



PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

January 22, 2019 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS
DIR KEITH ERNALD L SINGIAN

PDIR NAPOLEON C TAAS
DIR KIMANIE J SAROMINES
ATTY MATTHEW P BACCAY

Absent :

DIR LYNETTE M TADEO

Resource Persons / Guests:

DIR MARIO A AVENIDO
Capt Sebastian Siga-an
Ms Jasel Rabano
Ms Michelle Cayabyab

Ms Milan Rochelle Bernardo
Mr Rommel Ramirez
Ms Mary Jean Zamora
Ms Cherelle Pablo

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives

A. Implementation of the Philippine Financial Reporting Standard (PFRS) 9– Financial Instruments

PFRS 9 is the new accounting standard in reporting financial instruments. It is the local adoption of International Financial Reporting Standard (IFRS) 9 promulgated by the International Accounting Standards Board (IASB). It addresses the accounting for financial instruments and replaced the earlier accounting standard, Philippine Accounting Standard (PAS) 39 effective 2018.

Financial instruments are monetary contracts between parties. They can be created, traded, modified and settled. They can be in a form of cash (currency), evidence of an ownership interest in an entity (share), or a contractual right to receive or deliver cash (receivables and payables). Some financial instruments are time deposit, treasury bills, government securities, bonds, investment in equities such as shares of stocks, loans receivables, and loan payables.

It is meant to respond to criticisms that PAS 39 is inconsistent with the way entities manage their businesses and risks, and defers the recognition of credit losses on loans and receivables until too late in the credit cycle.

IFRS 9 raises the risk that more assets will have to be measured at fair value with changes in fair value recognized in profit and loss as they arise.

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

February 20, 2019 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS
DIR KEITH ERNALD L SINGIAN

PDIR NAPOLEON C TAAS (Ret)
DIR LYNETTE M TADEO
DIR KIMANIE J SAROMINES
ATTY MATTHEW P BACCAY

Resource Persons / Guests:

Capt Sebastian Siga-an
Ms Jasel Rabano
Ms Michelle Cayabyab
Atty Rizalina Lumbera

Mr Rommel Ramirez
Ms Mary Jean Zamora
Ms Charie Molines
Ms Cherelle Pablo

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives

A. Risk in Banking

Bank is one of the safest place to keep cash. However, bank failures happen from time to time. Banks will collapse when they are no longer able to meet their obligations. The bank might lose too much on investments, or it may be unable to provide cash when the depositors demand it.

A bank fails when it cannot meet its financial obligations to creditors and depositors. This could occur because the bank in question has become insolvent, or because it has no longer enough liquid assets to pay its obligations. This might happen because the bank loses too much on its investments, especially if it loses a large amount in one area. Furthermore, it may not be possible to predict when a bank will fail.

PSMBFI has maintained checking accounts with Landbank and RCBC. Checking account is being used for the disbursement of operational expenses, claims and personnel costs. As of January 31, 2019, PSMBFI's checking account with Landbank of the Philippines has available balance of P74.8 million and RCBC with P64.9 Million.

The Bank of Bangladesh and RCBC are in a legal battle in the US in relation to the \$81 Million money laundering scandal in 2016 involving RCBC.

In 2016, a total of \$81 million was stolen by hackers from Bank of Bangladesh and slipped into RCBC's branch on Jupiter St. in Makati City, quickly withdrawn, and eventually laundered through the local casinos.

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RISK AND AUDIT COMMITTEE REPORT

March 20, 2019 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR RICARDO C MARQUEZ
DIR KEITH ERNALD L SINGIAN
PDIR NAPOLEON C TAAS (Ret)

DIR LYNETTE M TADEO
DIR KIMANIE J SAROMINES
ATTY MATTHEW P BACCAY

Absent:

DIR LYNDON G CUBOS

Resource Persons / Guests:

Capt Sebastian Siga-an
Ms Jasel Rabano
Mr Rommel Ramirez
Ms Mary Jean Zamora

Ms Charie Molines
Ms Cherelle Pablo
Representatives from PhilAm Asset
Management, Inc

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives

A. Disaster Risk

A disaster is a sudden, calamitous event that seriously disrupts the functioning of a community or society and causes human, material, and economic or environmental losses that exceed the community's or society's ability to cope using its own resources. Though often caused by nature, disasters are sometimes created by persons.

Disaster risk is expressed as the likelihood of loss of life, injury or destruction and damage from a disaster in a given period of time (*UNISDR Global Assessment Report 2015*). It is widely recognized as the consequence of the interaction between a hazard and the characteristics that make people and places vulnerable and exposed.

