



Risk management for charities

Setting your risk appetite: supplementary guidance

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Foreword

Risk management is often viewed as a complex scientific discipline. We hope our Getting Started leaflet and supplementary guidance help to demonstrate that risk management is rather something often undertaken intuitively and with a little structure can be embedded into an organisation to help achieve objectives, support successful strategic planning, and reassure people at all levels that what could stop you being successful is being considered.

Once the basics are in place it is a good time to dive into more complex areas and determine your risk appetite. This is a natural progression and one that will help an organisation to understand how much risk it is prepared to take and who is authorised or empowered to take these risks.

This guidance supplements our leaflet 'Setting your risk appetite' and provides more detail on how to set risk appetite within your charity.

Contents

This guidance covers the following areas:

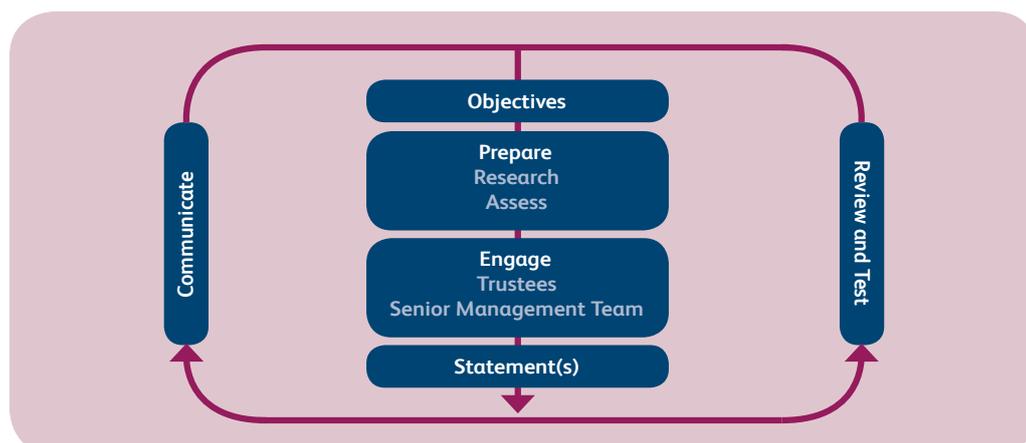
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Risk appetite overview

Before we start let's be clear about a few definitions.

- What is risk appetite?** This is often defined as the amount of risk that an organisation is willing to seek or accept in the pursuit of its long term objectives.
- What is risk tolerance?** This refers to the amount of risk an organisation could actually take, usually from a financial perspective, before the charity is significantly impacted.
- They're linked** Most organisations' risk appetite will be lower than their risk tolerance.
- Why set appetite?** No organisation can achieve its objectives without taking risks. But how much risk are you prepared to take? Defining your risk appetite establishes clear parameters in which your people can work – and succeed.
- If you have already embedded risk management you may now feel ready to set your risk appetite and the decision making process that goes hand-in-hand with this.
- There are various drivers that may cause you to look at setting risk appetite including:
- Setting and implementing strategic plans
 - The need to manage projects within the charity
 - The new statement of recommended practice requirements around describing risk management
 - Recommendations from an external audit
- What part does risk appetite play in risk management?** In 'Getting started' we highlighted that the ISO31000 risk management process is a straightforward way of identifying, analysing and evaluating risks that will impact your strategic objectives. This process leads to the production of a document that captures your key risks and how you treat or manage them (usually a risk register). We highlighted that risks and objectives will change so continuous monitoring and review is critical to success.
- The risk register (or however you have captured your key risks) is a good place to start to set your risk appetite. Setting risk appetite will explore key risks and identify what you will and will not accept within each risk area.
- The ultimate aim is to be able to articulate the output of this process into a statement or number of statements about the organisation's willingness to take risk and to empower people to take appropriate risks to make the organisation successful.
- The work should lead to more people using 'risk based decision making' to consider challenges and opportunities that arise.



However, as your risks and understanding of them changes, your appetite may change so it is important to continuously review and test your risk appetite statement(s) against the backdrop of the real world. And this will inevitably mean that you will need to communicate such changes.

How to set your risk appetite

Preparation

Your work to date

Look back over your corporate risk register, risk action plans, or whatever else you use to communicate the process you went through to identify, analyse and evaluate the risks that will stop you achieving your objectives.

