



## **RISK MANAGEMENT PROGRAM**

### **I. Risk Management in the GSIS**

The GSIS has established an Enterprise Risk Management (ERM) System which is meant to ensure that the corporate assets are managed properly and that quality service is rendered to the members and stakeholders of GSIS. Using an ERM framework, GSIS observes a process to identify, analyze, respond, monitor, and report on risks that the organization is or will be exposed to. In essence, the ERM framework of the GSIS involves the identification of risks that may affect the attainment of the Corporation's Vision, Mission, Objectives, and the fulfillment of its Mandate, given the uncertainties in the environment that GSIS operates in. The framework also embodies a comprehensive, system-wide, and integrated approach to risk management to enhance governance mechanisms and effectively identify, assess and manage risks. This means that groups or departments pursue risk management within the context of the whole organization in order to have a cross-cutting, enterprise-wide view of risks. It is therefore necessary for risk management in GSIS to be overseen and coordinated by a distinct department, the Risk Management Office (RMO) to drive the process. Furthermore, for a big institution such as GSIS that is vested with responsibilities to carry out its social and general insurance mandates, best practice prescribes a consolidation and prioritization of risks in order to effectively manage the large number of risks and their varied nature.

The adoption of risk management and its standards and best practices is not a new development in the GSIS. The GSIS Board of Trustees has always recognized that risk management is an important component of the over-all management of the GSIS. In that respect, the Board provides an oversight role on system-wide risk management with emphasis on understanding the priority risks, approving risk management policies, ensuring that risk responses are effective and that risks are within the approved risk tolerance.

The Risk Oversight Committee (ROC) assists the Board in its risk policy and oversight functions by formulating risk policies, setting System-wide risk limits, and reviewing the risks of specific proposals.

Since the re-organization of the GSIS in 2012, risk and control assessment exercises have been practiced with more engagement from management, as RMO drives the process under the direction of the President and General Manager (PGM) of the GSIS. The PGM leads the risk management campaign by translating strategic objectives, policies, and guidelines emanating from the Board of Trustees into implementable plans, projects, procedures or processes to be executed by the different levels of management. This ensures that risk management is applied to the setting of strategy, the achievement of objectives, and the conduct of operations. The PGM oversees the observance of GSIS-wide risk policies and implementation of management strategies and plans and prioritizes the treatment of certain risks.

The RMO is currently placed under the Actuarial and Risk Management Group and is headed by its Vice President. The RMO is responsible for establishing a GSIS-wide risk management system and for overseeing the continuous improvement of the capabilities of the GSIS to manage its priority risks. Two units under the RMO are the Operational Risk Management Unit (ORMU) and the Financial Risk Management Unit (FRMU). The ORMU facilitates management of the system-wide operational risks, arising from systems, people, processes, and from external events. The FRMU on the other hand, handles the management of the system-wide Financial Risks, such as funding and solvency risks, asset and liability risks, and such other financial risks that the GSIS may be subjected to. While ERM is supervised by the RMO, the functional groups, from their highest-ranking executives to their officers and staff members, actually manage their risks through the implementation of controls and identification of emerging risks.

In 2012, the Risk Management Office conducted a series of Risk and Control Self-Assessment (RCSA) consultations-workshops with executives of the different functional groups to update the Risk Register. The output of the consultation and group discussions were used as sources for the system-wide risk assessment and identification of GSIS key and priority risks. At the same time, existing controls were identified and assessed relative to these key risks. Further consultations and validations with the functional groups assessed existing risk management capabilities which led to recommendations to improve on existing controls and capabilities. Finally, key risk indicators were identified based on available data from the functional groups, which serve to measure and monitor risk, and report on the status of these risks to Management and the Board. Groups and departments were also encouraged to continually identify emerging risks and report them to the RMO as they surface.

