

Risk & Compliance Committee Report



Dear Shareholder,

As Chair of the Risk & Compliance Committee, I am pleased to present my report which covers the year ended 26 February 2022.

The report provides insight into the composition of the Committee and the work that it undertakes to ensure that:

- the Group is compliant with the FCA's rules and regulations;
- the Group's risk management policies and procedures are kept continuously under review; and
- the Group's risk management framework is operating effectively.

COMMITTEE MEMBERS

Michael Yeates (member from 1 May 2021, and Chair upon approval from the FCA on 26 July 2021)

Joanne Lake (Interim Chair from 13 February 2021 to 25 July 2021). Left 31 March 2022.

Sir Nigel Knowles until he was appointed Board Chair on 1 March 2022

Sheryl Lawrence (from 1 May 2021)

WHAT DOES THE COMMITTEE DO?

The principal purpose of the Risk & Compliance Committee is to assist the Board in its oversight of risk and regulatory compliance within the Group with particular focus on the FCA's developing requirements, risk appetite, risk profile and the effectiveness of the Group's internal controls and risk management systems. Emerging risks are captured via the firm's horizon scanning approach, which is a combination of substantive review of the regulatory landscape and relationships with external stakeholders e.g., regulators, trade associations, legal partners etc. See also page 28. The Committee ensures that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group. Following the Committee's annual review, it is their opinion that the Risk Management Framework is fully fit for purpose.

The Board and its Committees discharge their duties in this area through:

- the review of financial performance including budgets, KPIs, forecasts and debt covenants on a regular basis;
- the receipt of reports which provide an assessment of key risks and controls and how effectively they are working, including a robust assessment of the Group's emerging and principal risks. Many risks have increased in weighting and we have material uncertainty over going concern;
- scheduling annual Board reviews of business strategy, including reviews of the material risks and uncertainties facing the business;
- the receipt of reports from senior management on the risk and control framework as well as culture within the Group; and
- the presence of a clear organisational structure with defined hierarchy and clear delegation of authority.

These arrangements are regularly reviewed by the Committee and have been in place for the year under review and up to the date of approval of the Annual Report and Accounts. Reports are also received from management in respect of key controls as set out in the Compliance Monitoring Plan and reviewed on a regular basis. The Committee closely monitors any areas where a requirement for improvement has been highlighted. These are addressed by an improvement to policies and procedures supported by the introduction of enhanced technology for the agents and operational management. The Committee's terms of reference are available on the Group's website.

Risk & Compliance Committee Report continued

Composition and governance

In addition to my role as Chair of the Risk & Compliance Committee, I am also a member of the Audit Committee. The Committee consists of all of the independent Non-Executive Directors.

The other Directors are also invited to attend meetings, together with appropriate members of the Executive team in order to ensure that all relevant information is available to the Committee.

How the Committee discharged its responsibilities

The Committee held four meetings during the year to 26 February 2022, with a further meeting held on 1 March 2022.

Both the Risk Executive Committee and the Credit Risk Committee of Morses Club have reported directly to this Risk & Compliance Committee and summaries of their minutes are sent to all members of this Committee. In addition, the Committee also receives reports and updates from the Shelby Finance Limited subsidiary.

A self-assessment internal review of the performance of the Committee concluded that it had discharged its responsibilities during the year. It also confirmed that it was satisfied with the effectiveness of the Group's risk management function. As the new Chair, I have ensured that the Committee concentrates even more on areas of potentially higher risk, but in general I am satisfied with the functioning of the Committee, and the information provided by management.

The Morses Club strapline is 'Putting You First'; customers are at the heart of the Group's culture, vision and values. In recent years, the level of public and regulatory scrutiny of the Group's marketplace has grown. The Board recognises the importance of risk and compliance to the business and the need to devote time and energy to these vital areas.

The Committee is responsible for reviewing and reporting to the Board on a number of topics, including:

- the Group's risk appetite (the extent and categories of risk regarded by the Board as acceptable for the Group to bear). The Committee has a low-risk appetite in all areas of the business except for credit risk, which is moderate due to the nature of the non-standard sector that the Group operates in. The Committee monitors adherence to risk appetite on a regular basis assisted by the Executive;
- the Group's risk management and internal controls framework (its principles, policies, methodologies, systems, processes, procedures and people);
- processes and procedures to ensure that the Group operates in compliance with external regulators, for example, the FCA and the ICO;
- the arrangement for the identification, assessment, monitoring, management and oversight of risk with regard to processes and procedures;
- the effectiveness of the Group's internal controls, compliance monitoring and risk management systems; and
- the Group's procedures for preventing and detecting money laundering and fraud.

The Committee has a formal schedule for matters to be discussed at the various meetings. These include a regular review of:

- the work done by the Executive Team's Risk Committee;
- the work done by the Executive Team's Credit Risk Committee;
- the Money Laundering Reporting Officer's (MLRO) Report;
- the Group's assessment and management of conduct risk;
- the Group's policies and practices for treating customers fairly and ensuring consistently good customer outcomes;
- the Group's compliance monitoring activities;
- information and cyber security, including adherence to GDPR;
- the business continuity and disaster recovery plan and testing thereof;
- the Group's overall levels and types of insurance;
- customer complaints;
- financial crime;
- whistle-blowing; and
- regulatory matters, including those relating to the FCA.

