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Discussion Board Articles on Risk Management

- Step 1: Take a Risk Profile
- Step 2: Categorize Your Risks
- Using Insurance to Manage Risks

The above articles were originally posted to the Financial Management Discussion Board which can be found on the internet at www.exinfm.com/board

Step 1: Take a Risk Profile

All organizations are faced with risks, ranging from destruction of assets by fire to lawsuits from customers. So how do you manage all of these risks? Well the first step in managing risks is to complete a *Risk Profile* of your organization. A risk profile assesses your risk by asking numerous questions. For example, does your business operate overseas? If yes, you may be exposed to exchange rate risks. Does your company execute contracts on a regular basis? If yes, do the contracts limit your liabilities? Are sales within your company largely dependent upon a single customer? If yes, you may be exposed to high levels of business risk.

Besides asking lots of questions, a risk profile is also developed by looking at past insurance claims and lawsuits within your industry. Physical inspection of facilities can uncover possible problems such as theft and employee injury. Interviewing employees can help identify several types of risks. Once you complete the Risk Profile, you will have a good understanding of different risks that apply to your organization. Your next step is to categorize risks so that you can properly manage them.

- Matt H. Evans, www.exinfm.com

Step 2: Categorize Your Risks

After you have completed a Risk Profile of your organization, the next step in risk management is to categorize your risks. Risks are categorized into four areas according to significance and probability:

Significance to Organization	Probability that Risk will occur	Basic Approach to Managing this Type Risk
HIGH	HIGH	Try to avoid these types of risk
LOW	HIGH	Implement procedures and policies to reduce
HIGH	LOW	Use insurance to spread the risks
LOW	LOW	Accept these types of risks

Now that you have categorized your risks, you can implement a formal risk management program. If you have risks that will materially impact your organization and there is a high probability of occurrence, than you want to take steps to avoid these types of risks. For example, some Japanese manufacturers have incurred significant losses from foreign currency exchanges with the United States. In order to avoid these risks, manufacturing operations have been transferred over to the United States.

Some risks are likely to occur, but have little impact on your overall operations. For example, employee injuries are common, but rarely do they result in significant losses. A worker safety program can reduce this type of risk. You can use insurance for risks that are significant, but rare in occurrence. Finally, if you have risks that are not material and infrequent, you will implement a risk retention program; i.e. you will accept these types of risks. Most companies calculate an assigned value to this last category to determine their overall exposure. One final point: Since risks will change over time, you will need to go through this process on a regular basis.

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Using Insurance to Manage Risk

One of the most common ways of managing risks is to use insurance. Once you have categorized your risks, you need to seek insurance on those risks that can be significant in your operations, but have relatively low probabilities of occurrence. Insurance is used to share losses associated with property, income, and liability. You can either purchase separate policies for each type of loss or you can use a commercial package to cover a range of losses. Commercial packages are usually cheaper than a collection of separate policies.

So what kinds of insurance are available? Well first you will use property insurance to protect your assets against damages and losses from various events (floods, fire, etc.). Property insurance with "all risk" is usually preferred since it's sometimes hard to predict what kinds of events will occur. Crime insurance is sometimes added if you have assets located in areas subject to theft and vandalism. General Liability insurance is used to protect your organization against claims from injured parties. Product Liability insurance is used to protect against faulty workmanship. Professional Liability insurance is used to protect engineers, CPA's, and other professionals against liability due to errors and omissions in their work.

If your business is subject to major interruptions from floods, hurricanes, and other natural events, than you may want to consider Business Interruption insurance. Business Interruption insurance provides your organization with a base level of cash until you can get up and running again. If you have key personnel that are important to your organization, than you should consider life insurance on these employees. Finally, if you have concerns that your separate insurance policies may not cover all of your exposures, than you can execute an Umbrella Policy to catch the unique items not covered by other policies.

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