NATIONAL BACKWARD CLASSES FINANCE AND DEVELOPMENT CORPORATION (NBCFDC)

RISK MANAGEMENT POLICY

1.0 Background:

The Govt. of India, Ministry of Heavy Industries and Public Enterprises, Deptt. of Public Enterprises vide O.M. No. 18(8)/2005-GM dated 14th May, 2010 have issued guidelines on the Corporate Governance for Central Public Sector Enterprises (CPSEs). The above guidelines are now mandatory for the CPSEs.

The Corporate Governance involves a set of relationships between a Company's management, its Board of Directors, its Shareholders and other stakeholders. The Corporate Governance provides a principled process and structure through which the objectives of the Company, the means of attaining the objectives and systems of monitoring performance are also set. The corporation Governance is asset of the shareholders as a true owner of the Corporation and of their own role as trustees on behalf of the shareholders. It is about commitment to values, ethical business conduct, transparency and makes a distinction between personal and Corporate funds in the management of Company.

As per the guidelines issued on Corporate Governance for Central Public Sector Enterprises, every CPSE should have a Risk Management Policy. Keeping the same, in view and also considering the significance of Risk Management in the Scheme of Corporate Management Strategies the Risk Management Policy of the Corporation has been devised.

2.0 Objective of Risk Management Policy:

The enterprise risk management helps management in achieving CPSEs performance and profitability targets. It helps to ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity's reputation and associated consequences. The Corporation is required to lay down procedures to inform Board members about the risk assessment and minimization procedures. These procedures shall be periodically reviewed to ensure that executive management controls risk through means of a properly defined framework. The policies and procedures for the internal risk management shall include:

1. Staff responsibilities in relation to fraud prevention and identification.
2. Responsibility of fraud investigation once a fraud has been identified
3. Process of reporting on fraud related matters to management
4. Reporting and recording processes to be followed to record allegations of fraud
5. Requirements of training to be conducted on fraud prevention and identification.

Besides, the objectives of the risk management policy of the Corporation will include:

a) To lay down a framework for identification, evaluation and mitigation of risk in the operational and decision making process of the business of NBCFDC;

b) To protect NBCFDC from those risks of significant likelihood and the consequences in the pursuit of NBCFDC stated strategic goals and objectives;

c) Provide assistance to and improve the quality of decision making throughout the organization;

d) to encourage pro-active rather than reactive management;

e) Assist in safeguarding the Company's property.

3.0 Definitions:

a) Risk:- Any contingency with a potential negative impact on the attainment of qualitative or quantitative business goals , and in particular on earnings of the Corporation.

b) Risk Management:- It is systematic application of Management Policies, procedures and practices to the task of identifying analyzing, assessing, treating and monitoring of risks.

c) Risk Management Process:- This pertains to the systematic application of management policies, procedures and practices to the task of establishing the context, identifying, analyzing, evaluation, treating, monitoring and communicating the risks.

d) Risk Strategy:- Company's outlook in dealing with various risks associated with the business and includes company's decision on acceptance of risks, avoidance of risk, transfer of risks and its risks tolerance level.

e) Risk Register:- A tool for recording of risks at various locations/ levels in a structured format.

4.0 Risk Management Strategy:

Company's Risk Management strategy outlines its ability to effectively identify, quantify and control risks and exposures which shall thus enable it to deliver business objectives and attain greater value for money. Risk Management Strategy thus entails establishing a framework which would ensure its realization of the Company's objectives. The strategy would thus aim at:

- to identify, evaluate and manage risk for the achievement of objectives;
- to assess the likelihood, impact and acceptability of those risks to which the company may be exposed.
- To deliver controls and mitigation treatment to reduce the probability and impact of identified risks to an acceptable level.
- To integrate risk management activities at various levels in the company.

- To periodically monitor the effectiveness of the management of risks having particular regard to failings / weaknesses reported.

- To ensure that necessary action is being taken to remedy failings / weaknesses.

- To identify and ensure delivery of effective risk management training programmes.

- To periodically monitor and review risks and controls to cater for external / internal changes.

5.0 Risk Assessment:

The process of Risk Assessment inter-alia entails identification, categorization, description, estimation of the risks and each of these is explained as under:

5.1 **Risk Identification & Categorization** means Company's exposure to uncertainty classified in terms of Strategic/ financial / Operational / environmental. Each of these has been elucidated hereunder:

5.1.1 **Strategic Risk-** Those risks which are associated with ' operations' of a particular industry/business organization/company and include risks arising from demand changes or changes in customers, industry changes, R&D and merger and acquisition activity. These risks pose threats which materially affect the ability of the organization to survive.

