**Definition:-** The FCA considers risk to be the combination of impact (the potential harm that could be caused) and probability (the likelihood of the particular issue or event occurring)

The following document is designed to:

* identify the main risks to the firm;
* measure the importance of the risk;
* mitigate risks as appropriate and
* monitor the progress of the risk.

**How to measure Risk:** firms can measure risk by scoring the probability of the event occurring and scoring the impact should the event occur and multiplying the scores together.

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| **Scoring** | | |
|  |  |  |
| **Score** | **Impact** | **Probability** |
|  |  |  |
| **5** | Extreme | Certain to happen |
| **4** | Very High | Likely |
| **3** | Medium | Possible |
| **2** | Low | Unlikely |
| **1** | Negligible | Negligible |
| **0** | No Impact | Will not happen |

Once firms have the product of the scores (impact score X probability score) they can use this to decide on how much time and effort should be expended on mitigating the risk.

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| **Risk Rating** | | **Action Required.** |
| 0 | No Risk | No action required |
| 1-4 | Low Risk | Action only if inexpensive / realistic to implement |
| 5-8 | Moderate Risk | Action required if cost effective |
| 9-15 | Considerable Risk | Action required as a priority |
| 16-25 | High Risk | Immediate action required |

|  | **Risk** | **Impact** | **Probability** | **Total Score** | **Action Required/ Internal Controls/ Comments** | **Allocated to** | **Review Date** |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | 5 = Extreme  4 =  3 =  2 =  1= Negligible  0= No impact | 5 = Certain to happen  4 =  3 =  2 =  1 =  0 = Will not happen | Impact x Probability |  |  |  |
| **External Risks** | | | | | | | |
| 1 | **Economic Climate**  Consider the overall mood of the economy, the status of the stock market, the perception of the economy by consumers and the availability of jobs and credit.  Business decisions such as hiring, borrowing, lending, and investment in new initiatives are strongly influenced by the overall economic climate.  Can the firm survive an economic downturn? |  |  |  |  |  |  |
| 2 | **Actions of competitors**  List your main competitors, Obtain what information you can about your competitors look at:-   * Shareholder reports * Websites * Press releases * Hiring * Investments * Promotions * Mergers /acquisitions   Are there any niche areas of business? If so who are the competitors? |  |  |  |  |  |  |
| 3 | **Increasing Internet and telephone sales**  Consider whether these sales are reducing the role of the traditional broker or are you able to compete or use these methods. |  |  |  |  |  |  |
| 4 | **FCA Enforcement Action**  How is the firm able to keep up to date with FCA rules? What monitoring procedures are in place? |  |  |  |  |  |  |
| 5 | **Regulatory Change / Changes to the Rules and guidance.**  How does the firm keep up to date with FCA rules?  Does the firm meet the expectations of GDPR? |  |  |  |  |  |  |
| 6 | **Cyclical Nature of the industry** Consider the impact of a hard and soft market.  Does the firm have adequate assets to survive a downturn in business? |  |  |  |  |  |  |
| 7 | **Insurer Failure** Consider the size of accounts and any niche markets. How difficult would it be to replace an insurer or a scheme? Would there be reputational / financial loss. |  |  |  |  |  |  |
| 8 | **Insurer Withdrawal from certain lines of business** – Consider the likelihood of an insurer withdrawing and whether an alternative insurer would readily take on the business.  How dependent on this line of business is the firm / your clients.  Consider the size of accounts. |  |  |  |  |  |  |
| 9 | **Fraudulent activity**  Consider fraudulent activity on any of the firm’s accounts e.g. client money accounts or office account or any of the firm’s services such as claims or underwriting. |  |  |  |  |  |  |
| 10 | **Impact of a significant disaster**  Consider natural or manmade disasters.  Consider the likelihood of different disasters and their impact. |  |  |  |  |  |  |
| 11 | **Premises Destroyed**  Consider the likelihood of the different perils and the Maximum Probable Loss.  Is adequate insurance in place?  Is a business continuity plan in place? |  |  |  |  |  |  |
| 12 | **Access to premises denied.**  Consider how the business would trade if they could not get access to the premises and what activities would be affected.  Is a business continuity plan in place? |  |  |  |  |  |  |
| 13 | **Breach of Cyber Security.**  Consider how the business would trade if the system was hacked or a victim of cyber crime. What would the impact be on the customers, the firm’s reputation and the ability to meet regulatory requirements? |  |  |  |  |  |  |
| 14 | **Brexit**  What percentage of the firm’s revenue is generated from EEA clients?  Has the firm put in place procedures to continue dealing with clients in the EEA? |  |  |  |  |  |  |
| **Internal Risks** | | | | | | | |
