Knowledge Sprint

Risk Identification Tools,Techniques, Approaches used in Corporate Entities

This article is on Risk Identification Tools,Techniques, Approaches used in Corporate Entities

- It contains concepts like -
- Risk Identification Tools -
- Risk Identification Techniques -
- Risk Management Methods/Approaches used in Corporate Entities -

Risk Identification Tools -

1. Swot Analysis -

- SWOT stands for Strength, Weakness, Opportunities, and Threats
- Used for development of Strategy and risks in an organisation
- Here the risk is identified, for both internal and external purposes
- Strength, Weakness → for Internal risk identification
- Opportunities, Threats → used for external risk identification

2. Risk Checklists -

- Applied to identify the risk in a particular situation in an organization
- Experimental and Documental knowledge are two major sources for Risk Checklist tool
- Experimental refers to individual experiences recorded or collected for a particular situation in an internal organisation
- The documented (also called as historical) knowledge refers to the collection of information from external source for a particular situation
- Risk Checklist tools must be applied with great precautions as we need to take care about its applicability to a particular situation

3. Risk Prompt lists

- Similar to Risk Checklists
- Only difference is that it will help in categorise the different types of risks

4. Risk Taxonomy

- It is a situation between Risk checklists and Risk prompt lists
- It contains list of all possible risks that are about to face
- It is much more informative than risk prompt lists but less to that of risk checklists

5. Risk Trigger Questions

- It contains lists of all possible events or situations, that might cause the organisation towards a risk
- This tool uses any recent event or area of risk that was faced by organisation and then based on it, it will derive all possible risks further

6. Case Studies tool

- Any Case Studies that were of nature area of Risk related, helps to provide and suggest the risks that may occur in the future
- Case Studies are needed to referred to specific cases of risk

7. Risk Focussed Process Analysis Tool

- Here in an organisation, generally they prepare a process or flow chart to conduct their business procedures
- At each level of process, the chart should also focus the risk identifications, and possible risk events, this process is called as Risk Focused process Analysis tool Risk

Risk Identification Techniques -

1. Brainstorming -

- Most commonly used
- Here the experts will list all possible risks for that particular project under brainstorming procedure
- Finally, an agreed set of risks will taken as outcome of discussion
- Drawback → a strong dominating character will likely influence the risk lists in an discussion and it will restrict others to contribute

2. Delphi Technique -

- Here the Experts are called for discussion at the individual levels at different times and asked about comments on the risks
- Procedure → 1st- Survey will be conducted, based the response of survey and importance of risks are determined
- Here Questionnaire of the survey design plays a great role in evaluation of risks

3. Interviews -

- Here the individuals are interviewed about the risks in an organisation
- This technique is considered as better than Delphi, because in delphi there are possibilities of unclear response, incorrect response, etc.
- This method takes more time, and questions to some extend are not comfortable to few individuals.

4. Working Groups -

- Here the risk identification is done by interviewing of working groups
- This helps to know the nature of risks involved in that particular area or domain
- This method provide a lot of details on the risks

Risk Management Methods/Approaches used in Corporate Entities -

- Goal of risk
    - a. To avoid losses
    - b. To improve profit margins
- In corporate entities, if there an investment→ expect returns→ thereby de facto exists 'risk'
- Relationship exists in risk also, let us see that ..

HIGH INVESTMENT→ HIGH RETURNS→ HIGH RISK

LOW INVESTMENT→ LOW RETURN-->LOW RISK

- We can conclude that, investment is directly proportional to risk involved
- To overcome the risk factors, corporate uses different methods and approaches to minimize the losses.
- Let us study each of them...

Risk Management Methods

1. Risk Control

- Risk Avoidance
- Loss Control

2. Risk Financing

- Retention
- Insurance
- Hedging
- Other Contractual Risk transfers

3. Internal Risk Reduction

- Diversification
- Investment in information

1. RISK CONTROL -

- Risk Control is done by two ways - risk avoidance and loss control

1st -Risk Avoidance	• It means, not to involve in any activities that involve the risk
2nd - Loss Control	• It focus on two parameters - frequency of risk and severity of risk • Frequency of risk → it helps loss prevention • Severity of Risk → it helps to reduce losses

2. RISK FINANCING

- It is also called as ‘Loss Financing’
- It refers to, funds that are needed to cover up the losses caused by risk

Case Study -- In india, banks NPA- it will around 28 % currently as per 2017-18

- Risk Financing got four approaches, they are -

    A. Retention
    B. Insurance
    C. Hedging
    D. Other Contractual Risk Transfers

A. Retention -

- It means for any business firm tends to hold a part or whole of a given risk
- Risk retention can be active or passive type

- Active Retention → means, firm will known the risk in advance and will be ready to hold it and pay it (the loss of risk), example - Firm - vegetables business, transport to customer, they got damaged(loss), who will pay it?

- Passive Retention→ it is situation where the firm failed to identify the risk involved due to ignorance or laziness. This type is dangerous for a firm to continue its business in market

B. Insurance -

- It means, when a firm that got losses will try to get the insurance claim from insurer(Ex- LIC, TATA AIG), the process is called as INSURANCE
- Process → Firm will pay premium to insurer → later insurer will insurance the claim of firm loses as per agreed amount between parties

C. Hedging

- Means Covering the risk or loss by derivatives (Financial instruments)
- Firms will apply various strategies like -- forwards, futures, swaps ..etc
- Hedging is used by firms, generally if they are getting losses or risk from changes in prices, commodities rates, interest rates, foreign exchange rates.. Etc

D. Other Contractual Risk Transfers -

- Here, the firms simply transfers the risk to other parties who are ready to handle it, in return they pay certain amount as charge.

4. INTERNAL RISK REDUCTION -

- It is risk from internal of a firm
- It happens in two ways. They are -

A. Diversification

- Risk can be reduced by diversification of business activities

B. Investment in information

- Here, firm will invest some amount into information gathering about the business activities that can performed at optimum and information about competitors in the market
- In Simple, we can say like Firm’s R&D invest on the business

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