

Risk Appetite Workshop

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RISK

TO DARE

The word “Risk” derives from the early Italian word “risicare,” which means “to dare.” In this sense, **risk is a choice** rather than a fate. The actions we dare to take, which depend on how free we are to make choices, are what the story of risk is all about.

The capacity to manage risk, and with it the appetite to take risk and make forward-looking choices, are the key elements that drive enterprises forward.

“Although enterprises use the term risk management frequently, it can be misleading because risk is never actually managed. It is the enterprise that is managed in anticipation of the uncertainty (and opportunities) presented by the risks.”

Agenda

Item	Agenda Topic	Speaker	Timeframe (min)
1	Welcome	Cheryl Eason	5
2	Education	Forrest Grimes Melissa Azevedo Rebecca Franklin	15
3	Breakout	Break-out Groups	45
4	Reconvene and share breakout discussion	Entire Group	30
5	Voting (Clicker Exercise)	Board Members Timi Leslie Facilitation	20
6	Next Steps	Forrest Grimes	5

Workshop Objectives

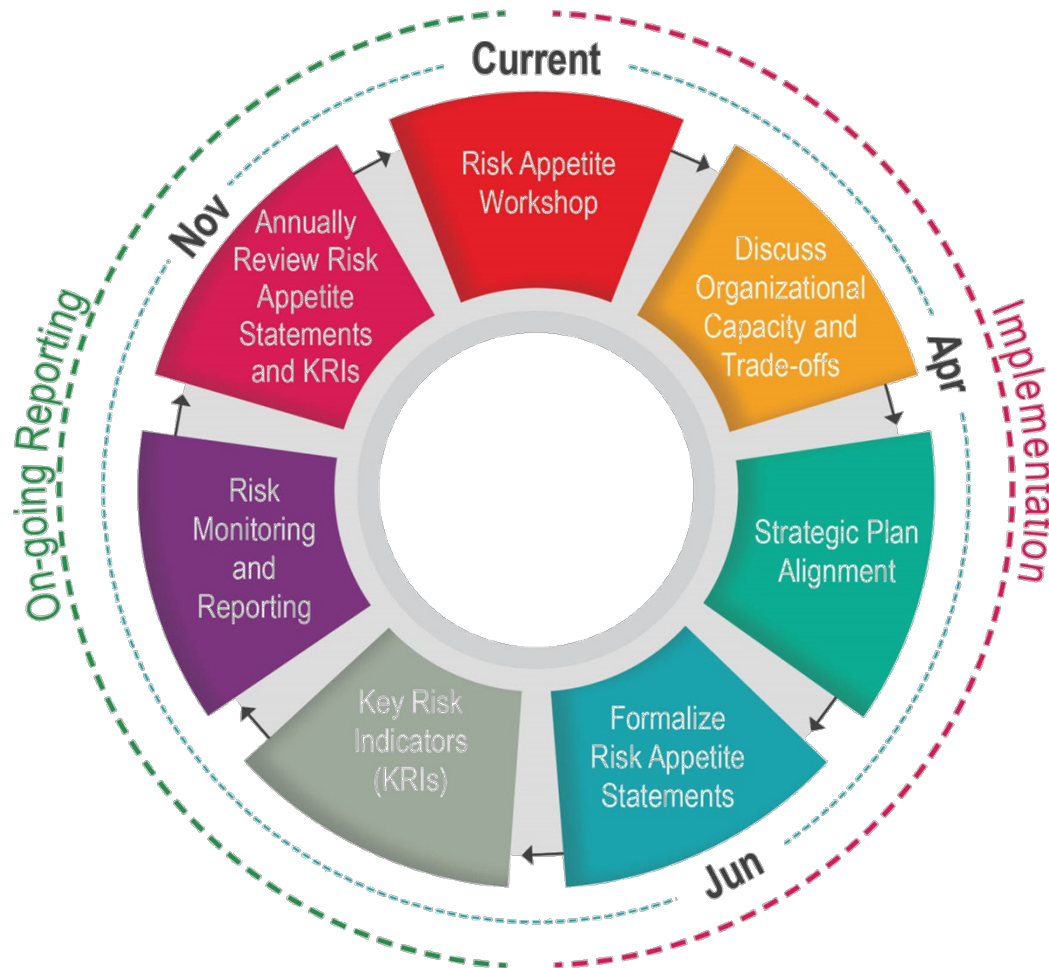
1

Establish a common understanding of risk appetite principles and terminology

2

Seek guidance from the Board on the appropriate level of appetite for CalPERS enterprise risks