5.1.2 **Financial Risk-** Those risks which are associated with financial structure of the company, its transactions and the financial system in place.

5.1.3 **Operational Risk-** Those risks which are associated with the company's operational and administrative procedures and inter-alia include accounting controls, regulations, recruitment, IT Systems, Board composition, contractual as well as organizational risks and exposures.

5.1.4 **Environmental Risk-** Those risks which are associated with release of polluting materials, environmental performance / compliance limits, business opportunities and breach of regulations made for necessary compliances.

5.2 **Risk Description-** refers to the methodology of reporting and recording the company's identified risks in a structured manner. The methodology would also cover the treatment require to mitigate the impact of the risk and reduce its occurrence and review of the policies as to avoid the risk in future. these risks can be in the form of Stakeholder concern, Impact on strategy & operational activities and financial impact due to erosion of profits/reserves.

5.3 **Risk Estimation-** is the process for estimating the likely impact in quantitative and qualitative terms. To make total assessment of adverse consequences ad cost implications before occurrence of a risk. Estimation of financial loss should take into account loss of property and loss in realization of revenue.

5.4 Risk Rating- The rating of the risk can be made under four broad categories i.e. Low, Medium, High and Very High.

6.0 Risk Management Techniques and Treatment of Risk

As a strategy, the following Techniques for risk management shall be introduced:

- Using risk transfer and indemnification provisions in the contract;
- Transferring risk through safety engineering or loss control;
- Retaining unavoidable risks.
- Insuring risks which are above the Company's retention capacity.
- Considering insuring for traditionally insured hazard risks.

With the implementation of the above techniques the treatment of risks can be undertaken through adoption of following four fold strategy:

S.No.	Risk Handling	Desired Action	Result
1.	Avoidance of Risk	Non-performance of activity involving risk	Eliminate
2.	Reduction of Risk	Reduction in Severity of loss	
3.	Transfer of Risk	Engaging Specialist adhering to core competencies area of operations	Mitigate
4.	Retain the Risk	Retained by default	Unavoidable

7.0 Risk Management is on-going process- To ensure continued implementation of company's management policy and strategy, critical review and refresh process shall be adopted within the organization on an on-going basis. It would inter-alia include the following:

- Regular Update- To ensure a regular update of the risk registers.

- Communication Channel- Highlighting instances of success and failures through Corporate Risk Updates.

- Progress Monitoring- Constantly monitoring progress of risk management process in the Divisional Heads' meetings.

- Risk Management Review in Audit Committee Meetings- Discussions at every Performance Review Meetings and potential cases to be covered in the Audit Committee Meetings.

8.0 Organizational, Structure with responsibility for Risk Management:

8.1 All Heads of Departments at head Office, Heads of Regional and Branch Offices with be the Risk Controller(s) for their respective areas of operations/functions.

8.2 A Committee comprising of Head(s) of the Planning, Project, Finance and HR&Admn., shall work as "Risk Management Committee" of the Corporation which will submit the reports to the Company Secretary.

8.3 The Company Secretary will present Risk Management Reports to the TOP Management, Audit Committee / Board of Directors from time to time.

All the Risk Controller(s) will carry out the following responsibilities for Risk Assessment, Identification, Evaluation and Management in their respective areas of operations and submit quarterly reports in the format prescribed by "Risk Management Committee" and submit these reports at the end of each quarter to the said Committee.

(i) to assess and identify the existing and potential risk(s) of Strategic, Financial, Environmental or any other category;

(ii) to evaluate the likely impact of identified risk(s) on the company's operations;

(iii) to take prompt action in order to eliminate/mitigate the identified risks to the best of their abilities;

(iv) wherever intervention of higher offices is required to eliminate / mitigate the risks, the risk controller(s) will seek intervention / directions from the higher offices with complete details & suggestions, In such cases steps will be taken at the local level also to eliminate/mitigate such risks to the extent possible.

