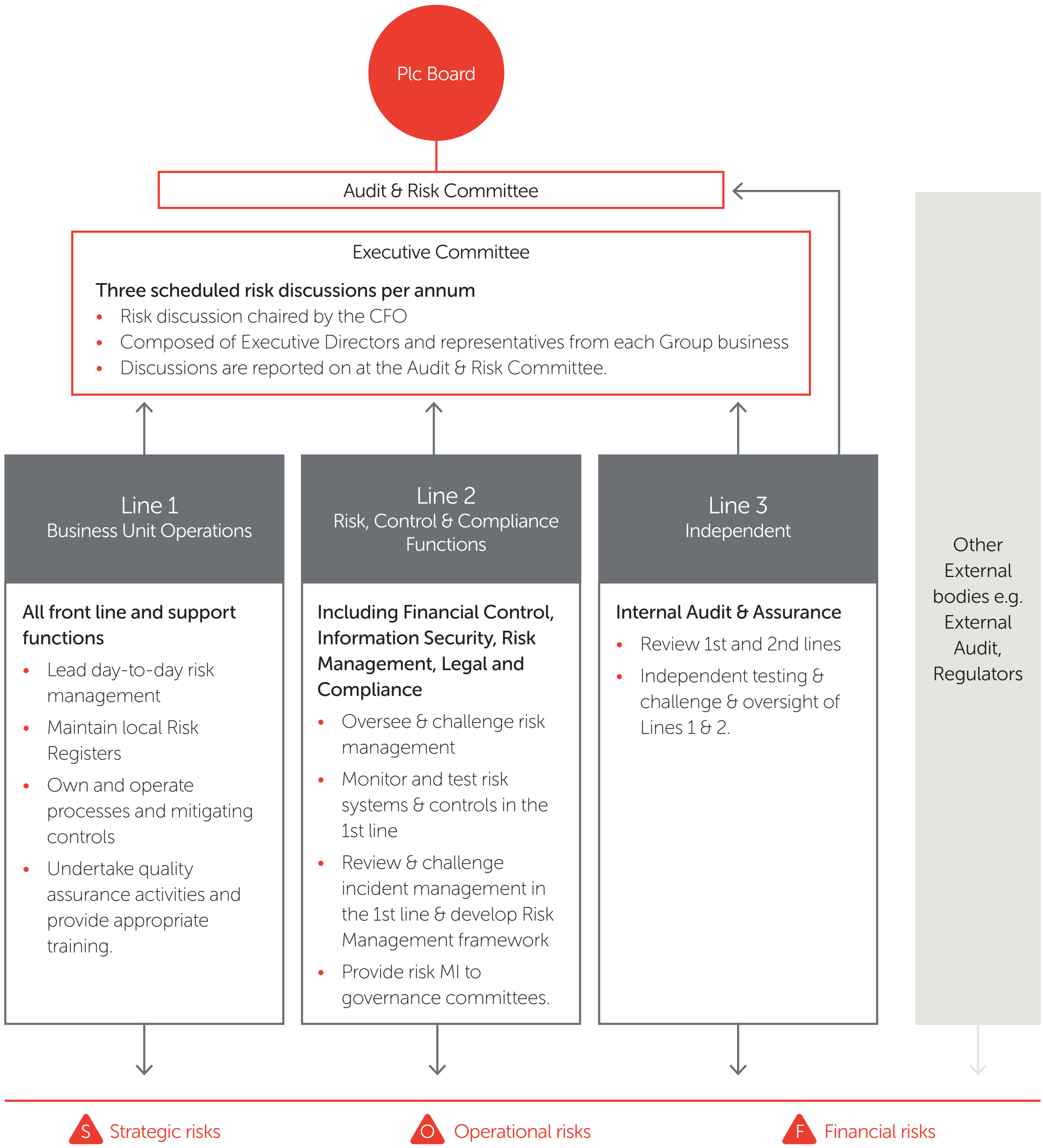
Principal risk and uncertainties

Risk framework

HomeServe has a robust risk management framework which encompasses the Group's Risk Policy and overall risk appetite. The framework utilises the three lines of defence model which is recognised as best practice across the industry. It provides a disciplined and consistent approach across all of HomeServe, ensuring a structured response at all levels throughout the Group and across all businesses and geographies.

