

# Solvency II Survey Findings

Risk Appetite consultation process

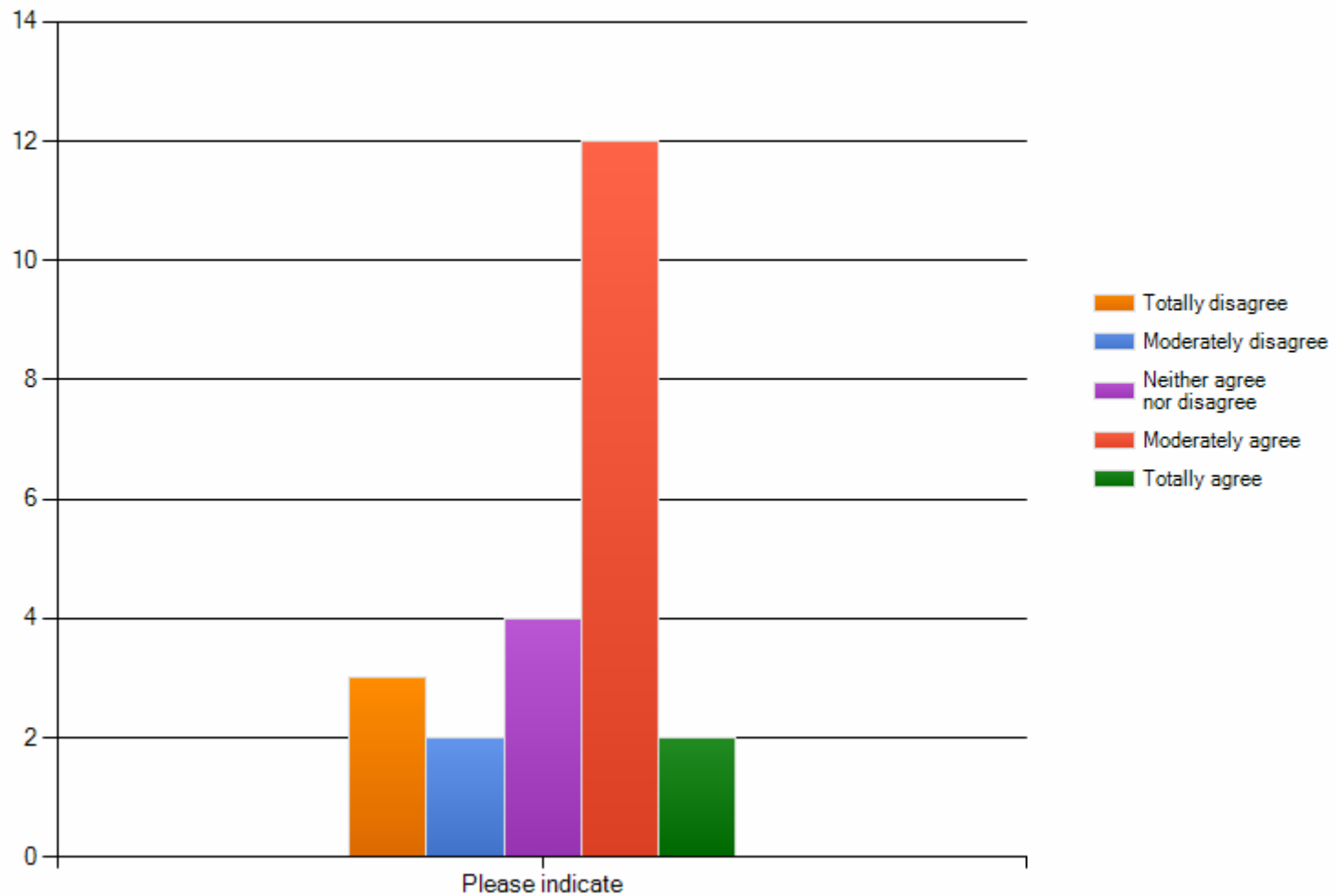
July 2011 SIG

(23 Participants)

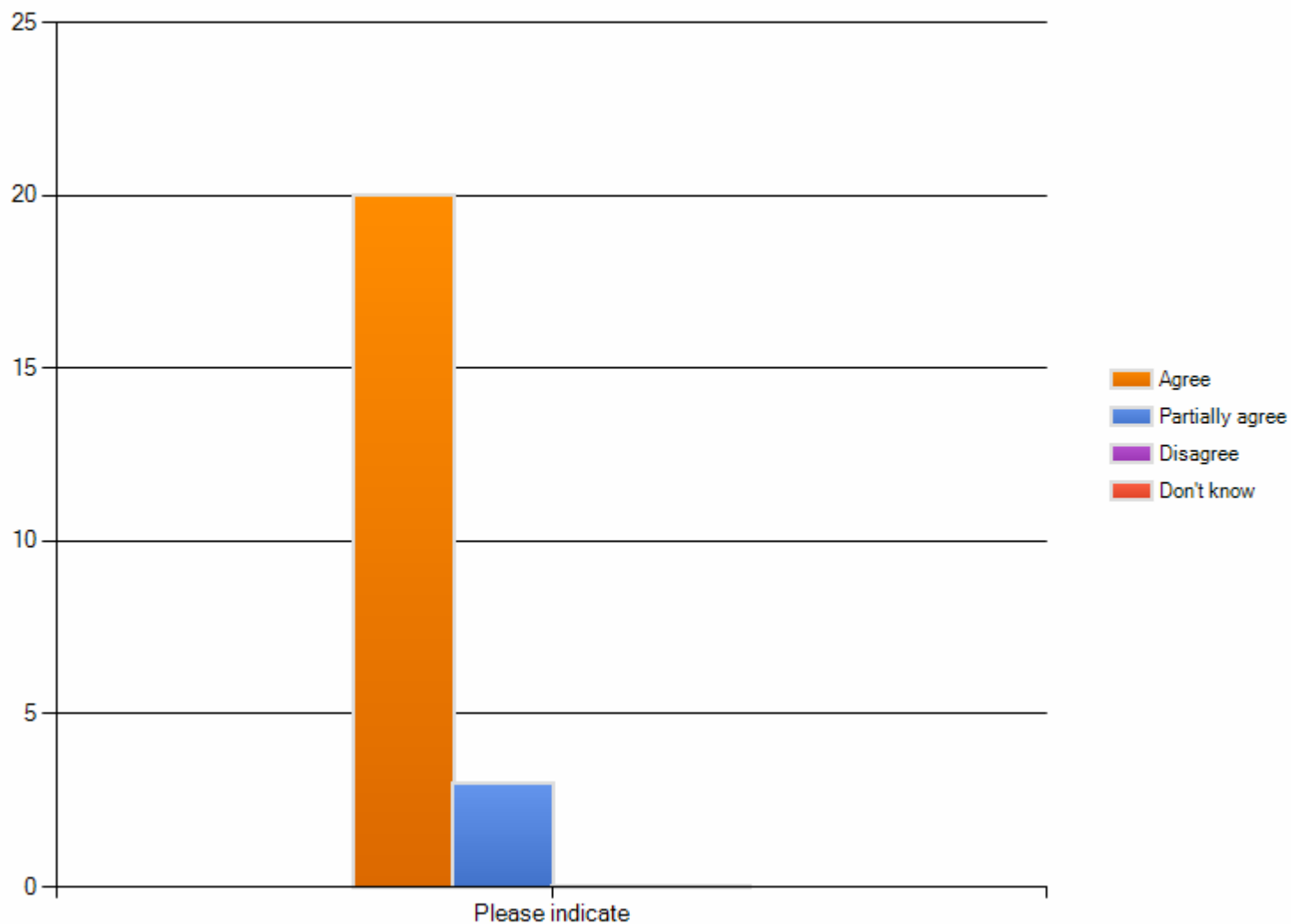
# Summary

- IRM Solvency II SIG completed an online survey on approaches to Risk Appetite in the context of the consultation on the IRM's white paper on the subject due to be published shortly
- Key aspects considered included
  - Responses to the white paper
  - Level of detail provided
  - Consideration of multiple appetite statements
  - Link to evaluation of risk maturity
  - Quantity of risk appetite
  - Considering propensity to take risk and exert control
  - Use of shareholder value as a measure
  - Implementation guidance

