



RISK MANAGEMENT

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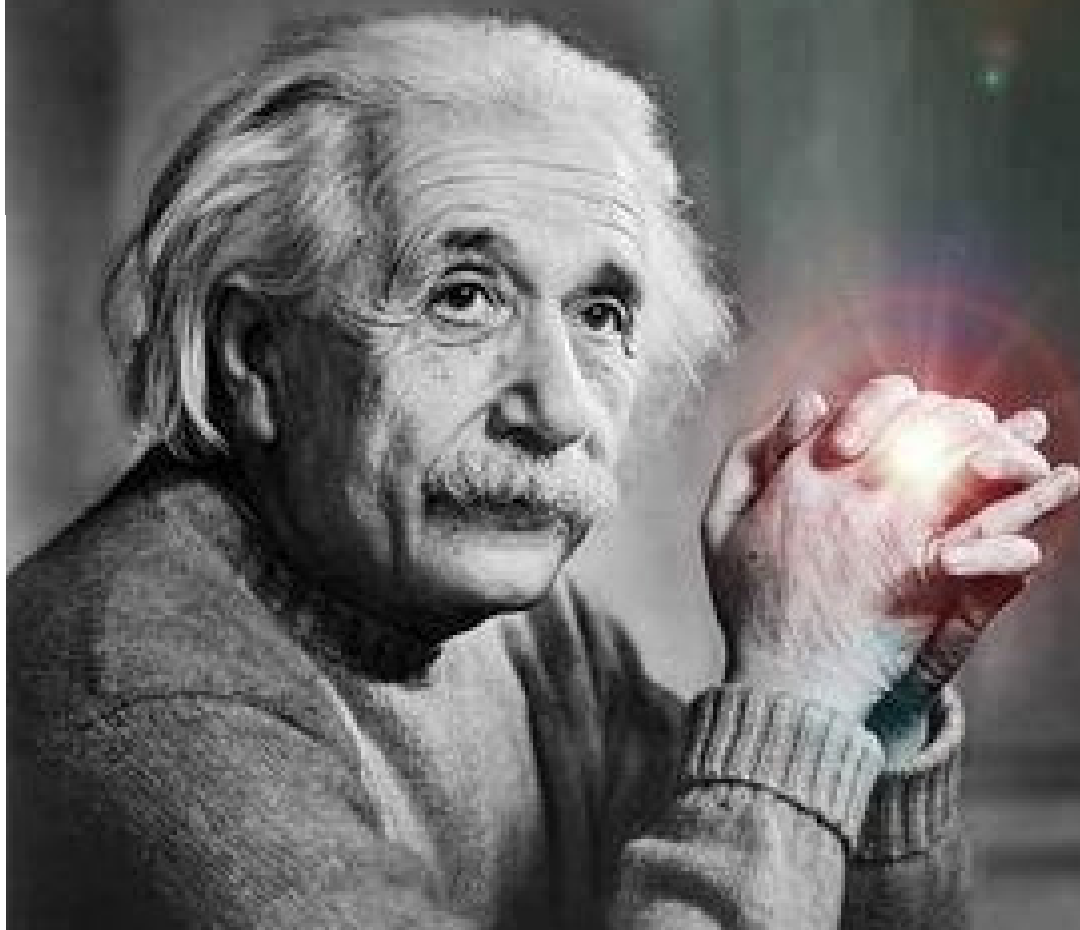
‘मुसिबतो से लड़ना हमारा शौक है..’
असा सवांद चित्रपटात वैगर
ऐकायला छान वाटतो ;
पण प्रत्यक्ष जीवनात त्याचा
अंगीकार फार थोडे लोक करतात.
अशा लोकांना यशस्वी व्हायच असतं पण
जोखिम घ्यायलाच नको वाटते.
पण एक लक्षात घ्या कोणती ही गोष्ट
जोखिम घेतल्याशिवाय यशस्वी
करता येत नाही.



जोखीम तर घ्यायलाच हवी

If you can't explain it **simply**, you don't understand it well enough.

