



**SPECIFIC
RECOVERY
MODEL**

RISKS CONTROL

CORPORATE OPERATIONS AREA (ACSN)

RISKS CONTROL

We must rely on risk analysis when managing claims in order to improve internal control by helping to prevent operational risk. Risk analysis should also be considered in the **Specific Recovery Model** as a fundamental procedure for detailing the vulnerabilities detected in the process. They must be part of the model for its complete adaptation and application of internal controls, **avoiding**, in equal measure, **the operational risk that may arise in recovery management**.

MAPFRE defines OPERATIONAL RISK as follows:

The risk of loss arising from inadequate or dysfunctional internal processes, personnel or systems, or from external events, which shall include legal risks, but not risks arising from strategic decisions or reputational risks.

Operational risks are identified and assessed through the risk monitoring model, which is based on a dynamic analysis of each company's processes, in which the managers of each area or department assess the potential risks that affect their activities and the effectiveness of the controls related to each process. To carry out this monitoring, risk self-assessment questionnaires, internal control manuals, the inventory of controls associated with risks and the evaluation of their effectiveness are managed, as well as the corrective measures established to mitigate or reduce risks and/or improve the control environment. Risks have been classified based on the type of risk; and mitigating measures on the basis of the type of monitoring that can be performed in each case or situation.

The following describes the context of the two new concepts used in the risk methodology:

- Modality: allows the monitoring to be described according to the designations established in the methodology and described in the "3 Whats" technique.
- Monitoring: this includes the designations of the monitoring processes that are already being used by companies and included in the internal monitoring manuals published on Riskm@p.

The employees and areas involved in claims processes are effectively part of the MAPFRE Risk Management System, actively taking part in the strategies, processes and reporting procedures set up to identify, measure, monitor, manage and promptly report the risks to which the companies may be exposed.

From the Claims Areas, the potential risks that can affect daily activity are analyzed. As described in the Claims Operating Model and more specifically in the Specific Recovery Model, the relevant monitoring, as defines, must be applied to prevent or mitigate those risks. They also ensure that the assumed risks do not exceed established tolerance limits and carry out the necessary improvement actions to ensure that the Company operates within the desired risk range.

Risk monitoring includes, among other aspects, the monitoring of established controls, adequate response to risk, the evaluation of the effectiveness of these controls, and the establishment of controls and corrective or mitigating measures, where appropriate.

The corporate Riskm@p tool lets us identify opportunities to improve our operational effectiveness, integrity of information and regulatory compliance. The Claims Areas take part in the following risk control procedures:

1. Identifying risks that affect claims processes and documenting established controls in operations to prevent or mitigate those risks. These controls will be identified in the respective internal monitoring manuals, which will provide the fundamental information for carrying out an analysis of the degree of effectiveness of the established controls and for designing the necessary action plans and corrective measures.
2. Taking part in the process of analyzing risk indicators and monitoring under the coordination of the companies' Risk Management Areas. This will require the relevant personnel of the Claims Areas to complete the questionnaires. In this case, the Claims Areas will be involved in the preparation of the risk maps and the effectiveness of the monitoring used to understand and improve the status of the operation.
3. The Claims Areas, using the information obtained through the risk indicator maps and the criticality of each one, as well as the effectiveness of the defined controls, will establish the necessary management and mitigation measures for those risks with higher levels of criticality.

The execution of risk monitoring procedures in the claims and benefits processes shall be carried out with the necessary coordination between the Claims and Risk

Management Areas, as set out in the model's Relationship Procedure between the two areas.

When we conduct a risk analysis, employees from the Claims and Benefits Areas must appraise all factors affecting each process by analyzing every single event or circumstance which, were it to occur (probability), would negatively impact (threat), to a greater or lesser extent (relative significance), the organization's capacity to achieve its operational and/or strategic objectives.

The "significance" will be the impact that the factor could have on the Company and the "probability" will be the likelihood of the factor occurring within the Company. At this point, it should be assessed how likely the factor is to occur or if it is already occurring, so that the most effective controls can be put in place to mitigate it.

When a control for a risk has not been detected or is insufficient, "Aspects of improvement" should be introduced, including possible measures that could help to mitigate the risk in question.

Based on the different variables at our disposal (probability, significance, etc.), we will prioritize the monitoring we must carry out.

If action plans are rolled out to mitigate or eliminate existing risks, they should be subject to continuous monitoring by the relevant supervisor.

The risks that can occur in the management of **recovery case files** are detailed below, which can be analyzed or studied by the different companies with the aim of reducing the volume of potential risks identified in the Claims and Benefits Areas.



Risks MEREC.xlsx

For these risks, and others that arise at the regional or local level, actions will be developed to mitigate them. These actions may be:

- Preventive (automatic or manual). Established before the risk occurs.
- Detection actions (automatic or manual). Implemented once the risk has already occurred.

