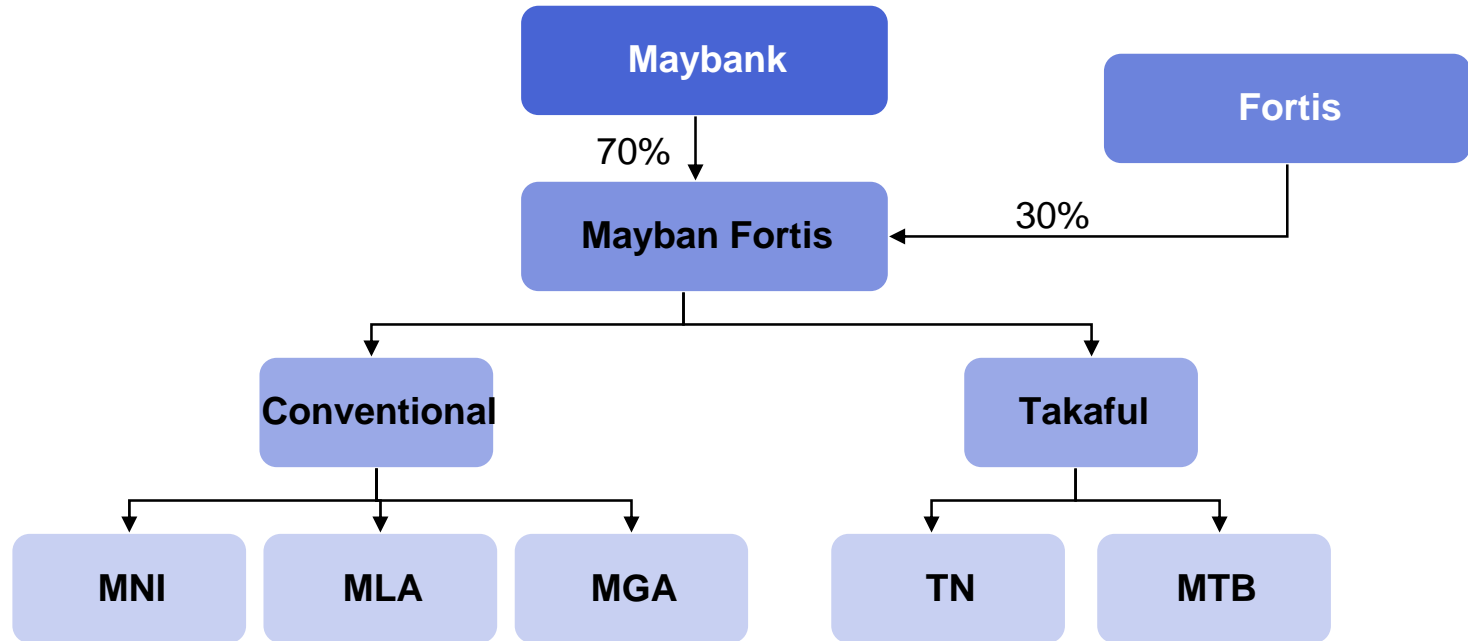


BUSINESS OPERATIONS AND RISK MANAGEMENT IN DIFFERENT TAKAFUL MODALITIES

FINANCIAL REGULATORS FORUM IN ISLAMIC FINANCE
Kuala Lumpur Convention Centre, 26-29 March 2007

