

# Risk Appetite as a Core Element of ERM: Definition and Process

Andrea Cremonino\*

2011 Enterprise Risk Management Symposium  
Society of Actuaries  
March 14-16, 2011

Copyright 2011 by the Society of Actuaries.

All rights reserved by the Society of Actuaries. Permission is granted to make brief excerpts for a published review. Permission is also granted to make limited numbers of copies of items in this monograph for personal, internal, classroom or other instructional use, on condition that the foregoing copyright notice is used so as to give reasonable notice of the Society's copyright. This consent for free limited copying without prior consent of the Society does not extend to making copies for general distribution, for advertising or promotional purposes, for inclusion in new collective works or for resale.

\* UniCredit Group, email: [andrea.cremonino@unicredit.eu](mailto:andrea.cremonino@unicredit.eu). The opinions expressed are those of the author and do not represent UniCredit. Moreover, presented concepts, methods and processes are not necessarily used by UniCredit or its affiliates. The author would like to thank Gabriele Stinco, Valeria De Mori, Maurizio Cravero, Alessandra Crimmi and Stefania Restivo.

## **Abstract**

Risk appetite represents how much risk an organization is willing to assume consistently with its strategy. Each business strategy implies some amount of risk, in terms of the uncertainty of the results will be achieved; therefore, risk appetite represents a fundamental element of enterprise risk management (ERM) as it sets the risk strategies and allows framing for the current risk profile.

The goal of this paper is to describe the general idea of risk appetite, its implementation framework and the process to set it within a bank with a strong focus on the interactions with other processes such as planning and control, performance evaluation and communication.

It should be remarked that risk appetite requires as precondition a proper risk management framework to be in place, e.g. risk identification, measurement and reporting.

Even if risk appetite is a managerial tool, it should comply with regulatory requirements that are shortly described. To provide a full understanding of the risk appetite implementation, how it could be implemented in two other industries—an oil company and a manufacturing firm such as a carmaker—are described.

**Paper type:** Applied.

**Keywords:** Risk appetite, ERM, planning, capital adequacy, performance evaluation, corporate governance, risk control, stress test, banking regulation.