This structured approach is aimed not only at monitoring and mitigating identified risks but also aims to capture and escalate emerging risks and opportunities. The effectiveness of this approach was demonstrated in HomeServe's response to the pandemic, with a rapid move to home working for all office based staff and initiatives in the field to ensure a safe continuity of service for HomeServe's customers.



Changes in FY21

Group Enterprise Risks ("GERs") are considered to represent the most significant threats to HomeServe's ongoing strategy and operations. Risk registers continue to be maintained at a local level in every business and are formally reviewed by the Audit & Risk Committee at each of its meetings together with GERs.

During the prior year, and for the first time, Sustainability was reported separately as a GER. This reflected the growing focus on the potential risks and opportunities of climate change and other environmental considerations on HomeServe's business model. In FY21, there has been further attention given to this issue, part of which is detailed on page 30 of the Responsible business section. Environmental considerations are integral to the risk frameworks managed by each of the Group's businesses, and the focus of the Board on these matters was formalised during the year in the adoption of a Group Environment Policy. The Group notes that the requirements of the Taskforce on Climate-related Financial Disclosures (TCFD) will apply from FY22 and intends to use its disclosures under this framework to report its progress. As such, Sustainability is no longer reported separately as a GER.

During FY21 a new GER was introduced regarding the potential to fail to deliver the desired level of strategic growth. This risk is being mitigated by proactive planning on which opportunities to target resources and attention, thereby ensuring focus and that individual businesses pursue avenues for growth consistent with the appetite of the Group.

During FY21 the risk management framework was enhanced further as the Group identified a number of risks whereby failures in any one of the business units would result in a change in the risk environment at a Group level. As such, these risks are deemed critical to the success of the Group. For these critical risks, compliance with a minimum control level set at the Group-wide level is deemed non-negotiable. The Group risk team operate an approach for these risks that encourages the sharing of best practice across the Group to strengthen the overall control framework. The critical risks identified are detailed below:

- Health & Safety
- Data Protection
- Information Security
- Customer Culture and Regulation
- Financial Misstatement
- Corporate Governance.

Risk Appetite

In accordance with the Group's Risk Management Policy, the Group's risk appetite is subject to an annual review of its definition, content and criteria for assessment scores.

The Board's assessment of risk appetite is guided by our vision to become the world's most trusted provider of home repairs and improvements and by our purpose to make home repairs and improvements easy. HomeServe's values reflect our commitment to our customers, our people, to innovation and integrity and being the best at what we do.

HomeServe's risk appetite is comparatively low, recognising firstly, our status as a plc which requires strong governance and reputation, together with delivering returns for our shareholders and, secondly, our regulated status which requires compliance with local laws, rules and guidance.

Risks are assessed at a local level on a gross basis using a matrix approach, to score likelihood and impact, and on a net basis after considering any mitigations which have been applied.

Brexit

Brexit has never featured as one of HomeServe's enterprise risks, but it continued to be monitored at a local and a Group level up until the end of the transition period on 31 December 2020. The Group notes the Trade and Cooperation Agreement reached between the UK and the EU at the end of 2020. Although the full range, scale and timing of outcomes of the UK leaving the EU continue to be somewhat uncertain, as expected, the impact on the underlying performance of the Group has, to date, been limited and is expected to remain so.

