



BROKER CARE

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Risk Management Plan

Plan Based on the following factors and key indicators

1. **Risk Identification:** Identify project risks.
2. **Risk Assessment:** Prioritize risks based on likelihood and impact.
3. **Risk Mitigation:** Create a contingency plan with mitigation actions.
4. **Assign Responsibility:** Allocate tasks related to risk management.
5. **Develop Contingency Plans:** Prepare for potential risks.
6. **Communicate the Plan and Train Staff:** Ensure everyone is aware of the plan.
7. **Monitor for New Risks:** Continuously assess and adapt.

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DIRECTORS

Morne Stroebe | Werner Maree | Anton Williams



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1. Introduction:

Each authorized financial services provider experiences different risks depending on the nature of their business, the extent of their financial obligations and other resources and the attitudes of its people.

Risk can be defined as the potential future harm that may arise from some present action or omission.

Risk management is defined in The King Report on Corporate Governance for South Africa 2002 (King II) as “a process that utilizes internal controls as a measure to mitigate and control risk”. This report highlights that risk management goes beyond the control of financial risks only and that the reputation and future survival of the business are also at stake.

The key steps to consider in establishing a sound risk management plan include the following:

- Identify risks early and continuously;
- Thoroughly understand risks, their causes and consequences;
- Determine how to best avoid or reduce risks;
- Establish internal controls to mitigate risks;
- Monitor control systems and ensure timely and accurate reporting.

2. Legal Obligations:

The General Code of Conduct addresses risk management as follows:

Section 11: Control measures

A provider must at all times have and employ the resources, procedures and appropriate systems that can be reasonably expected to eliminate the risk that clients, product suppliers and other providers or representatives will suffer financial loss through theft, fraud, other dishonest acts, poor administration, negligence, professional misconduct or culpable omissions.

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Section 12: Specific control objectives

A provider (excluding a representative) must structure the internal control procedures so as to provide reasonable assurance that:

- the business can be carried on in an orderly and efficient manner;
- financial and other information used or provided will be reliable;
- all applicable laws are complied with.

Section 13: Insurance

A provider (excluding a representative) must, if, and to the extent required by the registrar, maintain in force suitable guarantees or professional indemnity or fidelity insurance cover.

3. Main risks:

There are various risks facing a business but the following main risks should be the focus point of the financial services provider:

- compliance risks;
- operational risks;
- financial risks;
- reputation risks.

Legislation (where applicable) that needs to be considered when establishing the risk management plan should include, but not be limited to:

- Basic Conditions of Employment Act
- Close Corporations Act
- Collective Investments Schemes Control Act
- Companies Act

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- Electronic Communications and Transactions Act
- Estate Duties Act
- Exchange Control Act
- Financial Advisory and Intermediary Services Act
- Financial Intelligence Centre Act
- Income Tax Act
- King Report II
- Labour Relations Act
- Long-term Insurance Act
- Medical Schemes Act
- National Credit Act
- Occupational Health and Safety Act
- Pension Funds Act
- Prevention of Organized Crime Act
- Short-term Insurance Act
- Unemployment Insurance Act

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4. Responsible Person

The provider is represented by the sole proprietor or key individual(s), as the case may be, and such person(s) is/are ultimately responsible and accountable for establishing and maintaining risk management systems.

Risk management should be a team effort where all key individuals, representatives and administrative personnel are included in the process to ensure effective control and mitigation of risks.

Compliance officers have a duty to monitor the compliance of key individuals, representatives and personnel with relevant legislation. This may include advising and guiding providers and key individuals on risk management systems.

Providers and key individuals are ultimately accountable for their own actions and those of their representatives and personnel, not the compliance officer.

5. Risk and Control

A provider must implement a comprehensive system of controls to ensure that risks are reduced and that the objectives of the provider are achieved.

The control environment should include ethical values, the compliance culture of the provider and the competence of all involved.

Essential aspects of control should include:

- the control environment;
- risk identification and evaluation;
- control activities;
- information and communication;
- monitoring and management.

Any risk must be identified and reported promptly through the control systems in order to improve the risk profile of the business.

The provider should consider the need for a confidential reporting process (whistle blowing) that covers fraud and similar risks.

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6. Application of Risk Management

The provider or key individual is responsible for establishing risk strategies and policies. It is also the duty of the provider or key individual to review the effectiveness of these policies on a regular basis to ensure that it will guide responsible persons in executing their duties.

In reviewing the policies and processes the following should be considered:

- what the risks are and how they will be identified, evaluated and controlled;
- the effectiveness of the process of risk management;
- whether steps are taken timeously to rectify defects;
- whether the review points to a need for more stringent controls.

Risks can be assessed according to the following criteria:

- type of risk;
- the seriousness of the impact it may have on the business and third parties;
- probability that a risk may occur;

The above criteria can then be rated on a scale of high, medium and low.

The risk management plan must be documented and can contain the following:

- types of risks –
 - o regulatory;
 - o operational;
 - o financial;
 - o reputation.
- the rating of the risk, its impact and probability;
- control measures to mitigate the risk;
- the responsible person(s);
- remedial actions;
- review dates.

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7. Monitoring

The provider or key individual must monitor the risk management plan on a continuous basis.

A compliance officer who assists in monitoring must report to the provider on at least a quarterly basis and to the Financial Services Board on an annual basis, or whenever so required by the registrar.

In the monitoring process the following can be considered:

- interviews with providers, key individuals, representatives and personnel;
- availability of relevant legislation;
- evaluating complaints received and solutions offered;
- inspection of relevant documentation and registers;
- evaluating client files and records in respect of advice and solutions;
- evaluating procedures followed when interacting with clients;
- observing processes followed in rendering advice;
- evaluating intermediary services rendered;
- inspection of financial matters of the business;
- assessing queries received from regulators.

8. Reporting on Risk Management Policies:

The provider or key individual may be requested by regulators to report on how the provider deals with risk management.

The following may need to be disclosed by the provider:

- that the provider is responsible for the process of risk management, the system of internal control and communication throughout the business;

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- that the system is regularly reviewed for effectiveness;
- that there is a continuous process for identification, evaluation and management of risks;
- that there is an appropriate system of internal control to reduce risks of the provider to an acceptable level;
- that provision is made for the provider to continue its business activities in case of a serious risk impacting the business;
- that the process is documented.

9. Summary

Risk management procedures can be utilised to identify opportunities for the business and should not only be viewed from a negative perspective. Effective risk management can easily be transformed into a competitive benefit for the provider.

Risk management reaches further than mere control of compliance and financial risks. Reputation and future continuance of the business are also affected.

Providers must ensure that control of risk management is transparent and disclosed to all parties involved.

Risk management is a continuous process of identification, evaluation and control of risks. Providers who view risk management merely as an action of compliance will probably miss out on the opportunities it offers.

Source: FIA Express

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