

PACICC detailed risk register as at April 2009

Risk No	Risk Title	Description	Causes	Current mitigation activity	Inherent Impact	Inherent Likelihood
Regulatory Risks						
32	Regulation of insurance rates may contribute to insurer solvency problems	Provincial regulation of automobile insurance rates may contribute indirectly to solvency problems for certain insurance companies	<p>Political pressure exerted on the rate filing/approval process</p> <p>Incorrect assumptions regarding what constitutes an adequate rate of return for an insurance company</p>	<p>Scrutiny of insurance company financial health by rating agencies - own financial analysis</p> <p>Growing use of risk-based supervision by regulators.</p> <p><i>Status: PACICC research on the relationship between solvency and rate regulation is in progress</i></p> <p><i>Findings will be available for publication in April 2009</i></p>	High	High
33	Provincial insurance supervisory frameworks may not meet the standards of the International Association of Insurance Supervisors (IAIS)	Supervisory practices are deficient in parts of Canada's P&C insurance industry. This increases the potential for failure.	<p>Some insurance legislation and/or regulations in Canada do not contain strong or adequate standards of corporate governance. This is especially the case at the provincial level.</p> <p>Standards are often not required but recommended</p>	PACICC advocates that insurance solvency supervision be done by OSFI (or by provinces that can meet the IAIS standard). Implementing such improvements would help mitigate the impact of supervisory deficiencies. (OSFI standard meets IAIS requirements)	High	High

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				<p><i>Status: Completed - Dr. Norma Neilson (U of Calgary) has documented supervisory deficiencies. Further PACICC research is under way</i></p> <p><i>Awareness plan to utilize research will be part of PACICC's proposed 2010 priority issue – Strengthening solvency supervision</i></p>		
34	Insurance company winding-up and restructuring practices are outdated in Canada	Outdated legislation may be precluding the use of more efficient, lower-cost best practices in the winding-up of insolvent insurers in Canada	<p>Canada's Winding-up and Restructuring Act (WURA) has not undergone a comprehensive review in nearly 100 years</p> <p>Only occasional updates and changes have been made to the Act</p> <p>Insolvency management and corporate restructuring practices have evolved internationally at a much faster pace than Canada's legislative framework has.</p>	<p><i>Status: Presentations/submissions made to Senate Banking, Trade & Commerce Committee and to Finance Canada</i></p> <p><i>Awaiting subject report from Senate Committee</i></p> <p><i>Working with Assuris to prepare model legislative reform</i></p>	Medium	High

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23	Adverse change in insurance legislation	Insurance legislation in Canada could be changed, or interpretation could change, in a way that adversely affects PACICC	<p>Government could enact legislation affecting aspects of PACICC's operations (e.g. membership eligibility, industry funding, reporting procedures, Board composition, regulatory oversight, etc.)</p> <p>PACICC could be compelled to add members in a line or lines of business inconsistent with its mandate. PACICC may lack adequate legal counsel to properly advise the Corporation about an adverse legislative development.</p> <p>The risk is higher for legislation proposed or enacted by provincial governments.</p>	<p>Coverage review (including change to defined-benefit system)</p> <p>Proactive government relations activities</p> <p>PACICC maintains regular dialogue with industry regulators to ensure that possible risks/exposures are understood</p> <p>Active monitoring of industry developments and financial performance</p> <p>Regular communication with stakeholders helps ensure that PACICC's mandate is clearly understood</p>	Medium	Medium

Risk No	Risk Title	Description	Causes	Current mitigation activity	Inherent Impact	Inherent Likelihood
35	Requirement for all Board members to be public directors	Government may pressure PACICC to structure its Board to be composed entirely of public directors	<p>Potential for frustration if insurance regulators seek to exert greater control / influence over PACICC (for example, to expand our mandate to address restructuring and wind-up)</p> <p>Governance at other financial guarantee funds (e.g., Assuris) could encourage regulators to seek reform at PACICC</p> <p>P&C insurance guarantee funds in other countries are governed by a majority of industry directors because this is the best model for our mandate to address wind-up</p>	<p>Continuing discussions with interested parties stresses the importance of effective governance consistent with PACICC's mandate</p> <p>PACICC strives to demonstrate that its governance is effective and that its Board functions well. These messages are conveyed through regular corporate reporting to members and other stakeholders, as well as meetings with insurance supervisors.</p> <p>Insurance supervisors receive copies of all PACICC Board submissions and are invited to participate in Board meetings.</p>	Medium	Medium

