Principal Risks and Uncertainties

Type of Risk	Definition	Mitigation
CONDUCT RISK	The risk of poor outcomes for customers, by: • Offering inappropriate products. • Failing to assess affordability. • Failing to identify vulnerable customers. • Failing to show forbearance if customers struggle with their repayments.	Treating Customers Fairly is a fundamental part of the Company's culture. Comprehensive and verifiable training and oversight of agents and staff is undertaken. First and second-line quality assurance operates alongside an automated, mobile technology-based sales & collections process. The Group is developing processes to measure culture and ensure that behaviours are consistent with our values. The Group has successfully accommodated regulatory changes including those announced under the High Cost Credit review (CP18/43). The Group is due to implement enhanced affordability procedures incorporating additional external data by summer 2019.
REGULATORY RISK	The risk of legal or regulatory action resulting in fines, penalties, censure or other sanction or legal action arising from failure to identify or meet regulatory and legislative requirements. This also includes the risk that new regulation(s) or changes to the interpretation or implementation of existing regulation(s) may affect the Group's operations and cost base.	A gap analysis is undertaken when any rules or regulatory guidance changes. Governance, risk and compliance are independently and externally reviewed. We maintain continuous communication with key external stakeholders and professional contacts to keep our information updated.
CREDIT RISK	The risk of default on a debt may arise from a borrower failing to make the necessary payments. The primary risk lies with the lender and includes lost principal and interest, disruption to cash flow, and increased collection costs.	Group policy prescribes business oversight and control. Weekly management information allows the Group to monitor the effects of lending decisions. Regular reviews of policies and outcomes are undertaken by the Credit Risk Committee.
REPUTATIONAL RISK	The risk of loss due to damage to, or a decline in, the Group's reputation, for example through poor customer outcomes resulting in a high level of complaints.	Effective corporate governance provides business oversight and control. We undertake independent monitoring, for example market surveys and mystery shopping. In 2018, we initiated surveys of all types of customer, including those who benefited from our policy of forbearance. The number and nature of complaints are closely monitored.
STRATEGIC AND BUSINESS RISK	The risk arising from poor business decisions, substandard execution of decisions, inadequate resource allocation, and/or from failure to adapt sufficiently to changes in the business environment. Examples could include: • Acquisitions stretching resources beyond capability. • Failure to maintain the Company's competitiveness in its markets. • Inadequate corporate governance.	A full Committee-based corporate governance structure operates with Board oversight. The Board and Executive Team hold an annual two-day strategy planning meeting. Detailed strategic planning and oversight are implemented alongside horizon scanning. The recruitment application process for additional staff, prior to interview, is highly automated and efficient. We are involved in lobbying through our trade associations.

Type of Risk	Definition	Mitigation
OPERATIONAL RISK	The risk of loss arising from inadequate or failed procedures, systems or policies, employee errors, system failure, fraud, other criminal activity – indeed any event that disrupts business processes.	The Group has a comprehensive suite of policies and procedures covering its operational activities that is subject to regular review and revision. All agents and staff participate annually in a personal safety review and follow our home/remote working policy. The Group ensures that effective recruitment, retention and incentive programmes are in place.
LIQUIDITY RISK	The risk of the Company being unable to meet its current and future financial obligations on time.	The Group currently has a revolving debt facility of £50m, secured by a debenture on the assets of the business. The Group has also agreed a further mezzanine facility of £5m which can be increased to £15m with lender consent. The revolving credit facility expires in August 2020 and the mezzanine facility expires in February 2021. It is the Group's policy to renew its facilities well in advance of the dates of these facilities expiring. This is sufficient to fund planned business growth. The Group actively monitors its compliance with the covenants set out in the facilities, in order to avoid the debt being recalled.
IT RISK	The risk of business interruption from cyber crime or system failures. IT/Cyber risks include: • IT systems and networks can be damaged and/or information can be lost owing to third party actions. • Data protection/information security issues occur or there is a failure to meet the requirements of data protection regulation/legislation (e.g. GDPR). • Strategy and architecture risk arising from inadequate requirements gathering and business analysis. • Business continuity plan fails to maintain customer service. • Outsourced supplier risk arising from the use of external IT platforms. • Major change impacts on daily business and/or results in poor quality delivery.	The Group has an ongoing programme to conduct regular vulnerability assessments against our core infrastructure services. We have a dedicated information security resource and undertake penetration testing of our external and internal networks which helps to identify new or emerging security concerns. Failover tests of our IT facilities have also been carried out successfully. A comprehensive business continuity policy and procedure is in place. Disaster recovery tests are performed periodically on critical systems. The Group's cyber insurance cover has been increased in consultation with the Group's insurers. The business change team closely monitors demand and resource plans. There is robust due diligence and monitoring, with third party contracts based on externally provided contract templates.

Emerging risks

The Company uses Proactive Risk Management in order to view current and future events and predict where emerging risks might appear. This horizon scanning is fundamental to being able to predict business needs and potential issues and there are numerous techniques for this process.

Risk identification exercises are performed as part of general risk management practice within the Group.

Current events are highlighted and analysed, for example regulatory fines to other organisations. This is then reported on at executive level as a horizon scanning item for Risk Executive reports.

Other future business, economic, political, or newsworthy events are also highlighted and added to the horizon scanning process.

Risks identified using these processes are prioritised and managed following the Group's established risk processes.

An example of an emerging risk is the implementation of processes in readiness for the Senior Managers and Certification Regime to be implemented in December 2019. The Company has appointed a project team in order to ensure compliance prior to December.

This Strategic Report was approved by the Board on 2 May 2019 and signed on its behalf by:

Paul Smith
Chief Executive Officer
2 May 2019