

Embedding Risk Appetite in decision making – Approach & Challenges

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Introduction to Risk Appetite

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What is Risk Appetite Framework?

Risk Appetite Framework

- Risk appetite statement documents the risks that an organization is willing to accept.
- An organization's strategic goals should be the driver of its risk philosophy.
- Without a risk appetite statement, there may be an insufficient basis for managing risk, which could lead to an inconsistency in decision making.
- Developing a risk appetite statement requires significant knowledge of the business and specific expertise in the disciplines of risk management.

A risk appetite statement should:

- come from the Top and be reviewed and approved by the Board of Directors, at least annually.
- be in line with the organization's strategy, objectives and key stakeholder demands.
- cover key risks and is the cornerstone / bedrock of an effective risk management.
- reflect the resources required to measure and manage the company's risks.

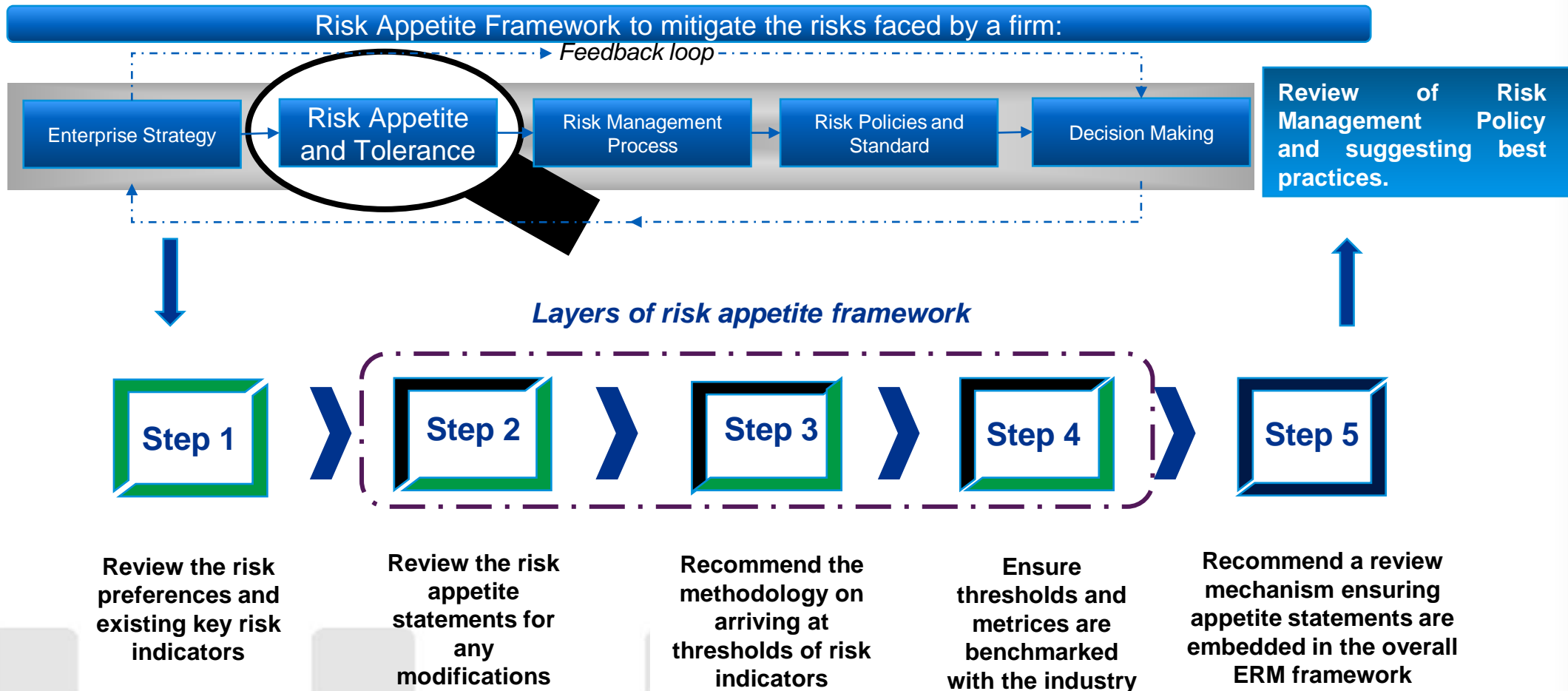
Why is Risk Appetite Framework important?



What's at stake?

1	<u>Reputation:</u> Adverse incidents can lower business volumes and earnings.	
2	<u>Governance:</u> Ensuring effective board governance is becoming priority.	
3	<u>Intelligence:</u> Boards increasingly ask questions about magnitude of risk undertaken.	
4	<u>Institutional Investor:</u> The focus on risk management is a top governance priority of institutional investors / capital markets.	
5	<u>Convergence:</u> Boards increasingly need to understand where concentration risk prevails and to what degree.	
6	<u>Regulatory Requirements:</u> A risk appetite process is legislated in few countries.	

How Risk Appetite fits in an Enterprise?



How 'Risk Appetite' acts as a Value enabler...

Key steps:

1. Bottom-up analysis of the company's current risk profile
2. Interviews with the Board of Directors regarding the level of risk tolerance.
3. Alignment of risk appetite with the company's strategy
4. Implementing the risk limits and tolerances
5. Establishment risk-monitoring processes.
6. Communication with senior management for their buy in.

Cost savings from risk mitigation



Revenue enhancements from risk insights



Reduced cost of risk capital



Cost of risk operations



Increased risk adjusted returns

Benefits:

- ✓ Optimized risk adjusted returns
- ✓ Positive impact on KPIs
- ✓ Lower cost of capital
- ✓ Integral part of financial planning exercise
- ✓ Reduced regulatory scrutiny
- ✓ And more...

Thank You

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