Speaker: Dato' Aminuddin Md Desa
CEO / Director, Mayban Fortis Holdings Bhd

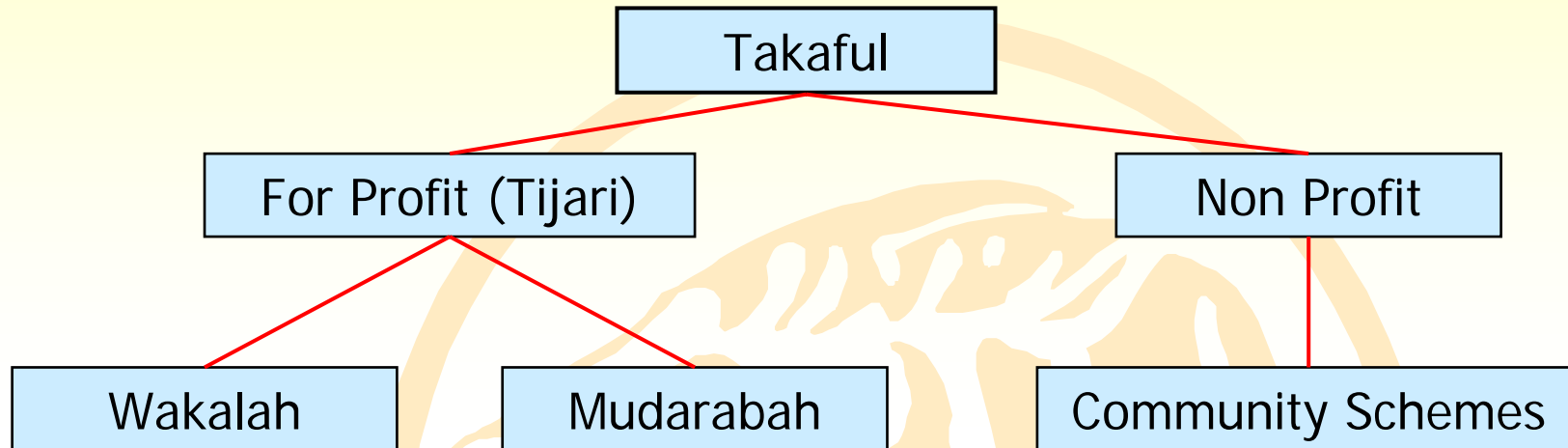
1. Introduction
2. Objectives of Risk Management in Takaful Operations
3. Our Approach to Risk Management
4. Techniques of Risk Management
5. Challenges
6. Conclusion



Financial Highlight	Financial Year ending 2006		
	Conventional	Takaful	Total
Premium	USD 743 mn	USD 247 mn	USD 990 mn
PBT	USD 68.5 mn	USD 13.9 mn	USD 82.3 mn
Assets	USD 3.1 bn	USD 1.0 bn	USD 4.2 bn

* Key Statistics Financial Year Ending 2005/2006

Objectives of Risk Management



The objectives of Risk Management under different modalities are as follows:

- ✓ to protect the safety of the takaful fund
- ✓ to ensure the fund is able to pay claims & obligations
- ✓ where applicable, to achieve a required rate of return on investment
- ✓ to be able to withstand adverse conditions
- ✓ to ensure continuity as a going concern

1. Common language - concepts, definitions & classifications
2. Disciplined approach, enterprise - wide
3. Strong risk governance
4. Focus on quantifiables/economics - what gets measured gets done
5. Continuous improvement - adapt the tried and tested best practices

