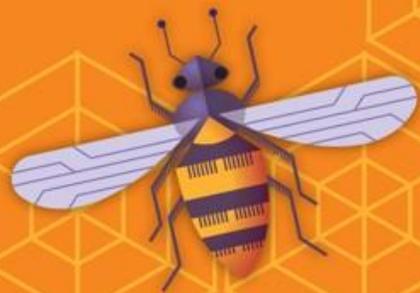




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WORKING TOGETHER

ALARM CONFERENCE 2019

#alarmrisk2019



Regulatory in depth assessments (IDAs), Risk and Stress Testing

What do you need to know?

ALARM Conference 2019: Working Together
25 June 2019

Working Together

ALARM
Conference
2019

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Regulatory In Depth Assessments

What is staying the same and what is changing?

Sector Risk Profile / Regulatory Top Priorities

Health and Safety risk, governance, board assurance

Questions on risk

Stress Testing

- Scenarios
- Mitigations / Recovery
- Triggers and Actions



Strategic direction

- Understanding the business and how it is changing

Structure

- Legal, finance and governance structures and risk flows

Risk Management

- Key risks, appetite / parameters, stress testing and mitigation

Governance

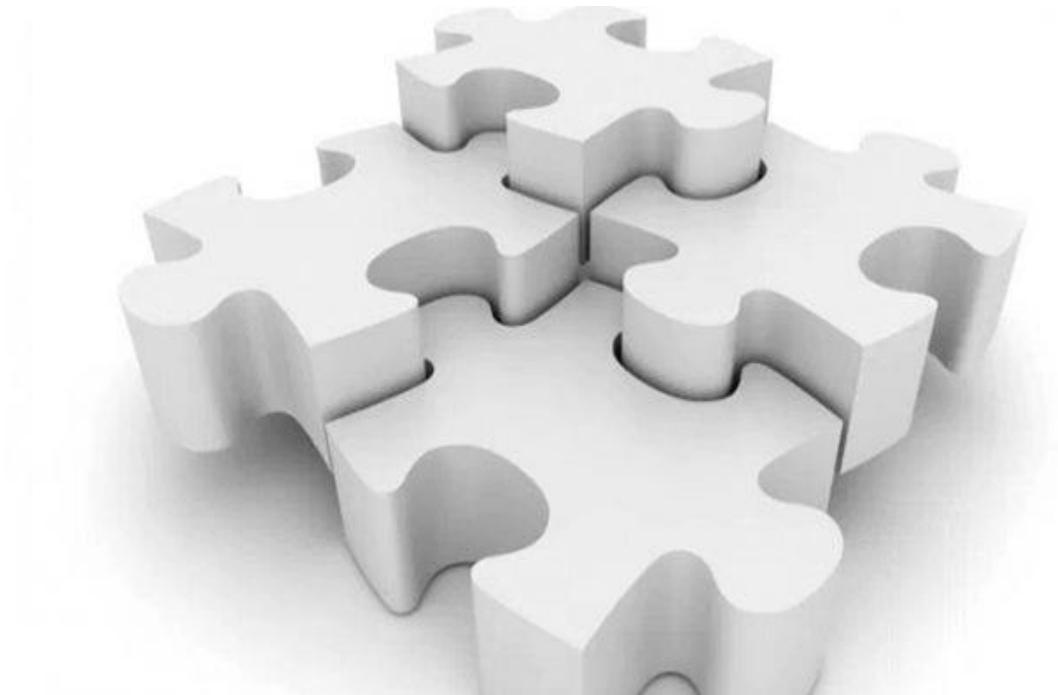
- Board skills, performance, internal control, oversight and leadership

Financial Resilience

- Financial performance, debt, liquidity and future funding, cost structure and efficiency

