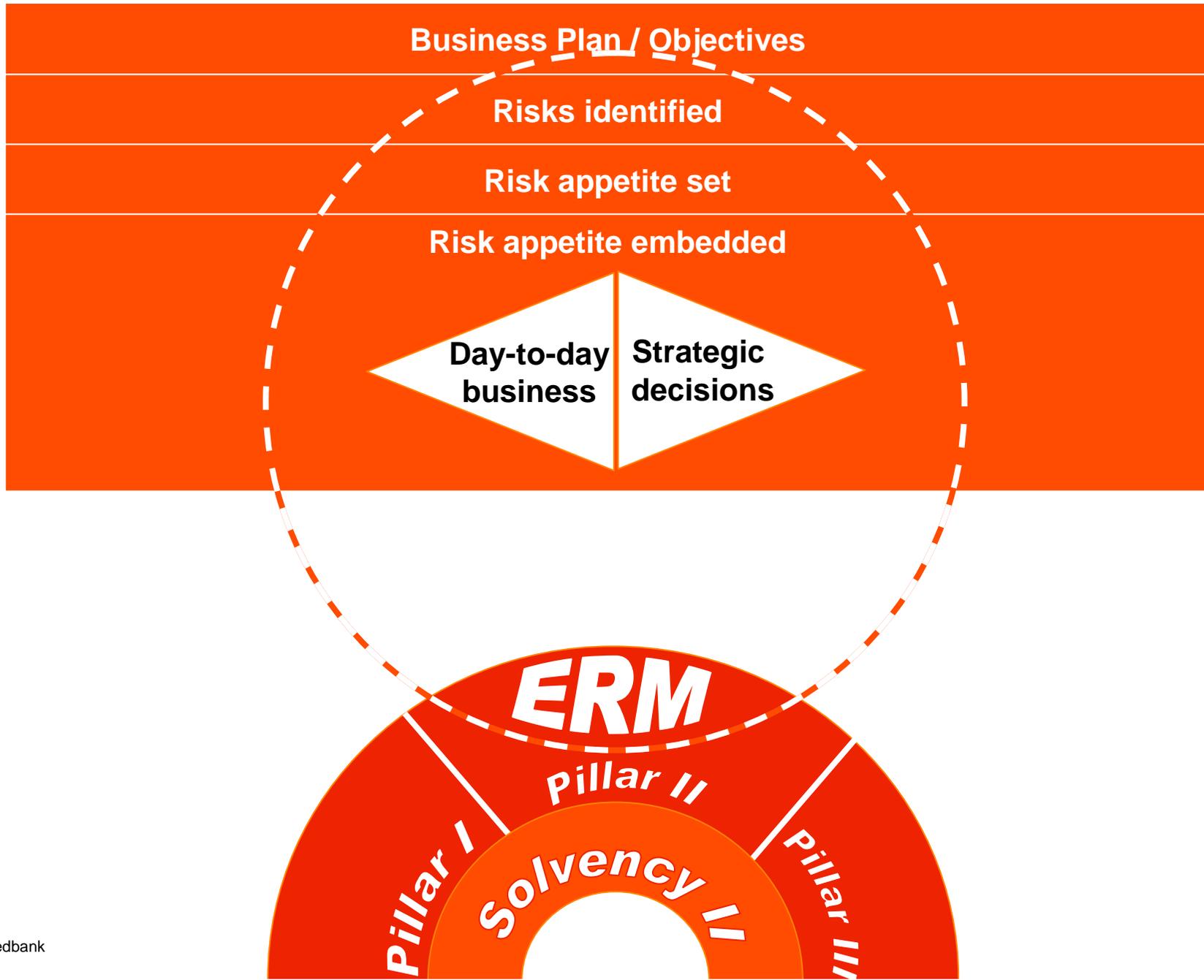


RISK APPETITE IN ERM FRAMEWORK

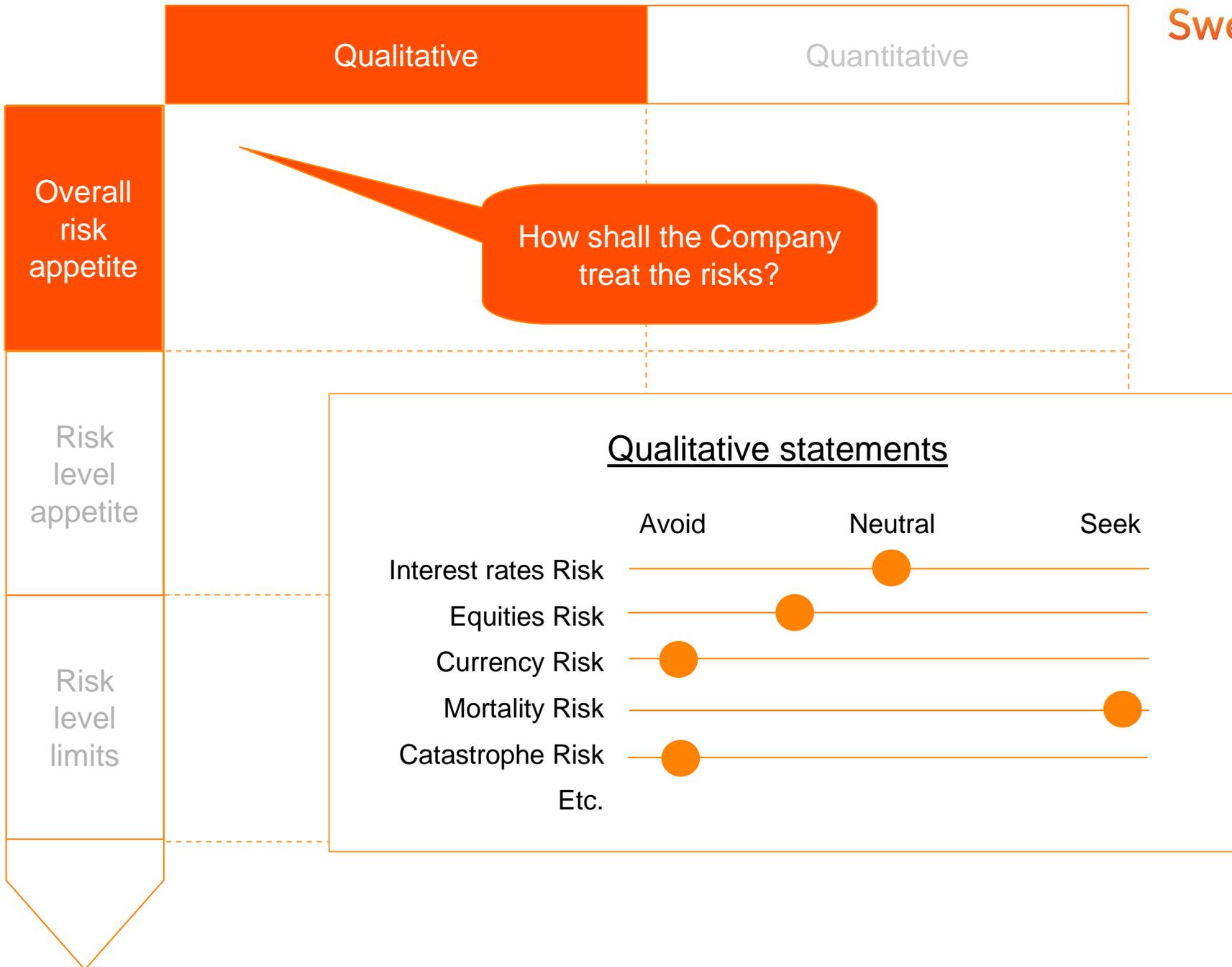
- How can we define the Risk Appetite?
- How can we use the Risk Appetite in day-to-day business?
- What does the Risk Appetite 'give' in terms of ERM?

