



ENTERPRISE RISK  
MANAGEMENT SYMPOSIUM

# Enhancing Our Risk Appetite Framework

A Case Study

# Desired Outcomes

1. An approach to developing a risk appetite framework and risk appetite statement.
2. Understanding how a risk appetite framework can be operationalized.
3. Identifying and overcoming challenges to asserting the value of risk appetite to stakeholders.

# History

- Inaugural group policy/statement in 2011
- Businesses established risk appetite policies and protocols in 2008-2009
  - International business has an actively managed risk appetite framework
- Risk appetite metrics and dashboard are part of ongoing corporate ERM reporting
- Risk appetite concepts are evolving in the industry
- Aim for our risk appetite framework to be both defensive and opportunistic

# Objectives - enhancing framework

- Strengthen link to our vision, strategy and business objectives
- More forward-looking
- Enhance consideration stakeholders
- Incorporate upside and downside
- Vet and validate existing risk tolerances and limit metrics
- Use it
- Continuous improvement

# Approach

## Broad Steps

- Agree principles
- Risk appetite policy
- Questionnaire
  - Multiple rounds
- Group risk appetite statement
- Cascade to business

## Governance

- Business risk committees
- Executive Risk Management Committee
- Senior management
- C-Suite
- Members of Board of Directors

# Principles

## Establishing Risk Appetite

- The risk appetite framework should clearly align with our vision and business strategy.
- The risk appetite framework should identify risk preferences for all material risks.
- The diverse interests and objectives of key stakeholders should be considered.
- For risk exposures that are challenging or inappropriate to quantify, qualitative boundaries should be developed and assessed.

# Principles

## Embedding Risk Appetite

- Ownership of and adherence to risk appetite should be embedded in culture and expectations.
- The risk appetite framework should be cascaded through the company to achieve understanding and support and will build off of business unit and functional operating policies and procedures.
- Risk and other management committees should put the risk appetite framework into practice at the business and/or functional levels;
  - They have oversight responsibility to ensure decisions are consistent with group objectives and risk appetite.

# Principles

## Embedding Risk Appetite

- Evidence of strategy and risk appetite alignment at both enterprise and business segment levels should be provided.
- Risk limit metrics should relate to business objectives and stakeholders priorities as well as specific objectives of the business unit or function.
- Managing within risk appetites should be practical, applicable and actionable.

