

World Risk Day

Risk Appetite – Theory v Practice Panel Discussion

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Panel Members

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Risk Appetite Definitions

- "amount and type of risk that an organization is prepared to pursue, retain or take" (ISO Guide 73:2009)
- "the degree of risk, on a broad-based level, that a company or other entity is willing to accept in pursuit of its goals." (COSO)
- "the amount of risk an entity is willing to accept in pursuit of value." (COSO)
- Risk attitude – "organization's approach to assess and eventually pursue, retain, take or turn away from risk" (ISO 31000)

Risk Appetite – Why defining it is important

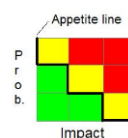
- "The purpose of 'defining your risk appetite', whatever that may mean, is to control directly, or at least influence directly, how people make decisions on behalf of an organization in the face of risk and uncertainty by specifying the importance of risk in some way." (Matthew Leitch)
- "Influencing decisions under uncertainty made by people on behalf of organizations is important because people don't always make these decisions appropriately." (Matthew Leitch)

Risk Appetite – Influencing Factors

- Factors that influence people's decision making under uncertainty:
 - Personality
 - Situation
 - Perception/ knowledge
 - Personal circumstances
 - Incentives/ rewards
 - Penalties
 - Stakeholder expectations

Risk Appetite – Common ways to articulate

- Risk appetite statements (e.g. APRA)
- Financial risk limits (e.g. no losses > \$x)
- Return on risk adjusted capital (RORAC– evaluating projects based on capital at risk)
- Risk appetite lines



Risk Appetite – What happens in practice ?

Panel Questions and Discussion

