

**Practical Risk Management:
Sharing Members' Experiences**

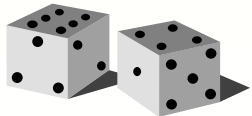
Risk Appetite

17 June 2004

Coral Malcolm

Structure of the talk

- What is ‘risk appetite’?
- How do we use it?
- Private v public sectors

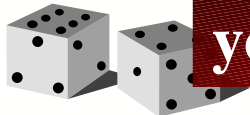


Risk appetite definitions

- ‘risk tolerance’ *(AIRMIC/ALARM/IRM Risk Management Standard)*
- ‘the amount of risk exposure, or potential adverse impact from an event, that the organisation is willing to accept/retain’
(DelCro Inc. Enterprise Risk Management)
- ‘the willingness of an organisation to accept a defined level of risk’
(PAS 56)

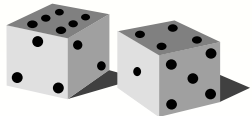
The level of risk an organisation is prepared to be exposed to before it decides action is necessary

the level of risk you’re happy to live with before you do something about it; the amount of risk you’re prepared to take in order to achieve objectives

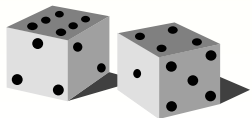
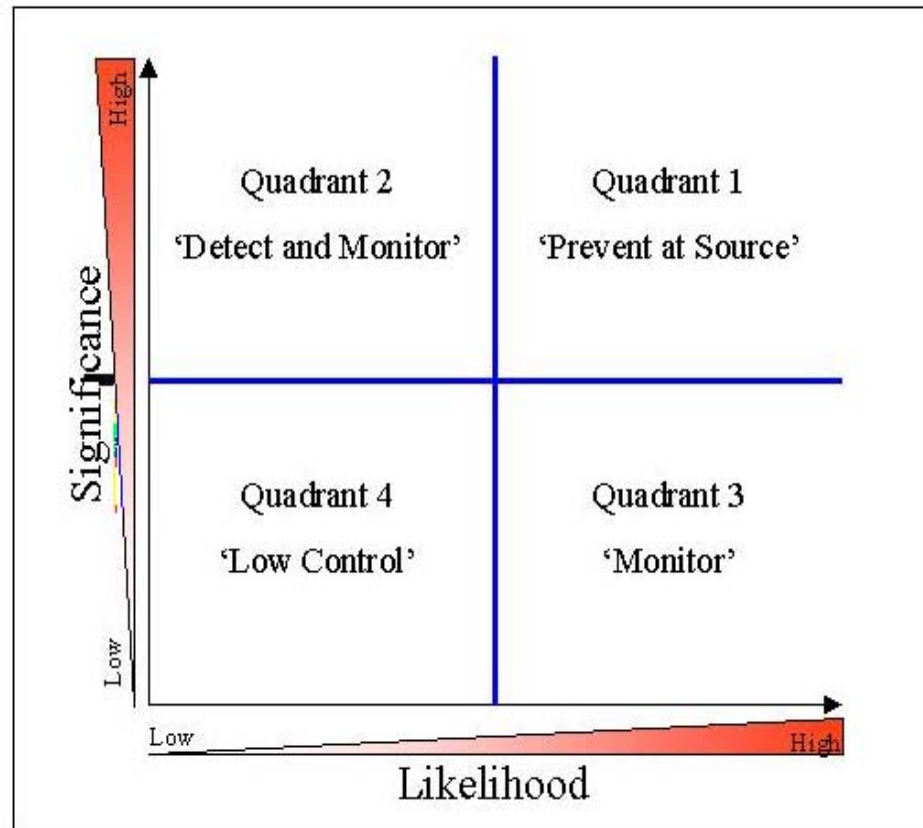


Why define risk appetite?

- 1) Forces management to clearly measure and compare their risks and think about the potential losses and gains
- 2) Helps one see if resources are wasted on risks (threats) under the defined level
- 3) Equally helps one recognise that attention should be focused on risks (threats) above the defined level
- 4) Objectives should be set in line with risk appetite – helps set right objectives