– Albert Einstein



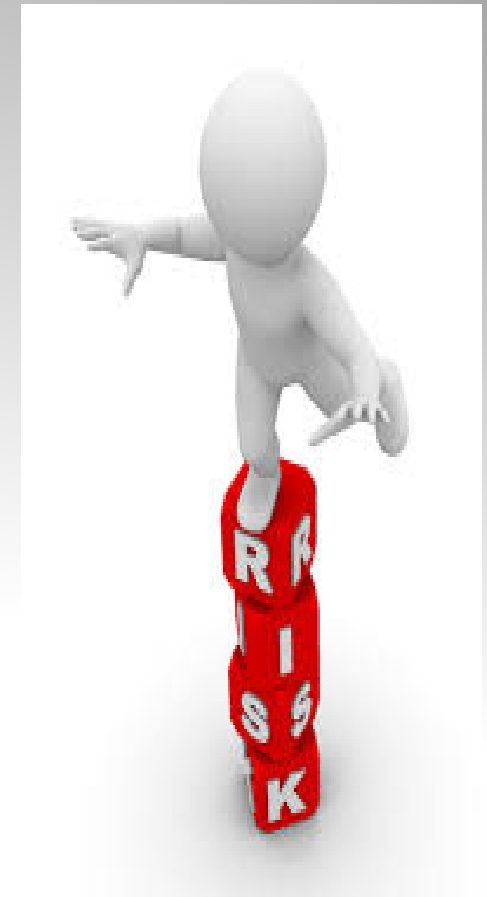
RISK MANAGEMENT AND MEASUREMENT

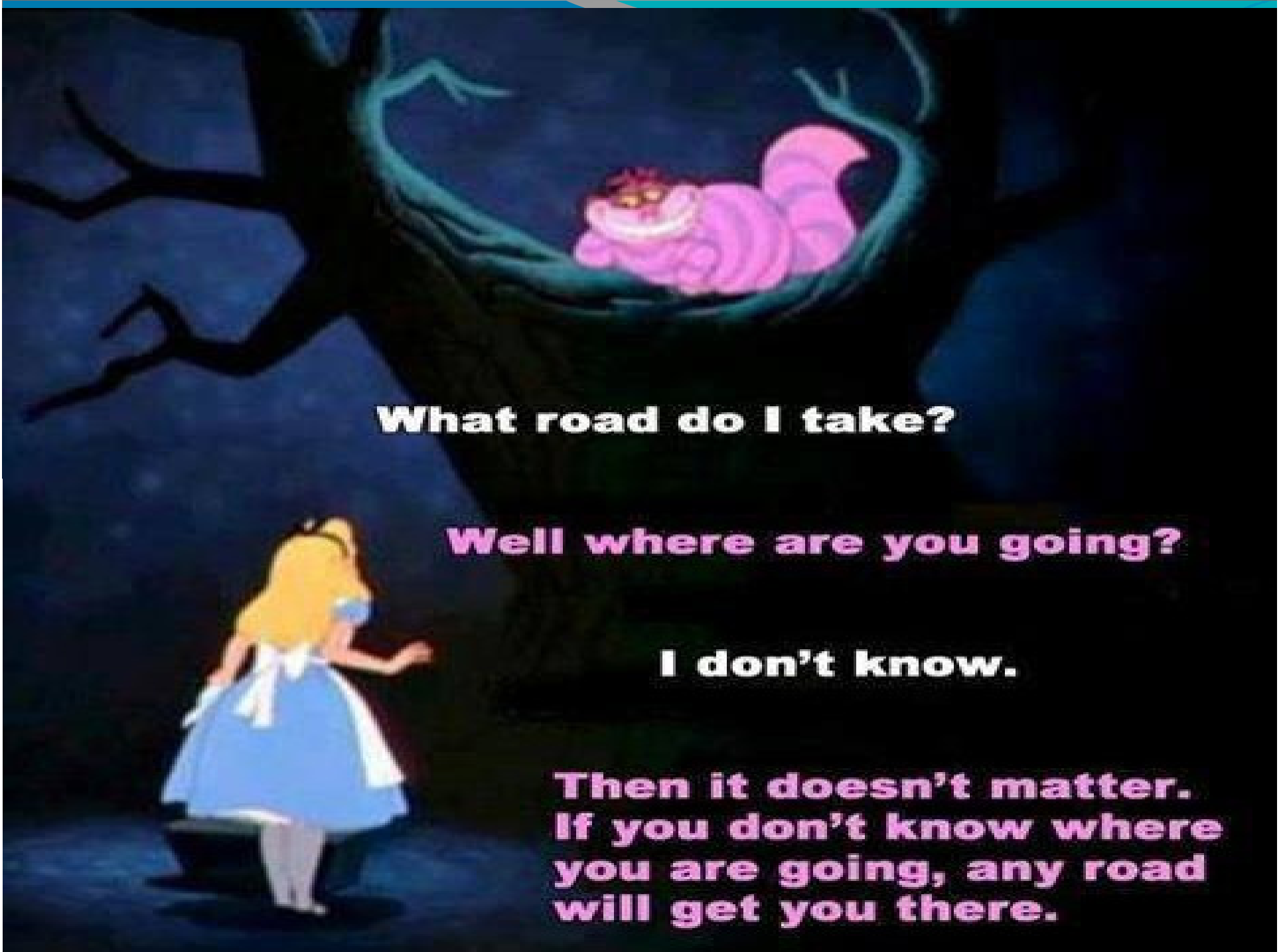
- What is risk?