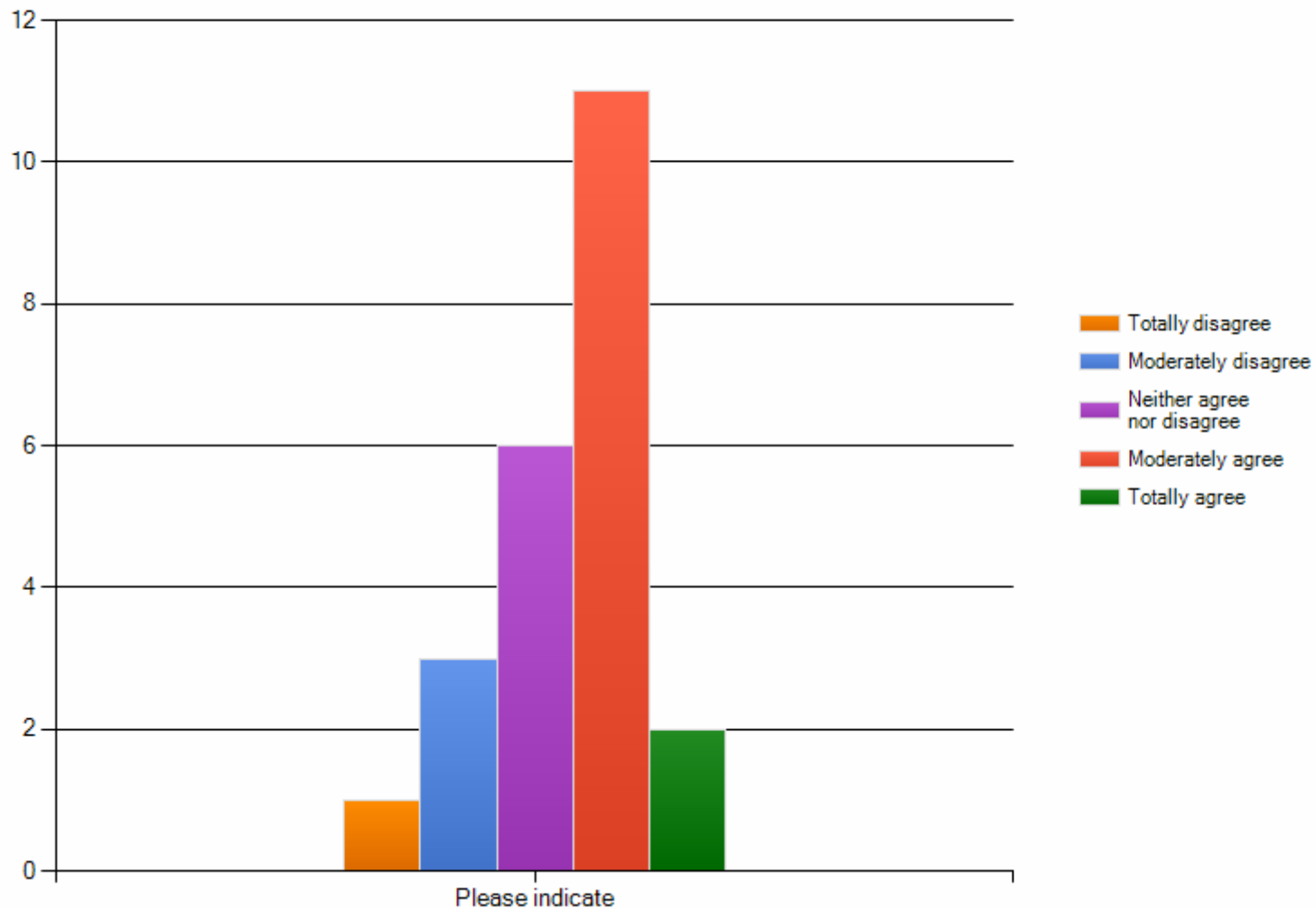
**Do you agree that the approach set out in the IRM Risk Appetite consultation paper provides a workable basis for developing an organisation's approach to risk appetite and risk tolerance?**



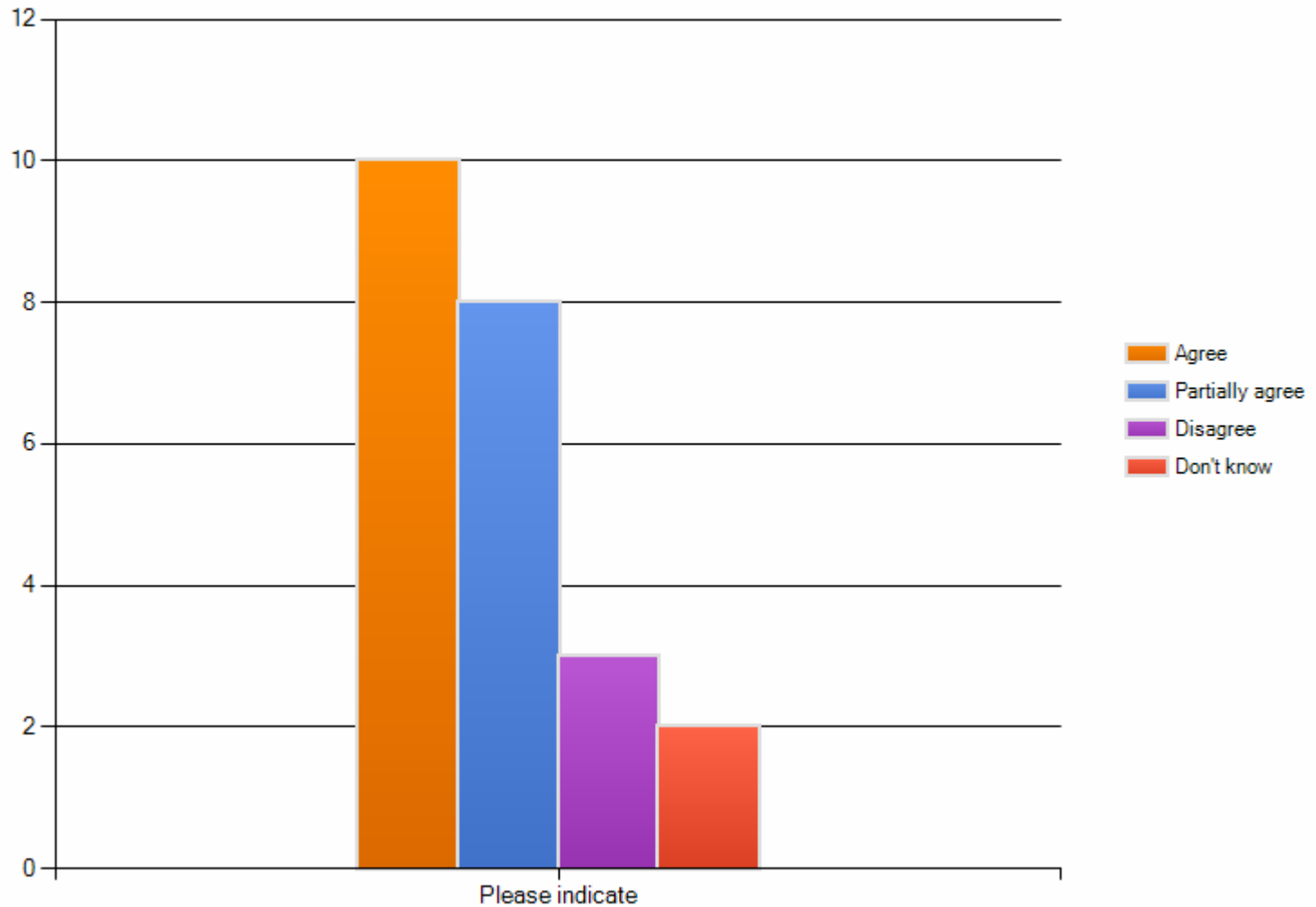
### Do you agree that an organisation has multiple risk appetites?