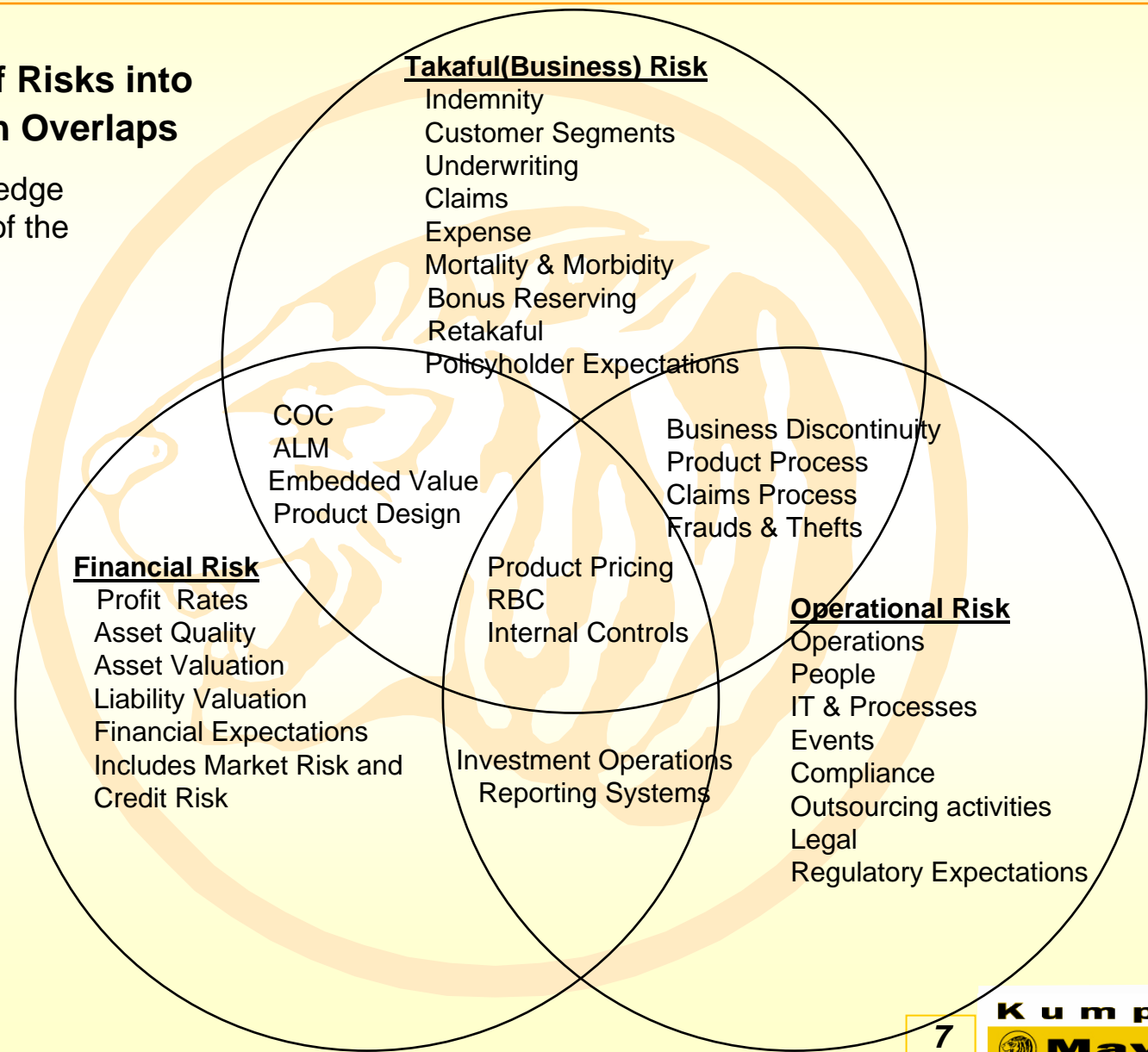
Categorization of Risk in 3 Categories

<u>BUSINESS/TAKAFUL RISK</u>	<u>FINANCIAL RISK</u>	<u>OPERATIONAL RISK</u>
Product, pricing, underwriting, claim & insurance operation Retakaful & claim recoveries Valuation, reserve adequacy Profit, stress/solvency testing Liability modelling MOS/RBC Embedded Value	Asset/fund management, hedging/derivatives & investment operations Market, profit rate, liquidity & credit risks Cash flow, asset modelling, VaR & ALM Economic capital Capital charge, CoC, RAROC Capital management	Daily operational & commercial activities (people, process & systems) and outsourced activities Projects & business initiatives Events, business continuity planning (BCP) and crisis management Includes legal but excludes strategic and reputation risks



Categorization of Risks into 3 Categories with Overlaps

Specialized knowledge is needed in each of the categories

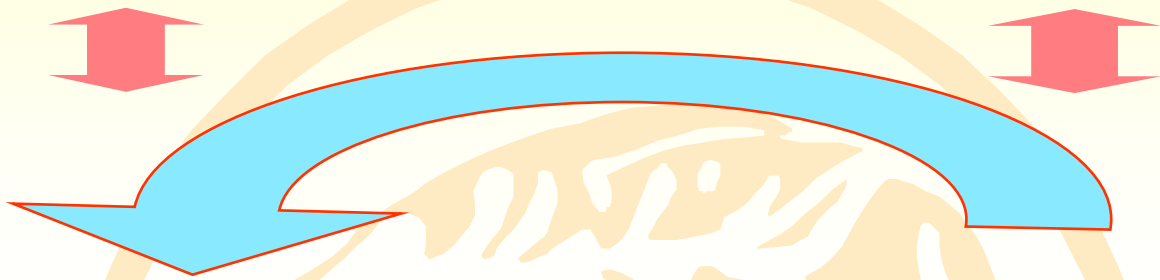


The concept of 3 Lines of defense

First Line – Risk Acceptance & Ownerships
Second Line – Oversight, Monitoring & Control
Third Line – Independent Assurance & Compliance