Disasters can take many different forms, and the duration can range from an hourly disruption to days or weeks of ongoing destruction. The general types of disasters which can impact a community and business operations are the following:

1. **Natural Disasters** - are major adverse event resulting from natural processes of the Earth. It can cause a loss of life or damage a property, and typically leaves economic damage in its wake, the severity of which depends on the affected population's resilience, or ability to recover and also on the infrastructure available.
2. **Human-caused Disasters** – are disaster resulting from a man-made hazards as opposed to natural disasters resulting from natural hazards. This is caused by either intentional or unintentional human actions. It involves an element of human intent, negligence, or error; or involving a failure of a man-made system. Examples are : Cyber attacks, Explosion, Civil unrest, Terrorist attacks, Fire accidents, Vehicular accidents, Hazardous materials, Chemical threat and



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RISK AND AUDIT COMMITTEE REPORT

April 23, 2019 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS

DIR LYNETTE M TADEO
DIR KIMANIE J SAROMINES
ATTY MATTHEW P BACCAY

Absent:

DIR KEITH ERNALD L SINGIAN

PDIR NAPOLEON C TAAS (Ret)

Resource Persons / Guests:

Capt Sebastian Siga-an
Ms Michelle Cayabyab
Ms Jasel Rabano

Mr Rommel Ramirez
Ms Charie Molines
Mr Joel Villabona

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives

A. Underwriting Risk

Underwriting Risk is the process of reviewing and selecting risks that an insurer might accept, under specified terms, and assigning those in an expected cost and level of riskiness.

In insurance, underwriting risk may arise from an inaccurate assessment of the risks associated with writing an insurance policy or from uncontrollable factors. As a result, the insurer's costs may significantly exceed earned premiums. The risk of losses from selection and approval of risks to be insured, or the inappropriate application of underwriting rules to risks being insured. These losses may also arise if the underwriting rules are inappropriate for some situations. Alternatively, factors beyond the control of the assessor or underwriter could result in a situation in which a policy may cost the insurer more than it has earned through premiums.

If PSMBFI underestimates the risks associated with extending coverage, it could pay out more than it receives in premiums. Since an insurance policy is a contract, PSMBFI cannot refuse to pay a claim on the basis that the premium has been miscalculated.

Loan underwriting is the process of a lender determining if a borrower's loan application is an acceptable risk. Underwriters assess the borrower's ability to repay the loan based on an analysis of their credit history, capacity to pay, and collateral. Under loan underwriting, the risk has to do with whether the borrower will repay the loan as agreed or will default.

PSMBFI insures uniformed and civilian personnel from different sectors. Its primary members are from the Philippine National Police (PNP). Membership is open to all uniformed and non-uniformed personnel of the PNP and other public safety practitioners.

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PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

July 24, 2019 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR RICARDO C MARQUEZ
PDIR NAPOLEON C TAAS (Ret)

DIR LYNETTE M TADEO
D DIR KEITH ERNALD L SINGIAN
DIR KIMANIE J SAROMINES

Absent:

DIR LYNDON G CUBOS

ATTY MATTHEW P BACCAY

Resource Persons / Guests:

DIR MARIO A AVENIDO
DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an
Ms Michelle Cayabyab

Ms Jasel Rabano
Mr Rommel Ramirez
Ms Charie Molines
Mr Joel Villabona

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives

A. Contract Risk

Contract Risk is the possibility of incurring losses as a result of the nonfulfillment of the contract. It is also the chance of facing losses from the performance of obligation, which are poorly being done.

Contract Risk are primarily of two types:

- **Liability risks** includes breach of contract issues, claims, warranty problems, terminations, intellectual property infringement charges, alleged confidentiality disclosures, disputes, and litigation.
- **Business risks** includes poor relationships, failure to obtain objectives, bad public relations, declining morale, instability, weakening of brand integrity or loss of goodwill, and reduced profits.

PSMBFI is engaged with entities for the following contracts:

- Partner agencies for the remittances of premiums and loan payments,
- PNP for leasing REO offices,
- Lessees for leasing the PSMBFI building,
- Construction firms,
- Security and janitorial firms,
- Consultants and other professionals,
- Vendors of supplies, marketing materials, equipment, etc.

Since contracts are legally binding, parties should fulfill their obligations within the set terms. Poor contract terms can have long-lasting impacts in the organization.

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RISK AND AUDIT COMMITTEE REPORT

August 20, 2019 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR LYNETTE M TADEO
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS

DIR KEITH ERNALD L SINGIAN
PMGEN NAPOLEON C TAAS (Ret)
DIR RODOLFO A COLLADO JR
ATTY MATTHEW P BACCAY

Resource Persons / Guests:

DIR MARIO A AVENIDO
DIR ARMANDO E RAMOLETE
Capt Sebastian Siga-an (Ret)
Ms Michelle Cayabyab
Ms Jasel Rabano

Mr Rommel Ramirez
Ms Charie Molines
Mr Joel Villabona
P&A Grant Thornton

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives

A. Tax Compliance Review by P&A Grant Thornton

P&A Grant Thornton reported the result of the Tax Compliance Review they have conducted on PSMBFI. There were 3 significant tax findings as follows:

