



DELPHI WORLD MONEY LIMITED
(ERSTWHILE EBIXCASH WORLD MONEY INDIA LIMITED)

RISK MANAGEMENT POLICY

1. PREAMBLE

In the course of its operations Delphi World Money Limited (Erstwhile EbixCash World Money India Limited) (hereinafter referred to as “the Company”) is prone to various business risks, both financial as well as non-financial.

The risks are varied in nature, and go hand in hand with the business opportunities, and it can never be assured that the Company operates in a totally risk free environment. The scope of this document is to formalize a risk management policy (hereinafter referred to as “the Policy”), to identify, evaluate and minimize identifiable risks. The Policy shall be periodically reviewed by the Board of Directors, so that the risks are managed and controlled through properly laid down framework.

2. RISK MANAGEMENT

The term “risk” is defined as a chance or possibility of danger, loss, or other adverse consequences.

Risk management is the process of identifying and then managing threats that could severely impact or bring down the organization. Generally, this involves reviewing operations of the organization, identifying potential threats to the organization and the likelihood of their occurrence, and then taking appropriate actions to address the most likely threats.

Paragraph (C) of sub-clause IV of Clause 49 of the Listing Agreement states as under:

“The company shall 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 Ministry of Corporate Affairs, Government of India has also accepted the concept of Risk Management and its relevance to the smooth functioning of the corporate sector in India and has therefore introduced a specific provision on Risk Management under paragraph (II) (C) of Corporate Governance voluntary guidelines, 2009, which reads as under:

“(II) (C) Risk Management

i). The Board, its Audit Committee and its executive management should collectively identify the risks impacting the company's business and document their process of risk identification, risk minimization, risk optimization as a part of a risk management policy or strategy.

ii). The Board should also affirm and disclose in its report to members that it has put in place critical risk management framework across the company, which is overseen once every six months by the Board. The disclosure should also include a statement of those elements of risk, that the Board feels, may threaten the existence of the company.”

It has, therefore, become mandatory for the listed Companies to prepare a comprehensive framework of risk management for assessment of risks and determine the responses to these risks so as to minimise their adverse impact on the organisation.

3. RISK STRATEGY:

The Board of Directors shall be aware of the major aspects of the company’s risks and it shall approve and periodically review the Risk Management framework.

Senior Management shall have responsibility for implementing the risk management framework approved by the Board of Directors. The framework should be consistently implemented throughout the company, and all levels of staff shall understand their responsibilities with respect to risk management. Senior Management shall also ensure that the necessary processes and procedures for managing risk in all of the company’s products, activities, processes and systems are in place.

The Company recognises that risk is an integral and unavoidable component of business and is committed to managing the risk in a proactive and effective manner.

The Company believes that the Risk cannot be totally eliminated. However, it can be:

- Transferred to another party, who is willing to take risk, by buying an insurance policy or entering into a forward contract;
- Reduced, by having good internal controls;
- Avoided, by not entering into businesses where risk involved is in excess of its risk appetite;
- Retained, to either avoid the cost of trying to reduce risk or in anticipation of higher profits by taking on more risk, and;
- Shared, by following a middle path between retaining and transferring risk.

The Company is a diversified company committed to excellence. The Company has Foreign Exchange, Western Union Money Transfer, Western Union Business Solutions, Travel and Insurance divisions.

The product range of the company comprises of:

- Foreign Exchange in the form of Currency Notes, Travellers' Cheques, Prepaid Foreign Travel Cards, Outward Foreign Remittances
- Inward Money Transfer
- Import Payments through business partners
- Domestic Money Transfer (DMT) – through business partners
- Other financial products which can complement its general business
- Renewable Energy viz., Wind Power

In today's challenging and competitive environment, strategies for mitigating inherent risks in accomplishing the growth plans of the Company are imperative.

4. RISK CATEGORIES

While risks can be categorized in many ways, the most common categorization is as under:

- Business Risk
- Market Risk
- Credit Risk
- Operational Risk

Brief description about each of the above risks is as under:

a) Business Risk

Business Risk, also referred to as Strategic Risk, is the current and prospective impact on earnings or capital arising from poor business decisions like entering a new business activity or sector without adequate consideration of risk-return trade-off, improper implementation of right decisions, or lack of responsiveness to industry changes. Reputation Risk is also another important Business Risk.

b) Market Risk

Market Risk refers to the possibility of incurring loss due to adverse movement of Exchange Rate or Interest Rate. Funding Liquidity Risk is also another Market Risk faced by any corporate.

c) Credit Risk

Credit Risk or the risk of default arises due to debtors' inability or unwillingness to pay the dues.

d) Operational Risk

Operational Risk can be defined as risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal and compliance risk.