**Governance / Oversight by Senior Management / RMC
Risk Appetite , Policy**



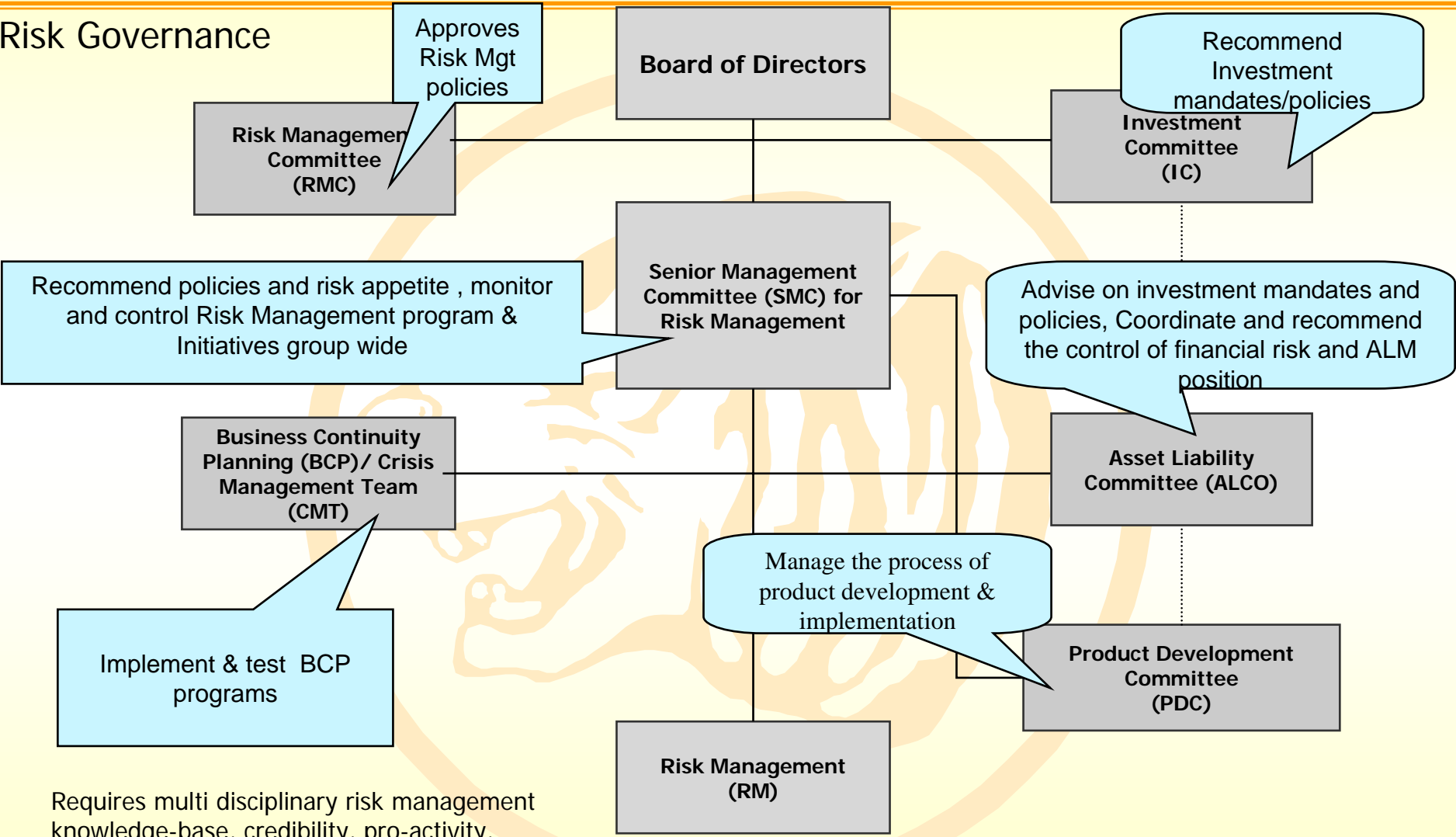
Objectives

Examples of Tools/Systems

	1	2	3	4	5
Objectives	•Understanding/ •Identification	•Measurement •Quantification •Reporting	•Loss Data •Reporting & •Analysis	•Monitoring •Control •Mitigation •Transfer	•Risk Culture •Transparency
Examples of Tools/Systems	•Awareness Campaign •Self Assessment •Audits •Loss Events •External data	•RCSA •Risk Matrix •Risk Scorecard •Risk Indicator	•KRI •Loss Events reporting •Loss Database Modelling	•Loss Results •Management Actions •Review/Revisit •Annual Certifications •Retakaful	•Awareness •Comm. •Surveys •Procedures •Guidelines •Workshops •Capital Charge

