MUTHAYAMMAL ENGINEERING COLLEGE

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Rasipuram - 637 408, Namakkal Dist., Tamil Nadu

Estd. 2000

IQAC

LECTURE HANDOUTS | **L01**

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Risk and Uncertainty

Introduction :

Risk management is the process of identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risks, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Avoidance: A business strives to eliminate a particular risk by getting rid of its cause.

Mitigation: Decreasing the projected financial value associated with a risk by lowering the possibility of the occurrence of the risk.

Acceptance: In some cases, a business may be forced to accept a risk. This option is possible if a business entity develops contingencies to mitigate the impact of the risk, should it occur.

When creating contingencies, a business needs to engage in a problem-solving approach. The result is a well-detailed plan that can be executed as soon as the need arises. Such a plan will enable a business organization to handle barriers or blockage to its success, because it can deal with risks as soon as they arise.

Importance of Risk Management

Risks management is an important process because it empowers a business with the necessary tools so that it can adequately identify and deal with potential risks. Once a risk's been identified, it is then easy to mitigate it. In addition, risk management provides a business with a basis upon which it can undertake sound decision-making.

For a business, assessment and management of risks is the best way to prepare for eventualities that may come in the way of progress and growth. When a business evaluates its plan for handling potential threats and then develops structures to address them, it improves its odds of becoming a successful entity.

In addition, progressive risk management ensures risks of a high priority are dealt with as aggressively as possible. Moreover, the management will have the necessary information that they can use to make informed decisions and ensure that the business remains profitable.

Risk Analysis Process

Risks analysis is a qualitative problem-solving approach that uses various tools of assessment to work out and rank risks for the purpose of assessing and resolving them. Here is the risk analysis process:

1. Identify existing risks

Risk identification mainly involves brainstorming. A business gathers its employees together so that they can review all the various sources of risk. The next step is to arrange all the identified risks in order of priority. Because it is not possible to mitigate all existing risks, prioritization ensures that those risks that can affect a business significantly are dealt with more urgently.

2. Assess the risks

In many cases, problem resolution involves identifying the problem and then finding an appropriate solution. However, prior to figuring out how best to handle risks, a business should locate the cause of the risks by asking the question, "What caused such a risk and how could it influence the business?"

3. Develop an appropriate response

Once a business entity is set on assessing likely remedies to mitigate identified risks and prevent their recurrence, it needs to ask the following questions: What measures can be taken to prevent the identified risk from recurring? In addition, what is the best thing to do if it does recur?

4. Develop preventive mechanisms for identified risks

Here, the ideas that were found to be useful in mitigating risks are developed into a number of tasks and then into contingency plans that can be deployed in the future. If risks occur, the plans can be put to action

Video Content / Details of website for further learning (if any):
https://corporatefinanceinstitute.com/resources/knowledge/strategy/risk-management/

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L02

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Types of Risk

Introduction : Broadly speaking, there are two main categories of risk: systematic and unsystematic. Systematic risk is the market uncertainty of an investment, meaning that it represents external factors that impact all (or many) companies in an industry or group. Unsystematic risk represents the asset-specific uncertainties that can affect the performance of an investment.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Types of Risk

Broadly speaking, there are two main categories of risk: systematic and unsystematic. Systematic risk is the market uncertainty of an investment, meaning that it represents external factors that impact all (or many) companies in an industry or group. Unsystematic risk represents the asset-specific uncertainties that can affect the performance of an investment.

Below is a list of the most important types of risk for a financial analyst to consider when evaluating investment opportunities:

- **Systematic Risk** – The overall impact of the market
- **Unsystematic Risk** – Asset-specific or company-specific uncertainty
- **Political/Regulatory Risk** – The impact of political decisions and changes in regulation
- **Financial Risk** – The capital structure of a company (degree of financial leverage or debt burden)
- **Interest Rate Risk** – The impact of changing interest rates
- **Country Risk** – Uncertainties that are specific to a country

- **Social Risk** – The impact of changes in social norms, movements, and unrest
- **Environmental Risk** – Uncertainty about environmental liabilities or the impact of changes in the environment
- **Operational Risk** – Uncertainty about a company's operations, including its supply chain and the delivery of its products or services
- **Management Risk** – The impact that the decisions of a management team have on a company
- **Legal Risk** – Uncertainty related to lawsuits or the freedom to operate
- **Competition** – The degree of competition in an industry and the impact choices of competitors will have on a company

Video Content / Details of website for further learning (if any):
https://corporatefinanceinstitute.com/resources/knowledge/finance/risk/

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L03

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Types of Risk

Introduction : Broadly speaking, there are two main categories of risk: systematic and unsystematic. Systematic risk is the market uncertainty of an investment, meaning that it represents external factors that impact all (or many) companies in an industry or group. Unsystematic risk represents the asset-specific uncertainties that can affect the performance of an investment.

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- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Types of Risk

Broadly speaking, there are two main categories of risk: systematic and unsystematic. Systematic risk is the market uncertainty of an investment, meaning that it represents external factors that impact all (or many) companies in an industry or group. Unsystematic risk represents the asset-specific uncertainties that can affect the performance of an investment.

Below is a list of the most important types of risk for a financial analyst to consider when evaluating investment opportunities:

- **Systematic Risk** – The overall impact of the market
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- **Competition** – The degree of competition in an industry and the impact choices of competitors will have on a company

Video Content / Details of website for further learning (if any):
https://corporatefinanceinstitute.com/resources/knowledge/finance/risk/

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS | **L04**

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Objectives of risk Management

Introduction :

1. Ensure the management of risk is consistent with and supports the achievement of the strategic and corporate objectives.
2. Provide a high-quality service to customers.
3. Initiate action to prevent or reduce the adverse effects of risk.
4. Minimize the human costs of risks, Where reasonably practicable.
5. Meet statutory and legal obligations.
6. Minimize the financial and other negative consequences of losses and claims.
7. Minimize the risks associated with new developments and activities.
8. Be able to inform decisions and make choices on possible outcomes

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Objectives of Risk Management

1. Ensure the management of risk is consistent with and supports the achievement of the strategic and corporate objectives.

2. Provide a high-quality service to customers.

3. Initiate action to prevent or reduce the adverse effects of risk.

4. Minimize the human costs of risks, Where reasonably practicable.

5. Meet statutory and legal obligations.

6. Minimize the financial and other negative consequences of losses and claims.

7. Minimize the risks associated with new developments and activities.

8. Be able to inform decisions and make choices on possible outcomes.

Advantages of Risk Management

1. It encourages the firm to think about its threats. In particular, risk management encourages it to analyze risks that might otherwise be overlooked.

2. In clarifying the risks, it encourages the firm to be better prepared. In other words, it helps the firm to manage itself better.

3. It lets the organization prioritize its investment and reduces internal disputes about how money should be spent.

4. It reduces duplication of systems. Integration of environmental and health and safety systems are one instance.

Disadvantages of Risk Management

1. Qualitative risk assessment is subjective and lacks consistency.

2. Unlikely events do occur but if the risk is unlikely enough to occur is maybe better to simply retain the risk and deal with the result if the loss does in fact occur.

3. Spending too much time assessing and managing unlikely risks can divert resources that could be used more profitably.

Video Content / Details of website for further learning (if any):
http://processnews.blogspot.com/2019/06/risk-management-objectives-advantages-and-disadvantages.html

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS | **L05**

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Sources of Risk

Introduction :

There are five main sources of risk in an agricultural operation: production risk, marketing risk, financial risk, legal risk, and human resource risks. Although strategic planning is not listed as a resource category, it is critical to the overall success of any operation.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

certain risk level is inherent in running a business, and a company cannot completely eliminate risk. However, a business can control or at least successfully manage risk. In order to do so, management must make decisions and choices regarding acceptable risk levels relative to potential profits. In this context, there are a number of sources of risk for any business to consider, including risks from the marketplace, employee-related risks, and financing risks.

Risk Management

A company must inevitably assume some level of risk to generate returns on investments that will be satisfactory to its stockholders. The key to successful risk management is maintaining a good balance between risk and reward, which involves carefully weighing potential profits against potential problems or threats to operational stability.

- Business risk cannot be totally eliminated, but steps can be taken to mitigate the negative impact.
- A contingency plan (to deal with issues as problems arise) is a vital component of risk management.
- The marketplace in which a company operates is a primary source of risk if demand slows or new competitors enter the fray.
- Sometimes a company can have difficulty obtaining financing to start or continue a project,

which represents another source of risk.

- Labor disputes and other employee-related issues can create risks for a business.

Operating Profit

The marketplace in which the company operates is a primary source of risk. Many marketplace-related risks cannot be directly controlled; they can only be managed and dealt with as best as possible. For example, there is a risk that consumer demands or desires may change, resulting in less demand for the company's products. There are risks that the company's products could injure someone and result in a lawsuit. There is the risk that a competitor may introduce a product that makes the company's product less desirable to consumers or that a competitor may offer a competing product at a substantially lower price, threatening either the number of sales or operating profit margin. There is always the risk of a general economic downturn that makes consumers less able to purchase the company's products, resulting in fewer sales.

Cash Flow

Numerous business risks are associated with financing and cash flow. A company may be unable to obtain the necessary financing for an expansion project. The company's customers may experience financial problems that make them unable to pay invoices on a timely basis, disrupting the company's cash flow. Suppliers may unexpectedly raise prices, creating working capital or cash flow problems for the company or causing it to have inadequate inventory on hand when needed.

Employee-Related Issues

Employee-related issues are another source of business risk. Labor problems may arise that impact a company's production. The need to retain certain key personnel may result in increased wage costs. Loss of key personnel can affect the company's performance and profitability—for example, if one of the company's top salespeople takes a job with another firm, or if the company loses a key product designer. Included in this risk category is management risk—the risk of bad management decisions for a company.

International Risk

Lastly, if a company does business internationally, then there are several other potential risks: political problems, changes in tariffs or import/export laws, and risks associated with fluctuating currency exchange rates. While currency exchange rate risk can sometimes be managed through hedging activity in the foreign exchange market, events of a legal or political nature are often unpredictable and not amenable to risk management strategies.

Video Content / Details of website for further learning (if any):
https://www.investopedia.com/ask/answers/042415/what-are-different-sources-business-risk.asp

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L06

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Risk identification

Introduction : Definition: Risk identification is the process of determining risks that could potentially prevent the program, enterprise, or investment from achieving its objectives. It includes documenting and communicating the concern. Keywords: risk, risk identification, risk management.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

What is Risk Identification?

Risk identification is the process of identifying and assessing threats to an organization, its operations, and its workforce. For example, risk identification may include assessing IT security threats such as malware and ransomware, accidents, natural disasters, and other potentially harmful events that could disrupt business operations. Companies that develop robust risk management plans are likely to find they're able to minimize the impact of threats, when and if they should occur.

Risk Identification Process Steps

There are five core steps within the risk identification and management process. These steps include risk identification, risk analysis, risk evaluation, risk treatment, and risk monitoring.

Risk Identification: The purpose of risk identification is to reveal what, where, when, why, and how something could affect a company's ability to operate. For example, a business located in central California might include "the possibility of wildfire" as an event that could disrupt business operations.

Risk Analysis: This step involves establishing the probability that a risk event might occur and the potential outcome of each event. Using the California wildfire example, safety managers might assess

how much rainfall has occurred in the past 12 months and the extent of damage the company could face should a fire occur.

Risk Evaluation: Risk evaluation compares the magnitude of each risk and ranks them according to prominence and consequence. For example, the effects of a possible wildfire may be weighed against the effects of a possible mudslide. Whichever event is determined to have a higher probability of happening and causing damage, it would rank higher.

Risk Treatment: Risk treatment is also referred to as Risk Response Planning. In this step, risk mitigation strategies, preventative care, and contingency plans are created based on the assessed value of each risk. Using the wildfire example, risk managers may choose to house additional network servers offsite, so business operations could still resume if an onsite server is damaged. The risk manager may also develop evacuation plans for employees.

Risk Monitoring: Risk management is a non-stop process that adapts and changes over time. Repeating and continually monitoring the processes can help assure maximum coverage of known and unknown risks.

