

Shades of Tolerance

Understanding the degrees of tolerance an organization is willing to bear is a keystone of Enterprise Risk Management.

Tolerance to various levels of risk will differ throughout an organization and through time affecting the synergy of risk of the entire enterprise. Risk tolerance is affected by management's view of the organizations ability to control certain operational risks, while maintaining a keen understanding of its ability to influence and manage risks of a broader context such as changes in political agendas affecting regulation, changes in the competitive landscape, and cycles of the economy.

Risk tolerance is not reference to a single outcome, whereby once breached the organization is in trouble. Tolerance to risk is best communicated as a barometer. By aligning responses with various shades of tolerance allows an organization to optimize its management of risk and outcomes.

Formulating a monitoring system of statistical and qualitative metrics relevant to various levels of risk throughout the organization provides early warning when shades of tolerance are breached. As tolerance levels are breached, the organization can reassess, respond, or embrace the risk depending on the range of desired results.

The purpose of this paper is to present an approach to understand how to assess shades of risk tolerance for various types of insurance organizations. It will further discuss the development of an early warning monitoring system and ideas for types of risk response.

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