



# **RISK MANAGEMENT POLICY**

**National Handicapped Finance and  
Development Corporation**

**(Department of Disability Affairs, Ministry of Social Justice and Empowerment)  
Red Cross Bhawan, Sector-12, Faridabad-121 007 (Haryana)**

# NATIONAL HANDICAPPED FINANCE AND DEVELOPMENT CORPORATION - RISK MANAGEMENT POLICY

## Introduction

Risk management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as *the effect of uncertainty on objectives*, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios. The strategies to manage risk typically include transferring the risk to another party, avoiding the risk, reducing the negative effect or probability of the risk, or even accepting some or all of the potential or actual consequences of a particular risk.

## Definitions

### i) Risk

Risks are events or conditions that may occur and have negative impact on the achievement of the organization's objectives. The exposure of the Corporation to the effects of uncertainty constitutes risk.

### ii) Risk Management

Risks may not be avoided altogether and therefore, there is a need to manage it. Risk Management involves identification, quantification, and management of risks and events that can affect the achievement of objectives of the corporation.

### iii) Risk Strategy

The Risk Strategy of a company defines the company's standpoint towards dealing with various risks associated with its operations, including the company's decision in respect of risk tolerance, acceptance, avoidance and /or transfer.

### iv) Risk Assessment

Risk Assessment is defined as the overall process of risk analysis and evaluation.

### v) Risk Estimation

Risk Estimation is the process of quantification of risks.

**vi) Risk Tolerance/Risk Appetite**

Risk tolerance or Risk appetite indicates the maximum quantum of risk which the company is willing to take as determined from time to time in accordance with the Risk Strategy of the company.

**vii) Risk Description**

A Risk Description is a comprehensive collection of information about a particular risk recorded in a structured manner.

**viii) Risk Register**

A 'Risk Register' is a tool for recording the risks encountered at various locations and levels in a standardised format of Risk Description.

**Objectives of the Policy**

The main objective of this policy is to ensure that the Corporation goes on to achieve its objectives taking care of risks involved in its affairs in a structured and disciplined manner.

The specific objectives of the Risk Management Policy are:

- i) To ensure that all the current and future material risk exposures of the company are identified, assessed, quantified, appropriately mitigated and managed.
- ii) To establish a framework for the company's risk management process and implement the same.
- iii) To enable compliance with appropriate regulations, wherever applicable, through the adoption of best practices
- iv) To assure growth and stability of the Corporation.

**Risk Management Policy**

In order to fulfill the objectives of this policy and lay a strong foundation for the development of an integrated risk management framework, the policy outlines the following guiding principles of Risk Management:

**a) Principles of Risk Management**

- i) Decisions in respect of policy matters will be made with the prior information and acceptance of risk involved.
- ii) The Risk Management Policy shall provide for the enhancement and protection from uncertainties and consequent losses.

- iii) All employees of the company shall be made aware of risks in their respective domains and their mitigation measures.
- iv) The risk mitigation measures adopted by the company shall be effective in the long-term and to the extent possible be embedded in the processes of the company.
- v) Risk tolerance levels will be regularly reviewed and decided upon depending on the change in company's strategy
- vi) The occurrence, progress and status of all risks will be promptly reported and appropriate actions be taken thereof.

## **b) Risk Management Policy Statement**

The policy statement is as given below:

- i) To establish an integrated Risk Management Framework for identifying, assessing, mitigating, monitoring, evaluating and reporting of all risks.
- ii) To provide clear and strong basis for informed decision making at all levels of the organization.
- iii) To continually strive towards strengthening the Risk Management System through continuous learning and improvement.

## **Scope and extent of application**

This policy is meant to ensure continuity and growth of the Corporation and achievement of its objectives and thus covers all activities within the Corporation as well as events outside the organization having a bearing on the company's business. The policy shall operate in harmony with other operating/administrative policies.

## **Risk Assessment**

The process of **Risk Assessment** shall cover the following:

- a) Risk Identification and Categorisation

The process of identifying the company's exposure to uncertainty classified as Strategic / Business / Operational.

- b) Risk Description

The method of systematically capturing and recording the company's identified risks in a structured format.

- c) Risk Estimation

The process for estimating the cost of likely impact either by quantitative, semi-quantitative or qualitative approach.