- The First Phase of Risk Management Is Risk Identification
- Risk identification enables businesses to develop plans to minimize harmful events before they arise. The objective of this step is to identify all possible risks that could harm company operations, such as lawsuits, theft, technology breaches, business downturns, or even a Category 5 hurricane.
- Safety management professionals must understand that risk identification is not a one-time process. Instead, the process should be rigorous, thoughtful, and ongoing.
- Ways to Identify Risks
- There are many ways to identify an organization's risks, however, some of the more common examples include brainstorming, thinking pessimistically, and seeking employee feedback.
- Brainstorming: Risk managers may find that brainstorming the probability of various catastrophic events with other company stakeholders, such as managers and certain C-level staff, can help identify new threats.
- Thinking Pessimistically: Careers in safety management often entail planning for the worst while expecting the best. Although pessimism isn't often encouraged in the workplace, taking time to ponder "what is the worst possible thing that could happen to the company" may be helpful in identifying risks.
- Seek Employee Feedback: Upper-level management's perspective of an organization's risks can be starkly different from the perspective that employees hold. Employees may encounter new risks in their day-to-day activities that may not have otherwise been encountered. For example, insufficient training on a piece of operating equipment may be placing staff at risk of injury. As such, employees are an invaluable source of first-hand information.

Video Content / Details of website for further learning (if any):
https://safetymanagement.eku.edu/blog/risk-identification/

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L07

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Measurement of risk

Introduction : The five measures include the alpha, beta, R-squared, standard deviation, and Sharpe ratio. Risk measures can be used individually or together to perform a risk assessment. When comparing two potential investments, it is wise to compare like for like to determine which investment holds the most risk.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Measurement of Risk:

A number of techniques have been suggested by economists to deal with risk in investment appraisal.

Some of the popular techniques used for this purpose are as follows:

1. Risk Adjusted Discount Rate Method:

This method calls for adjusting the discount rate to reflect the degree of the risk of the project. The risk adjusted discount rate is based on the presumption that investors expect a higher rate of return on risky projects as compared to less risky projects.

The rate requires determination of (i) risk free rates and (ii) risk premium rate. Risk free rate is the rate at which the future cash inflows should be discounted. Risk premium rate is the extra return expected by the investor over the normal rate.

The adjusted discount rate is a composite discount rate. It takes into account both time and risk

factors.

A project with an outlay of Rs. 4,00,000, its risk adjusted discount rate is estimated at 18 per cent. The data on cash flow is as follows:

Year and Expected Cash Flow

Should the project be accepted or rejected?

Accept the project: if NPV > 1

Reject the project: if NPV < 1

Using the risk adjusted discount rate we find that

2. The Certainty Equivalent Approach:

According to this method, the estimated cash flows are reduced to a conservative level by apply-ing a correction factor termed as certainty equivalent coefficient. The correction factor is the ratio of riskless cash flow to risky cash flow.

The certainty equivalent coefficient which reflects the management's attitude towards risk is

Certainty Equivalent Coefficient = Riskless Cash Flow/Risky Cash Flow

Video Content / Details of website for further learning (if any):
https://www.economicsdiscussion.net/capital-budgeting/risk-meaning-types-and-measurement-firm/21974

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS | **L08**

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Rationale for Risk Management in organizations

Introduction : Employees can reduce the likelihood and severity of potential project risks by identifying them early. If something does go wrong, there will already be an action plan in place to handle it. This helps employees prepare for the unexpected and maximize project outcomes**.**

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

The uncertain economic times of the past few years have had a major effect on how companies operate these days. Companies that used to operate smoothly with the help of forecasts and projections now refrain from making business judgements that are set in stone. Now, companies have a renewed focus: to manage risk.

Risk is the main cause of uncertainty in any organisation. Thus, companies increasingly focus more on identifying risks and managing them before they even affect the business. The ability to manage risk will help companies act more confidently on future business decisions. Their knowledge of the risks they are facing will give them various options on how to deal with potential problems.

According to a survey conducted by advisory firm PPB, risk is defined in this manner:

“Organisations face internal and external actors and influences that make it uncertain whether, when, and the extent to which they will achieve or exceed their objectives. The effect this uncertainty has on the organisation’s objectives is risk.”

Risk can come from both internal and external sources. The external risks are those that are not in direct control of the management. These include political issues, exchange rates, interest rates, and so on. Internal risks, on the other hand, include non-compliance or information breaches, among several others.

Risk management is important in an organisation because without it, a firm cannot possibly define its objectives for the future. If a company defines objectives without taking the risks into consideration,

chances are that they will lose direction once any of these risks hit home.

In recent years, many companies have added risk management departments to their team. The role of this team is to identify risks, come up with strategies to guard against these risks, to execute these strategies, and to motivate all members of the company to cooperate in these strategies. Larger organisations generally face more risks, so their risk management strategies also need to be more sophisticated. Also, the risk management team is responsible for assessing each risk and determining which of them are critical for the business. The critical risks are those that could have an adverse impact on the business; these should then be given importance and should be prioritized. The whole goal of risk management is to make sure that the company only takes the risks that will help it achieve its primary objectives while keeping all other risks under control.

Due to the prevailing focus on risk, risk management jobs have opened up. Risk management jobs are usually considered as financial careers because most of the risks that businesses face are closely tied to the company's financial standing.

Risk management jobs are available both internally and externally. You can work for a company as an internal risk manager or you can become part of a risk management firm who provides risk management services to companies who don't have in-house risk managers.

To become eligible for risk management jobs, you will need a bachelor's degree. Some companies and firms also require an MBA. Some risk management certifications will also help you progress up the career ladder.

Risk management jobs are very rewarding, primarily because a risk professional plays a crucial function in an organisation. They are also rewarded well in financial terms. However, the job can also be challenging especially when there are turbulent risk factors that affect the firm. Nevertheless, the risk management position is currently one of the most well-respected positions in firms and companies.

Video Content / Details of website for further learning (if any):
https://www.careersinaudit.com/article/the-importance-of-risk-management-in-an-organisation/

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS | **L09**

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKAR**

Unit : **I - Introduction to Risk Management** **Date of Lecture:**

Topic of Lecture: Rationale for Risk Management in organizations

Introduction : Employees can reduce the likelihood and severity of potential project risks by identifying them early. If something does go wrong, there will already be an action plan in place to handle it. This helps employees prepare for the unexpected and maximize project outcomes.

Prerequisite knowledge for Complete understanding and learning of Topic:

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Detailed content of the Lecture:

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To become eligible for risk management jobs, you will need a bachelor's degree. Some companies and firms also require an MBA. Some risk management certifications will also help you progress up the career ladder.

Risk management jobs are very rewarding, primarily because a risk professional plays a crucial function in an organisation. They are also rewarded well in financial terms. However, the job can also be challenging especially when there are turbulent risk factors that affect the firm. Nevertheless, the risk management position is currently one of the most well-respected positions in firms and companies.

Video Content / Details of website for further learning (if any):
https://www.careersinaudit.com/article/the-importance-of-risk-management-in-an-organisation/

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **II - Risk Assessment** **Date of Lecture:**

Topic of Lecture: Risk identification

Introduction :

Risk identification is the process of determining risks that could potentially prevent the program, enterprise, or investment from achieving its objectives. It includes documenting and communicating the concern. Keywords: risk, risk identification, risk management.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Risk Identification

Risk identification is an important component of hazard management. Prior knowledge of the frequency, duration, and impact of the hazard is essential to effective risk management and vulnerability reduction. The response time for mobilizing disaster response initiatives and procedures needs to be quick in order to manage and limit the impact of extreme weather events such as heatwaves and drought. The availability of risk identification mechanisms and early warning systems is therefore an integral part of an effective heat wave management system. The following sub indicators were considered to be essential in capturing all the dimensions of risk identification for both hazard types:

1.

Systematic inventory of disasters and losses:

The existence of data on the historical frequency of hazards and their impact forms the basis of a robust disaster management system. Meteorological records of daily ambient temperatures or precipitation provide a record of weather and climatic patterns, and assist in their classification as a potential risk to the population. Losses during a hot weather or drought event are generally calculated in terms of their impact on human mortality and morbidity, although environmental and ecological losses are also important in calculating drought vulnerability. Observed trends in mortality and morbidity rates during heatwaves can be compared with data from preceding years to present an overview of the impact on human health during a heatwave.

2.
Risk monitoring and forecasting:

The presence of scientific mechanisms for predicting and monitoring the meteorological occurrence of extreme heat or drought events is an important aspect of effective risk management. Also important is the existence of a formal and predefined system of risk communication, with both climate scientists and policy makers clear on a common framework of risk classification for hazard events.

3.
Vulnerability and risk assessment:

The identification and measurement of vulnerable individuals and groups in a particular setting is key to an effective risk management system. Vulnerability to hazards can be dynamic, and is seen to vary across social groups, physical space, and different scales. An ongoing review of vulnerable populations is necessary for an effective risk management system; however, general trends observed in historical data provide an overall picture of those most at risk to hazards.

4.
Dissemination of information on risk and response measures to risk managers, at risk groups, and care providers:

Discussions with experts and practitioners of risk management in London highlighted the importance of disseminating public information before and during an extreme heat or drought event. In most cases, risk to such hazards can be reduced through increased alertness and taking simple "common sense" measures. Since drought and heatwave vulnerability are mainly measured by their human impact, providing basic information on risk identification can make it relatively easy to alleviate risk and exposure to such hazards through encouraging minor behavioral changes, and makes public information and community awareness critical in hazard risk management. This input variable is important because it affects the degree of preparedness and risk identification that exists at the local level.

Video Content / Details of website for further learning (if any):

https://www.sciencedirect.com/topics/engineering/risk-identification

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

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MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **II - Risk Assessment** **Date of Lecture:**

Topic of Lecture: Risk analysis Exposures

Introduction :

An analysis of the risk exposure for a business often ranks risks according to their probability of occurring multiplied by the potential loss if they do. To calculate risk exposure, analysts use this equation: (probability of risk occurring) X (total loss of risk occurrence) risk exposure

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Risk Exposure

Risk is everywhere and is part of all activities. We have all had to deal with risk in our own lives. In general terms, risk is the possibility of loss. Sometimes, we discuss risk in terms of exposure. Risk exposure is a measure of possible future loss (or losses) which may result from an activity or occurrence. In business, risk exposure is often used to rank the probability of different types of losses and to determine which losses are acceptable or unacceptable. These losses may include legal liability, property loss or damage, unexpected employee turnover, or changes in consumer demand, to name a few.

Risk Exposure of Potential Business

Risk exposure of a potential business is a measure of risk involved in a proposed, new business venture. This type of risk exposure is often measured through calculations such as Business Risk Exposure (BRE) or Value at Risk (VAR). Both of these methods involve calculating raw risk, or risk without consideration of other factors, by multiplying the probability, or likelihood an event may occur, by the amount of money that could be lost. BRE goes a step further and considers the amount of risk mitigation, or the steps taken to avoid or protect from risk. Some simplified examples of VAR and BRE follow.

An internet services business that earns about $1 million per year in profit needs to examine its risk exposure relating to data loss. This data includes customer information, customer balances, pending customer orders, as well as customer-owned data. Perhaps, the business first seeks to calculate the VAR. After conducting research, the business learns that its primary servers have a 40% chance of failing in the next five years.

The data loss could affect the entire business profit of $1 million. In addition, it's expected that customer lawsuits would cost an additional $200,000. The VAR is $480,000 (40% x $1,200,000 = $480,000). As you would likely expect, management believes this risk exposure is completely unacceptable. They believe purchasing all new servers immediately is necessary. At least, until the IT manager speaks up.

He advises that the risk of data loss is significantly mitigated by redundancy within the system. In other words, if the servers failed, approximately 90% of the data could be easily recovered from backup storage. After taking into account the risk mitigation, the BRE is $48,000 ($480,000 x 10% = $48,000, which means mitigation is 90%, remaining risk is 10%). With this new, more favorable measurement of risk, management decides instead to create a schedule to systematically replace the servers over the course of the next three years.

Video Content / Details of website for further learning (if any):

https://study.com/academy/lesson/risk-exposure-definition-analysis-evaluation.html

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **II - Risk Assessment** **Date of Lecture:**

Topic of Lecture: Physical assets Financial assets

Introduction :

The main difference between the two is that physical assets are tangible and financial assets are not. Physical assets usually depreciate or lose value due to wear and tear, whereas financial assets do not experience such reduction in value due to **depreciation**.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Physical assets are either current or fixed. Current assets include items such as cash, inventory, and marketable securities. ... Financial assets include stocks, bonds, and cash, and though they may fluctuate in value, unlike physical assets, they do not depreciate over time.