Risk is uncertainty.

It is anticipation of future event.

It is with everyone and businesses





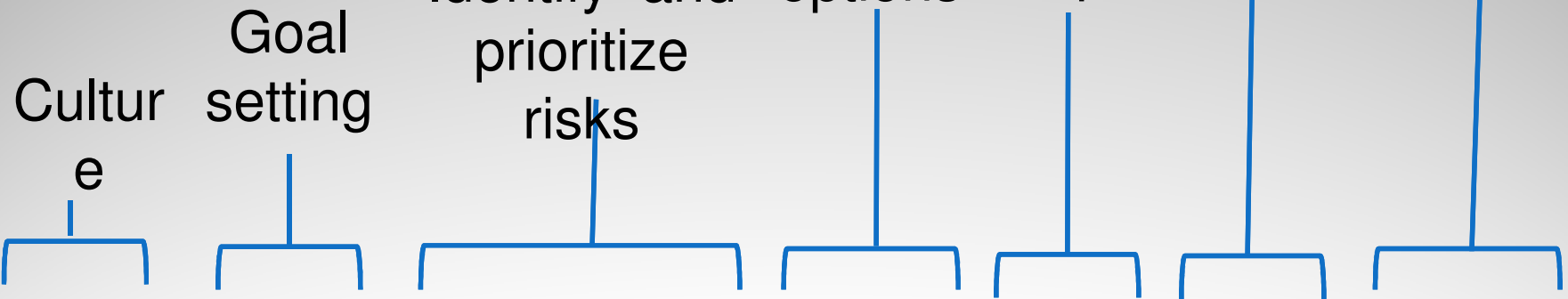
What road do I take?

Well where are you going?

I don't know.

**Then it doesn't matter.
If you don't know where
you are going, any road
will get you there.**

RM Life Cycle

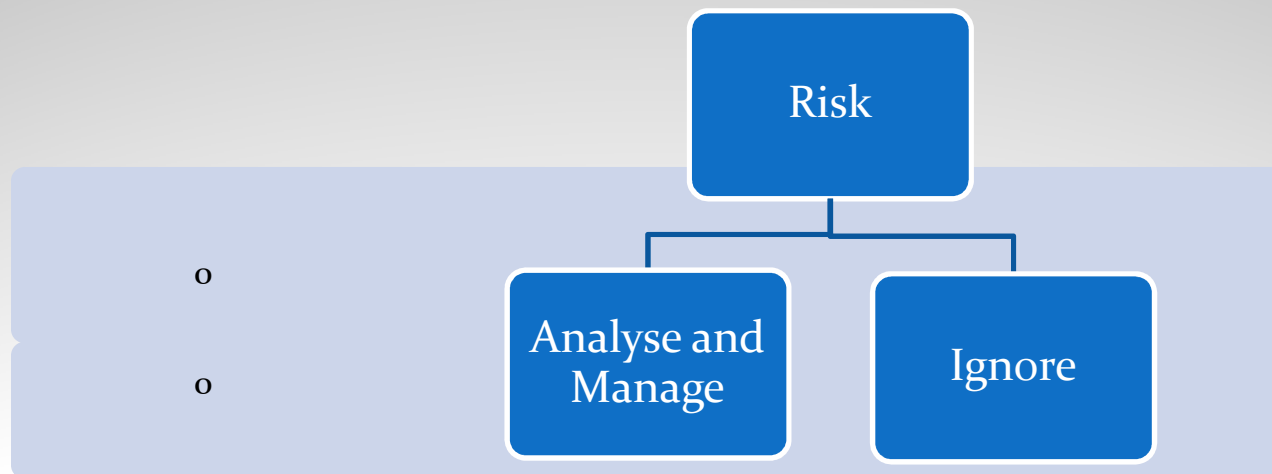


Types of Risk

- Country Risk
- Economic Risk
- Social Risk
- External Risk
- Exchange Risk
- Business Risk
- Financial Risk
- Systematic Risk
- Unsystematic Risk
- Market Risk
- Interest Rate Risk
- Purchasing Power Risk
- Default Risk
- Callability Risk
- Convertibility Risk
- Industry Risk
- Currency Risk
- Operational Risk

Occurrence of risk

It is when choice is to be made and potential outcome is uncertain.



