

# Taste Your Risk

## (Successfully Managing Risk Appetite)

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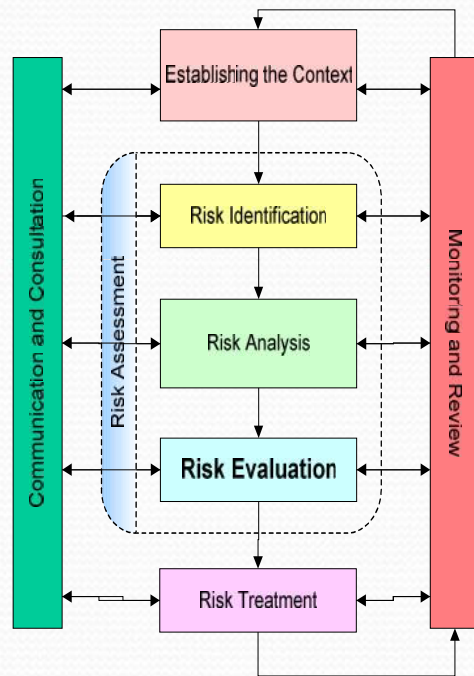
# Returning to basics

“An organisation’s ” Risk Management Framework should consider

- **Objectives & Policies**, relative priority of each
- **Risk Criteria** “consistent with the organisations Risk Management Policy... include the level at which risk becomes acceptable or tolerable” [ISO Guide 73]
- **Risk Appetite** “amount and type of risk that the organisation is prepared to pursue, retain or take” [ISO Guide 73]

# Wouldn't it be nice if we could ...

- Use the record of Risk Appetite to determine which risks require Treatment in the Risk Evaluation stage
- And by default those we can live with







# But its not that simple

- **Business Objectives** have multiple risks to achievement, so if the Risk Appetite around an objective can be expressed it will likely be on a “risk cumulative” basis, rather than a ”per risk” basis more familiar to Risk Managers. This is unlikely to assist decisions on whether individual risks are acceptable.
- **Lack of Risk Description**  
Asking managers to agree whether a risk is acceptable without detail of the risk, or benefit (prize)of taking that risk.
- **Risk Appetite varies changes** – a moving barometer from Risk Averse to Risk Seeking e.g.
  - Source of Risk e.g. Legal / Regulatory
  - Incident experience
  - Exceptions “give it a go” anyway



# Typical Appetite Influencers

## Risk Seeking

- Risk Description incl. causation, analysis
- Knowledge of the prize
- Previous experiences in similar ventures
- Degree of control to
  - prevent the risk occurring
  - manage if it does

## Risk Averse

- Risk Description, Analysis
- Treatment vs acceptance comparison
- Closeness of the risk in time
- Potential for direct consequences on individual / group (incl. Legal, Regulatory)



# Examples of Risk Appetite application

## **Strategy Risk**

- Typically choosing new business opportunities

### Risks

1. That opportunity may not be realised,
2. That opportunity may result in defocus on existing profitable business to its detriment
3. That perceived risk may scare us from taking the opportunity

## **Operational Risk**

- Typically where the necessary degree of Risk Treatment is being considered (or challenged)

# Alternative approaches to “taste the risk”

1. Benefit Analysis of the Business Objectives, followed by Risk Assessment of achievement (Strategic Focus)
2. Agreed guideline responses to Risk levels
3. Formal Acceptance of individual risks
4. Management discussions



# Benefit Analysis of Business Objective

- Structured statement of:
  - Objective and strategic reasoning for its existence
  - Expected time frame
  - Expected implementation cost
  - Expected prize (\$, reputation, market position etc.)

In combination with



# Risk Assessment of achieving the objective

- Risk Assessment at the planning (strategy) stage will give a view of the extent to which the expected benefits may be eroded by risk occurrence and point to:
  - Whether the objective is worth pursuing
  - Whether its within traditional capabilities
  - How achievement of objective can be made more certain if we proceed

# Business Objective Benefit Matrix

	Little Importance	Moderate Importance	Essential
Limited Capability	Little Benefit	Little Benefit	Some Benefit
Moderate Capability	Little Benefit	Some Benefit	Very Beneficial
Very Capable	Some Benefit	Very Beneficial	Very Beneficial



# Agreed Responses to Levels of Risk

- Level of risk descriptors such as High, Low etc. may not indicate what the response to the risk should be.
- An agreed response table in the Risk Context (Risk Criteria) can:
  - Guide Risk Evaluation decisions on Risk Treatment
  - Provide a guide to Risk Appetite (Acceptable column)
  - Allow Risk Evaluation decisions on Risk Treatment
  - Be adjusted where the Risk Appetite may differ e.g. new ventures, legal risk etc

Residual Risk Level	Acceptable?	Required actions
Very High	Unacceptable	Treat risk, or obtain Risk Acceptance. Enter in Risk Register. Monitor
Medium	Possibly Acceptable	Treat risk, or obtain Risk Acceptance. Enter in Risk Register. Monitor
Low	Acceptable	Enter in Risk Register. Monitor

# Formal Acceptance of Individual Risks

- Some organisations assign authority to specific managers to accept risk (how much and by whom is one expression of Risk Appetite)
- It follows that an application to accept a risk should consist of:
  - Risk Description
  - Controls in place to reduce, transfer the risk
  - Risk Owner Name
  - Benefit gained by accepting the risk
  - Residual Consequence, Likelihood, Level of Risk (Residual)
  - Alternative Treatment considered before acceptance requested, and why rejected
- Allows the authority holder to assess:
  - Whether the acceptance is a good 'bet' compared to the prize





# Regular Management discussion

- Provides valuable input on:
  - Movement in Risk Appetite ‘barometer’
  - Changes in Objectives
  - Views on existing risk evaluation
  - Leads to better risk management integration



# Summary

- Formally declaring Risk Appetite in the Risk Context is not simple
- Risk Managers can positively facilitate the Risk Appetite conversation by:
  - Bringing rigour to the process
  - Understanding what the risk really is, followed by Analysis, and understanding how the risk can be controlled
- And Risk Managers can discover Risk Appetite in other ways.