## Table of Contents

# *PART I. INTRODUCTION TO RISK MANAGEMENT*

## 1.1 PAGCOR's Mandate

The Philippine Amusement and Gaming Corporation (PAGCOR) was created by virtue of a law, later amended and consolidated under PD 1869, and is mandated to regulate, operate, authorize and license games of chance, games of cards and games of numbers, particularly casino gaming in the Philippines, and to generate revenues for the Philippine Government's socio-civic and national development programs. As it carries out its function, PAGCOR is exposed to certain risks that could compromise the fulfillment of these objectives.

## 1.2 What is a Risk?

Risk is the 'effect of uncertainty on objectives'. In this definition, uncertainties include events (which may or may not happen) and uncertainties caused by ambiguity or a lack of information. It also includes both negative and positive impacts on objectives[1].

Simply put, a risk is the chance that things can go wrong however well the planning went.

## 1.3 Why is Risk Management Important?

Risk management is a systematic approach to setting the appropriate and coordinated activities in dealing with risk issues to ensure the achievement of the organization's mission and the successful continuation of its operations. The identification, assessment, monitoring, and reporting of risks are the responsibilities of both management and staff, and as a consequence of managing risks:

- Planned objectives are more likely to be achieved;
- Adverse risks are less likely to happen; and
- Impact of adverse risks is reduced.

More importantly, with a comprehensive understanding of the risk exposures a project or any undertaking carries, the Board and Management will be able to make informed decisions about whether or not to pursue it.

[1] ISO 31000 (2009) /ISO Guide 73:2002

## 1.4 PURPOSE OF THIS MANUAL

The PAGCOR Risk Management Policy and Procedures Manual sets out the standards on risk management as prescribed in DBM CL No. 2008-8, to wit: "*The Philippine Government mandates the establishment of standards on risk management in public service organizations*".[2]

This Manual aims to provide knowledge and understanding of the key points of risk management and to present a structured approach to assist risk owners in identifying, analyzing, measuring, treating and reporting risks.

## 1.5 STRUCTURE OF THIS MANUAL

After the introduction to risk management, this document contains two more parts. The second part, PAGCOR Risk Management Policy, establishes

a. The risk management framework that will be used PAGCOR-wide;
b. The risk appetite of the organization;
c. The risk owners that will be responsible for the implementation of the risk management framework; and
d. The roles and responsibilities of each stakeholder in risk management.

The third part, PAGCOR Risk Management Process, describes the approach to risk and how it is to be used throughout the organization. The focus is on the identification and treatment of risks.

## 1.6 DEFINITION OF TERMS

<u>Risk</u> is the "effect of uncertainty on objectives" and an *effect* is a positive or negative deviation from what is expected.

<u>Risk management</u> refers to a coordinated set of activities and methods that is used to direct an organization and to control the many risks that can affect its ability to achieve objectives.

According to ISO 31000, a <u>risk management framework</u> is a set of components that support and sustain risk management throughout an organization. There are two types of components: foundations and organizational arrangements. *Foundations* include your risk management policy, objectives, mandate, and commitment. And

[2] NGICS, p. 29.

*organizational arrangements* include the plans, relationships, accountabilities, resources, processes, and activities you use to manage your organization's risk.

A risk management policy statement expresses an organization's commitment to risk management and clarifies its general direction or intention.

A risk owner is a person or entity that has been given the authority to manage a particular risk and is accountable for doing so.

According to ISO 31000, a risk management process is one that systematically applies management policies, procedures, and practices to a set of activities intended to establish the context, communicate and consult with stakeholders, and identify, analyze, evaluate, treat, monitor, and review risk.

To establish the context means to define the external and internal parameters that organizations must consider when they manage risk.

Risk assessment is a process that is, in turn, made up of three processes: risk identification, risk analysis, and risk evaluation.

Risk identification is a process that is used to find, recognize, and describe the risks that could affect the achievement of objectives.

Risk analysis is a process that is used to understand the nature, sources, and causes of the risks that you have identified and to estimate the level of risk. It is also used to study impacts and consequences and to examine the controls that currently exist.

Risk evaluation is a process that is used to compare risk analysis results with risk criteria in order to determine whether or not a specified level of risk is acceptable or tolerable.

A consequence is the outcome of an event and has an effect on objectives. A single event can generate a range of consequences which can have both positive and negative effects on objectives.

Likelihood is the chance that something might happen. *Likelihood* can be defined, determined, or measured objectively or subjectively and can be expressed either qualitatively or quantitatively

Risk analysis is a process that is used to understand the nature, sources, and causes of the risks that you have identified and to estimate the level of risk.

The risk significance is its magnitude. It is estimated by considering and combining consequences and likelihoods.

Risk evaluation is a process that is used to determine the relative priority of the identified risks.

Risk treatment is a risk modification process. It involves selecting and implementing one or more treatment options. Once a treatment has been implemented, it becomes a control or it modifies existing controls.

A common definition of control is "a specific action taken with the objective of reducing or mitigating either the likelihood of the risk occurring and / or the consequence if the risk were to occur".

Inherent risk is the risk that an activity would pose if no controls or other mitigating factors were in place.

Residual risk is the risk that remains after risk treatment has been applied.

To monitor means to supervise and to continually check and critically observe. It means to determine the current status and to assess whether or not required or expected performance levels are actually being achieved.

A review is an activity. *Review activities* are carried out in order to determine whether something is a suitable, adequate, and effective way of achieving established objectives.