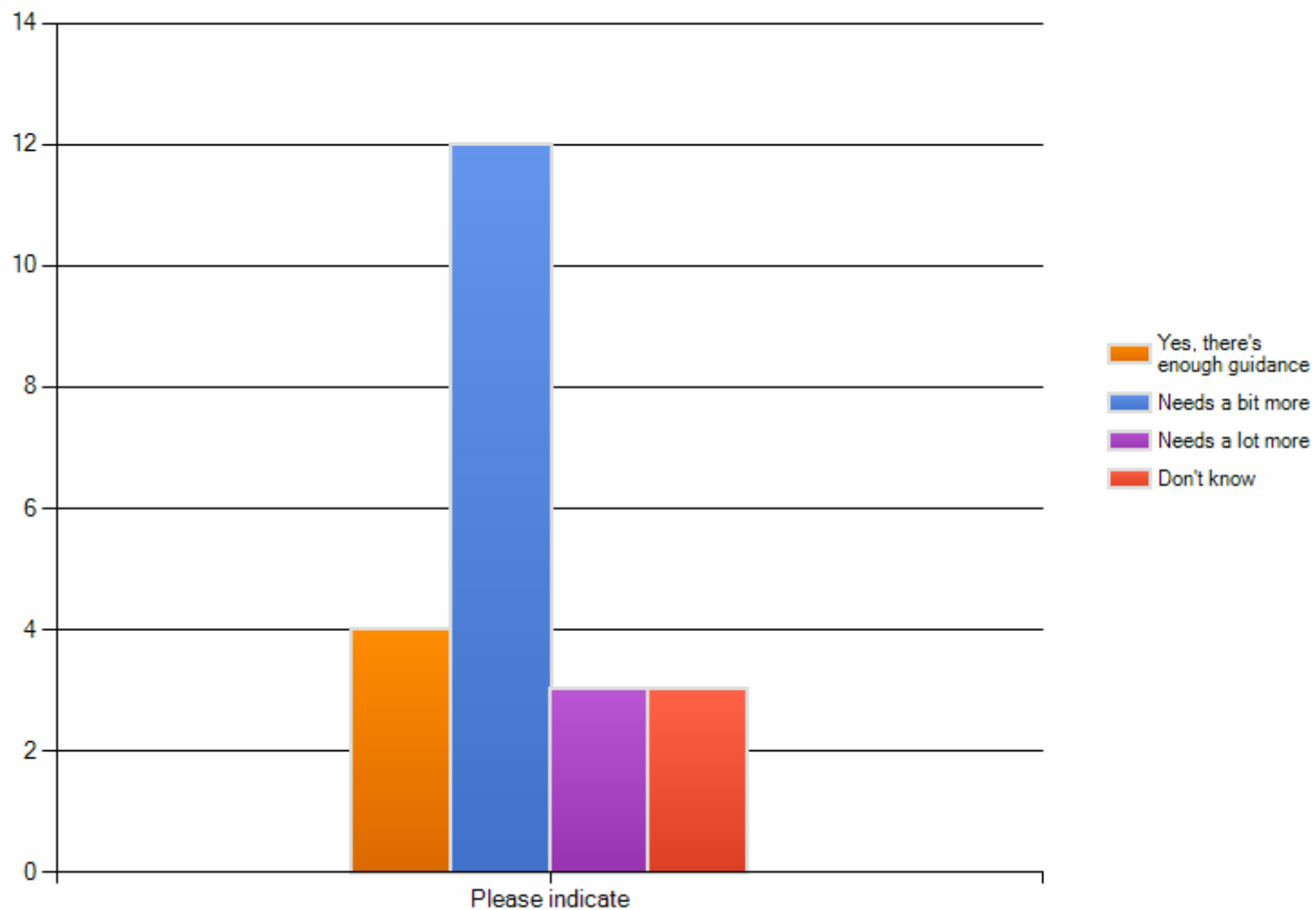
### Is the concept of multiple risk appetites appropriately reflected in the draft guidance?