Risk No	Risk Title	Description	Causes	Current mitigation activity	Inherent Impact	Inherent Likelihood
7	Insolvency costs are unrecoverable	PACICC could be asked by authorities to cover insolvency-related costs that it cannot recover, either in whole or in part	<p>Broader interpretation of policy wording</p> <p>Insurance supervisors could (for example) coerce the industry into funding higher levels of premium refunds than PACICC currently provides</p> <p>If PACICC was forced to cover certain specialty lines, the assessment base could be insufficient to fund the costs of failure (for example, this could be triggered by a change in a provincial statute)</p>	<p>Maintain a good understanding of financial guarantee fund best practices in other countries</p> <p>Educate stakeholders on best practices</p> <p>Continue to advocate that moral hazard risk be minimized and that protection apply to personal lines and business policyholders, excluding large corporations</p>	Medium	Low
10	Government decision to tax the Corporation's investment income	PACICC could be adversely affected by a government decision to attempt to tax the Corporation's investment income, which currently accumulates tax-free	Existing policy could be "reinterpreted" by Revenue Canada to question the tax-free status of PACICC's Compensation Fund	<p>Maintain a good understanding of the tax treatment of guarantee funds in other countries, and work with guarantee fund counterparts in Canada, should PACICC need to counter a tax-related threat</p> <p>Consider using investment income to finance operations in place of administrative assessments (if this helped reduce potential tax liability)</p>	Medium	Low

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Financial Risks

5	Insolvency costs could exceed PACICC's available financial resources	PACICC could face insolvency-related costs that exceed (or severely stretch) its available financial resources	<p>Failure of a larger member company could result in claims liabilities > \$500 million in the first year of the insolvency</p> <p>Subsequent failures, occurring soon after the above scenario, would further strain financial resources.</p> <p>Failure of provincial insurer (concentration in a small market which limits assessment base)</p> <p>A relatively large number of member insurers could fail within a short period of time</p> <p>Members are overly aggressive with their underwriting practices. PACICC fails to observe signs of weakness in members' financial position</p> <p>Significant unexpected event affects the profitability of a number of member companies - for example, a natural catastrophe</p> <p>Failure of an international</p>	<p>PACICC analyzes risk concentration and informs the Board and insurance supervisors of problems/issues</p> <p>We encourage insurance superintendents to maintain strong (best practice) standards of capital adequacy and solvency supervision</p> <p>Great emphasis placed on adequate financial capacity and prudently managed compensation funds</p> <p>Active monitoring of business environment and members' financial performance</p> <p>Regular dialogue with members, regulators, liquidators and other stakeholders</p> <p>Conservative blue-chip, liquid investments</p>	Very High	Low
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			<p>conglomerate</p> <p>Failure to identify problems early enough</p>	<p>Steps have been taken to enhance PACICC's financial preparedness (annual financial capacity was doubled in 2005)</p> <p><i>Status: PACICC has begun exploring with Ottawa and the provinces options like premium tax offsets for members</i></p> <p><i>Evidence shows that PACICC can meet the vast majority of potential member insolvency funding requirements from current-year general assessments</i></p>		

