

Second Enterprise Risk Management Seminar

**ERM 2010**



Institute of Actuaries of Australia

**– It's All About Opportunity**

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# Risk Appetite Evolving Perspectives

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## Early Risk Management



...Can I trust my friends?

...Do I have the best tools?



...Is my home safe?

# Risk Management can be Instinctive



**Fight?**



**or  
Flight?**



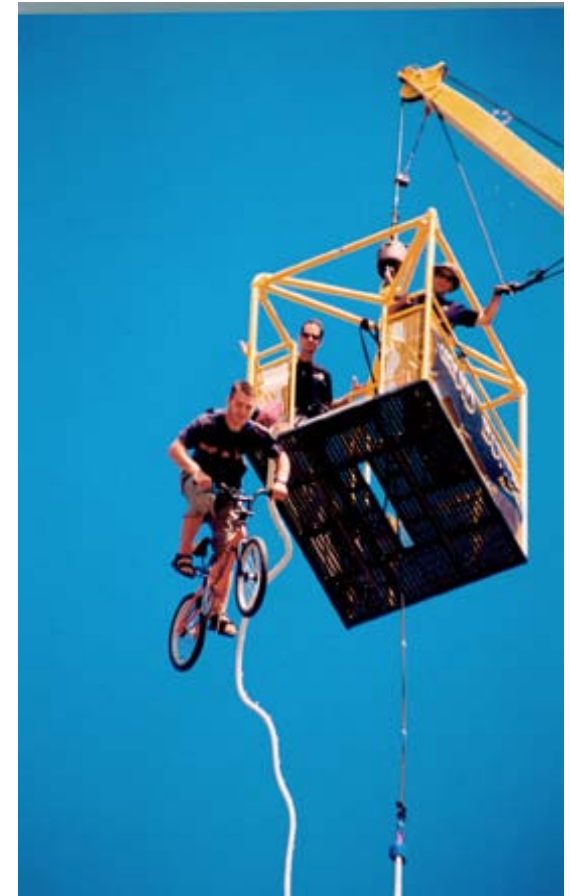
## Risk Mgmt still a “young” profession



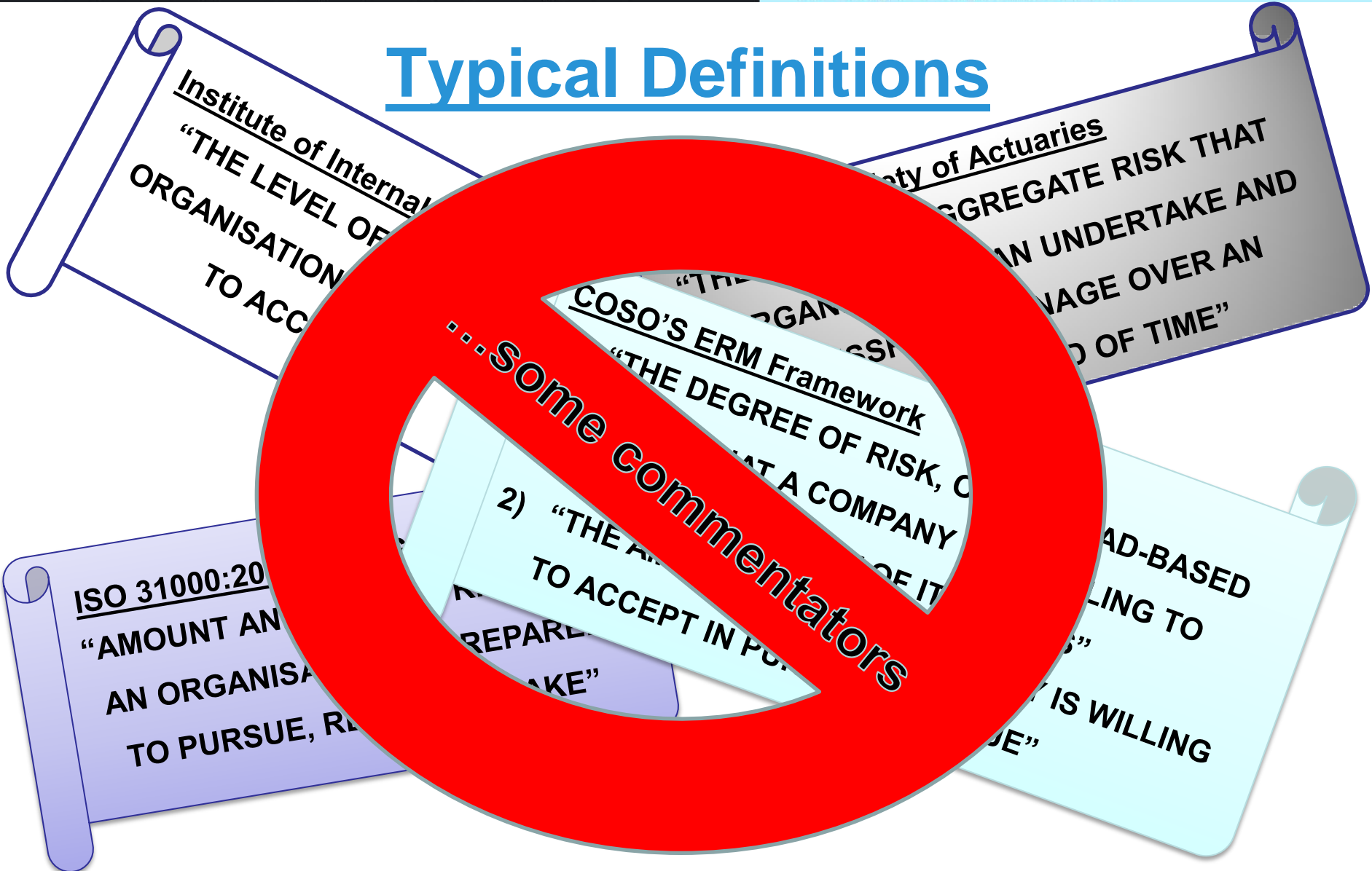
- **4500BC** – Cavemen wander the earth
- **4000BC** – Egyptian Culture reigns
- **Nearly 6000 years of instinctively-based “common sense”**
- **1650’s** – Pascal/Fermat establish foundations of probability theory
- **1848** – Institute of Actuaries formed
- **1914** – Risk Management Association established
- **1970’s** – RAROC introduced by Bankers Trust
- **2007** – *Global Financial Crisis*

## Risk Appetite?

- A knotty concept
- Strong regulator pressure
- Extensively referenced
- Many definitions



# Typical Definitions



## Evolving Risk Appetite Perspective

1. Every organisation has Multiple Risk Appetites, which vary by activity across the organisation.
2. Risk Appetite is not a CONSTANT.
3. Risk Appetite cannot be considered in isolation:
  - Core to Capital Mgmt & Strategic Planning
  - Needs to be informed by Stress Testing
4. Inextricably intertwined with CULTURE

# Risk Appetite: The Measure of Success

**The concept of Risk Appetite occurs naturally in conversations throughout the company on a day-to-day basis...**



2006: 400 Skydivers Set a New Record