Activities during the year

During the year, some of the key topics addressed by the Committee included customer complaints, cyber security and data protection, Treating Customers Fairly, regulatory matters, whistle-blowing policy, and further enhancements to our system for checking each customer's affordability which includes an update to the minimum expenditure values to capture recent overall inflation and fuel/utility price increases.

Identifying risks

The Committee regularly reviews the procedures adopted by the Group to manage its risk. The Committee and the Board take a generally low-risk approach to risk. Risks with a relatively high likelihood and/or impact are kept under constant review.

The Committee carries out a robust assessment of the Group's emerging and principal risks as described on pages 24 to 29.

Defined risk analysis criteria enable the Internal Audit function to identify areas of focus on the Board Risk Register. In consultation with the Audit Committee, the risk analysis criteria have been set as the following:

- A significant variance between inherent and residual risk. A large variance indicates where the business is placing significant reliance on controls to be designed and operating effectively to bring the risk to an acceptable level.
- A high inherent rating. Within the business's risk registers, all risks with a high inherent rating have the possibility of causing significant harm to the business if mitigations are ineffective.

Using the above criteria, Internal Audit has been able to identify focus areas on the Board Risk Register.

Cyber security and data protection

Cyber security has been a major topic for the Committee. During the year, the Group continued to perform penetration testing using external specialists. Regular phishing exercises are conducted in order to maintain employee vigilance against genuine attacks. All data is now encrypted at rest.

Regulatory matters

The Committee has been actively involved in the Group's continuing constructive dialogue with the FCA, notably concerning complaints and a potential Scheme. The Group has also submitted data to the FCA regarding financial resilience and operational matters on a regular basis.

Treating Customers Fairly

At each meeting, the Committee reviews the Group's dashboard for Conduct Risk and Treating Customers Fairly.

During the year, the HCC division has implemented further enhanced affordability procedures. This, together with a new loan optimisation initiative, has enhanced our affordability process and the customer journey for agents and customers at the point of sale.

Whistle-blowing

During the year, the Committee reviewed the Group's whistle-blowing procedures. The subject has been included in two online training courses which are mandatory for staff to complete. They have also featured on the staff intranet. The Group has consistently highlighted to its staff the FCA's whistle-blowing hotline as well as providing both an internal contact telephone number and email address, together with the contact details of one of our Independent Non-Executive Directors. During the year, there have been no reportable breaches and no whistle-blowing instances.

Customer complaints

The Group generates excellent customer satisfaction rates (as shown on pages 14 and 15). During the last year, the Group extended its customer satisfaction surveys to its Digital operation for the first time, achieving a satisfaction rate of over 90%.

The Committee continues to play a part in ensuring that management maintains its clear focus on Treating Customers Fairly and good customer outcomes. The Committee always invites the Group's Customer Experience Director to its meetings.

The Committee noted the continued high standards maintained by the complaints handling team as demonstrated by its continued accreditation of ISO 10002:2018 for complaints handling. It was particularly pleasing to read comments supporting the business ethos of continual improvement, whilst satisfying stakeholder and customer needs. Management systems and processes were found to be effectively implemented in line with the spirit and requirements of this certification.

In February 2022, the Group announced that its profitability in FY22 would be impacted by the level of unaffordable lending claims received prior to the announcement. This followed

significant claims management company activity, from which a discernible trend has emerged on the cases being upheld by the Financial Ombudsman Service which could be applied retrospectively. The rise in complaints volumes prompted a review of the root cause of complaints received which led to a review of historic lending. See page 2 for further details.

In response to market developments, including the level of claims received, the Group has taken steps to develop its credit policies and product proposition in both divisions, tightening lending criteria and assessing the borrowing patterns of our customers.

Business continuity

The Committee was pleased to see that the Group has continued to operate successfully through a mixture of remote and face-to-face working, in accordance with government guidelines, since the start of the Covid-19 pandemic. Morses Club has continued to lend to new customers without interruption by Covid-19 since July 2020.

The future

A third-party audit of the Group's Risk & Compliance function is due to take place during the next 12 months. This will bring an outside perspective that can be valuable every few years. A section on the Group risks can be found on pages 24 to 29.

Covid-19

The Committee has been kept fully informed of the actions taken by the Group in response to the unprecedented effects of the Covid-19 virus. It reviewed these actions and was satisfied by the speed of response and the diligence of the Group and its employees to the challenges posed by this pandemic.

Covid-19 features strongly in the Group's risk register and the Committee will continue to monitor the wellbeing of the business, its customers, agents, staff and other stakeholders.

Climate change

Regarding climate change, the Group does not currently see this as a principal risk to the business. Nevertheless, during the last year we have:

- reduced the quantity of properties that we occupy;
- reduced our transport and fuel usage considerably;
- installed LED lighting, sensor lighting and thermostat heating at our support centre; and
- installed sensor lighting and blind fittings to the windows at our Leeds site.

The subject of climate change, and any potential threats to the business arising from this, will continue to be monitored closely.

Approval

On behalf of the Risk & Compliance Committee

Michael Yeates

Chair

25 August 2022