Risk Management Policy

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1. RISK MANAGEMENT

1.1 How we define risk management at IronRock

Risk management is the continual process of identifying, analysing, prioritising and, accepting, mitigating or avoiding, the uncertainty in the decisions we make as employees and as a company.

Insurance is founded on the concept of risk, and therefore our ability to manage risk will define the success of IronRock Insurance Company Limited (the Company).

Risk is prevalent throughout our lives. Even if we are sure something is inevitable, we cannot know the exact time it will take place, nor the exact circumstances surrounding the event. It is therefore impossible for us to eliminate all the risks we face, and new risks will always emerge. This is why risk management is defined as a continual process.

To manage risks effectively, we must first identify and understand the risks facing the Company. This requires the contribution of every employee, so that risks across all areas of the business can be effectively managed.

1.2 Your role in managing risk

All of us at IronRock are responsible for the most vital role in the risk management process:-

Identifying risks

We understand every employee has a unique experience here at IronRock. The systems we use, the people and companies we interact with, and the tasks we perform all set our experiences apart.

This allows us the opportunity to combine our knowledge of how IronRock works, identify key areas of concern and raise those concerns to management. Put briefly, to identify risks we must:

1. **Communicate –** share your experiences with co-workers;
2. **Detect –** be wary of potentially risky behaviours, processes, clients, and try to recognise those risks that are common to our collective experience; and
3. **Escalate –** raise any risks you identify to management, and help them understand and analyse their potential to obstruct IronRock's goals and objectives.

Analysing risks

After a risk has been identified and escalated to management, the employees best acquainted with the risk need to help management understand the risk. Throughout the risk management process communication is crucial, especially during the analysis stage where management may not fully appreciate the urgency or the scale of the potential issue.

1.3 Management's role in managing risk

Analysing risks

As described above, management must take care to fully understand and appreciate the urgency and scale of risks that are brought to their attention. Analysis techniques should preferably quantify potential losses so that the mitigating response can be budgeted to not exceed the risk of loss.

Prioritising risks

Once a risk has been identified and analysed in cooperation with the employee(s) best acquainted with the risk, management must make a crucial decision on which risks to devote time and resources towards.

Like our approach to underwriting, risks should be prioritised based on the probability of their occurrence (frequency) and their potential to jeopardise the achievement of IronRock's goals and objectives (severity).

Risks identified as being highly likely to jeopardise the success of IronRock should then be escalated to the Enterprise Risk Management (ERM) Committee to attract urgent senior focus on the matter.

Accepting, mitigating or avoiding risks

Accepting risks – Most risks are so insignificant that the resources needed to mitigate them would be greater than the risk of loss. While they could be mitigated, the Company would be better served by devoting resources elsewhere – i.e. where a net benefit can be achieved.

Mitigating risks – Any risks that pose a risk of loss greater than the resources required to mitigate them, must be mitigated. This includes risks with a large potential for loss, and many smaller risks that can provide a significant cumulative net benefit to the Company.

Avoiding risks – While most risks are unavoidable or out of our control, some risks can be avoided altogether, effectively eliminating the risk.

The opportunity cost of avoiding a risk must be duly measured and considered, before a decision to avoid a risk can be made. Management must measure both the risk of loss and the potential gain, and always seek to avoid risks that provide a projected net loss to the Company, but accept and mitigate (where possible) those risks that provide a projected net benefit to the Company.

1.4 Risks we face at IronRock

The list of potential risks facing any one person or company is infinite, however key risk areas can be identified. This policy will outline the major types of risk management and describe the key risks they are concerned with.

2. OPERATIONAL RISK MANAGEMENT

2.1 Operational risk

Operational risk is the risk of a direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure.

IronRock's objective is to manage operational risks with overall cost effectiveness, and to avoid implementing control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. The Audit Committee monitors each department to ensure compliance with the Company's internal control procedures.

2.2 Insurance risk

IronRock operates as an insurance company, and insurance by its very nature is a risky endeavor.

An insurer has no way to know for certain a good risk from a bad risk, or whether current reserves will be sufficient to cover future claims, or if the company's reinsurance policy is adequate. The best an insurer can aim for, is an educated and experienced estimation.

IronRock's insurance risk management approach is therefore focused on staying current on advances in the global insurance industry, maintaining an experienced senior management team, and hiring competent, efficient and diligent employees.