COVID pandemic

Through FY21, trading in the Group's Membership businesses remained very resilient against the backdrop of the COVID pandemic, with the Group retention rate increasing compared to FY20. The initial impact of stay-at-home restrictions on the Group's Home Experts businesses was more pronounced, with the core customer base – tradespeople providing largely non-emergency services – unable to access homes, and therefore work. However, whilst the Group's territories have subsequently seen further rolling stay-at-home restrictions since the initial lockdown measures of spring 2020, tradespeople have been able to access homes to perform non-emergency services. Coupled with this, consumer demand in the Group's Home Experts businesses returned very strongly through summer 2020 and onwards.

Nevertheless, uncertainty related to the future course of the pandemic, and indeed future public health crises, remains an area of focus. With respect to the current COVID pandemic, due to differences by country in impact and restrictions, the risk and response is being managed locally with consideration on the specific risk environment for each business. Any impact seen is then reported to both the Executive and Audit & Risk committees.

Group Enterprise Risks

The following table sets out what the Board believes to be the principal risks and uncertainties facing the Group, the mitigating actions for each and, where applicable, updates on any change in the profile of each risk during the past year. All risks carry equal importance and weighting for the Board, however additional focus and priority may be given to specific risks for a period of time in certain circumstances e.g. following a material acquisition or to implement plans to reduce any risk which exceeds the appetite threshold.

The principal risks and uncertainties should be read in conjunction with the Operating review and the Financial review. Additional risks and uncertainties of which HomeServe is not currently aware or are believed not to be significant may also adversely affect strategy, business performance or financial condition in the future.

Strategy

1 MEMBERSHIP & HVAC – NORTH AMERICA

2 MEMBERSHIP & HVAC – EMEA

3 HOME EXPERTS

Strategy elements

- The best products to match customer needs to trades
- Generate repeat and recurring revenues
- Invest in partnerships, marketing, technology and innovation
- Attract and retain more customers, trades and partners
- Develop the world's largest trades network

Risks

S Strategic risks
O Operational risks
F Financial risks

Movement

Increased risk
No change
Reduced risk

Overview	Mitigations	FY21 update	Movement

1 Competition S

Overview

In all of our business lines a successful new entrant or an existing competitor adapting more quickly to changing customer demands and needs could adversely impact our business and our financial results with lower customers, retention rates, revenue and profitability.

Competitors with active M&A programmes could also show interest in HomeServe's targets, leading to missed opportunities or over-paying.

Competitive threats today include, but are not limited to;

- Utilities running Membership programmes in-house
- Adjacent products e.g. Whole Home Warranty
- Existing competitors moving into other geographies
- New entrants e.g. Amazon or Google investing heavily to enter the home services space with new products or technologies
- Incumbent competitors to Home Experts in the UK e.g. Rated People, MyBuilder

Mitigations

We demonstrate to utilities that they can benefit more by partnering with HomeServe due to our long-term investment horizon.

Regular market reviews in each business identify new entrants and increases in competitor activity e.g. aggressive pricing initiatives.

Agile product development responds to changing consumer needs. Shared learning between our markets, analysing consumer trends and developing leading products and services.

We believe we have the winning Home Experts model in Directory Extra, which Habitissimo has recently followed Checkatrade in starting to implement. Continued learning and idea-sharing happens between our Home Experts businesses, which are liaising more frequently with our Membership businesses to develop the range of services that customers want and the best means of accessing them.

FY21 update

The Group observes increased activity by Google, mainly in North America, in the Home Experts space.

The impact of players like Google is already documented within the risk registers of our Home Experts businesses.

Movement: No change

1 2 3

2 Information security & cyber resilience S

Overview

In line with other businesses, HomeServe is subject to the increased prevalence and sophistication of cyber-attacks, which could result in unauthorised access to customer and other data or cause business disruption to services.

A successful cyber attack might have a significant impact on reputation, reducing the trust that customers place in HomeServe and could lead to legal liability, regulatory action and increased costs to rectify. A lapse in internal controls and a subsequent data breach or loss would have a similar impact. Total customer numbers and policy retention rates may reduce and partners may terminate affinity relationships if they perceive customer data to be at risk.

