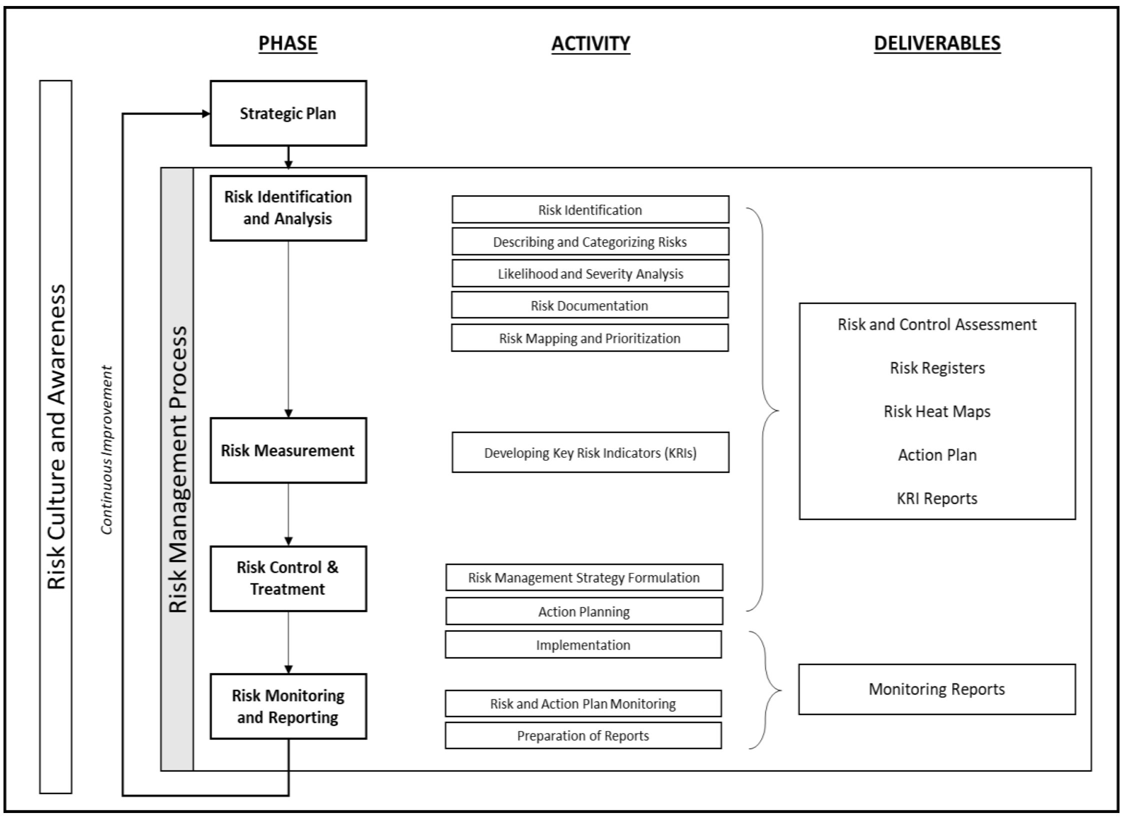
Adequacy of Risk Management Systems

Under SSC Resolution No. 40 dated 27 January 2021, the Social Security Commission (SSC) approved the Report on the Risk Management in the Social Security System (SSS) for 2020 which covers the risk management system currently in place, the key risks and how they are managed and the adequacy of risk management system in SSS.

Risk Management System Currently in Place



In adopting the Enterprise Risk Management (ERM), which is a holistic approach and a continuous, proactive and integrated process used to identify, assess and manage risks across all areas and at all levels of the organization, SSS ensures the alignment of strategic planning and risk management.

The SSS ERM focuses on the following key components: (i) corporate governance, (ii) line management, (iii) portfolio management, (iv) risk transfer, (v) risk analytics, (vi) data and technology resources, and (v) stakeholder management.

The implementation of the SSS ERM Policy (which adheres to the best practices in the industry in identification, analysis, estimation and evaluation of risks) required the establishment of the ERM Framework which involves five phases – (i) Strategic Plan, (ii) Risk Identification and Analysis, (iii) Risk Measurement, (iv) Risk Control and Treatment, and (v) Risk Monitoring and Reporting, that run in a continuous cycle to improve the risk management system by incorporating the lessons learned and feedback of stakeholders.

