



2017 Enterprise Risk Management Symposium

April 20–21, 2017, New Orleans

Intelligent Risk-Taking: A Methodology to Determine Risk Tolerance in a Nonfinancial Environment

By Brian Philbin, Laura Brown and Lori McKay

Copyright © 2017 by Brian Philbin, Laura Brown and Lori McKay. Published by permission.

The opinions expressed and conclusions reached by the authors are their own and do not represent any official position or opinion of the Society of Actuaries, Casualty Actuarial Society, or the Canadian Institute of Actuaries or their members. The organizations make no representation or warranty to the accuracy of the information.

Intelligent Risk-Taking: A Methodology to Determine Risk Tolerance in a Nonfinancial Environment

By Brian Philbin, Laura Brown and Lori McKay¹

Abstract

The Canada Revenue Agency (CRA) has written an applied research paper on intelligent risk-taking through a risk tolerance model. Establishing an enterprise tolerance model addresses the challenges of over-focusing on the “risks du jour” and ensures all risks receive the same consideration and are actioned appropriately. To assist risk practitioners in public sector and nonfinancial organizations, the paper describes the risk tolerance model we developed for our organization—offering it for use by other enterprises. More specifically, the paper describes how the methodology was developed, tested and implemented at the CRA over the past several years and how the tolerance model is used now to predict the maximum level of risk exposure the CRA would be willing to accept for a given risk. This tool enhances senior management’s decision-making process by allowing systematic discussions on which risks require additional mitigation—or not. It also demonstrates that when the level of risk is significantly below its tolerance, there is an opportunity to take additional risk. That is, it presents an opportunity to innovate, hence, intelligent risk-taking. This is one of the many innovative approaches that have helped mature the CRA’s enterprise risk management program and support the delivery of its mandate and the broader Government of Canada agenda.

¹ Brian Philbin is the assistant commissioner of the Audit, Evaluation and Risk Branch, and the chief audit executive for the Canada Revenue Agency (CRA). Laura Brown is the assistant director of the Corporate Risk Management Section within the Enterprise Risk Management Division at CRA. Lori McKay is an enterprise risk management analyst in the Corporate Risk Management Section within the Enterprise Risk Management Division at CRA.