## 1.7 REFERENCES

- 3.1 National Guidelines on Internal Control Systems (DBM CL No. 2008-8)
- Early Mover Series: Defining Risk Appetite, published by Protiviti, Inc.
- IMI Philippine Risk Management Policy and Procedures, 2012
- http://www.praxiom.com/iso-31000-terms.htm
- INTOSAI Guidelines for Internal Control Standards for the Public Sector

# *PART II. PAGCOR RISK MANAGEMENT POLICY*

The Risk Management Policy outlines the approach to the Risk Management Process by which PAGCOR identifies risk, assesses risk and manages risk in order that it should succeed in achieving planned objectives.

It is PAGCOR policy that all substantive activities, process, projects, or programs should be subject to risk assessment leading to a decision about residual risks.

## 2.1 RISK MANAGEMENT POLICY STATEMENT

In performing its mandate, PAGCOR faces certain risks that impact the achievement of its goals and objectives. Controlling these risks through a structured process is necessary to protect the interest of the organization, increase the probability of success and reduce the likelihood of failure. The introduction of risk management to the employees and advocating its continuing relevance manifests the management's sustained commitment in bringing about positive changes to the organization.

If it is not rationally realistic to eliminate a risk, it should be mitigated so far as is reasonably practicable. In deciding what is reasonably practicable, consideration should be given to the human effort, cost and time element mitigating actions would require, as well as the effect they may have to both the internal and external stakeholders.

The PAGCOR Board has the ultimate responsibility of managing risks and making informed decisions as to resolving which risk are acceptable, prioritizing critical risks, determining adequacy of existing controls, and selecting the best option among available risk responses. To assist the Board in making those decisions, the Audit and Risk Management Committee was created with the task of performing oversight functions regarding risk management activities. However, the support of the entire workforce is crucial because each employee is in the best position to understand the risks of his or her own tasks. Everyone is responsible for reporting any potentially risky condition that emerges and is encouraged to suggest suitable solutions to better manage risks.

As risk management is everyone's responsibility, all officers and staff of PAGCOR are expected to comply with the risk management policy.

## 2.2 SCOPE

Effective risk management is regarded as part of PAGCOR's strategic management and should be embedded within the culture of the organization. It is the process whereby PAGCOR methodically address the risks attaching to its activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities.

Foregoing considered, this policy applies to PAGCOR offices, casino branches, and to all PAGCOR-operated establishments in the Philippines.

## 2.3 RISK APPETITE

In making decisions on potential business-growing initiatives such as entering into new markets, gaming facilities expansion, acquisition of new products and investing in new technologies, the Board demonstrates its risk appetite. Board actions show what risks the organization is seeking to take and what are those that it wants to avoid.

PAGCOR shall develop a framework for defining the organization's appetite for risk taking into consideration three elements:

1) Define risks that are acceptable because the gains outweigh the risk taken
2) Define risks that should be avoided
3) Define parameters by which risks become acceptable; parameters may be expressed as revenue and/or net income targets, investment cost ceiling, etc.

Once established, risk appetite can be communicated across the organization for the alignment of strategic priorities. Risk appetite is not static and should be refined over time as the organization becomes more experienced with each pursuit of value-adding undertakings.

PAGCOR maintains a risk map matrix which takes into account the severity of the risk and the relative strategic importance of the activity. This matrix provides guidance on the acceptability of the proposed activity.

## 2.4 RISK OWNERSHIP

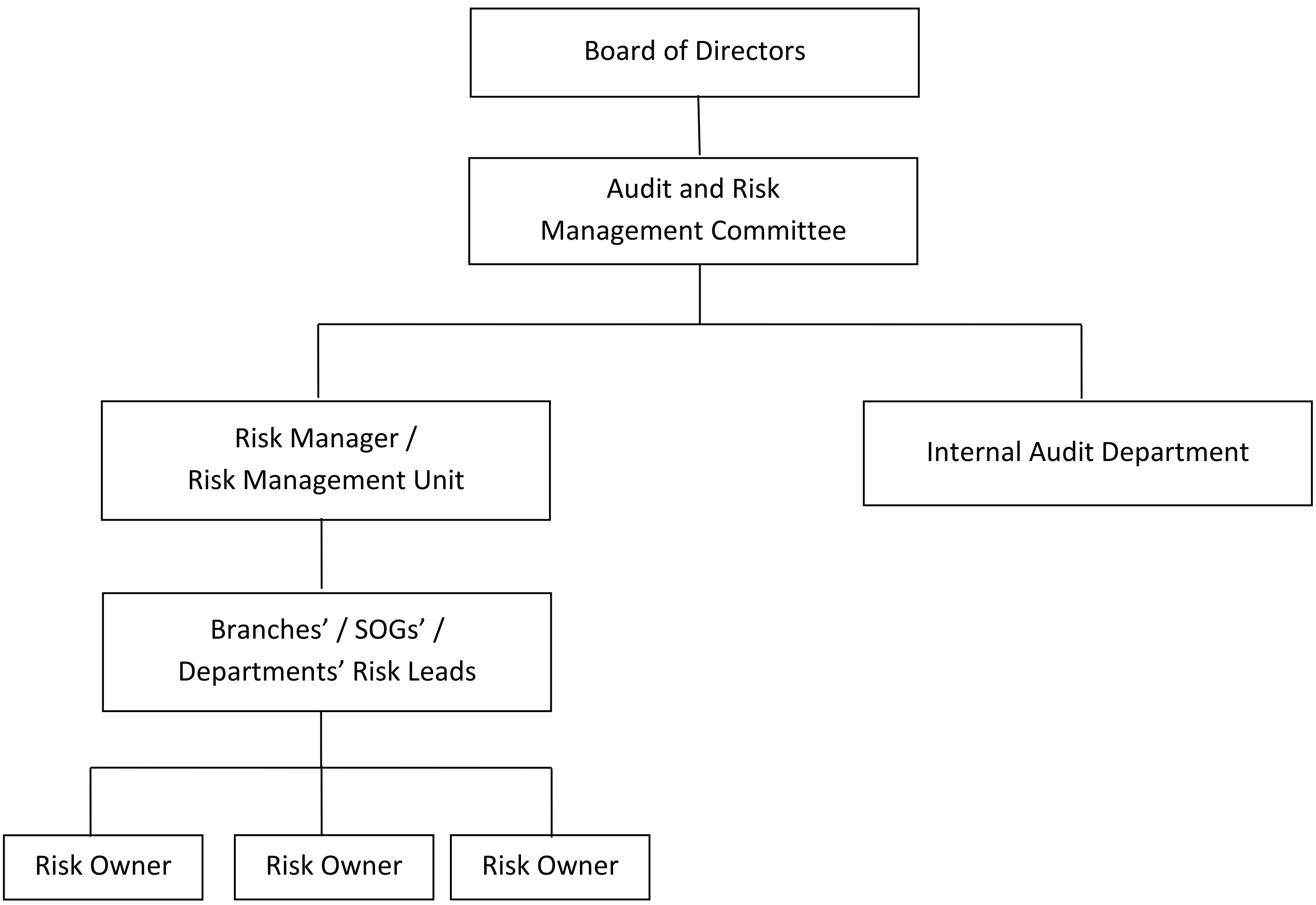
Every risk has a risk owner who carries the ultimate responsibility for ensuring that the impact and likelihood of occurrence of any adverse risks are minimized. The risk owner has the responsibility for implementing the actions that will minimize adverse risks. However, the risk owner may arrange for another manager with relevant expertise to undertake the task of managing the risk on behalf of the risk owner. For example, the Chief Executive Officer may ask a department/branch head to manage a risk for which the CEO retains responsibility. In these circumstances, the designated risk manager is responsible for providing the risk owner with regular updates.