Cash, stocks, bonds, mutual funds, and bank deposits are all are examples of financial assets. Unlike land, property, commodities, or other tangible physical assets, financial assets do not necessarily have inherent physical worth or even a physical form

Money, stocks and bonds are the main types of financial assets. Each is something you can own, and each has some amount of financial value.

In accordance with IAS 39, financial assets are to be classified in the following four categories: 1. financial assets at fair value through profit or loss; 2. held-to-maturity investments; 3. loans and receivables.

What Is a Physical Asset?

A physical asset is an item of economic, commercial, or exchange value that has a material existence. Physical assets are also known as tangible assets. For most businesses, physical assets usually refer to properties, equipment, and inventory.

Physical assets are the opposite of intangible assets, which include such things as brand names, patents, trademarks, leases, computer programs, customer lists, franchise agreements, domain names or trade secrets.

Understanding Physical Assets

A business's core operations are centered around its assets which is recorded on the balance sheet. Assets equal the sum of a company's total liabilities and its shareholders' equity. The main form of assets in most industries are physical assets.

Physical (tangible) assets are real items of value that are used to generate revenue for a company. Physical assets are either current or fixed. Current assets include items such as cash, inventory, and marketable securities. These items are typically used within a year and can thus be more readily sold to raise cash for emergencies. Fixed assets, on the other hand, are noncurrent assets which a company uses in its business operations for more than a year. They are recorded on the balance sheet under the property, plant, and equipment (PP&E) category and include assets such as trucks, machinery, office furniture, and buildings. The money that a company generates using physical assets is recorded on the income statement as revenue.

Usually, physical assets refer to things that may be liquidated in the event of default in order to pay off debts. Physical assets belonging to a restaurant company, for example, would include chairs, tables, refrigerators, and food. Although some physical assets can be inventoried or stored, they may be diminished through depletion, depreciation, deterioration, or shrinkage in the storage process.

Physical assets also differ from financial assets. Financial assets include stocks, bonds, and cash, and though they may fluctuate in value, unlike physical assets, they do not depreciate over time.

- Physical assets, also known as tangible assets, are items of value that have a real material presence.
- Physical assets include things like property, plant, and equipment as well as inventories.
- Physical assets are recorded as either fixed or current, where depreciation and impairment may alter their accounting treatment.

Video Content / Details of website for further learning (if any):

https://www.investopedia.com/terms/p/physicalasset.asp

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **II - Risk Assessment** **Date of Lecture:**

Topic of Lecture: Legal liability

Introduction :

Liable means "responsible or answerable in **law**; **legally** obligated". **Legal liability** concerns both civil **law** and criminal **law** and can arise from various areas of **law**, such as contracts, torts, taxes, or fines given by government agencies. The claimant is the one who seeks to establish, or prove, **liability**

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

When small business owners become responsible for someone else's losses, they normally have to compensate the person or entity. Depending on the severity of the loss, the payment can outstrip a business owner's ability to pay, potentially triggering bankruptcy.

There is insurance for nearly every type of legal liability. Here are some of the most common policies for small businesses:

General liability insurance protects against customer injuries, damage to customer property, and resulting lawsuits.

Business owner's policy offers general liability insurance coverages, and it covers buildings and business property against damage or loss.

Errors and omissions insurance covers experts in case they make a professional mistake or miss a deadline that negatively impacts a client. This policy is referred to as professional liability insurance for some professions.

Workers' compensation insurance provides financial assistance to injured employees and coverage for legal expenses when employees sue a business owner over a work-related injury.

Commercial auto insurance provides coverage when a driver of a company vehicle causes bodily injuries and property damage to others.

Employment practices liability insurance covers lawsuit expenses when an employee sues over employment issues such as sexual harassment or wrongful termination.

While some **sports** are inherently dangerous, some individuals sustain injuries due to the negligence of others. **Legal liability** may exist when a person is injured while playing a **sport**, but complex rules may apply

Legal liability describes a situation in which a small **business** is held legally responsible for injuring or financially harming another party, This judgment can result in fines, penalties, or other payments.

While home insurance covers your property, and contents insurance makes sure your posessions are all taken care of, public liability covers people at your home. Legal liability is designed to cover bodily injuries and deaths that may occur at your home, to people who don't usually reside there

Video Content / Details of website for further learning (if any):

https://www.insureon.com/insurance-glossary/legal-liability

Important Books/Journals for further learning including the page nos.:

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II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **II - Risk Assessment** **Date of Lecture:**

Topic of Lecture: Risk control Tools

Introduction :

Risk Identification tools and techniques

Documentation Reviews.

Information Gathering Techniques.

Brainstorming.

Delphi Technique.

Interviewing.

Root Cause Analysis. ...

Swot Analysis (STRENGTH, Weakness, Opportunities And Threats)

Checklist Analysis**.**

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Risk Identification tools and techniques

Documentation Reviews

The standard practice to identify risks is reviewing project related documents such as lessons learned, articles, organizational process assets, etc

Information Gathering Techniques

The given techniques are similar to the techniques used to collect requirements. Lets look at a few of them:

Brainstorming

Brainstorming is done with a group of people who focus on identification of risk for the project.

Delphi Technique

A team of experts is consulted anonymously. A list of required information is sent to experts, responses are compiled, and results are sent back to them for further review until a consensus is

reached.

Interviewing

An interview is conducted with project participants, stakeholders, experts, etc to identify risks.

Root Cause Analysis

Root causes are determined for the identified risks. These root causes are further used to identify additional risks.

Swot Analysis (STRENGTH, Weakness, Opportunities And Threats)

Strengths and weaknesses are identified for the project and thus, risks are determined.

Checklist Analysis

The checklist of risk categories is used to come up with additional risks for the project.

Assumption Analysis

Identification of different assumptions of the project and determining their validity, further helps in identifying risks for the project.

Outputs to Identify Risks

This process of Risk Identification results in creation of Risk Register.

Risk Register

A Risk Register is a living document that is updated regularly throughout the life cycle of the project. It becomes a part of project documents and is included in the historical records that are used for future projects. The risk register includes:

List of Risks
List of Potential Responses
Root Causes of Risks
Updated Risk Categories

Tools and Techniques:

Some of the tools that can be used for qualitative risk analysis include:

Probability And Impact Matrix

The matrix helps in identifying those risks which require an immediate response. The matrix may be customized according to the needs of the project. Most companies do have a standardized template for this matrix and project managers could leverage those templates as well. Use of standardized matrix makes the matrix list more repeatable between projects.

Risk Data Quality Assessment

Data is collated for the identified risks. The project manager will try to find the precision of the data that must be analyzed for completing the qualitative analysis of risks.

For each risk, in Risk Data Quality Assessment, the project manager needs to determine:

Extent of the understanding of the risk
Data available
Quality and reliability of the data
Integrity of the data

PERFORM QUANTITATIVE RISK ANALYSIS

The next step of Qualitative risk analysis is to analyze the probability and impact of risks in Perform Quantitative Risk. The purpose of Quantitative Risk Analysis is:

Identification of risk response that requires urgent attention
Identify the exposure of risk on the project
Identify the impact of risk on the objective of the project
Determine cost and schedule reserves that could be required if risk occurs
Identify risks requiring more attention

DETERMINING QUANTITATIVE PROBABILITY AND IMPACT

Some of the techniques of quantitatively determining probability and impact of a risk include:

Interviewing
Cost and time estimating
Delphi technique
Historical Records
Expert judgment
Expected monetary value analysis
Monte Carlo Analysis
Decision tree

Video Content / Details of website for further learning (if any): **https://www.greycampus.com/opencampus/certified-associate-in-project-management/risk-identification-tools-and-techniques-in-capm**
Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L15

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **II - Risk Assessment** **Date of Lecture:**

Topic of Lecture: Risk financing techniques

Introduction :

The risk financing process consists of **five** steps: identifying and analyzing exposures, analyzing alternative risk financing techniques, selecting the best risk financing technique(s), implementing the selected technique(s), and monitoring the selected technique(s).

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Risk financing is the determination of how an organization will pay for loss events in the most effective and least costly way possible. Risk financing involves the identification of risks, determining how to finance the risk, and monitoring the effectiveness of the financing technique that is chosen.

Breaking Down Risk Financing

Risk financing is designed to help a business align its desire to take on new risks to grow, with its ability to pay for those risks. Businesses must weigh the potential costs of their actions and whether the action will help the business reach its objectives. The business will examine its priorities to determine whether it is taking on the appropriate amount of risk to achieve its objectives. It'll also examine whether it is taking the right types of risks and whether the costs of these risks are being accounted for financially.

Companies have a variety of options when it comes to protecting themselves from risk. Commercial insurance policies, captive insurance, self-insurance, and other alternative risk transfer schemes are available, though the effectiveness of each depends on the size of the organization, the organization's financial situation, the risks that the organization faces and the organization's overall objectives. Risk financing seeks to choose the option that is the least costly, but it also must ensure the organization has the financial resources available to continue its objectives after a loss event occurs.

The process for determining risk financing typically involves a company forecasting the losses that they expect to experience over a period of time and then determining the net present value of the costs associated with the different risk financing alternatives available to them. Each option is likely to have different costs, depending on the risks that need coverage, the loss development index that is most applicable to the company, the cost of maintaining a staff to monitor the program and any consulting, legal, or external experts that are needed.

Risk Financing as an Indicator of Financial Health

How a company manages situations that call for risk financing is a good indicator of that organization's competitiveness and potential for long term success. That's because risk financing depends on the aptitude of business leaders to identify and monitor key metrics that provide insight into its financial health. One of the most widely accepted of those key metrics is Cost of Risk (COR), a quantitative measure of the total direct and indirect expenditures dedicated to mitigating the risk exposures. While typically interpreted to capture only those costs arising out of insurance activities (i.e. retained losses, risk control costs, insurance premiums, and dept administration expenses), true COR captures expenditures (risk spend) from external risk transfer, retained/self-insured losses, external consultancy fees, internal program administration, collateral costs and missed opportunity costs

Video Content / Details of website for further learning (if any):
https://www.investopedia.com/terms/r/risk-financing.asp

Important Books/Journals for further learning including the page nos.:

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Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **II - Risk Assessment** **Date of Lecture:**

Topic of Lecture: Risk Management Decisions- Options

Introduction :
Risk management is the process of identifying risks and planning actions to manage the risks. The identified risks are assessed and prioritized. Only significant risks are managed. Risk management decision making is a process to select the best alternatives or rank the alternatives for a specific risk management goal

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:
Response to risks usually takes one of the following forms:

Risk Analysis and Risk Management
Evaluating and Managing Risks

Whatever your role, it's likely that you'll need to make a decision that involves an element of risk at some point.

Risk is made up of two parts: the probability of something going wrong, and the negative consequences if it does.

Risk can be hard to spot, however, let alone prepare for and manage. And, if you're hit by a consequence that you hadn't planned for, costs, time, and reputations could be on the line.

This makes Risk Analysis an essential tool when your work involves risk. It can help you identify and understand the risks that you could face in your role. In turn, this helps you manage these risks, and minimize their impact on your plans.

In this article and video, we look at how you can use Risk Analysis to identify and manage risk effectively.

What Is Risk Analysis?
Risk Analysis is a process that helps you identify and manage potential problems that could undermine key business initiatives or projects.

To carry out a Risk Analysis, you must first identify the possible threats that you face, and then estimate the likelihood that these threats will materialize.

Risk Analysis can be complex, as you'll need to draw on detailed information such as project plans,

financial data, security protocols, marketing forecasts, and other relevant information. However, it's an essential planning tool, and one that could save time, money, and reputations.

When to Use Risk Analysis
Risk analysis is useful in many situations:
When you're planning projects, to help you anticipate and neutralize possible problems.
When you're deciding whether or not to move forward with a project.
When you're improving safety and managing potential risks in the workplace.
When you're preparing for events such as equipment or technology failure, theft, staff sickness, or natural disasters.
When you're planning for changes in your environment, such as new competitors coming into the market, or changes to government policy.

Video Content / Details of website for further learning (if any):

Important Books/Journals for further learning including the page nos.:

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Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **II - Risk Assessment** **Date of Lecture:**

Topic of Lecture: Data Organization and Analysis Risk Avoidance Loss Control

Introduction :
Risk is avoided when the organization refuses to accept it. Risk can be reduced in 2 ways—through loss prevention and control. Another good example of risk spreading is the practice of off-site backups for computer data. James F. Broder, Eugene Tucker, in Risk Analysis and the Security Survey

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:
Response to risks usually takes one of the following forms:

What Is Risk Control?
Risk control is the set of methods by which firms evaluate potential losses and take action to reduce or eliminate such threats. It is a technique that utilizes findings from risk assessments, which involve identifying potential risk factors in a company's operations, such as technical and non-technical aspects of the business, financial policies and other issues that may affect the well-being of the firm.