Setting Risk Appetite



Key Terms



Risk
Appetite

The amount of risk an organization is willing to assume in the pursuit of its strategic objectives

Risk
Tolerance

The acceptable level of deviation from a standard or objective delineated through the use of limits, policies, and delegation of authorities

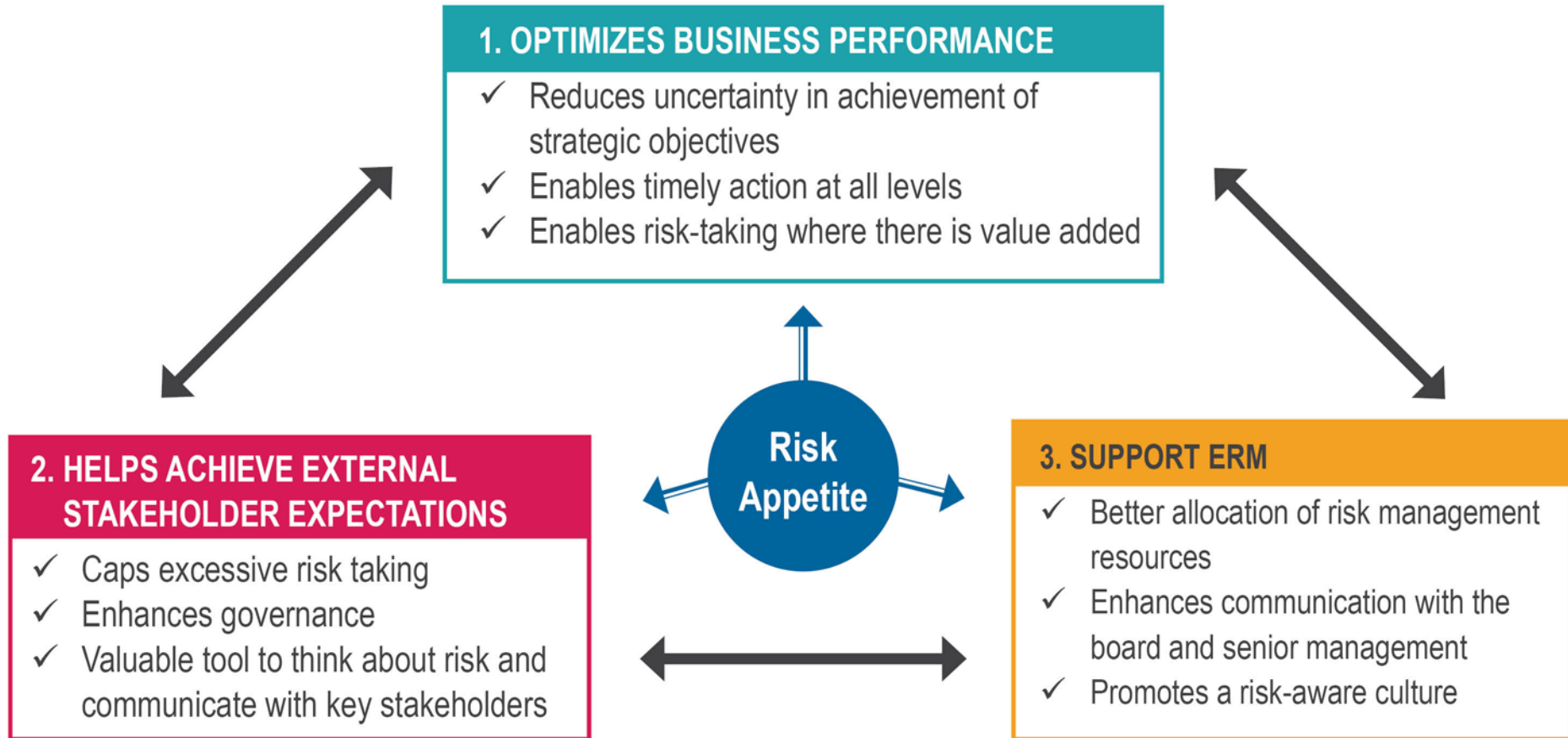
Risk Capacity

The maximum amount of risk an organization can assume given its resources operational environment and obligation to stakeholders

The Goal of Effective Risk Management



Why is it important for CalPERS to have a risk appetite statement?



