

Policy on Risk Management and Internal Control

Co-operative Insurance Company PLC

1. Purpose

This policy outlines the framework for risk management and internal control to ensure that Co-operative Insurance Company PLC identifies, assesses, and manages risks effectively. The policy aligns with the requirements of the **Insurance Regulatory Commission of Sri Lanka (IRCSL)**, **Colombo Stock Exchange (CSE)** Listing Rules, and best practices in corporate governance.

2. Scope

This policy applies to all functions, processes, and employees of Co-operative Insurance Company PLC. It encompasses strategic, operational, financial, and compliance risks that may impact the company's objectives.

3. Objectives

- To provide a structured approach to managing risks across the organization.
 - To safeguard the interests of shareholders, policyholders, and stakeholders.
 - To ensure compliance with applicable laws, regulations, and governance requirements.
 - To embed a risk-aware culture within the organization.
 - To establish robust internal control systems that ensure efficiency, reliability, and compliance.
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4. Key Principles

4.1 Risk Management

- Risk management is integral to strategic planning and decision-making.
- Risks shall be identified, assessed, mitigated, monitored, and reported systematically.

- A balance between risk and reward shall be maintained, supporting long-term sustainability.

4.2 Internal Control

- The company shall implement internal controls to ensure operational efficiency, accuracy in financial reporting, and compliance with applicable laws.
 - Internal controls shall be regularly reviewed and updated to address emerging risks.
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5. Risk Management Framework

5.1 Risk Governance Structure

The company adopts a **three lines of defense model**:

First Line: Operational Management

- Responsible for identifying, assessing, and managing risks within their functions.

Second Line: Risk Management and Compliance Functions

- Provide guidance, frameworks, and oversight for risk management.

Third Line: Internal Audit

- Independently assesses the adequacy and effectiveness of the risk management and internal control systems.
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5.2 Risk Categories

The company identifies the following primary categories of risk:

- **Strategic Risk:** Risks related to strategic decisions and external market changes.
- **Operational Risk:** Risks arising from internal processes, systems, or human error.
- **Financial Risk:** Risks related to market volatility, liquidity, credit, and capital adequacy.
- **Insurance Risk:** Risks related to underwriting, claims, reinsurance, and policyholder behavior.
- **Regulatory and Compliance Risk:** Risks of non-compliance with laws, regulations, and governance standards.
- **Reputational Risk:** Risks that may impact the company's brand or stakeholder trust.

5.3 Risk Identification and Assessment

- Risks shall be identified through risk assessments, stakeholder feedback, and environmental scanning.
- Risks shall be evaluated based on their likelihood and potential impact using a risk matrix.

5.4 Risk Mitigation

- Mitigation strategies include avoidance, transfer, reduction, and acceptance of risks within defined tolerance levels.
- Risk response plans shall be developed and implemented for identified risks.

5.5 Risk Monitoring and Reporting

- Continuous monitoring shall be undertaken to assess the effectiveness of risk management strategies.
- The Risk Management Committee (RMC) shall oversee and report on the risk profile to the Board periodically.

6. Internal Control Framework

6.1 Control Environment

- A culture of integrity, ethical values, and professionalism underpins the internal control environment.
- Leadership shall demonstrate a commitment to effective internal controls.

6.2 Control Activities

- Policies, procedures, and controls shall be designed and implemented to mitigate identified risks.
- Controls shall include segregation of duties, authorization processes, reconciliations, and IT controls.

6.3 Information and Communication

- Relevant and timely information shall be communicated across the organization to enable informed decision-making.
- A whistleblower mechanism shall be in place to report control deficiencies or unethical practices.

6.4 Monitoring and Evaluation

- Internal controls shall be regularly reviewed by the Internal Audit function and external auditors.
 - Deficiencies shall be documented, reported, and corrected promptly.
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7. Responsibilities

7.1 Board of Directors

- Approve and oversee the risk management and internal control frameworks.
- Define the company's risk appetite and tolerance levels.

7.2 Risk Management Committee (RMC)

- Monitor the company's risk profile and ensure effective mitigation strategies.
- Review and recommend risk policies and frameworks to the Board.

7.3 Senior Management

- Implement risk management and internal control policies.
- Ensure adequate resources for risk management and compliance activities.

7.4 Internal Audit Function

- Provide independent assurance on the effectiveness of risk management and internal control systems.

7.5 All Employees

- Understand and adhere to risk management and internal control policies.
 - Report risks or control weaknesses promptly.
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8. Reporting and Disclosure

8.1 Internal Reporting

- Regular risk reports shall be submitted to senior management, the RMC, and the Board.

8.2 External Reporting

- Disclosures in the Annual Report shall include:
 - The company's risk management framework.
 - Material risks and mitigation strategies.
 - Internal control effectiveness.
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9. Training and Awareness

- Training programs shall be conducted to ensure that directors, management, and employees understand their roles in risk management and internal controls.
 - Continuous professional development shall be encouraged to address evolving risks and controls.
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10. Review and Amendments

- This policy shall be reviewed annually to ensure alignment with regulatory requirements and business needs.
 - Amendments must be approved by the Board of Directors.
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Approved by the Board of Directors