Perhaps you have a heat map like the one below?

Extreme					
Major					
Moderate					
Minor					
Insignificant					
	Remote	Unlikely	Possible	Probable	Highly probable

Whatever you have you need to make sure it is up-to-date and reflects your current objectives and key risks. If it does not then you will need to review and update this **before** moving on to risk appetite setting.

If it is up-to-date then you can use this to move on to set your risk appetite.

Now think about your capability

If you found that your risk management work is not up-to-date this may be an indication that risk management is not yet embedded within your organisation which may make setting risk appetite more difficult – though not impossible.

Consider how strong your risk management processes and systems are and if you have to start again then do that. Move on to setting your risk appetite after the newly applied risk management process is completed.

We do not advocate trying to set risk appetite without having established what your key risks are by going through our 'Getting Started' or similar process.

We have listed below some questions to help you think about your risk management capability. You can also review our 'Getting Better' leaflet and supplementary guide to help you to assess how mature your organisation is within a risk management context.

- What are the strategic objectives of the organisation? Are they clear? What is explicit and what is implicit in those objectives?
- What steps has the board taken to ensure oversight over the management of risks?
- Has the board and management team reviewed the capabilities of the organisation to manage the risks that it faces?
- What are the main features of the organisation's risk culture? Governance? Competency? Decision making?
- Does an understanding of risk permeate the organisation and its culture?
- Is management incentivised for good risk management in some way?
- How much does the organisation spend on risk management each year? How much does it need to spend?
- How mature is risk management in the organisation? Is the view consistent at different levels? Is the answer to these questions speculation or based on evidence?
- Does the organisation understand clearly why and how it engages with risks?

- Is the organisation addressing all relevant risks or only those that can be captured in the risk management process?
- Does the organisation have a framework for responding to risks?

Do your research

When starting any new process it is always useful to do some research. The IRM has a detailed Risk Appetite & Tolerance paper along with an Executive Summary that you may like to read.

However just reading this supplementary guide and the leaflet will help you to understand the concepts involved.

See also the further information section of this report.

Engagement

Involve the Trustees

Trustees should regularly review the charity's risks and you must involve them in **setting** your risk appetite and taking ownership of this at a high level.

The first step may be to remind trustees of the key risks already identified and being managed. They must agree that these are the key risks to investigate further.

You may need to manage trustees who want a 'perfect risk management' environment that is beyond the capability and coffers of your organisation. But that should be a 'nice' situation to manage through education.

Instigate Trustee debate

Looking at the heat map, risk register or other risk documents, you now need the trustees to consider what significant risks the organisation may take and what risks must be avoided.

Trustees may want to do this by considering six areas:

- What are the strategic objectives of the charity? Are they clearly defined? Do they remain relevant (given that some could have been set three-five years ago)? What innovations and emerging risks are on the horizon?
- What significant risks are trustees willing to take in pursuit of the objectives?
- Are trustees clear about the nature and extent of the risks they are willing to take in pursuing the objectives?
- Do trustees need to establish clearer governance over the charity's risk appetite and tolerance?
- What steps have trustees taken to ensure oversight of the management of risks?
- How much risk should be taken at any one time? For example, if your organisation wants to expand overseas would you have the appetite to expand into multiple countries all at once, or take a more phased approach? If phased how will you prioritise?

As you can see these topic areas flow from objectives, to risks, to escalation and the delegation of authority, as well as considering the ongoing oversight required. The topics link back to the original work undertaken to identify, analyse and evaluate risks.

What techniques and tools could you use?

Many charity boards have ‘away days’ to consider vision, mission, objectives and planning. This would be an ideal time to really debate risk appetite.

To make this part of an away day more concentrated and effective you may want to survey the trustees first to identify what they consider to be key risks and which interest them personally. This will increase interest and buy-in. You could:

- Send round an online questionnaire
- Have a session on risk management at the end of the preceding board meeting
- Individually interview trustees to find out what key risk areas interest them most

Use a technique that fits with your culture and explain why you want to set risk appetite and how it will benefit the organisation as a whole and the Trustee Board in particular.

If you don’t have a board away day or the timing is just not right to do this, then you may need to do more work offline with trustees on a one-to-one basis to run through this process. Then bring the topic back to the next board meeting.

Involve the Senior Management Team (SMT)

The Senior Management Team (SMT) should have been involved in identifying, assessing and evaluating the risks originally and should know and understand the key risk areas that will stop the charity achieving its objectives.

