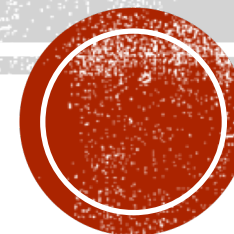


DESIGNING RISK APPETITE & TOLERANCE

ANVCA Conference 2019





*“We’ve
considered
every
potential risk,
except the
risk of
avoiding all
risks !”*



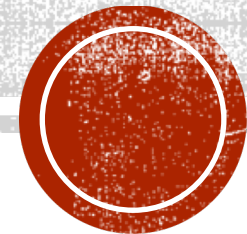
ESSENTIAL STRATEGY FOUNDATION

Mission

Growth

Survival

*with a Mission Critical
Focus*



ESSENTIAL STRATEGY



THE PROBLEM WITH RISK





FOCUS EFFORTS!

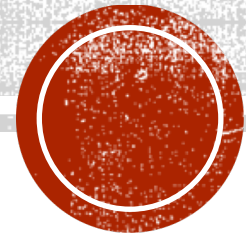
Mission-Critical:

Any activity, asset, resource, service or system that materially impacts *(positively or negatively)* the organization's ability to successfully achieve its strategic goals and objectives.



What is *Mission Critical* to your organization?

**START
WITH.....**



AREAS TO CONSIDER

Growth

- New Opportunities
- Risk / Reward
- Investments
- Partnerships
- Emerging Technologies
- Market / Industry Change

Survival

- Business Continuity
- Financial Reserves / Insurance
- Staffing Succession
- Internal Agility & Efficiency
- Organizational Culture
- Emergent Risk/Opportunity Scanning



RISK APPETITE & RISK TOLERANCE

Risk Appetite

The amount and type of risk that an organization is willing to take in order to meet their strategic objectives on the basis of risk-reward trade-offs. Risk appetite is strategic and relates primarily to the business model.

Acceptable / on-strategy

Risk Tolerance

The maximum amount of risk that the organization can bear despite controls. Risk tolerance is more operational and relates primarily to the entity's targets.

Unacceptable / off-strategy

Risk Capacity

Refers to the limits of financial resources available to handle a material impact.



We need identifiable
Parameters!



IT LOOKS LIKE . . .

Mission / Growth

- We have a healthy appetite for new growth and will pursue investments to achieve a ___% growth rate within tolerances
- We will invest in shareholder development programs at ___% of net profit
- We will invest dividend savings with medium risk to generate returns that are aligned with desired future distributions

Survival

- We have a low tolerance for cash flow risk, so we will maintain cash reserves of ___
- We have a medium tolerance for debt so we will maintain a liquidity ratio of ___
- Management stability is mission critical so we will have and maintain succession plans for all key executives
- We have a low tolerance for reputational risk so a crisis communication plan will be developed and maintained