Risk No	Risk Title	Description	Causes	Current mitigation activity	Inherent Impact	Inherent Likelihood
1	Failure to pay assessment obligations	<p>Member companies could fail to pay their administrative or general assessment obligations to PACICC</p> <p>Member assessments must be paid within 30 days of receiving notice</p>	<p>Poor process by members leads to accidental non- or late payment</p> <p>Members having cash flow problems</p> <p>Deliberate non-payment due to dissatisfaction</p> <p>Data availability</p>	<p>PACICC is entitled to charge interest on overdue draws</p> <p>Member companies are required under provincial legislation to meet the requirements of PACICC to maintain licensing</p> <p>PACICC notifies the responsible regulator of any assessments that are substantially (more than three months) overdue</p> <p>The existing rules – as specified in the Memorandum of Operation – are working, so no special or additional risk management actions are needed at this time</p>	Medium	High

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36	Liquidity crisis adversely affects Canada's P&C insurance industry	Global financial and credit markets are impaired by a large-scale liquidity crisis (such as in 2007-08) that diminishes the confidence that consumers have in their insurance company	<p>Risks related to new and largely unregulated financial products are often poorly understood and can increase to the point where large losses are incurred</p> <p>Capital held by insurers in the form of invested assets declines in value as investors sell</p> <p>Liquidity crisis reduces available credit, dampens economic activity and increases the risk of recession</p>	<p>Monitoring the financial health of PACICC member companies (where we have adequate data)</p> <p>Monitoring efforts by policy-makers and solvency regulators to address the underlying causes of a credit crisis</p> <p>Advising member company CEOs to proactively manage credit/liquidity risks and communicate concerns to solvency supervisors</p>	High	Low
2	Volatility in value of invested assets	The value of PACICC's invested assets could be adversely affected. Main concern applies to the Compensation Fund, which is PACICC's chief source of insolvency-related liquidity	<p>Downturn in financial markets</p> <p>Poor investment choices</p>	<p>PACICC's investment policy restricts holdings to cash & equivalents and highly-rated government and corporate bonds. This minimizes the impact of market fluctuations and the likelihood of losses of principal</p> <p>Quarterly report to Audit Committee; Monthly report to management</p> <p>Investment policy is reviewed annually by the Audit Committee</p>	Medium	Low

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4	Rising interest rates	Rising interest rates could increase the cost of PACICC debt obligations	Canada is faced with difficult financial conditions, causing the Bank of Canada to raise interest rates	Minimize the need to use debt Build an Operating Fund buffer (currently about \$1.7 million)	Medium	Low
8	Excessive property or liability loss	PACICC could incur a property or liability-related financial loss that exceeds its insurance policy coverage limits	Actions brought against PACICC's Directors & Officers for breach of duty Property-related loss	PACICC's By-laws provide that member funding can be called upon in the unlikely event that financial liability exceeded the Corporation's D&O insurance policy limit (Section XVII, paragraph 52. (2)) Periodic review of insurance policies and limits	Medium	Low
9	Financial requirements exceed budget	PACICC could face operating financial requirements in excess of its approved budget	An unanticipated large capital or operating expenditure, such as IT or premises costs	Operating Fund surplus (approx. \$1.7 million) can fund a short-term budget deficit without asking members to pay more (with Board approval)	Very Low	Low
28	Contested claim denial	PACICC could deny payment of a claim that is later contested in Court and reversed in favour of the policyholder. (Unlikely to arise without the concurrence of the Court-appointed Liquidator)	While PACICC makes decisions based on the best available information, this could later be proved factually incorrect or faulty. A dispute could arise between PACICC and one or more insurance supervisory authorities that could reflect poorly on the Corporation	PACICC receives advice from experienced professionals with a sound knowledge of the Corporation and its rules (for example, outside Counsel and Liquidators) PACICC's payments are voluntary in nature	Low	Very Low

