



Enterprise Risk Management

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SECTION 1

A DESCRIPTION OF LICOA'S ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK

1.1 EXECUTIVE SUMMARY

1. LICOA fosters an environment where risks are identified and acknowledged. Key leaders and staff are encouraged to identify risks to senior management. All are encouraged to participate in the risk management process.
2. Once a risk is identified, the Chief Risk Officer (CRO) will assign the risk to the appropriate manager who will rank the frequency of the risk occurring as well as its potential severity and velocity.
3. Based upon the company's current financial situation and risk appetite, the risk committee lead, by the CRO will determine if action needs to be taken to mitigate the risk or, if possible, eliminate the risk altogether.
4. The results of the risk evaluation process as well as the action taken, if any, are communicated to the Board of Directors for risks exceeding a materiality threshold.
5. Once management has taken this action, the risk is then monitored by the CRO to determine if future action is necessary.

1.2 RISK CULTURE AND GOVERNANCE

The officers and managers of LICOA will be responsible for the risks identified in their areas. The process will be overseen by the CRO with further communication with the executive officers of the company and the Board of Directors. All employees will be trained regarding the ERM framework and how they can bring risk to management's attention.

1.3 RISK IDENTIFICATION AND PRIORITIZATION

1. Anyone at LICOA may identify a risk and bring it to management's attention.
2. A risk taxonomy (register) will be developed and maintained by the CRO. This listing shows the risk, a brief definition of the risk and the risk owner, It further contains a pre and post-mitigation score for the frequency (likelihood/probability of this risk occurring), severity (magnitude/significance of this risk) and velocity (how quickly can it get worse), of the risk, each on a scale of 1-10, to develop an overall risk score.
3. Risks identified as needing to be addressed will be added to a "Mitigation List". This is a listing of the risks that are currently in the process of being addressed or have been previously addressed.

1.4 RISK APPETITE, TOLERANCES AND LIMITS

LICOA seeks to accept a total level of risk that provides a very high level of confidence of meeting customer obligations while returning a reasonable return to shareholders.

1. LICOA targets an A.M. Best rating of at least B+ and a Best's Capital Adequacy Ratio (BCAR) score greater than 40 at VaR 99.6;
2. LICOA targets a level of RBC that is greater than 450% of Company Action Level;
3. LICOA targets to maintain profitable loss ratio levels on its accident and health business and will seek rate increases when the experience exceeds expectations by 20%;
4. LICOA values technical innovation when it can be provided with acceptable privacy and security provisions;
5. LICOA accepts capital market risks when managed within defined risk limits;
6. LICOA believes that diversification between risks can reduce the overall risk to the company and that risk must be accepted to generate reasonable returns;
7. LICOA pursues insurance risk when it falls within its skill set and competencies;
8. LICOA accepts that product and operational risks are an inherent part of a financial services business but will seek out both internal and external mitigation techniques to manage it within accepted levels to ensure customer service levels are maintained;
9. LICOA expects all who are associated with providing services to customers to act in accordance with the Company's values, ethics and standards, and to enhance its brand and reputation.

1.5 RISK MANAGEMENT AND CONTROLS

The CRO will review proposed mitigation strategies with risk owners. The taxonomy and mitigation list will be reviewed quarterly as risk and mitigation techniques evolve.

1.6 RISK REPORTING AND COMMUNICATION

Risk owners shall review their portion of the taxonomy report as well as any risks on the mitigation list at least monthly. The CRO will report quarterly to the Board of Directors regarding progress on risks being mitigated. The CRO will update and present the ERM framework annually to the Board of Directors for approval and comments.

SECTION 2

LOA'S ASSESSMENT OF RISK EXPOSURES

2.1 IDENTIFYING RISKS

The senior management and leadership of LICOA were interviewed to establish an initial list of the company's risks. These interviews were conducted in order to garner impartial and honest opinions from the interviewees. Material and relevant risks were identified, and those deemed substantial were included in the taxonomy report.