Insurance risk can be broken down into the below main categories.

Underwriting risk

The primary source of underwriting risk arises from the risk selection and rating process. IronRock's underwriters must make informed decisions using all the information and tools made available to them and be aware of any potential concentration risks.

Concentration risk is the risk that the Company will underwrite too many risks in a given geographical location, or in a single line of business, and therefore expose the Company to an accumulation of claims.

Other significant underwriting risks include the misrepresentation of our policies to our intermediaries or prospective clients, and the misprocessing of policy details onto our underwriting system (i.e. incorrectly recorded exposures could lead to unsuitable high-level decision making).

Reinsurance risk

Reinsurance risk is the risk that IronRock's reinsurer's or reinsurance policies will not cover a sufficient portion of claims. This could occur if the reinsurance arrangements were insufficient for the Company's

risk portfolio or if one or more of IronRock's reinsurers were to cease to be a going concern, so were unable to sufficiently cover IronRock's claims.

Reinsurance risk is probably the most significant operational risk facing the insurance industry. This is widely recognized, and therefore the Insurance Act, 2001, seeks to mitigate this risk on an industry level by imposing regulations on a minimum level of reinsurance. However as recently as 2004, a major local insurer had to go into liquidation, primarily because of an inadequate reinsurance program.

Claims risk

The primary source of claims risk is the risk of fraudulent claims being paid. In the US and Canada, it is estimated that between five and ten percent (5-10%) of all claims are fraudulent.

While underwriting and reinsurance risks materialise as an inability to cover all claims, they do not originate in the claims department.

2.3 Model risk

Model risk describes the possibility of a loss resulting from using insufficiently accurate models to make decisions.

In the current global financial market, statistical analysis continues to grow in importance, and therefore the risk of misinterpreting this analysis is growing as well. As IronRock looks to embrace more detailed risk rating models and investment analysis models, there will be an increased risk that poor underwriting and investment decisions could made because of inappropriate model assumptions.

2.4 IT risk

This is the operational risk posed by the inability to access internal systems or data required for daily business functions. This could arise from physical damage to the IT hardware, following a natural disaster for example, or it could arise from intangible software damage due to system failures.

Technology has become integral in the daily operation of a business, and any technology failure is likely to affect other functions of the Company, including:

1. **Client receipts –** if the Point of Sale (POS) device fails;
2. **Client interaction –** if the phones fail or if there is an issue delivering/receiving emails; and
3. **Underwriting/Claims –** if the underwriting/claims software fails, or if access to the Company's recorded data is lost.

To mitigate these risks IronRock will regularly maintain IT hardware and software, and build partnerships with the most capable technology providers.

2.5 Health and safety risk

As a service company that does not employ mechanical equipment in its operations, IronRock is not significantly exposed to workplace accidents. Nonetheless there is an always a risk that an employee or member of the public could injure themselves on IronRock's premises. Therefore, a First-Aid kit is kept in the office, and at least one (1) employee is required to hold a recognised certificate, evidencing the successful completion of a first responder/CPR course.

Service sector employees still face serious health and safety risks, including:-

1. physical health issues due to
   a. viruses/diseases that can spread quickly in a contained, air-conditioned office; or
   b. a lack of physical engagement; and
2. mental health issues due to:
   a. occupational stress; or
   b. workplace harassment.

2.6 Disaster preparedness policy

If you have not already, you should familiarise yourself with IronRock's Disaster Preparedness Policy, which details the Company's formal position on preparing and recovering from emergencies and disasters – designed to minimise operational interruption.

2.7 Main risk intersections

Operational risks intersect with every other type of risk described in this policy, because in all cases, a serious risk to the Company will threaten the Company's ongoing operations.

3. REPUTATIONAL RISK MANAGEMENT

3.1 Reputational Risk

Reputational risk is the possibility of damage to an organisation's brand and reputation, and the associated risk to earnings, capital or liquidity arising from any association, action or inaction which could be perceived by stakeholders to be inappropriate or unethical.

IronRock's reputation is its most valuable asset, and therefore reputational risk is the next most significant risk we face after operational risks.