|  | **One or more insurers terminate their TOBAs with the firm. –** Consider reputational and financial loss.  Consider the reasons for an insurer terminating a TOBA.  Are there any niche covers or insurers that would be difficult to replace.  Consider the size of accounts. |  |  |  |  |  |  |
|  | **Cash Flow** – Consider how the firm would deal with insufficient short-term liquidity to cover the liabilities as they fall due.  Examine the firm’s cash generation capabilities and retention needs;  Analyse the changes to the firm’s funding requirements that may be needed in order to manage liquidity; banking covenants; and liabilities to third parties;  Relying on an overdraft or loan facility to meet ongoing commitments is rarely sustainable;  robustness of forecasts |  |  |  |  |  |  |
|  | **Balance Sheet**  Consider the quality, quantity and availability of assets and working capital requirements. |  |  |  |  |  |  |
|  | **Management**  Consider the implications of the firm’s business model and operational structure.  Consider the knowledge and experience of the directors, managers, board?  Are fitness and propriety declarations signed annually? |  |  |  |  |  |  |
|  | **Capital Solvency**  How often does the firm review capital solvency and does the firm have adequate resources? Consider the firm’s actions if you are unable to maintain adequate capital resources. |  |  |  |  |  |  |
|  | **Death or incapacity of a director / senior member of staff**  How would the Loss of the decision makers who have the knowledge and business relationships affect the firm?  The larger the firm the less impact this should have.  If a sole trader has the firm considered a Locum Arrangement |  |  |  |  |  |  |
|  | **Resignation of a key member of staff**  Would a key member of staff take business with them?  Are there any exclusive clients?  Is the frim overly reliant on an individual member of staff? Can the member of staff be encouraged to stay loyal to the firm (tied in)? |  |  |  |  |  |  |
|  | **Regulatory Breach**  How does the firm keep up to date with FCA rules and what monitoring procedures are in place?  Is a breaches policy and log in place?  Could the firm meet any fine imposed?  Is the firm aware of other regulations such as The Data Protection Act 2018. |  |  |  |  |  |  |
|  | **Employee Fraud**  Does the firm have stringent recruitment procedures in place and are staff adequately monitored? Are client money calculations carried out frequently?  Are credit checks and DBS checks carried out as appropriate? |  |  |  |  |  |  |
|  | **Adequate controls over client money**  Consider conducting an internal client money health check annually.  Ensure that a client assets report is carried out annually if required.  Ensure a senior member of staff sign off the client money calculations? |  |  |  |  |  |  |
|  | **Health & Safety incident at work.**  Is the firm involved in any high-risk activities? What are the potential incidents that could occur? |  |  |  |  |  |  |
|  | **Employee or Director Negligence.**  How is competency maintained and verified? Is all work monitored / files audited?  Is PI Insurance in place?  Are those on the Certification Regime certified annually? |  |  |  |  |  |  |
|  | **Maintaining adequate PI Insurance**  Reviewed annually?  Consider the exposure from your largest client.  Has a Covid exclusion been applied and what are the implications? |  |  |  |  |  |  |
|  | **Adequate Insurance**  Does the firm have adequate insurance in place to cove the assets of the firm. |  |  |  |  |  |  |
|  | **Professional Indemnity (Claim) / Negligence**  Think of the impact that a claim could have on reputation, future cover and affordability? |  |  |  |  |  |  |
|  | **Negative Publicity**  Consider how negative publicity may arise, complaints incorrectly handled, claims not paid, lack of knowledge.  How would the firm deal with the possible loss of reputation? |  |  |  |  |  |  |
|  | **Too Niche**  Is the firm reliant on limited client sectors or limited insurers? |  |  |  |  |  |  |
|  | **Loss of largest client.**  What percentage of the firm’s income is accounted for by its largest client and how reliant is the firm on this income?  Is there a threat of customers transferring business elsewhere, being taken over by a larger company with their own insurance arrangements or going into liquidation / insolvency. |  |  |  |  |  |  |
|  | **Bad Debts**  How are bad debts arising?  Could credit control procedures be improved?  Are enough credit / affordability checks  Carried out |  |  |  |  |  |  |
|  | **Appointed Representative**  How are ARs monitored? Does the firm have adequate procedures in place to identify and manage the risks their ARs present to their business and their customers |  |  |  |  |  |  |
|  | **Cyber Crime / Hacking**  Does the firm have inhouse expertise rather than outsourcing IT. Have staff received training on Phishing? |  |  |  |  |  |  |
|  | **Technology Upgrades**  The firm has inhouse expertise?  The senior managers understand the threats?  Is there a reliance on Third parties? |  |  |  |  |  |  |