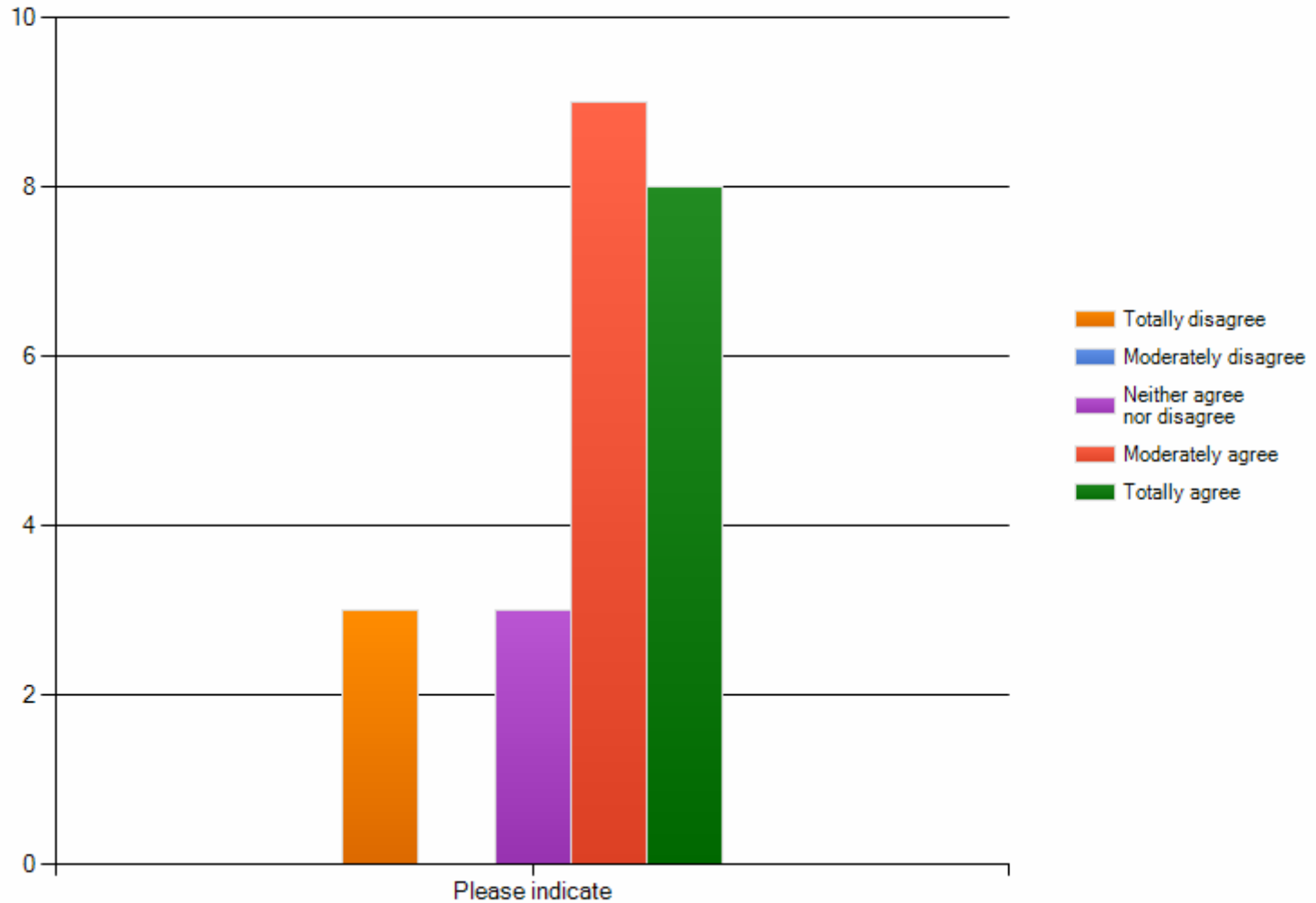
**Do you agree that risk management maturity is an appropriate concept as a starting point for risk appetite and risk tolerance?**



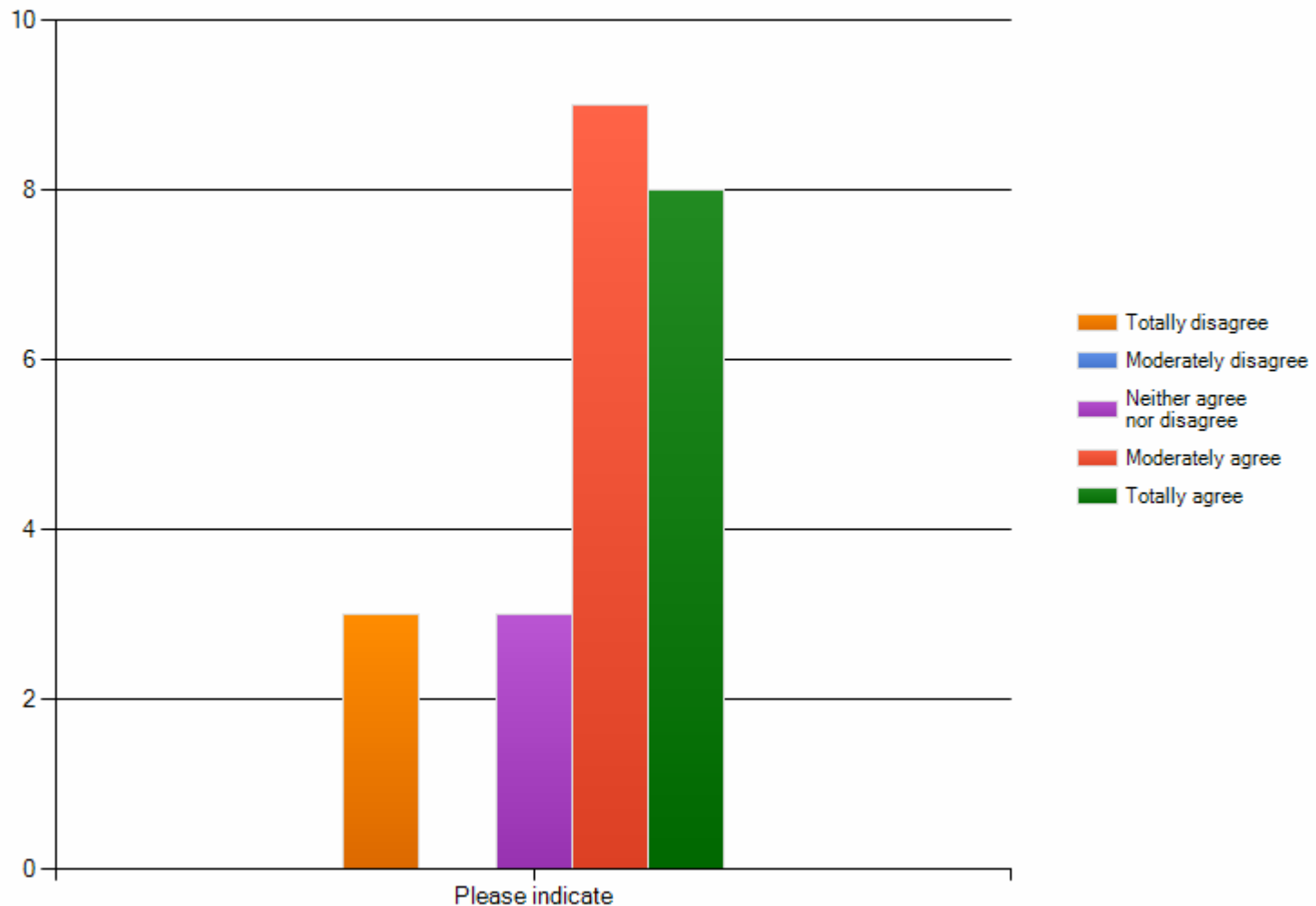
### Is there sufficient guidance on risk management maturity in the document?