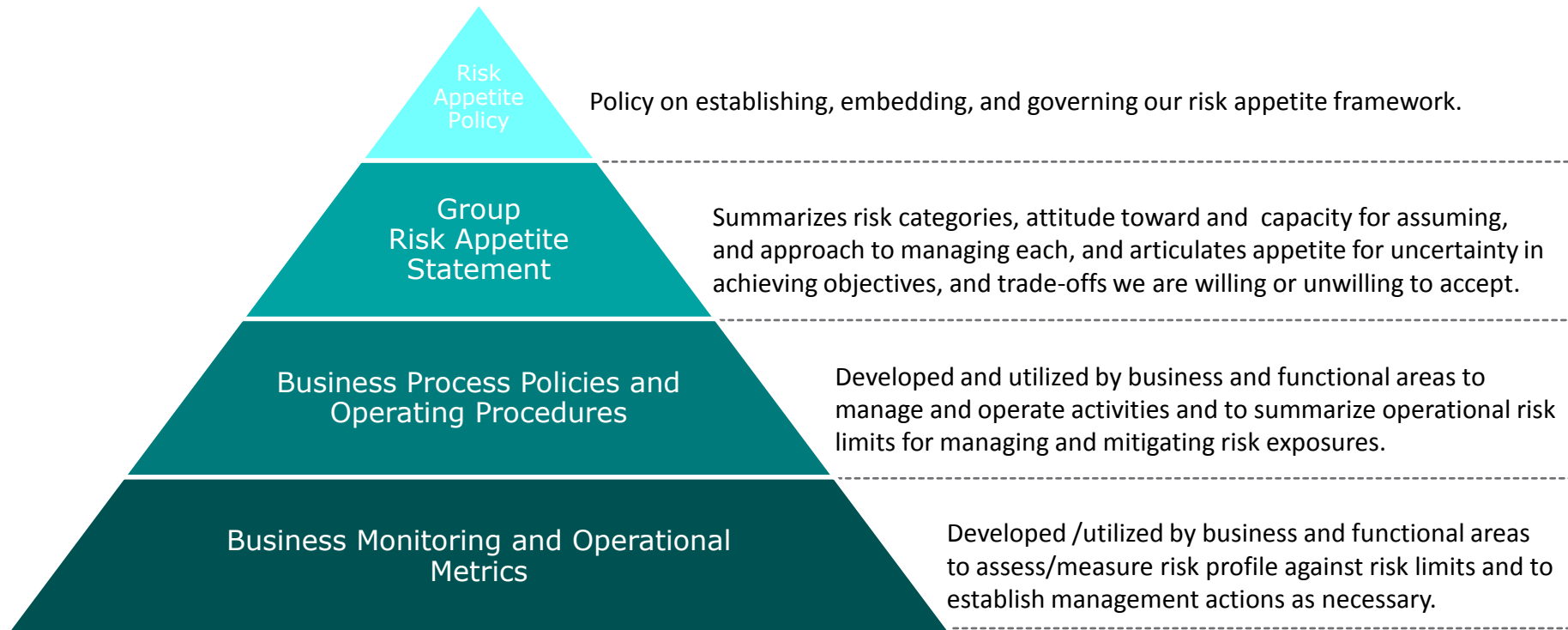


# Principles

## Governance

- Board of Directors and senior management involvement, responsibility, and ownership should be clearly established.
- Roles and responsibilities for monitoring adherence to risk appetite should be clearly established.
- Risk appetites should be reassessed after significant events and reviewed by the Board of Directors at least annually.

# Components



Policies, statements, processes and governance that establish and monitor adherence to Risk Appetite

# Components

- *Risk Limits:*
  - Granular operational controls, associated with *business process policies and operating procedures* designed to improve risk-taking.
  - Forward-looking measurements that cascade risk tolerances to lower levels of granularity.
  - Convenient to monitor, and established at/for the level of the organization that manages risk on a day-to-day basis.
  - Serve dual purpose –enough risk taken and as a brake against excessive risk taking.

# Components

- *Risk Profile:*
  - Point in time assessment of risk exposures, measuring them relative to our risk tolerances and limits
  - *Business monitoring and operational metrics* support adherence to risk appetite
- *Stress and scenario testing:*
  - Utilized to set expectations and highlight risk exposures, allowing management to determine appetite for each and used to monitor against risk tolerances and limits

# Questionnaire - Primer

Many employees have laptop computers, allowing them great flexibility in how and where they work. What is your appetite for a stolen laptop (the physical asset)?

\_\_\_ 1-Averse: We have zero or near-zero tolerance and avoid this risk at all costs.

\_\_\_ 2-Cautious: We have low tolerance and avoid this risk except under rare circumstances.

\_\_\_ 3-Moderate: We have limited tolerance, will accept the risk if outweighed by benefits, and if it can be carefully measured, monitored, and corrected.

\_\_\_ 4-Flexible: We have tolerance, will accept this risk for high likelihood of gain, and will manage the impact.

\_\_\_ 5-Tolerant: We have a high level of tolerance and accept this risk in order to exploit the gains.

# Questionnaire - Primer

What is your appetite for access to customer information or confidential data by the individual who stole the laptop?

- \_\_\_ 1-Averse: We have zero or near-zero tolerance and avoid this risk at all costs.
- \_\_\_ 2-Cautious: We have low tolerance and avoid this risk except under rare circumstances.
- \_\_\_ 3-Moderate: We have limited tolerance, will accept the risk if outweighed by benefits, and if it can be carefully measured, monitored, and corrected.
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# Questionnaire - Categories

- What are our strategic/business objectives?
- For each risk category, what is tolerance for each?
- What is our attitude regarding uncertainty in achieving them?
- When faced with decision making, how willing are you to put achievement of each objective at risk?