**Risk Description and Risk Mitigation mechanism :**

<b>Risk Type</b>	<b>Risk Description</b>	<b>Risk mitigation mechanism</b>	<b>Responsibility</b>
<b>External/ Political/ Lending operation</b>	Unilateral policy changes on Interest rates / Eligibility Criteria of target Group	To keep a provision in the MoU with State Governments for ensuring that the funding from NHFDC will be only NHFDC lending policy.	Head of Project Department
<b>External/ Political/ Lending operation</b>	Unilateral Declaration by State Government to extend the benefits under NHFDC schemes to only certain sections of the target group	To have MOU/ agreement with State Government authorities for ensuring that the benefit under NHFDC schemes is extended to the needy amongst persons with disability fulfilling the eligibility criteria.	Head of Project Department
<b>External/ Political/ Lending operation</b>	Bifurcation/reorganization of state/UTs	Clearly identifying the beneficiaries at district/block level both by the state Govts. and NHFDC.	Head of Project Department
<b>External/ Security of loan</b>	Non-availability of Government Guarantee as an outcome/effect of legal/statutory state policy guidelines	Regularly & vigorously pursue with State Govt. authorities to provide Government Guarantee to secure NHFDC loan.	Head, Company Affairs
<b>External/ Lending operation</b>	Discontinuance of existing SCA by State Govt.  This would create difficulties in lending funds to those SCAs/States.	Follow up with the State Govt. to continue the existing SCA till nomination of new SCA. Pursue with state Govt. to facilitate tie up with PSB/RRBs or any other suitable state agency for flow of funds to PwDs under CGTMSE scheme.	Head of Project Department
<b>External/ Repayment</b>	Announcement of loan waiver Schemes by State/Center Govt. adversely affecting repayment of overdues by SCAs.	To have an agreement with the State Govt./SCA that SCA is responsible for repayment of loan to NHFDC notwithstanding the decision/announcement of State Govt.	Head of Project Department and Head of Finance Department
<b>External/ Funding by GoI</b>	Non receipt of timely equity support from administrative Ministry may hinder the loaning and developmental activities of the corporation.	Regular/timely pursuance for release of equity support with administrative Ministry.	Head of Finance Department

<b>Risk Type</b>	<b>Risk Description</b>	<b>Risk mitigation mechanism</b>	<b>Responsibility</b>
<b>External/ Repayment</b>	Credit Risk - There is the risk of non recovery of loan from SCAs/RRBs. SCAs/RRBs may in turn not get repayment from beneficiaries. It affects the profitability and liquidity of the corporation.	Regularly pursue the matter with concerned SCA/RRB/State Govt for repayment of NHFDC dues.  To take up matter of non repayment at higher level in the State/Central Govt.  Through workshops, educate the SCAs/RRBs about the incentives available to them for regular repayment.	Head of Finance Department
<b>External/ Repayment</b>	Liquidity Risk : Due to non recovery of cash receipts from recovery of loans from SCAs and increased availment of sanctioned limits, corporation may reach a situation where it may be unable to undertake new Developmental activities for PwDs/transactions/tie-up with partner (i. e. new SCAs) for expansion of activities of the corporation.	Regularly pursue the matter with concerned SCA/State Govt. for repayment of NHFDC dues.	Head of Project Department/ Head of Finance Department
External/ Social priority	Strategic Risk : This risk may arise out of certain strategic decisions taken by NHFDC/ Administrative Ministry of the Corporation, for meeting its social priorities. In case, rate of interest decreased due to certain strategic decisions taken by Corporation (i.e. in case of women PwDs and in case of education loan for PwDs) may lead to loss of revenue to corporation.	To keep provisions of funds for such proposed strategic decisions at the time of drafting new policy and MoU.  To increase the loaning activities where interest rates are higher.  To take up the matter with Govt. for additional funds to offset the loan of revenue.	Head of Project Department

Risk Type	Risk Description	Risk mitigation mechanism	Responsibility
External/ Lending operation	<p>Non submission of Utilization details of funds released by SCA/RRBs to Corporation.</p> <p>This will hinder release of further funds to the particular SCA/RRB hence affecting the business</p> <p>Also, corporation recirculates fund received through repayment from SCAs.</p> <p>This risk also arises due excess loaning to few SCAs</p>	<p>Regularly pursue the matter with concerned SCA/RRBs/State Govt timely submission of utilization.</p> <p>To send regular demands of higher interest on unutilized portion.</p> <p>To educate SCAs about policy of waiver of higher interest rates to encourage timely submission of utilization details</p>	Head of Project Department
<b>Internal/ Data Security</b>	<p>Corporation's data base management system, may become obsolete due to technological advancement.</p> <p>Due to obsolesce in technology Corporation may not serve its stake holder/customers to expected level and which may affect the customer's satisfaction and subsequently loss in business.</p> <p>The data loss may also occur resulting in loss of beneficiary information.</p>	The technological status to be reviewed at regular intervals. A mechanism to ensure data security and data back up to put in place	Head of Project Departments and Incharge of Systems.
<b>Internal/ Documents security</b>	Loss of documents may occurs due to mishandling of proposals /documents received in bulk from SCA/RRBs/State Govt.	To ensure safe keeping of loan proposals/ documents in numbered files & folders for easy retrieval. Periodical physical verification of documents and its safe custody.	Head of Project Department
<b>Fire</b>	There are lot of files, electrical equipments, important documents, computer systems, UPS with batteries, photocopy papers, air conditioners and furnitures etc.	1. Timely Maintenance of Electrical equipments/ connections including preventive maintenance	Head of P&A Department