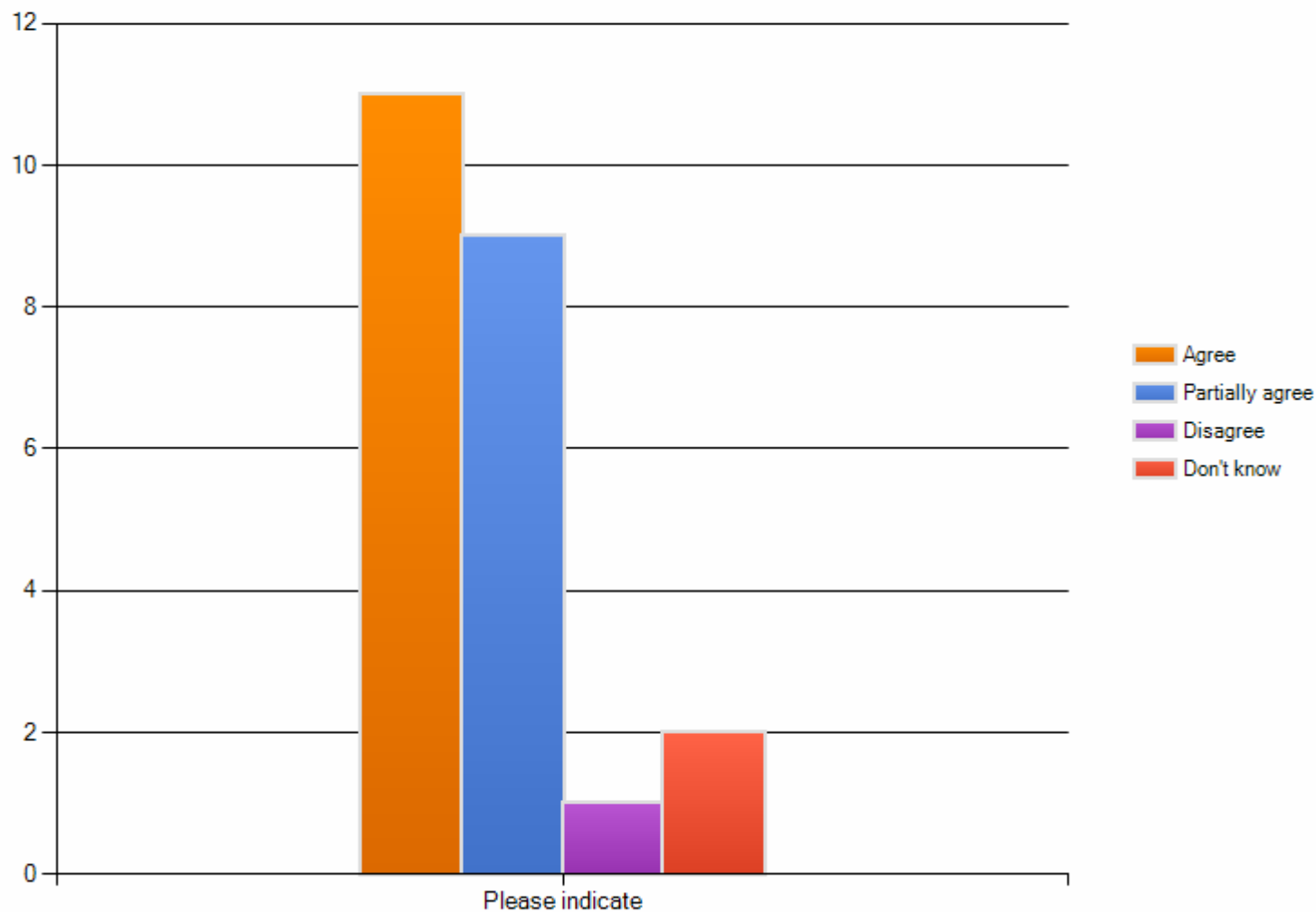
Do you agree with the approach of looking at the propensity to take risk and the propensity to exercise control?



Do you agree with the approach of looking at the propensity to take risk and the propensity to exercise control?



### Is shareholder value an appropriate consideration for risk appetite for quoted companies?



**9. If you disagree and you think there are better alternatives, please explain here:**

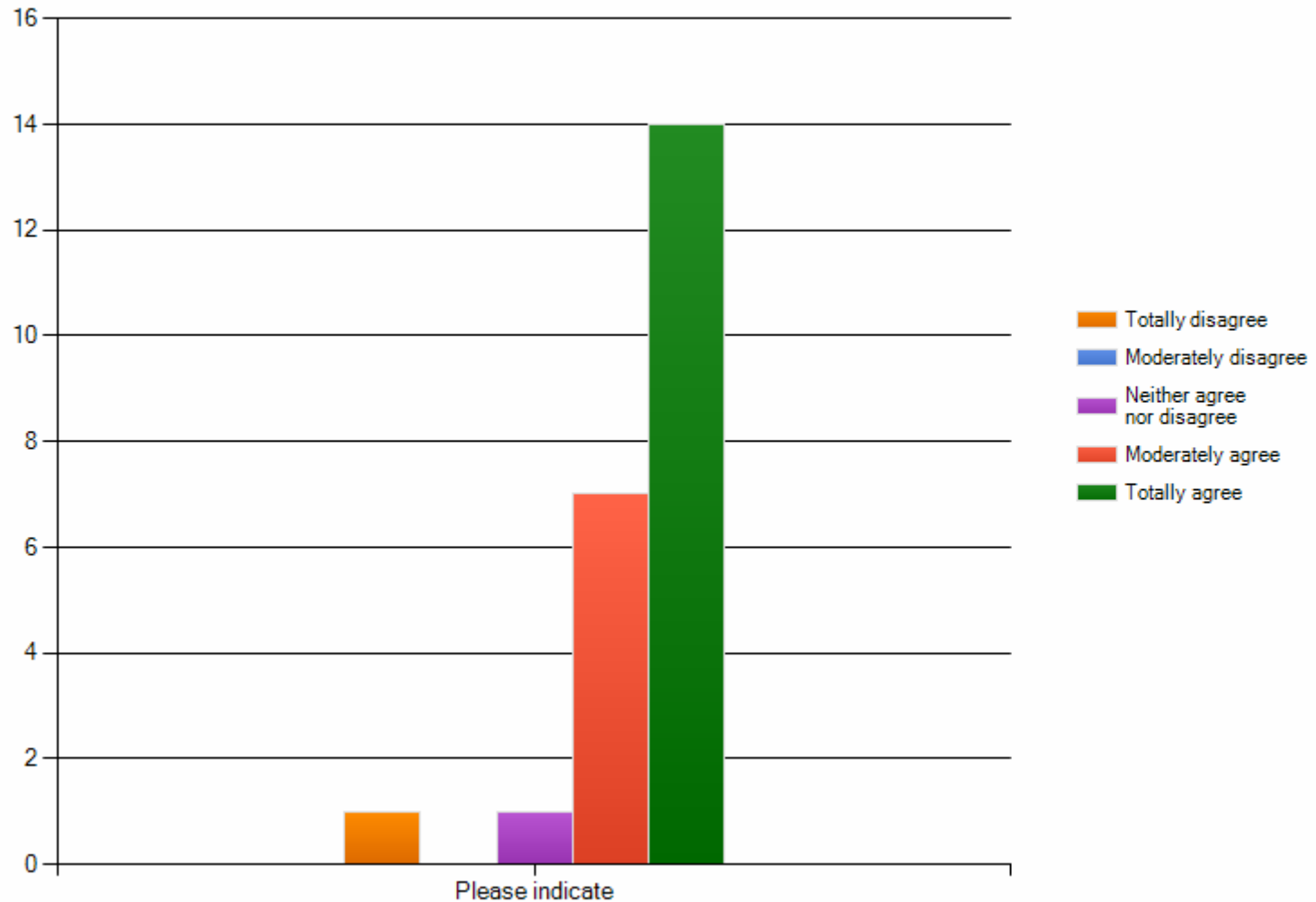
But you need to ensure that the basis of measuring this is consistent and agreed as it is difficult to monitor due to multiple variables

Shareholder value should perhaps be one measure but is a short term measure and results in short term decisions and actions. Longer term measures need to be considered to ensure long term company viability and success.