3.2 In the digital era

The digital era has dramatically expanded the speed and reach of communication, allowing reputation damaging events to be seen and heard by the wider public over the course of a single day. The affected company's response usually does not enjoy the viral attention that the reputation damaging event did, and the net effect is significant and lasting damage to the company's reputation.

IronRock employees should be conscious that their dealings with a single client, can have ramifications for the entire Company, and always conduct themselves in a manner that protects the reputation of the Company and those who work for it.

This is held to be true even outside off work, where an employee is identified as an employee of IronRock, and his or her reputation damaging actions are associated with the Company.

3.3 Claims service

At the core of IronRock's strategy is the philosophy that an insurance company should diligently fulfill its stated purpose by paying claims promptly and without hassle. It is crucial to our success that we develop and maintain a reputation for doing just that.

To facilitate this strategy, IronRock has carefully selected reinsurers that have earned their own reputation for paying claims quickly.

3.4 Client service

Another integral component of IronRock's strategy is to provide a superior level of client service. 'Client', is taken to mean both our brokers and our insureds.

Reputational risk can arise from IronRock's client service in primarily two ways:

1. A single, but significant, reputation-damaging experience with a client who then relates the experience to associates so that the new spreads by word of mouth

2. A series of insignificant reputation-damaging experiences with a range of clients, over a relatively short time period.

It is important to remember that clients who complain are usually loyal, and if we deliver on their complaints, they are likely to pay us back in referrals. Complaints should be viewed as a leading indicator of possible reputation problems and an opportunity to improve a client relationship.

Employees should constantly be working to improve their client service aptitude, ask for advice from co-workers and be open to constructive criticism. Every client will be different, every interaction will be different, and we need to ensure that as a company we are always looking to meet our individual client's needs.

3.5 As a public company

IronRock is listed on the Jamaica Stock Exchange (JSE) Junior Market and is therefore constantly under scrutiny from investors, regulators and the public. This heightens the reputational risk we face, as any inappropriate or unethical associations, actions or inactions are likely to widely publicised and criticised.

Policy holders and potential clients are also likely to relate the performance of IronRock's share price to its financial solvency and consequently its ability to pay claims. This is a common misnomer which consequently means that fluctuations in IronRock's share price are likely to have a reputational impact.

To combat this, IronRock employees should be able to explain to clients that our shares are traded on a secondary market, and therefore changes in their price do not affect the Company's equity. There is no direct link between our ability to pay claims, and the performance of our shares.

If any employee is contacted and requested to comment on the Company, they are required to re-arrange the phone call, allowing sufficient time for them to discuss the request with the Managing Director (MD) of the Company, or where the MD is uncontactable, the Financial Director (FD), and where neither are available, their Direct Supervisor.

3.6 Risk intersections

Risks that could exacerbate, or be exacerbated by reputational risks include:-

1. **Operational risks, where**
    a. reputational damage hurts IronRock's ability to produce new clients/partners and retain existing relationships; and
    b. operational issues are the source of the reputational damage.

2. **Financial risks, where**

a. reputational damage hurts IronRock's operations and in turn its financial results; and

b. IronRock's financial performance damages the Company's reputation because the Company's financial results are not perceived by the market as satisfactory.

4. COMPLIANCE RISK MANAGEMENT

4.1 Compliance risk

Compliance risk is the threat posed to an organisation's operational, financial or reputational standing resulting from violations of laws, or regulations.

As a public insurance company, IronRock is regulated by both the Financial Services Commission (FSC) and the Jamaica Stock Exchange (JSE). This imposes a very heavy regulatory burden on the Company, and consequently IronRock is faced with significant compliance risk.

4.2 Financial Services Commission (FSC)

Under the Insurance Act 2001 and Insurance Regulations 2001, the FSC is responsible for regulating the financial industry in Jamaica, including the supervision of general insurance companies. The duties of the FSC are mandated by the FSC Act, which states:

"For the purpose of protecting customers of financial services, the Commission shall-

1. supervise and regulate prescribed financial institutions;
2. promote the adoption of procedures designed to control and manage risk, for use by the management, boards of directors and trustees of such institutions;
3. promote stability and public confidence in the operations of such institutions;
4. promote public understanding of the operation of prescribed financial institutions;
5. promote the modernization of financial services with a view to the adoption and maintenance of international standards of competence, efficiency and competitiveness."

