



RISK APPETITE

Aligning, Articulating and Actioning

Board Workshop
FEBRUARY 15, 2023
Report adopted by Board
MARCH 22, 2023

HOPA Risk Appetite Statements

Executive summary/intro

This document summarizes the feedback obtained during the February 6, 2023, facilitated discussion with the HOPA Board of Directors and key HOPA staff. The information is considered draft and will require review, validation and ongoing revisions by HOPA to ensure it remains properly aligned with the current internal and external environment and with HOPA's strategic priorities and Enterprise Risk Management (ERM) Framework.

Risk Appetite is not a compliance exercise. Implementing risk appetite successfully can bring several benefits to an organization's ability to effectively manage risk and achieve objectives. Articulated risk appetite statements contribute to creating organizational risk awareness for staff, Board and key stakeholders. The statements are deliberately high-level and are not intended to account for every situation. They seek to provide a more in depth look at the organizational priorities and begin to build consistency with understanding what types of risk and how much risk the organization is willing to accept or not accept in pursuit of their priorities. The facilitated discussion and the resulting draft statements are intended to reduce the risk of bias for individual risk appetite levels while creating consistency with understanding what the organizational risk appetite level is for priorities and initiatives. They are intended to improve the likelihood that decisions are consistently based on organizational risk appetite levels. As the Risk Appetite statements become more solidified over time, they are intended to bring more familiarity and consistency across the entire organization in making risk related decisions, including if and when to escalate risks. It is not expected that these statements will remove debate or replace governance or management decision making; It is expected that they will provide guideposts for risk conversations and decisions.

This document includes:

- [Initial Draft Risk Appetite Statements](#)
- [Risk Appetite Scale referenced during the facilitated discussion](#)
- [Trends/themes with identified HOPA Risk Appetite levels](#)
- [Conclusion and Considerations for organizational next steps](#)

Risk Appetite Statements

The table below outlines draft risk appetite statements for HOPA’s review. The facilitated discussion on February 6, 2023, highlighted the interconnectedness and interdependencies across priorities. Each priority has the potential to impact others and/or be impacted the priority creating the impact. The third column in the table re “Related Priorities” captures some of the discussion related to the most significant interdependencies which helps to raise awareness about aggregate risk and opportunity.

Strategic Priority	Risk Appetite Statement	Related Priorities
<p>Retain & grow subscriber base</p> <p>In session Poll = 67% voted as most critical priority (n=9)</p>	<p>We understand that retaining and growing our subscriber base is critical to achieving our long-term vision for HOPA. We are prepared to take justifiable financial risk (risk flexible/tolerant) in the pursuit of strategies to maintain existing subscribers and to secure new subscribers. This includes exploring required lines of coverage, revisiting current premium levels, as well as initiatives to market HOPA’s solid standing as a capable and reliable insurer for potential subscribers. We are willing to accept short-term operational pressures but not willing to accept this to the point that pressures will become overwhelming for current staff resources. We will monitor this as we proceed and are willing to accept additional financial risk (risk flexible/cautious) associated with expanding human resource options if/when required.</p> <p>We are not willing to accept financial, reputational or strategic (i.e. risk averse) risk of losing current subscribers in our pursuit of new subscribers. We accept that this priority will require innovation, creativity, financial investment and ongoing monitoring. We are, however, unwilling, to accept long-term significant financial loss in pursuit of our growth.</p>	<p>This priority directly connects to (i.e. impacted by as well as has an impact on) the other strategic priorities but most significantly related to the following:</p> <ul style="list-style-type: none"> • Expand lines of insurance • Implement a new claims management software • Invest in HOPA’s human resources to support growth
<p>Invest in HOPA’s human resources to support growth</p> <p>In session Poll = 22% voted as most critical priority (n=9)</p>	<p>We understand that to achieve our priorities, HOPA will require a flexible risk appetite related to investing in our Human Resources to support growth. We are not willing to accept risk related to decreased quality of service for our subscribers. We are willing to accept risks related to short term operational pressures but are not</p>	<p>This strategic priority is an enabler for other priorities, most critically for:</p> <ul style="list-style-type: none"> • Strengthen & develop an intentional and systematic approach to stakeholder