Risk control also implements proactive changes to reduce risk in these areas. Risk control thus helps companies limit lost assets and income. Risk control is a key component of a company's enterprise risk management (ERM) protocol.

How Risk Control Works

Modern businesses face a diverse collection of obstacles, competitors, and potential dangers. Risk control is a plan-based business strategy that aims to identify, assess, and prepare for any dangers, hazards, and other potentials for disaster—both physical and figurative—that may interfere with an organization's operations and objectives. The core concepts of risk control include:

Avoidance is the best method of loss control. For example, after discovering that a chemical used in manufacturing a company’s goods is dangerous for the workers, a factory owner finds a safe substitute chemical to protect the workers’ health.

Loss prevention accepts a risk but attempts to minimize the loss rather than eliminate it. For example, inventory stored in a warehouse is susceptible to theft. Since there is no way to avoid it, a loss prevention program is put in place. The program includes patrolling security guards, video cameras and secured storage facilities. Insurance is another example of risk prevention that is outsourced to a third party by contract.
Loss reduction accepts the risk and seeks to limit losses when a threat occurs. For example, a company storing flammable material in a warehouse installs state-of-the-art water sprinklers for minimizing damage in case of fire.

Separation involves dispersing key assets so that catastrophic events at one location affect the business only at that location. If all assets were in the same place, the business would face more

serious issues. For example, a company utilizes a geographically diverse workforce so that production may continue when issues arise at one warehouse.

Duplication involves creating a backup plan, often by using technology. For example, because information system server failure would stop a company's operations, a backup server is readily available in case the primary server fails.

Diversification allocates business resources for creating multiple lines of business offering a variety of products or services in different industries. A significant revenue loss from one line will not result in irreparable harm to the company's bottom line. For example, in addition to serving food, a restaurant has grocery stores carry its line of salad dressings, marinades, and sauces.

Video Content / Details of website for further learning (if any):
https://www.investopedia.com/terms/r/risk-control.asp

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

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MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : II - Risk Assessment Date of Lecture:

Topic of Lecture: Risk retention Risk transfer Value of Management Pooling and diversification of risk.

Introduction :

Risk transfer is a **risk management** and **control** strategy that involves the contractual shifting of a pure **risk** from one party to another. One example is the purchase of an insurance policy, by which a specified **risk** of loss is passed from the policyholder to the insurer

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

What is the difference between risk retention and risk transfer?

CHOICE BETWEEN RISK RETENTION AND RISK TRANSFER.

Planned risk retention involves a conscious and deliberate assumption of recognized risks while unplanned risk retention occurs when a firm does not recognize that a risk exists and unwittingly believes that no loss could occur.

Herein, which is better risk transfer or risk retention?

Risk retention simply involves accepting the risk. Even if the risk is mitigated, if it is not avoided or transferred, it is retained. Both individuals are retaining risk, one is because they're able to, the other is because they have to. Risk retention augments risk transfer through deductibles.

Subsequently, question is, what are examples of risk retention? An insurance deductible is a common example of risk retention to save money, since a deductible is a limited risk that can **save money on insurance premiums for larger risks. Businesses actively retain many risks —** what is commonly called self-insurance — because of the cost or unavailability of commercial insurance.

Simply so, what is the meaning of risk retention?

According to the Dictionary of Business Terms, "risk retention" means the following: "A method of self-insurance whereby the organization retains a reserve fund for the purpose of offsetting unexpected financial claims." Simply put, every time your policy calls for a deductible, you've retained some of the risk.

What is Risk Retention in risk management?

Risk retention is the practice of setting up a self-insurance reserve fund to pay for losses as they occur, rather than shifting the risk to an insurer or using hedging instruments. A large deductible on an insurance policy is also a form of risk retention**.**

Video Content / Details of website for further learning (if any):

Important Books/Journals for further learning including the page nos.:

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II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Risk and Insurance
Introduction : **Risk** in **insurance** terms In **insurance** terms, **risk** is the chance something harmful or unexpected could happen. This might involve the loss, theft, or damage of valuable property and belongings, or it may involve someone being injured

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

The risk is a concept which relates to human expectations.
It denotes a potential negative impact on an asset or some characteristic of value that may arise from some present process or some future event.
In everyday usage, "risk" is often used synonymously with "probability" of a loss or threat.
In professional risk assessments, risk combines the probability of an event occurring with the impact that event would be and with its different circumstances.

However,
Where assets are priced by markets, all probabilities and impacts are reflected in the market price, and risk, therefore, comes only from the variance of the outcomes.
According to the Dictionary;
Risk refers to the probability that something unpleasant or dangerous might happen.
The risk is a condition in which there is a possibility of an adverse deviation from the desired outcome that is expected or hoped for.
For understanding the risk, we should know these terms which are related to the concept of risk;
What is the Definition of Chance
This is a term which refers to the probable advantageous, desirable or profitable outcome of a fortuitous event.
For example, we usually say. Chance of passing an examination and not Chance of failing an examination.
What is the Definition of Risk
This is a term which refers to the probable disadvantageous, undesirable or unprofitable outcome of a fortuitous event, an event which is not desired but taking place.
For example,
We usually say the risk of death and not the risk of survival as death is something which is never desired.
What is the Definition of Probability
This is a term which refers to a neutral mathematical quantitative expression of an unforeseen or fortuitous event.
What is the Definition of Uncertainty
Uncertainty refers to a situation where the outcome is not certain or unknown.
Uncertainty refers to a state of mind characterized by doubt, based on the lack of knowledge about what will or what will not happen in the future.
Very often the meaning of Risk and uncertainty gets mixed, but there are fundamental differences between them;
Risk vs. Uncertainty
Uncertainty is often confused with risk. Uncertainty refers to a situation where the outcome is not certain or unknown. Uncertainty refers to a state of mind characterized by doubt, based on the lack of knowledge about what will or what will not happen in the future.
Uncertainty can be perceived as opposite of certainty where you are assured of outcome or what will happen. Accordingly, some weight or probabilities can be assigned to risky situations, but uncertainty, the psychological reaction ten the absence of knowledge lacks this privilege.
The decision under uncertain situations is very difficult for the decision-maker. It all depends upon the skill, the judgment and of course luck.
Uncertainty being a perceptual phenomenon implies different degrees to a different person. For example: Assume a situation where an individual has to appear for the first in the newly introduced insurance examination.
An individual student had undergone training in insurance.

An individual with training or experience in insurance A's perception towards uncertainty (of performance in the examination) is different from that of B. Nonetheless, in both situations, the outcomes that are the questions which will be asked in the examination are different.
Video Content / Details of website for further learning (if any):
Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L20

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit :**III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Definition and basic characteristics of Insurance
Introduction : Based on the preceding definition, an insurance plan or arrangement typically includes the following characteristics: Pooling of losses. Payment of fortuitous losses. Risk transfer. Indemnification

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Insurance, Definition of Insurance, Characteristics of Insurance, Nature of Insurance, Functions of Insurance

Insurance: in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured or policyholder is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate (indemnify) the insured in the case of a large, possibly devastating loss. The insured receives a contract called the insurance policy which details the conditions and circumstances under which the insured will be compensated.

General Insurance: Insuring anything other than human life is called general insurance. Examples are insuring property like house and belongings against fire and theft or vehicles against accidental damage or theft. Injury due to accident or hospitalisation for illness and surgery can also be insured. Your liabilities to others arising out of the law can also be insured and is compulsory in some cases like motor third party insurance.

Definition of Insurance

Insurance is a cooperative form of distributing a certain risk over a group of persons who are exposed to it. – Ghosh and Agarwal

Insurance is a contract in which a sum of money is paid to the assured as consideration of insurer's incurring the risk of paying a large sum upon a given contingency. – Justice Tindall

Insurance may be described as a social device whereby a large group of individuals, through a system of equitable contributions, may reduce or eliminate certain measurable risks of economic loss common to all members of the group. – Encyclopedia Britannica

Insurance is an instrument of distributing the loss of few among many. – Disnadle

The collective bearing of risk is Insurance. – W. Beverideges

A provision which a prudent man makes against fortuitous or inevitable contingencies, loss or misfortune. – Thomas

Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise come by the insured. – Allen Z. Mayerson

Insurance has been defined as a plan by which large numbers of people associate themselves, to shoulders of all, risks attach to individuals. – Magee D.H.

Insurance may be defined as a social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contribution of all parties participating in the scheme. – D.S. Hansell

Insurance by lessening uncertainty, frees the individual from same element of risk. – Relph H. Wherry & Monroe Newman

Insurance is purchased to offset the risk resulting from hazardous which exposes a person to loss. – Robert I. Mehr and Emerson Cammack

Insurance is a contract by which one party, for a compensation called the premium assumes particular risk of the other party and promises to pay to him or his nominee a certain or ascertainable sum of money on a specified contingency. – E.W. Patterson

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LECTURE HANDOUTS

L21

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit :**III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Insurance vs Gambling Insurance
Introduction : Insurance is done only in condition if risk exists. Risk is emerged from gambling. Insurance is done to provide security from risk. Gambling is done to create risk
Prerequisite knowledge for Complete understanding and learning of Topic: • **Analytical** risk assessment skills. • **Problem-solving** mantra. • Financial **knowledge** and skills. • Ability to build relationships

Detailed content of the Lecture:

Following are the points of difference between insurance and gambling :

S.No. Basis of difference Insurance Gambling

1. Presence of Risk Insurance is done only in condition if risk exists. Risk is emerged from gambling.

2. Security from Risk Insurance is done to provide security from risk. Gambling is done to create risk.

3. Measurement of risk Measurement of risk in insurance is done in a scientific way. Not possible to measure risk in gambling.

4. Objective Insurance is done to minimise the risk of future uncertainties. Gambling is done for entertainment and for gaining profit.

5. Gains of insurance Insured have benefits in insurance. A gambler doesn't have insured benefits in gambling.

6. Validity Insurance contracts legal.

(i) For insurance, loss might never occur while for gambling, the bet must happen in order to determine winner or loser.

(ii) Insurance involves pure risks while gambling involves speculative risks.

(iii) Regular premiums are paid for insurance while for gambling payment is done once.

(iv) Insurance aims at indemnifying the insured while gambling aims at benefiting the gambler.

(v) For insurance, the insured must have insurable interest while gambling has no insurable interest

Video Content / Details of website for further learning (if any):

https://www.kenyaplex.com/questions/5037-what-is-the-difference-between-insurance-and-gambling.aspx

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L22

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Types of Insurance

Introduction : 7 Types of Insurance are; Life Insurance or Personal Insurance, Property Insurance, Marine Insurance, Fire Insurance, Liability Insurance, Guarantee Insurance. Insurance is categorized based on risk, type, and hazards

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

What is Insurance?

Insurance is a legal agreement between an individual and the insurance company, under which, the insurer promises to provide financial coverage (Sum assured) against contingencies for an amount (premium). Different types of insurance policies available nowadays, can be broadly divided into two categories:

General Insurance
Life Insurance

Different Types of Insurance Policies Available in India

Following are the types of insurance available in India:

1. General Insurance

Following are some of the types of general insurance available in India:

Health Insurance
Motor Insurance
Home Insurance
Fire Insurance
Travel Insurance

2. Life Insurance

There are various types of life insurance. Following are the most common types of life insurance plans available in India:

Term Life Insurance
Whole Life Insurance
Endowment Plans
Unit-Linked Insurance Plans
Child Plans
Pension Plans

Related Articles

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Key Features and Benefits of Online Term Plan Plus
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Group Term Life Insurance Plan Benefits
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Benefits of Become an Insurance Agent
Role of IRDAI
Different Types of Life Insurance
Investments Articles
Benefits of ULIP Investment Plan
What is Power of Compounding?