The stated purpose of the FSC relating to the supervision of general insurance companies, is to protect the interests of policyholders. They directly supervise the insurance industry through the Insurance Division of the Commission. The Insurance Division monitors the insurance industry to ensure that:

1. solvency standards for all entities ensure policyholder protection;
2. the relationships between insurers and their holding company, subsidiaries and/or associated companies are in accordance with legislation;
3. regulators have access to information; and
4. industry players practice good corporate governance as they owe a duty of care to their clients.

Capital risk

Capital risk is the risk that the Company fails to comply with FSC mandated regulatory requirements related to the minimum capital test, resulting in the possible suspension or loss of its insurance license.

The Company's objectives when managing capital, which is a broader concept than 'equity' on the face of the statements of financial position, are:

1. To comply with the capital requirements set by the FSC
2. To safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for stockholders and benefits to other stakeholders; and

To maintain a strong capital base to support the development of its business.

Financial penalties

The FSC has penalties ranging from $25,000 JMD to $2,000,000 JMD depending on the nature and seriousness of a Company's infringement – which can be levied against offending licensees directly or by taking action in the courts.

Non-financial penalties

The FSC has the right to rectify any failures to comply with regulations using a range of remedial actions. Some of the stronger remedies are listed below:

1. halting a course of action or restricting the scope of the licensee's business;
2. issuing a Cease and Desist Order;
3. limiting new business, credit, investments, dealing in securities or restricting any other activity in which the licensee may be involved in;
4. prohibiting the institution from soliciting business or entering into any other transactions;
5. removing any director or manager;
6. imposing involuntary Temporary Management by the FSC; and
7. suspension, cancellation or revocation of an institution's license, potentially forcing the Company to wind up.

4.3 Jamaica Stock Exchange (JSE)

The JSE may, in its absolute discretion, delist or suspend trading of any listed company for failure to comply with the rules and guideline set out in the JSE Rulebook and the JSE Junior Market Rules, or if in the opinion of the JSE, the company has engaged in conduct that has adversely affected the reputation of the JSE Junior Market.

While the suspension or delisting of IronRock's shares from the JSE would not affect the initial capital raised during the Company's IPO, it would certainly trigger a significant drop in the Company's shares which would cause significant reputational damage to the Company, and potentially activate the associated 'Main risk intersections' under the **REPUTATIONAL RISK MANAGEMENT** section of this policy.

4.4 Main risk intersections

Risks that could exacerbate, or be exacerbated by compliance risks include:-

1. **Operational risks, where**

   a. the FSC could suspend or cancel IronRock's insurance trading license, or impose any off its non-financial penalties;

   b. the JSE decides to delist the Company, which damages the Company's reputation and indirectly affects its ability to generate and maintain business.

2. **Financial risks, where**

   a. the FSC could fine the Company for a breach of regulations, and this fine would negatively impact the Company's financial results.

3. **Reputational risks, where**

   a. IronRock is required to disclose an action taken against it by the FSC, thereby giving rise to reputational damage; and

   b. a reputation-damaging event causes the JSE to delist IronRock, thereby aggravating the reputational damage already suffered.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk

Financial risk is the probability of a financial loss, which may impair an organisation's ability to earn an adequate return or finance its debt.

Changes in the global political, social and economic spheres all have a significant impact on financial markets, and it is these changes in financial markets that present the Company with financial risk.

While this policy only outlines the major types of financial risk, it is important to understand that financial risk, is a global risk which is all-inclusive in its nature.

5.2 Credit risk

This is the risk of a financial loss to the Company if a counterparty fails to meet its contractual obligations. The company's key areas of exposure to credit risk include:

1. debt securities, and cash and cash equivalents;
2. amounts due from policyholders;
3. amounts due from intermediaries;
4. reinsurers' share of insurance liabilities; and
5. amounts due from reinsurers in respect of payments already made to policyholders.

IronRock manages its credit risk in respect of debt securities by placing limits on its exposure to a single counterpart, based on the credit rating of the counterparty. IronRock also has a policy of investing only in high quality corporate bonds and government issued debts.

IronRock's exposure to individual policy holders and groups of policyholders is monitored as part of the Company's credit control process. Financial analyses are conducted for significant exposures to individual policyholders or homogenous groups of policyholders.

