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Risk Appetite and Tolerance: Easy to implement key requirements

Written by Vanessa Thurlwell

Decisions around Risk Appetite and Tolerance (RAT) could potentially have far-reaching consequences for any organisation, but so often, organisations fear the RAT development process and there are many misconceptions. The level at which the RAT debate should take place is therefore of critical importance as are the decisions that will eventually be taken. The main aim is for the organisation to determine if any specific activity fits within its risk appetite or not and this leads to treatment decisions being made.

But what do we need to do to get started?

Develop a RAT Framework which should meet the following criteria:

- Should be reflective of strategy, stakeholder expectations and all key aspects of the business
- Acknowledges a willingness and capacity to take on risk
- Is documented as a formal risk appetite statement
- Considers the skills, resources and technology required to manage risk
- Contains both quantitative and qualitative measures
- Is periodically reviewed and reconsidered with reference to evolving conditions
- Has been approved by the Board

Follow these simple steps to develop your RAT Framework:

1. Review current strategic and risk management environment
2. Interviews with key role players
3. Develop the RAT framework
4. Engage with the Board and Senior Management to achieve buy-in and approval and ensure alignment with existing processes

Ensure the following considerations are taken into account:

- Obtaining the support and approval of decision makers
- Ensure RAT is adding value as a decision making tool
- Ensuring RAT informs decisions where an easy solution is not readily obvious
- RAT levels must be defensible
- The organisation must consider risks to the objective and of the objective
- The severity scale MUST be granular (more than one consequence type)