

LEI's GET STARTED



So why are we here today?



What is Risk?

The Institute of Risk Management

Risk is the combination of the probability of an event and its consequence. Consequences can range from positive to negative.

ISO 31000:2018

The Effect of Uncertainty on Objectives. An effect is a deviation from the expected and can be positive, negative or both.

CCSO

The possibility that an event can occur and affect the achievement of strategy and business objectives – and the outcomes can be negative or positive.

What is an Objective?

"It is a future target or end result that an organisation wishes to achieve."

CHATTENGING

Should require innovation and creativity to achieve the objective

TIMELIMIT

Should be achieved within a specific timeframe.

ATTAINABLE

Should be within the skills and capabilities

SUPPORTIVE

Goals at lower levels should support higher level goals

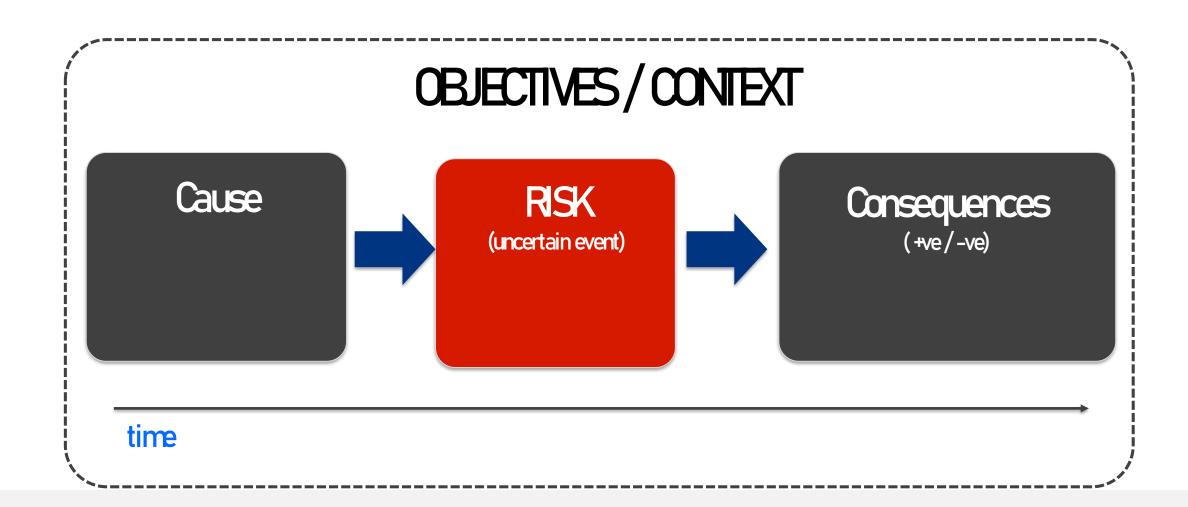
MEASURABLE

Should be relatively easy to verify

PRIORITY

Goals should be arranged in the order of priority

Describing Risk - The Risk Story

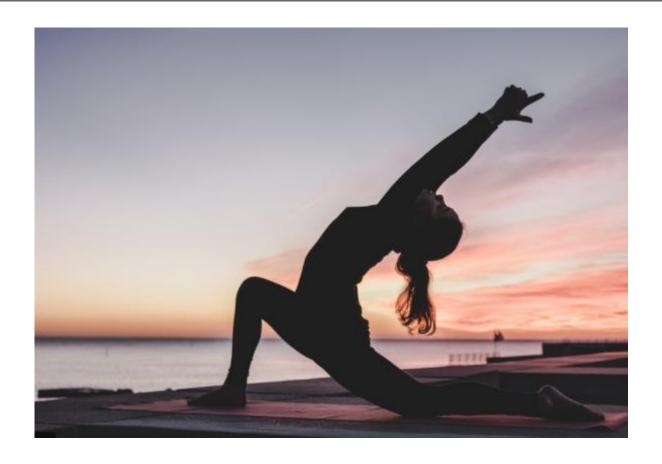


What is emerging risk

The International Risk Governance Council (IRGC) defines emerging risks as "new risks or familiar risks that become apparent in new or unfamiliar conditions.".