National Pension System
How to Save Tax with ULIPs
Let us look closely at the different types of insurance policies:
General Insurance
General insurance policies are one of the types of insurance that offer coverage in the form of sum assured against the losses incurred other than the death of the policyholder. Overall, general insurance comprises different types of insurance policies that offer financial protection against losses incurred due to liabilities such as bike, car, home, health, and similar. These various types of General Insurance Policies include:
Health Insurance
Health insurances are types of insurance policy that covers the expenses incurred due to medical care. Health insurance plans either pay or reimburse the amount paid towards the treatment of any illness or injury. Different types of health insurance cover varied medical care expenses.
It usually offers protection against:
a) Hospitalization
b) Treatment of critical illnesses
c) Medical bills post hospitalization
d) Daycare procedures
Also Read: Tips to Consider Before Buying Health Insurance in India
There are a few types of health insurance plans also cover the cost of resident treatment and pre-hospitalization expenses. Rising costs of healthcare in India Is making health insurance a necessity. Different types of health insurance plans available in India include:
1) Individual Health Insurance: Offers coverage to only an individual
2) Family Floater Insurance: Allows your entire family to get coverage under a single plan, which usually covers husband, wife, two children
3) Critical Illness Cover: Specialized types of health insurance that offers coverage against various life-threatening illnesses like stroke, heart attack, kidney failure, cancer, and similar others. Policyholders get a lump sum amount on diagnosis of a critical illness.
4) Senior Citizen Health Insurance: These types of insurance plans cater to all individuals above 60 years of age
5) Group Health Insurance: Offered by an employer to its employee
6) Maternity Health Insurance: Covers medical expenses for prenatal, post-natal, and delivery stage, offering protection to both the mother and the newborn
7) Personal Accident Insurance: These types of insurance plans cover financial liabilities arising due to accidental injuries, disability, or death
Motor Insurance
Motor insurances are types of insurance that offer financial assistance in case your bike or car get involved in an accident. Various types of Motor insurance policies in India include:
1) Car Insurance: Individually owned four-wheelers are covered under this plan. Different types of car insurance - third-party insurance and comprehensive cover policies.
2) Bike Insurance: These are types of motor insurance where individually owned two-wheelers are covered against accidents
3) Commercial Vehicle Insurance: One of the types of motor insurance, which offers coverage to any vehicle used for commercial purposes
Home Insurance
As the name suggests, a home insurance policy offers comprehensive protection to the contents and structure of your house against any physical destruction or damage. In other words, home insurance will provide coverage against any natural and human-made calamity, such as fire, earthquake, tornado, burglaries, and robbery.
Different types of home insurance policies include:
1) Home Structure/Building Insurance – Protects the structure of the house against damage during any calamity
2) Public Liability Coverage – Provides coverage against any damage to a guest or third-party on the insured residential property
3) Standard Fire and Special Perils Policy – Coverage against damages caused due to fire outbreaks, natural calamities (e.g., landslides, rockslides, earthquakes, storms, and floods), and anti-social human-made activities (e.g., explosions, strikes, and riots)

4) Personal Accident – Provides financial coverage to you and your family against any type of permanent dismemberment or sudden demise to the insured individual, anywhere around the world
5) Burglary and Theft Insurance – Provides compensation for stolen goods in case of a burglary or theft
6) Contents Insurance – Provides compensation for loss of furniture, vehicles, and other appliances in case of a fire, theft, flood, or riots
7) Tenants' Insurance – Provides financial protection to you (as a tenant) against any loss of personal property living in a rented house
8) Landlords' insurance – Provides coverage to you (as a landlord) against contingencies such as public liability and loss of rent

Fire Insurance

Fire insurance policies are different types of insurance coverages that compensate any losses incurred due to a fire breakout with a sum assured. These types of insurance policies usually provide a significant amount of coverage to help both individuals and companies to reopen their places after incurring extensive damage due to fire. These types of insurance covers war risk, turmoil, riots losses as well.

Video Content / Details of website for further learning (if any):

https://www.maxlifeinsurance.com/types-of-insurance

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L23

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Indian Insurance Industry

Introduction : **Insurance** covers the whole group rather than individuals, so everyone shares the cost of **insurance**. Against the cover, the **insurance company** collects premium from the customers and uses that pool of money to pay the claims

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

n India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of

unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector.

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

1957 saw the formation of the General Insurance Council, a wing of the Insurance Associaton of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1sst 1973.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 wherein , among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

Video Content / Details of website for further learning (if any):

https://www.irdai.gov.in/ADMINCMS/cms/NormalData_Layout.aspx?page=PageNo4&mid=2

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L24

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Historical framework

Introduction: Life insurance plans offer coverage against unfortunate events like death or disability of the policyholder. Besides financial protection, there are various types of life insurance policies that allow the policyholders to maximize their savings through regular contributions into different equity and debt fund options.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

You can choose a life insurance policy to secure your family's financial future against life's uncertainties. The policy coverage comprises of a large amount, which is payable to your loved ones if anything happens to you. You have the flexibility to choose the life insurance policy period, coverage amount, and payout option based on the financial requirements. Different types of life insurance policy are as follows:

Term Life Insurance
Whole Life Insurance
Endowment Plans
Unit-Linked Insurance Plans
Child Plans
Pension Plans

Also Read: What is Life Insurance

Term Life Insurance Plans

Term insurance is the purest and most affordable form of life insurance in which, you can opt for a high life cover for a specific period. You can secure your family's financial future with a term life insurance plan by paying a low premium (term insurance plans generally do not have any Maturity value, and thus, offer lower rates of premium than other life insurance products.)

If anything happens to you within the policy period, your loved ones would receive the agreed Sum Assured as per the payout option chosen (some term insurance plans offer multiple payout options as well)

Also Read: What is Term Insurance

Whole Life Insurance Plans

Whole life insurance plans, also known as 'traditional' life insurance plans, provide coverage for the entire life of the insured individual, as opposed to any other life insurance instrument that offers coverage for a specific number of years.

While a whole life insurance plan offers to pay a death benefit, the plan also contains a savings component, which helps accrue a cash value throughout the policy term. The maturity age for whole life insurance policy is 100 years. In case, the insured individual lives past the maturity age, the whole life plan will become matured endowment.

Endowment Plans

Endowment plans essentially provide financial coverage to the policyholder against life's uncertainties, while allowing them to save regularly over a certain period. Upon maturity of the endowment plan, the policyholder receives a lump sum amount if he or she survives the policy term.

If anything happens to you (as Life Insured), the life insurance endowment policy pays the complete Sum Assured to your family (beneficiaries)

Unit-Linked Insurance Plan (ULIP)

Unit Linked Insurance Plans are types of insurance policy that offer both investment and insurance benefits under a single policy contract. A portion of the premium that you pay towards a Unit Linked Insurance Plan is allocated to a variety of market-linked equity and debt instruments.

The remaining premium contributes towards providing the life cover throughout the policy tenure. ULIPs allow the flexibility to choose the allocation of premium into different instruments as per your financial requirements and market risk appetite.

Also Read: Benefits of ULIPs

Child Plans

Child plans are types of life insurance policy that helps you financially secure your child's life goals such as higher education and marriage, even in your absence. In other words, child plans offer a combination of savings and insurance benefits that aid you in the financial planning for your child's future needs at the right age.

The sum of money received on Maturity can be used to fulfill the financial requirements of your child.

Pension Plans

In other words, a pension plan allows you to create a financial cushion for your life post-retirement, in which you contribute a specific amount of money regularly until your retirement. Subsequently, the accumulated amount is given back to you as annuity or pension at regular intervals.

Video Content / Details of website for further learning (if any):

https://www.maxlifeinsurance.com/types-of-insurance

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LECTURE HANDOUTS

L25

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit :**III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Major Players of Insurance

Introduction : The insurance sector is made up of companies that offer risk management in the form of insurance contracts. The basic concept of insurance is that one party, the insurer, will guarantee payment for an uncertain future event. Meanwhile, another party, the insured or the policyholder, pays a smaller premium to the insurer in exchange for that protection on that uncertain future occurrence

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Types of Insurance Companies

Not all insurance companies offer the same products or cater to the same customer base. Among the largest categories of insurance companies are accident and health insurers; property and casualty insurers; and financial guarantors. The most common types of personal insurance policies are auto, health, homeowners, and life. Most individuals in the United States have at least one of these types of insurance, and car insurance is required by law.

Accident and health companies are probably the most well-known. These include companies such as UnitedHealth Group, Anthem, Aetna and AFLAC, which are designed to help people who have been physically harmed.

Life insurance companies mainly issue policies that pay a death benefit as a lump sum upon the death of the insured to their beneficiaries. Life insurance policies may be sold as term life, which is less expensive and expires at the end of the term or permanent (typically whole life or universal life), which is more expensive but lasts a lifetime and carries a cash accumulation component. Life insurers may also sell long-term disability policies that replace the insured's income if they become sick or disabled. Well-known life insurers include Northwestern Mutual, Guardian, Prudential, and William Penn.

Property and casualty companies insure against accidents of non-physical harm. This can include lawsuits, damage to personal assets, car crashes and more. Large property and casualty insurers include State Farm, Nationwide and Allstate.

Businesses require special types of insurance policies that insure against specific types of risks faced by a particular business. For example, a fast-food restaurant needs a policy that covers damage or injury that occurs as a result of cooking with a deep fryer. An auto dealer is not subject to this type of risk but does require coverage for damage or injury that could occur during test drives.

There are also insurance policies available for very specific needs, such as kidnap and ransom (K&R), medical malpractice, and professional liability insurance, also known as errors and omissions insurance.

Some companies engage in reinsurance to reduce risk. Reinsurance is insurance that insurance companies buy to protect themselves from excessive losses due to high exposure. Reinsurance is an integral component of insurance companies' efforts to keep themselves solvent and to avoid default due to payouts, and regulators mandate it for companies of a certain size and type.

For example, an insurance company may write too much hurricane insurance, based on models that show low chances of a hurricane inflicting a geographic area. If the inconceivable did happen with a hurricane hitting that region, considerable losses for the insurance company could ensue. Without reinsurance taking some of the risks off the table, insurance companies could go out of business whenever a natural disaster hits.

Mutual vs. Stock Insurance Companies

Insurance companies are classified as either stock or mutual depending on the ownership structure of the organization. There are also some exceptions, such as Blue Cross Blue Shield and fraternal groups which have yet a different structure. Still, stock and mutual companies are by far the most prevalent ways that insurance companies organize themselves.

Worldwide, mutual insurance companies accounted for 26.7% of the market share in 2017. In the U.S., 39.9% of the market belonged to mutual insurers.1

A stock insurance company is a corporation owned by its stockholders or shareholders, and its objective is to make a profit for them. Policyholders do not directly share in the profits or losses of the company. To operate as a stock corporation, an insurer must have a minimum of capital and surplus on hand before receiving approval from state regulators. Other requirements must also be met if the company's shares are publicly traded. Some well-known American stock insurers include Allstate, MetLife, and Prudential.

A mutual insurance company is a corporation owned exclusively by the policyholders who are "contractual creditors" with a right to vote on the board of directors. Generally, companies are managed and assets (insurance reserves, surplus, contingency funds, dividends) are held for the benefit and protection of the policyholders and their beneficiaries.

Management and the board of directors determine what amount of operating income is paid out each year as a dividend to the policyholders. While not guaranteed, there are companies that have paid a dividend every year, even in difficult economic times. Large mutual insurers in the U.S. include Northwestern Mutual, Guardian, Penn Mutual, and Mutual of Omaha.

What Is Insurance Float?

One of the more interesting features of insurance companies is that they are essentially allowed to use their customers' money to invest for themselves. This makes them similar to banks, but investing happens to an even greater extent. This is sometimes referred to as "the float."

Video Content / Details of website for further learning (if any):

https://www.investopedia.com/ask/answers/051915/how-does-insurance-sector-work.asp

Important Books/Journals for further learning including the page nos.:

Course Faculty

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LECTURE HANDOUTS

L26

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit :**III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Insurance Regulation (IRDA)

Introduction : The Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous, statutory body tasked with regulating and promoting the insurance and re-insurance industries in India

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

In India insurance was mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthashastra), which examined the pooling of resources for redistribution after fire, floods, epidemics and famine.[relevant? – discuss] The life-insurance business began in 1818[5] with the establishment of the Oriental Life Insurance Company in Calcutta; the company failed in 1834. In 1829, Madras Equitable began conducting life-insurance business in the Madras Presidency. The British Insurance Act was enacted in 1870, and Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were founded in the Bombay Presidency. The era was dominated by British companies.

In 1914, the government of India began publishing insurance-company returns. The Indian Life Assurance Companies Act, 1912 was the first statute regulating life insurance. In 1928 the Indian Insurance Companies Act was enacted to enable the government to collect statistical information about life- and non-life-insurance business conducted in India by Indian and foreign insurers, including provident insurance societies. In 1938 the legislation was consolidated and amended by the Insurance Act, 1938, with comprehensive provisions to control the activities of insurers.

