Risk management

- Risk is a potential losing of something of value, weighed against the potential gain

Features of risk

- Future potential event
- Uncertainty
- Impact
- Exposure
- Intangible

Objectives of risk management

- To concentrate on initial investment and underwriting
- To focus on credit monitoring
- To manage the investment portfolio monitoring
- To ensure trading transactions
- Valuation and pricing
- Performance monitoring
- Policies, procedures , authorities and responsibilities
- Management infomation

Perils and hazards

- Peril : event or circumstances
- Hazard: action caused by the event

Types of hazards

- Physical hazard : smoking, drinking
- Moral hazard : immoral behaviour, lying
- Morale hazard: careless attitude

Types of risks

- Financial risk
- Static and dynamic risks
- Fundamental and particular risks
- Pure and speculative risks
- Exchange rate risks
- Business risks
- Liquidity risks
- Country risks
- Market risks
- Credit risks
- Operational risks

Types of risks in insurance

- Vehicle risk
- Life insurance risk
- Property risks
- Health insurance risks

RISK MANAGEMENT PROCESS

- STEP 1: IDENTIFY THE RISKS
- STEP 2: IDENTIFY THE CAUSES
- STEP 3: IDENTIFY THE CONTROLS
- STEP 4: ESTABLISH YOUR LIKELIHOOD AND CONSEQUENCES
- STEP 5: ESTABLISH YOUR RISK RATING DESCRIPTORS
- STEP 6: ADD OTHER CONTROLS
- STEP 7: MAKE A DECISION
- STEP 8: MONITOR AND REVIEW

Methods of managing risks

- Avoidance
- Loss control
- Retention
- Non insurance transfer – hedging, contract, rolyalty
- Insurance – paying premium and getting insured

Limitations of risk management

- Complex calculation
- Unmanaged losses
- Ambiguity
- Depends in external entities
- Mitigation
- Difficulty in implementing
- Performance
- Potential threats