As additional risks are identified they will be added to the taxonomy report. Emerging risks will be monitored.

2.2 MEASURING RISKS

The CRO has assigned these initial risks to an appropriate risk owner. Risks were then graded as to frequency (likelihood/probability of this risk occurring), severity (magnitude/significance of this risk) and velocity (how quickly can it get worse), each on a scale of 1-10, to develop an overall risk score. It is these total risks scores that will be used to identify the risks that need to further reviewed.

The top 10 risks by overall score as well as the top risk by category and manager will be added to a "Mitigation List", which will include a mitigation strategy, expected timeframe, a list of all parties involved in the development/execution of the strategy as well as a status indicator. Furthermore, the top 5 risks by frequency and severity will be reviewed to see if they should be included on the Mitigation List, regardless of their overall score.

2.3 MATERIAL AND RELEVANT RISKS

This section identifies LICOA's material and relevant risks. Material risks are identified on the taxonomy list, Appendix A. The relevant risks are those identified on the Mitigation List, Appendix B.

Life Insurance Company of Alabama (LICOA)

Taxonomy Report

	Owner	Strategic	Operational	Insurance	Equity	Interest rate	Credit	Pre Mitigation				Post Mitigation	
								Frequency	Severity	Velocity	Risk Score	Frequency	Severity
CORPORATE													
Financial													
Legal Risk	H Casey	X	X					3	9	5	26	1	6
Investment Process Oversight	A Causey	X			X	X	X	6	6	7	25	0	0
Emerging Risks	Keck	X	X	X	X	X	X	4	6	7	23	0	0
Vendor Risk	T Cole		X					2	7	4	20	0	0
Cash Flow Mismatch (Disintermediation)	Keck			X		X		4	4	7	19	0	0
Policyholder/Product Regulatory Changes	Keck	X						4	5	5	19	0	0
Expenses - Level, Overhead, Inflation	Keck		X					3	3	9	18	0	0
Employee Benefits Funding	Keck		X		X	X	X	4	4	5	17	0	0
Accessibility to capital	Daugette	X						4	3	7	17	0	0
Liability Insurance	Lowe		X	X				4	4	5	17	0	0
Liquidity	Keck	X		X				4	4	5	17	0	0
Model Risk	Keck	X		X				4	4	5	17	0	0
Nontraditional Ventures (e.g., M&A)	Daugette	X						2	4	7	17	0	0
Capital Adequacy	Keck	X	X	X	X	X	X	3	4	5	16	0	0
Self insured risks	Keck		X	X									
Financial Reporting	Hulsey		X	X				3	4	5	16	3	3
Institutional Tax Law Changes	Hulsey	X	X	X				2	6	6	20	2	6
Workforce													
Facilities Security	T Cole		X					3	3	4	13	3	3
Management Succession/Bench Strength	Daugette	X	X					3	7	7	24	0	0
Social Media	A Causey							6	6	5	23	0	0
Information Technology - Security	T Cole		X					2	8	4	22	0	0
Print Shop - Availability	T Cole		X					7	6	3	22	0	0
Emerging Technology	T Cole							5	5	5	20	0	0
Recruitment/Retention - Employee	Daugette		X					3	6	5	20	0	0
Coping With Change	Daugette	X	X					3	4	7	18	0	0
New System - Learning Curve	Jones	X	X					4	5	4	18	2	3
Facilities	T Cole		X					4	5	3	17	0	0
Quality of Workforce, Service	H Casey		X					2	4	7	17	0	0
Accountability	Daugette		X					3	3	7	16	0	0
Business Continuity	T Cole		X					2	5	4	16	2	4
Ethics & Employee Behavior	Daugette	X	X					3	3	7	16	0	0
Information Technology - System Availability	T Cole		X					2	5	4	16	2	4
Information Technology - Data Integrity	Jones		X					2	5	3	15	0	0
Salary/Benefits	Daugette		X					3	4	4	15	0	0
Associate Engagement	Daugette		X					3	3	5	14	0	0
Quality of Management	Daugette	X						3	3	5	14	0	0
Teamwork Over Turf	Keck	X	X										
Training - Employee Development	Daugette		X					3	3	5	14	0	0
Holistic Risks													
Rating	A Causey	X						3	6	5	20	0	0
ALM	Keck	X		X		X		4	4	7	19	0	0
Aggregation of Risks	Keck	X	X	X	X	X	X	3	4	5	16	0	0
ASSETS													
Credit Risk													
Mortgages	A Causey						X	4	4	5	17	0	0
Asset Backed Securities	A Causey						X	3	3	5	14	0	0
Municipals	A Causey						X	3	3	5	14	0	0
Bonds	A Causey						X	3	3	5	14	0	0
Foreign Securities (country risk)	A Causey						X	2	2	6	12	0	0
Interest Rate Risk													
Call Risk - Callable Bonds	A Causey					X		3	3	5	14	0	0
Prepayment/Extension Risk - MBS & CMO	A Causey					X		3	3	5	14	0	0
Market Risk													
Equity Market Risk	A Causey				X			6	4	9	23	0	0
Real Estate	T Cole				X			3	5	7	20	0	0
Subsidiaries	Renfrow				X			2	2	2	8	0	0
Liquidity													
Private Placements	A Causey					X		4	5	5	19	0	0
Diversification													
Asset Allocation	A Causey	X						3	7	5	22	0	0
Concentration - Industry and Geographical Risk	A Causey						X	3	6	5	20	0	0