Risk Ownership/ Risk Managers & Coordinators

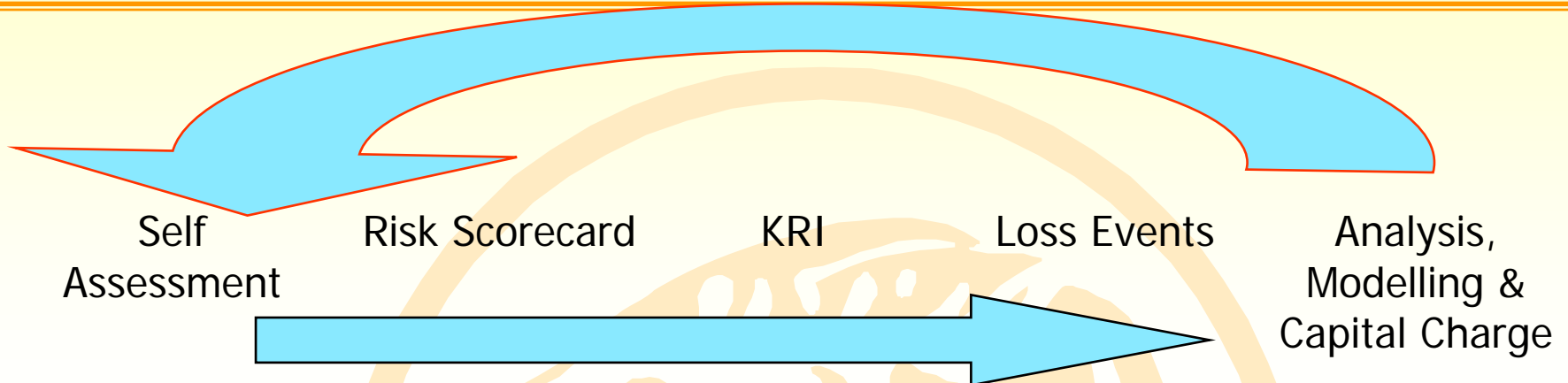
Risk Governance



Requires multi disciplinary risk management knowledge-base, credibility, pro-activity, independence and ability to embed risk management process and culture throughout the organization

There are many, but essential ones are :

1. Risk Self Assessment (RSA)
2. ALM (Asset-Liability Management, Liability Driven Asset Management)
3. Solvency Capital - the ability of the fund to withstand adverse conditions
4. Retakaful/Risk Transfer programme
5. Key Risk Indicators (KRI)-early warning signal
6. Business Continuity Management



Self Assessment

Risk Scorecard

KRI

Loss Events

Analysis, Modelling & Capital Charge

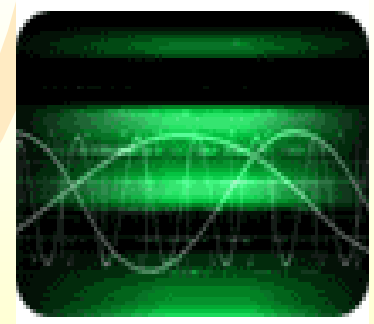
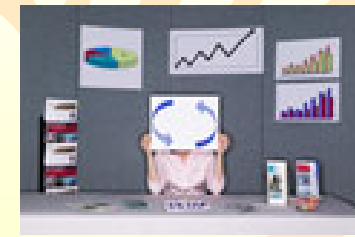
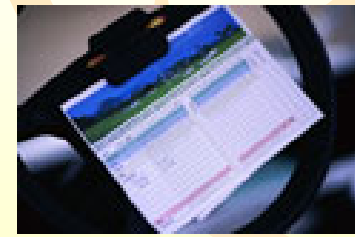
Experience, Intelligent Estimate, Process Analysis, Audit Report