Nature of risk

- Risk and reward go hand in hand
- Certain individual take more risk while others not.
- Risk averse manager may loose opportunities





Important criteria for decision maker

- Attractiveness of each option
- Preparedness to accept loss
- Estimated probabilities of success and failure
- Effect on decision maker of success and failure

Risk Management Factors



 Internal stakeholders

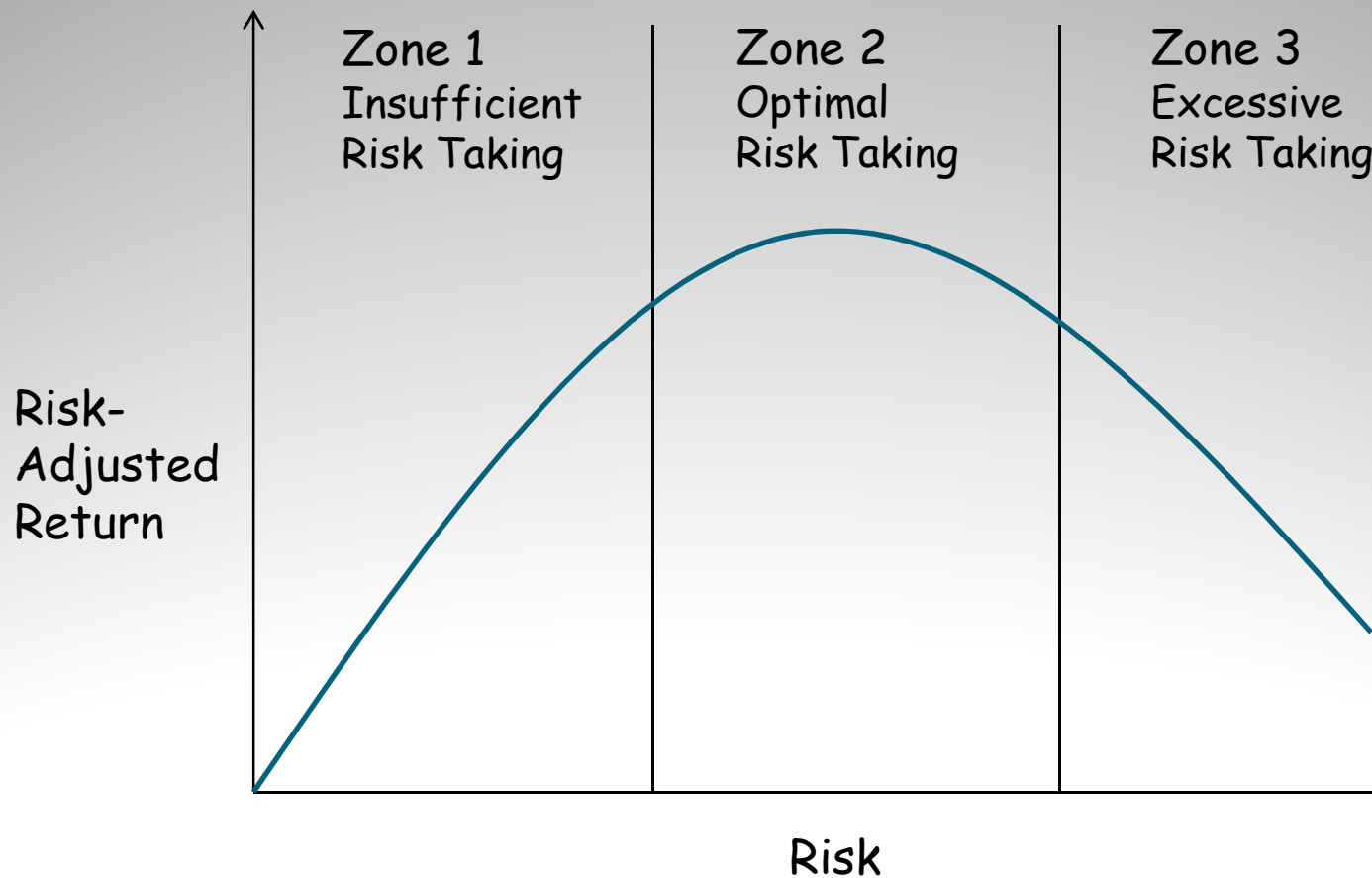
 External stakeholders

Risk in business

- External factor: Sensex, Government intervention, Cost of finance, Economy, Foreign exchange etc.
- Internal factor :Culture and style of leadership, Reward system



Risk and Relative Return



Risk factor in strategy formulation

- Competition
- Technology and production –Innovation
- Diversification-overstretching of resources
- Financial
- Managerial competence
- Environmental –hostile opinion



Pure Vs Speculative Risk

Pure Risk : Uncertainty whether loss will occur

No possibility of gain.