They are marked by a high degree of uncertainty; even basic information, which would help assess the frequency and severity of a given risk, is often lacking. Their sources can be natural or human, and often are both. Emerging risks may include new technologies—for example, artificial intelligence (AI), nanotechnology or genetic engineering—as well as economic, societal, environmental, regulatory or political change.

Desk Yoga 5 minutes



Risk Management

 Risk management is the identification, evaluation, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability or impact of unfortunate events or to maximize the realization of opportunities.

Enterprise Risk Management

 Enterprise risk management in business includes the methods and processes used by organizations to manage risks and seize opportunities related to the achievement of their objectives.

Traditional Risk Management

Insurable

One-dimensional assessment (severity)

Manages risks one-by-one

Occurs within one business department ("siloed")

Reactive & sporadic

Disjointed activities

Standardized

Risk Averse

Enterprise Risk Management

Non-insurable (mostly)

Multi-dimensional assessment

Analyzes material risks and how they relate

Spans the entire organization ("holistic")

Proactive & Continuous

Embedded in culture & mindset

More nuanced; requires soft skills

Risk taking

Risk Management is NOT...



- Risk management is not worrying
- Risk management is not auditing
- Risk management is not an event (it is a process)
- Risk management is not strategic planning
- Risk management is not the entirety of management
- Risk management is not insurance





Risk Appetite Definitions



INSITUTE OF RISK MANAGEMENT (IRM) 2011: The amount of risk that an organization is willing to seek or accept in pursuit of long term objectives



ISO Guide 73 (2009): The amount and type of risk that an organization is willing to pursue or retain.



The Orange Book (2004): The amount of risk that an organization is prepared to accept, tolerate or be exposed to at any point in time.



The CIIA: The level of risk that is acceptable to the board or management. May be in relation to the organization as a whole, for different groups of risks or at an individual risk level.

Why have a risk appetite statement

Multiple stakeholders, with different motivations, are pressing companies to articulate a clear risk appetite.

- · Risk appetite is a valuable tool for expressing how the company will approach tradeoffs in promises made to various stakeholders.
- · Risk appetite is a useful communication and alignment mechanism.

Getting Everyone on the same page: A stakeholder expectation perspective

Employees

- Investors
- Consistent, stable growth
- High risk-adjusted returns relative to peers

- Growth opportunities
- Reputation
- Efficient operating processes

Rating Agencies

 Adequate capital reserves

Risk

Risk-adjusted compensation schemes

Board of Directors & Senior Management

- Overview and understanding of material enterprise risks
- Ability to pursue corporate strategies
- Personal protection from criminal penalties

Reward

Customers

- Product quality
- Reputation
- Commitment to social responsibility

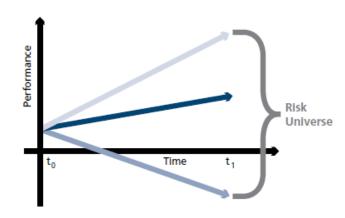
Regulators / Government

- Compliance with laws and regulations
- Accurate, timely risk disclosures

Risk Universe, Risk Appetite and Risk Tolerance

Risk Universe

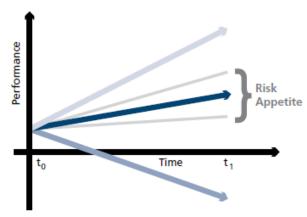
All the risks that the organization faces



The full range of risks which could impact, either positively or negatively, on the ability of the organization to achieve its long term objectives.

Risk Appetite

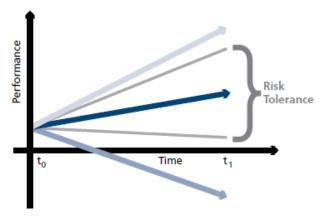
The risks that the organization actively wishes to engage



The amount of risk that an organization is willing to seek or accept in the pursuit of its long term objectives.

Risk Tolerance

Those that, if push comes to shove, the organization might just be able to put up with



The boundaries of risk taking outside of which the organization is not prepared to venture in the pursuit of its long term objectives.