Strategic Priority	Risk Appetite Statement	Related Priorities
	<p>willing to accept risk of overwhelming the physical/mental health and well-being of our small and vital current staff resources. We will be flexible and tolerant with risks related to implementation of new models of work to ensure scope and expertise are currently matched and continue to be matched with functions required to meet our organizational purpose and priorities. We are willing to tolerate financial risks* related to investing in additional resources and are committed to positioning HOPA as a competitive and fair employer in terms of compensation and employee well-being but are not willing to accept reputational risk related to unjustifiable or excessive financial risk.</p>	<p>relations and Subscriber engagement</p> <ul style="list-style-type: none"> • Retain and grow subscriber base
<p>Optimize HOPA’s structure for future self-sustainability</p> <p>In session Poll = 11% voted as most critical priority (n=9)</p>	<p>Recognizing the significance and the greater impact of the other strategic priorities, we are not currently willing to tolerate resource risk related to energy, time and cost to pursue this specific priority at the expense of other priorities. We are willing to tolerate the uncertainty of not pursuing the options of mergers, acquisitions, MGA services until HOPA has more firmly advanced the achievement of higher velocity and higher impact priorities. We recognize there is risk in waiting but believe the risk is outweighed by the opportunities created with the pursuit of the remaining priorities.</p> <p>We are committed to pursuing this more formally when further out in our growth. We will, however, actively monitor and explore opportunities for successful partnerships while pursuing remaining priorities.</p>	<p>Agreed that the board may need to revisit this priority in terms of original intent and understanding of vulnerabilities it creates for the pursuit of other priorities.</p>
<p>Expand lines of insurance and RM service</p> <p>(As a result of group discussion and suggested revision to realigning components of this priority with the priority related to “Optimizing HOPA’s</p>	<p>We recognize that securing these additional lines of insurance is critical to our priorities related to retaining and growing our subscriber base and to strengthening subscriber and stakeholder relationships. We are flexible and tolerant of financial and human resource related risks to fully and successfully achieve this. We will</p>	<p>This priority directly impacts the other strategic priorities but most significantly impacts the following:</p> <ul style="list-style-type: none"> • Retain and grow subscriber base

Strategic Priority	Risk Appetite Statement	Related Priorities
<p>structure for future self-sustainability”, the risk appetite statement is specific to the priority of “securing privacy, infectious disease and cyber insurance to meet subscriber needs”.)</p>	<p>be responsive to our subscribers and will be flexible with reordering our priorities for exploring various lines of insurance based on subscriber feedback.</p> <p>We are not willing to unnecessarily jeopardize our relationship with current broker and do not have an appetite to pursue 3rd parties for lines of insurance if current broker can provide. We are not willing to accept risk of losing current subscribers, nor are we willing to risk negatively impacting our long-standing reputation of placing subscriber needs as a top priority. We are not willing to risk (risk averse) disrupting current lines of insurance coverage. We are, however, willing to risk (i.e. flexible/cautious) additional finance and resource risk to fully explore options for coverage and recognize that the ultimate decision lies with subscribers in terms of acceptance of coverage (e.g. quoted premium cost). Recognizing our value placed on both broker and subscriber relationships and our risk averse appetite for disrupting, this will be continuously assessed and escalated to board if either of these relationship risks (loss of broker and/or subscriber) appear to be materializing.</p>	<ul style="list-style-type: none"> Strengthen & develop an intentional and systematic approach to stakeholder relations and Subscriber engagement
<p>Strengthen & develop an intentional and systematic approach to stakeholder relations and Subscriber engagement</p>	<p>As a reciprocal insurer, HOPA understands that our relationship with subscribers and stakeholders is foundational to our pursuit of purpose and our success. We recognize that we cannot strengthen existing approaches nor build new ones without resources. We have a flexible/cautious risk appetite related to financial* risk to pursue innovative approaches and to ensure we are improving engagement levels and relationships. We will accept financial risks that have some uncertainty but where there is indication that the benefits heavily outweigh the risks.</p> <p>We are risk tolerant for short-term reputational risks related to the perception of over communicating with stakeholders and</p>	<p>Risk and opportunity associated with this priority are embedded within each of the other priorities. Achievement of each of the other priorities contributes positively stakeholder relations and subscriber engagement.</p>