Example : Fire to property, Accident

Speculative Risk : Uncertainty of even that will that
could provide either profit or loss

Example : Business venture ,Investment decisions

Overlapping of both risk

- Purchase of land : Speculative risk-found pollution in land-pure risk.
- New Product : Asbestos product, Silicon implant

Static vs Dynamic risks

- Static : Lightning, windstorm, Tsunami etc.
Business organization....stable economy
- Dynamic : Caused by change in society Unrest, technology, changing attitudes of law makers and Courts

Subjective and objective risk

- Individualist : Mental state
- Objective : Irrespective of person
- Individual personality

Property Risk

- Natural Cause : Fire, flooding, lightening, tornadoes, hurricanes, earthquake freezing, etc.
- Human caused : Riots, explosions, the

Liability

- Public litigations
- Product liability : Car, medicines

Life, health and loss of income

- Keyman insurance
- Caused by business condition
- Retirement and unemployment

Financial Risk

- Credit Risk
- Foreign Exchange Risk
- Commodity risk
- Foreign exchange exposure



Chance of loss

- Frequency of loss
- No. of losses to the no. of transactions

Physical hazards

- Road collisions
- Earthquake
- Jungle fire
- Etc.

Moral and morale hazard

- Moral : Excess insurance of health and property and then cause damage.
- Morale: Accident prone person, unknowingly damage

Degree of risk

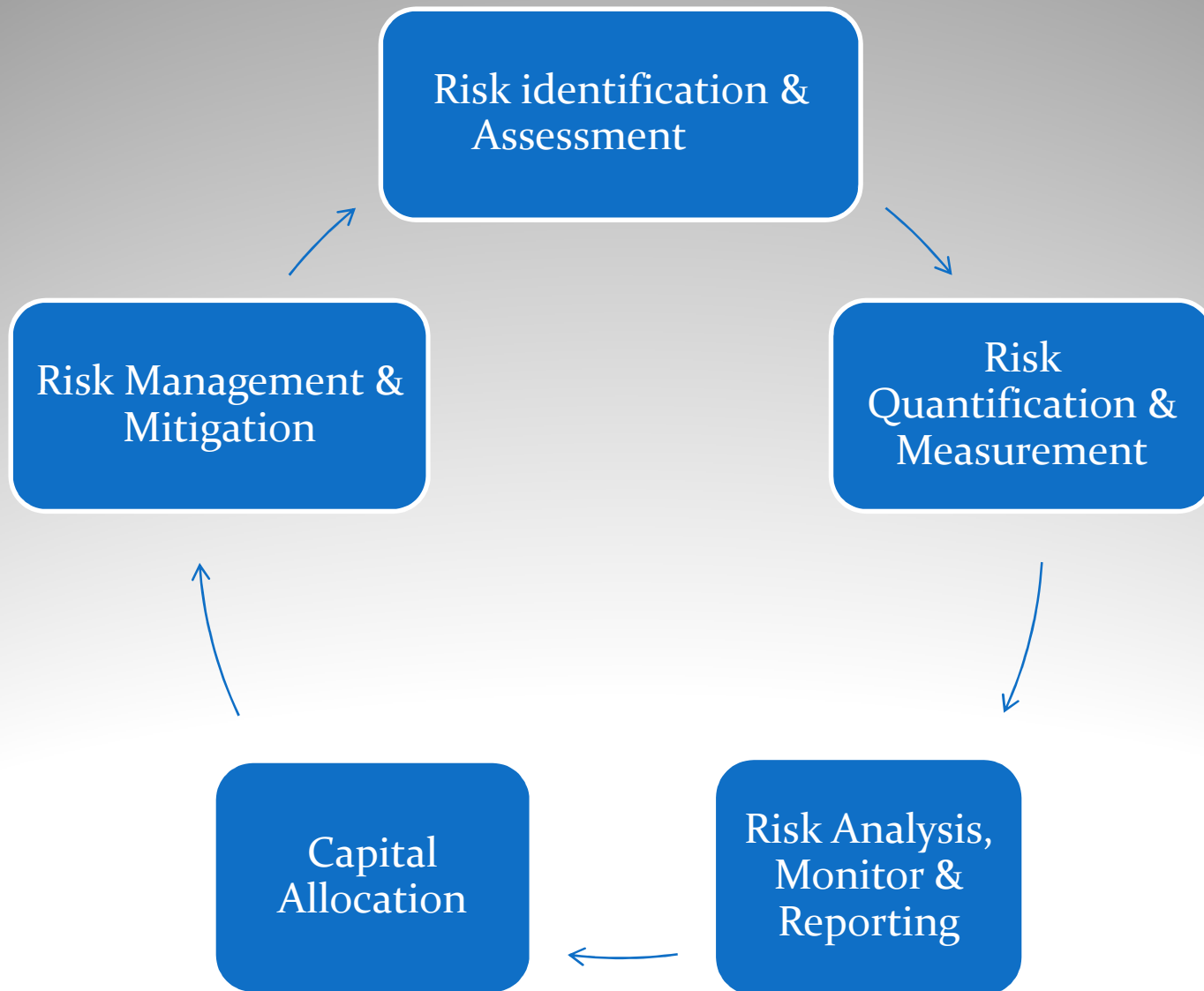
Probable variation of actual
from expected losses

