

## 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 -

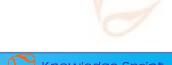




#### Non-Insurance methods in Risk Management -

- 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	<ul> <li>It it simply selling of asset where the risk is involved, thereby we are transferring the risk to another owner</li> <li>We say that, transfer of ownership of asset will reduce the risk associated with it.</li> </ul>
(II) Risk Aversion	<ul> <li>It is a situation where an individual chooses the lesser risks involved projects from available other projects.</li> <li>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".</li> </ul>



#### 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	<ul> <li>It will focus on Reducing the amount of loss associated with Specific Risks.</li> </ul>
(III). Duplication	<ul> <li>Here, an firm makes an arrangement of duplicate equipments to replace the damaged one's.</li> <li>This is more used in production units to minimize the loss caused by Equipment damage.</li> </ul>



- Loss Control becomes a major factor in decision making for a risk manager either in investment or loss reduction prospects.
- Benefits of Loss Control -
- Reduction of losses
- Over all of cost of risk management will reduce В.
- **Better** Decision making
- Helps to take right decisions on projects
- E. This helps more in cases where the exact risks cannot be expressed in monetary terms.



- 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	<ul> <li>Here the risk is already identified, and then appropriate plans and efforts are for assumptions of such risks.</li> <li>Most convenient technique for risk management.</li> </ul>
(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



- 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?





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