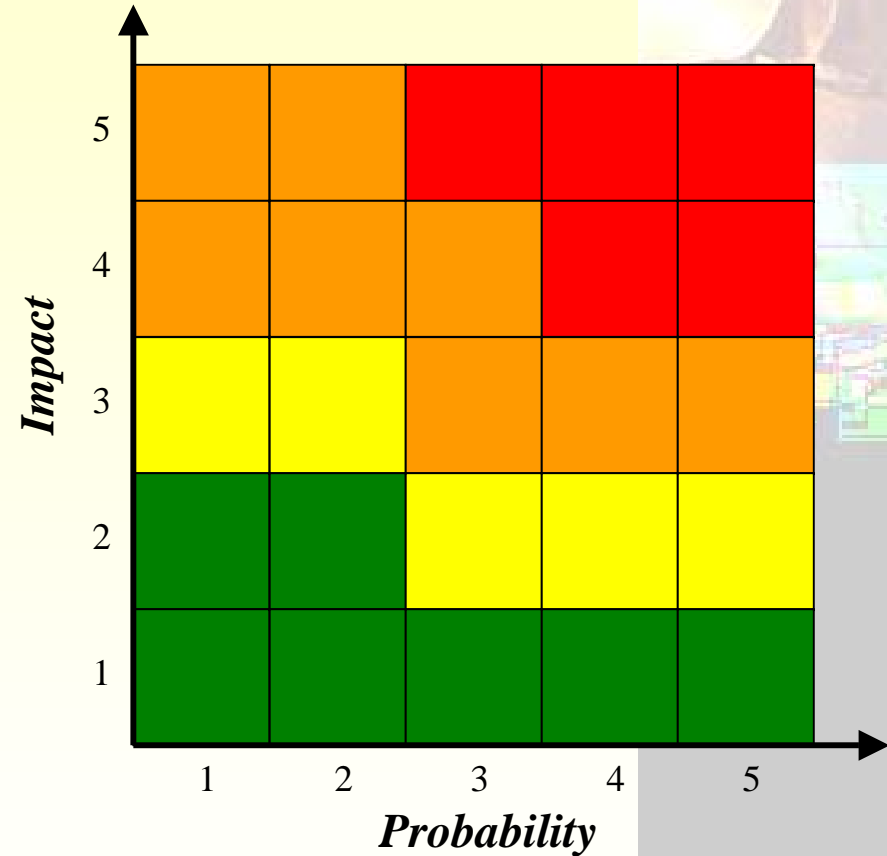


Example

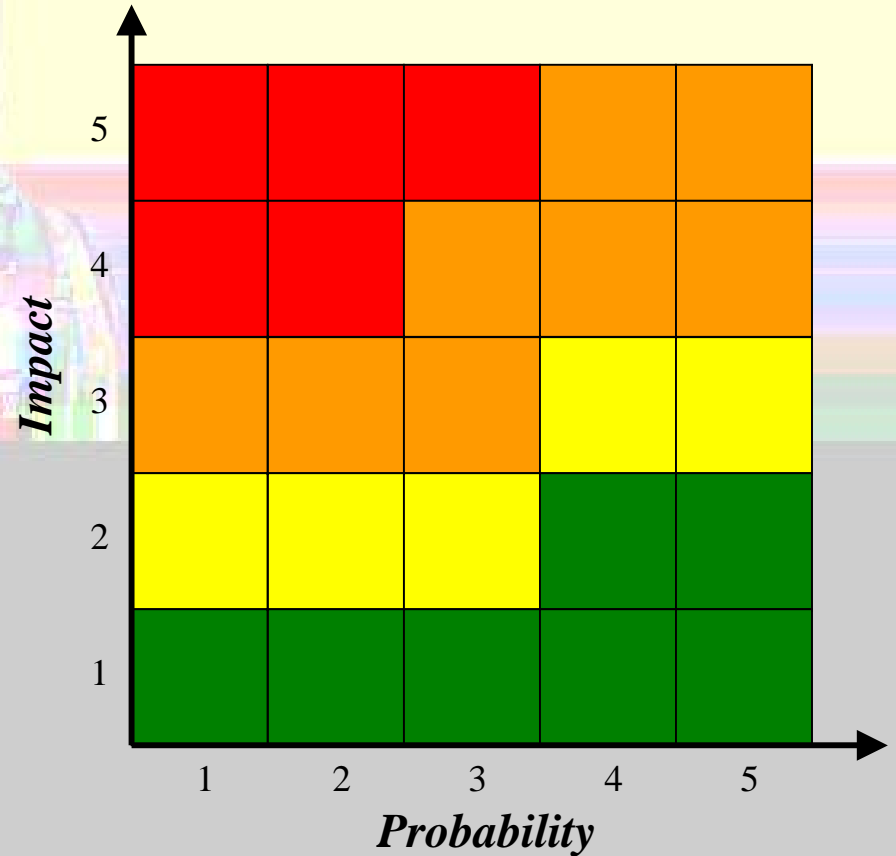


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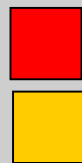
Threats



Opportunities



Key:



Very high



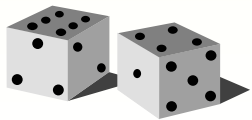
Medium



High



Low



Private v public sector

Similarities

- Possible factors in establishing risk appetite

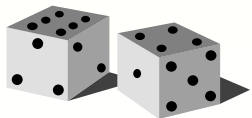
Age

Gender

Personality

Differences

- Why LAs may have to take risks beyond their choosing:
 - Central government directives
 - Public expectations
- Why LAs' risk appetites may be lower:
 - Highly regulated
 - Public resources





THANK YOU