The Insurance Amendment Act of 1950 abolished principal agencies, but the level of competition was high and there were allegations of unfair trade practices. The Government of India decided to nationalise the insurance industry.

An ordinance was issued on 19 January 1956, nationalising the life-insurance sector, and the Life Insurance Corporation was established that year. The LIC absorbed 154 Indian and 16 non-Indian insurers and 75 provident societies. The LIC had a monopoly until the late 1990s, when the insurance industry was reopened to the private sector.

General insurance in India began during the Industrial Revolution in the West and the growth of sea-faring commerce during the 17th century. It arrived as a legacy of British occupation, with its roots in the 1850 establishment of the Triton Insurance Company in Calcutta. In 1907 the Indian Mercantile

Insurance was established, the first company to underwrite all classes of general insurance. In 1957 the General Insurance Council (a wing of the Insurance Association of India) was formed, framing a code of conduct for fairness and sound business practice.

Eleven years later, the Insurance Act was amended to regulate investments and set minimum solvency margins and the Tariff Advisory Committee was established. In 1972, with the passage of the General Insurance Business (Nationalisation) Act, the insurance industry was nationalized on 1 January 1973. One hundred seven insurers were amalgamated and grouped into four companies: National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. The General Insurance Corporation of India was incorporated in 1971, effective on 1 January 1973.

The re-opening of the insurance sector began during the early 1990s. In 1993, the government set up a committee chaired by former Reserve Bank of India governor R. N. Malhotra to propose recommendations for insurance reform complementing those initiated in the financial sector. The committee submitted its report in 1994, recommending that the private sector be permitted to enter the insurance industry. Foreign companies should enter by floating Indian companies, preferably as joint ventures with Indian partners.

Following the recommendations of the Malhotra Committee, in 1999 the Insurance Regulatory and Development Authority (IRDA) was constituted to regulate and develop the insurance industry and was incorporated in April 2000. Objectives of the IRDA include promoting competition to enhance customer satisfaction with increased consumer choice and lower premiums while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with an invitation for registration applications; foreign companies were allowed ownership up to 26 percent. The authority, with the power to frame regulations under Section 114A of the Insurance Act, 1938, has framed regulations ranging from company registrations to the protection of policyholder interests since 2000.

In December 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and the GIC was converted into a national re-insurer. Parliament passed a bill de-linking the four subsidiaries from the GIC in July 2002. There are 28 general insurance companies, including the Export Credit Guarantee Corporation of India and the Agriculture Insurance Corporation of India, and 24 life-insurance companies operating in the country. With banking services, insurance services add about seven percent to India's GDP.[citation needed]

In 2013 the IRDAI attempted to raise the foreign direct investment (FDI) limit in the insurance sector to 49 percent from its current 26 percent.[6] The FDI limit in the insurance sector was raised to 100 percent according to the budget 2019.

Video Content / Details of website for further learning (if any):

https://en.wikipedia.org/wiki/Insurance_Regulatory_and_Development_Authority

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

L27

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit :**III - Introduction to Insurance** **Date of Lecture:**

Topic of Lecture: Insurance Regulation (IRDA)

Introduction : The Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous, statutory body tasked with regulating and promoting the insurance and re-insurance industries in India

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
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Detailed content of the Lecture:

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Video Content / Details of website for further learning (if any):

https://en.wikipedia.org/wiki/Insurance_Regulatory_and_Development_Authority

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LECTURE HANDOUTS

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: Basics of life Insurance

Introduction :

There are two major types of life insurance—term and whole life. Term insurance is the simplest form of life insurance. It pays only if death occurs during the term of the policy, which is usually from one to 30 years. Most term policies have no other benefit provisions

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Life insurance provides financial support to surviving dependents or other beneficiaries after the death of an insured. Here are some examples of people who may need life insurance:

Parents with minor children – If a parent dies, the loss of their income or caregiving skills could create a financial hardship. Life insurance can make sure the kids will have the financial resources they need until they can support themselves.

Parents with special-needs adult children – For children who require lifelong care and will never be self-sufficient, life insurance can make sure their needs will be met after their parents pass away. The death benefit can be used to fund a special needs trust that a fiduciary will manage for the adult child's benefit.1

Adults who own property together – Married or not, if the death of one adult would mean that the other could no longer afford loan payments, upkeep, and taxes on the property, life insurance may be a good idea. An example would be an engaged couple who took out a joint mortgage to buy their first house.

Elderly parents who want to leave money to adult children who provide their care – Many adult children sacrifice by taking time off work to care for an elderly parent who needs help. This help may also include direct financial support. Life insurance can help reimburse the adult child's costs when the parent passes away.

Young adults whose parents incurred private student loan debt or cosigned a loan for them – Young adults without dependents rarely need life insurance, but if a parent will be on the hook for a child's debt after their death, the child may want to carry enough life insurance to pay off that debt.

Young adults who want to lock in low rates – The younger and healthier you are, the lower your insurance premiums. A 20-something adult might buy a policy even without having dependents if there is an expectation to have them in the future.

Wealthy families who expect to owe estate taxes – Life insurance can provide funds to cover the taxes and keep the full value of the estate intact.

Families who can't afford afford burial and funeral expenses – A small life insurance policy can

provide funds to honor a loved one's passing.
Businesses with key employees – If the death of a key employee, such as a CEO, would create a severe financial hardship for a firm, that firm may have an insurable interest that will allow it to purchase a life insurance policy on that employee.
Married pensioners – Instead of choosing between a pension payout that offers a spousal benefit and one that doesn't, pensioners can choose to accept their full pension and use some of the money to buy life insurance to benefit their spouse. This strategy is called pension maximization.
How Life Insurance Works
A life insurance policy can has two main components - a death benefit and a premium. Term life insurance has these two components, but permanent or whole life insurance policies also have a cash value component.

Death Benefit – The death benefit or face value is the amount of money the insurance company guarantees to the beneficiaries identified in the policy when the insured dies. The insured might be a parent, and the beneficiaries might be their children, for example. The insured will choose the desired death benefit amount based on the beneficiaries' estimated future needs. The insurance company will determine whether there is an insurable interest and if the proposed insured qualifies for the coverage based on the company's underwriting requirements related to age, health, and any hazardous activities in which the proposed insured participates.2
Premium – Premiums are the money the policyholder pays for insurance. The insurer must pay the death benefit when the insured dies if the policyholder pays the premiums as required, and premiums are determined in part by how likely it is that the insurer will have to pay the policy's death benefit based on the insured's life expectancy. Factors that influence life expectancy include the insured's age, gender, medical history, occupational hazards, and high-risk hobbies.2 Part of the premium also goes toward the insurance company's operating expenses. Premiums are higher on policies with larger death benefits, individuals who are higher risk, and permanent policies that accumulate cash value.
Cash Value – The cash value of permanent life insurance serves two purposes. It is a savings account that the policyholder can use during the life of the insured; the cash accumulates on a tax-deferred basis. Some policies may have restrictions on withdrawals depending on how the money is to be used. For example, the policyholder might take out a loan against the policy's cash value and have to pay interest on the loan principal. The policyholder can also use the cash value to pay premiums or purchase additional insurance. The cash value is a living benefit that remains with the insurance company when the insured dies. Any outstanding loans against the cash value will reduce the policy's death benefit.
The policyholder and the insured are usually the same person, but sometimes they may be different. For example, a business might buy key person insurance on a crucial employee such as a CEO, or an insured might sell their own policy to a third party for cash in a life settlement.

Video Content / Details of website for further learning (if any):
https://www.investopedia.com/terms/l/lifeinsurance.asp

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: Features – Contract

Introduction :

Life insurance is a legally binding contract. For a life insurance policy to remain in force, the policyholder must pay a single premium up front or pay regular premiums over time. When the insured dies, the policy's named beneficiaries will receive the policy's face value, or death benefit.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

What is Life Insurance?

Life Insurance is defined as a contract between the policy holder and the insurance company, where the life insurance company pays a specific sum to the insured individual's family upon his death. The life insurance sum is paid in exchange for a specific amount of premium. Life is beautiful, but also uncertain. Whatever you do, however smart and hard you work, you are never sure what life has in store for you.

It is therefore important that you do not leave anything to chance, especially 'life insurance'. As death is the only certain thing in life, apart from taxes, it pays to insure it well in advance.

Life Insurance Definition & Explanation

If you were to go by the dictionary definition, "life insurance" is a financial product that pays you or your dependants a sum of money either after a set period or upon your death as the case may be.

However, if you were to understand the term clearly and also appreciate its importance in your life, consider "life insurance" as a back-up plan for life. Life insurance in its simplest form means being prepared financially, come what may. It ensures that your family and you receive financial support in case you are not able to bring in the much-needed income yourself (maybe due to an accident, retirement, or untimely demise).

In legal terms, life insurance is a contract between an insurance policy holder (insured) and an insurance company (insurer). Under this contract, the insurer promises to pay a pre-decided sum of money (also known as "Sum Assured" or "Cover Amount") upon the death of the insured person or after a certain period.

What is a Life Insurance Premium

Simply put, "life insurance premium"is the amount of money you pay your life insurance company in exchange for your coverage. Life insurance premium can either be a regular monthly/annual payment or a one-time payment as the case may be. The payout (called a death benefit) is the amount of money

the life insurance company would pay your beneficiaries if you died unexpectedly during the term period. Calculate your premium by clicking below for a better understanding:

Benefits of Life Insurance

Life insurance is designed to minimize the impact of the financial loss your family may incur upon your demise. The benefits of such plans are fourfold, aptly contained within the acronym "LIFE":

1. Liability Free

Life insurance gives your family the power to be independent and self-reliant. A good term plan can help them repay financial liabilities like home loan, auto loan, personal loan, or a loan on credit card. The term plan may also cover hospitalization charges and critical illness treatment, giving you a comprehensive protection package

2. Income Replacement

If you are the sole breadwinner in your family, a life insurance plan becomes can provide a guaranteed income to your family every month, making sure that their everyday life is not disrupted and they remain financially stable.

3. Education and other expenses for dependents

The payouts from life insurance can help to pay the bills for the education of your children, as well as expenses for their wedding or medical costs if any.

4. Immediate Expenses after Demise

It will also help your family cover a part of essential expenses immediately after your demise, such as funeral costs and/or medical bills.

Video Content / Details of website for further learning (if any):

https://www.aegonlife.com/insurance-basics/life-insurance/what-life-insurance

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: Classifications

Introduction :

There are two major types of **life insurance—term** and whole life. Whole life is sometimes called permanent life insurance, and it encompasses several subcategories, including traditional whole life, universal life, variable life and variable universal life.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Endowment plans:

Similar to a ULIP, endowment plans are types of life insurance that offers a mix of insurance coverage and investment opportunity. Sum assured is paid to the nominee or family in case of death or sum assured amount plus accumulated bonus in case the insured outlives the policy term.

Money back policy:

As the term suggests, in this type of life insurance policy the insured receives a specified sum in intervals during the policy term as well as sum assured amount on death or on maturity. Investors also get accrued bonuses on maturity.

Whole life insurance:

A whole life insurance covers the insured during the entire lifetime of the individual or in some cases up to 100 years. Sum assured is paid to nominee on death of the policy holder. In the rare event that the policyholder lives more than 100 years, the maturity amount is paid to the insured.

Child plan:

A **child insurance plan** helps to build capital for important events in a child's life such as higher education, overseas studies, marriage, etc. Most child plans provide one time pay-out or annual payments after the child reaches 18 years of age. In case the parent passes away during the policy term, payment is made to the child or family. Some insurance companies waive off the premiums in case of death of the policyholder and make the payment after maturity period.

Retirement plan:

This type of insurance plan helps you build a substantial amount of capital to live a worry-free retirement life. You can opt for annual payments or a single pay-out after the age of 60 years. In case of the death of the insured, payment is made to the nominee either based on coverage, fund value or 105% of premiums paid

Video Content / Details of website for further learning (if any):
https://www.aegonlife.com/insurance-basics/life-insurance/what-life-insurance

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: Annuities

Introduction :

Annuities are insurance contracts that promise to pay you regular income either immediately or in the future. You can buy an **annuity** with a lump sum or a series of payments. **Annuities** come in three main varieties—fixed, variable, and indexed—each with its own level of risk and payout potential.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Understanding Annuities

The goal of an annuity is to provide a steady stream of income, typically during retirement. Funds accrue on a tax-deferred basis an—like 401(k) contributions—can only be withdrawn without penalty after age 59½.