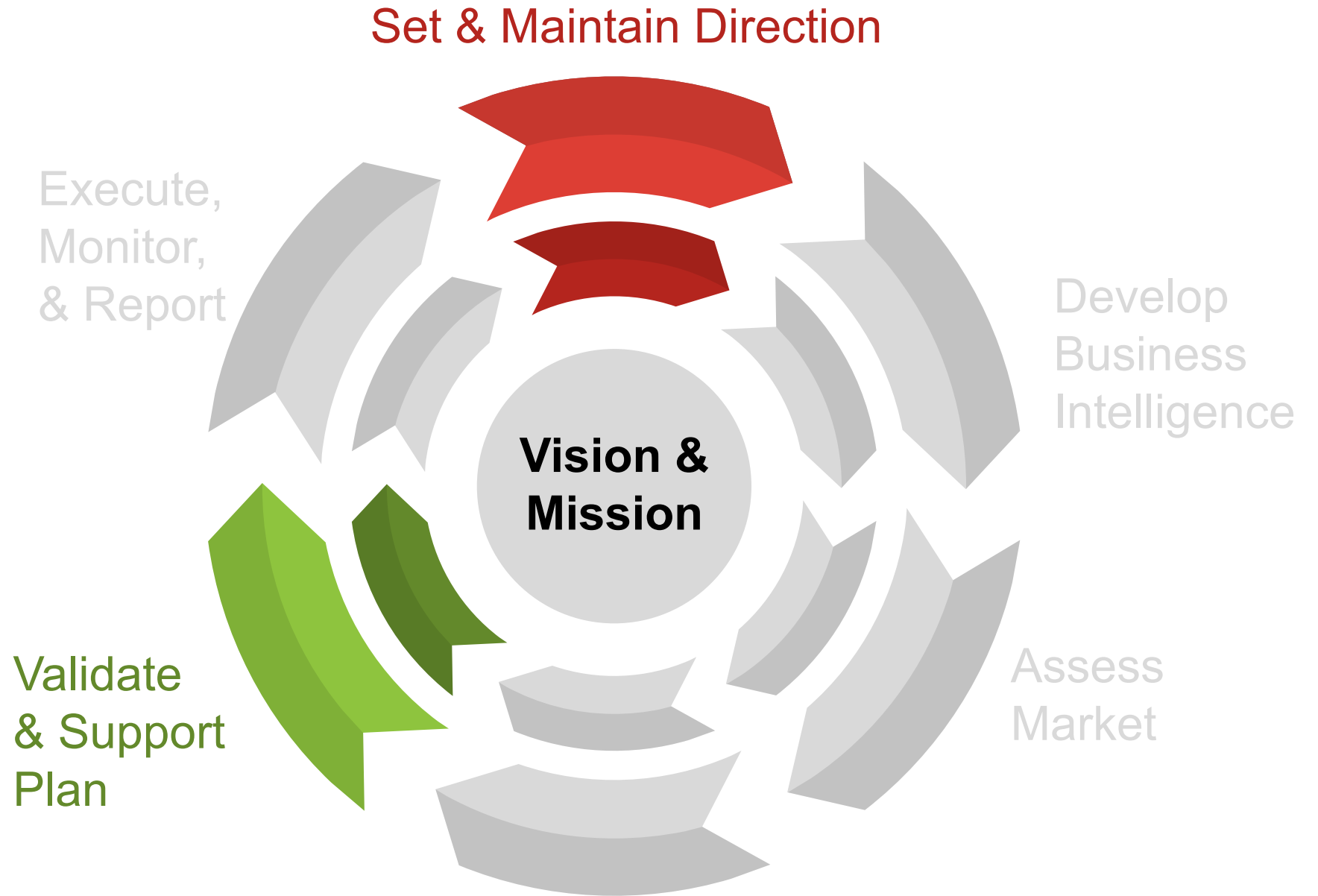
PULLING IT ALL TOGETHER

The Three Elements	Examples of Assertions Included in the Risk Appetite Statement
1. Risks that are <i>acceptable or on-strategy</i>	<ul style="list-style-type: none"> • Market growth: We will aggressively pursue regional strategies to meet our market growth objectives (increase of 3 percent in market share) and invest in and develop key markets, with emphasis on the BRIC countries; therefore, we accept the risks inherent in this strategy.
2. Risks that are <i>undesirable or off-strategy</i>	<ul style="list-style-type: none"> • Reputation and brand image: We will avoid any situation and action resulting in a negative impact on our reputation and premium brands and, if and when an undesirable situation arises, manage it aggressively to preserve our reputation and brand image. • Financial derivatives: We will limit our use of derivative instruments to “plain vanilla” swaps and options entered into with counterparties rated “AA” or better.
3. Strategic risk parameters Financial risk parameters Operational risk parameters	<ul style="list-style-type: none"> • Investment limits: We will limit capital expenditures and investments in mergers and acquisitions to an amount that allows the company to achieve its annual free cash flow target of US\$525 million. • Target debt rating: We will seek to maintain an enterprise-level debt rating of “A” or better. • Self-sustaining growth: As we seek new business, we will maintain our working capital ratio between 1 and 1.5 percent. • Financial strength: As we conduct our operations, we will maintain an EBIT/interest ratio between 4 and 5 percent. • Loss exposure: We will manage our operational activities and exposures to avoid an event resulting in a loss to our pre-tax operating margin of more than US\$40 million. • Sustainable business model: We will consider our goal to reduce carbon emissions over the next five years with the objective of reducing energy usage costs by 40 percent when making decisions to expand or refurbish plant facilities. • Customer dependence: A single customer will not account for more than 10 percent of total sales.

Source: Protiviti



Where It Fits



Mission & Vision

Mission Critical Framework

Risk Appetite & Tolerance

Core Competencies & Capabilities

SWOT **Priority Index**

Mission, Growth & Survival Objectives

Strategic Goals & Initiatives

KPI & **KRI** Defined

Capacity & Goal Execution Planning

Emergent **Risk** / Opportunity Scanning

Interim Reporting / **Adjusting**

Strategic Planning | **Risk & Resilience** | Execution

AN INTEGRATED FRAMEWORK



- ✓ Defining Risk Appetite/Tolerance and Mission Critical is essential to risk planning and strategy design
- ✓ It requires an understanding of Mission Critical within your organization
- ✓ Risk Appetite & Tolerance gives creates boundaries for the organization and clarifies expectations
- ✓ It does NOT have to be complicated – start with simple!





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Strategy

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