Life Insurance Company of Alabama (LICOA)

Taxonomy Report

	Owner	Strategic	Operational	Insurance	Equity	Interest rate	Credit	Pre Mitigation				Post Mitigation	
								Frequency	Severity	Velocity	Risk Score	Frequency	Severity
LIABILITIES													
Product Management													
Underwriting	Edmondson			X				3	6	8	23	2	5
Consumer Issues	M Causey/Lewis			X				4	6	6	22	0	0
Policy Lapses	Keck			X				3	4	7	18	0	0
Competitor Pricing	Keck			X				4	4	5	17	0	0
Morbidity	Keck			X				3	4	6	17	0	0
Electronic commerce	M Causey/Lewis			X				3	4	4	15	0	0
New business	M Causey/Lewis	X		X				3	3	3	12	0	0
Pricing Adequacy - Premium Risk	Keck			X		X		3	4	5	16	0	0
Product Design	Keck			X				3	4	5	16	0	0
Reserve adequacy	Keck			X				3	4	5	16	0	0
Tail Risk of Liabilities	Keck			X				3	4	5	16	0	0
Pricing Adequacy/Discipline	Keck			X		X		3	3	6	15	0	0
Mortality/Longevity	Keck			X				3	3	5	14	0	0
Expense margin	Keck			X				3	3	4	13	0	0
Reinsurance Counterparty Risk	Keck			X		X		2	2	5	11	0	0
Moral Hazard													
Antiselection	Edmondson			X				3	5	8	21	2	4
Fraudulent Information	H Casey			X				3	7	4	21	0	0
Claims	H Casey			X				3	5	3	16	0	0
Distribution													
Distributor Recruitment	M Causey/Lewis			X				5	4	4	17	0	0
Policy Churning	Edmondson			X				4	4	5	17	3	3
Advertising	M Causey/Lewis			X				3	5	3	16	0	0
Distributor Productivity	M Causey/Lewis			X				3	3	3	12	0	0
Cost of Distribution	M Causey/Lewis			X				3	3	3	12	0	0
Distributor Retention/Succession	M Causey/Lewis			X				4	4	4	16	0	0
Concentration - customers, producers	M Causey/Lewis			X	X			2	4	3	13	0	0
Distributor Fraud	M Causey/Lewis			X	X			3	2	2	9	0	0
Balance Sheet Management													
Internal Controls	A Causey			X				6	6	7	25	0	0
Claims Paying Process	H Casey			X	X			2	5	8	20	1	3
Surplus Strain	Keck			X				4	4	5	17	0	0
Mark-to-Market Risk	Hulsey			X	X	X	X	2	4	5	15	2	3
Premium Accounting Process	Hulsey			X				3	3	3	12	3	3
Expense Paying Process	Hulsey			X				3	2	3	10	0	0
Reputation													
Corporate Image	Daugette			X				3	4	9	20	0	0
Cyber Risk/Internet	T Cole			X	X			4	5	6	20	2	4
Quality of Service	H Casey			X				2	4	7	17	0	0
Ethics & Compliance	H Casey			X				2	3	2	10	0	0
Market													
Competition from other carriers	M Causey/Lewis			X	X			5	3	3	14	0	0
Untested Markets	M Causey/Lewis			X	X			3	4	5	16	0	0
Uncontrolled Growth	Keck			X	X			2	4	7	17	0	0
Competition from new entrants	M Causey/Lewis			X	X			5	3	3	14	0	0
Market Saturation	M Causey/Lewis			X	X			1	2	2	7	0	0