The ownership of the risk may be transferred to another department for which the ownership is more appropriate because the actions fall within its normal function.

The designated managers to whom responsibility for managing identified risks has been transferred to are responsible for developing the action plan and reporting the progress including changes in residual risk to their immediate supervisors and the owners of the risk (if different).

## 2.5 RISK MANAGEMENT ORGANIZATIONAL STRUCTURE

Figure 2.5.1 Risk Management Organizational Structure



The Board of Directors is responsible for making final decisions related to corporate-wide risk matters having the achievement of corporate objectives in mind. The function of overseeing the risk management activities is delegated to the Audit and Risk Management Committee who shall meet quarterly to discuss risk issues and recommend crucial risk-related policy decisions to the Board for approval.

Although every member of staff carries some responsibility for the management of risk, a PAGCOR Risk Manager shall be appointed who will exercise an overview of the risk management process. Each branch and department should appoint an Officer as the Branch or Department Risk Lead Person who shall be in charge of facilitating the implementation of the risk management process and coordinate with the risk owners in their respective units. The Risk Owners are responsible for identifying, managing and monitoring risks linked to their respective functions. In case of personnel movement involving the Risk Lead, the head of the unit shall immediately appoint a replacement and inform in writing ARMC through the Risk Manager.

Internal Audit monitors and reports on compliance with risk management policies and recommends to ARMC improvements in the risk management process.

## 2.6 ROLES AND RESPONSIBILITIES

The key roles and responsibilities that are necessary to ensure effective Risk Management are summarized as follows:

Table 2.6.1 Roles and Responsibilities

| | |
|---|---|
| Board of Directors | • Approves the PAGCOR Risk Management Policy and any revisions thereto<br>• Reviews and approves risk management policies and strategies<br>• Sets clear directions on the management of critical risks<br>• Defines the organization's risk appetite<br>• Receives and reviews reports from ARMC<br>• Reviews and evaluates the overall effectiveness of PAGCOR's risk management process |
| Audit and Risk Management Committee | • Provides oversight function over risk management activities<br>• Ensures compliance with risk management policies and sees to it that these are embedded throughout the operations of PAGCOR<br>• Ensures sufficient allocation of resources and staff requirements for risk management |

| | |
|---|---|
| | • Makes recommendations to the BOD on matters pertaining to Risk Management<br>• Approves and ensures the sufficiency and effectiveness of the relevant infrastructure (policies, processes, management reports, people, responsibilities and accountabilities, methodologies, and systems and data) for managing specific risks<br>• Reviews and endorses the PAGCOR Risk Management to the BOD for approval |
| Chairman of the Audit and Risk Management Committee | • Comprehensive and overall Risk Executive – ultimately responsible for Risk Management priorities, including strategies, tolerances, policies, and resource allocation.<br>• Sets the direction, and leads the decision-making processes as they relate to:<br>o Identification of risk priorities<br>o Alignment of business and risk strategies and policies<br>o Resolution of conflicts with regard to risk management strategies |
| Risk Manager | • Oversees the entire risk management function<br>• Is responsible for planning, designing and developing the risk management process and coordinates risk-related activities with various risk leads/owners<br>• Ensures that all initiatives relative to risk management are monitored and reported to the appropriate members of the organization<br>• Develops procedures to facilitate efficient risk monitoring activities<br>• Monitors and reports status of implementation of risk management strategies and action plans to the ARMC<br>• Reviews reports related to risk management activities from branches and departments and makes appropriate actions accordingly<br>• Prepares, submits and presents risk management reports to ARMC |
| Risk Lead | • Assists the Risk Owner in facilitating the risk management process<br>• Coordinates with other departments regarding overall directions with respect to the risk/s handled; also validates the risk management results and outputs for the specific risks<br>• Reports status of risk management activities along with any identified new/emerging risks on respective |