Roles and Responsibilities

	Project-Specific Roles/Responsibilities	Ongoing Roles and Responsibilities
Board and Committee	<ul style="list-style-type: none"> Approve, document, and communicate how much risk the organization is willing to accept at all levels. Formally request that management articulate a risk appetite. Set risk appetite, tolerances and limits that ensure enough risk is being taken to allow strategic objectives to be met. 	<ul style="list-style-type: none"> Work with senior management to ensure adequate oversight of risk appetite. Confirm that the agreed upon risk appetite process is appropriate for ensuring that the organization is operating within risk appetite parameters. Request from time to time that management update or revise the risk appetite statements.
Senior Management	<ul style="list-style-type: none"> Effectively and clearly communicate goals and objectives, strategy, achievement metrics, and relevant time periods for pursuing the objectives. Provide necessary resources to support ERM team. Reach consensus on statements and approach. 	<ul style="list-style-type: none"> Support risk management culture with values and a tone that ensures that risks are managed within acceptable limits. Assign process owners the responsibility to manage risks arising out of their processes. Collaborate with ERM team on risk appetite monitoring process. Affirm risk appetite compliance in respective business units.
ERM team	<ul style="list-style-type: none"> Develop a project plan for risk appetite creation, determining who will be involved and what data you will need. Work with senior management to implement risk appetite monitoring framework. Advance risk intelligent culture. Create and implement reporting tools (KPIs & Operation Events) 	<ul style="list-style-type: none"> Monitor adherence to risk appetite at all levels. Suggest risk appetite revisions as needed. Report risks to Board (semi annual).
Program	<ul style="list-style-type: none"> Implement controls and processes to be able to effectively identify, monitor, and report risks that have exceeded risk appetite. 	<ul style="list-style-type: none"> Actively monitor adherence to approved risk appetites and tolerances. Escalate breaches in risk appetite and tolerances.

Three Questions to Set Risk Appetite

Rating	Risk Taking Philosophy	Tolerance for Uncertainty	Choice	Trade-Off
		How willing are you to accept uncertain outcomes?	When faced with multiple options, how willing are you to select an option that puts this objective at risk?	How willing are you to trade-off this objective against achievement of other objectives?
Averse	Close to zero tolerance for risk event	Unwilling	Will select the lowest risk option always	Never
Cautious	Accept uncertainty when it can be carefully measured and monitored	Limited	Will accept if limited, with favorable risk-reward scenario	Prefer to avoid
Flexible	Open to reasonable risk taking	Fully willing	Will choose option with highest benefit and accept possibility of failure	Willing

The Tenets of a Risk Appetite Statement

An Effective Risk Appetite Statement Should:

- I. **Connect**—It must facilitate and support the ongoing monitoring of risks. While reflecting the strategic drivers for the organization and connecting core processes such as regulatory requirements, strategic drivers, and business plans.
- II. **Sense**—It must act as part of an early warning risk detection process. Together with key risk indicators (KRIs), risk appetite should support the organization's ability to detect when a risk will impact the business.
- III. **Reflect**—It must incorporate responsive changes in business environment. It should support the organization and allow it to navigate timely through dynamic business conditions.
- IV. **Support**—It must provide guidelines for strategic decision making. It should align people, process, and infrastructure to support key objectives.
- V. **Be S.M.A.R.T**—It must be specific, measurable, actionable, reliable, and timely (S.M.A.R.T). Guiding metrics and scales of risk appetite should be as quantifiable as possible.

Risk Appetite Statement Samples

INFORMATION SECURITY

We have an averse risk appetite for a security breach in which significant amounts of confidential data affecting our members, and/or proprietary information has been compromised that can result in regulatory notification, monetary fines, indemnity, and reputational damage. (Source: CEB analysis)

BUSINESS CONTINUITY

We have an cautious risk appetite for incidents in which we are unable to continue to operate critical business functions with a predetermined recovery time. We will not accept any incidents in which clients are unable to access their information or our services for more than one hour online except in the most extreme circumstances. (Source: CEB analysis)

INNOVATION

The Board's risk appetite for innovation is flexible, depending on the nature of the innovation being proposed. It has a broad view of innovation that supports quality, patient safety and operational effectiveness. This means that it will support the adoption of innovative solutions that have been tried and tested elsewhere, which challenge current working practices and involve systems/technology developments as enablers of operational delivery. Other innovations will be limited to only essential developments and with decision making held by senior management. (Source: [Colchester Hospital](#))

Next Steps

1

Discuss organizational capacity and trade-offs (*Spring 2017*)

2

Formalize risk appetite statement (*June 2017*)