Internal Factors Affecting Risk Appetite

- History of risk taking
- Long-term organizational objectives
- Stage in the organizational lifecycle (startup, growth, mature, declining)
- Financial stability
- Organisational set-up (fit-for-purpose)
- Risk capacity (amount of total risk the company can absorb without failing altogether)
- Management's willingness to take risks, or risk culture

External Factors Affecting Risk Appetite

- Market maturity
- Competition/market share
- Public image/brand
- Attitudes of stakeholders (i.e. owners, creditors, regulators, etc.)
- Possibilities for innovative or technological breakthroughs

Characteristics of Risk Appetite

- It is alright for Risk Appetite Statements to be complex.
- Risk Appetite Statements need to be measurable (they can also be converted into performance indicators).
- Risk appetite limits need to be set based on relevant and accurate data.
- Differing risks have different ranges of risk appetites (these vary over time).
- Have a view of your risk capacity and the risk maturity of the organisation when developing risk appetite.
- Risk Appetite Statements should be aligned with strategies.
- Risk appetite must be integrated into the control culture of the organisation (i.e. the propensity to take risk and exercise control).

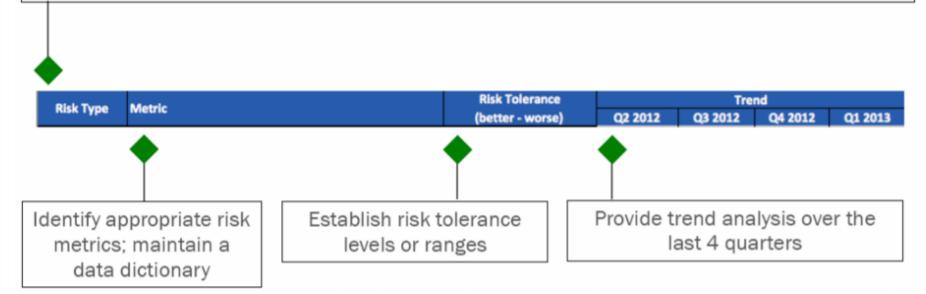
Risk Appetite Examples for an NGO

- > The need to be good stewards of donor contributions drives our organization to have a low appetite for risks relating to misuse or misappropriation of funds
- > We have a low risk appetite for significant breaches of security or unauthorized access to classified donor records
- > Due to our commitment to inclusion, we have a very low appetite for risks impacting students & employees' safety, well-being, & ability to express different ideas & opinions
- > Given that the majority of funding comes from the general public with no restrictions, we have a high appetite to take on risks relating to financing new programs
- > To achieve our mission to solve our community's greatest needs, we have a moderate risk appetite to increase charitable giving

Risk Appetite Dashboard Parameters

Define risk tolerances for five primary risks:

- Strategic/Business: The impact on earnings or value arising from adverse business decisions, or lack of responsiveness to industry changes
- Financial: The risk to income, cash flows, or valuation of equity resulting from adverse movements in market rates or prices
- Operational: The risk of adverse economic impact resulting from human error or malfeasance, failed internal processes or systems, or external events
- Compliance: The risk of legal or regulatory sanctions, financial loss, or damage to reputation as a result
 of the Company's failure to comply with laws and regulations
- Reputational: The risk arising from negative opinion as viewed by the Company's stakeholders



Risk Appetite Statement Dashboard Report (Illustrative Draft for Discussion)

