

# Risk management

The group applies a comprehensive definition for risk and regards it as an internal or external vulnerability, which, if not adequately assessed, monitored and managed, may affect its ability to achieve its business objectives. Furthermore, the definition of risk includes viable opportunities that can be pursued.

Formalisation of a risk management framework is the responsibility of the board of directors and the audit and risk committee is responsible for oversight of the risk management process. The audit and risk committee monitors the progress of risk mitigation strategies and processes and provides formal feedback to the board.

Risk management and the ongoing improvement of corresponding control structures remain a key focus of management in building a successful and sustainable business. The risk management committee is an operational committee, comprising executives and members of management, which is responsible for ensuring that risks are identified, addressed and managed across the group. This ensures that a comprehensive, robust and systematic risk management process is entrenched throughout the group.

Executive management plays an active role in the risk management process and is responsible for the implementation, ongoing maintenance of, and compliance with the risk process as it applies to each business unit.

## KEY RISKS AND MITIGATION STRATEGIES

During the year, the risk management committee evaluated the corporate risk register and the associated risk treatment plans. The key risks identified are detailed below. Throughout this report, reference is made to the strategies and initiatives that Iemas implemented to mitigate these risks.

Additional information regarding mitigating actions is included below:

RISK DESCRIPTION	ACTIONS TO MITIGATE RISK
<b>Growth constraints</b>	
Growth constrained due to general consumer over-indebtedness, increased competition for good quality consumers and a fast changing technological environment.	<ul style="list-style-type: none"> <li>» Strategies and initiatives implemented to increase growth in the middle and middle-high income categories and specific business sectors.</li> <li>» Implementation of new systems and processes to improve member experience and competitiveness.</li> <li>» Continuous revision of policies, processes and procedures to retain members.</li> </ul>
<b>Legislation regulating salary deductions</b>	
Impact on operational sustainability and growth in the event of new legislation being introduced regulating salary deductions as a collection mechanism.	<ul style="list-style-type: none"> <li>» Project initiated to update member bank details.</li> <li>» Ensure operational and technological readiness in the event that debit orders become the sole collection mechanism.</li> </ul>
<b>Increase in non-performing loans and bad debts</b>	
Increase in non-performing loans and bad debts.	<ul style="list-style-type: none"> <li>» Continuous review and improvement of credit policy and debt collection systems, policies and procedures to reflect changes in the credit industry.</li> <li>» Credit insurance enhanced to include death, disability and retrenchment.</li> <li>» Certain credit control functions outsourced to further improve effectiveness.</li> <li>» Strict adherence to regulations and internal policies regarding members' affordability evaluations prior to credit extension.</li> </ul>

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(continued)

RISK DESCRIPTION	ACTIONS TO MITIGATE RISK
<b>Business continuity</b>	
Interruption of the business in the event of failure to resume critical business activities and services within a reasonable time.	<ul style="list-style-type: none"> <li>» Standardised systems implemented and virtualised.</li> <li>» Business continuity plans compiled and tested. Reviewed and revised when required.</li> <li>» Disaster recovery site identified and formal disaster recovery framework in place.</li> </ul>
<b>Contract termination or large retrenchments at significant employers</b>	
Impact on the business as a result of termination of contracts or retrenchments at significant employers.	<ul style="list-style-type: none"> <li>» Regular interactions with key stakeholders at employers via formal, structured relationship management programmes.</li> </ul>

The external environment and landscape in the financing and insurance industry have changed significantly during the last two years, impacting on the inherent rating and ranking of the key risks. The risk treatment plans have been reviewed and updated during the year under review to mitigate the risks included in the corporate risk register. Responsibilities have been assigned to ensure active management and control to reduce the likelihood and impact, should a risk materialise.