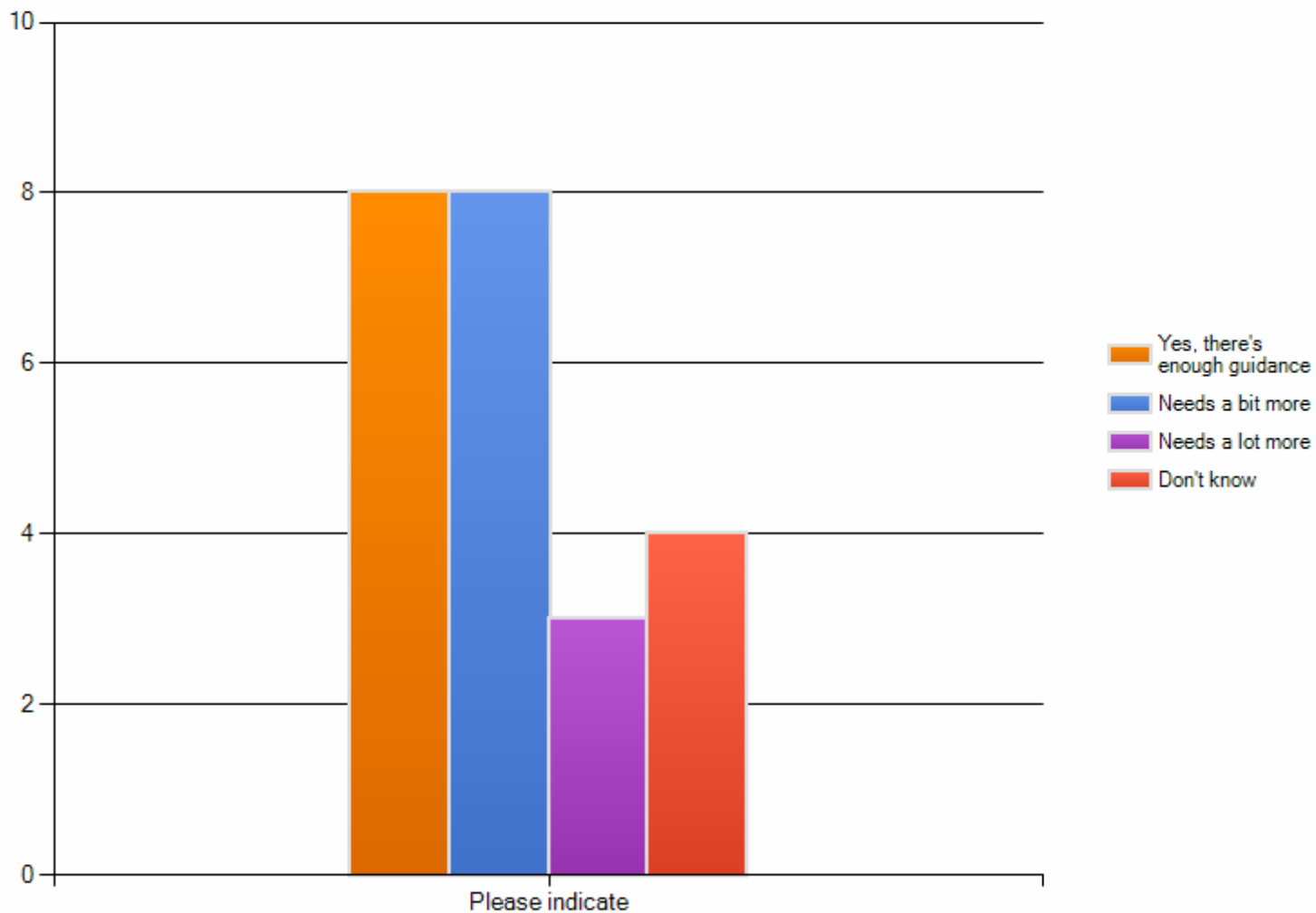
Appetite is to be set by the total company risk exposure ie total risk exposure to financial risks + non financial risks. There should be more explanation that the financial risks only are about 15% of the total risk exposure. There is a lot of disservice that have been done since the financial crisis on the strategic and operational risks. We have forgotten how important these are. Strategic risks can represent 61% of the total risk profile but this can vary a little according to the industry you are in.

How do you measure Shareholders value?

### Do you agree with the need to apply some form of measurement to risk appetite?



### Is there sufficient guidance on the development of risk appetite in the document?



## **12. If you think more is needed, what additional guidance would you like to see?**

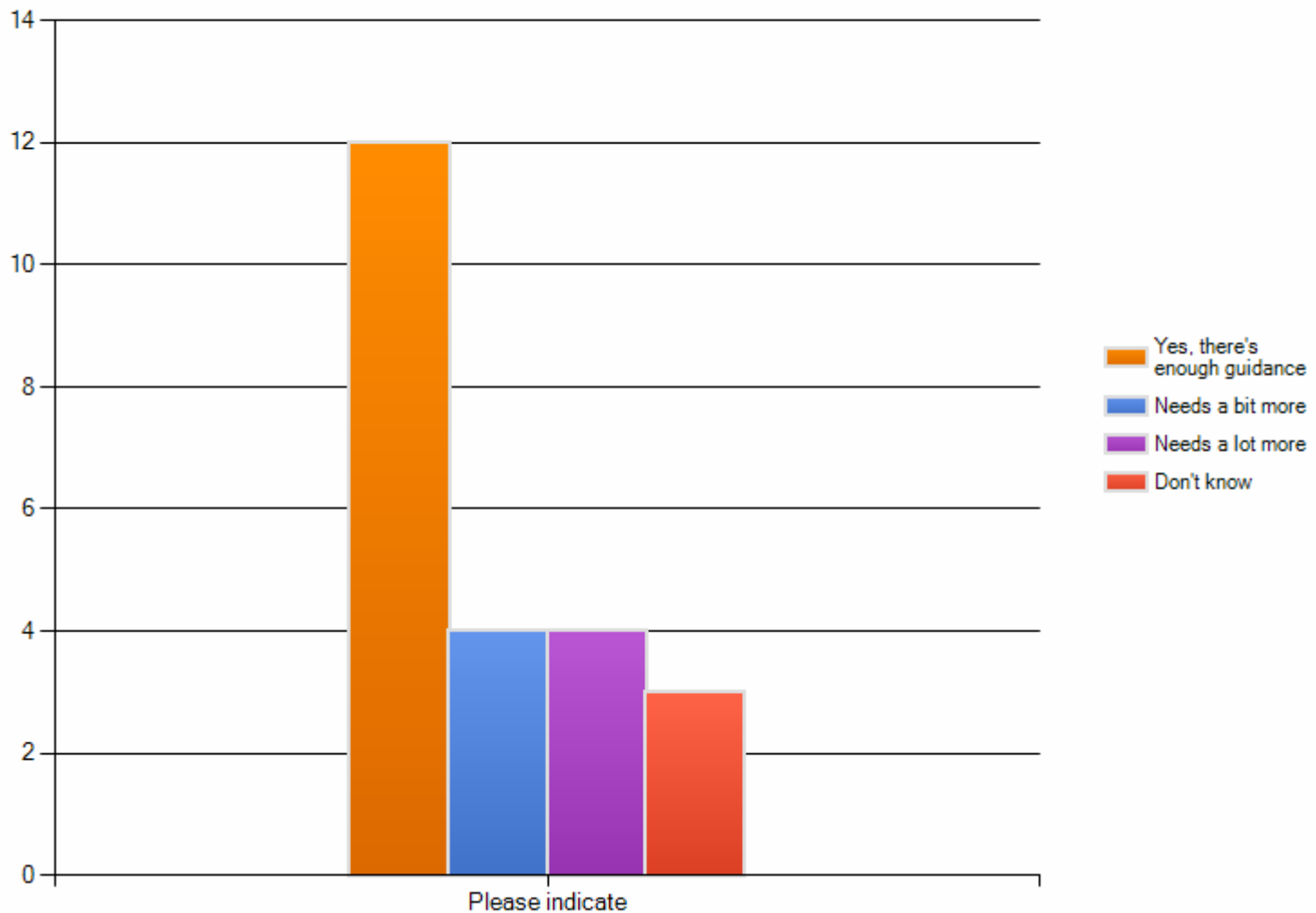
How to actually go about doing it - not what to do but how it is applied in practice as each organisation is different and tools applied may not always work in differing settings

I would add the discounted cash flow model to calculate company value and hence overall net risk value.