All intermediaries must meet minimum requirements that are established and enforces by the Company's management. The credit ratings and payment histories of intermediaries are then monitored on a regular basis.

IronRock also operates a policy to manage its reinsurance counterpart exposures. The credit worthiness of all reinsurers is assessed by reviewing public rating information and from internal investigations. The impact of reinsurer default is measured regularly and managed accordingly.

5.3 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations from its financial and insurance liabilities. The Company is exposed to daily calls on its available cash resources mainly from claims arising from insurance contracts. Liquidity risk may arise from many potential areas, such as a duration mismatch between assets and liabilities and unexpectedly high levels of claims.

IronRock's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Consequently, the Company invests in marketable securities that can be readily realized as its obligations under insurance contracts fall due and in the event of reasonably foreseeable abnormal circumstances. The Company also manages this risk by keeping a substantial portion of its financial assets in liquid form in accordance with the regulatory guidelines.

IronRock is subject to an early warning liquidity ratio imposed by the FSC. The ratio used for assessing liquidity risk is the Company's liquid assets to its total liabilities, and the FSC standard is above ninety-five percent (95%).

5.4 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates and equity prices will affect the value of the Company's assets, its liabilities and/or the Company's income. IronRock is exposed to market risk on all of its financial assets.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the Company's return on risk.

Equity price risk

Equity price risk arises from available-for-sale equity securities and unit trust investments held by the Company as part of its investment portfolio. Management monitors the mix of debt and equity securities in its portfolio, adjusting the balance based on market expectations. The primary goal of the Company's investment strategy is to maximise investment returns.

Interest rate risk

Interest rate risk arises primarily from the Company's investments. IronRock manages its interest rate risk exposure, by matching where possible, the duration and profile of assets and liabilities to minimize the impact of mismatches between the value of assets and liabilities from interest rate movements.

Interest bearing financial assets are primarily represented by long term investments, which have been contracted at fixed and floating interest rates for the duration of the term.

Currency risk

Currency risk Is the potential for the market value or cash flows from financial instruments will vary from what the Company has budgeted because of exchange rate fluctuations.

The Company incurs foreign currency risk primarily on insurance and reinsurance contracts and investments that are denominated in a currency other than the Jamaican dollar. The principal foreign currency risk of the Company is denominated in United States dollars (US$).

5.5 Foreign investment risk

The threat of a significant and unexpected change in investment value due to:

1. differing accounting, reporting, or auditing standards;
2. nationalisation, expropriation or confiscatory taxation; or
3. political/diplomatic changes.

5.6 Main risk intersections

Risks that could exacerbate, or be exacerbated by financial risks include:-

1. **Operational risks, where**
   a. the Company portfolio performs so poorly that IronRock ceases to be a going concern and therefore can no longer operate; and
   b. the Company is not writing enough business to satisfy financial obligations.

2. **Reputational risks, where**
   a. the Company experiences a significant financial loss from its portfolio and this loss is exposed when next it publishes its financial statements, causing the public to lose faith in IronRock's ability to cover claims; and
   b. reputational risk has hurt the Company's ability to operate successfully, and this in turn hurts the Company's financial performance.

3. **Compliance risks, where**
   a. due to a significant financial loss from its portfolio, the Company is unable to pass the Minimum Capital Test and therefore has its insurance license suspended or cancelled.

6. STRATEGIC RISK MANAGEMENT

6.1 Strategic risk

The uncertainties and untapped opportunities embedded in an organisation's strategic intent and how well they are executed. It involves a clear understanding of corporate strategy, the risks in adopting it and the risks in executing it.

Strategic risks are typically external and affect the most senior management decision, therefore their management should be integrated into how the Board of Directors (hereafter the Board) routinely evaluate and debate strategic decisions.

6.2 Considerations for the Board

Key considerations for the Board when judging how effectively risk considerations are integrated into strategic objectives and their execution include:

1. how well the strategy is defined
2. how broad the risks under consideration are (risk of contagion)
3. what risk scenarios have been considered to stress test the strategy
4. how the risks could affect key performance and value measures (stakeholders)

6.3 Risk intersections

Like operational risks, strategic risks intersect with every other type of risk, as the Board's strategic decisions will affect the Company's exposure to all forms of risk, and likewise, all risks will affect the Company's strategic risk.