Risk Type	Risk Description	Risk mitigation mechanism	Responsibility
	There, so there is a risk of electrical fire, general fire and chemical fire.	2. Identification of important documents, their digitization, use of fire proof almirh/containers. 3. Keeping the fire extinguishers ready and training officials about its use in emergency. 4. Insurance Cover	Head of P&A Department
<b>Theft</b>	There is a risk of theft of property kept/fitted in the office premises.	24 hour Security arrangement with records of visitors duly maintained and records of items brought in & taken out of NHFDC.  Insurance arrangement to reduce the loss on happening of the event.  Periodical physical verification of office equipments, assets, records etc. to defect loss/theft.	Head of P&A Department/ concerned department
<b>Accident</b>	There is risk of accidents due to malfunction of electrical equipments fitted in office.  Risk of life of an employee due to accident or by natural death.  Risk of accident of office vehicle, driver, person witting	Taking adequate insurance coverage against theft and accidents both for personnel and equipments /material.	Head of P&A Department
<b>Work Place violence &amp; Harassment (Sexual and other)</b>	i) Harassment to employees (occupational) ii) Sexual harassment to female employees iii) Workplace violence iv) Suitable policy/rules may be put in place avoidance (internal) and security measures to be adopted to deal with avoidance caused by external acts.	i) The service rules etc. and office procedure may be formulated to provide adequate protection and conducive office work environment to be provided in the office. ii) To avoid risk of sexual harassment, the sexual harassment committee has been set up and separate toilet arrangements for female has been made iii) NHFDC has formulated HR policy to provide social security to employees	Head of P&A Department



Risk Type	Risk Description	Risk mitigation mechanism	Responsibility
<b>Misappropriation, Fraud, Theft or loss of cash</b>	<p>a) Theft of cash</p> <p>b) Money payments are illegally transferred or diverted by making duplicate payments, paying the wrong persons, or by increasing the value of one payment at the expense of another.</p> <p>c) Cash received is not brought to account.</p>	<p>i) Ensure that cash is held securely at all times.</p> <p>ii) Establish controls over keys and only issue them to authorized personnel.</p> <p>iii) Keep cash balances to a minimum, record and check them periodically.</p> <p>i) Be sure that changes and additions to payee details and any other standing data is independently authorized.</p> <p>ii) Restrict access to the systems that allow changes to be made and authorized.</p> <p>iii) Ensure that all payments are independently authorized before they are made.</p> <p>iv) Review payment reports for accuracy immediately before the transfer of funds occurs.</p> <p>v) Maintain a separation of duties between those setting up payment accounts and those authorized to trigger payments at all times. Similarly separate duties of receiving goods and services from the process of making payment.</p> <p>i) Use serially numbered receipts to control received cash. These receipts should be prompt, accurate and complete; where possible receipts should be generated automatically, dated and timed and numbered.</p>	Head of Finance Department

Risk Type	Risk Description	Risk mitigation mechanism	Responsibility
<b>Misappropriation, Fraud, Theft or loss of cash</b>	<p>d) Accounting records are falsified or amended to allow unauthorized payments.</p>	<p>ii) All funds received should be brought to account and banked. Reconcile the amounts received, accounted for and banked. Ensure that these reconciliations are subject to a supervisory review.</p> <p>i) Ensure that amendments and deletions to accounting records are :</p> <ul style="list-style-type: none"> <li>• Independently authorised-evidenced by signature, together with name and position of the authority; and</li> <li>• Independently checked and countersigned to ensure that the amendment has been carried out correctly.</li> </ul> <p>ii) Authorisation levels and frequency of checks, including the use of spot checks, should depend on the amounts involved and the degree of risk associated with the system.</p> <p>iii) Reconcile accounting records and petty cash on a regular basis. These reconciliations should be recorded and independently reviewed, investigate and resolved any discrepancies.</p> <p>iv) Any discrepancies, which cannot be resolved, or any losses which have occurred, should be reported as part of a formally defined process.</p>	<p>Head of Finance Department</p>