How SSS Manages Risks

SSS risks can be divided into four (4) principal risk categories:

1. *Financial Risks* – unexpected changes in external markets, prices, rates and liquidity supply and demand.
2. *Insurance and Demographic Risks* – risk of loss arising from variation in pension fund, claim experience and exposure to adverse persistency, and uncertainty in demographic assumptions when the benefits were designed and valued.
3. *Strategic Risks* – risk arising from unanticipated changes in key elements of strategy formulation and/or execution leading to actual strategic outcomes that adversely defer from expectations.
4. *Operational Risks* – exposure to potential loss, whether direct or indirect, due to ineffective and inefficient internal processes, human resource failures, system failure or external events.

The risk management tools, policies and procedures currently in place help SSS manages the four principal risk categories are:

1. *Financial Risks*

   Adoption of policies on investment procedures, risk assessment and measurement and risk monitoring; strict observance on the statutory limit provided under SS Law, requirements of the investment guidelines and internal controls and comprehensive audit being done by the Internal Audit Services.

   a. Market Risks - adherence to the provisions of Section 26 of the SS Law and developed risk management tools, such as value-at-risk (VaR), market-to-acquisition ratio (MAR), and stop-loss/cut-loss program, among others, to monitor and mitigate market risks.

   b. Credit Risk - implementation of the structures and standardized evaluation guidelines, credit ratings and approval processes; investments undergo technical evaluation (for viability/acceptability) and due diligence (e.g., credit analysis, information from third party, etc.); policies and guidelines in determining and management exposure limits to debt and equity were established to ensure further compliance with Section 26 of SS Law; investment limits for conglomerate/group, individual corporation, individual corporation's debt and individual corporation's equity are determined based on two principles -- IRF forecast-based and risk-based; mitigating measures are adopted such as setting of qualification standards prior to accreditation of SSS stockbrokers and allocation and transaction limits per stockbroker.

   c. Liquidity Risk - daily monitoring of cash flows in consideration of future payment due rates and daily collection amounts; maintenance of sufficient portfolio of highly marketable assets that can easily be liquidated as protection against unforeseen interruption to cash flow; investment in shares of stock and equity related-issues that satisfies the stock accreditation guidelines; ensuring that investments in marketable securities shall be compliant to the basic principles of safety, liquidity and yield and shall benefit as many members of the System; development of the Risk Dashboard to provide Management with bird's eye view of the financial risks that SSS is facing.

2. *Insurance and Demographic Risks*

   Regular conduct of actuarial valuation/studies and monitoring of experience; policies are in place to address the risks.

3. *Strategic Risks*

Creating harmonious relationship with various stakeholders, monitoring new and pending bills and conducting regular economic researches/studies to craft appropriate policies beneficial to the System and its members; implementation of the No Gift Policy, No Noon Break Policy, Anti-Fixer Campaign and No Smoking Campaign which may enhance its image as a government institution; coverage of Members of the Social Security Commission and SSS Executives with the Directors and Officers' Liability Insurance to pursue their fiduciary duties and obligations and act in the best interest of the System.

4. *Operational Risks*

Conducting regular Risk and Control Self-Assessment throughout the System; use of Incident Report Form to collect internal risk-event data and other incidents that affect the operations of SSS which can offer valuable insights to support identification, assessment, measurement and treatment of risks by responsible units. Some of the risk management tools used to address operational risks are: (i) Privacy Impact Assessment, (ii) Personally Equity Investment Policy, and (iii) Business Continuity Management Program.

The SSC Risk Management and Investments Committee was constituted to adopt and oversee the risk management program of the SSS in accordance with the guidelines prescribed by the Governance Commission for GOCCs.

The Risk Management Division, under the Actuarial and Risk Management Group, is responsible for ensuring that a systematic approach is in place in delegating, coordinating and clarifying important risk management roles and duties across the entire organization and for identifying, measuring, monitoring, mitigating and reporting risks affecting SSS.

Adequacy of SSS' Risk Management System

SSS is on track in the establishment of an adequate and effective enterprise-wide risk management system.

Since 2014, the developments in SSS on risk management include: (i) establishment of risk dashboard; (ii) standardization of methods and metrics for risk monitoring; (iii) development and enhancement of risk and control self-assessment; and (iv) conduct of seminars/workshops to strengthen the risk management culture in SSS.