

## Risk Management

### Risk in Our Society

First off, we need to realize that there are always risks in our society! As we are reminded, there are illnesses, loss of income, loss of life and acts of nature every year. Although you may not have been a victim, no one is immune. Risk, as defined as “uncertainty concerning the occurrence of a loss (Rejas, page 3). Loss is also defined along with the probability that it will occur. This is important to know since we will make our decisions based on our perception of these probabilities.

Please note that there are different classifications of risk. As you read through some of these topics, you probably realize that these risks can be a real drain on our financial resources. Worrying about these potential occurrences can cause great fear. We see that there are some techniques for managing risk, though there is no way to eliminate all aspects of it.

### Insurance and Risk

Here we learn about insurance and how it plays a role in mitigating risk. Insurance is a hedge against some of these losses and perils that can occur. Pooling of losses is how insurance is offered. Many people purchase and pay for various types of insurance and pay premiums. Not everyone will incur a loss. Therefore, the risk is spread out among a pool of people, which allows the insurance company to pay claims to those who lost. If everyone were to incur losses at the same time, it would be quite difficult (or impossible) for the insurance company to pay all claims. The measure of risk is usually done with mathematical calculations, including standard deviations. With more people involved in the group, the results become more accurate to the estimates. This is often a common misconception among students.

There are various types of insurance that one can purchase. The list is endless as there is probably insurance to hedge against *almost any loss*. Our discussion ends on fraudulent and inflated claims. These are costly fraudulent events that cost society a huge price. It is difficult to uncover all fraud and so some perpetrators go unnoticed. Overall, insurance **does** play a good role in our society!

A risk manager is charged with analyzing potential risk and deciding how to deal with it. For a nice definition of risk management, check out the following link:

<http://www.investopedia.com/terms/r/riskmanagement.asp#axzz1esLfLGMn>

In the workplace, a risk manager will go through a very lengthy process to analyze all potential risks, decide how to respond and then analyze and review them periodically. If the company decides to use RETENTION, it means that they are not passing on the risk to an insurance company and will absorb the risk themselves. This choice must be made prudently. The cost of internal or self-insurance is sometimes a good choice. However, if the probabilities and potential losses are not estimated, the company will be left with financial burdens that are unaffordable. We conclude with the important topic of an annual review. All companies (and individuals) should assess, review and make changes when appropriate to their risk management plans.

**Enjoy your week!**

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Reference

[Rejda, George E. \(2011\). Principles of Risk Management and Insurance. Prentice Hall.](#)