Life Insurance Company of Alabama (LICOA)

Mitigation List

Risk	Owner	Pre Mitigation		Velocity	Risk Score	Definition
		Frequency	Severity		(F+2xS)	
Legal Risk	H Casey	3	7	5	17	Risk of lawsuits
Emerging Risks	S Keck	4	6	7	16	Risks not currently on the list (e.g., AIDS would have been an emerging risk until the mid 1980s)
Consumer Privacy	Z Lindsey	2	7	7	16	Risk that policyholder personal information is compromised
Underwriting	D Edmondson	3	6	8	15	Risk that policies will be issued with risk classifications that are better than the pricing assumption
Management Succession/Bench Strength	C Daugette	3	6	7	15	Risk that LICOA does not have an identified and qualified candidate when a senior position becomes vacant
Antiselection	D Edmondson	3	6	7	15	Risk that policyholders find holes in pricing relative to competitors and choose LICOA for cases that will not meet targets
Fraudulent Information	H Casey	3	6	6	15	Risk that inaccurate information is presented and used by LICOA
Emerging Technology	T Cole	5	5	5	15	Risk that LICOA will not be able to keep up with or take advantage of emerging technology
Recruitment/Retention - Employee	C Daugette	3	6	5	15	Risk that pool of candidates will be weak and higher caliber employees leave the firm
Cyber Risk/Internet	T Cole	4	5	6	14	Risk of financial loss, disruption or damage from some sort of failure of LICOA's information technology systems
New System - Learning Curve	S Jones	4	5	4	14	Risk that LICOA's new admin system takes longer to learn than anticipated (user speed slows for a period of time)
Equity Market Risk	A Causey	5	4	9	13	Risk that equities will drop in value or be more volatile than expected
Consumer Issues	M Causey/Lewis	3	5	7	13	Risk that policies will be inappropriately marketed to individuals
Investment Process Oversight	A Causey	3	5	5	13	Risk that investments will not follow policy and/or management decisions or that procedures/process is vague or inadequate
Rating	A Causey	3	5	5	13	Risk that LICOA's rating is not as desired
Advertising	M Causey/Lewis	3	5	3	13	Risk that distributors will aim deceptive communications to potential customers including LICOA's name
Claims Paying Process	H Casey	2	5	8	12	Risk that claims will not be paid properly
Competition from other carriers	M Causey/Lewis	4	4	3	12	Risk that more carriers will enter our market
Financial Reporting	K Hulsey	3	4	5	11	Risk that LICOA will not meet requirements set by regulators

	Target	2017	2018	3Q 2019
AM Best Rating	B+	B++	B++	TBD
BCAR (99.5)	40	60.80	61.00	TBD
RBC (% ACL)	450%	1804%	1880%	TBD