Mitigations

HomeServe has a number of defensive and proactive practices across the Group to mitigate this risk. There is a detailed Information Security Policy, which is communicated across the Group and training is provided as required. Regular penetration testing is in place to assess defences and HomeServe continues to invest in IT security, ensuring a secure configuration, access controls, data centre security and effective communication of policies and procedures to all employees.

FY21 update

Cyber continues to be a key area of focus for the Group with emphasis on both maintaining and increasing the maturity and capabilities of our controls and countermeasures. A single team was created during FY20 to bring together those people with a primary cyber security responsibility, who had previously operated with a degree of independence within individual Group businesses.

The continued arrangements at the time of writing whereby a substantial number of the Group's employees are working from home, and the likely permanence with which "hybrid" working arrangements are adopted in future has seen a number of the Group's businesses increase their scoring of this risk.

Movement: Increased risk

1 2 3

3 M&A strategy S

Overview

HomeServe has an active M&A strategy focused on two primary areas; Membership policy books and a buy-and-build strategy to grow the HVAC business line.

There is a risk HomeServe could overpay for transactions or underestimate the time and resource required to integrate new businesses, potentially leading to lower than anticipated cash inflows and revenue, increased costs, reduced profitability and an increased likelihood of impairment.

By contrast, a successful M&A strategy should diversify risk by, for example, introducing new partners and channels, increasing profitability and should lead to increases in KPIs such as customers and policies.

Mitigations

Strict criteria when building a prospects pipeline.

Independent advisers engaged in due diligence processes.

Strong track record and experience of acquiring and growing policy books.

Local management expertise with oversight from central plc function.

Clear investment hurdles and completion of post-investment reviews.

All investments require local and, where applicable, plc Board approval.

FY21 update

There has been increased HVAC M&A expenditure this year (see note 16) but no change to the underlying risk. All acquisitions continue to be appraised by dedicated M&A teams, and transactions approved by local and/or Group Board.

After pausing at the initial onset of the pandemic in spring 2020, the Group's HVAC buy-and-build strategy recommenced during the summer of 2020. We note some increased competitive activity in this space, particularly from private equity purchasers, and retain an even keener focus on valuation multiples.

