

Risk Appetite

UK Corporate Governance Code

Richard Anderson



What is risk appetite

The Board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.

Risk appetite by any other name...

ISO 31000

- Amount and type of risk that an organization is willing to pursue or retain.

- But no further guidance

BS31100

- Amount and type of risk that an organization is prepared to seek, accept or tolerate.

- Limited further guidance...

BS3 1100: Para3.8: Risk appetite and risk profile

1. Provide direction and boundaries

2. Consider external context

3. Look at portfolio of risks

4. Define delegations

5. Be reflected in policy

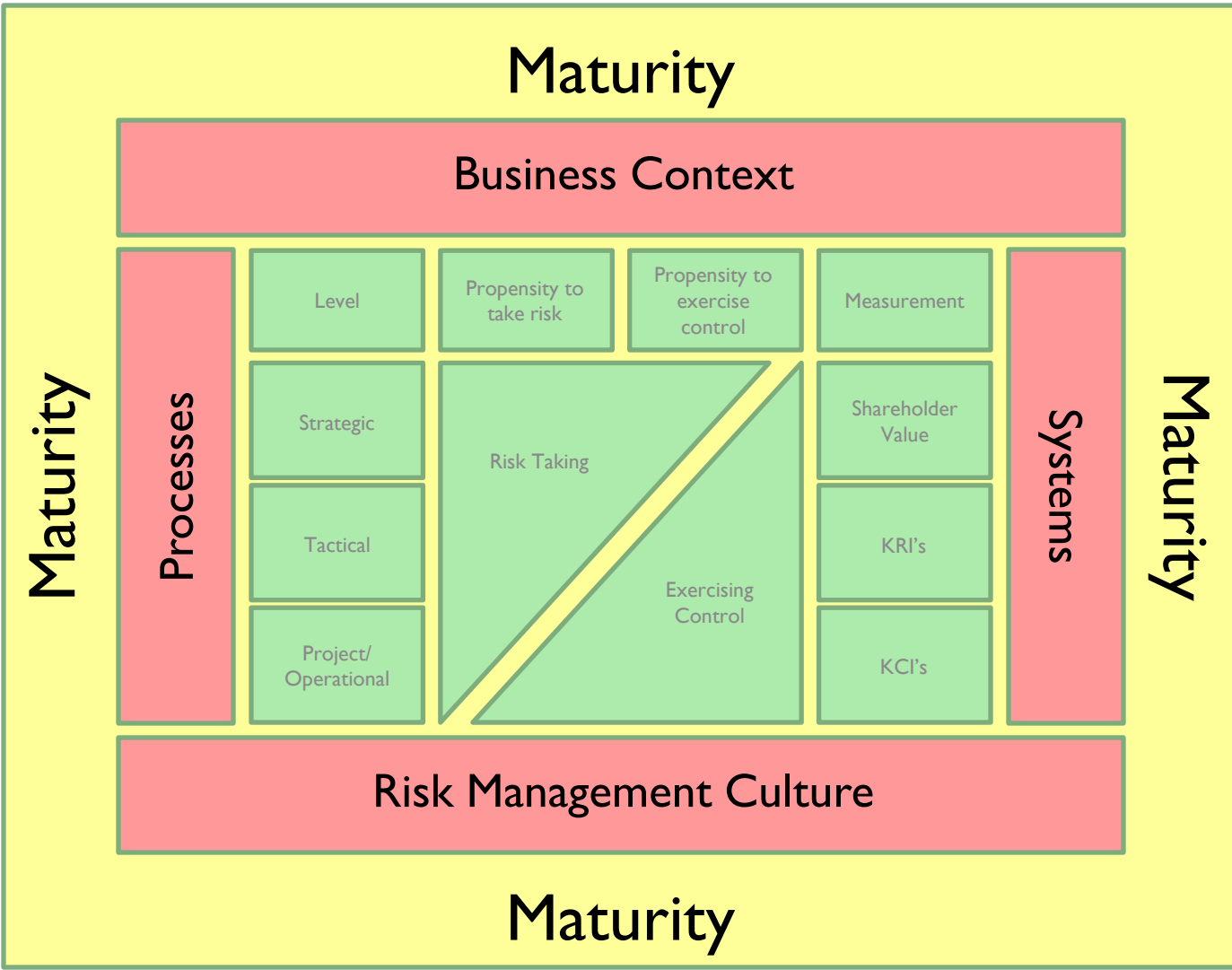
6. Deal with specifics

7. Deal with quantitative aspects

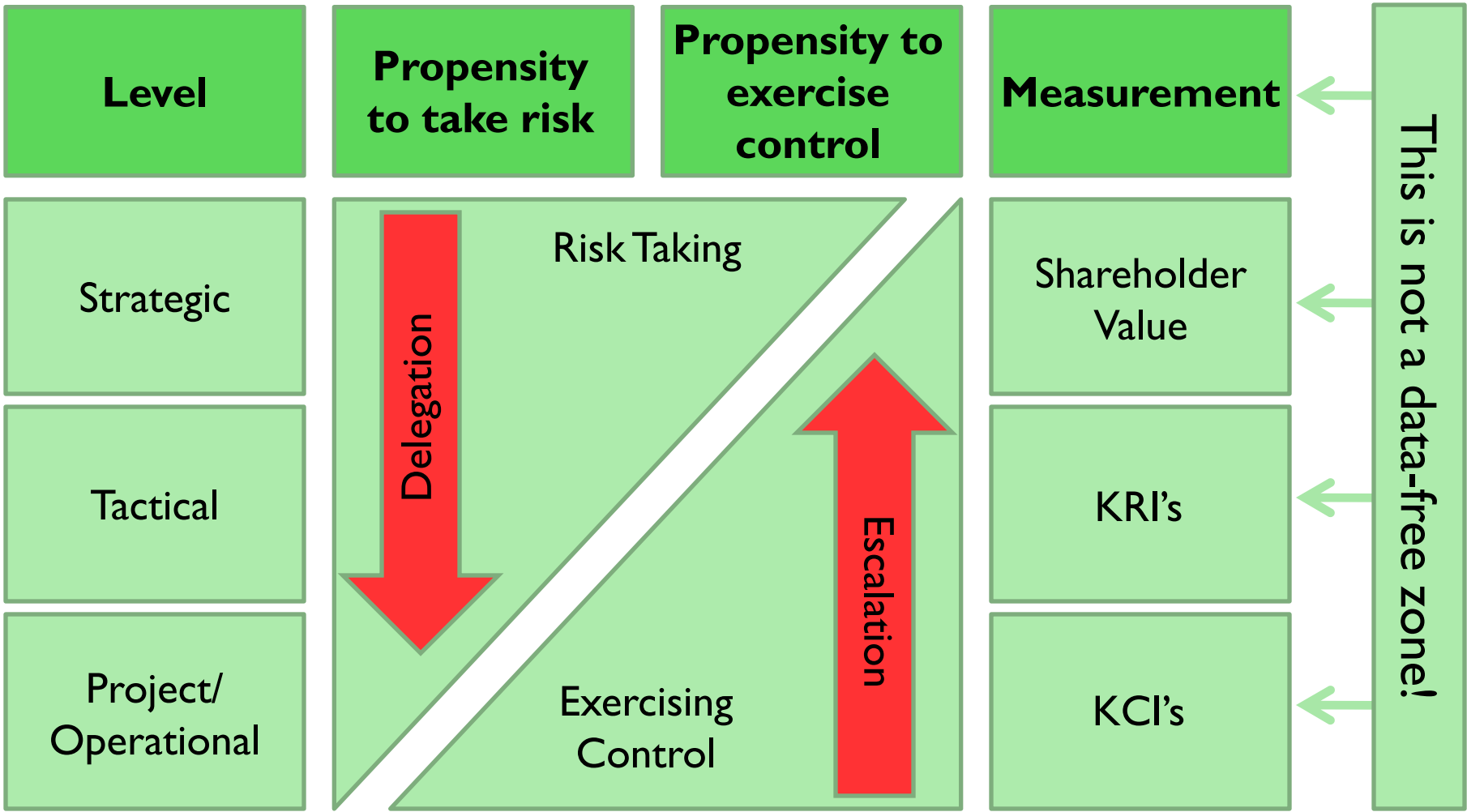
Risk appetite statement should be:

- ✓ Continually monitored
- ✓ Formally reviewed annually

Risk appetite in context of maturity



Proposed contents



A deeper dive



Three areas for a closer look:

- Propensity to take risk
- Propensity to exercise control
- Shareholder value

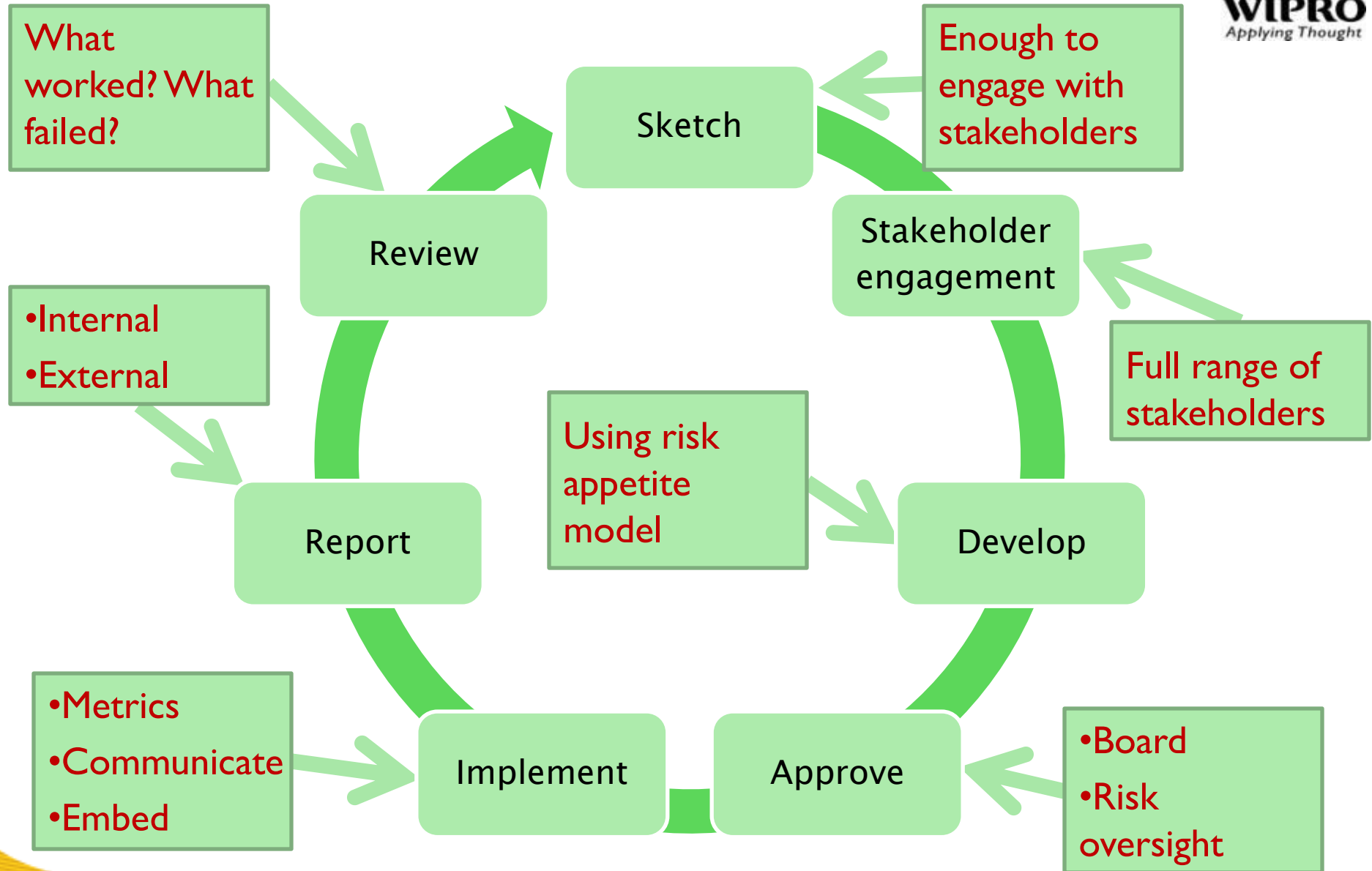


Creating a risk appetite framework

Establishing risk appetite

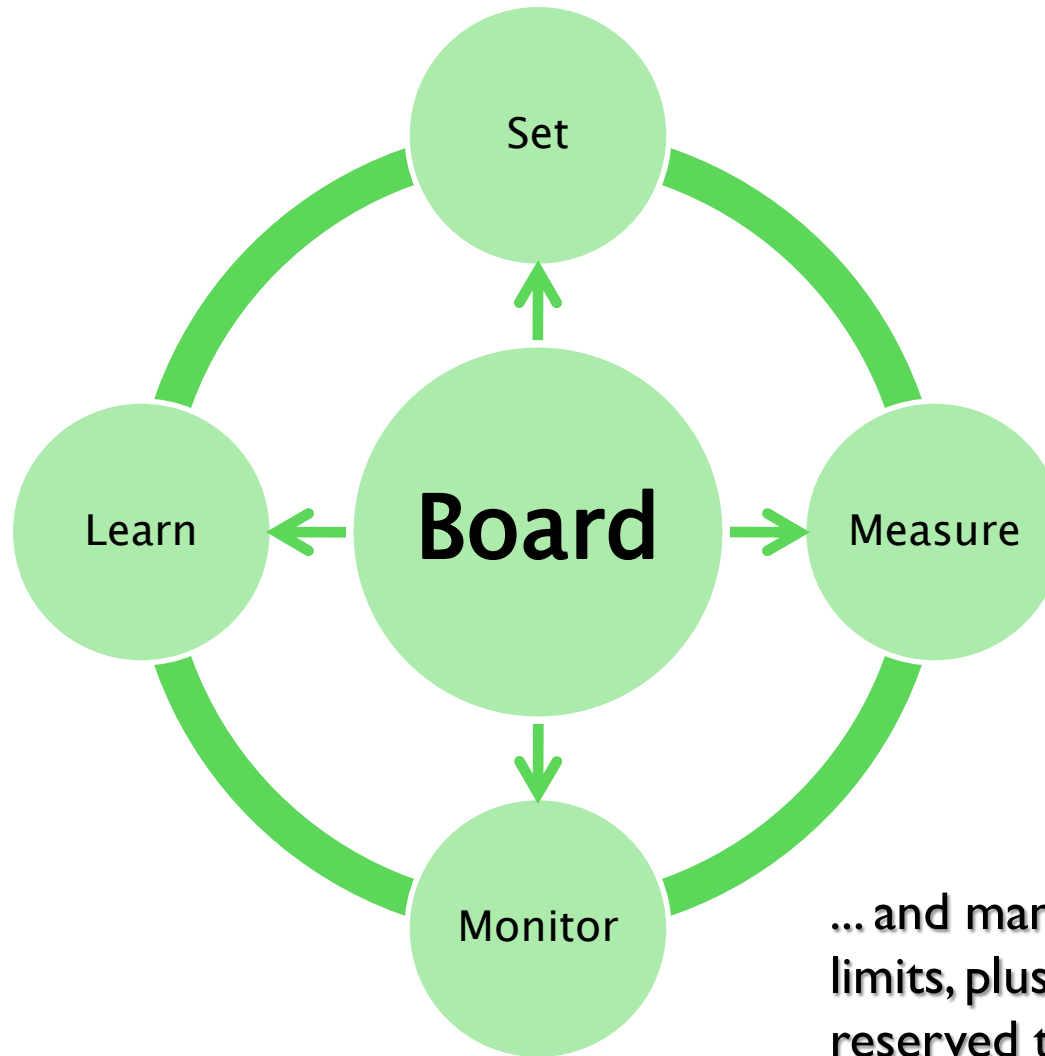


Establishing risk appetite



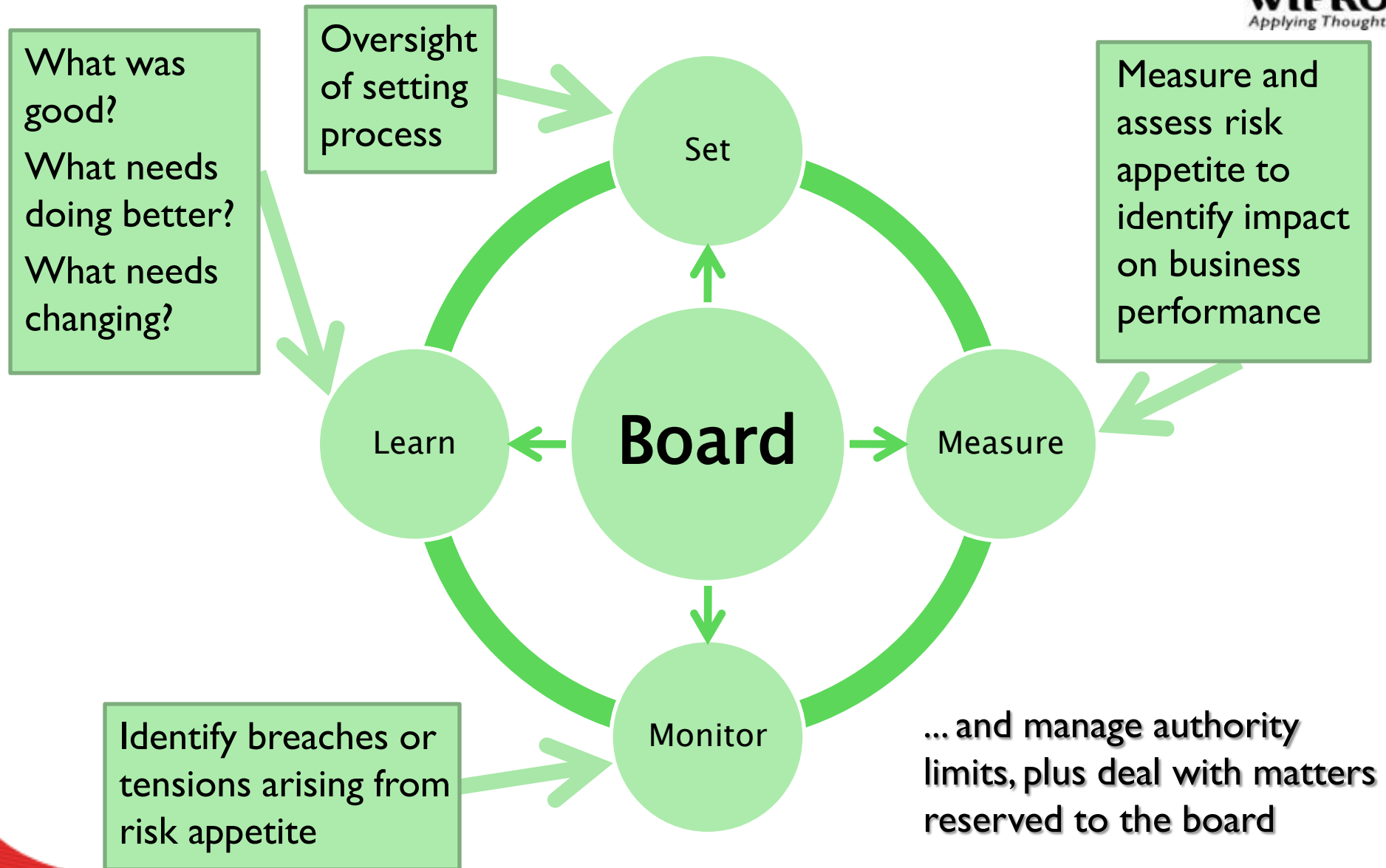
Governance of a risk appetite framework

The board's (or risk oversight committee's) role



... and manage authority limits, plus deal with matters reserved to the board

The board's (or risk oversight committee's) role





Other matters

Step

- Development
- Measure
- Monitor
- Learn

When

- With periodic strategy and annual budgetary process
- With periodic management reporting
- At every board meeting
- Before sketching the next year's process

Timing

Step

- Development
- Measure
- Monitor
- Learn

When

- With periodic strategy and annual budgetary process
- With periodic management reporting