| | |
|---|---|
| | branch/department/project<br>• Develops and recommends specific action plans to build the risk management capabilities required for proper implementation of the risk management strategies<br>• Prepares and submits risk assessment reports and risk registers to ARMC through the Risk Manager periodically and as necessary |
| Risk Owner | • Has overall accountability for and ownership of the assigned risks<br>• Recommends risk tolerances and limits along with measurement methodologies<br>• Reviews and validates the risk management strategies, action plans and other risk management outputs/reports<br>• Ensures the adequacy and continual application of risk management programs<br>• Reviews new and emerging risks identified<br>• Develops and recommends specific action plans to build the risk management capabilities required for proper implementation of the risk management strategies. |
| Internal Audit | • Monitors compliance with PAGCOR's Risk Management policies as approved by the BOD and provide reports on compliance with such policies;<br>• Participates in risk assessment workshops and other activities of the Risk Owners;<br>• Contributes and provides quality assurance in the creation and updating of PAGCOR risk portfolio;<br>• Identifies and monitors other potential risks which might arise from the design and implementation of risk management strategies by the Risk Owners;<br>• Makes recommendations for improvement in the risk management process to the Risk Management Executive Committee. |
| All employees | • Compliance with Risk Management Policy<br>• Reports to appropriate channel potential risks that are observed |

## 2.7 REVIEW OF THE RISK MANAGEMENT POLICY

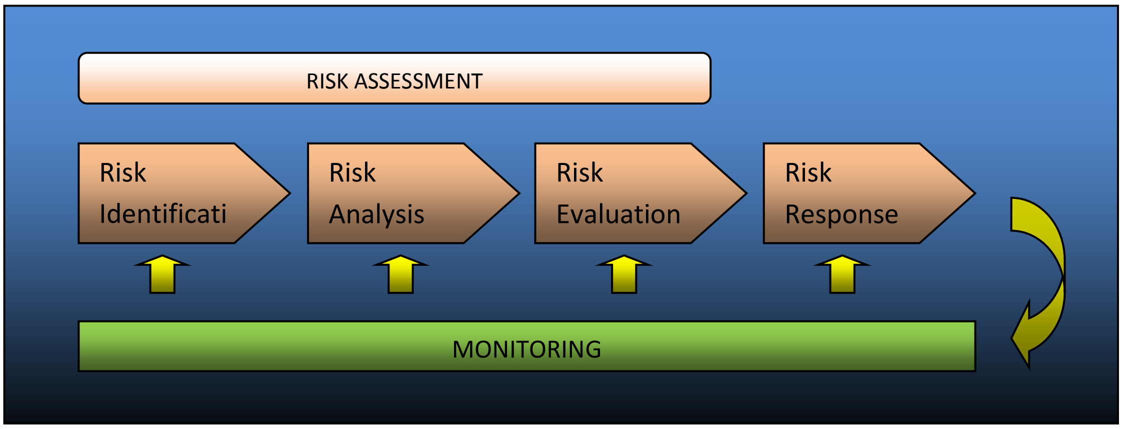
This Risk Management Policy is kept under review by the Risk Manager and Branch/Department Risk Leads and Risk Owners and updated periodically in the light of operational experience.

# *PART III. PAGCOR RISK MANAGEMENT PROCESS*

## 3.1 OVERVIEW AND GUIDELINES

To enable a fully integrated risk management process, the following framework shall be put in place, covering an entire cycle of risk management:

Figure 3.1.1 Risk Management Framework




PAGCOR shall generate a comprehensive list of risks based on factors that might enhance, prevent, degrade or delay the achievement of the general objectives. This will include identifying the risks in case of not pursuing an opportunity. [3]

Risk assessment shall include the overall process of risk identification, analysis and evaluation to ascertain existing and potential risks and determine the appropriate response that may affect the successful achievement of PAGCOR objectives.[4] Risks must be regularly monitored and actively managed until the objectives have been achieved.

The following guidelines shall govern the assessment of business risks:

- Each designated Risk Lead shall initiate the risk assessment sessions with risk owners in their respective departments/branches/units as part of the PAGCOR's strategic and business planning activities. The risk assessment shall include the identification and prioritization of significant risks and the accomplishment of the required reports.

[3] NGICS, p. 30.
[4] NGICS, p. 29.

- The risk assessment sessions shall be conducted at least once a year and whenever there are significant changes in the business environment, or as mandated by the ARMC.

- The Risk Owners shall continuously identify new and emerging risks in their specific areas. Identified significant enterprise-wide risk issues and the resulting information shall be communicated to the Risk Lead to facilitate further evaluation.

## 3.2 RISK MANAGEMENT REPORTS

Templates and a common language for documenting risk information and analysis ensure that data being collected is appropriate, complete, retrievable and in standardized format that will facilitate assessment of risks across the organization.

Upon conclusion of the risk management sessions, the Risk Lead shall prepare Risk Assessment Report (Appendix A) and summarizes the risk concerns in the Risk Register (Appendix B).

### *3.2.1 RISK ASSESSMENT REPORT*

The Risk Assessment Report is a tool of documenting the key points discussed and agreed during the risk management sessions to include the analysis, evaluation and determination of responses appropriate to manage identified risks. Risk Assessment Report shall be prepared for each risk identified and shall be assigned a unique reference number to classify the department/ branch/SOG (initials or first three/four letters), year the risk was identified and number sequence (e.g., AD-14-010, ANG-14-001, SOG1-14-008). Accomplishment of this report is discussed in the succeeding sections on risk management process.

### *3.2.2 RISK REGISTER*

The Risk Register is a reporting and monitoring tool to provide the Audit and Risk Management Committee with correct risk information to assist in making business and policy decisions.

The risk assessments should be set out in risk registers which should describe the risk profile, the actions taken and the planned actions and the residual risk rating. The risk register shall be prepared by the Risk Lead and/or Risk Owner.