If they do not, or are new to the organisation, then you will need to explain or remind them of the key risks already identified and being managed.

Instigate SMT debate

The SMT needs to form a view on what significant risks the organisation should take and what risks should be avoided so they can feed their views to the Trustee Board. Whilst individual views will vary and should be given a voice, aim to achieve a uniform and consistent view on most risks.

One aspect that may not have been considered previously is delegation and escalation.

The SMT needs to be empowered to manage the day-to-day operations of the charity. Understanding how much delegation the trustees feel to be appropriate and at what point risks should be escalated to the Trustee Board is important for the SMT.

Again the SMT should consider how much delegation it is comfortable with, and when it feels escalation is needed for decision making by the trustees.

When? And what techniques and tools could you use?

A good time for the SMT to consider their appetite for risk is during the planning and budgeting period. The SMT may have an ‘away day’ or meetings to consider planning matters and this is an ideal time to really debate risk appetite.

Once again a little preparation could make the SMT debate more effective and you could:

- Send round an online questionnaire or survey
- Have a session on risk management at the end of the preceding SMT meeting
- Individually interview managers to find out what key risk areas interest them most

Use a technique that fits with your culture and explain why you want to set risk appetite and how it will benefit the organisation as a whole – and managers in particular.

If you don’t have a planning away day or the timing is just not right to do this, then you will need to do more work offline with managers on a one-to-one basis. Then bring the topic back to the next SMT meeting.

What about the wider stakeholders?

There may be some important stakeholders who you may want to or need to engage with. These may include employees, volunteers, funders, major donors and potentially even the wider general public.

It will very much depend on the type of charity you are, how you are funded, and who you want to gain input from.

Valuable insight and a great testing bed

For example, if you are a small charity that operates a local hospice you may want to understand how much risk the employees and volunteers think the organisation should take. Engaging them in the thought processes can provide valuable insight for the trustees and management team about how the charity is perceived and understood. This may also provide a good route to test the output of the trustee and management team's work.

Higher chance of embedding escalation

There are risks with wider engagement, of course, and you need to think this through and decide how you will manage these. However, if you want all key stakeholders to engage, understand and feel part of the decision making this is an excellent route to achieving that. It will also probably increase ownership of the output and understanding of how/when to escalate risks. After all, part of the objective is to 'license' people to take suitable risks.

How to frame your statement

Record your risk appetite

The work undertaken will have its own benefits in terms of creating a conversation about risk – but how do you stop this being a one-off exercise and maintain momentum?

When you have prepared and engaged you need to record the agreed output so that it remains as a reference point for publication.

You may find that the statement is, in fact, a series of statements rather than one single sentence or paragraph. This is because you will probably have different appetites for different risk exposures. This will depend on considerations such as:

- How important a risk exposure is to the charity's mission
- How the activity is funded and/or delivered
- Whether you have entered into any contractual delivery requirements

To give you an example, if you are a national animal charity you may have a low risk appetite to send employees and volunteers to less secure parts of the world. But, if you are an international aid charity, this is something you need to do to deliver your mission, so your appetite will be higher.

Points to cover

It's probably simplest to take each strategic objective or risk area and set out:

- What the acceptable risks involved are
- What the unacceptable risks are
- How much risk you want to accept overall
- How you have reached this decision
- How you will monitor and review the decision to make sure it keeps pace with changes to the internal and external environment
- What the escalation process is if someone identifies a new risk or that a previously accepted risk has changed and needs to be re-examined

Representing this?

You may want to begin to capture your responses within a simple table such as the example below which is based on a small INGO dedicated to raising awareness of malaria working in six African capitals in an advisory capacity only.

As you can see different risks have very different appetite levels but it is clear what is and is not acceptable, as well as when to escalate situations.