The "Risk Management Committee" will carry out following functions:

(i) To devise formats for Assessment, Identification, Evaluation and Management of risks by the Risk Controller(s) ;

(ii) to assess and identify company's Strategic, financial, Environmental or any other risks which may be relevant to the company's operations;

(iii) to receive quarterly statements from all the Risk Controller(s) and after evaluating, provide necessary guidance and instruction to eliminate/mitigate all the risks reported therein;

(iv) to advise the Management / Board about the action(s) to be taken for elimination / mitigation of the identified risks;

(v) to review and analyze the situation/incidence which have resulted into the situation of potential losses and bring them to the notice of the Managing Director, through Company Secretary, who shall approve for placing before the Audit Committee and the Board of Directors;

(vi) to submit the quarterly Risk Management Reports in the prescribed format to the Company Secretary for placing before the Management / Board.

Annexure-"1"

List of Illustrative Risks & Exposures Affecting NBCFDC

1. Strategic Risk and Exposures

a) Sanction and disbursement of loans to SCAs/Banks/Beneficiaries.
b) Changes in State Channelizing Agencies of the Corporation.
c) Changes among Channel partners/beneficiaries
d) Bifurcation of State and vision of assets and liabilities amongst new States.
e) Competition from other National and State level Institutions in the areas of marketing, technology support and financing pose a threat to the core activities of the Corporation.
f) Inadequate credit flow from banks/ Channel partners.
g) Anticipation of large number of beneficiaries due to awareness camps & huge publicity of the schemes of NBCFDC.
h) Dependability on State Channelizing Agencies (SCAs) in implementation NBCFDC's schemes at grass root level.
i) End use of the funds disbursed to SCAs/Banks/Beneficiaries of target group.
j) Feasibility & Viability of project being set up by the beneficiaries on the basis of NBCFDC's loans.
k) Loans given to SCAs/Beneficiaries without sufficient guarantees or there is shortfall in Govt. Guarantees. Loans given to Banks without guarantee are unsecured loan.
l) High incidence of sickness in the State Channelizing Agencies poses a threat to the viability of commercial operations of the Corporation.
m) Findings of evaluation/impact studies of ongoing schemes which indicate negative impact on the part of implementation at grass root level.
n) Findings of evaluation/impact studies of vocational training programmes and Entrepreneur Development Programmes.
o) Research and Development (R&D).
p) Change in Technology.
q) Cyclical nature of markets (economic upturns and downturns).
r) Grants-in-aid given to Institutions/Agencies for implementation of NBCFDC schemes.
s) Grant-in-aid received from Ministry of SJ&E, Donor PSUs & internal resources are provided to Training Institutions/Sector Skill Councils for conducting Skill Development Training Programme of BCFDC

2. Financial Risk & Exposures

a) Interest Rates changes (Credit and Interest Rate Risks)
b) Regulatory Exposures – Non-compliance of various provisions of Statutory laws i.e. Companies Act, 1956, Accounting Standards, Income Tax Law, Employees Provident Fund Act, Gratuity Act, Insurance Act, Guidelines on Corporate Governance, CSR, Reservation policies and other notification/circulars/guidelines etc. issued by the administrative Ministry/Ministry of Corporate Affairs, Ministry of Finance, RBI and also Department of Public Enterprises, Govt. of India from time to time.
c) Funding Risks.
d) Liquidity Risk resulting in cash flow problems.

e) Imposition of fresh or increased taxes or levies on the industry and trade, by the Government.

3. Operational Risk & Exposures

a) Operations Failure Risk.
b) Political Risk (Domestic, International)
c) Reputation Risk (Company's product (schemes),goodwill/ Service Defamation)
d) Regulatory Risk
e) Manpower Risk :-
   - Specialized manpower leaving the jobs.
   - Officials of the company framed in motivated/false cases reducing their effectiveness.
   - Lack of proper training to employees in particular field in which they are required to deal.
   - Lack of induction of fresh, talented and qualified staff/ officers

4. Environmental Risks

a) Non-compliance with environmental laws & regulations

5. Insurable Risks & Exposures

a) Commercial general liability
b) Professional liability
c) Directors and officers liability
d) Employment Practices liability
e) Natural calamities
f) Data Theft

Annexure-"2"

NBCFDC CORPORATE RISK REGISTER

Date last updated ____________________

Updated by __________________________

Risk Description	Type of Risk (Sub-Head)	Risk Rating Low/ Medium/ High/ Very High	Likelihood	Mitigating Action	Responsibility
Strategic Risk and Exposures					
Financial Risk & Exposures					
Operational Risks & Exposures					
Compliance Risks					
Environmental Risks					
Insurable Risks & Exposures					