

Introduction

Welcome to the third in our series of guides designed specially to help charities make sense of risk management.

We hope it will help you to understand your appetite for risk and create a framework to manage this on an ongoing basis.

Some 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?

It will help you achieve your strategic goals

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.

Work to date?

You've probably already started to think about appetite without realising it!

If you have already started to identify, assess and manage risks to your objectives, you'll have had discussions about the risks you were really worried about and those that you may be happy to just keep an eye on. You may have developed some criteria for assessing risks.

In doing this you have actually established your appetite and tolerance to risks. The table below may be familiar if you've read our 'Getting started' guidance.

Extreme	Yellow	Orange	Red	Dark Red	Dark Red
Major	Yellow	Orange	Red	Dark Red	Dark Red
Moderate	Green	Yellow	Orange	Red	Dark Red
Minor	Green	Yellow	Orange	Red	Dark Red
Insignificant	Blue	Light Blue	Yellow	Orange	Red
	Remote	Unlikely	Possible	Probable	Highly probable

The 'heat map' shows the risks you want to avoid and those you might accept

You can now build on this

Using the same criteria for all risks may work well for you. Consider however whether you should take a different approach to different categories of risk or different strategic objectives.

Establishing risk appetite

Do your research and lead the way!

Whether you are a single person coordinating risk for your charity or part of a risk committee, creating and monitoring risk appetite should be on your agenda.

Before you start, take a look at our supplementary guide. If you're hungry for more information there's the IRM's 'Risk Appetite & Tolerance' Executive Summary as well as a full guidance paper.

There'll be a range of appetites for different risk areas

Risk appetite is not a single fixed concept. You may be prepared to accept more risk in some areas than others. For example you may not be prepared to take any risks that could harm a service user but would happily consider new and untested ways of raising funds.

But there's no magic formula

Think about this as you set objectives.

Setting risk appetite can be complex and it is an emerging discipline that will be new to many charities. It's likely to be an iterative process and developed over time.

The following tips should help you on your way.

Involve the Trustees

Instigate Trustee and Senior Management Team debate

Trustees should regularly review the charity's risks and you must involve them in setting your risk appetite.

Build on any existing work you may have done by asking the Trustees and senior managers to agree what significant risks the organisation may take and what risks must be avoided.

We suggest five areas for discussion

Trustees may want to consider the following as they develop their approach to risk appetite:

What are the strategic objectives of the charity? Are they clear? Are they still relevant?

What significant risks are Trustees willing to take and what are they not?

Are Trustees clear about the nature and extent of the risks they are willing to take in pursuing 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 are you prepared to take in total?

If you have an appetite for 'risk-seeking' in too many areas could you actually manage that? Think about how much risk you can accept overall, and remember that risks can be linked, increasing overall impact.

Think about your capability

How embedded is risk management?

How strong are your risk management culture, systems and processes?

You may find it easier to integrate appetite with the rest of your risk management framework if everyone is already familiar with the basics and has a positive attitude towards risk management.

Use our risk management maturity framework or the questions we've included in our supplementary guide to assess your capability. This will help you to design a risk appetite that's appropriate for your charity.

Consult widely

Consult with internal and external stakeholders

Risk management needs a top-down and bottom-up approach for it to be integrated and successful. So don't forget to consult with internal and external stakeholders. These groups can provide valuable insight and also be a great testing bed for your ideas.

Once again we have included some questions in our supplementary guide to help you with this part of the process.

The Statement

Record your risk appetite

When you have completed this work set out what has been agreed in a clear 'risk appetite statement'.

Cover these points in your statement

Your statement should include your risk appetite for each strategic objective or risk area. It should set out:

- What are acceptable risks
- What are unacceptable risks
- How much risk you will take overall
- How you have established this
- How you intend to keep this current and what is likely to change over time

We have included some examples in the supplementary guide.

Tell people about it

Communicate the statement to all those who will have a role in adhering to or monitoring appetite. They should be considering risk appetite when making decisions about new ventures or risks.



Keeping pace with change

As risks change, appetite may change

Review risk appetite regularly

You should review your risk appetite as the landscape in which you operate changes.

For example the recent media focus on charities and changes to fundraising regulations may well affect your appetite for risk in that area!

New risks may emerge

New risk areas may emerge, perhaps as a result of engaging in new areas of work or operating in new geographical areas or with new client groups.

Consider your risk appetite for these areas.

Unanticipated changes also need action!

Remember that some changes cannot be anticipated so additional reviews may be required. Don't wait for an annual review before taking action.

Capability changes

As risk management becomes more embedded your capacity to manage risks may change too. You may then choose to take or accept more risk, safe in the knowledge that they will be managed effectively.

Test decision making

To check that risk appetite remains relevant and is operating as planned you need to test the environment in which it operates.

Does everyone know what risks are and are not permitted?

Do decision-makers understand the risk appetite parameters in which they have to operate?

Your risk appetite framework should be practical and guide managers to make risk-intelligent decisions.

Do they understand how risks link?

Risks in different areas may be linked with a combined impact that exceeds appetite. Are managers considering this as they make decisions?

What about reward?

As they say, you have to speculate to accumulate! The risk appetite framework should help managers take an appropriate level of risk given the potential reward.

We've included more guidance in the supplementary booklet.

Further information

Want to find out more?

There's a supplementary guide

We've included more detail and examples of how to go about this work in a supplementary booklet.

The IRM has produced detailed guidance

You can find an executive summary and a detailed guidance paper on Risk Appetite and Tolerance at www.theirm.org

The guidance is not all relevant to charities but we have used it as the basis for this leaflet and our supplementary guide.

Look at the IRM website

IRM has a dedicated webpage for charities, links to our Charities Special Interest Group and a wide range of guidance and advice about risk management. Check out the website at www.theirm.org

Joining IRM as a member gives you access to an even wider range of resources, networks and benefits.

IRM's Charities Special Interest Group

Find out more about our Charities SIG and get contact details at: www.theirm.org/events/special-interest-groups/charities/



Risk management for charities

Setting your risk appetite

May 2016