

	CILEx Regulation Limited
Date	22 February 2024
Item	8.01
Title	CRL Risk Appetite
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Purpose	This paper: <ul style="list-style-type: none"> • Sets out a proposed risk appetite statement for CRL based on a set of agreed risk types.
Recommendation	This paper is for discussion. The Board is invited to: <ul style="list-style-type: none"> • To consider and agree the proposed risk types. • To discuss and provide feedback on the draft risk appetite statement.
Timing	N/A
Impact assessment	Having a published risk appetite statement will further enhance transparency and confidence in CRL's governance and support the active management of risk.
Impact on Regulatory Objectives	A risk appetite statement will provide additional assurance that CRL is actively managing risks associated with the delivery of its regulatory objectives.
Implications for resources	None
Impact on consumer empowerment	Enhanced risk management arrangements will help ensure CRL pays appropriate attention to consumer protection objectives and expectations.
Impact on ongoing competence	Enhanced risk management arrangements will help ensure CRL pays appropriate attention to the LSB's requirements regarding ongoing competence.
Publication status	Risk appetite statement for publication only
Appendices	N/A

Introduction

1. At its most fundamental level, risk appetite is “the level of exposure an organization is willing to take” in pursuit of strategic objectives, according to the [ISO 31000:2018](#) standard on Enterprise Risk Management. The Board expresses the level of risk they're willing to take in a specific area through a risk appetite statement, which is used to inform decision making across the organisation.
2. CEB/Gartner explains that a well-defined and properly communicated risk appetite statement:
3. *...creates a set of guardrails for managers to operate within when making strategic decisions. It also provides a tool for communicating the role of guard rails in the decision-making process and for confirming that individual parts of the business are independently and collectively operating within those guardrails.*

4. CRL does not currently have a risk appetite statement. As the organisation is operating within an environment of uncertainty it is recommended that a risk appetite statement be developed to help ensure the effective management of corporate risks and inform future decision making.
5. This paper identifies possible risk categories and a draft Risk Appetite Statement as a means of stimulating a discussion and agreement of CRL's core risks.

Recommendation

The Board is asked:

- To **consider** and **agree** the proposed risk types.
- To **discuss** and **provide** feedback on the draft risk appetite statement including the proposed risk categorisations.

Determining risk appetite

The appetite to a particular risk can be defined against the following four categories:

- **Minimal:** Preference for ultra safe delivery option that allows a degree of inherent risk and only limited reward potential
- **Measured:** Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential reward.
- **Open:** Willing to consider all potential delivery options while also providing an acceptable level of reward and VFM.
- **Seeks:** Eager to be innovative and choose options offering potentially higher business rewards despite greater inherent risk.

Proposed risk categories

The following risk types are proposed:

- **Regulatory:** delivery of our regulatory requirements including authorisation, supervision and enforcement.
- **Communications and Profile:** includes communication, media handling, stakeholder engagement (including consumers), reputation, profile, visibility and perception.
- **Compliance:** covers compliance with externally set standards including LSB, Internal Governance Rules, Health and Safety, External audit GDPR etc.
- **Financial:** includes budget planning, reserves policy and use of reserves, PCF, income generation and value for money
- **People:** includes recruitment and retention, performance management, pay and reward and panel member recruitment

- **Reform:** includes opportunities and change (not limited to the CILEx proposals) and use of technology.

Draft CRL Risk Appetite Statement

Regulation – Minimal

Our focus is on ensuring quality in our regulatory delivery. We have a preference for safer delivery options for meeting our requirements as a regulator, accepting a measured degree of residual risk and choosing the option most likely to result in successful delivery in order to continue as an effective regulator and meet LSB performance expectations.

Communications and profile - Seeks

We are eager to be innovative and to choose options offering potentially higher business rewards despite greater inherent risk. We are willing to take decisions which are likely to bring additional scrutiny only where potential benefits outweigh risks.

Compliance - Measured

We have a preference for safe delivery options with little residual risk. We want to be reasonably sure we would win any challenge. Data protection, IT and cyber security are covered by this risk type.

Financial – Measured/Open

Our primary financial concerns are affordability and financial sustainability so that we continue to meet our regulatory responsibilities. We are open to accepting small residual financial risks where it can be demonstrated they will yield positive opportunities only if that would yield positive opportunities, for example the use of reserves for business improvements and sources of income generation.

People - Open

We invest in our people to ensure we have the correct skills mix. We are prepared to accept risk as long as there is the potential for improved recruitment, retention and performance. This includes being open to new and innovative ways of working.

Reform - Seeks

We support innovation, with demonstration of benefit or improvement in service delivery. We are receptive to taking difficult decisions when benefits outweigh risks. This includes taking decisions to preserve regulatory independence and are in the public/consumer interest.