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Operational Risks

11	PACICC's preparedness for the failure of a larger, or multiple smaller member companies may need to be strengthened	<p>PACICC needs to clarify its preparedness, operationally, to respond to the failure of a larger member company, or to multiple companies</p> <p>Part-time resources currently allocated to PACICC's claims management function would likely be insufficient to handle a large volume of claims settlement requests</p>	<p>PACICC may be unaware of the size of risk presented by some provincially-supervised member institutions - due to a lack of financial disclosure</p> <p>PACICC could face extraordinary demands on its human resources due to the failure of a larger member company, or to multiple company failures (for example, resulting in a high volume of requests from Liquidators for claims settlement authority)</p>	<p>Simulations of failure involving other parties</p> <p>Board-approved position on data availability</p> <p>Dialogue with regulators</p> <p>Monitoring activity</p> <p><i>Status: PACICC's analysis shows that a combination of "seconded" member company resources plus outsourcing can accommodate temporary increases in workload</i></p> <p><i>This has been addressed as a priority issue in the proposed 2009 to 2011 PACICC plan</i></p>	Medium	High
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6	Insolvency costs greater than anticipated or necessary	PACICC may fail to anticipate problems at specific member institutions, resulting in insolvency costs that are higher than necessary due to an absence of mitigation	<p>Failure of a member company for which PACICC has no or limited financial data and is ill-equipped to assess risk in advance</p> <p>Our research shows that deficient loss reserves and/or inadequate pricing are key causes of insurer failure (and deficient reserves are hard to detect in advance)</p>	<p>We advocate that insurance supervisors make insurance company financial data publicly available (consistent with PACICC position paper)</p> <p>We encourage provincial insurance supervisors to adopt the OSFI/IAIS standards of solvency supervision.</p> <p>Maintain dialogue with superintendents and member insurers to gain better understanding of marketplace (for example, anecdotal)</p>	Medium	High
12	Loss of key personnel	<p>PACICC could lose key personnel and be without adequate human resources for a period of time</p> <p>The adverse impact on PACICC would be greatest for three positions – President & CEO; VP, Operations; and Manager, Research</p>	<p>Senior staff could leave PACICC to accept other employment, for health reasons, etc.</p> <p>Lack of adequate succession planning by PACICC</p> <p>Losing depth is potentially a bigger exposure than losing a CEO</p>	<p>Staff could be borrowed from IBC, CDIC, and/or member companies</p> <p>Cross training</p> <p>Procedure manuals</p> <p>Succession plan for CEO <i>Status: Drafted – should be approved and in place in early 2009)</i></p>	Medium	Medium

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26	Failure of key supplier	The financial failure (or significant equipment/process failure) of an important supplier could result in disruption or non-delivery of key services to PACICC	<p>Unanticipated failure could impair PACICC operations in the short-term while alternate arrangements are made (new supplier contracted or new equipment sourced)</p> <p>Key service areas include: IT supplier, Financial accounting, Corporate secretary, Investment management, Banking and Legal</p>	<p>PACICC retains established, reputable suppliers with proven industry experience</p> <p>Service level agreements are in place (for example, IT)</p>	Low	Medium
14	Significant IT failure	PACICC could experience a significant IT failure that could impose significant costs on the Corporation	<p>Equipment failure</p> <p>Computer viruses</p> <p>Attack by computer hacker</p>	PACICC has changed IT suppliers and now uses an externally hosted, secure, internet-based server access that provides full back up and recovery for all of our corporate files and records. (And IT suppliers are insured against losses that could affect PACICC)	Medium	Low
13	Loss of accumulated liquidation expertise	PACICC could be adversely affected by the loss of key personnel and expertise among insurance company liquidation professionals, due most likely to retirements	<p>Ageing and pending retirement of the most experienced licensed trustees in bankruptcy who have served as liquidators of insolvent insurance companies</p> <p>A sustained period of good financial health in the P&C insurance industry, diminishing opportunities to train successors</p>		Low	Medium