# Questionnaire - Purpose

- Help senior management and the Board articulate levels of appetite for/aversion to different risks AND tolerance with uncertainty in achieving our key business objectives
- Intended to draw out views and perceptions
- Educate and synthesized to an aligned view



# Questionnaire - Outcomes

- The method began and sustained the risk appetite conversation.
- We got at the heart of understanding our culture's risk appetite.
- Improved understanding and consistency regarding what we are trying to accomplish

# Risk appetite framework



# Risk Appetite Statement

Vision & Values

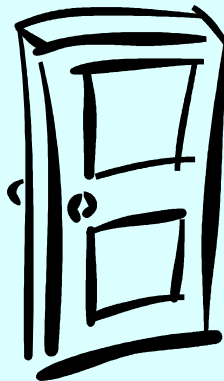
Strategy

Risk Appetite

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We assume risks to create value and achieve objectives. Risk appetite articulates:

- Our preferences
- Our attitude toward and capacity for assuming additional risk
- Our approach to managing our risks.



Risk management supports achievement of objectives. Risk appetite articulates the level of uncertainty we are comfortable with in achieving our objectives

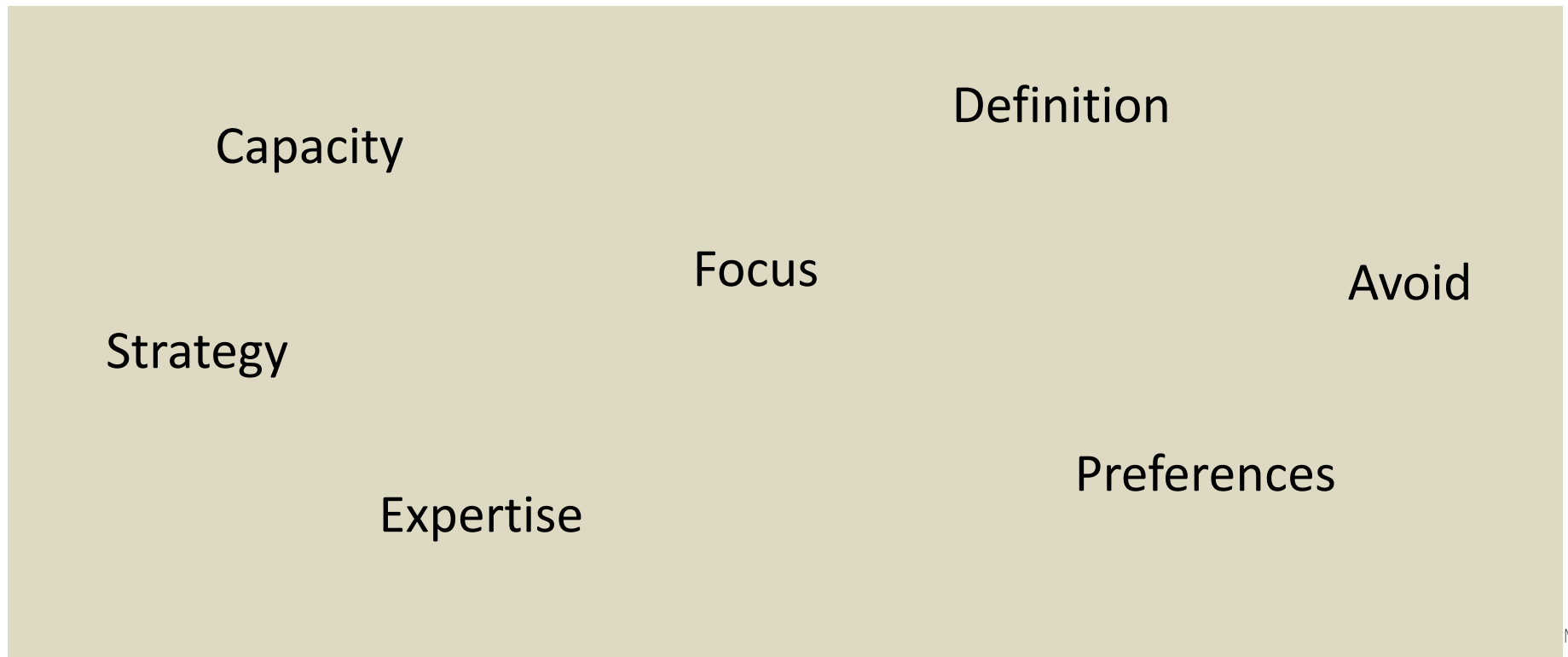
1. Protecting and growing our franchise value
2. Maintaining adequate and efficient levels of capital
3. Maintaining liquidity to satisfy obligations
4. Achieving target performance

Implicit in our strategy and aligned with our vision and values is maintaining a solid financial foundation, meeting commitments to policyholders and maximizing shareholder value over the long term.