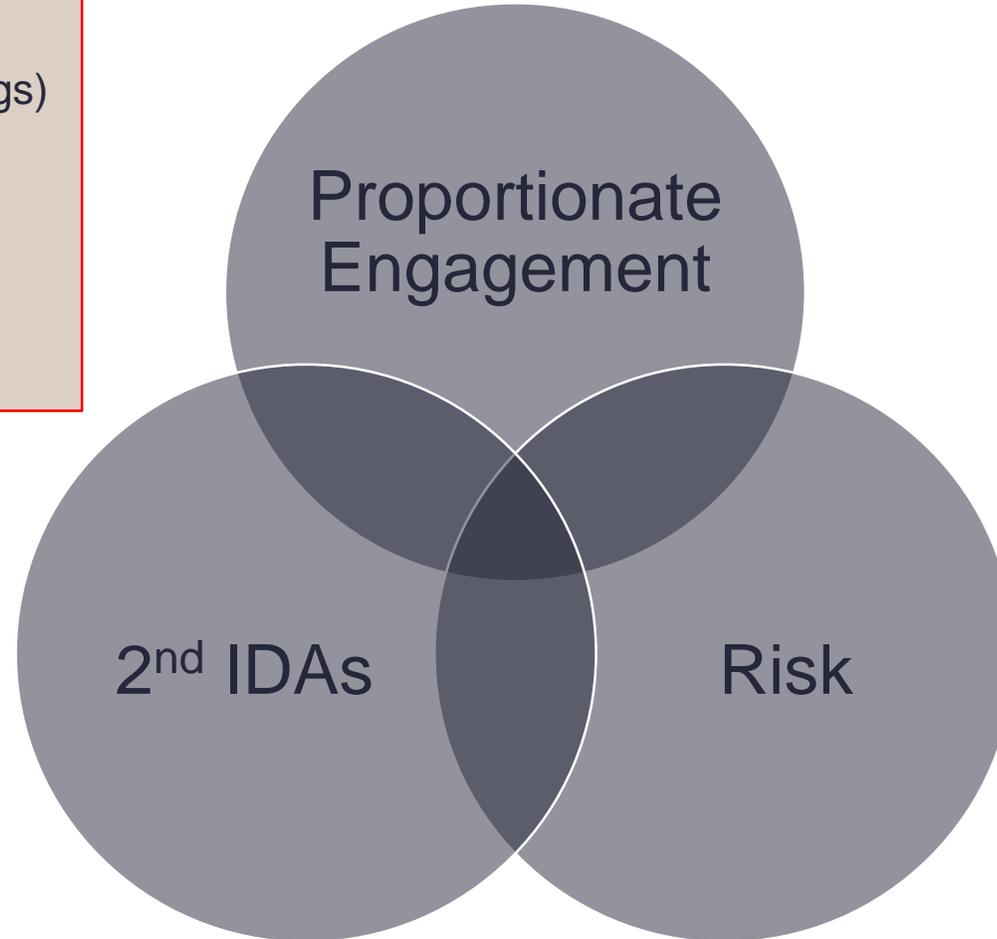
Value for Money

- Costs, benchmarks, understanding of assets, opportunity costs



Proportionate engagement:

- Large (Annual Engagement Meetings)
- Medium & diverse
- Medium & non-diverse
- Smaller & developing
- Smaller & less diverse



RSH Priorities:

- H&S / reputation
- Data and safety monitoring
- VFM
- Housing Market exposure
- Rents
- New Entrants / FPRPs

Sector Risk Profile 2018 – an Overview



Previously H&S has been identified as a key risk in an IDA when:

- It features as a strategic or increasing risk in the Sector Risk Profile
- It features as a high inherent or residual risk in the RP strategic risk assessment
- Any reported weaknesses have been identified through KPIs, internal audit or specialist review
- It doesn't feature on the strategic risk assessment

Remit ensures focus on H&S GOVERNANCE and increased risk makes it more likely to be proactively covered in an IDA

Referrals to RSH consumer regulation panel to assess if weaknesses breach consumer standards and have potential for serious detriment



Board Assurance on H&S

Does performance reporting to the board cover all areas of compliance in relation to servicing and certification?

Is compliance approached as a corporate function and not solely a property function?

Are actions clearly prioritised on a risk basis and who is making the decision on timescales being appropriate (staff or contractors)?

How are the skills and competencies of staff maintained and contractors verified?

Do you have confirmation on clarity of responsibility internally and across the supply chain?

Third-party assurance: how recent? Scope / depth / findings?

What assurance has been provided on data integrity, both on all stock and sub-sets of health and safety programmes?



1. How does the board know that the organisation is meeting health and safety expectations and keeping tenants safe? (H&S key risk, governance standard)
2. How does the board ensure it has the right development strategy, balancing the trade-offs between the need for new homes, maintaining financial viability, investment in current stock and community development? (Strategy, VFM standard)
3. How does the board understand the condition and investment needs of housing assets and make reliable assumptions on maintenance costs? (Viability standard)
4. What is the role of the audit committee in risk management?



Stress Testing



Stress Testing – What do the Regulatory Standards say?

- The regulator expects registered providers, **as part of their risk management approach**, to stress test their plans against different scenarios across the whole group.
- Registered providers should go beyond simple sensitivity testing and include multivariate analysis which tests against potential serious economic and business risks.
- Registered providers should explore those conditions which could lead to failure of the business, even if planned mitigations and controls are successfully implemented.
- Stress testing should employ plausible (and severe) scenarios that are designed to assess resilience.

Stress Testing – Sensitivities and Scenarios

- Not prescriptive – internally driven and designed to assess resilience
- ‘Multi-variant’ analysis is important – interrelated risks materialising together
- Test potential serious economic, sector & operational scenarios
- Tests should be ‘plausible and severe’



Stress Testing – Measuring Impact

Boards should consider impact on all financial points of failure, including:

- Core covenants – I&E and balance sheet
- Financial instruments
- Cash and availability of funding
- Impairment and asset/security cover

Impact reporting should be supplemented with high quality narrative to explain the numbers!



So what now?

- Mitigations must be relevant to the scenarios being tested e.g. the mitigation to sell properties may not be easily implemented in a property market crash
- Quantification is important. As are timescales for implementation and likelihood of achievement
- The impact of recovery options should be modelled to assess the extent to which they repair the plan
- A recovery plan should do all of the above, and consider impact on stakeholders. It should be a 'manual' in the event of a crisis and be regularly reviewed



Stress Testing – Reporting and triggers for action

How do you know when to act?

- KPIs or ‘Golden Rules’ that weave into the performance reporting framework
- Designed to trigger discussion/action at an early stage
- May be when an agreed limit has been breached (i.e. forecast interest cover is below the threshold at which board is comfortable)
- May be identification of an adverse trend materialising (i.e. sales values decreasing two quarters in succession)



Stress Testing – Recap

- A regulatory requirement
- Assists the board in challenging the business, identifying areas of vulnerability and better understanding its risk appetite
- Assist the executive with enhanced mitigation and recovery planning, and more sophisticated trigger reporting
- Improves the risk management framework of the organisation and reduces the risk of business failure



Any questions?

Thank You

Kelsey Walker and Aaron Keyte