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17	Major external event	PACICC's operations could be adversely affected by a major external event – that could make it impossible, difficult or risky for employees to travel to work at the PACICC office in Toronto and/or to communicate effectively	<p>Issues affecting the availability of staff will have an immediate/direct impact on PACICC service delivery to stakeholders (policyholders, members, supervisory authorities, media, etc.)</p> <p>Events include: Flu pandemic, Terrorist attack, Large-scale natural disaster, Power black-out, Fire and a Severe weather event</p>	<p>Human resources policies and procedures in place are efficient, fair and appropriate</p> <p>Flexible work arrangements from home are supported by online (Citrix) access to corporate files</p> <p>(Note: need to document disaster recovery plan)</p>	Very Low	Medium
15	Property loss	PACICC could experience a property loss – such as a fire or theft – that could cause significant damage to its physical work location and corporate records.	<p>Fire or explosion in our building/ work location</p> <p>Break-in involving theft or vandalism on premises</p> <p>Loss of laptops</p>	<p>Ability to work off-site has improved with new IT services arrangement</p> <p>Insurance would cover PACICC for most losses</p> <p>Fire-proof safe</p> <p>Citrix environment results in most data not being stored on laptops</p>	Low	Very Low

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Reputation Risks

19	Disclosure of confidential information	Current process to ensure that confidential information held by PACICC is not disclosed improperly may require strengthening	<p>Information could be leaked purposely</p> <p>Information could be obtained illegally from PACICC offices.</p> <p>Information could be lost in transit</p>	<p>PACICC relies on the building management for security measures pertaining to their office. PACICC should request regular incident reports (alarms, disturbances, break-ins, etc) for its building from the property manager</p> <p>Confidentiality and privacy policy</p> <p>Controls are in place regarding storage/use of confidential information. In-site computer group contract provides appropriate security measures for electronic data</p> <p><i>Status: Security review completed in cooperation with the landlord and building security personnel; additional steps are being taken to</i></p>	High	Low
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				<p><i>enhance office security</i></p> <p><i>We have attempted to learn from the practices of others in the industry, including IBC</i></p> <p><i>Goal is to complete mitigation work on this risk during 2009</i></p>		
18	Deficient Governance practice within PACICC	Governance practices become deficient	<p>Lack of time and will for Board to focus on governance</p> <p>Lack of expertise in implementing best practice governance</p> <p>Lack of ERM process</p>	<p>Governance and HR Committee is responsible for ensuring governance is effective</p> <p>ERM is being implemented within PACICC</p>	Medium	Low
20	Legal action	Legal action could be launched against PACICC (the Corporation could be sued)	Legal action against PACICC could be launched by: dissatisfied policyholders, disgruntled current/former staff or service providers contracted by PACICC	<p>Well-qualified external staff are retained to advise and assist PACICC</p> <p>Policyholder claims are processed in a fair and timely manner. Human resource policies and practices ensure fair and appropriate staff treatment</p>	Medium	Medium

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16	Inappropriate staff conduct	PACICC could be adversely affected by inappropriate conduct of a staff member (such as unethical or unprofessional behavior, an illegal act, unauthorized use or disclosure of information, sexual harrassment and so forth)	<p>Inappropriate conduct could be willful (for example, fraud, theft, use of confidential information)</p> <p>Inappropriate conduct could be accidental (for example, disclosure of information, perceived professionalism, etc.)</p>	<p>Human resources policies and procedures attract and motivate staff</p> <p>HR policies are fair and appropriate</p>	Medium	Low
21	Conflict of interest	A conflict of interest could arise at the Board level that proves difficult to resolve	<p>Disagreement between Board members could disrupt Board unity</p> <p>Board member(s) in conflict may not feel obligated to resolve the problem</p>	<p>Selection of Board members ensures workable group and effective oversight of PACICC operations – range of insight, expertise, experience, outlook, etc.</p> <p>Director duties specify a duty to disclose potential conflicts of interest</p> <p>Board training/education</p> <p>All PACICC Board members are appointed for a one-year term</p>	Medium	Low

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24	Jurisdiction withdraws from PACICC	A participating jurisdiction or jurisdictions could decide to withdraw from their agreement with PACICC and establish their own guarantee fund	<p>Participating jurisdiction may seek greater profile and more direct involvement in local consumer issues</p> <p>Participating jurisdiction may have issues with PACICC treatment of local consumers or express non-confidence in PACICC as the designated guarantee fund</p> <p>Participating jurisdiction may object to elements of PACICC's operations (for example, decision-making process, costs, customer service, financial preparedness)</p>	<p>Regular communication with provincial regulators to ensure that issues are identified/addressed</p> <p>PACICC works closely with Canadian Council of Insurance Regulators Standing Committee to identify and resolve issues</p> <p>Active monitoring of industry developments in all participating jurisdictions</p>	Medium	Low