5. Risk Management Framework

In principle, risks always result as consequence of activities or as consequence of non-activities. Risk Management and Risk Monitoring are important in recognizing and controlling risks.

For managing Risk more efficiently the company would need to identify the risks that it faces in trying to achieve its objectives. Once these risks are identified, these risks would have to be evaluated to see which of them will have critical impact on the company and which of them are not significant enough to deserve further attention.

As a matter of policy, these risks are assessed and steps as appropriate are taken to mitigate the same. Risk mitigation is an exercise aiming to reduce the loss arising out of various risk exposures as and when they materialise.

The Company adopts systematic approach to mitigate risks associated with accomplishment of objectives, operations, revenues and procedures. The Company believes that a robust Risk Management process would ensure taking required risk mitigating steps proactively to help achieve organisational objectives.

The Company shall constitute a Risk Management Committee (hereinafter referred to as “the Committee”) consisting of the Managing Director, the promoter Director, the Executive Director and Business Heads of Forex, Western Union Division and Western Union Business Solutions (WUBS) Division. The Committee shall meet at least once in a quarter to review the implementation of this policy and any issue having bearing on various risks detailed in the policy. It shall also review the adequacy of risk mitigation measures taken by the Company and submit its report to the Board.

Activities at all levels of the organization, viz., Enterprise level; Division level and Business Unit level are considered in the risk management framework. All these components are interrelated and drive the Enterprise Wide Risk Management with focus on four key elements, viz., Risk Identification, Risk Measurement, Risk Monitoring and Risk Control.

To meet the stated business objectives, effective strategies for exploiting opportunities are to be evolved and as a part of this, key risks are identified analysed, considering likelihood and impact, as a basis for determining how they should be managed and plans for managing the same are laid out.

6. RISKS SPECIFIC TO THE COMPANY AND THE MITIGATION MEASURES TO BE ADOPTED

The risks associated with all other products of the company are dealt in the following paragraphs.

Business Risks

a) The Risks

i) **Strategic Risk** – Growth and profit are the normal goal of any business organisation. However, expanding product portfolio with the sole aim of utilizing the existing infrastructure under the assumption of exploiting the fixed cost and therefore going in for low margin can adversely affect the long term profitability of the organisation. This is more so in the case of financial products as the production cost is considered as zero. Many risks, especially the Operational Risk are invisible in the case of financial products and therefore, tend to be ignored when organisation expands its product portfolio with the sole focus on ‘profits’ as against ‘profitability’.

ii) **Reputation Risk** - A company’s reputation is perhaps its most valuable asset. Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation or revenue reductions. This affects the institution’s ability to establish new relationships or services or continue servicing existing relationships. Reputation risk exposure is present throughout the organization.

iii) **Regulatory Changes Risk**- Since the Business of the Company is regulated, any changes in such regulations can have an impact in the form of additional costs in the matter of compliances to be incurred or restrictions of any specific activities which was hitherto permitted.

iv) **Technology Changes Risk** – The way the business is carried out is fast changing on account of advances in the technology. With introduction of extensive use of mobile, internet, connectivity etc. can impair certain business activities presently being carried out.

b) Mitigation Measures

i) **Strategic Risk** – the risk of improper selection of new product or new business activity may be prevented by adopting systematic approach, as detailed below, for taking decision of entering new business activity.

a) Before introducing any new product/activity all risks involved have to be carefully identified and listed out by all stake-holders viz., the Product Head, Head of Operations, Head of Accounts, CIA etc.

b) Profitability of new product has to be carefully evaluated and findings of Break Even Analysis is given due consideration. While doing so assumptions and projections have to be examined to rule out the possibility of excessive optimism