Movement: No change

1 2

Overview	Mitigations	FY21 update	Movement
4 Underwriting capacity & concentration			
The Membership business line markets and administers policies that are underwritten by independent third-party underwriters. HomeServe acts as an insurance intermediary and does not take on any material insurance risk. These arrangements are a core part of the Membership model and help protect HomeServe from short term risk e.g. of rising claims costs or frequencies. Seeking new underwriters and obtaining relevant regulatory approvals may take time, leading to business disruption. Lack of suitable underwriters could force HomeServe to underwrite policies in-house, exposing it to material insurance risk. A material change in the operating model would also drive a change in accounting policy that could affect short term profitability. Customer numbers and retention rates may fall if customers experience reduced service levels or are not covered throughout any period of disruption.	With the exception of the UK, at least two underwriters share the policy books in each country. In the UK, HomeServe maintains relationships with a number of other underwriters who are willing and able to underwrite the business. Regular (at least 6 months) reviews with all underwriters to ensure that current product performance and trends are understood.	**All our underwriting relationships remain strong, with regular engagement during FY21.** **The two largest underwriters across the Group (Aviva and Amtrust) are in a strong financial position, and, as expected, all our underwriting relationships have remained strong during the pandemic.** **With the increased amount of time spent in homes across our Membership territories due to measures to control the pandemic, we continue to monitor the impact this is having on customer behaviour.**	1 2
5 Regulation			
HomeServe is subject to regulatory requirements relating to e.g. product design, marketing materials, sales processes and data protection. HomeServe believes that regulation has a positive impact and encourages a culture that promotes customers' interests and will improve HomeServe's prospects over both the short and long-term. Like many companies HomeServe is also subject to wider regulation concerning e.g. anti-corruption, anti-fraud and bribery, modern slavery etc. Specific policies can be found at **www.homeserveplc.com/who-we-are/governance/policies** Failure to comply with regulatory requirements in any of its countries could result in the suspension, either temporarily or permanently, of certain activities. Much regulation is intended to protect customers and failure to adhere to the high expectations customers have for HomeServe could lead to reduced retention and higher customer losses. In addition, legislative changes relating to partners may change their obligations with regard to the infrastructure they currently manage and hence the products and services HomeServe can offer to customers. It is possible such legislative changes could reduce, or even remove, the need for some of HomeServe's products and services.	Compliance with local regulation as a minimum to ensure products are designed, marketed and sold in accordance with all relevant legal and regulatory requirements and that the terms and conditions are appropriate and meet the needs of customers. Best practice shared across the Group. Regulatory specialists, compliance teams and Non-Executive Directors in each business. HomeServe maintains regular dialogue with the FCA in the UK. In North America, there is regular contact with the Attorneys General.	**In the UK, the FCA published its final report analysing pricing practices across the general insurance industry. HomeServe is out of scope of the main remedy requiring pricing parity between returning and brand new customers.** **The FCA continues to be active in seeking optimal outcomes in the interests of consumers, and HomeServe maintains regular dialogue with the FCA to support these aims. One example was an exercise undertaken during the year to re-contact customers regarding disclosure of prior year prices on written communications, to ensure these were sufficiently prominent.** **There has been no material change in the regulatory environments in which our other businesses operate.**	1 2
6 Digital transformation			
As distinct from technology investment (below) digital transformation relates principally to interactions with customers (be they homeowners or trades), ensuring we offer a multi-channel, multi-media approach to interact with them and that we do so in an efficient and cost-effective manner. If HomeServe is not flexible enough to respond to changing needs, customers may explore competitor products and choose not to renew. There is also a reputational risk as complaints logged via social media can quickly escalate if not dealt with in an appropriate and timely manner.	HomeServe continues to review and respond to customer comments and needs and customers are offered a number of channels through which they can engage with HomeServe: telephone, website, digital live chat, paper, email and social media.	**In Home Experts, a chief technology officer has been recruited to develop requisite system enhancements across the Home Experts businesses.**	1 2 3