Risk Area	Will	Will not	Escalate
Employees on secondment in war zones	Accept within capital cities of existing countries supported only	Accept outside of country capitals or new African countries without full consideration	If employee wishes to travel outside capital whilst on secondment If new country requests our support
Investment of funds	Accept ethical investments within the portfolio of XYZ Fund Manager only	Accept any investment in funds outside the portfolio of XYZ	If requested to broaden the portfolio by XYZ Fund Manager If approached by a new Fund Manager with a proposal
Scientific research	Accept a high level of risk in terms of research not always generating a return	Restrict investment in research of malaria provided usual due diligence applied	Where due diligence is unacceptable but the opportunity appears to be in line with our mission
Safeguarding	Accept a very low level of risk. All employees and volunteers with external interaction must be trained	Accept any non-trained person interacting externally with children or vulnerable adults (i.e. people with malaria)	Any deviation from this at all
Overseas expansion	Accept expansion work into a maximum of two countries at any one time	Expand overseas to more than two of the ten countries identified from the strategic review at any one time	Should a third country development plan be received this needs to be referred to the trustees

Communicate

Tell people about it

For the risk appetite to be integrated into how you operate, it is important that you explain it to people both within and outside the organisation.

How you tell people and the level of detail you go into will depend on the organisation and the audience. Just as we advised in the 'Getting Started' supplementary guide your communication will need to reflect the way you usually communicate and we would urge you to be visual and to provide an explanation that helps the audience understand why this is important to them and to the organisation. That connection is essential.

Keeping pace with change and testing decision making

Don't think your job is done

As risks change, appetite may change too. It is imperative that the appetite is reviewed and tested at scheduled intervals (perhaps quarterly or bi-annually, but at least annually) and when important changes happen.

Monitoring risk appetite needs to be allocated to a suitable person as part of their role. The person responsible for planning and performance may be well suited and can maintain checks to ensure that the risk appetite remains fit for purpose, escalating issues rapidly to SMT and trustees if necessary.

People will raise new or changing risks

A new risk area could emerge, a lost contract could mean that what the charity does changes, or an influx of donations may present more opportunities for the charity.

The trustees and senior management team should be well aware of the risk appetite as they have been part of setting it. However membership may change so it is important to keep this in front of these groups so it does not become a one-off exercise with a document that gathers dust in a drawer.

The wider organisation can be reminded too and asked to raise new or changing risks through established risk management processes. If the risk appetite levels are developed, communicated and understood by everyone it is more likely that it will become embedded and second nature.

Your appetite may change

Certain circumstances are likely to give rise to changes in an organisation's risk appetite including:

- A change of key trustees or members of SMT
- A change in the regulatory environment
- Opportunities for new revenue streams not previously identified
- Multiple project opportunities arising requiring prioritisation

Consider how to brief new trustees and members of the SMT on risk, risk management and risk appetite, as well as refresher communications to all stakeholders. This will ensure that decisions made continue to adhere to the principles established around risk appetite.

As you review and test your appetite against objectives you may well find that your willingness to accept risk may increase as you become more confident that the escalation process works well and that new or changing risks are being spotted and escalated appropriately.

But how do you know if you've reached this position? It's always useful to test the organisation to see if:

- Decision makers understand the risk appetite parameters in which they operate. If they do they will start to make risk based decisions rather than knee jerk reactions or procrastinate to avoid making decisions.
- The link between the various risks is understood. It is possible that, when combined, risks that fall under different strategic objectives look very different to when considered in isolation. This means that decision makers need to be able to identify overlapping risks and consider how the overall level of risk fits within the agreed risk appetite.
- The agreed risk appetite empowers decision makers to make decisions within the parameters that will positively impact the organisation and make it more successful. Don't forget a key part of this is to make the organisation more successful not to constrain people.

Once trustees have agreed the organisation's risk appetite, day-to-day responsibility for operating within the parameters set will usually fall to management. A way of confirming that trustees are content with the way risks are being managed is to add an additional column to your risk register to capture their comments as risks are reviewed.

Further information

Setting risk appetite

This guidance supplements our short leaflet which you can download from the Institute of Risk Management's (IRM) charity pages at: <https://www.theirm.org/knowledge-and-resources/thought-leadership/charities-and-voluntary-organisations/>

If you want to find out more about the Charities Special Interest Group then have a look here - <https://www.theirm.org/events/special-interest-groups/charities/>

The IRM has a wide range of information available free of charge. You can also sign up for webinars to hear live discussions about a range of risk topics. And if you join the IRM you can access an even wider range of resources.

In particular the IRM published 'Risk Appetite and Tolerance' on which much of this publication is based. The executive summary is available free of charge in the Thought Leadership section of the Knowledge and Resources area of the website.

And finally if you have any concerns about how to get started with risk management please read our 'Getting Started' leaflet and supplementary guide available from the charity pages link above and listen to the short presentations on each step of that process.

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