- c) The company may lay down maximum gestation period for any new product. Exceptions could be made only in rarest of rare cases with the approval of Management Committee.
 - d) To mitigate operational risk, detailed process of handling new product has to be laid down well in advance and has to be examined by the Accounts and Audit departments to ensure its adequacy.
 - e) To ensure the above, introduction of new product has to be signed off by “New Products Committee (NPC)” consisting of MD, Head of Risk, Head (Accounts & Finance), CIA, related Business Vertical Head, the Product Head concerned.
 - f) Such signing off should not be treated as a last minute formality or intimation but should be done well in advance to enable all concerned to carefully evaluate all aspects and should normally be done on a paper where all concerned certify the adequacy of processes under their signature.
- ii) **Reputation Risk** - Preserving a strong reputation revolves around effectively communicating and building solid relationships with all stakeholders viz., shareholders, customers, employees and general public. Timely and accurate financial reports, compliance with all regulatory requirements, strong corporate governance and excellent customer service are important tools for mitigating this risk.

6.2. Market Risk

a) The Risk

- i) **Exchange Rate Risk** – risk of incurring loss on account of adverse movement of forex rates. The company is exposed to Exchange Rate Risk on both, buy and sell sides. The receipts from Western Union expose us to sell side risk whereas periodical settlement of Travel Card dues (with Card Issuers) exposes us to buy side risks. While exposure on both sides provides us with in-built natural hedge, it would not provide us perfect hedge and we are still exposed to exchange rate risk on both sides
- ii) **Interest Rate Risk** – risk of interest rate on company’s debt moving upwards and adversely impacting profitability
- iii) **Funding Liquidity Risk** – inability to meet financial obligations as and when they arise

b) Mitigation Measures:

- i) **Exchange Rate Risk** – An optimum mix of forward contract, option and keeping the exposure un-hedged should be used for mitigating Exchange Rate Risk. Leaving the risk un-hedged may be considered only when forex market is not volatile and to the extent of availability of natural hedge. While forward contracts may be the best option during normal times, a part of the risk could be covered during volatile two-way movement of the forex market to take benefit of rates moving in favour of the company.

ii) **Interest Rate Risk** – Interest Rate Swaps (IRS) may be selectively used to hedge interest rate risk as under, with the approval of Management Committee:

a. Pay Fixed Receive Floating IRS may be taken if the Committee is of the view that interest rates are likely to go up in future; and

b. Receive Fixed Pay Floating IRS may be taken if the Committee is of the view that interest rates are likely to go down in future.

However, care shall be taken not to enter in to exotic derivatives for short term gains which, apart from hedging the existing risk exposure of the company, could expose company to risks not existent in the books.

iii) **Funding Liquidity Risk** – may be mitigated by having in place buffer/stand-by credit facilities with the banks

iv) Treasury Head shall be responsible for mitigation of Market Risk

6.3) Credit Risk

a) The Risk

Risks of non-settlement of dues by customers resulting in bad and doubtful debts, adversely impacting the profitability of the company.

b) Mitigation Measures:

- i) Meticulously carrying out KYC and Customer Due Diligence process at the time of inception of customer relationship.
- ii) Putting in place a robust Credit Process to assess the credit worthiness of customers at the time of sanction of credit limit and at regular intervals thereafter.
- iii) Well thought out delegation of credit sanction powers with due consideration for operational requirement and individual risk assessment capabilities.
- iv) Mandating examination of audited financials for credit limits above a certain threshold limit.
- v) Regular monitoring of amount outstanding vis-à-vis credit limit, delay in payment of dues lengthening credit cycle etc. which could detect Early Warning Signals (EWS) of impending default.

vi) Appropriate recovery management and follow up.

vii) The ultimate responsibility for collection of dues shall rest with respective Business Heads.

6.4) Operational Risk

a) The Risk

i) **Internal Processes Risk** – arises due to inadequate or failed internal processes like operating processes, HR processes etc. HR processes include “inadequate recruitment procedures for screening employees”, “inadequate training and change management programmes”, “poor succession planning” etc. Such HR operational issues contribute, in turn, to people risk

ii) **People Risk** - the risk that people do not follow the company’s procedures, practices and/or rules”, i.e., that they “deviate” from expected behaviour. Such deviation can be broken down into two components: deliberate deviant behaviour (human fraud - internal) and non-deliberate deviant behaviour (human error). As cash and foreign currency notes form the stock in trade of the company it is vulnerable to embezzlement, theft, misappropriation and frauds.