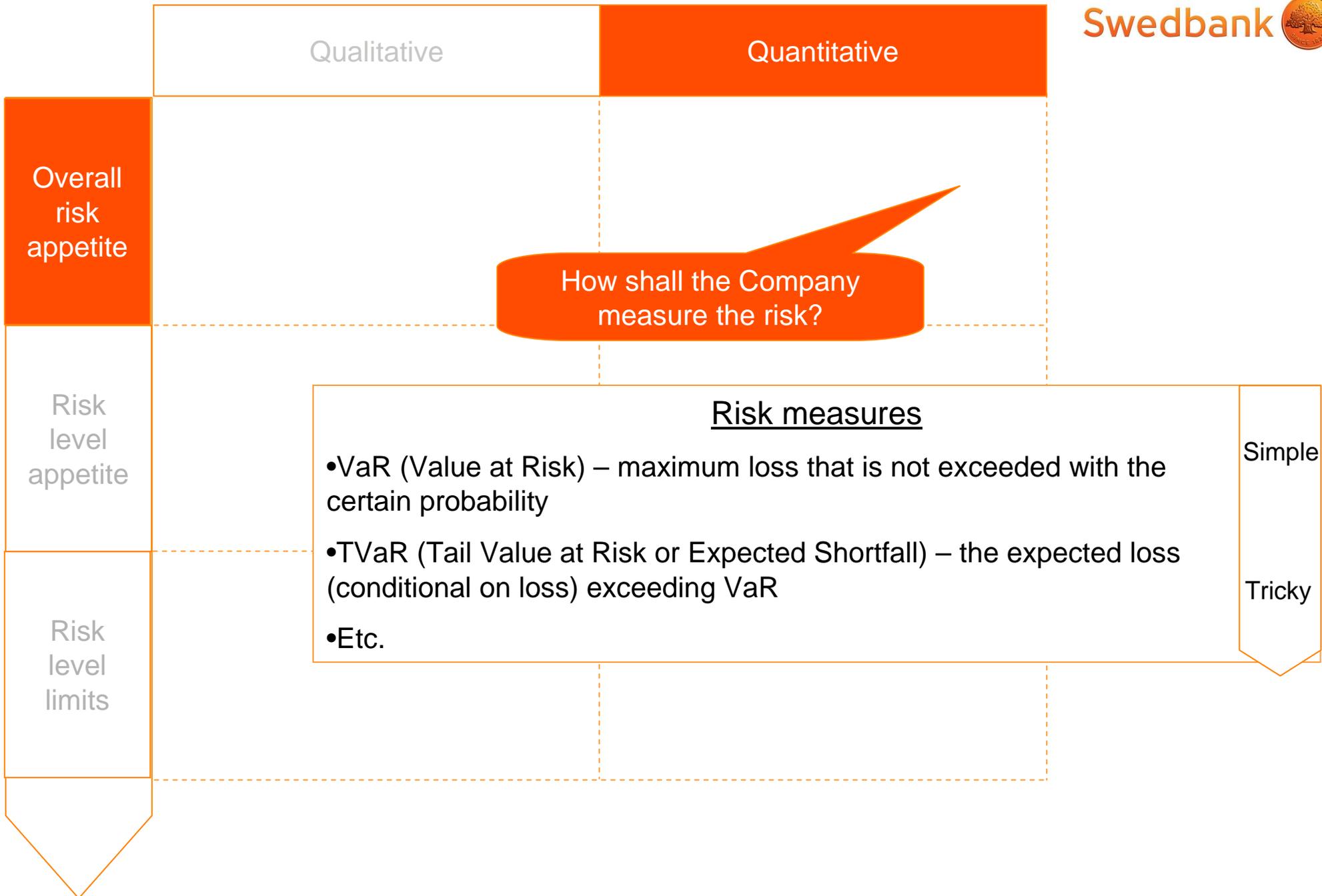




Risk appetite – how it could be structured?

	Qualitative	Quantitative
Overall risk appetite	?	?
Risk level appetite	?	?
Risk level limits	?	?







Qualitative

Quantitative

How much of the risk could the Company tolerate?

Overall risk appetite

Quantitative statements

Metric		Value at risk	Time horizon	Confidence level	Interpretation
EVaR	Embedded Value at Risk	Market consistent embedded value	1 year	99.5 %	1 in 200 years event
EaR	Earnings at Risk	Gross profit	1 year	96.0 %	1 in 25 years event
...