- At every board meeting
- Before sketching the next year's process

Link to strategy development and your regular budgetary processes

Embed into regular reporting processes

Demonstrate its importance to board, staff and external stakeholders

Learn and apply lessons



Conclusions

Risk appetite:

- Is as much about “enabling” risk taking as “constraining” adverse risks
- Requires active “stakeholder” engagement
- Needs to be built into “business as usual” processes
- Should be approved by the board (or risk oversight committee)
- Has to be actively monitored by management
- Has to be reviewed regularly by the board
- Is a management tool as well as a governance requirement
- Needs measurement tools and techniques

And the benefits

- Better decision making;
- At an early stage (allowing more wriggle room to deal with risks);
- Reducing surprises;
- In a structured manner;
- That facilitates better achievement of long term objectives; and
- Which brings sense to the risk process.

- How do we gain consensus on what risk appetite means?
- Can we genuinely measure it? And if so...
 - What are the data sources that we would need?
 - How will this impact on operational frameworks?
 - What is the new data architecture and data governance model that would be required?
- How do we educate boards on the ramifications? Because they are huge.

1. Inherent versus residual?
2. Should control information be presented or is the influence of controls in residual already accounted for sufficiently?
3. Guide to maximum versus hard-ceiling maximum?
4. What case studies would be useful? How many basic approaches are there'?
5. Should different risk categories be dealt with separately?
6. Should reference be made to risk tolerance?



Thank You

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