

Risk Appetite and KRIs: Case Study

Organisation type: European retail bank with international presence

Period: October 2021 – March 2022

The request: upgraded risk appetite and aggregated KRIs

Our client is a commercial retail bank operating in six countries in Europe. The bank asked Chapelle to guide and assist them in the revision of their risk appetite framework and monitoring KRIs, including revisiting the practice in the governance of risk and KRI reporting and aggregation. They required the following services:

- Revision of the risk appetite framework
- Revision of the risk governance: risk owners and controls owners
- Assistance in the writing of the risk appetite statements, per risk type
- Drafting of the risk appetite policy
- Selection and thresholds definition of KRIs, supporting the risk appetite
- Rules of aggregation and reporting of these KRIs

The timeline for the project was tight as the operational risk management team needed to progress rapidly to align with the rest of the organization, working in parallel on the risk appetite definition and limits for financial risks.

Our approach: gradual transition and tailored consensus

Two consultants (one senior – one junior) worked part time but continuously on the project, meeting the client weekly to discuss progress. The risk team received our guidance on key choices, answers to all their questions, and specific content support such as the drafting of policy and statements. They also worked in good autonomy.

In this project like in all others, our approach is to guide our clients and partners to define and design the solution that works best for them. In this instance, the bank was keen to operate a gradual transition from their current approach, where risk appetite definition had been so far only expressed as maximum tolerated losses,

with little to no granularity per risk and no notion of leading KRI^s to support risk appetite limits.

As often when we are called, the client was under some regulatory pressure and needed to align with peer practice without creating too much of an internal disruption.

We worked jointly to find the best consensus between heritage and the better practice. We defined forward-looking risk appetite statement, beyond the tolerance for losses, aligned with the strategy and risk management priorities of the organisation, that consider its external business conditions and internal control environment and governance.

The outcome: deliverables and client's satisfaction

The project was completed over a few months, on time to satisfy the internal and external stakeholders. Together, we namely produced the following:

- Revised Risk Appetite Framework and Governance, including:
 - o Definition of level 1 operational risk types
 - o Definition of risk owner per risk type, and corresponding responsibilities
 - o Risk Appetite Statement firm-wide and per risk type
 - o Risk Appetite policy
- Revised monitoring KRI^s to support the implementation of risk appetite ("Appetite KRI^s"), including:
 - o Common KRI^s firm-wide
 - o Specific leading KRI^s per risk type
 - o Thresholds limits and justification
 - o Governance rules in case of threshold breaches
 - o Aggregation rules for KRI^s
 - o Reporting templates

Client: "very happy"

The bank wishes to remain anonymous but is ready to discuss privately to parties interested to know more and is "very happy with the services provided".