In describing the identified risk, it is essential to specify the uncertain event that "may, "might", or "could" happen and its potential impact if it happens.

The Consequence rating (score) of all risks should be described as *low (1), medium (2),* or *high (3),* while the Likelihood rating (score) as *remote (1), possible (2),* or *probable (3)*. The risks are removed when the objective has been reached and new risk added when new dangers are detected or new activities are started.

PAGCOR shall maintain a PAGCOR Risk Register which is updated regularly (or more frequently if there is a significant development). Each branch or department is also required to maintain a risk register which should be updated systematically. In addition, the managers of specific projects are expected to maintain a project risk register for the duration of the project.

The PAGCOR Risk Register, through the Risk Management Committee, shall be approved by the Board of Directors. Branch, Departmental, or Project Risk Registers are approved by the concerned branch or department head.

Risk registers should be maintained by the Risk Management Unit.

## 3.3 RISK IDENTIFICATION

PAGCOR shall regularly identify and assess risks through the conduct of the following activities:

### *3.3.1 Risk Assessment Techniques*

The risk assessment tools and techniques shall be suited to the objectives and capabilities, and to the risks faced. This may be done by employing the techniques presented below.

| RISK IDENTIFICATION TECHNIQUES[5] | |
|---|---|
| • Brainstorming<br>• Questionnaires<br>• Business studies which look at each business process and describe both the internal processes and external factors which can influence those processes | • Industry benchmarking<br>• Scenario analysis<br>• Risk assessment workshops<br>• Incident investigation<br>• Auditing and inspection<br>• HAZOP (Hazard & Operability Studies)<br>• Others |

[5] A Risk Management Standard, published by AIRMIC, ALARM, IRM: 2002, p.16.

### *3.3.2 Establish Context*

The Risk Owners and Risk Leads shall conduct risk assessment in the context of PAGCOR's external and internal environment to know where the risks are coming from. The following table shall guide them in identifying the **sources of events** that could affect (beneficially or adversely) the achievement of PAGCOR objectives.

Table 3.3.2.1 External and Internal Contexts

| External Context includes, but is not limited to: | Internal Context includes, but is not limited to: |
|---|---|
| • Cultural, political, legal, regulatory, financial, technological, economic, natural and competitive environment, whether international, national, regional or local;<br>• Key drivers and trends having impact on the objectives of the organization; and<br>• Relationship with, perceptions and values of external stakeholders (e.g., government, mandated agencies, industry players, customers, suppliers, communities, etc.) | • Capabilities, understood in terms of resources and knowledge (e.g., capital, time, people, processes, systems and technologies);<br>• Information systems, information flows, and decision making processes;<br>• Employees and the organization's culture;<br>• Policies, objectives, and the strategies that are in place;<br>• Standards and guidelines adopted PAGCOR;<br>• Structures (e.g., governance roles and accountabilities). |

### *3.3.3 Risk Category*

The various risks faced by PAGCOR should be categorized according to areas where these risks may have an impact on. In this manner, level of such impact may be determined using measurable parameters. The following risk categories shall be used:

*Strategic* *:* Risks that would have most consequence to PAGCOR's ability to implement its strategy leading to the achievement of its goals and objectives

| | | |
|---|---|---|
| *Financial* | : | Covers risks that have monetary consequence |
| *Operations* | : | Involves risks related to the day-today activities of the organization |
| *Compliance* | : | Risks that may arise from insufficient compliance to requirements of the different oversight agencies and government institutions |
| *Reputation and Image* | : | Comprises risks that could hurt PAGCOR's image to its various stakeholders and the general public |

During the risk assessment activity, the following initial output shall be indicated in the Risk Identification portion of the Risk Assessment Report:

| | |
|---|---|
| Risk Assessment Technique | Ex., Brainstorming, Benchmarking, Investigation etc. |
| Context | Internal or External |
| Source of Event | Ex., Environment, External Stakeholder, Process, Guidelines etc. |
| Risk Category | Strategic, Financial, Operations, Compliance or Reputation and Image |
| Specific Event (Cause) | Identify possible scenario and cause/s for the identified risk category (e.g., fire incident, procurement delay, system breakdown, etc.) |
| Identified Opportunity or Risk | Positive or negative effect of the event on the achievement of objectives (damage to property, lack of supply, loss of data, etc.) |
| Risk Owner | The person or unit responsible for managing the risk. This shall include the immediate superior of the risk owner. |
| Risk Transfer | The department/manager to whom the risk management is transferred |

## 3.4 RISK ANALYSIS

After the identification, it is necessary to consider possible causes and scenarios that would show what consequences can occur. All significant causes should be considered (ISO/DIS 31000).[6]

[6] NGICS, p. 30.

Factors that affect consequences and likelihood should be identified. An event can have multiple consequences and can affect multiple objectives. Thus, existing risk controls and their effectiveness should be taken into account.[7] Therefore, Inherent Risks shall be analyzed for new projects, programs, or processes. For ongoing operations, the risks to measure are Residual Risks.

The nature, size, and magnitude of the consequences must be described. At the same time, the likelihood of the event to occur should be based on careful study of the industry, environment, or history of PAGCOR itself, among other considerations.

PAGCOR shall adopt the risk assessment criteria matrices - Consequence (Appendix C) and Likelihood (Appendix D). It shall be used by the risk manager, risk leads, and risk owners as a common basis for the assessment of risks.

## 3.5 RISK EVALUATION

After defining the consequence of the risk and assessing the likelihood of its occurrence, the risk owners and risk leads shall evaluate the relative priority of the identified risks to become aware of the actions which need to be undertaken. The objective of evaluating risks is to assist in coming up with a decision on which risks need treatment based on the results of the risk analysis.