Risk level appetite

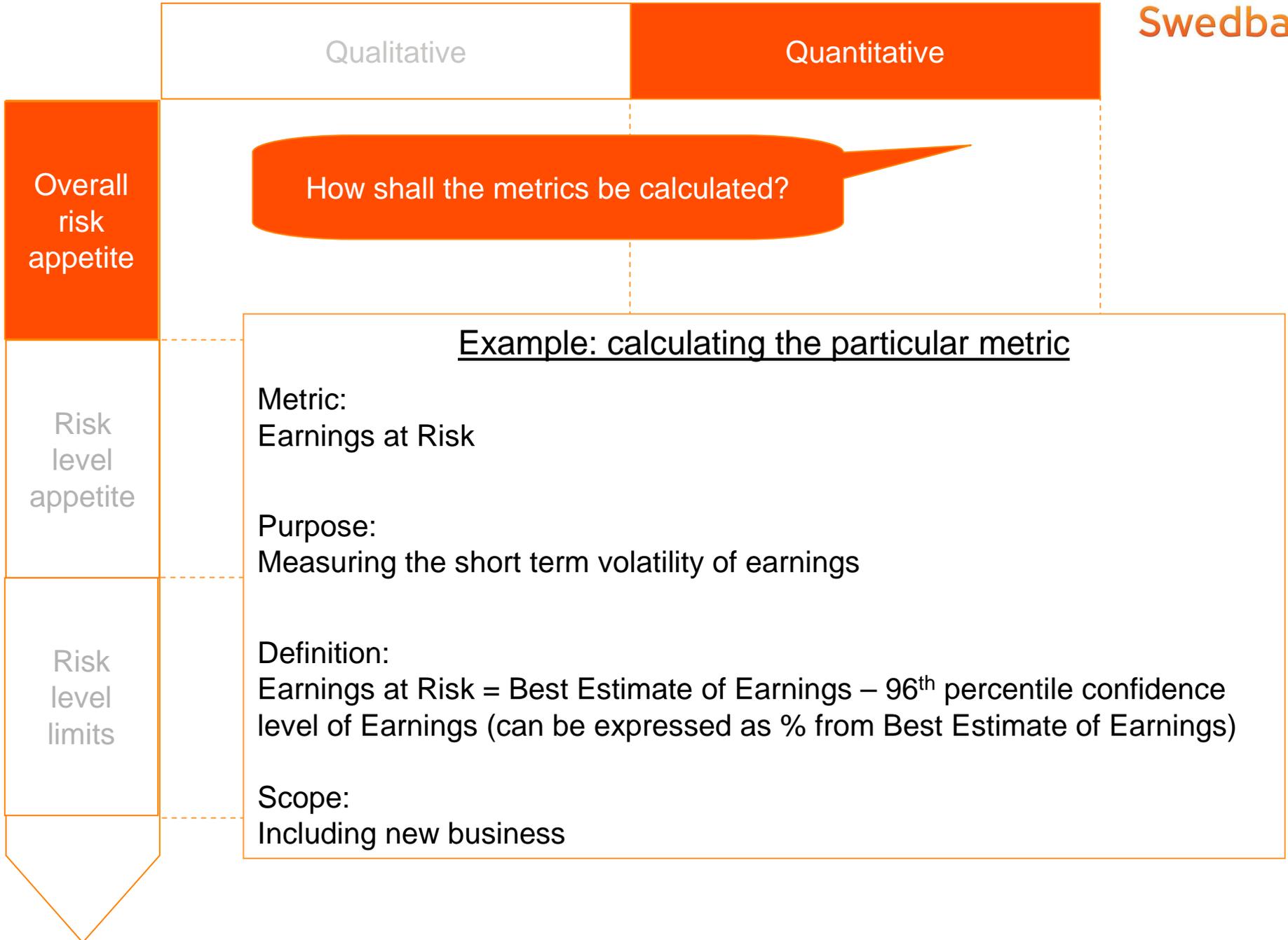
Tolerance levels are:

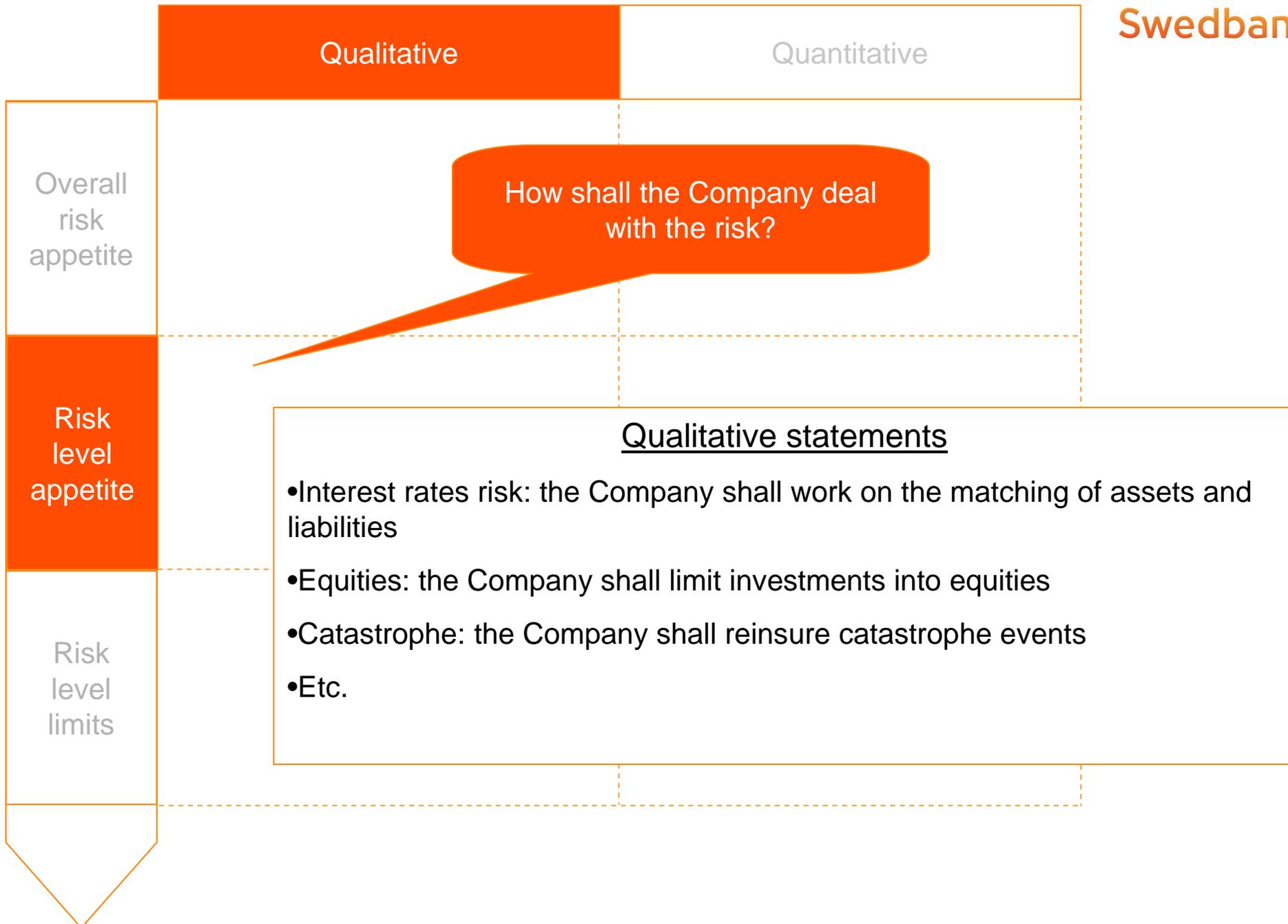
- Embedded Value at Risk shall not exceed xx EUR.
- Earnings at Risk shall not exceed xx EUR.