The table sets out common measures to minimize or eliminate risks, as well as risk indicators that can detect and monitor them. It will be the task of each country/unit to apply these or others in order to mitigate existing risks.

SPECIFIC RECOVERY MODEL: RISKS CONTROL



Affected processes	Description	Modality	Control	Control point objective Measures to mitigate risk	KRIs
Capture and Opening	Communications in recovery management are not completed correctly and in due time, as established in both internal and external regulations.	Management reports	Management monitoring	Automating communications and the period for managing these. Making legal deadlines part of claims handling plans so as to ensure that they are handled within the legal time limit	Recovery case files closed at "0" with cause or reason "time-barred" / total recovery case files closed at "0."
All	There is no correct integration of all management applications (issuing, portfolio, etc.) for the correct management of recoveries	Business rules	Application monitoring	Study of the desirability and feasibility of IT developments for integration	
All	Personnel involved in the recovery process do not have the necessary experience to carry out the functions described in the specific recovery process.	Procedures and Quality	Training monitoring	Utmost rigor when selecting the specific profiles for recovery handling positions	Average length of service of recovery handlers
Handling/Collections and Payments	The necessary resources are not used to pursue recovery where appropriate.	Procedures and Quality	Management monitoring	Technical or activity monitoring for case files involving recovery action. Monitor the volume of case files processed for the profiles identified in the recovery management.	Efficiency of recovery ratio. Total amount recovered
All	There is inadequate communication with entities and third parties involved in the exchange of information. There are also no agreements with other companies for the management of the recovery case file.	Communication	Communication monitoring	Including communication flows and channels in those procedures that require it. Attaching communications with other companies as part of recovery management	Number of agreements and level of compliance between insurance companies
Handling/Collections and Payments	The rating systems for recovery case files are inadequate.	Procedures and Quality	Management monitoring	Periodic review of the rating criteria and analysis of the accounting impact in accordance with the criteria established by the Financial Area in the management of recoveries.	
Handling/Collections and Payments	The procedures defined for the processing, settlement and payment of claims, benefits and recovery processing do not take into account the existence of deductibles, underinsurance, the sum insured, etc.	Procedures and Quality	Procedures control	Periodically reviewing (at least once a year) all existing procedures to check the validity of their contents and to update them accordingly regarding recovery handling.	Execution of management monitoring in recovery case file procedures
Handling/Collections and Payments	There is no adequate segregation of functions to prevent unauthorized or unqualified users from managing recoveries.	Segregation of functions	Access control	Establishment of the profile, role and authorization level in the recovery procedures and, if possible, in the claims management tools.	
All	The recovery case file does not record all the actions taken, nor are the date and the person responsible identified	Procedures and Quality	Management monitoring	Developments are required to allow the traceability of all recovery efforts. Claims handling plan for managing Recoveries	Execution of management monitoring in the Claims Handling Plan for Recovery case files
Capture and Opening	The opening and identification criteria for recovery case files are not defined.	Procedures and Quality	Procedures control	Define and establish the procedures relating to the criteria for opening and identifying recovery case files.	
Capture and Opening	The opening and identification criteria for recovery case files are not applied although they are defined.	Procedures and Quality	Activity monitoring	Automatically detect the recovery case file and establish monitoring of recovery handling, involving the measurement of recoveries closed at "0" in the handling of the recovery.	Recoveries closed at "0" divided by total recoveries handled
Processing	The procedures defined for recovery management do not identify the amount that makes a recovery unviable. The cases when the claim should be settled amicably before litigation are also not explained, nor is there a specification of the minimum amount to initiate legal proceedings.	Procedures and Quality	Procedures control	Periodic review (at least once a year) of existing procedures. Check the validity of its contents and update them with regard to claims that may or may not lead to an amicable settlement or legal proceedings, detailing the rules and definitions governing recovery.	Number of closed recovery case files without amount with more than xx days of average life// percentage of legal recovery case files/total number of recovery case files// number of legal recovery case files with expected recoveries below XX (local currency)
Processing	There are no procedures that include the necessary details of the legal proceedings through an attorney specialized in recovery.	Procedures and Quality	Management monitoring	To assess cases in which the recoveries processed need to be handled through legal proceedings with a specialized recovery attorney and to assign these specific actions to the network.	percentage number of legal recovery case files/total number of recovery case files
Processing	In legal proceedings, the company does not have a network of attorneys specialized in recovery.	Procedures and Quality	Handling control	To have a network of attorneys specialized in recovery case files according to the procedures established by the company and to the regulations and/or legislation of the country, in the case of initiating legal proceedings	compare the percentage of effectiveness of recovery attorneys with the percentage of effectiveness of attorneys in "non-recovery" case files// individual analysis of percentage of effectiveness of recovery attorneys.