



BOARD RESOURCE · 2026

Risk Appetite in One Read

A short guide for boards and executives: what risk appetite is, how to set it, and how to know you have got it right.

Risk appetite turns risk from something you minimise into something you allocate. Set well, it gives management room to act and gives the board confidence the boundaries hold. This is the short version. It is enough to start the conversation.

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CONCEPTS

The three words to get right

Boards often use these interchangeably. They are not the same, and confusing them leads to poor decisions.

Term	What it means	Set by
Capacity	The most risk you can absorb before viability is threatened. A hard limit.	Financial reality
Appetite	How much and what kinds of risk you are willing to accept to pursue your strategy. Sits below capacity.	The board
Tolerance	The acceptable variation around appetite for a specific risk. The day-to-day operating range.	Management

In a line: appetite is a board decision, tolerance is a management setting, and capacity is a fact you cannot vote on.

The five appetite bands

A shared scale lets a board set appetite consistently. Five levels, from avoid to seek out.

Band	What it signals	Typical use
Averse	Avoid entirely. No exposure acceptable.	Safety, fraud, serious compliance.
Cautious	Accept only where reward is high and controls are strong.	New regulation, reputation.
Balanced	Accept measured risk for commensurate return.	Most operational and financial calls.
High	Actively pursue risk that advances strategy.	Growth, new markets, partnerships.
Very High	Seek risk as advantage; tolerate failure.	R&D, pilots, experimentation.

APPLICATION

Set appetite by category

Appetite is never a single number. A rational board accepts more risk in some areas than others. Set a posture for each category that matters to you.

Category	What it covers, and where appetite usually sits
Strategic	Growth, new markets, major investments. Often higher: this is where value is created.
Financial	Liquidity, funding, sustainability. Bounded by capacity; usually moderate.
Operational	Service delivery, systems, continuity. Low to moderate; disruption erodes trust.
Compliance & regulatory	Breaches of law, licence or standards. Typically low to zero.
Reputational	Brand, stakeholder confidence, social licence. Low; hard to recover once lost.
People & safety	Workforce, culture, physical and psychological safety. Very low; often zero for safety.

The test: if your appetite is the same across every category, you have not set an appetite. You have set a mood.

The approach, in six steps

- 1. Start from strategy.** Anchor appetite to specific objectives. More appetite for growth only makes sense if growth is the plan.
- 2. Establish capacity first.** Know what you can absorb before deciding what you want.
- 3. Set a posture per category, using the five bands.** Debate each one. The disagreement is where the value is.
- 4. Make it measurable.** Pair each posture with a metric and an escalation trigger. Words alone cannot be breached.
- 5. Assign an owner.** Every category needs someone accountable and a committee that reports on it.
- 6. Pressure-test it.** Run the draft against two or three live decisions. If it changes nothing, it is not working yet.

PRACTICE

Best practice, and what to avoid

Do this	Not this
Differentiate appetite by category.	One number for everything (it hides that you want growth risk and reject safety risk).
Let the board debate and own it.	Management writes it, board rubber-stamps it.
Attach a metric and trigger to each posture.	Leave it qualitative (“moderate appetite” cannot be monitored).
Review it annually and after big changes.	Set and forget until it misleads.
Use it in board papers and monitoring.	Confuse “zero appetite” with zero risk, and file the statement away.

Next steps

- **Test yourself.** Use the OmniStrategic Risk Management Maturity Assessment to see how well your board currently sets, monitors and uses risk appetite. Available at omnistrategic.com.au/tools/risk-maturity.
- **Draft one statement.** Pick your most important category and write a single appetite statement with a metric and trigger. Notice how quickly it sharpens the conversation.
- **Put it on the agenda.** Give the board 45 minutes to rate appetite across categories individually, then compare. The gaps are the discussion.

Move from compliance to confident decision-making.

OmniStrategic facilitates board risk appetite sessions for organisations in regulated and purpose-driven sectors. If a structured conversation would help your board, start one with us.

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Disclaimer: This toolkit is general guidance for board and executive use. It is not legal, financial or professional advice, and does not account for the specific circumstances or obligations of any particular organisation. Seek tailored advice before making decisions.

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