The significance of the risks after the Risk Analysis has been performed shall be plotted on the Risk Map provided which shall be used by the risk leads and risk owners as a common basis for the evaluation of risks.

Table 3.5.1 Risk Map

| | | **SIGNIFICANCE** | | |
|---|---|---|---|---|
| **LIKELIHOOD** | **Probable** | **3** (1 X 3) | **6** (2 X 3) | **9** (3 X 3) |
| | **Possible** | **2** (1 X 2) | **4** (2 X 2) | **6** (3 X 2) |
| | **Remote** | **1** (1 X 1) | **2** (2 X1) | **3** (3 X 1) |
| | | **Low** | **Medium** | **High** |
| | | **CONSEQUENCE** | | |

[7] NGICS, pp. 30-31.

The results of risk evaluation are an input to prioritizing treatment implementation. Decisions should take into consideration the tolerance of the risks by parties other than those which benefit from the same and should be made in accordance with legal, regulatory and other requirements.[8]

The risk owners and risk leads shall then take the appropriate action in accordance with the results of the risk mapping.

Table 3.5.2 Risk Level

| Color Code | Action Required | Symptoms |
|---|---|---|
| Red | The residual risks for ongoing operations and inherent risks for new project/program/process are ***unacceptable*** thus immediate action is required to manage the risks. | No controls/strategies are in place |
| Yellow | The residual risks for ongoing operations and inherent risks for new project/program/process may be considered an *Issue* for which action is required to manage the risks. Hence, risks with catastrophic consequences and rare likelihood require action to manage it, even if it only has a score of three (3). | Some controls/strategies are in place but are not working or do/may not seem to work |
| Green | The residual risks for ongoing operations and inherent risks for new project/program/process may be considered *acceptable* thus no action may be required or action is advisable if resources were available. This category defines PAGCOR's **risk appetite**. | Controls/strategies are working but may still be improved |

Upon analysis and evaluation, The Risk Assessment Report shall be further accomplished indicating the following:

| | |
|---|---|
| Inherent Impact on PAGCOR Objectives | Opportunity or Threat (Risk) – If the event happens then how will it affect the objectives (e.g., temporary |

[8] INTOSAI Guidelines for Internal Control Standards for the Public Sector

| | |
|---|---|
| (Consequence) | shutdown of casino area gutted by fire) |
| Probability of Risk (Likelihood) | Likelihood of the event/risk to happen (i.e., Probable, Possible, Remote) |
| Significance | This is the product after multiplying the scores of the Consequence and Likelihood of the risks |
| Color Code | Green, yellow or red (refer to Table 3.6.1) |
| Risk Level | Determination whether the risk is *unacceptable* (and therefore requires immediate action), an *issue* (for which action is required), or *acceptable* (thus no action is required or action is advisable if resources were available) |
| Existing Controls | These are the processes and controls currently in place to manage risks (e.g., yearly renewal of All-Risks Insurance Coverage) |
| Effectiveness of Existing Controls | This will describe whether the processes and controls in place are *Working* or *Not Working* |
| Residual Risk | This will indicate the possibility that the risk may still occur despite the presence of controls within the processes. This merely answers the question, “What else could go wrong?” The answer will be a clue to another risk being identified or for future mitigating actions to be designed. |

## 3.6 **RISK RESPONSE**

Risk-related strategies shall be developed by Risk Owners and Risk Leads consistent with PAGCOR goals and objectives. The following shall be used as guide in developing these strategies:

- The prioritized risks resulting from the risk assessment sessions shall be formally addressed by the designated Risk Owners and Risk Leads in the form of specific risk management strategies.

- The Risk Owners shall determine the interrelationships among its key risks and “pools” multiple risks on a group basis. Interrelationships of risks assist risk/process owners in determining high leverage risks and in selecting the appropriate strategies.

- The Risk Owners shall identify and evaluate the existing risk management strategies and determine whether these are sufficient, needs improvement or would require consideration of other Risk management options.

- The Risk Owners and Risk Leads in coordination with the other departments shall develop the risk management strategies with full consideration of the available risk management options (e.g., avoid, accept, treat, transfer, exploit). The risk management strategies should be aligned with the broad strategies, goals and objectives of PAGCOR.

- The Risk Owners and Risk Leads shall coordinate, validate with and present to the different groups/departments that could potentially be affected by the implementation of a proposed risk management strategy (for stress testing).

- The Risk Lead/Risk Owner shall present and validate the proposed risk management strategies to the ARMC through the Risk Manager for final approval.

- Once approved for implementation, the execution/implementation of the specific risk management strategies shall be linked to the risk owners' performance measures.

- The Risk Management Strategies presented on the table below may be used as a common basis for determining the appropriate action to be designed and implemented by the Risk Owners and Risk Leads.

Table 3.6.1 Risk Management Strategies

| RISK RESPONSE | STRATEGIES[9] |
|---|---|
| AVOID | Divest by exiting a market or geographic area or by selling, liquidating or spinning off a product group or business |
| | Prohibit unacceptably high risk activities, transactions, financial losses and asset exposures through appropriate limit structures and corporate standards |
| | Stop specific activities by redefining objectives, refocusing strategies or redirecting resources |
| | Target business development and market expansion to avoid pursuit of "off-strategy" and unacceptably high-risk projects |
| | Eliminate at the source by designing and implementing internal preventive processes |
| ACCEPT | Accept risk at its present level taking no further action |
| | Self-insure risk through internal charges to profit and loss |
| | Offset risk against other within a well-defined pool |

