



## Risk Appetite Case Study

**The client** A European Domiciled General Insurance Company writing over € 30bn of premium income annually

**The challenge** A statement of Risk Appetite is required under the UK Corporate Governance Code as well as being a part of the Solvency II requirements. The current Risk Appetite statement was over four years old, did not reflect the existing company goals and was not specific enough to be of value. Risk Appetite is seen as a complicated area with little practical assistance available on how to do it.

Liz Taylor Risk Consulting has developed a unique and practical way for an organisation to establish and then articulate a Risk Appetite statement

**The response** Liz Taylor Risk Consulting's approach is that you need a step by step approach to make a good and valuable Risk Appetite statement that can be used to maximise opportunity and manage risk in the most cost effective way.

We conducted detailed research into the client's risk profile and corporate goals, carefully preparing for the next stage. We then conducted an in-depth workshop for the Board of Directors.

In this workshop we explored, interactively, a number of areas with the Board including;

- An understanding of the difference between risk capacity, risk tolerance and Risk Appetite
- That risk comes in two forms – downside risk only, which is called static risk; and risk that can have a downside and an upside, which is called dynamic risk
- That Risk Appetite should be differentiated in terms of single risk events, or single year performance, and multiple risk events or multi year performance
- The corporate drivers that mattered to the business
- The top eight key risk events that would enable the conversation about Risk Appetite
- How to come to agreement on the risk control environment
- How to evaluate risk capacity/tolerance/appetite on an escalating scale



**The outcome** Whilst the Board understood and could see the outcome forming, they also acknowledged that this was the beginning of a journey to articulate the organisation's Risk Appetite once all considerations had been taken into account.

A number of key areas of learning took place for the Board, not least that they appreciated the background work that had gone into evaluating the key risks for the organisation, and the controls that were already in place. There were several areas of control that were spotted as not being in place and a useful debate took place about the cost versus benefit of implementing those controls.

This interactive workshop has been rebooked as a regular one hour event to precede the monthly Board meetings for the next six months so that progress on the journey to determining the Risk Appetite will continue.

### Key points

- Stating a Risk Appetite enables the whole organisation to get real with cost benefit analysis of controls
- There is a practical way to establish a real Risk Appetite statement
- Establishing Risk Appetite is a long journey

September 2010