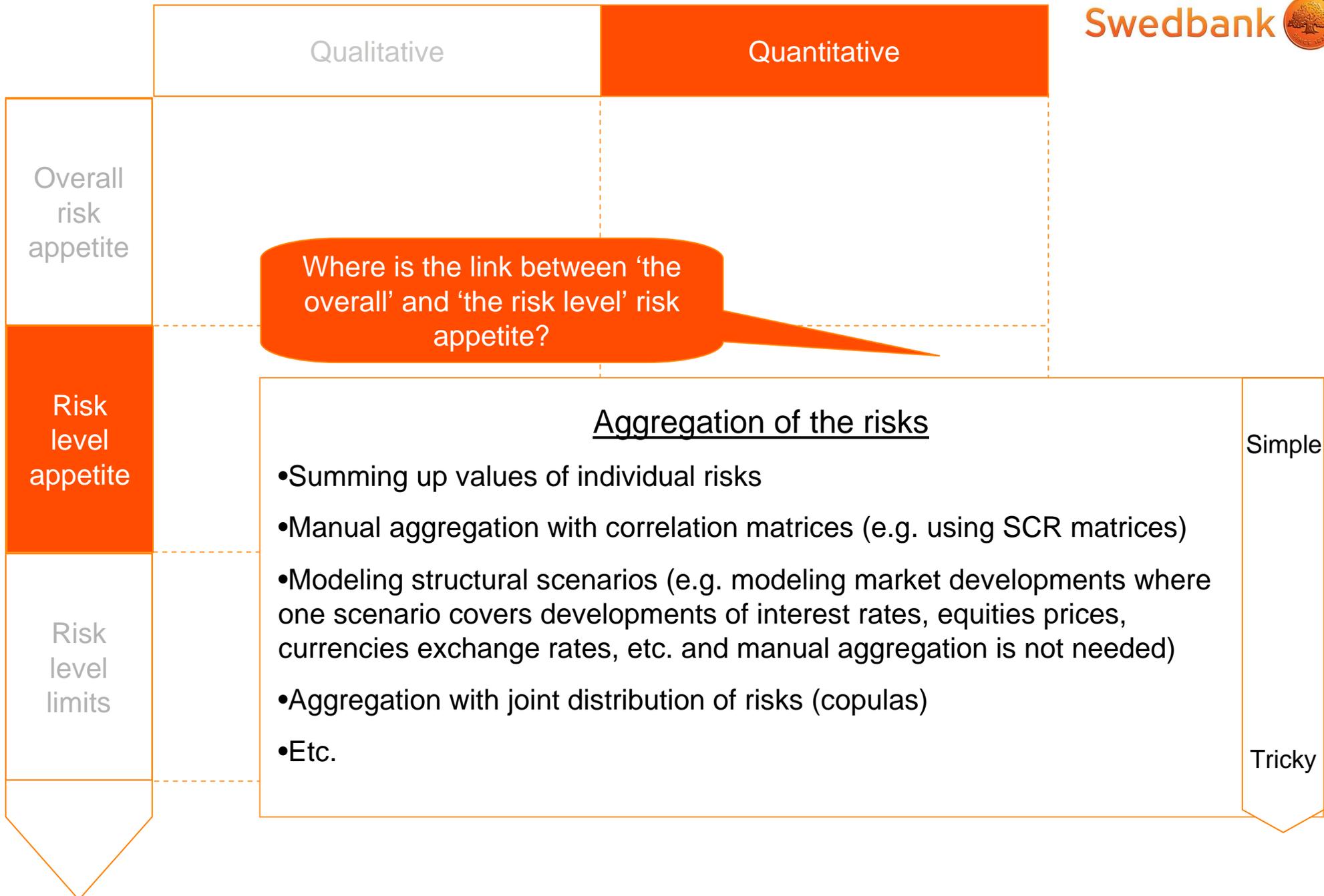
Here: xx shall be determined based on value itself and actual VaR.