Overview	Mitigations	FY21 update	Movement
7 Technology Investment			
As distinct from digital transformation (above), this risk principally relates to investment in the key systems the Group relies on to manage its daily operations. Appropriate and timely maintenance and investment is required to ensure systems continue to meet the changing needs of the business and its customers. Home Experts, particularly Checkatrade, is well progressed with a programme of transformation to ready the business for its ambitious growth plans. Failure in back office systems may lead to business interruption and lack of investment to provide timely and appropriate data could jeopardise the ability to analyse performance indicators and react to any trends. Over-investment in any new initiatives could see investment outweigh future benefits and lead to impairment.	All decisions are subject to the Group's strict investment criteria and hurdles. Major IT programmes are allocated specific governance structures and oversight with members of senior management sitting on the Programme Board. HomeServe engages a number of external advisers on large software projects to provide appropriate breadth and depth of experience and expertise to ensure there is no over-reliance on any one supplier and to support management in project delivery.	In the UK, the eServe CRM system was fully impaired, incurring an exceptional charge of £84.8m. eServe was highly configured and became costly and inflexible to implement, with further configuration issues emerging as implementation progressed. As a result of this customisation, the system exhibited high operating costs and a high cost of change. During the second half of FY21 additional capability issues came to light as more policies were introduced onto the system, meaning that the duration of the parallel run period alongside the legacy system would need to be extended. Following an extensive review of system capability and robustness and the ongoing operational needs of the business, the difficult decision was taken to revert the minority of customers on this platform back to the existing Ensura CRM system, which is the proven system of record in North America. Following a period of decommissioning, eServe will be replaced by a flexible, cloud-based solution. Current planning suggests this will be a Salesforce solution, similar to those implemented successfully in France and which is planned for implementation in North America. In France, a Salesforce CRM system was implemented successfully, which included the migration of the entire 1m+ customer base in August 2020. At Checkatrade, new system enhancements to both trades vetting and billing went live during the year. The benefit of technology investments made in the recent past continue to be seen in enabling effective remote working practices for c.6,400 employees.	↑ 1 2 3
8 HVAC Integration			
The higher volume of HVAC acquisitions requires disciplined and often standardised processes to ensure successful integration into HomeServe, creating strong links to the Membership business and achieving synergies with e.g. the engineer network. Failure to integrate acquisitions quickly and effectively could result in failure to deliver synergies, and increase costs, resulting in failure to achieve predicted revenues and potentially lead to impairment.	Integration plans form part of all business case approvals. Post-investment reviews provide learning for future acquisitions. Dedicated teams and resources and retention of key management personnel in the acquired businesses. HVAC managed locally but with a central global team to coordinate and ensure consistent application of best practice.	A total of 24 HVAC acquisitions were made in FY21 across the US, France, Spain and the UK.	↔ 1 2
9 Partner loss			
Underpinning HomeServe's success in its chosen markets are close commercial relationships (affinity partner relationships) principally with utility companies, and municipal utility providers. The loss of multiple relationships could impact HomeServe's future customer and policy growth plans and retention rates. Growth plans, particularly in North America, focus on signing new partners to extend reach and provide new marketing opportunities to grow the business. HomeServe has benefitted from government policy changes in certain regions to form new partnerships e.g. liberalisation of energy markets in Spain. Any reversal e.g. to re-nationalise utilities could have an adverse impact albeit HomeServe does have strong experience working with public sector municipals in North America. With over 1,000 partners across the Group it is inevitable that a few partners each year may choose not to renew a contract as priorities or commercial pressures change. In the UK and North America where partner bases are more diversified the impact is considered small. In France the loss of e.g. Veolia would have a bigger impact similar to that of Endesa in Spain where the back book is now in run-off. Any partner loss or failure to sign new partners could impact households, customers and also retention rates.	A portfolio of partners in each business diversifies risk. Partners signed on long-term contracts with beneficial financial terms for each party. HomeServe seeks to renew contracts early, ahead of any expiration date. Regular dialogue with all partners, particularly in markets with more concentrated partner relationships e.g. France.	In North America we continued to sign new partners at the rate of 2-3 per week. During the year we exited relationships with some legacy partners to drive higher returns elsewhere from the marketing expenditure. In the UK, the relationship with Thames Water came to an end at the close of the year, however this relationship represented a modest proportion (<5%) of yearly new customer adds. Meanwhile, long term renewal agreements were signed with four existing partners. In Japan, a second partner relationship was signed with Tohoku Electric, meaning HomeServe now has access to around 7m households in that territory.	↔ 1 2