Risk Type	Metric	Risk Tolerance (better - worse)	Trend			
			Q1 2013	Q2 2013	Q3 2013	Q4 2013
Strategic/ Business	ROE	12-10%				11.2%
	ROA	1.50-1.00%				1.55%
	Market-to-Book Ratio	1.5-1.0x				1.75x
	Diversification Benefit (%)	> 20%				
	New Loan Growth (per quarter)	\$1.0B				\$1.38
	New Deposit Growth (per quarter)	\$500mm				\$684mm
	Tier 1 Leverage Ratio					12.40%
	Tier 1 Risk-Based Capital Ratio					21.10%
	Total Risk-Based Capital Ratio					21.90%
	Unexpected Earnings Volatility	< 20%				
Financial	% Loan Delinquency (30+)	0.5-1.0%				
	Credit Over-Concentration as % of Tier 1 Capital					
	NII Sensitivity (Year 1)	3-5%				
	EVE Sensitivity (+100bp)	6-8%				
	Liquidity Coverage Ratio (90 days)	150-120%				
	Material Exceptions to Financial Risk Policies and Limits	0	0	0	1	
Operational	# of Cyber Incidents with Business Impact	0 - 2 - 5	0	0	3	
	% of High Risk Operational Control Issues	< 10%				
	Operational Losses as % of Total Revenue	<1%	-			
	% of Failed Business Transactions	NA				
	% of Ineffective Key Controls	NA	0	0	0	0
	# of Cyber Incidents with Business Impact	5 - 10	0	0	0	0
Compliance	# of High Severity Compliance Issues	0	-	-	-	-
	# of Outstanding Fair Lending/CRA Issues		-	-	-	-
	% of Compliance Areas Deemed Effective	90% - 80%			-	
Reputational	Retention of High Potential Key Managers		-			
	Employee Satisfaction and Engagement					
	Regulatory Ratings					
	Lending Customer Satisfaction					-
	Deposit Customer Satisfaction					
	# of Significant Legal, Ethical, and Reputational Events		-	-	-	-
	Cumulative 5-Year Stock Return vs. Comparables	120 - 80				

What's Really Going on

Reasons Why Business Leaders Fail to Act Within Risk Appetite

Reason:

Mixed Messages

"I am unsure how I can follow leadership's guidance on risk appetite while also achieving the growth targets I've been given."



"I didn't realize my decision to invest in this new technology platform was outside our leadership's risk appetite."



"I know we have low tolerance for cyber security issues. If I use this particular vendor, does this align with the low tolerance?"

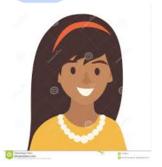


Provide specific guidance to the business



Risk's Imperative:

Ensure Consistency of Risk Appetite



Create Awareness of Risk Appetite

GOOD

LUCK

May the force be with us...

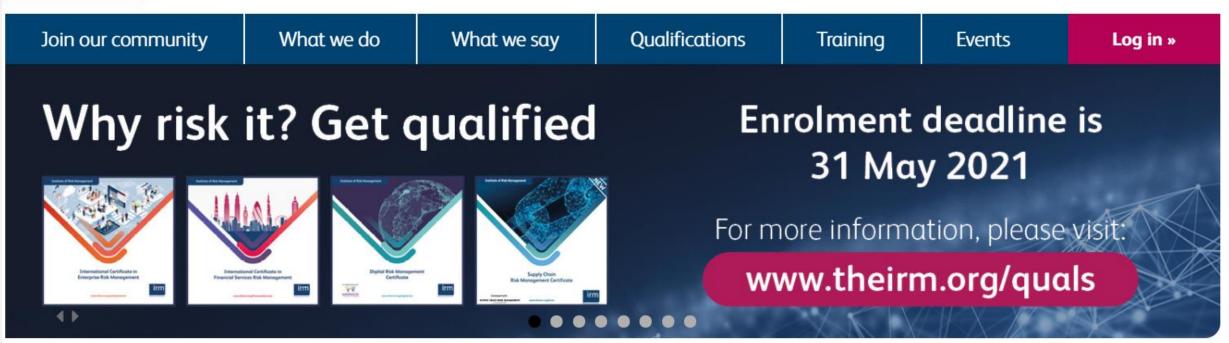
www.theirm.org



Institute of Risk Management

Developing Risk Professionals







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Dorothy is a seasoned, dedicated results-oriented business executive with a progressive career history within risk management, auditing and management consulting. A senior executive within the financial services sector, Dorothy is an IRM accredited trainer and independent consultant with a wealth of transferable skills and expertise in the following broadbased competencies: Risk Management, Business Continuity, Internal Audit, Anti-Money Laundering Compliance, Corporate Governance and Compliance Reviews, Social Impact Assessment, Development of Sustainability Policies and Frameworks, Environmental Audits, among others. Dorothy is a Global Board Member of the IRM.