Likelihood & Impact
Gross – Net Risk

Quantification Trend

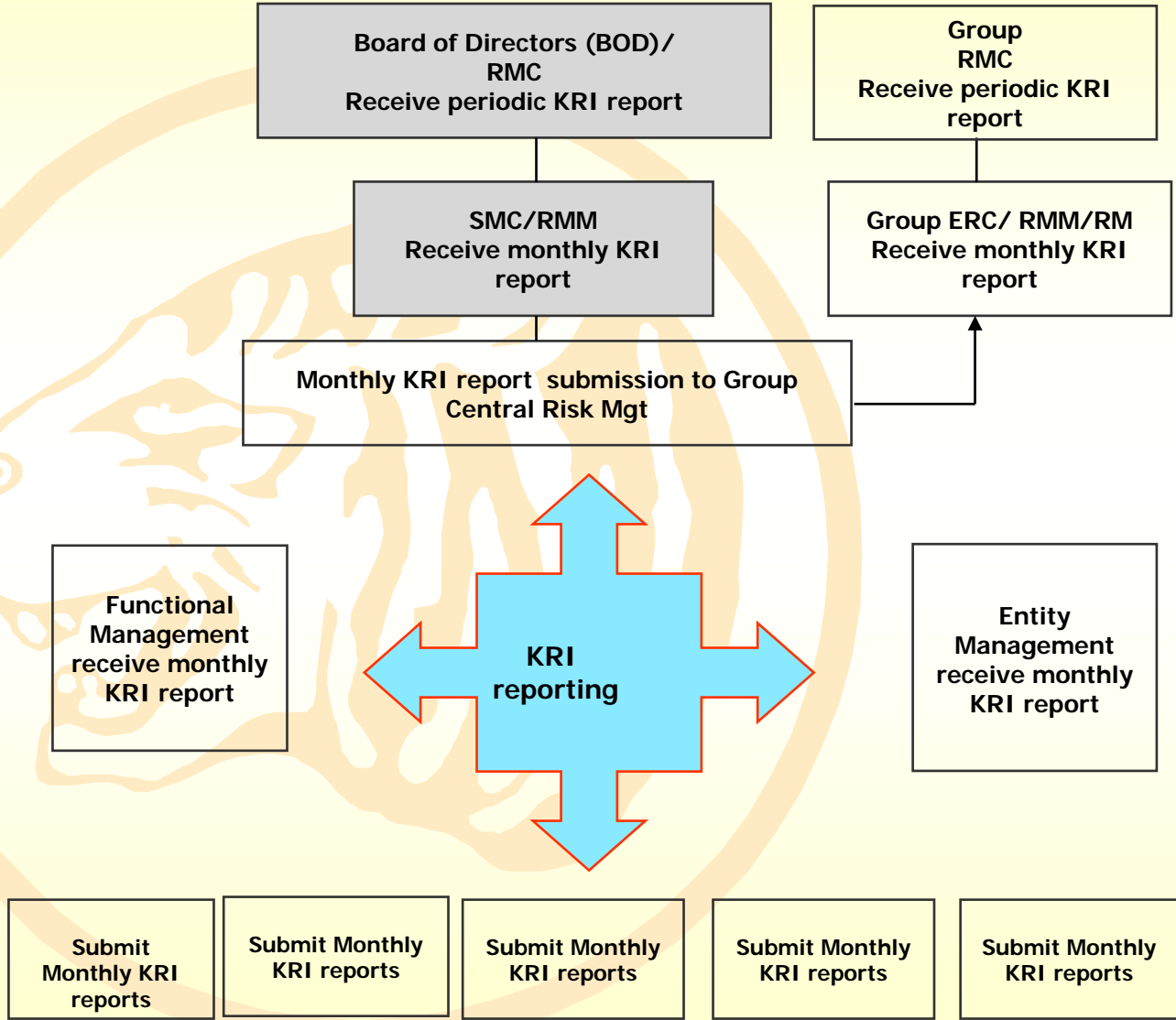
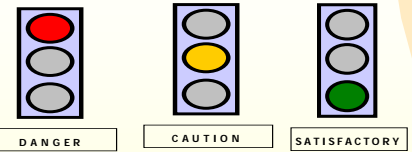
Event Data Management