Practical steps for consideration of key elements that should be considered and then measured as part of the organisation's risk appetite e.g. key organisational objectives such as HSE targets, profit margins and revenue, delegations of authority etc

More on the process for engagement and getting agreement to the process

**Is there sufficient guidance on the oversight by the board (or risk committee) of the development and implementation of risk appetite?**



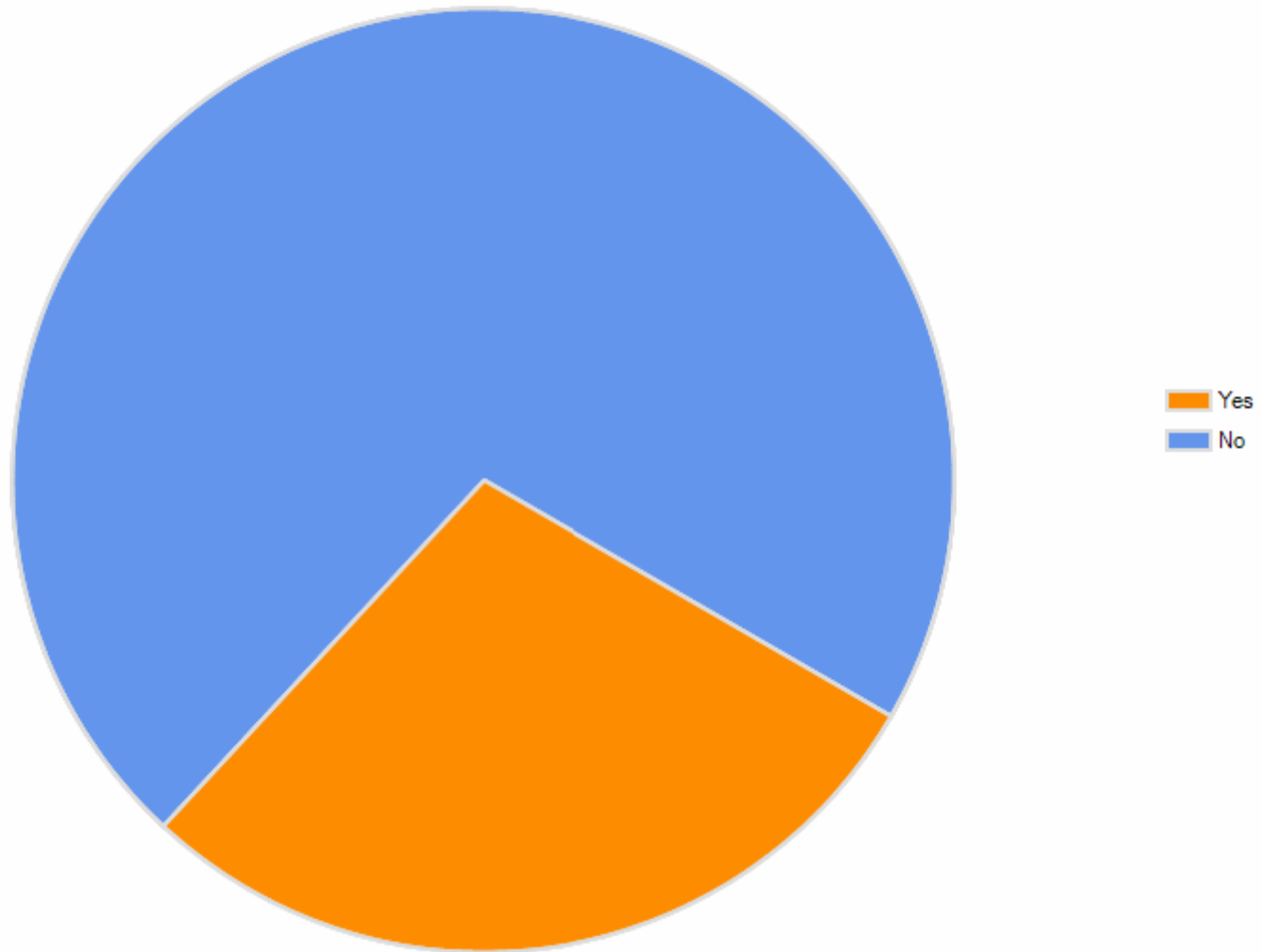
## **14. If you think more is needed, what additional guidance would you like to see?**

How do they participate not just passive involvement

Let us be exhaustive here. This is an FSA key point at the moment and are putting pressure on the Exec to know how risk appetite is set. If they need to know, the Exec will turn to the risk managers for training and members need to know.

Again, some practical guidance around how frequently the Boards should approve and review, indicators of what they should be looking for in their review etc