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25	Errors or omissions affecting its internal accounting	PACICC could encounter problems if there are errors or omissions affecting its internal accounting	<p>PACICC's annual audit is qualified - there is some inherent risk that assumptions employed or information used by auditors may not be correct or complete</p> <p>The broad-ranging disclaimer accompanying PACICC's annual audit reports could expose the Corporation financially if the information supplied by internal accounting was incorrect or incomplete</p> <p>Failure to appropriately record or account for sizeable payments could result in revisions to financial statements</p>	<p>Appointment of PACICC auditor is reviewed annually by the Audit Committee and Board to ensure PACICC's business needs are being addressed</p> <p>Regular exchanges of information with Court-appointed liquidators reduces the likelihood of wrongly-estimated or unfunded claims liabilities</p> <p>Annual external financial audit (KPMG) provides additional assurance of detection and adherence to proper controls</p> <p>Audit Committee oversight</p> <p>For most insolvencies, a special liquidation advisory committee is established</p>	Medium	Low

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29	Negative media attention	PACICC could be the subject of negative media attention, whether founded or unfounded, that could damage the Company's reputation	<p>PACICC may be surprised by an event and react in a way that causes negative media attention</p> <p>PACICC may generate negative attention by its own actions</p> <p>Public statements could be made by a member of PACICC's Board or management that could reflect poorly on the organization or industry</p> <p>Focus is on the conduct of staff member, Board member, auditor, service provider, etc.</p> <p>Focus is on the role/merits/service of the organization</p>	<p>President/CEO is the principal spokesperson for PACICC</p> <p>Proactive government relations program</p> <p>Active monitoring of operating environment</p>	Medium	Low
22	Board contains CEO of insolvent member	The CEO of a member company that is ordered to be wound-up could also be a member of PACICC's Board of Directors	<p>Company's poor financial health threatens its future and consequently the PACICC Board tenure of that company's CEO</p> <p>Requirement for regional representation may result in candidates from financially-weaker member companies</p>	PACICC seeks to recruit Board members from established organizations exhibiting strong financial performance	Low	Low

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3	Fraud or misappropriation	Fraud or misappropriation of PACICC funds	<p>Theft or misuse of funds by an employee or manager/trustee of PACICC funds</p> <p>External fraud</p>	<p>Requirement for dual signatures (and Board member signatures) on all payments > \$100K</p> <p>Annual external audit</p> <p>Liquidators must seek Court approval for insolvency-related finances</p> <p>PACICC funds are managed by reputable financial institutions capable of reimbursing PACICC for loss created by the negligence or infidelity of any of its employees</p> <p>PACICC has insurance (3-D Bond) covering employee/director dishonesty</p> <p>Periodic claims audits are conducted by PACICC staff</p> <p>Liquidators must use Schedule 'A' chartered banks</p>	Low	Very Low

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31	Unfair or discriminatory practices	PACICC could be accused of engaging in unfair or discriminatory practices	<p>Member companies may argue that services are not delivered uniformly</p> <p>Current/former staff could raise issues regarding management, remuneration, etc.</p> <p>Suppliers could claim unfair trade practices by PACICC</p>	<p>Human resources policies and procedures in place are efficient, fair and appropriate</p> <p>Objective, uniform approach to member issues</p> <p>Seek to attract/maintain effective and motivated staff</p>	Medium	Very Low
27	Problems with contract commitments	PACICC could encounter problems with contract commitments (for example, if employees who lack authority entered into binding agreements)	<p>Lack of knowledge by people entering into contracts</p> <p>Disgruntled staff member could exercise unauthorized power</p>	Limits on signing authority ensure that significant financial commitments are made by only the most senior staff members	Very Low	Very Low