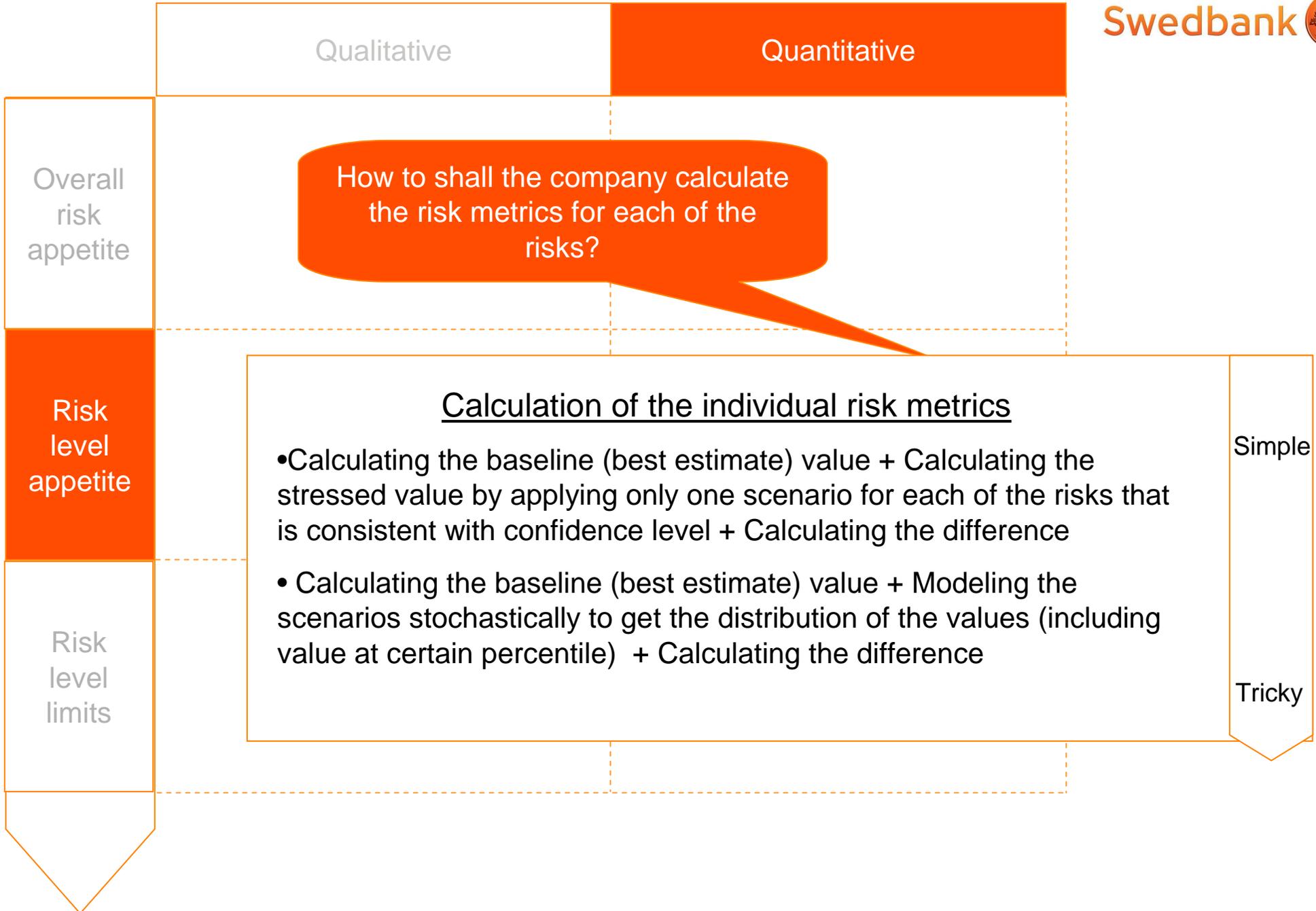
In addition alert and targeted levels can be set.