Strategic Priority

Risk Appetite Statement

Related Priorities

	<p>subscribers. We are not, however, willing to accept risk to reputation or quality of service resulting from a failure to assess, learn from and improve upon new initiatives to strengthen relationships (e.g. Plan-Do-Study-Act (PDSA) improvement cycle). We are not willing to accept risk of worsening engagement or reputation for same that may result from over promising and under delivering.</p>	
<p>Implement a new claims management software</p>	<p>We understand that implementing a new claims management software is considered critical to the success of multiple priorities. HOPA is not willing to accept risk of remaining with status quo (i.e. current claims management system). Specifically, we are not willing to accept current risk related to operational inefficiencies, potential for loss of data integrity and/or loss of confidence with new and/or potential subscribers. We have a high tolerance for short-term impacts in terms of operational* and financial* risk in the pursuit of this priority. We have no appetite for risk related to loss of data integrity throughout the process of system selection, procurement and implementation. We have a high tolerance for financial* risks associated with exploring innovative approaches to managing the short-term operational demands during preparation for and transition to a new system. We remain risk averse to approaches and/or systems that create privacy and/or legal & compliance related risk, including compliance with subscriber agreement.</p>	<p>This priority directly connects to (i.e. impacted by as well as impacts) the other strategic priorities but most significantly related to the following:</p> <ul style="list-style-type: none"> • Retain and grow subscriber base • Strengthen & develop an intentional and systematic approach to stakeholder relations and Subscriber engagement • Invest in HOPA’s human resources to support growth (from perspective of current operational inefficiencies e.g. manual/double entry)

*Opportunity to set specific tolerance levels or thresholds to further define and clarify the level of variability that is accepted or not accepted.

The group discussion throughout the session noted areas for risk and for opportunity. Additional items for opportunity that are not noted in the table but were identified as deserving further exploration included:

- Contracting out HOPA services to others for the purpose of improving visibility, reputation and generating revenue.
- Marketing campaign (formal or informal) as a solution to insurance needs for a variety of health service providers throughout Atlantic Canada. While focus is currently on organizations who are funded by NS Government, expansion may include non-government funded/private organizations/clinics.

- Education sessions/conferences to be offered and to include non-subscribers as well.
- New claims management software will create improved workload resulting in flexibility and availability to pursue new initiatives with existing staff.

None of these ideas were discussed in detail or assessed re feasibility. They are included for reference only.

Risk Appetite Scale

The following scale was used for reference when discussing and defining Risk Appetite levels. It is expected that this will evolve over time and with repeated use.

Rating/Level →	Risk Tolerant	Flexible/ Cautious	Risk Averse
Considerations↓ Risk Philosophy	Will take justifiable risks	Preference for safe delivery but will take justifiable risks	"Sacred" Avoidance of risk is core objective
Tolerance for Uncertainty	Fully anticipated	Expect some but limited	Extremely low
Choice (when faced with multiple options)	Will choose option with highest return, accepts possibility of failure	Will accept if limited and if risks heavily outweighed by benefits. May choose to put at risk but can manage impact	Will always select the lowest risk option
Trade-off (against achievement of other objectives/initiatives*)	Willing	Prefer to avoid but willing under the right conditions	Never

*added the term "initiatives" based on discussion during planning day (Feb 6, 2023)

Trends/Themes

The table below highlights some of the trends/themes identified during the Risk Appetite discussion on February 6, 2023. This is included for reference only and is expected to evolve with further discussions, future cycles for strategic planning and organizational ERM growth. Please see individual priority-specific risk appetite statements for additional detail.