## COMBINED ASSURANCE

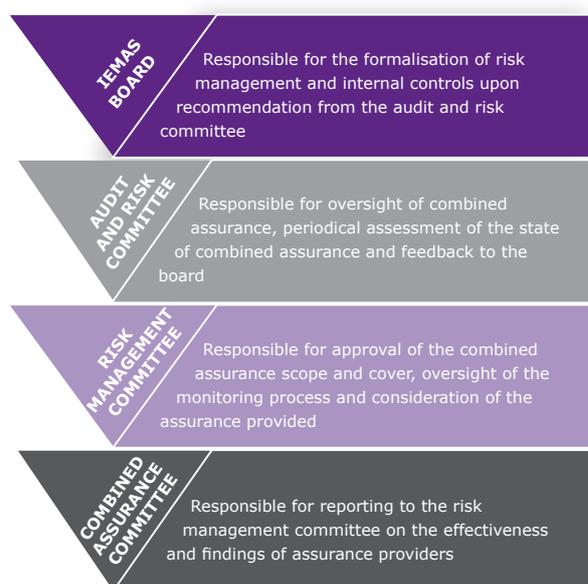
The combined assurance committee, a non-statutory committee, is an extension of the risk management committee and is accountable to the risk management committee. The committee is responsible to oversee the implementation and maintenance of the combined assurance programme as well as the co-ordination of the actions of the various assurance providers to avoid duplication of effort.

Members of the combined assurance committee are appointed by the risk management committee and consist of internal and external assurance providers. The committee consists of six members including the

head of internal audit, the compliance officer, the sales support manager, the general manager: short-term insurance, the general manager: financial advisory services and the general manager: credit and legal services, who is also the chairman of the committee.

## Stakeholders in the combined assurance framework

The roles of stakeholders in the combined assurance framework are illustrated below:



## Assurance providers

Financial services institutions are inherently complex in nature with a number of areas exposed to the risk of control failure. In general, most internal control systems require continuous review and refinement of business processes to ensure that best market practices are followed and to eliminate the potential for human error or deliberate manipulation of control activities. A number of assurance providers are utilised to mitigate the risk of control failure.

## Management-based assurance

Iemas' internal controls and systems are relied upon to provide reasonable assurance of the integrity and reliability of the financial statements; to safeguard, verify and maintain accountability of its assets; and to prevent and detect fraud, potential liability, loss and material misstatement, while at the same time complying with applicable regulations.

Management oversight includes strategy implementation, key performance indicators and performance measurement, self-assessments and continual monitoring mechanisms and systems.

### Internal assurance

Risk management (adopting an effective business-wide risk management framework), information technology, human resources and compliance functions are included in internal assurance. These functions are responsible for maintaining policies, minimum standards, oversight, risk management and reporting.

### Independent assurance

#### Internal audit

Internal audit forms an integral part of the combined assurance process. The role of internal audit is defined in the internal audit charter.

Internal audit performs an independent assessment of Iemas' systems of internal controls, policies and procedures, and monitors whether it is adequate and effective. All of Iemas' business operations and support functions are subject to internal audit during different audit cycles.

Operational matters are reported to members of the executive management team. This reporting structure does not impair the division's independence or objectivity. All non-compliance outcomes arising from planned audits, special projects, forensic investigations and independent investigations into fraud and similar acts of dishonesty are referred to management for corrective action. Material findings are reported to the audit and risk committee.

#### External audit

The audit and risk committee is responsible for recommending the external auditor for approval by members at the annual general meeting (AGM). The committee also ensures that the external auditor carries out an annual audit in accordance with international auditing standards and reports on the results of the audit both to management and to the audit and risk committee. The external auditor is the main external independent assurance provider with regard to Iemas' financial results for each financial year.

The audit and risk committee nominated PwC for appointment as the independent auditors to perform the 2018 audit. The appointment was approved by members at the AGM on 31 October 2017.

### External assurance

Moonstone Compliance (Pty) Ltd is contracted to Iemas to provide independent compliance services required to establish and maintain compliance processes and to ensure compliance with provisions of legislation as far as reasonably possible, with specific reference to FICA and FAIS.

### Oversight committees

The following committees provide assurance as stated below:

- » Audit and risk committee – with regard to financial and internal controls as well as risk management, including input received from the risk management committee and the combined assurance committee.
- » Information technology committee – with regard to business systems and controls.
- » Human resources committee – with regard to employee and related matters.

### BOARD ASSESSMENT OF IEMAS' SYSTEMS OF INTERNAL CONTROLS AND RISK MANAGEMENT

The internal control self-assessment process, internal audit and year-end external audit revealed no aspects of concern and therefore the board is of the opinion that Iemas' systems of internal controls and risk management are effective and that the internal financial controls form a sound basis for the preparation of a reliable annual report and financial statements. The board's opinion is based on the combined assurances of the external and internal auditors, management and the audit and risk committee as well as the information technology and human resources committees.