

# Summer School 2025

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## Risk Appetite: Small phrase, big concept!

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# About Us

- ⦿ Experienced Risk & Compliance Professionals
- ⦿ We offer GRC software solutions and services
- ⦿ Headquartered in Ireland
- ⦿ Client base in fund management, insurance, payments and other sectors





# AGENDA

- ⦿ Defining Risk Appetite, Risk Tolerance & Risk Capacity
- ⦿ Explaining how they are related
- ⦿ Connection to Risk Capability

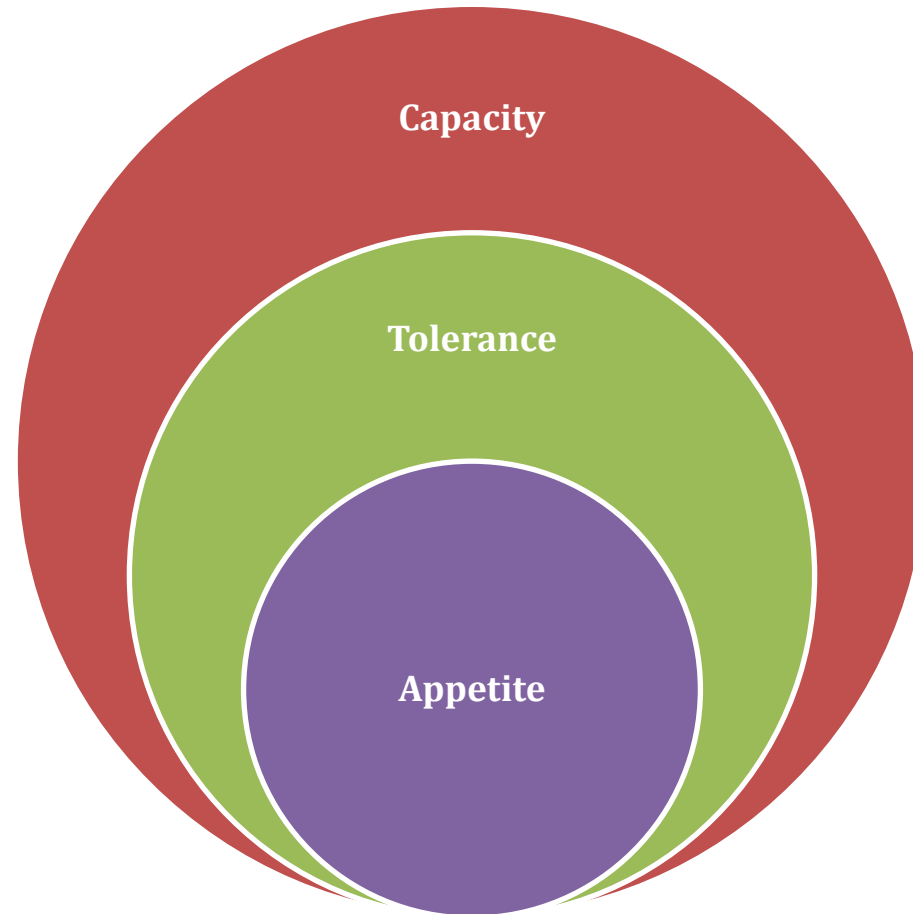
# Key Definitions

**Risk Capacity** is the maximum amount of risk an organisation is technically able to assume before breaching one or more of its capital base, liquidity, borrowing capacity, reputational, regulatory and operational environment

**Risk Tolerance** the level of risk that organisation is prepared to tolerate in pursuit of its goals and objectives


**Risk Appetite** is the amount and type of risk that the organisation is willing to pursue, retain or take to achieve its goals and objectives

# Risk Capacity



# Risk Appetite Statement

**Step 1** - Categorise the organisation's risks e.g. governance, operations, strategic etc.



**Step 2** - Assign an overall risk appetite: Zero, low, moderate, high



**Step 3** - Document a brief rationale for the high-level risk appetite



**Step 4** - Document the more quantitative and qualitative risk tolerances which frame the risk appetite

# Risk Appetite is Organisation Specific

Risk Appetite is dependent upon the organisation's own:

- ❁ **Capacity to absorb risk**
- ❁ Vision for itself – where does it see itself in the future and what is it prepared to risk to get there?
- ❁ Current financial health and long-term viability
- ❁ Current and future business model aspirations
- ❁ Leadership approach to risk (some more conservative than others)
- ❁ Regulatory environment

# Example 1 of Risk Appetite & Tolerance

Risk Category	Risk Appetite (illustrative only)	Example of Risk Appetite Rationale by Category (illustrative only)	Examples of related Risk Tolerances (illustrative only and non-exhaustive)
<b>Capital</b> - Capital risk arises mainly as a result of the quality or quantity of capital available, the sensitivity of a firm's exposures to external shocks and/or the level of capital planning and management process.	Zero for statutory minimum requirement if applicable	This organisation recognises that it is vital to have sufficient capital in place to ensure that the it is in a position to absorb losses which may arise from adverse conditions which could arise in the course of conducting our business.	<ul style="list-style-type: none"> <li>* This organisation has zero risk appetite for breach of regulatory requirements in relation to our capital position. Any breach of this risk tolerance limit will be notified to the Regulator as soon as possible including a plan for rectification.</li> <li>* Does the organisation aim to have a capital buffer in place above the mandatory minimum? If so, what % is that?</li> </ul>



# Example 2 of Risk Appetite & Tolerance

Risk Category	Risk Appetite (illustrative only)	Example of Risk Appetite Rationale by Category (illustrative only)	Examples of related Risk Tolerances (illustrative only and non-exhaustive)
<b>Credit</b> - The risk that money which is given out in the form of a loan is not repaid by the borrower.	Moderate	Lending is a core function of the organisation and there will always be risk attached to the extension of funds in the form of loans. Therefore, to maintain financially viable, it is impossible to achieve, or even aim for, zero or low risk in this area. The aim is to maintain a moderate appetite for risk in this area through prudent underwriting and maintain an appropriate level of loan provisioning to meet industry-standard credit loss.	<ul style="list-style-type: none"> <li>* What is the current arrears ratio versus its target ratio?</li> <li>* What is the current level of loan provisioning above the minimum regulatory requirement?</li> <li>* What is the maximum loan size? If this varies by loan product, include maximum for each distinct loan product type e.g. Mortgage, Business Loan, Personal loan etc.</li> <li>* Is there a maximum tolerance for loans greater than a specific amount as % of total assets?</li> </ul>

# Risk Appetite

The leadership determines the risk appetite of the organisation across a range of risk categories/risks –

- ❁ Documented with the intention of ensuring the organisation does not put either too much **or too little** at risk
- ❁ The risk appetite can and will change over time as environment and business conditions change
- ❁ Appropriate ‘tone from the top’ is vital for embedding positive risk management



# Risk Management Capability

This is the ability to manage risk exposures within desired risk limits.

Risk Management Capability incorporates:

- ❁ Strong understanding of the organisation's own current and potential risks
- ❁ Consistency in risk measurement
- ❁ Application of skills, knowledge and experience in assessing risk
- ❁ Practical understanding of how to develop a strong system of controls
- ❁ Appreciation of the value of strong oversight
- ❁ Positive risk management culture

# Embedding Risk Appetite

- 🌀 **Communication, Communication, Communication**
- 🌀 Ensure all decision makers are fully aware
  - May require separate sessions with each Business Unit
- 🌀 Reflect Appetite in Policies, Procedures, Processes and Plans
  - In a manner that influences decision making
- 🌀 Disaggregate risk limits as appropriate
  - Business Unit, Category of risk, specific risks
- 🌀 Appetite should be reflected in Risk Criteria
  - Evaluate each risk and decide if it is within your appetite

# Any questions?





**Thank you**