Risk Tolerant	Flexible / Cautious	Risk Averse
<ul style="list-style-type: none"> Operational pressures/risk (short-term) Finance Risk – specific to short-term risks and for the purpose of advancing key priorities (as noted in individual priority risk appetite statements) Human Resources – fully anticipate uncertainty and will take justifiable risks for short term expansion of Human Resources for purpose of achieving key priorities. Reputational risks (short-term) related to perception of over-communicating with subscribers and stakeholders. 	<ul style="list-style-type: none"> Finance Risk for expanding Human Resources (where justified – new business/work models) Risk associated with the delay of actively pursuing priority re <i>Optimize HOPA’s structure for future self-sustainability</i> (see specific risk appetite statement) Adjusting current premiums to advance key priorities 	<ul style="list-style-type: none"> Overwhelming Health and Wellbeing of current staff Financial, reputational or strategic risk related to potential or actual loss of subscriber. Financial, operational or strategic risk related to potential or actual loss of current broker. Long-term financial loss in pursuit of growth. Operational – decreased quality of service to existing subscribers Reputational risk related to unjustifiable or excessive financial risk. Risks resulting from failure to implement PDSA cycles on short-term initiatives. Operational, privacy, legal & compliance, data integrity and reputational risks related to current Claims Management System.

Conclusion and Next Steps

An organization’s appetite for risk is expected to change over time. In an effort to make risk appetite an integral part of decision making, here are some considerations to consider as you move forward in your ERM journey:

- Review Appetite Statements – does it reflect the conversation? What do you need to add/remove? What is missing? Does it “feel” right for those who were not there? Does it reflect the conversation for those who were there? It is your Risk Appetite. Edit, refine and use this information to align with your work, your culture and your decision making.

- Reference the Risk Appetite during key conversations, even if it doesn't yet seem complete. Initial use of the statements is not necessarily intended to immediately drive decision making. Initial use is for validation and revising. Questions to consider: Does it align with our discussion? Does it set the guideposts in terms of risk?
- General Risk Appetite Statement – Once the risk appetite levels are validated and agreed upon, it may be beneficial to add a general overriding risk appetite statement, often 1-2 paragraphs in length, that captures the overarching themes/appetite levels of the more detailed narrative for the priorities. Another option is to add this to your ERM framework, ERM policy and/or to your purpose statement.
- Risk Appetite **Scale**
 - Assess whether or not the narrative in the Appetite Levels and Considerations is appropriate. You may need to add or remove information detail to better align with HOPA and/or to create more clarity.
 - Use at all levels of the organization – the Risk Appetite scale is applicable to many types of risk conversations beyond the governance level. Use this in other risk conversations to help become familiar with terms and to guide conversations. This will contribute to building your organizational risk aware culture. On a practical level, using the scale in other conversations sometimes assists with reducing the emotional tensions in conversations while redirecting the focus to the facts, to what is known or not known about the issue.
- Development of Risk tolerance levels – Risk Tolerance is more specific and granular than risk appetite statements. Risk Tolerance drills down from risk appetite. There may be an opportunity to consider Risk Tolerance levels for some of the items addressed in the Risk Appetite statements, such as finance and human resource related risks.
- Continue to build your culture of being risk aware. In addition to the references noted in the bulletin, another reference that may be valuable is the World Economic Forum: The Global Risks Report 2023 (18th Edition) Insight Report:
 - [Global Risks Report 2023 | World Economic Forum | World Economic Forum \(weforum.org\)](#)
- As you become more comfortable with your Risk Appetite statements, consider if they should be shared with subscribers and/or key stakeholders.

Creating a more risk aware culture helps Boards and staff to become more anticipatory. COSO* notes that “those who are able to anticipate and understand their risk when change happens are better able to embrace change and be more agile in challenging conditions”. Defining and implementing your risk appetite is an iterative process. The facilitated meeting on February 6, 2023, built on HOPA’s strategic plan and the ERM framework and is a beginning for the establishment of Risk Appetite statements that are fully aligned with HOPA’s Vision, Mission, Values and Priorities.

*Committee of Sponsoring Organizations of the Treadway Commission (COSO). Risk Appetite – Critical to Success: Using Risk Appetite to Thrive in a Changing World (May 2020).