Many aspects of an annuity can be tailored to the specific needs of the buyer. In addition to choosing between a lump-sum payment or a series of payments to the insurer, you can choose when you want to annuitize your contributions—that is, start receiving payments. An annuity that begins paying out immediately is referred to as an immediate annuity, while one that starts at a predetermined date in the future is called a deferred annuity.

The duration of the disbursements can also vary. You can choose to receive payments for a specific period of time, such as 25 years, or for the rest of your life. Of course, securing a lifetime of payments can lower the amount of each check, but it helps ensure that you don't outlive your assets, which is one of the main selling points of annuities.

Types of Annuities

Annuities come in three main varieties: fixed, variable, and indexed. Each type has its own level of risk and payout potential. Fixed annuities pay out a guaranteed amount. The downside of this predictability is a relatively modest annual return, generally slightly higher than a CD from a bank.

Indexed annuities fall somewhere in between when it comes to risk and potential reward. You receive a guaranteed minimum payout, although a portion of your return is tied to the performance of a market index, such as the S&P 500.

Treatment of Annuities

An important feature to consider with any annuity is its tax treatment. While your balance grows tax-free, the disbursements you receive are subject to income tax.1 By contrast, mutual funds that you hold for over a year are taxed at the long-term capital gains rate, which is generally lower.2 Additionally, unlike a traditional 401(k) account, the money you contribute to an annuity doesn't reduce your taxable income.

3 For this reason, experts often recommend that you consider buying an annuity only after you've contributed the maximum to your pre-tax retirement accounts for the year.

Video Content / Details of website for further learning (if any):
https://www.aegonlife.com/insurance-basics/life-insurance/what-life-insurance

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LECTURE HANDOUTS

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: General Insurance

Introduction :

A policy or agreement between the policyholder and the insurer which is considered only after realization of the premium. The premium is paid by the insurer who has a financial interest in the asset covered. The insurer will protect the insured from the financial liability in case of loss.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

How does the concept of General Insurance work?

Insurance is a concept that applies to a large group of people which may suffer the same risk in the same conditions or region. The money collected as the premium can be called as a pool and when anyone faces a loss, the person is paid from that pool.

Still perplexed at how does a general insurance policy come into play? Consider that your mother suffered a heart attack suddenly and she needs a transplant. At the same time, your daughter's college fee was due. It definitely is a huge expense to be made at the same time and none can be preferred over the other. In this time of stress, the family's health insurance policy can save your burden and the fees can be paid from the savings. A General Insurance Policy here works to save your burden for money.

Once we've understood what General Insurance is, let us understand how and when will the policy apply.

A Digit's disclose on how does a loss occur?

The loss may occur due to perils like fire, storm and flood, earthquake, theft, accident, health, travel,

and other similar factors.
So now, we know that there exists an asset which is exposed to risk. And in case of the occurrence of losses (subject to the limit of the policy) plays the insurance which pay for the damages.

Why do we need General Insurance?
Imagine you're driving back home in your car and suddenly, a taxi hits you from behind. Your car has a dent and its bumper has come off too. Now you need about Rs. 2000/- for the dent and Rs.7500/- for the bumper to be able to fix it all.

A car insurance policy, in this case, will play well. You can get the amount reimbursed under the insurance policy. Your car is the asset here in which you have a financial interest. But remember, an insurance policy will pay only as per its predefined conditions.

Video Content / Details of website for further learning (if any):
https://www.godigit.com/guides/types-of-general-insurance

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA | **II / III**

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: Health Care Insurance

Introduction :

Health insurance is an insurance product which covers medical and surgical expenses of an insured individual. It reimburses the expenses incurred due to illness or injury or pays the care provider of the insured individual directly

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

What is Health Insurance?

Health insurance is an insurance product which covers medical and surgical expenses of an insured individual. It reimburses the expenses incurred due to illness or injury or pays the care provider of the insured individual directly.

Need for Health Insurance

Medicare or medical costs are rising year on year. As a matter of fact, inflation in medicare is higher than inflation in food and other articles. While inflation in food and clothing is in single digits, medicare costs usually escalate in double digits.

For an individual who hasn't saved that much money, arranging for funds at the eleventh hour can be a task. This is particularly daunting for seniors, given that most ailments strike at an advanced age.

One way to provide for health-related / medical emergencies is by taking health insurance. Health insurance offers considerable flexibility in terms of disease / ailment coverage. For instance, certain health insurance plans cover as many as 30 critical illnesses and over 80 surgical procedures. The insurance plan disburses the payment towards surgery/illness regardless of actual medical expenses.

The policy continues even after the benefit payment on selected illnesses.

With health insurance, you are assured of a more secure future both health-wise and money-wise. This makes health insurance policies critical for individuals, especially if they are responsible for the financial well-being of the family

Video Content / Details of website for further learning (if any):
https://www.hdfclife.com/insurance-knowledge-centre/about-life-insurance/what-is-health-insurance#:~:text=Health%20insurance%20is%20an%20insurance,of%20the%20insured%20individual%20
directly.

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: Fire insurance

Introduction : **Fire insurance** is a legal contract between an **insurance** company and the policyholder which guarantees that any loss or damages caused to the policyholder's property in a **fire** will be paid by the **insurance** company. **Fire insurance** provides **coverage** against incidents of accidental **fire**, lightning, explosion, etc

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

How Fire Insurance Works

Homeowners insurance provides policyholders with coverage against loss and/or damage to their homes and possessions, also referred to as insured property. This is a blanket term used to describe both the interior and exterior of the home as well as any assets that are kept on the property itself. Policies may also cover injuries someone sustains while on the property. If you have a mortgage, there's a very good chance that your lender won't advance your loan if your property isn't covered. Even if it isn't a requirement, it's a good idea to protect yourself. There are additional forms of coverage you can purchase including fire insurance.

Fire insurance covers a policyholder against fire loss or damage from a number of sources. These include fires brought about by electricity, such as faulty wiring and gas explosions, as well as those caused by lightning and natural disasters. A burst and overflowing water tank or pipes may also be covered by the policy.

Most policies provide coverage regardless of whether the fire originates from inside or outside of the home. The limit of coverage depends on the cause of the fire. The policy reimburses the policyholder on either a replacement-cost basis or an actual cash value (ACV) basis for damages.

If the home is considered a total loss, the insurance company may actually reimburse the home's current market value. The insurance typically provides a market value compensation for lost possessions, with the total payout capped based on the home's overall value. If, for example, a policy insures a house for $350,000, the contents are usually covered for at least 50% to 70% of the policy value—or a range of $175,000 to $245,000. Many policies limit how much reimbursement covers luxury items such as paintings, jewelry, gold, and fur coats.

Special Considerations

A policyholder should check the home's value each year to determine if there is a need to increase the coverage amount. A policyholder cannot get insurance for more than a home's actual value. Insurance companies may offer stand-alone policies for rare, expensive, and irreplaceable items that are otherwise not covered in standard fire insurance.

Some standard homeowners insurance policies include coverage for fire, but they may not be extensive enough for some homeowners. If an insurance policy excludes coverage for fire damage, a homeowner may need to purchase separate fire insurance—especially if the property contains valuable items that cannot be covered with standard coverage. The insurance company's liability is limited by the policy value and not by the extent of damage or loss sustained by the property owner.

Fire insurance provides extra coverage to offset any additional costs to replace or repair property that surpasses the limit set by homeowners insurance.

Fire insurance policies provide payment for the loss of use of the property as a result of a fire or for additional living expenses necessitated by uninhabitable conditions, as well as damage to personal property and nearby structures. Homeowners should document the property and its contents to simplify the assessment of items damaged or lost in the event of a fire.

A fire insurance policy includes additional coverage against smoke or water damage due to a fire and is usually effective for one year. Fire insurance policies on the verge of expiration are usually renewable by the homeowner, under the same terms as the original policy.

Video Content / Details of website for further learning (if any):

https://www.investopedia.com/terms/f/fire-insurance.asp

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: Marine Insurance

Introduction : Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport by which the property is transferred, acquired, or held between the points of origin and the final destination

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Marine insurance covers the loss or damage of ships, cargo, terminals, and any transport by which the property is transferred, acquired, or held between the points of origin and the final destination. Cargo insurance is the sub-branch of marine insurance, though Marine insurance also includes Onshore and Offshore exposed property, (container terminals, ports, oil platforms, pipelines), Hull, Marine Casualty, and Marine Liability. When goods are transported by mail or courier, shipping insurance is used instead.

General average stands apart for marine insurance. In order for general average to be properly declared, 1) there must be an event which is beyond the shipowner's control, which imperils the entire adventure; 2) there must be a voluntary sacrifice, 3) there must be something saved. The voluntary sacrifice might be the jettison of certain cargo, the use of tugs, or salvors, or damage to the ship, be it, voluntary grounding, knowingly working the engines that will result in damages. General average requires all parties concerned in the maritime venture (hull/cargo/freight/bunkers) to contribute to make good the voluntary sacrifice. They share the expense in proportion to the 'value at risk'' in the adventure. Particular average is the term applied to partial loss be it hull or cargo.

Average – is the situation in which the insured has under-insured, i.e., insured an item for less than it is worth. Average will apply to reduce the claim amount payable. An average adjuster is a marine claims specialist responsible for adjusting and providing the general average statement. An Average Adjuster in North America is a 'member of the association of Average Adjusters' To insure the fairness of the

adjustment a General Average adjuster is appointed by the shipowner and paid by the insurer.

Excess, deductible, retention, co-insurance, and franchise
An excess is the amount payable by the insured and is usually expressed as the first amount falling due, up to a ceiling, in the event of a loss. An excess may or may not be applied. It may be expressed in either monetary or percentage terms. An excess is typically used to discourage moral hazard and to remove small claims, which are disproportionately expensive to handle. The term "excess" signifies the "deductible" or "retention".

A co-insurance, which typically governs non-proportional treaty reinsurance, is an excess expressed as a proportion of a claim in percentage terms and applied to the entirety of a claim. Co-insurance is a penalty imposed on the insured by the insurance carrier for under reporting/declaring/insuring the value of tangible property or business income. The penalty is based on a percentage stated within the policy and the amount under reported. As an example: a vessel actually valued at $1,000,000 has an 80% co-insurance clause but is insured for only $750,000. Since its insured value is less than 80% of its actual value, when it suffers a loss, the insurance payout will be subject to the under-reporting penalty, the insured will receive 750000/1000000th (75%) of the claim made less the deductible.

Video Content / Details of website for further learning (if any):
https://en.wikipedia.org/wiki/Marine_insurance

Important Books/Journals for further learning including the page nos.:

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LECTURE HANDOUTS

MBA

II / III

Course Name with Code : **19MBC15- Risk Management and Insurance**

Course Faculty : **M.GOWRISHANKER**

Unit : **IV- Life Insurance** **Date of Lecture:**

Topic of Lecture: Vehicles Insurance

Introduction : **Liability insurance** pays for damage to someone else's property or for injury to other persons resulting from an accident for which the insured is judged legally liable; collision insurance pays for damage to the insured car if it collides with another vehicle or object; comprehensive insurance pays for damage

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Response to risks usually takes one of the following forms:

Vehicle insurance (also known as **car insurance**, **motor insurance**, or **auto insurance**) is insurance for cars, trucks, motorcycles, and other road vehicles. Its primary use is to provide financial protection against physical damage or bodily injury resulting from traffic collisions and against liability that could also arise from incidents in a vehicle. Vehicle insurance may additionally offer financial protection against theft of the vehicle, and against damage to the vehicle sustained from events other than traffic collisions, such as keying, weather or natural disasters, and damage sustained by colliding with stationary objects. The specific terms of vehicle insurance vary with legal regulations in each region.

Auto insurance in India deals with the insurance covers for the loss or damage caused to the automobile or its parts due to natural and man-made calamities. It provides accident cover for individual owners of the vehicle while driving and also for passengers and third party legal liability. There are certain general insurance companies who also offer online insurance service for the vehicle.

Auto insurance in India is a compulsory requirement for all new vehicles used whether for commercial or personal use. The insurance companies have tie-ups with leading automobile manufacturers. They offer their customers instant auto quotes. Auto premium is determined by a number of factors and the amount of premium increases with the rise in the price of the vehicle. The claims of the auto insurance in India can be accidental, theft claims or third party claims. Certain documents are required for claiming auto insurance in India, like duly signed claim form, RC copy of the vehicle, driving license copy, FIR copy, original estimate and policy copy.