1. Possible denial of revalidation of income tax exemption due to:

- a. Failure to indicate in the Articles of Incorporation the clauses required by the BIR for non-stock and non-profit institutions

PSMBFI as a non-stock, non-profit organization has been exempt from tax since the company's inception. However, in 2013, there was a BIR issuance requiring all non-stock, non-profit associations to re-validate their tax exemption, by ascertaining whether or not the corporation falls under Section 30 of the NIRC (Revenue Memorandum Order 20-2013), by examining its Articles of Incorporation, By-Laws and other constitutive documents. The Articles of Incorporation must clearly state that:

- It is a non-stock, non-profit corporation or association;
- The purpose for which it was created is one of those enumerated under Section 30 of the NIRC, as amended;
- No part of the corporation or association's net income shall inure to the benefit of any private individual; and
- The trustees of the non-profit corporation or association do not receive any compensation or remuneration.

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RISK AND AUDIT COMMITTEE REPORT

September 17, 2019 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR LYNETTE M TADEO
DIR RICARDO C MARQUEZ
DIR LYNDON G CUBOS

DIR KEITH ERNALD L SINGIAN
PMGEN NAPOLEON C TAAS (Ret)
DIR RODOLFO A COLLADO JR
ATTY MATTHEW P BACCAY

Resource Persons / Guests:

DIR ARMANDO E RAMOLETE
Ms Michelle Cayabyab
Ms Jasel Rabano

Mr Rommel Ramirez
Ms Charie Molines
Mr Joel Villabona

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Study on the Sustainability of Partnership with MMDA

VP Siga-an reported that the partnership between PSMBFI and MMDA showed a healthy relationship during its initial stage. However, succeeding periods manifested a slow growth in terms of membership, which affects both the build-up of funds for insurance claims and the declining loan portfolio.

The MMDA management has exhibited its preference to other insurance providers both internal and external to MMDA and this led to the non-renewal of the MOA with PSMBFI. Given the circumstances, severing the ties with MMDA is being considered to be implemented through the following options:

1. Option 1 - Terminate engagement with MMDA naturally:

- No longer enroll new members
- Continue providing loans to qualified members
- Maintain close coordination with MMDA Finance Division for continuous deduction

2. Option 2 - Formally terminate partnership with PSMBFI

- Return of member's Equity Value
- Continuous payment by members of existing loan until fully paid

The Committee noted that there should have been a business plan before the PSMBFI took on the membership of MMDA to ensure its viability in the long run. MMDA personnel are uniquely situated in that they are high risk given their daily duties in NCR. Compared with the strength of the PNP and the actual personnel enrolled with PSMBFI, MMDA may not have the numbers required to sustain the payment of insurance benefit. While the effort to expand membership to other sectors is commendable, this should be supported by a business plan. Thus, for prospective membership, a business plan should be presented first and deliberated upon.

Management was asked to fashion out its final recommendation to the Executive Committee on the matter of the MMDA.



PUBLIC SAFETY MUTUAL BENEFIT FUND, INC.

RISK AND AUDIT COMMITTEE REPORT

November 19, 2019 PSMBFI Board Room

Attendees:

DIR JUANITO B VAÑO JR
DIR RICARDO C MARQUEZ
PMGEN NAPOLEON C TAAS (Ret)

DIR LYNETTE M TADEO
DIR KEITH ERNALD L SINGIAN
DIR RODOLFO A COLLADO JR

Secretary:

ATTY MATTHEW P BACCAY

Absent:

DIR LYNDON G CUBOS

Resource Persons / Guests:

Dir Armando A. Ramolete
Capt Sebastian Siga-an
Ms Michelle Cayabyab
Ms Jasel Rabano
Ms Cielo Marquez

Mr Jewel Senador
Mr Rommel Ramirez
Ms Charie Molines
Mr Joel Villabona
Mr Victor Ragus

The following issues and concerns were discussed during the Risk and Audit Committee meeting:

I. Risk Related Initiatives

A. Update on Reputational Risk – Mitigating Brand Damage

In this era of digital transformation and revolution, social media has connected the human race and turned it into one big community of understanding and shared experiences. The business industry took it as an avenue for gaining publicity, connecting to customers, and strengthening the brand, essential tools for growing a business.

According to Marketing Business News, a Brand is the image and personality of a product or service that a business provides. In this day of age, brands also convey a 'promise' that the product you purchase will meet the standards that the manufacturer seeks to deliver. Once brands have proved themselves in the market, they want customers to return. They gain customers by providing a compelling experience.

Prior to the launching of PSMBFI Official Facebook Page in July 2017, its reputation was already being called into question. The power of social media allowed the members to spread the word of dissatisfaction towards the company's products, services, and customer service through 'reviews.' The Corporate Communications Officer has been answering all the allegations and accusations being thrown since then.

In the 2017 Global Risk Management Survey conducted by AON Risk Solutions, damage to brand and reputation was ranked as the top risk management concern.

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