**Do you think there are any critical elements missing from the guidance in the consultation paper?**



## **16. If you have answered yes, then what do you think is missing?**

Relationship with financial metrics VV qualitative ones

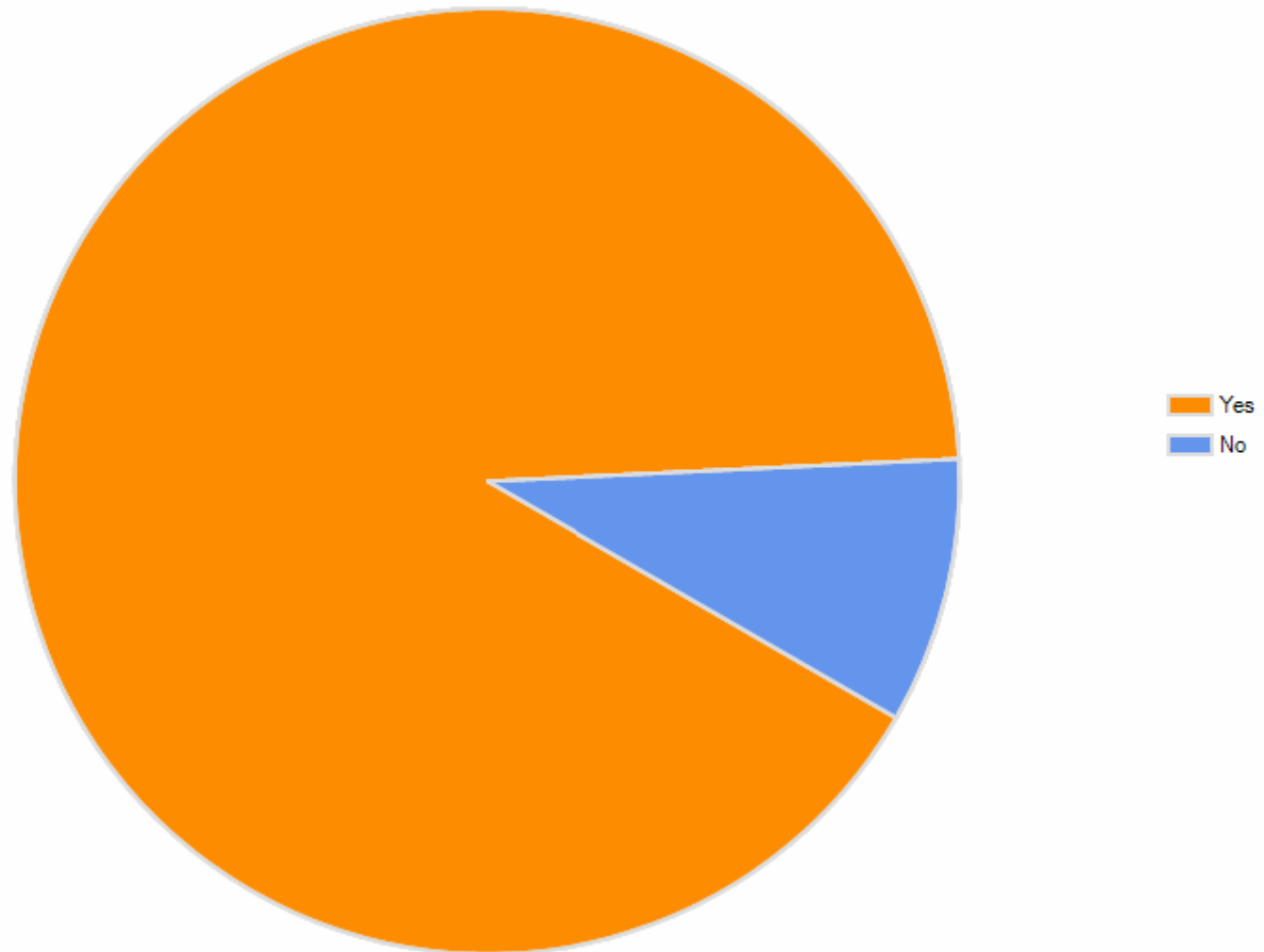
Application and flexibility in a model - its a bit prescriptive in places

Over importance of Risk MI.

As per responses above - more practical guidance and further detail on risk maturity.

Culture, Human Resources...setting out some generic type qualitative statement

Would you find it useful to have a short form version (say 2-4 pages) of the Risk Appetite guidance to show to your directors?



**18. Do you have any examples of risk appetite in action that could be used to illustrate the IRM paper?**

Possibly - subject to confidentiality issues

Not yet but am working on it

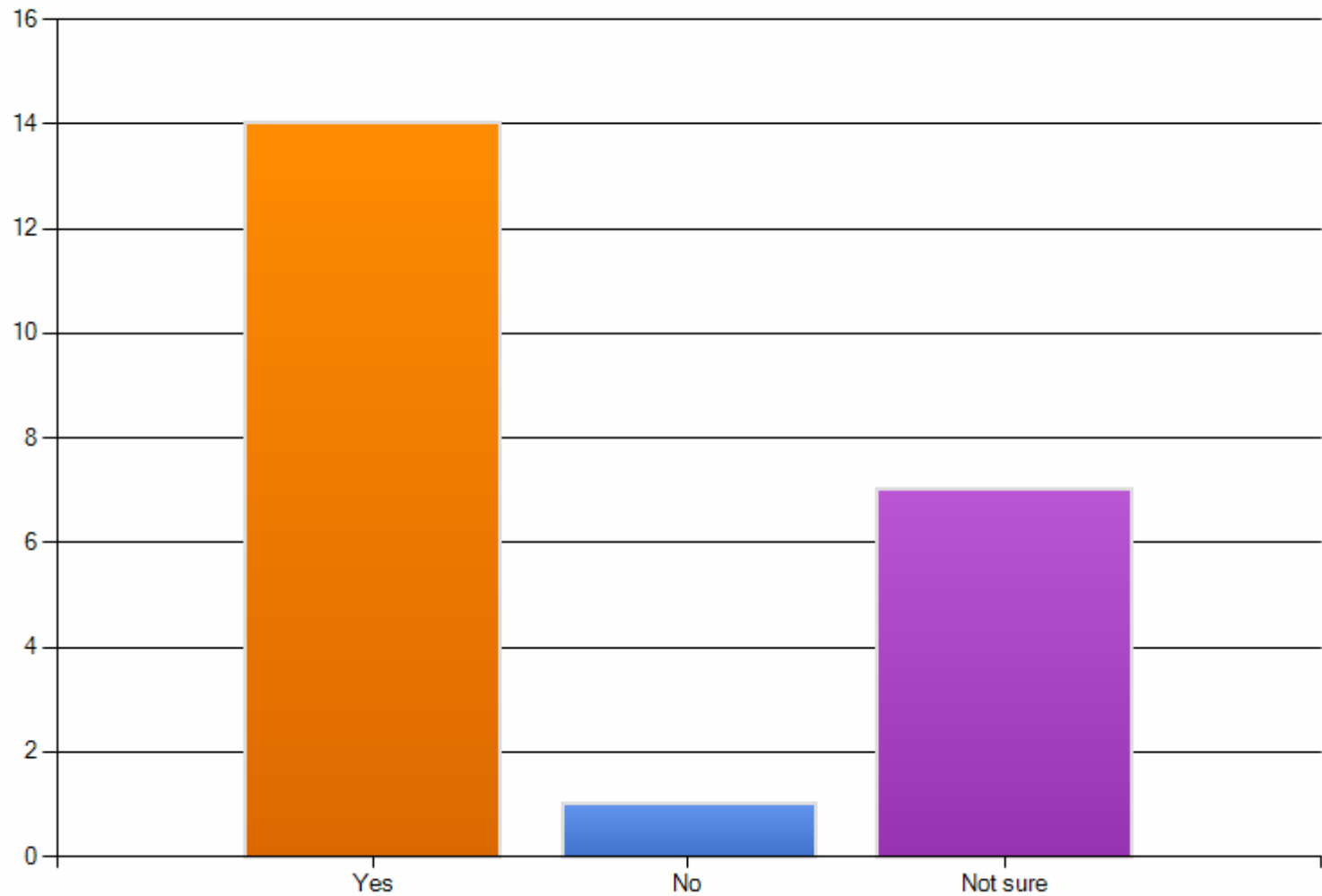
Is the current level of risk within appetite, just outside or completely within - provides indication of what people are accepting and why

Yes. Risk appetite set as expression of Economic Capital. This is a result of a study of the discounted cash flow model.

Note - whilst I have read the paper, I have not yet considered it fully in the context of our business and therefore some of my answers may change if the survey was completed again in the future

We have no appetite to achieve less than x% of % Return on capital %  
Erosion of Net Assets

**Will the approach set out in the Risk Appetite consultation paper help with regard to Solvency II?**



# Conclusions

- Broad support for the IRM white paper (60%+)
- Most felt a little more guidance was needed
  - How to engage boards
  - How to maintain momentum
  - Practical examples
- Many want practical examples, few are prepared to share their own!
- There is broad support for the link to risk maturity and considering propensity to take risk / exert control (75%+)
- There is strong support (85%+) for measuring risk appetite in quantitative terms and that shareholder value is a useful basis
- A short document aimed at senior management would be helpful