Knowledge Sprint

Non-Insurance methods in Risk Management

This article is on Non-Insurance methods in Risk Management

It contains concepts like -

- Risk Avoidance and Types -
- Loss Control and Types -
- Risk Retention and Types -
- Expected Questions for Interview or Exams -

Knowledge Sprint

Non-Insurance methods in Risk Management -

- There are various methods available in non-insurance methods of Risk Management.
- They are -

1. Risk Avoidance
2. Loss Control
3. Risk Retention

Let us now, study each of them -

1. Risk Avoidance -

- It means, avoiding the activities where the risk in involved.
- Generally, a firm will abandon the activities or assets that will lead to loss.
- This technique is applied when the risk is known or loss is already known and it is not serious in nature.
- There are two types of Risk Avoidance - (I) Risk Transfer and (II) Risk Aversion.

(I). Risk Transfer	• It it simply selling of asset where the risk is involved, thereby we are transferring the risk to another owner • We say that, transfer of ownership of asset will reduce the risk associated with it.
(II) Risk Aversion	• It is a situation where an individual chooses the lesser risks involved projects from available other projects. • We can define it as - “ investor gives preference to less risky investment projects when compared to other projects though they are identical in rate of returns”.

2. Loss Control -

- Loss Control refers to techniques adopted by organizations to control the unavoidable risks.
- They control by adopting techniques like loss reduction, loss prevention etc.
- There are three types of Loss Control -

(I). Severity Reduction	• Here the focus is on reduction of Severity of losses
(II). Separation	• It will focus on Reducing the amount of loss associated with Specific Risks.
(III). Duplication	• Here, an firm makes an arrangement of duplicate equipments to replace the damaged one's. • This is more used in production units to minimize the loss caused by Equipment damage.

- Loss Control becomes a major factor in decision making for a risk manager either in investment or loss reduction prospects.

- Benefits of Loss Control -

A. Reduction of losses
B. Over all of cost of risk management will reduce
C. Better Decision making
D. Helps to take right decisions on projects
E. This helps more in cases where the exact risks cannot be expressed in monetary terms.

3. Risk Retention -

- Here the firm, retains the part of losses or all the losses that are resulting from risk exposure. (Firm bears the losses)
- The losses are paid off from firm's net income or funds etc.
- This technique is mostly used by Large organisations
- Types of Risk Retention :

(I). Planned Retention	• Here the risk is already identified, and then appropriate plans and efforts are for assumptions of such risks. • Most convenient technique for risk management.
(II) Unplanned Retention	• Here a risk retention without recognition of Exact Risk involved.
(III). Unfunded Retention	• No funds are made available to cover up losses

(IV). Funded Retention	• Funds are made available in advance to cover up the losses. • It is done so by, - using credit, Reserve Funds, Self-Insurance, Captive Insurance. • Under self-Insurance : some fixed amount of funds are already made available for losses incurred from risk and does not involve in transfer of assets. • Under Captive - Insurance : Firm follows both risk retention and risk transfer techniques. Here the Payment of losses is made by insurers.

Expected Questions for Interview/Exams from this module -

Q. What are Various Types of Non-Insurance Risk Management?
Q. What is Risk Avoidance ?
Q. What is Loss Control ?
Q. What is Risk Transfer ?
Q. What is Risk Aversion?
Q. What is Risk Retention ?
Q. What are various Types of Risk Retention ?

Thank you

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