Overview	Mitigations	FY21 update	Movement
(10) People			
HomeServe's ability to meet growth expectations and compete effectively is, in part, dependent on the skills, experience and performance of its personnel. Retention of people in established businesses is key as is recruitment of talented people in growth businesses e.g. Home Experts. The inability to attract, motivate or retain key talent could impact overall business performance. HomeServe has a lot of growth opportunities and ensuring appropriate bandwidth at the top of the organisation is key to maintaining effective control and oversight. Gender Pay disclosures in the UK and reviews such as Hampton Alexander also play an increasing role in informing HomeServe's People agenda and ensuring we have the appropriate diversity of people, experience and ideas to move the business forward.	Employment policies, remuneration and benefits packages and long-term incentives are regularly reviewed and designed to be competitive with other companies. Employee surveys, performance reviews and regular communication of business activities are used to understand and respond to employee views and needs. Processes exist to identify high performing individuals and ensure that they have fulfilling careers, and HomeServe is managing succession planning effectively.	HomeServe employs c.7,400 people globally. 88% of those people completed our Global People Survey, returning an engagement score of 78%, up 7 percentage points on pre-pandemic levels. Furthermore, FY21 saw all the Group's businesses attain 'Great Place to Work' accreditation. Tom Rusin, previously Global Membership CEO, is now focussing full-time on realising the substantial growth opportunities still ahead in North American Membership & HVAC, whilst a CEO EMEA, Ross Clemmow, has joined to lead the Membership & HVAC businesses outside of North America. There has been an increased focus across the Group to ensure the best people are in the right roles to deliver current and future growth plans. Annual and long-term performance plans have been reviewed and changes are being implemented to achieve clearer alignment between our KPIs and our reward strategy.	⟷ 1 2 3
(11) International			
HomeServe has enjoyed success with its Membership model in markets outside of the UK and intends to expand to other regions, with a renewed focus on those adjacent to our existing territories. HomeServe has enjoyed success in France, Spain and North America but has been unsuccessful in past attempts to enter Australia, Belgium and Germany. Failure to succeed could divert investment and management time incurring not only losses in the new country but also reduced performance (including, for example, loss of customers, lower profitability) in the core markets.	Strict criteria to identify attractive markets. Joint venture structure, such as that employed to enter Japan, diversifies risk and minimises investment. JV partner brings local market knowledge and contacts. HomeServe brings Membership model systems and process expertise.	Signed second utility partnership in Japan, with products seeing a good reception. During the year HomeServe narrowed focus for international development to "near neighbours". A partnership was signed with Eneco in Belgium, supported by the French business, and the acquisition of a claims handling business with operations in Portugal gives exposure to that market. Additionally, the Group decided not to proceed with entering other markets further afield.	⟷ 2
(12) Failure to deliver strategic growth			
HomeServe continues to have a number of opportunities to develop its businesses. There is a risk that it fails to determine where to focus energy, time and resources and, as a result, misses opportunities or does not deliver strategic growth targets or achieve the expected or desired outcomes.	Potential strategic ventures are all considered at a newly formed cross-functional committee, chaired by a senior executive and with relevant subject matter experts, to ensure they align with the Group's core competencies and value drivers. HomeServe seeks to drive the sharing of best practice across the Group and adopts a test and learn approach to new initiatives.	As a newly documented risk the individual businesses have considered their own level of risk. This is considered to be a greater risk in the Home Experts businesses which are by nature less mature in their role within the Group.	New this year 3
(13) Financial			
Key financial risks include the availability of short-term and long-term funding to meet business needs and take advantage of strategic priorities such as M&A opportunities, the risk of policyholders not paying monies owed, and fluctuations in interest rates and exchange rates. **Interest rate risk** HomeServe's policy is to manage interest cost using a mix of fixed and variable rate borrowings. Where necessary, this is achieved by entering into interest rate swaps for certain periods, in which HomeServe agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed notional principal amount. These swaps are designated to economically hedge underlying debt obligations. **Credit risk** The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions. The risk of a policyholder defaulting is mitigated as any policy cover will cease as and when any premium fails to be paid. **Liquidity risk** HomeServe manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. **Foreign exchange risk** Short-term foreign exchange risk is mitigated with the natural hedging provided by the geographical spread of the businesses. While this will protect against some of the transaction exposure, HomeServe's reported results would still be impacted by the translation of non-UK operations.		In July 2020, HomeServe successfully raised an additional \$250m and £54m via the US private placement market. The proceeds were used to clear headroom on the RCF. As at year end HomeServe had gross debt of £634m against its gross debt facilities of £1,036m, which combined with a cash balance of £171m gives a total headroom of £573m. Of the total debt facilities of £1,036m, only £26m is due within the next 12 months.	⟷ 1 2 3