[9] IMI Philippines Risk Management Policy and Procedures, 2012

| | |
|---|---|
| | Plan for well-defined contingencies by documenting a responsible plan and empower people to make decisions |
| **TREAT** | Disperse financial, physical or information assets geographically to reduce risk of unacceptable catastrophic losses |
| | Control risk through internal processes or actions that reduce the likelihood of undesirable events occurring to an acceptable level (as defined by management's risk appetite) |
| **TRANSFER** | Insure through cost-effective contract with independent, financially capable, party under a well-defined risk strategy |
| | Reinsure to reduce portfolio exposure through contracts with other insurers, when such arrangements are available |
| | Make feasible changes in operations or executing new borrowings |
| | Share risk/rewards of investing in new markets and products by entering into alliances or joint ventures |
| | Outsource non-core processes (a viable risk transfer option only when risk is contractually transferred) |
| **EXPLOIT** | Allocate capital internally within the Company using robust methods to finance the risks taken and generate desired returns |
| | Diversify financial, physical, customer, employee/supplier and organizational asset holding used by Company's business model |
| | Expand business portfolio by investing in new geographic areas and/or customer groups |
| | Create new value-adding products, services and channels |
| | Redesign the Company's business model, i.e., its unique combination of assets and technologies for creating value |
| | Reorganize processes through restructuring vertical integration, outsourcing, re-engineering and relocation |
| | Influence regulation, public opinion and standards setters through focused public relations and other means |

## 3.7 RISK MANAGEMENT ACTION PLANS

The Risk Owners and Risk Lead shall be responsible for developing specific action plans to build the risk management capabilities required for proper implementation of the risk management strategies.

In order to implement the developed risk management strategies, the following shall be done:

- Assess current capabilities considering the six components of infrastructure (e.g., policies, processes, people, management report, methodologies and systems and data), needed to support the strategies. The assessment shall be done through interviews, observation and verification with risk or process owners.

- Determine the desired state of risk management capabilities taking into consideration the costs of managing the risk and implementing the strategies and action plans as well as the probable benefits from risk management and mitigation.

- Design specific action steps intended to build the needed capabilities to implement the risk management strategies.

## 3.8 MONITOR RISK MANAGEMENT PROCESS

Monitoring risk management performance consists of a combination of metrics, regular communications and periodic audits and evaluations by different functions at appropriate levels of the organization.

- The ARMC shall monitor the implementation of the risk management strategies and action plans for each of the identified critical risks. While the people who are most knowledgeable of the process (risk/process owners) have primary responsibility for self-assessing their performance, it is necessary for executives who are independent of the process to also monitor its performance.

- The Risk Owners shall ensure that relevant and timely risk reports shall be submitted by their nominated risk lead to the ARMC at least on an annual basis. Such nominated risk lead shall have risk reporting accountability to ensure that significant risks are well understood, properly assessed and measured, and reported.

- Risk owners shall report useful and actionable risk management information to enable them to make better decision and continuously improve risk management capabilities on a regular basis.

- The Risk Manager shall be responsible in gathering and consolidating the risk register from the different units within PAGCOR on a semiannual basis for reporting to the ARMC.

- The Risk Manager shall coordinate with the Internal Audit Department in monitoring compliance with established risk management policies and processes. The IAD shall perform audits and periodic or continuous reviews focusing on key risks of PAGCOR to provide assurances to the ARMC and the Board that critical processes are performing effectively, key measures and reports are reliable and established policies are in an ongoing state of compliance. The IAD shall also identify process improvements on unnecessary and redundant risk controls.

## 3.9 IMPROVE THE RISK MANAGEMENT PROCESS

Continuous improvement shall be embedded into the risk management process via the use of effective processes (benchmarking, knowledge sharing and continuous employee learning) and constant evaluation.

- The Risk Manager shall provide leading practices to Risk Owners and Risk Leads to guide them in the design, implementation and improvement of critical processes and risk measures.

- The Risk Manager shall conduct regular feedback and assessment sessions with Risk Owners and Risk Leads to identify areas for continuous improvement in the risk management process.

- Risk management's framework, tools and methodologies shall form part of PAGCOR's training programs. A continuous learning attitude and process helps all employees embrace and understand the Company's common language and uniform processes.

# APPENDICES

**APPENDIX A – RISK ASSESSMENT REPORT (with sample inputs)**

*RM Form No. 001-2015*

Reference No.______ (This will be the number for the Identified Risk to be indicated on the Risk Register.)
Branch/Department/SOG/Project
Risk Assessment
Date (indicate date of preparation)

RISK IDENTIFICATION

| | |
|---|---|
| Risk Assessment Technique | Brainstorming during GM's meeting held on July 16, 2014 |
| Context | External |
| Source of Event | Environment Risk |
| Risk Category | Strategic |
| Specific Event (Cause) | A strong earthquake |
| Identified Risk | Destruction (lives and property) of a PAGCOR branch |
| Risk Owner | Board of Directors and CEO |
| Risk Transfer | To the different Branch and Department Heads |

RISK ANALYSIS

| **CONSEQUENCE** | **SCORE** (Risk Assessment Criteria Matrix) | |
|---|---|---|
| | **QUALITATIVE** | **QUANTITATIVE** |
| *Strategic Impact* | HIGH | 3 |
| • Permanent negative impact on reputation, with adverse attention in media | | |
| | | |
| *Financial Impact* | HIGH | 3 |
| • Lives and properties may be lost. Cost estimate of properties; Php100M. | | |
| • Revenues will decrease by the amount contributed by such branch. Estimated amount: Php100M/year. | | |
| • Lawsuits and payment for damages may follow. Estimated amount: Php100M | | |
| • Rehabilitation costs. Estimated amount: Php200M | | |
| • Immediate payment of Abuloy Fund to dependents. Estimated amount Php400M. | | |
| • **Total financial negative impact is about Php 900M.** | | |
| | | |

| | | |
|---|---|---|
| *Operations* | HIGH | 3 |
| • Permanent negative impact on employee morale | | |
| | | |
| *Compliance* | HIGH | 3 |
| • Large-scale class actions | | |
| | | |
| **OVERALL AVERAGE** | **HIGH** | **3** |

| **LIKELIHOOD** | **SCORE** (Risk Assessment Criteria Matrix) | |
|---|---|---|
| | **QUALITATIVE** | **QUANTITATIVE** |
| The event had occurred in 1991 wherein the PAGCOR Baguio branch was destroyed by earthquake. | | |
| The event had occurred more than 5 years ago | **Remote** | **1** |