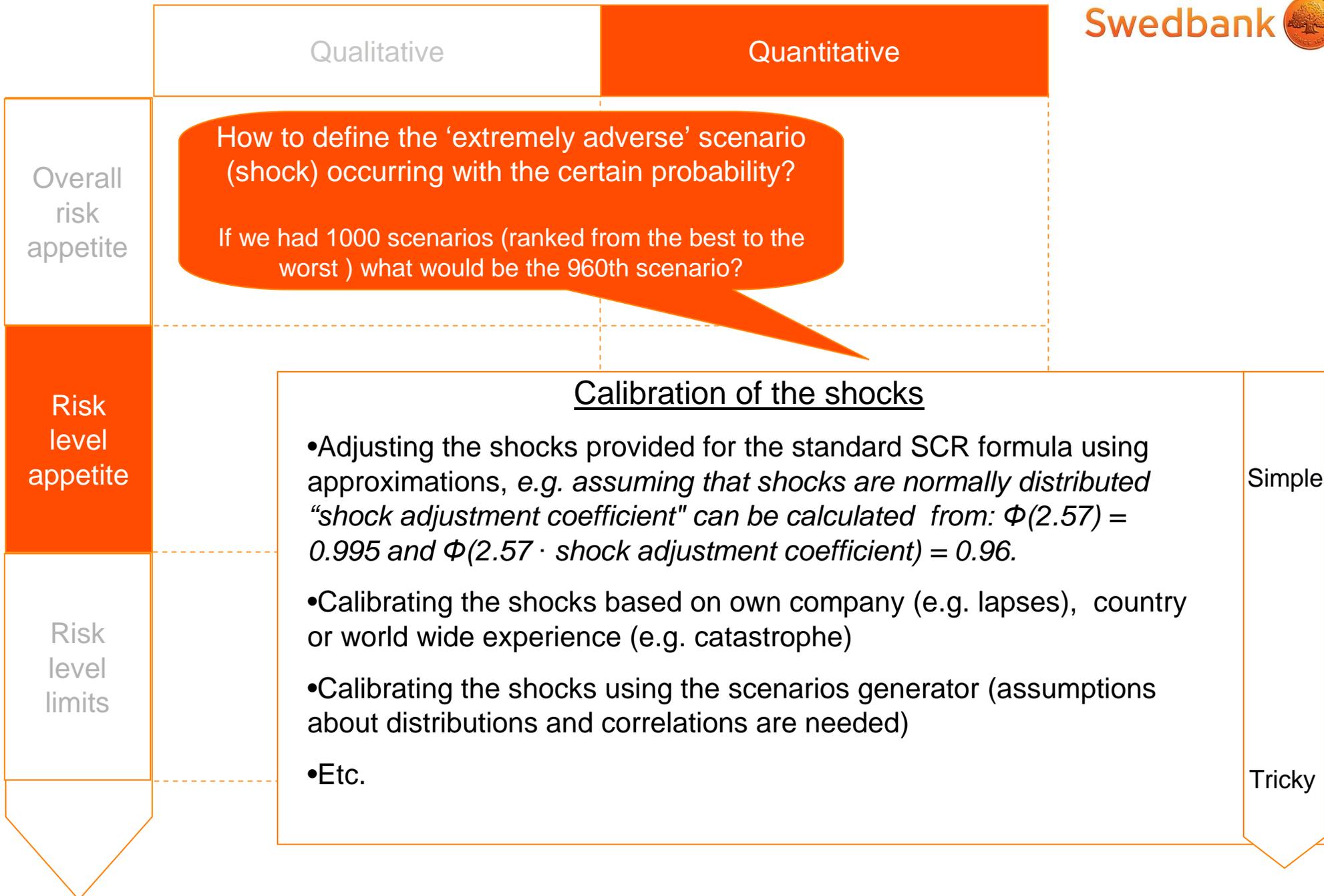
Risk level limits







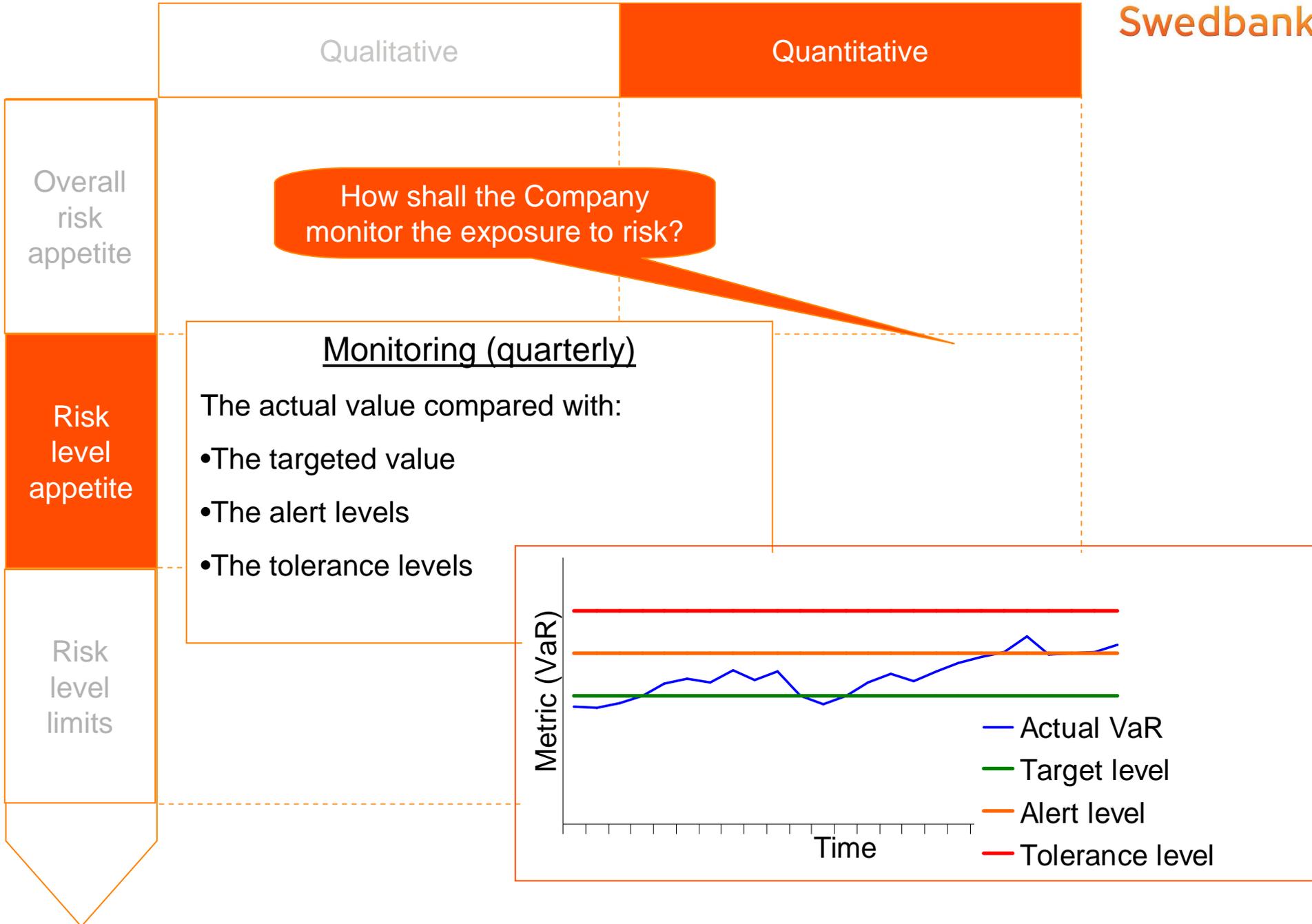


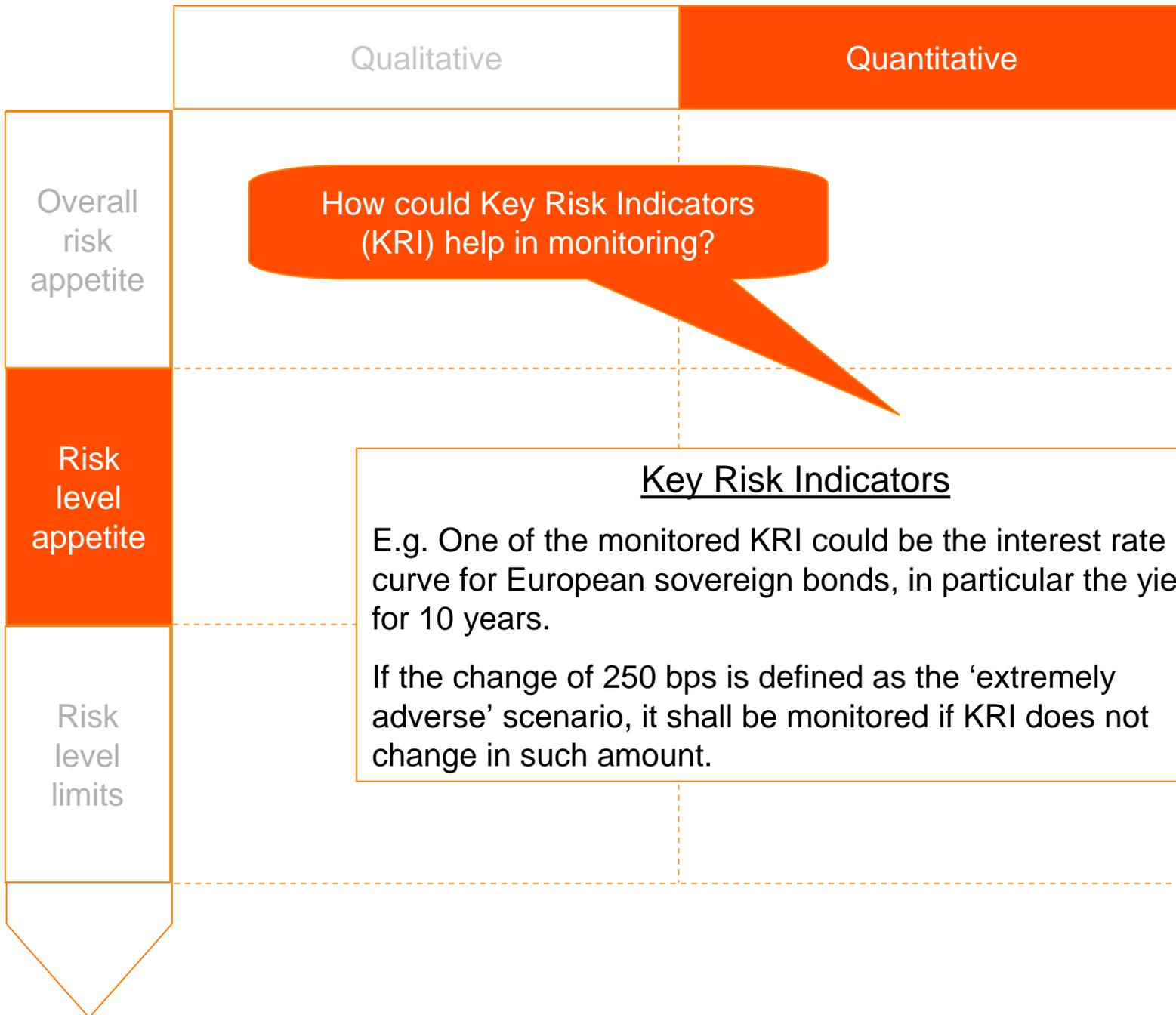


So what do we have so far?

	Qualitative	Quantitative
Overall risk appetite	Attitude towards risks is determined in scale "Avoid - Neutral - Seek"	Tolerated levels are set for the risk metrics: EVaR, EaR, etc. for the whole business