- Objective Risk = $\frac{\text{Probable variation of actual from expected losses}}{\text{Expected losses}}$

Management of risk

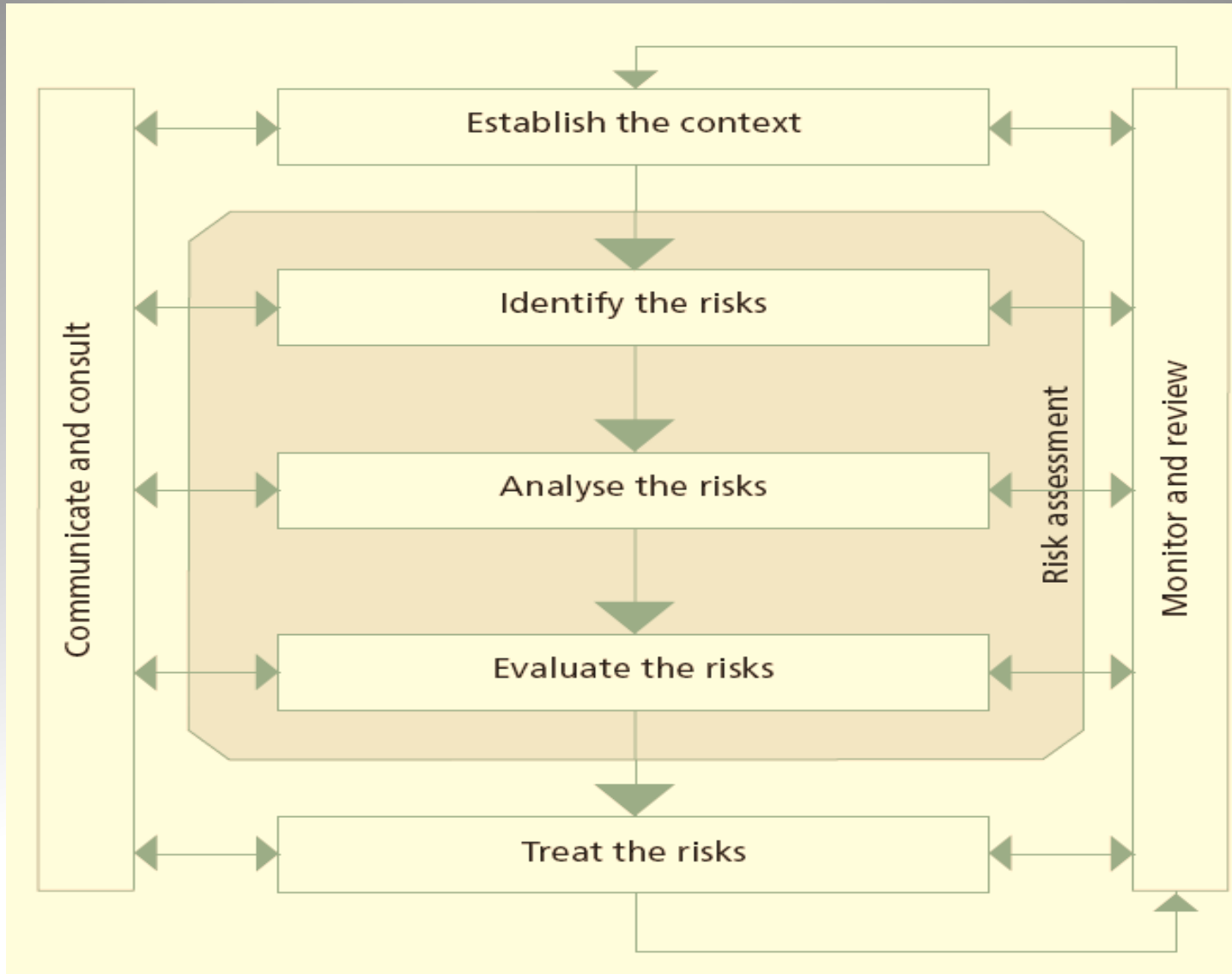
- Risk management : Management to minimise adverse effects of potential losses at the least possible cost.
- Consider both pure and speculative losses to cover all types of risks. Separate officer and committees are formed to manage risk