RISK EVALUATION

| Significance | Consequence Score (3) x Likelihood Score (1) = 3 | | | |
|---|---|---|---|---|
| Risk Level | Color Code | Level | Action Required | |
| | Yellow | Issue | Action is required to manage the risks | |
| Existing Controls | | | *Effectiveness of Controls* | *Evaluation Report Reference No.* |
| | *Financial*<br>• All properties are adequately insured with GSIS.<br>• The Abuloy Fund is adequate for the payment of any claims.<br><br>*Strategic*<br>• No PAGCOR office is situated near fault lines.<br>• On-going community development projects where PAGCOR offices are located (Host City share). | | • Working<br>• Working<br><br><br>• Working<br>• Working | IAD Report 2013-56 dtd. 7/15/13 |

| | | | |
|---|---|---|---|
| | *Operations*<br>• Periodic earthquake drills are being conducted at PAGCOR offices.<br>• Emergency Response Teams were established per PAGCOR office/branch.<br><br>*Compliance*<br>• Acts of God incidents were not included under penalty for contractual obligations.<br>• Annual building/structural inspection conducted by the Host City Engineering Office. | • Working<br>• Working<br><br><br>• Working<br>• Working | |
| Residual Risks | In the event of earthquake, logistic requirements to and from Head Office may still be above Php 5M. Therefore, the Consequence Score is still High. | The Significant Score of 3 still stands. | |

RISK RESPONSE

| | | |
|---|---|---|
| Risk Response | **Treat Risk**<br><br>The objective is to lower the financial impact of the risk to an Acceptable level. | Set-up of Emergency Calamity Fund to be used for logistic requirements in the event of catastrophe.<br><br>***The Action Plan must then be drafted for the review and approval of those concerned.*** |

Prepared by : Risk Lead/Risk Owner
Date : indicate date of preparation

Approved by : Risk Owner/ Head
Date : indicate date of approval

## APPENDIX B – RISK REGISTER

*RM Form No. 002-2015*

Branch/Department/SOG/Project
Risk Register
As of (indicate period covered)

| INHERENT RISKS | | | | Existing Controls | Control Effectiveness | Residual Risk | Risk Response | Action Plan |
|---|---|---|---|---|---|---|---|---|
| **Identified Risk** | **Consequence Score** | **Likelihood Score** | **Significance** | | | | | |
| Risk Assessment Reference No.: ____________________ | | | | | | Risk Owner: ____________________________ | | |
| | | | | | | | | |
| Risk Assessment Reference No.: ____________________ | | | | | | Risk Owner: ____________________________ | | |
| | | | | | | | | |
| Risk Assessment Reference No.: ____________________ | | | | | | Risk Owner: ____________________________ | | |
| | | | | | | | | |
| Risk Assessment Reference No.: ____________________ | | | | | | Risk Owner: ____________________________ | | |
| | | | | | | | | |
| Risk Assessment Reference No.: ____________________ | | | | | | Risk Owner: ____________________________ | | |
| | | | | | | | | |

Prepared by : Risk Owner or Risk Lead
Date : Date of Preparation

Approved by : Branch/Department/Project Head
Date : Date of Approval

## APPENDIX C – CONSEQUENCE MATRIX

*RM Form No. 003-2015*

| Score | Impact | Strategic Impact | Financial Impact | Impact on Operations | Compliance Impact | Reputation and Image |
|---|---|---|---|---|---|---|
| **3** | **High** | Most or all key business objectives not achieved | Negative net impact greater than Php 5 Million | Loss of operations for more than one week | Large-scale class actions | Permanent negative impact on reputation, with adverse attention in media |
| | | | | Permanent negative impact on employee morale | Large legal liabilities and fines | |
| | | | | Serious complaints from stakeholders resulting in loss of contract | Regulatory sanctions (fines and penalties) imposed | |
| **2** | **Medium** | Large gap in achieving many key business objectives | Negative net impact greater than Php 500,000 up to Php 5 Million | Loss of operations for four days to one week | Minimal liabilities and fines | Negative impact on reputation, with adverse attention in local community media |
| | | | | Negative impact on employee morale but largely recoverable within one year | Regulatory investigation conducted | |
| | | | | Minor complaints from stakeholders resulting in re-negotiation | | |
| **1** | **Low** | Somewhat short of reaching one or several key business objectives | Negative net impact of Php 500,000 and below | Loss of operations for one to three days | Limited liabilities and fines | Negative impact on reputation with minimal public awareness |
| | | | | Negative impact on employee morale but highly recoverable within a few months | Regulatory attention received | |
| | | | | Intermittent complaints from stakeholders | | |

## APPENDIX D – LIKELIHOOD MATRIX

*RM Form No. 004-2015*

| Score | Rating | Frequency |
|---|---|---|
| 3 | **Probable** | Highly likely to occur in given circumstances (75% probability) |
| | | Event has occurred several times within a year |
| 2 | **Possible** | Likely to occur in given circumstances (50% probability) |
| | | Event has occurred one to five years ago |
| 1 | **Remote** | Likely to occur in given circumstances (25% probability) |
| | | Event has never occurred or has occurred more than 5 years ago |