

HOW TO DEFINE RISK APPETITE & TOLERANCE

FACTSHEET



WHAT

IS RISK APPETITE, TOLERANCE AND CRITERIA?

A set of triggers that helps individuals within and external to your organisation understand what is an acceptable or unacceptable level of risk and defines if action needs to be taken.



WHY

DO WE USE RISK APPETITE, TOLERANCE AND CRITERIA?

They help to align our expectations and interpretation of our organisation's vision, mission, values and objectives. They also help people to know when to act or escalate a decision rapidly through their organisation.



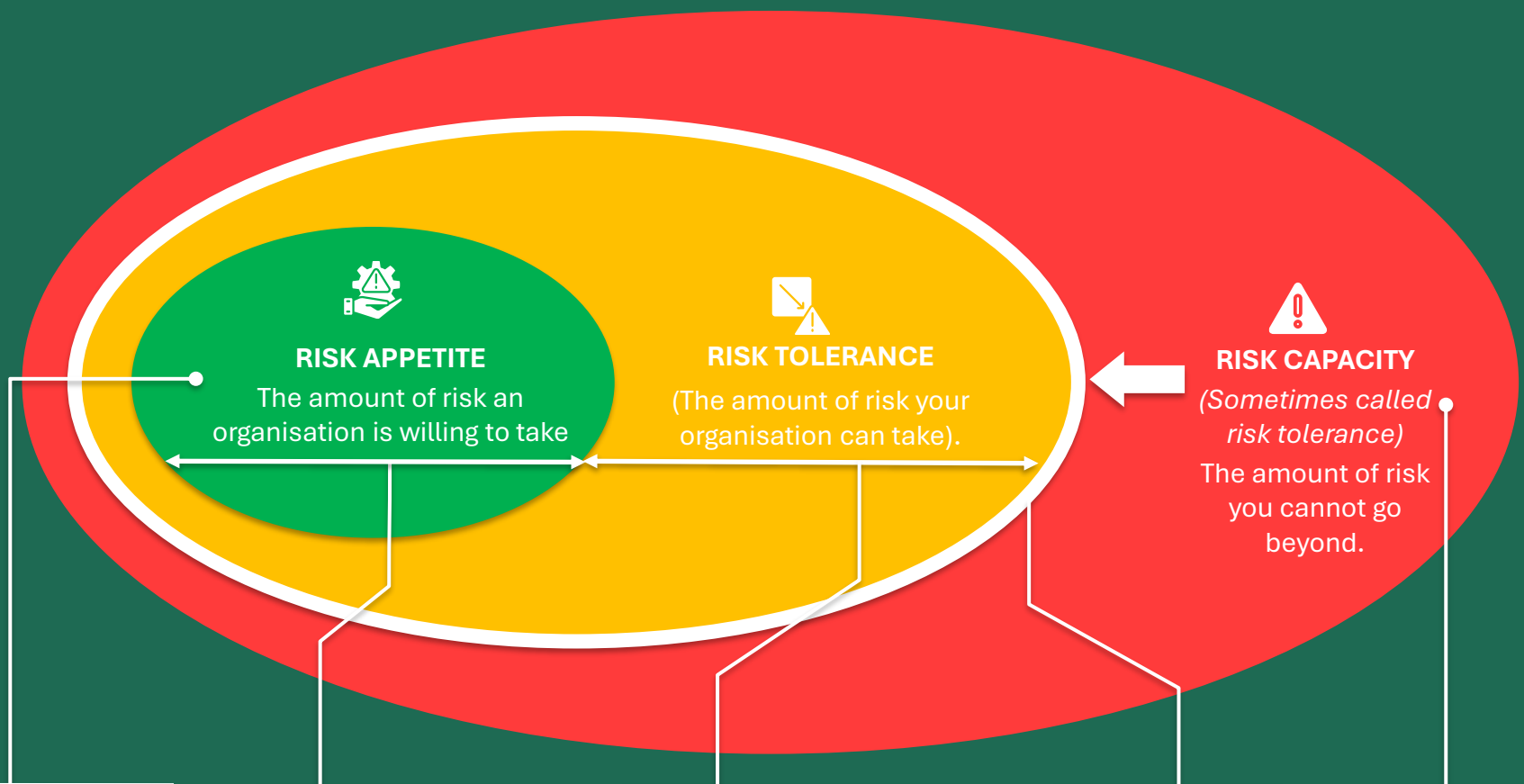
WHERE

DO WE USE RISK APPETITE, TOLERANCE AND CRITERIA?

We can use them at all levels of the organisation, but they will look different. For example, a board may use them to help determine if management will achieve strategic objectives, whilst frontline employees will use them as daily targets.



HINT: Every organisation defines risk appetite and tolerance differently; the important thing is to work out what it means to your organisation and stick to that language. Rather than using words such as 'appetite', 'tolerance', or 'criteria' use your normal equivalent team language.



BEST CASE

The perfect outcome after an organisation takes a risk in pursuit of its objectives.

APPETITE

The amount of risk an organisation is willing to take in pursuit of its objectives.

TOLERANCE

The maximum amount of risk your organisation can take in pursuit of its objectives.

CAPACITY

Too much risk for an organisation to manage, negatively impacting objectives.

WORST CASE

The least favourable outcome of pursuing a risk, negatively impacting strategy.

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CRITERIA DESCRIBES DIFFERENT LEVELS OF RISK

KEY RISK INDICATORS PROVIDE AN EARLY WARNING IF A RISK IS GETTING BETTER OR WORSE

RISK APPETITE, TOLERANCE AND CRITERIA TEMPLATE

BEST CASE

APPETITE

CAPACITY

WORST CASE

TOLERANCE (KEY RISK INDICATORS)