Risk Management & Mitigation



Risk Management Process

- Identify Risk
- Evaluate Risk
- Select Risk management technique
- Implement and Review decision



Identify Risks

- Organization

- Property
- Liability
- Business income
- Death or disability of key persons
- Job-related injuries or disease
- Fraud, dishonesty, crime
- International operation

- Individual

- Property
- Liability
- Premature death or disability
- Unemployment
- Sickness
- Liability

Risk Management Matrix

Frequency	High	Prevention Retention	Avoidance
	Low	Retention	Reduction Insurance
		Low	High

Severity

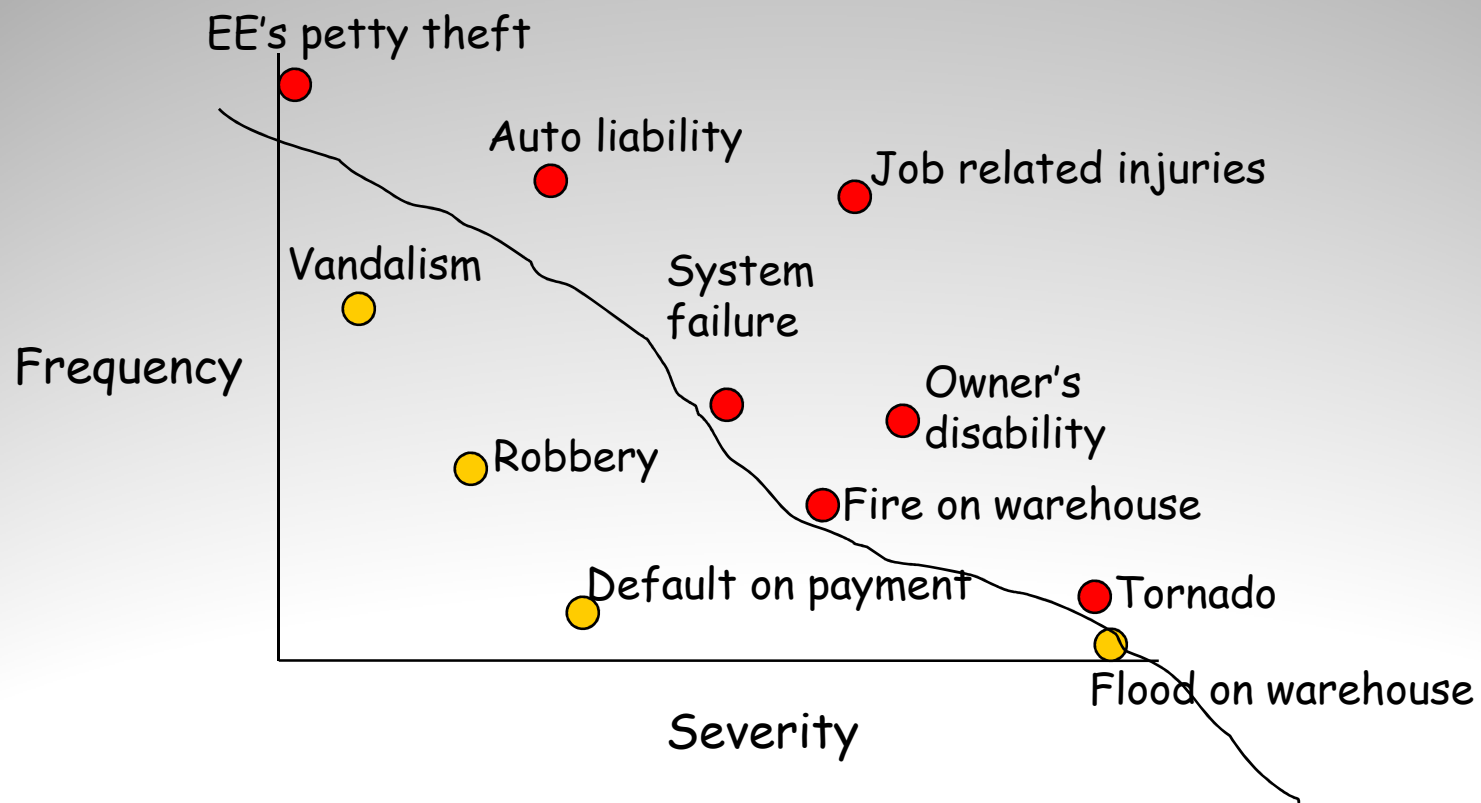
Identify and select RM techniques

- Risk avoidance
- Risk retention (Risk assumption)
 - Self-insured
 - Captive
- Risk reduction (control)
 - Loss prevention – frequency
 - Loss reduction – severity
- Risk transfer
 - Insurance
 - Non-insurance
- Example: Sprinkler, Hold-harmless agreement, ignorance, safety education, smoke alarm, deductible, warm-up, rent

Evaluation Tools

- Risk mapping
 - A graphical presentation of potential frequencies and severities of identified loss exposures faced by individual/organization
 - Critical issue tolerance boundary or risk-tolerance boundary
 - Prioritize risks
- Risk management matrix

Risk Mapping



Implement and Monitor

- Are techniques implemented correct?
- If not, ...

Insurance

- Advantages

- Uncertainty is reduced
- Insurers can provide their expertise such as loss control services.
- Insurance premium is tax-deductible.
- Insurance proceeds are tax-free.

- Disadvantages

- Insurance premium may be a major cost.
- Moral and morale hazards may be created.
- Time and effort have to be spent.
- Insurance may not be renewed.

Risk Financing - Retention

- A method of funding losses using internal money
 - No purchase of insurance
 - Retention with insurance