Modelling Predictive

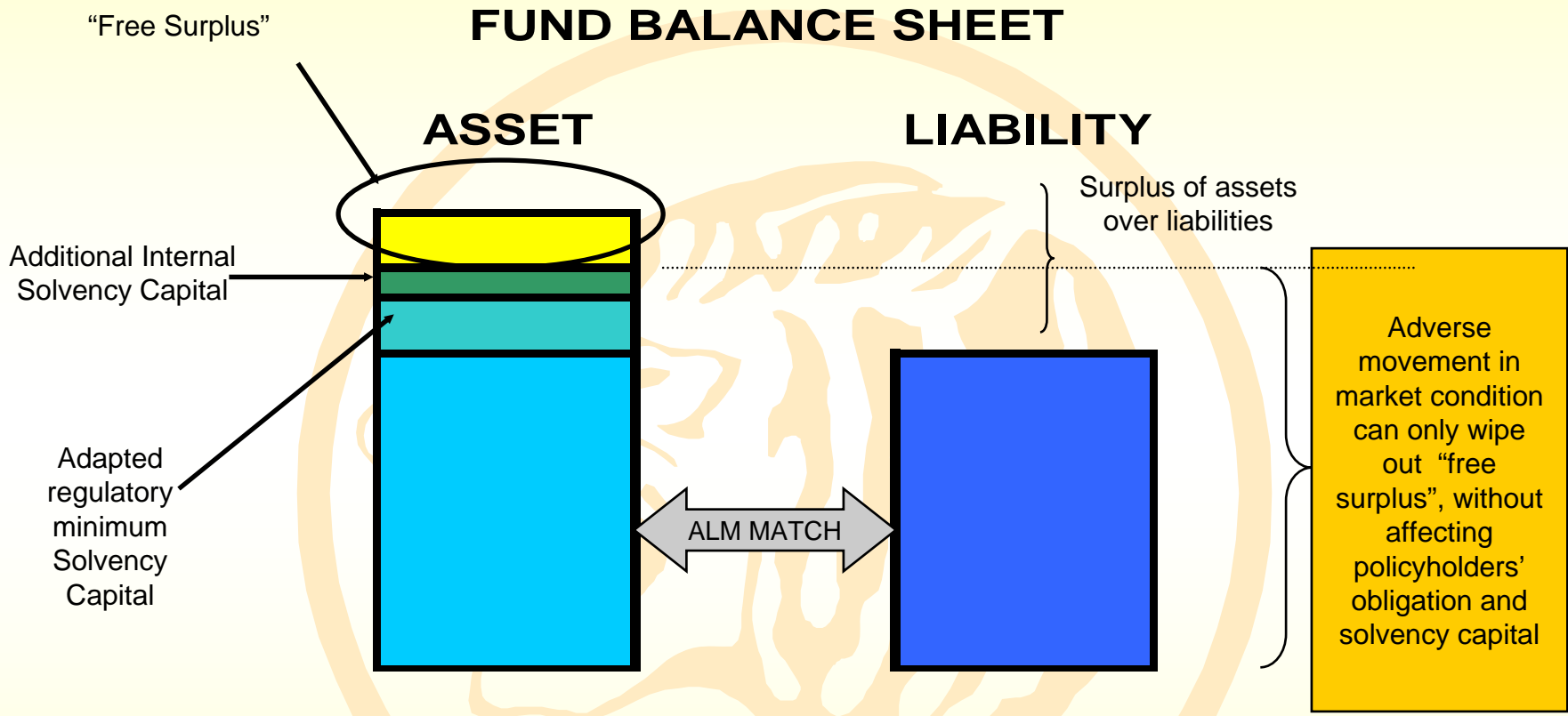


KRI Reporting

- Reports based on traffic light system, only amber and red reported upwards.
- Management action (MA) plan reported to RMM/RMC
- MA reported to RM/RMM/RMC group



Unit Risk Managers/Officers



- ALM for Takaful ensures the availability of surplus capital to absorb downside risk due to adverse market movement.
- Allowance of internal solvency capital to ensure the ability of the fund to withstand adverse conditions, based on internal assessment.

1. Lack of standardization/generally accepted principles & practices
2. Compliance mindset eg. Regulatory requirement vs best practices
3. Depth & breadth of Islamic Capital Market
4. Lack of industry data to benchmark operational loss experience
5. Making risk management everyone's job
6. Technical know how for sophisticated techniques eg. VaR, RAROC, Economic Capital, Embedded value

1. In line with the general concept of Takaful, the Risk Management in Takaful should be better practice than the Conventional.
2. We have to be proactive in managing risk and not depend solely on regulatory requirements. Tried and tested best practices can be a good source of knowledge.
3. Risk management requires a continuous development of knowledge to better understand and manage risk.
4. Risk management in Takaful is the same for all Takaful modalities.