## II. GSIS Key Risks and Control Measures

Among the risks which GSIS focuses on are those that are related to the integrity and availability of data and information and internal business processes. GSIS controls and mitigates these operational risks so that they do not cause material damage and remain under manageable levels.

- Risk of External Information

These are risks of receiving erroneous data and information and delayed submission of data from external sources, i.e. the agencies which are responsible for remitting premium and loan payments of members.

The GSIS utilizes data from other government agencies for the updating of service records and salary information of employees which are used to process claim applications for loans, retirement, separation benefits, policy maturity, and other benefits. The discrepancies between the data bases could result in incorrect computations and delays in the processing of claims as these would necessitate re-work to reconcile the data.

In order to help address data matching issues, the GSIS has entered into a Memorandum of Agreement (MOA) with the National Statistics Office (NSO) for the provision of information and data on deaths and marriages of persons for GSIS to

countercheck and match with its roster of pensioners and beneficiaries. The NSO arrangement provides an institutional-level documentary verification of civil status.

Furthermore, the eBilling and Collection project aims to put GSIS a step closer to reducing the number of data entries for clarification at the data source, which are the remitting agencies. The project will utilize advanced internet-based technologies, which would allow two or more computer devices to communicate over a network. The system will provide remitting agencies with automated means to ensure that corrections and updates have been made before the payment data enters the GSIS database.

- Information Integrity Risk

This is the risk on accuracy, completeness, consistency, reliability, and timeliness of both internal and external information. Information integrity may be broadly defined as the trustworthiness and dependability of information content, processes and systems.

The Reconciliation Task Force (RTF) of GSIS has been constituted as the lead group to oversee the resolution of data reconciliation problems pertaining to premiums and loan payments of members. To settle premium arrearages of agencies and restore the loan privileges of affected employees, the GSIS has entered into Memoranda of Agreements (MOAs) with remitting agencies that have incurred missed or delayed payment remittances. The MOAs are also meant to help reconcile and update the premium contributions accounts of agencies.

- Business Disruption, System Failures, and Disaster Recovery

These are risks of disruptions which could entail the failure to resume business operations, deliver services, establish communications, and access critical systems during or in the immediate aftermath of a natural or man-made disaster.

Since most information are now stored on computers, to ensure that data is not lost when the above-mentioned critical issues arise, all managed database, business system data, and configuration information are backed up on a regular basis. The GSIS has an alternative recovery program and backup systems. Moreover, to anticipate such risks, recovery tests are conducted to examine all backup processes, procedures as well as the integrity of back-up information.

The GSIS develops risk management policies and procedures to address financial risks which are inherent to any financial institution including GSIS, and monitor strict compliance through its internal audit function<sup>1</sup>. These measures ensure that the financial risks are well-managed:

- Solvency Risk

Solvency risk refers to the risk that the GSIS does not have sufficient assets to meet its current and projected liabilities or the benefit obligations that the GSIS has to pay

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<sup>1</sup> The information on financial risk, except for solvency risk, was lifted from the draft of the 2012 GSIS Annual Report.

to its current pensioners and future benefit claimants. Solvency risk can be caused by adverse market movements, asset/liability mismatch, contribution and benefit structure mismatch, increasing pension costs due to longer life expectancy, legislative or regulatory changes resulting to unfunded increases in benefits, strategic decisions or inefficiency in collection of contributions and loan repayments.

Several control measures are being implemented to manage solvency risk, first and foremost of which is the periodic evaluation and monitoring of the status of the GSIS fund in compliance with Sections 38 and 41 of the GSIS Charter. Also, actuarial assessments and liability adequacy tests are conducted annually or more frequently as needed to evaluate the financial effects of any proposals affecting benefits, contributions, and operating expenses. Actuarial valuation of reserve liabilities is also performed regularly to assess the adequacy of the GSIS funds.

In compliance with Section 48 of the GSIS Charter, the financial condition of the GSIS is also examined by the Insurance Commission at least once every three years.