iii) **Systems Risk** – the risk arising out of complex or poorly designed computer based Information Technology systems either because they are unfit for the purpose or because they malfunction. This also includes data integrity risk due to poor software design or coordinating and interfacing risk. This could lead to frauds and IT Security failures.

iv) **External Events Risk** - External events – both expected and unexpected - can have a major impact on the company. This includes disruptive events like fire, flooding, earthquakes, terrorist actions, vandalism, power failures, etc.

v) **Legal & Compliance Risk** – Legal Risk arises due to noncompliance with statutory responsibilities and/or adverse interpretation of and/or unenforceability of contractual provisions. Compliance Risk arises as a result of its failure to comply with laws, regulations, rules, guidelines applicable to company’s line of business. At times, these could be overlapping.

b) Mitigation Measures

i) **Internal Processes Risk** – Inasmuch as the company’s lines of business involve handling of valuable, easily transferable and liquid cash and foreign currencies the company shall have robust processes and the following risk mitigations measures shall be adopted:

a) Having detailed Standard Operating Procedure (SOP) for all major processes, including HR processes is the fundamental requirement for mitigating this risk.

- b) Having robust process for handling and daily tallying of balances of cash, foreign currencies and other valuables.
- c) The SOP should be reviewed periodically, at least once a year, to ensure that modifications arising out of introduction of new products, new regulatory guidelines, learning from incidences of human errors and human frauds are incorporated in timely manner.
- d) The IT based internal processes should incorporate the 'Maker Checker' concept.
- e) Chief Internal Auditor (CIA) and Head of Accounts Dept. shall be responsible to put in place robust systems and procedures

ii) **People Risk** – the risks of human error and human fraud can only be minimised. They cannot be completely eliminated. The risk of human error may be minimised by adopting following measures:

- a) Institutionalizing the SOP by subjecting employees to periodical training programmes, display of posters, ready to refer display cards etc.

Having robust internal audit system for ensuring that laid down processes are being followed at all levels and for timely detection of delinquencies.

- c) Ensuring that audit findings are attended/rectified/implemented in a time-bound manner
- d) Adopting an efficient process for quick investigation and an efficient disciplinary process culminating in appropriate disciplinary action, ranging from issuing a cautionary letter to dismissal of erring employee, commensurate with the lapses.
- e) Giving Internal Auditors unhindered access to all places of business to conduct surprise checks.
- f) Dealing with non-adherence to SOP with quick and firm action.
- g) Ensuring that the Day end operations (of software system) are done on the same day, except in extreme situations, which shall be permitted only by a designated official after due consideration of reasons for postponement.
- h) Branch Heads and controllers shall be personally responsible for ensuring adherence to laid down systems and procedures.

iii) **Systems Risk** – should be mitigated by having a comprehensive Information Technology Policy covering all major aspects of IT like IT Security, Data Back-up, Disaster Recovery System etc. Thorough System Requirement Study (SRS) shall be conducted before selecting the software for company's operations. Services of external experts could be enlisted to meet all these requirements if the company

does not have such expertise in-house. Further, selection of a reliable software vendor is also of great importance. Adequate access rights control shall also be ensured. Testing of software at the time of selection and periodic modifications by the vendor as well as conducting User Acceptance Test (UAT) by carefully selected company officials is also critical to mitigate this risk. Wherever possible standard software compliant with all basic regulatory requirements shall be selected.

iv) **External Events Risk** - The Company should have in place appropriate arrangements like data back-up, disaster recovery systems and procedures etc. to ensure that it can continue to function and meet its obligations in the event of an unforeseen interruption. These arrangements should be regularly updated and tested to ensure their effectiveness. Against the monetary loss arising out of such events the company should evaluate cost and acquire proper insurance, wherever deemed necessary.

v) **Legal & Compliance Risk** – awareness of applicable laws, regulatory prescriptions and legal and regulatory implications of business practices among senior management is the basic requirement for mitigating this risk. As a rule, legal and regulatory implications of various acts of omissions and commissions need to be analysed by independent legal and compliance officials not reporting to business heads. Any change in applicable statute and/or regulatory prescriptions should be incorporated in the SOP on on-going basis and transmitted across the company. Unlicensed software of any kind shall not be used in the company.

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