# Risk Preferences

*Accept and Manage*

*Minimize Exposure*



# Risk Tolerances - examples

## Franchise Value Protection and Growth

- Brand, reputation
- Data security and privacy
- Third parties
- Regulatory compliance

## Capital and Liquidity Management

- Regulatory/excess capital
- Liquidity metrics
- Use of stress testing and EC
- Capital quality and fungibility

## Target Performance Achievement

- Minimum profitability
- Sale/price balance
- Volatility – sensitivity testing
- Statutory and GAAP

# Cascading to the business

## Establishing risk tolerances and limits

- Risk and other management committees have oversight responsibility
- Business units determine risk tolerances and limits, utilizing existing structures
  - Risk limits are applicable and serve as metrics by which to manage within risk appetite.
  - Aligns with level at which business decisions are made.
- Encourages operating with a risk management mindset.
  - Accountable for establishing/enhancing programs to keep risk exposures within risk appetite using risk limits and actions triggered as needed

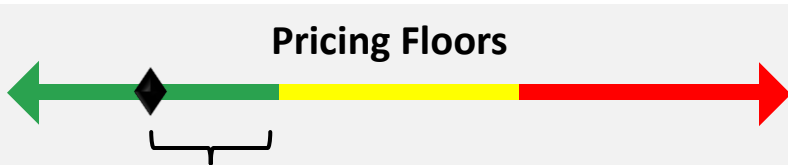
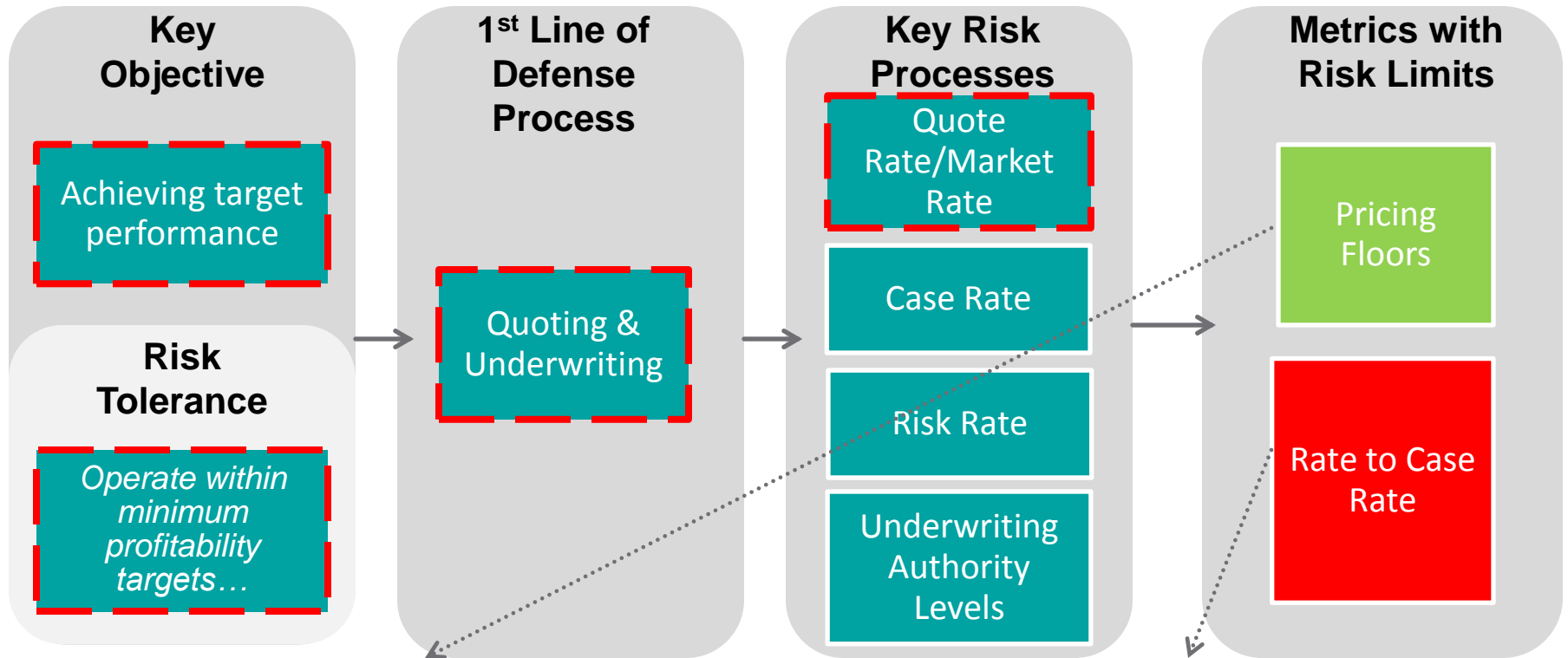
# Cascading to the business

