

Risk Management

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ABSTRACT

Risk is a combination of both, the probability of a bug to happen in production and the art of understanding the impact for the customer. As is with lots of such decisions, people might have different views on the impact depending on how well they understand the customers' needs.

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1. What is risk management?

- Risk is an uncertain event that may have a positive or negative impact on the project.
- Risk Management is the process of identifying and migrating risk.
- Risk is a combination of both, the probability of a bug to happen in production and the art of understanding the impact for the customer. As is with lots of such decisions, people might have different views on the impact depending on how well they understand the customers' needs

2. Types of risks:

- I. Objective Risk
- II. Subjective Risk

Objective Risk:

It is a variable of actual loss from expected loss.

Subjective Risk:

Based on persons mental conditions or state of mind.

3. Why it so important?

- Risk affects all aspects of your project – your budget, your schedule, your scope, the agreed level of quality, and so on
- Increase probability of positive event
- Reduce the occurrence of negative event.

4. Objectives of risk management:

Pre Loss:

- The firm should prepare for potential losses in the most economical way.
- Reduction of anxiety
- Meet any legal obligation.

Post Loss:

- Survival of the firm.
- Continue operating.
- Stability of earning .
- Continue growth of the firm.
- Minimize effects that a loss will have on other persons and society

5. Identifying the loss exposure

- Property Loss Exposure
- Liability Loss Exposures
- Business Income Loss Exposures
- Human Resource Loss Exposures
- Crime Loss Exposures
- Employee Benefit Loss Exposures
- Foreign Loss Exposures

There are five methods of identifying loss exposures.

- Risk Analysis Questionnaires
- Physical Inspection
- Flowcharts
- Financial Statements
- Historical Loss data

6. Analyze the loss exposure

It involves estimation of frequency & severity of loss.

Loss Frequency:

- Probable number of losses that may occur during some given time period.

Loss Severity:

- It refers to the probable size of the losses that may occur.
- Select appropriate techniques for treating the loss exposures.
- It broadly consist of two techniques.

7. Risk Control

It describes techniques for reducing the frequency or severity of loss.

Avoidance:

It means a certain loss exposure is never acquired, or an existing loss exposure is abandoned.

Loss Prevention:

It refers to measures that reduce the frequency of a particular loss.

Loss Reduction:

It refers to measures that reduce the severity of a loss after it occurs.

8. Risk Financing

It refers to the techniques that provide funding of losses after they occur.

Retention :

It means that the firm retains part or all losses that can result from a given loss. It can be either active or passive.

Noninsurance Transfers:

Noninsurance transfers are methods other than insurance by which a pure risk and its potential financial consequences are transferred to another party.

Commercial Insurance:

Commercial insurance is also used in a risk management program. Insurance is appropriate for loss exposures that have a low probability of loss but for which the severity of loss is high.