Risk level appetite	Approach of dealing with each of the separate risk is determined	'Extremely adverse' scenarios are defined Tolerated levels are set each of the separate risks in terms of EVaR, EaR, etc.
Risk level limits	-	-

Now let's move on further



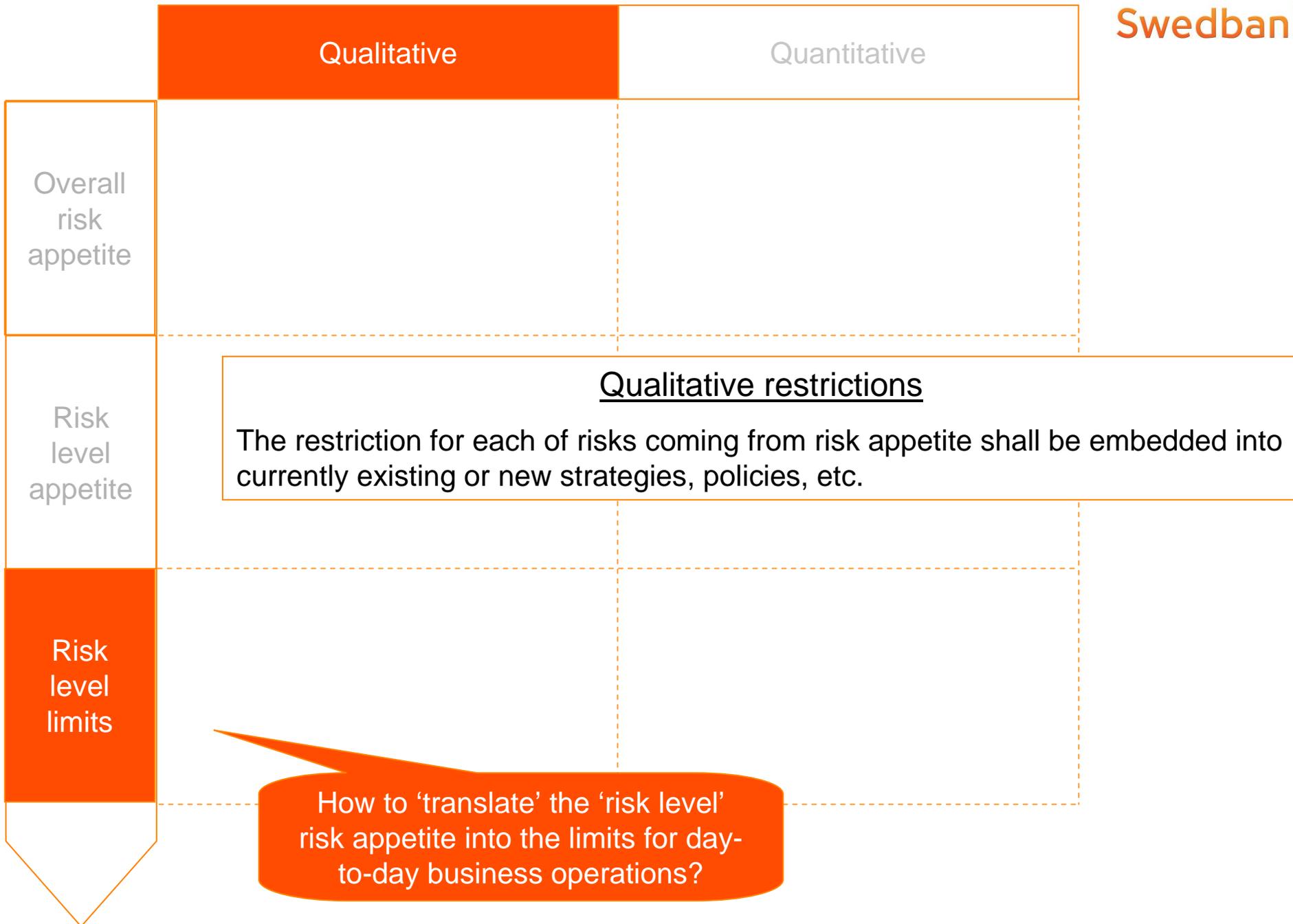


How could Key Risk Indicators (KRI) help in monitoring?

