

## A Risk too Far? Making Effective Use of Risk Appetite to Support both Risk Taking and Control

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## Outline

- The challenge
- What is risk appetite really about?
- Putting risk appetite to work: practical solutions for an effective risk appetite framework
- Case study – Plymouth Community Homes

## The Challenge



## The Response?



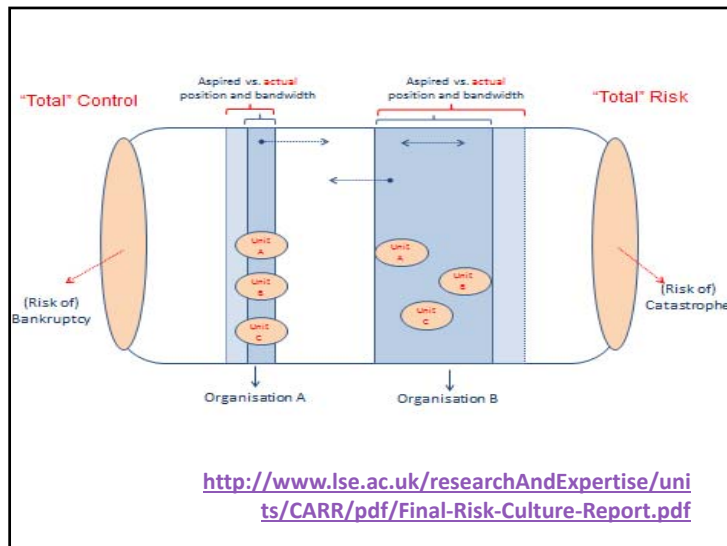
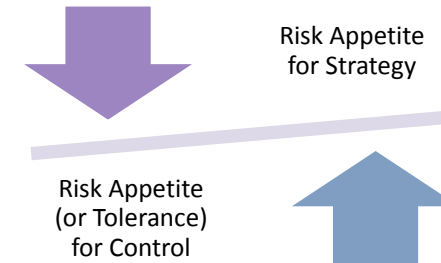
Death by risk aversion



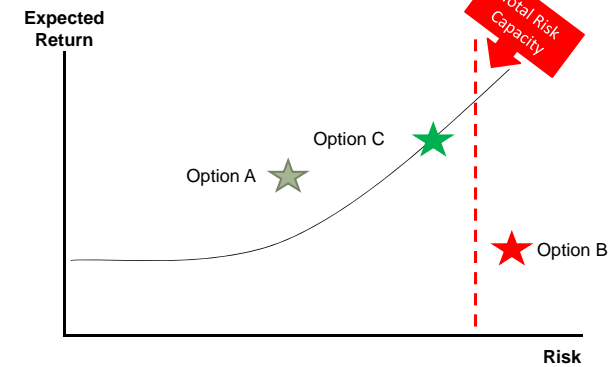
## What is Risk Appetite Really About?



## Key Trade-off



## For Strategy



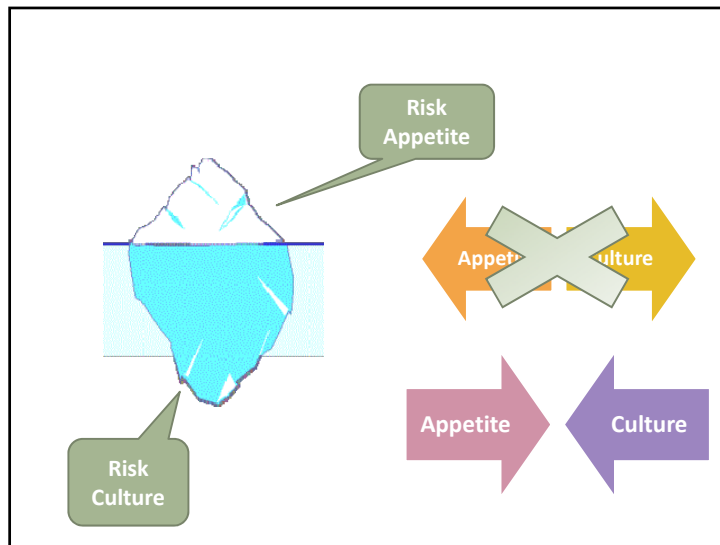
### Putting Risk Appetite into Practice

- Involve your board/senior management right from the start – they have a key role to play
- Keep your risk appetite 'statement' and 'framework' relatively simple
- Reflect risk and opportunity
- Keep to your risk appetite (monitor)
- Review – at least annually



### Further Considerations:

- Remember it is not the board's appetite that counts, but your stakeholders
- The board should play a role in influencing your approach and in setting your appetite
- Never forget regulatory considerations, but do not be dictated by them
- Remember it is a balancing act – if you are conservative in one area you can take more risk elsewhere
- Communicate, but also align risk appetite and risk culture



### Case Study

	1 Averse	2 Cautious	3 Open	4 Significant
Appetite Description	Avoidance of risk and uncertainty is a key objective.	Preference for safe delivery options that have a low degree of risk and may only have limited potential for reward.	Prepared to consider all potential delivery options and choose the one that is most likely to result in successful delivery and acceptable level of reward and value for money.	Willing to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk).

**Case Study:**

We then considered our appetite for the following 'business drivers'. Drivers that reflect both control and strategic objectives

Key Business Drivers
Financial /VFM
Financial Assets
Regulatory
Legal
Reputation and Customer Service
Human Resources
Development and Innovation

**Case Study: Key Learning Points**

- Careful preparation and support by the Audit and Risk Chair
- The board were involve in determining appetite – this took around 90 minutes
- Each board member provided an individual opinion and the results were discussed
- The Board also influenced the design of the final risk appetite matrix
- Board papers now reflect risk appetite implications

**Risk and Opportunity Management (inc Risk appetite)**

The raising of funding and hedging decisions have very large financial risks, including changes to underlying interest costs and changes to or funding requirements. It also presents the opportunity to secure viability with effective treasury management. The Treasury Policy states that PCH's fundamental position in respect of treasury management risks is cautious, in line with the Board-approved appetite for finance.

**Risk Appetite description**

Averse - Avoidance of risk and uncertainty is a key objective  
 Cautious - Preference for safe delivery options that have a low degree of risk and may only have limited potential for reward.  
 Open /optimistic - Prepared to consider all potential delivery options and choose the one that is most likely to result in successful delivery an acceptable level of reward and value for money.  
 Significant - Willing to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk).

**Conclusion**

**Do not put unnecessary limits on your risk appetite.** Focus on taking the 'right' risks (i.e. those risks that you need to take to achieve your objectives), while mitigating those that threaten your objectives.

Risk need not be a bad thing, but be careful not to take a risk too far!



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