The results of these internal and external evaluations are submitted to the PGM and to the Board of Trustees for their guidance in decision-making, particularly in ensuring that reform measures strengthens or at the very least do not cause depletion of the GSIS Fund.

Such reform measures may come in the form of policy changes in benefit administration and contribution collections, prudent management of investible funds, and compliance to operating policies and procedures on key program areas.

- Credit Risk

Credit risk, or the risk of financial loss arising from the counterparties' inability or unwillingness to settle their financial contractual obligations to the GSIS, is managed by GSIS through the use of structured and standardized evaluation guidelines, credit ratings and approval processes.

In order to ensure prompt collection of outstanding loans, the GSIS' basic strategy is to improve collection through (a) policy changes, followed by strict enforcement, (b) procedural enhancement and (c) utilization of information technology solutions that would enable the System to track, monitor and promptly collect from borrowers.

The GSIS constantly monitors the terms and conditions of member loan programs to ensure that the programs remain financially viable for the GSIS, responsive to changing market conditions, and suited to members' requirements. Loans are collateralized and/or covered by Loan Redemption Insurances (LRI) and subject to minimum net take-home pay requirements to mitigate the credit risk posed by members.

Aside from credit risk arising from loans to members, the GSIS is also exposed to credit risk from its holdings of fixed income securities. The GSIS Investment Policy Guidelines (IPG) sets risk limits to control such risk exposures. Non-Philippine government issued securities are subject to minimum credit rating requirements, maximum allowable investment amount per security type in terms of maximum

percentage of total investable funds, and maximum investment amount per debt issuer/borrower.

Lastly, the GSIS adheres to a Counterparty and Issuer Risk Guidelines (CIRG) which provides a framework for managing the credit risk exposures of GSIS to counterparties in transactions affecting the investments of funds and to issuers of securities taken into the investment portfolio. The CIRG establishes credit exposure limits to a pre-approved list of transaction counterparties (banks), and provides guidelines for the calculation and monitoring of GSIS' credit exposures to each counterparty-bank.

- **Liquidity Risk**

Liquidity risk arises when the System encounters difficulty in realizing its assets or otherwise raising funds to meet commitments associated with its financial liabilities.

The System manages this risk through the daily monitoring of cash flows in consideration of future payment due dates and daily collection amounts. The System also maintains a sufficient portfolio of highly liquid assets that can easily be converted to cash as protection against unforeseen interruption to cash flows.

- **Foreign Currency Risk**

The System is exposed to foreign currency risk through its cash and cash equivalents, Available-for-Sale (AFS) investments, Held-to-Maturity (HTM) investments, and General Insurance (GI) receivables (premiums and due from reinsurers) and payables (claims and due to reinsurers) denominated in U.S. dollar and Euro. Any depreciation or appreciation of foreign currencies against the Philippine peso posts material foreign exchange losses relating to cash and cash equivalents, AFS investments, HTM investments and GI receivables and payables.

The GSIS may also deal in foreign currency exchange, cash or derivative transactions such as FX forwards, cross currency swaps and options, for the purpose of enhancing returns or eliminate unwanted foreign currency risk. Such transactions are limited to the Philippine peso and major currencies.

- **Equity (Stock Price) Risk**

Equity or Stock Price risk is the risk that the value of the GSIS equities portfolio investments will fall due to the general fall in stock market prices and/or due to the fall of stock prices of specific equity holdings in the portfolio.

All GSIS-managed funds are subject to the Board-approved IPG. The internally managed equity portfolio is subject to:

- a. Maximum limit of 20% of investible funds
- b. Minimum company market capitalization of Php2 billion
- c. Minimum Free Float of 10%
- d. Maximum small cap stocks total investment of 10%
- e. Diversification by issuer, sector, and industry

Funds managed by external local fund managers are subject to the terms of an Investment Management Agreement (IMA) that requires approval of the Board of Trustees.

