



# Chapter 2

## SOURCES OF RISK AND EXPOSURE

# Meaning of risk exposure

- It is the quantified potential for loss that might occur as a result of some activity
- The analysis of the risk exposure for a business often ranks the risks according to their probability of occurring multiplied by the potential loss

# Types of risks exposure

- Personal loss exposure – unemployment, disability, sickness, death
- Property loss exposures – caused by fire, other natural calamities
- Liability loss exposures – paying for injury, any loss
- Catastrophic loss exposures – one event , many kinds of loss
- Accidental loss exposures – intentional or non intentional

# Sources of risks and exposure

- The proposal form
- Medical examiners report
- Agents report
- The inspection report
- Private friends report
- Attending physicians
- Medical information bureau
- Neighbours and business associates
- Commercial credit investigation bureau

# Pure risks

- Personal risks
- Property risks
- Liability risks

# Personal risks

- Risk of premature death
- Risk of old age
- Risk of sickness or poor health
- Risk of unemployment

# Property risks

- Direct loss
- Indirect loss
- Extra expenses

# Liability risks

- There is no maximum limit, under liability risks , your future income and assets may be attached to settle the loss



# Speculative risks

- It is a situation that holds out the prospects of gain or loss, it includes shares, debentures, and other securities

# Difference between pure risks and speculative risks

## Pure risk

- There is a possibility of loss
- Can be or cannot be insured
- It is not voluntarily accepted

## Speculative risk

- Possibility of both profits or loss
- Cannot be predicted
- It is easily accepted

# Static Risks

- Static Risks Are Risks That Involve Losses Brought About By Irregular Action Of Nature Or By Dishonest Misdeeds And Mistakes Of Man
- It Includes Destruction Of Assets Or Change In Their Possession As A Result Of Dishonesty
- Eg: Theft, Bad Weather

# Dynamic risks

- It is caused by change in economy, changes in price levels, income, tastes of customers, technology, they are beneficial to the society

# Difference Between Static Risks And Dynamic Risks

## Static risks

- They are pure risks
- They are predictable
- The society derives no benefit or gain , and are harmful
- It is present in an unchanging economy
- It affects only individuals or a very few individuals

## Dynamic risks

- They are mainly speculative risks
- They are not easily predictable
- The society derives some benefits from dynamic risks
- It is present only in changing economy
- It effects large number of individuals

# Various Elements Of Cost Of Risks

- It is a quantifiable, controllable number that can be identified and reduced
- It is the total cost of insurance premium and other internal risks control costs
- There is a need to recognise these costs , plan and implement management strategies to reduce these costs

# Enterprise risks management

- Meaning:
- ERM In business includes the methods and processes used by organisations to manage risks and acquire opportunities related to the achievement of their objectives
- It provides a framework for risk management, it includes identifying particular events relating to organisational objective, and its impact

# ERM framework

- It helps in describing , identifying , analysing, responding and monitoring risks ad opportunities within the internal and external environment
- It includes
- Avoidance
- Reduction : Taking action to reduce the risks
- Share or insure
- accept



# ERM in CAS (casualty society framework)

- Hazard risks: liability torts, property damage
- Financial risks: pricing risks, assets risks, currency risks, liquidity risks
- Operational risks: customer satisfaction, product failure, integrity
- Strategic risks: competition, social trend, capital availability

# Components of CAS

- Internal environment
- Objective setting
- Event identification
- Risk assessment
- Risk response
- Control activities
- Information and communication
- Monitoring

# Elements of risk exposure

## Based on insurability

- Large number of similar risk exposure
- Definite loss
- Accidental loss
- Large loss
- Affordable premium
- Calculable loss
- Limited risk of catastrophically large losses

# Current Issues In Enterprise Risk Management

- The risk management process of Indian corporations are under increasing regulatory and private scrutiny
- Many business organisations struggle with business pressures such as distressed financial markets, mergers, acquisitions, restructuring etc