Risk Type	Risk Description	Risk mitigation mechanism	Responsibility
<b>Misappropriation, Fraud, Theft or loss of cash</b>	<p>e) Invoices are falsified or duplicated in order to generate a false payment.</p> <p>f) Unauthorised use of cheques and payable orders</p>	<p>v) Any discrepancies, which cannot be resolved, or any losses which have occurred, should be reported as part of a formally defined process.</p> <p>vi) Review suspense accounts on a regular basis to confirm their validity.</p> <p>i) Segregate duties between ordering and payment of invoices</p> <p>ii) Carry out periodic checks for duplicate invoices.</p> <p>iii) Check invoices back to orders for evidence that the orders were genuine and properly authorized.</p> <p>i) Hold financial stationary securely and keep records of stock holdings, withdrawals and destruction of wasted stationary.</p> <p>ii) Cheques and payable orders should be checked to source documentation before issue.</p> <p>iii) Mark non-transferable payable instruments as "not negotiable".</p> <p>iv) Establish signatories and delegated powers for cheques and payable orders.</p> <p>v) Use indelible tamper-proof printing and other techniques to make manipulation detectable and more difficult.</p> <p>vi) Ensure that addresses to which payable instruments are sent are correct. For large value payments check encashment to ensure that the intended recipient did receive the payment.</p>	<p>Head of Finance Department</p>

<b>Risk Type</b>	<b>Risk Description</b>	<b>Risk mitigation mechanism</b>	<b>Responsibility</b>
<b>Misappropriation, Fraud, Theft or loss of cash</b>	g) Theft of proceeds on sale of assets or services	i) Set, and periodically review, the prices for assets or services to ensure the best price is obtained. ii) Establish supervisory controls to ensure that sale proceeds are recovered promptly and accurately and completely brought to account. iii) Establish and apply authority levels for write-offs. iv) Establish and adhere to formal procedures for debt recovery.	Head of Finance Department
<b>Financial Statement Fraud</b>	<ul style="list-style-type: none"> <li>• Revenue overstatement</li> <li>• Understating expenses</li> <li>• Overstating assets</li> <li>• Understating liabilities</li> <li>• Improper use of reserves</li> <li>• Mischaracterization as “one-time” expenses</li> <li>• Misapplication of accounting rules</li> <li>• Misrepresentation or omission of information</li> </ul>	A well defined accounting policy conforming current accounting standards & audit requirement should be in place, which also clearly defines preparation and contents of various financial statements.  Also, an effective internal audit mechanism should be in place to check the financial statements to conform with accounts records/actual transaction and certification of the financial statements for its correctness.	Head of Finance Department

### **Risk Strategy**

The following framework shall be used for the implementation of the Risk strategy :

Based on the Risk Appetite/Risk Tolerance level determined and reviewed from time to time, the company should formulate its Risk Management Strategy. The strategy will broadly entail choosing among the various options for risk mitigation for each identified risk. The risk mitigation can be planned using the following key strategies:

- a) Risk Avoidance : By not performing an activity that could carry risk. Avoidance may seem the answer to all risks, but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have allowed.

- b) Risk Transfer : Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging.
- c) Risk Reduction : Employing methods/solutions that reduce the severity of the loss
- d) Risk Retention : Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater over time than the total losses sustained. All risks that are not avoided or transferred are retained by default.

This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible.

### **Risk Management Structure**

The overall monitoring of the Risk Cell will be done by the Chairman-cum-Managing Director. The Board will review the status and progress of the risks and risk management system on a regular basis through the Audit Committee. All Head of Departments will be the Risk managers for risk management and risk mitigation for their respective functional areas.

Risk managers will also be accountable for identification, assessment, aggregation, reporting and monitoring of the risk related to their respective areas. A Risk Register to be maintained for each Department.

The 'Risk Register' should contain the following information:

- a) Description of the risk
- b) The impact, should the event actually occur
- c) A summary of the planned response, should the event occur
- d) A summary of the mitigation plan (i.e. the actions taken in advance to reduce the probability and/or impact of the event)
- e) The responsible function / person

### **Risk Cell and Risk Management System**

The Risk Cell (HODs) will be the key group which will work on an ongoing basis within the risk framework outlined in this policy to mitigate the risks to the Company's business as it may evolve over time.

Effective maintenance of the system will require the following actions:

- a) The Risk Cell (HODs), under the guidance of CMD will meet periodically to identify specific business risk and analyse the risk in terms of consequences, if the risk materialises.
- b) Among all the risks identified the Risk Cell will prioritise and focus on key risks and their mitigation measures

### **Approval of the Policy**

The Board will be the approving authority for the company's overall Risk Management System.

The Board will, therefore, monitor the compliance and approve the Risk Management Policy and any amendments thereto from time to time.

### **Review of the Policy**

The policy will be the guiding document for risk management at NHFDC and will be reviewed as and when required due to the changes in the risk management regulations/standards/best practices etc.

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