

Knowledge Sprint

Basic Concepts of Risk Management

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This article is on Basic Concepts of Risk Management

It contains concepts like -

- About Risk Management -
- Definition of Risk -
- Types of Risk, Based on probability of risk expectations -
- Types of Risk, Based on proportionality of Loss incurred-
- Some Relative Terms of Risk-

About Risk Management -

- Risk is involved in every activity whether it is a business, personal or professional life
- While doing any activity we expect some returns out of it, however the actual returns might sometimes vary when compared to our expectations.
- Such variations generally is termed as “Risk”

Definition of Risk -

- In Financial terms, a risk is a “ The identification, analysis, assessment, control, and avoidance, minimization, or elimination of unacceptable risks”.
- Risk is the change or probability of a deviation from an anticipated outcome. It not only considers the losses and also any extent of probable deviations in an activity.
- It is also defined as , " An uncertainty events that create the concurrency of loss".



Based on probability of risk expectations, there are two types

1. When the probability is certain -

- It is the state of probability of certainty that predicts the exact outcomes of an risk are unknown.
- But, the number of outcomes of risk can be known
- Examples - Dice - Number of outcomes are 1 to 6, but exact outcomes are unknown

2. When the probability is uncertain -

- It is situation where we do not exact outcomes nor the number of outcomes probability of risk
- It is classified as “High Risk” in nature
- Examples - Floods, earthQuakes etc.

Based on proportionality of Loss incurred by Risk, there are two types of risk -

1. Objective Risk

- When the relation between Actual Loss and Expected Loss is proportional in nature, then it is Objective Risk
- That means, there will be change in Actual Loss when there is a change in Expected Loss

2. Subjective Risk

- It is a risk that is referred to an individual's mental condition or state of mind that is unpredictable
- The opinion of risk differs from one person to another person
- Such a risk is classified as Subjective Risk
- These type of risk either will be high or low in nature

Some Relative Terms of Risk

- Peril - it is an attribute that causes the loss
- Hazard - It is state of risk, where it increases the chances of loss. There are four types of Hazard risks. They are -
 1. Physical - A physical condition that increases the loss
 2. Moral - Loss occurred because of dishonesty in activity
 3. Morale - Loss occurred because of carelessness of activity
 4. Legal - Loss because of legal systems, or regulatory frameworks that will cause increase in loss



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