## Monitoring and reporting

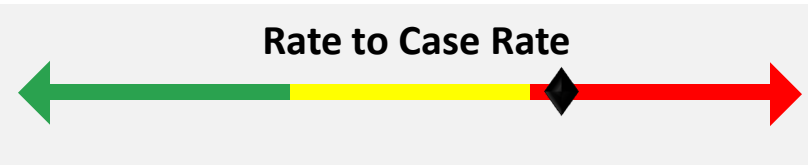
- Accountability for establishing policies and procedures with relevant risk limits.
- Anticipate risk limit breaches, by considering a projected risk profile
- Escalation process with procedures to ensure action
- Employ “soft limits” and “hard limits”.
  - Soft limits - relate to an exposure level that triggers discussion and heightened monitoring, but for which remedial action is not yet necessary.
  - Hard limits - breach results in immediate remedial action,

# Establishing the link

- Within risk appetite
- Watching
- Outside risk appetite



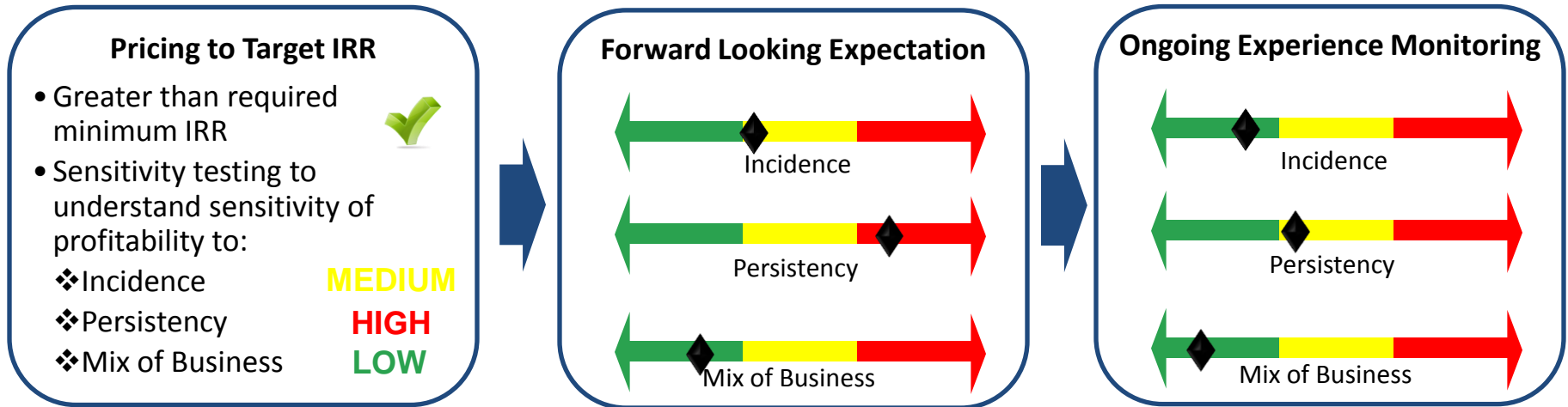
**Opportunity:**  
budget available to add risk



**Outside of risk appetite:**  
Need to take actions



# Establishing the link



Sensitivity testing can be used to understand volatility, determine risk appetite and monitor against it.