Key Risk Indicators

E.g. One of the monitored KRI could be the interest rate curve for European sovereign bonds, in particular the yield for 10 years.

If the change of 250 bps is defined as the 'extremely adverse' scenario, it shall be monitored if KRI does not change in such amount.



Qualitative

Quantitative

Overall risk appetite

Risk level appetite

Risk level limits

Example of quantitative restrictions

What is the maximum allowed mismatch between the duration of the assets and the liabilities?

Steps:

- Defining the 'extremely adverse scenario', e.g. the change of the interest rates by 250 bps.
- Deciding on the approximation of the impact, e.g.

$$Impact = Value \cdot Duration \cdot Change\ of\ interest\ rate$$

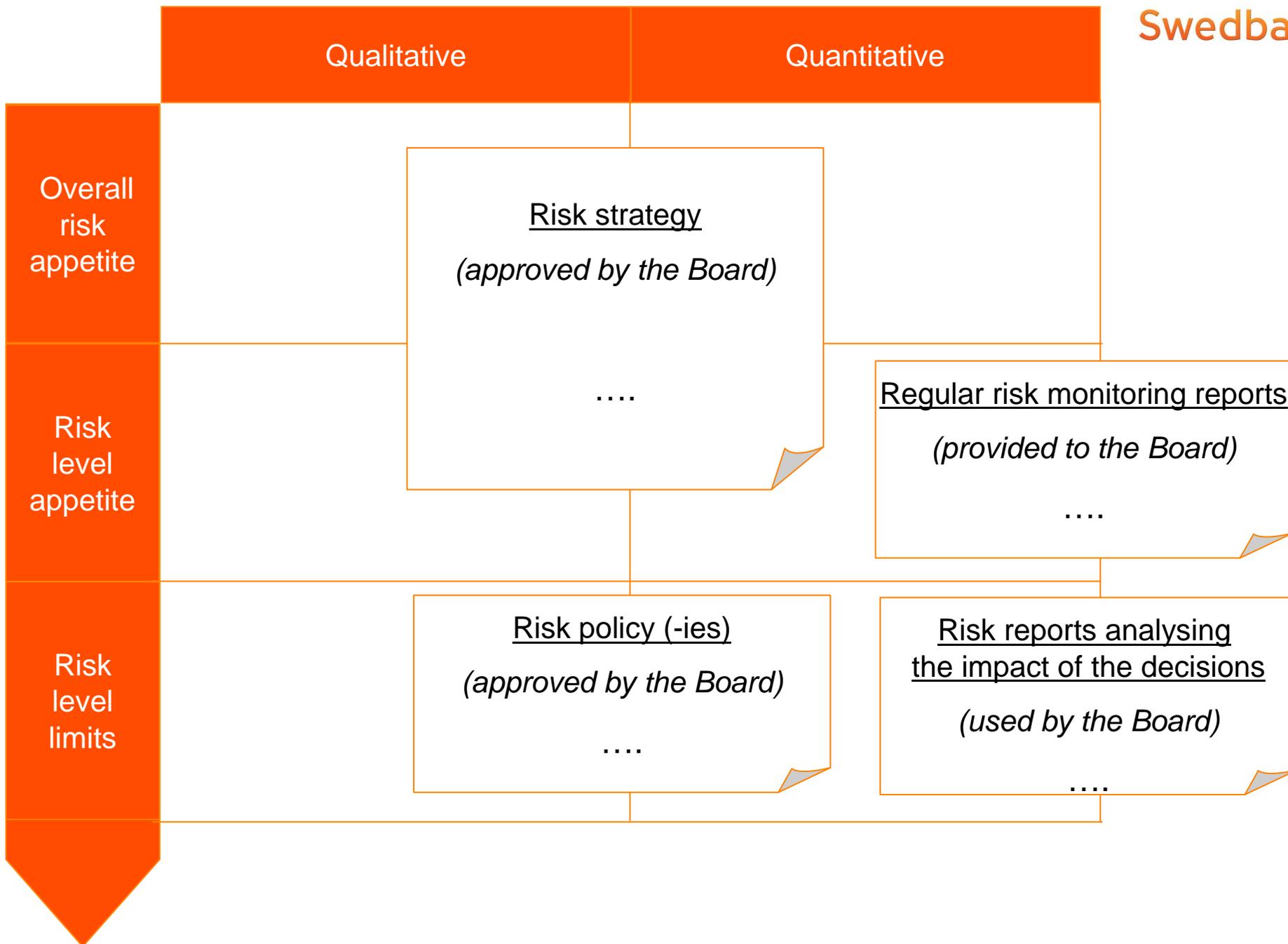
- Seeking for the duration that would result in the impact that is not 'tolerated'.
- Communicating the "risk limit" by embedding it into currently existing or new strategies, policies, etc.

How to 'translate' the 'risk level' risk appetite into the limits for day-to-day business operations?

And what do we have right now?

... Yep! We have the table filled in 😊

	Qualitative	Quantitative
Overall risk appetite	Attitude towards risks is determined in scale “Avoid - Neutral – Seek”	Tolerated levels are set for the risk metrics: EVaR, EaR, etc. for the whole business
Risk level appetite	Approach of dealing with each of the separate risk is determined	‘Extremely adverse’ scenarios are defined Tolerated levels are set each of the separate risks in terms of EVaR, EaR, etc.
Risk level limits	The risk appetite principles are embedded into the internal regulations	Tolerated levels are ‘translated’ into the risk limits that are embedded into the internal regulations



And a final look: how does this Risk Appetite framework fit into the ERM?

Risk Appetite and ERM

Risk Appetite shall be integrated into the organisational and decision making processes:

- Launching products/business lines
- Hedging/reinsurance strategies
- Capital allocation
- Pricing

Risk Appetite shall be used for monitoring and reporting:

- Performance measurement
- Internal and external reporting

Setting the Risk Appetite framework is a starting point of the ORSA process.

Questions / discussion