- What determines the retention **decision**?
 - Frequency & severity of expected losses
 - No other effective method available
 - Costs and availability of insurance
 - MMP, Health care insurance
 - Highly predictable losses
 - Self-confidence or degree of risk aversion
 - Failure to identify

Risk Financing - Retention

- What determines the retention level?
 - Degree of risk aversion
 - Financial condition
 - Ability to diversify the retained risk
 - Potential cost/benefit
 - Costs and availability of insurance
 - Ability to administer a retention program in a cost effective manner

Risk Financing - Retention

- Self-Insurance, Captive, RRG
 - Self-Insurance
 - Captive
 - A form of self-insurance through a wholly owned subsidiary (insurance company) created to provide insurance to the parent companies
 - Pure captive, Group captive, Risk Retention Group

Others

- CAT bonds
- Forward/Future
- Swaps
- Options
- Securitizations
- CDO, CMO, CBO, CLO

- तुम्ही तर तरुण आहात ? महत्वाकांक्षी आहात ? आयुष्य कडून तुम्हाला काहीतरी वेगळ आपेक्षित आहे ? मग तुम्ही जोखिम पत्कारयालाच हवी....
- नंतर करू उदया करू..... हा उपाय नाही. कारण, अशी वेळ कधीच येत नाही. बदल पाहिजे असेल तर मग आत्ताच सुरवात करा.....
- अनेकदा मोठी जोखिम आयुष्यात मोठे यश देऊन जाते. हे लक्षात ठेवा.
- जे नेहमीचा सरधोपट मार्ग सोडून स्वताःचा नवा मार्ग धरतात त्यांचाच वाट्याला यश जास्त वेळा येत. ते इतरांचा आदर्श बनतात.
- हे सारं तुम्ही कोणती जोखिम उचलता, ती कोणत्या वेळी उचलता आणि त्यातून काय शिकता, यावर बरचसं अवलंबून असतं.



Conclusion

- Integrated or enterprise risk management is an emerging view that recognizes the importance of risk, regardless of its source, in affecting a firm's ability to realize its strategic objectives.



Oh...!!!!!!!

I Won.....



***Hey...!!!! I can take
any Risk.....!!!!***





Questions?

Thank You.....!!!!!!

- CMA Suresh Pimple
- Dated : 29th Jan. 2016