There are different types of auto insurance in India:

Private Car Insurance – Private Car Insurance is the fastest growing sector in India as it is compulsory for all the new cars. The amount of premium depends on the make and value of the car, state where the

car is registered and the year of manufacture. This amount can be reduced by asking the insurer for No Claim Bonus (NCB) if no claim is made for insurance in previous year.[17]

Two Wheeler Insurance – The Two Wheeler Insurance in India covers accidental insurance for the drivers of the vehicle. The amount of premium depends on the current showroom price multiplied by the depreciation rate fixed by the Tariff Advisory Committee at the beginning of a policy period.

Commercial Vehicle Insurance – Commercial Vehicle Insurance in India provides cover for all the vehicles which are not used for personal purposes like trucks and HMVs. The amount of premium depends on the showroom price of the vehicle at the commencement of the insurance period, make of the vehicle and the place of registration of the vehicle. The auto insurance generally includes:

Video Content / Details of website for further learning (if any):
https://en.wikipedia.org/wiki/Vehicle_insurance

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LECTURE HANDOUTS

L-37

MBA

II / III

Course Name with Code : 19MBC15- Risk Management and Insurance

Course Faculty : M.GOWRISHANKAR

Unit : V - Risk Aversion and Risk Management **Date of Lecture:**

Topic of Lecture: Risk aversion and demand for insurance

Introduction: Expected utility theory holds that the demand for insurance can be translated as a demand for certainty. A risk averse individual may be willing to assure against a potential loss, but will pay only up to a certain price for this insurance: if the price exceeds this amount he will not acquire the insurance.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Determinants of risk attitudes of individuals are of great interest in the growing area of behavioral economics that focuses on the individual attributes, psychological or otherwise, that shape common financial and investment practices. The purpose of this paper is to review the empirical literature on risk aversion (and risk behavior) with a particular focus on insurance demand or consumption. Empirical research on risk aversion may be categorized into two main areas, i.e. 1) the measurement and magnitude of risk aversion, 2) the empirical analysis of socio-demographic variables associated with risk aversion. The paper reviews this literature as well as empirical studies on the demand for insurance considering the use of variables associated with relative.

Risk aversion and insurance

• Consider insurance that is actuarially fair, meaning that the premium is equal to expected claims: Premium = p ·A where p is the expected probability of a claim, and A is the amount that the insurance company will pay in the event of an accident.
• How much insurance will a risk averse person buy?
• Consider a person with an initial endowment consisting of three things: A level of wealth which implies that wealth is w0 −L in both states of the world (insurance claim or no claim).
• A risk averse person will optimally buy full insurance if the insurance is actuarially fair.
• Is the person better off for buying this insurance? Absolutely. You can verify that expected utility rises with the purchase of insurance although expected wealth is unchanged.
• You could solve for how much the consumer would be willing to pay for a given insurance policy. Since insurance increases the consumer's welfare, s/he will be willing to pay some positive price in excess of the actuarially fair premium to defray risk.
• What is the intuition for why consumers want full insurance?
– The consumer is seeking to equate the marginal utility of wealth across states.

– Why? For a risk averse consumer, the utility of average wealth is greater than the average utility of wealth.
– The consumer therefore wants to distribute wealth evenly across states of the world, rather than concentrate wealth in one state.
– The consumer will attempt to maintain wealth at the same level in all states of the world, assuming she can costlessly transfer wealth between states of the world (which is what actuarially fair insurance allows the consumer to do).
– This is exactly analogous to convex indifference curves over consumption bundles.
– Diminishing marginal rate of substitution across goods (which comes from diminishing marginal utility of consumption) causes consumer's to want to diversify across goods rather than specialize in single goods.
– Similarly, diminishing marginal utility of wealth causes consumers to wish to diversify wealth across possible states of the world rather than concentrate it in one state.

Video Content / Details of website for further learning (if any):
https://ocw.mit.edu/courses/economics/14-03-microeconomic-theory-and-public-policy-fall-2016/lecture-notes/MIT14_03F16_lec17.pdf

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II / III

Course Name with Code : 19MBC15- Risk Management and Insurance

Course Faculty : M.GOWRISHANKAR

Unit : V - Risk Aversion and Risk Management **Date of Lecture:**

Topic of Lecture: Factors that limit the insurability of Risk

Introduction: Most insurance providers only cover pure risks, or those risks that embody most or all of the main elements of insurable risk. These elements are "due to chance," definiteness and measurability, statistical predictability, lack of catastrophic exposure, random selection, and large loss exposure

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
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Detailed content of the Lecture:

Most insurance providers only cover pure risks, or those risks that embody most or all of the main elements of insurable risk. These elements are "due to chance," definiteness and measurability, statistical predictability, lack of catastrophic exposure, random selection, and large loss exposure.

Pure Risk vs. Speculative Risk

Insurance companies normally only indemnify against pure risks, otherwise known as event risks. A pure risk includes any uncertain situation where the opportunity for loss is present and the opportunity for financial gain is absent.

Speculative risks are those that might produce a profit or loss, namely business ventures or gambling transactions. Speculative risks lack the core elements of insurability and are almost never insured.

Due to Chance

An insurable risk must have the prospect of accidental loss, meaning that the loss must be the result of an unintended action and must be unexpected in its exact timing and impact.

The insurance industry normally refers to this as "due to chance." Insurers only pay out claims for loss events brought about through accidental means, though this definition may vary from state to state. It protects against intentional acts of loss, such as a landlord burning down his or her own building.

Definiteness and Measurability

For a loss to be covered, the policyholder must be able to demonstrate a definite proof of loss, normally in the form of bills in a measurable amount. If the extent of the loss cannot be calculated or cannot be fully identified, then it is not insured. Without this information, an insurance company can neither produce a reasonable benefit amount or premium cost.

For an insurance company, catastrophic risk is simply any severe loss deemed too expensive, pervasive, or unpredictable for the insurance company to reasonably cover.

Not Catastrophic

Standard insurance does not guard against catastrophic perils. It might be surprising to see an exclusion

against catastrophes listed among the core elements of an insurable risk, but it makes sense given the insurance industry's definition of catastrophic, often abbreviated as "cat."
There are two kinds of catastrophic risk. The first is present whenever all or many units within a risk group, such as the policyholders in that class of insurance, are all be exposed to the same event. Examples of this kind of catastrophic risk include nuclear fallout, hurricanes, or earthquakes.

Video Content / Details of website for further learning (if any):
https://www.investopedia.com/articles/insurance/082616/elements-insurable-risks-quick-guide.asp#:~:text=Most%20insurance%20providers%20only%20cover,selection%2C%20and%20large%20loss%20exposure.

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II / III

Course Name with Code : 19MBC15- Risk Management and Insurance

Course Faculty : M.GOWRISHANKAR

Unit : V - Risk Aversion and Risk Management **Date of Lecture:**

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Video Content / Details of website for further learning (if any): https://www.investopedia.com/articles/insurance/082616/elements-insurable-risks-quick-guide.asp#:~:text=Most%20insurance%20providers%20only%20cover,selection%2C%20and%20large%20loss%20exposure. **%2C%20and%20large%20loss%20exposure.**
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LECTURE HANDOUTS

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MBA

II / III

Course Name with Code : 19MBC15- Risk Management and Insurance

Course Faculty : M.GOWRISHANKAR

Unit : V - Risk Aversion and Risk Management **Date of Lecture:**

Topic of Lecture: Business risk management

Introduction: Business Risk management is a subset of risk management used to evaluate the business risks involved if any changes occur in the business operations, systems and process. It identifies, prioritizes and addresses the risk to minimize penalties from unexpected incidents, by keeping them on track

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Business Risk Management (BRM)

Business Risk management is a subset of risk management used to evaluate the business risks involved if any changes occur in the business operations, systems and process. It identifies, prioritizes and addresses the risk to minimize penalties from unexpected incidents, by keeping them on track. It also enables an integrated response to multiple risks, and facilitates a more informed risk-based decision making capability.

Businesses today are unpredictable, volatile and seem to become more complex every day. By its very nature, it is filled with risk. Businesses have viewed risk as an evil that should be minimized or mitigated, whenever possible. However, risk assessment provides a mechanism for identifying which risks represent opportunities and which represent potential pitfalls. Risks can have negative impact, positive impact, or both. Risks with a negative impact can prevent value creation or erode existing value. Risks with positive impact may offset negative impacts or represent opportunities.

The risk management process involves:

Identifying risks – Spotting the evolving risks by studying internal and external factors that impact the business objectives

Analyzing risks – It includes the calibration and, if possible, creation of probability distributions of outcomes for each material risk.

Responding to risk – After identifying and analyzing the potential risk, appropriate strategy needs to be incorporated. Either by establishing new processes or eliminating, depending on kind and severity of the risk.

Monitoring risk and opportunities – Continually measuring the risks and opportunities of the business environment. Also keep a check on performance of management strategies.

Types of risks

Hazard risk: A hazard is anything in the workplace that has the potential to harm people. Hazard risk includes factors which are not under the control of business environment, such as fallout of machinery or dangerous chemical, natural calamities.

Financial risk: A large number of businesses take risk with their financial assets, quite regularly. Sometimes choosing a wrong supplier or distributor can backfire. Financial risk also includes risk in pricing, currency exchange and during liquidation of any asset. Business risk management should say how much risk is too much in financial relationship.

Operational risk: Evaluation of risk loss resulting from internal process, system, people or due to any external factor through which a company operates.

Strategic risks: Might arise from making poor or wrong business plans and losing the competition in the market. Failure to respond to changes in the business environment or inadequate capital allocation also represents strategic risk.

Risk Assessment

A risk assessment should begin and end with specific business objective that are anchored in key value drivers. Risk management acts like a guide in decision-making and planning to the company, in the event of an emergency. It helps to organize and allocate resources by setting up priorities. An effective risk management is

Increasingly important to the success of any business today

Required for a consistent approach, tailored to the organization

Organizations that vigorously interpret the results of their risk assessment process set the foundation of an effective risk assessment program

However, BRM also has its own limitations, factors considering human involvement in decision making. Human judgment can sometimes be based on past experience or sheer gut feeling, which may or may not work at all times. Simple errors or mistakes can turn the business upside down. This could also happen when two or more people are involved and they fail to come to same understanding or accept a decision in confused state of mind/ haste. These limitations preclude a management from having absolute assurance towards the achievement of the entity's objectives

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II / III

Course Name with Code : 19MBC15- Risk Management and Insurance

Course Faculty : M.GOWRISHANKAR

Unit : V - Risk Aversion and Risk Management **Date of Lecture:**

Topic of Lecture: Business risk management

Introduction: Business Risk management is a subset of risk management used to evaluate the business risks involved if any changes occur in the business operations, systems and process. It identifies, prioritizes and addresses the risk to minimize penalties from unexpected incidents, by keeping them on track

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LECTURE HANDOUTS

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MBA

II / III

Course Name with Code : 19MBC15- Risk Management and Insurance

Course Faculty : M.GOWRISHANKAR

Unit : V - Risk Aversion and Risk Management **Date of Lecture:**

Topic of Lecture: Demand for Insurance

Introduction: Empirical results indicate that level of income, development of insurance market and level of marketization are the common factors; level of education, development of social security pension, children dependency ratio and elderly dependency ratio mainly affect the demand for life insurance; and inflation mainly affects

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Many people anticipate that a risk-averse agent faced with an exogenous mean preserving increase in risk will take a less risky position or will demand more insurance. This widespread belief does not always turn out to be true in the insurance market and, more generally, in many other economic examples. This negative result has prompted many theoretical investigations to obtain intuitively acceptable results. Some authors have searched for conditions on the utility function, others have presented subclasses of mean preserving increases in risk, while a third group has considered the two kinds of restrictions jointly. It is interesting to notice that none of these contributors have applied their analysis to the insurance problem, although Meyer and Ormiston (1989) have interpreted the nature of insurance contracts as simple risk-reducing transformations. The object of this article is to fill this gap in literature. By examining the study of the coinsurance coverage, we show that one of its specifications, namely the linearity of the payoff in the decision variable and in the random element, does not preclude the applicability of well-known theorems to the demand for insurance.

Expected utility theory holds that the demand for insurance can be translated as a demand for certainty. Individuals will prefer to buy insurance in order to assure a certain amount of money (or to have a guarantee of lower losses), instead of its actuarial equivalent uncertain one. The insurance market allows agents to cover themselves against risk. Insurance companies take advantage of risk averse individuals to charge an extra surcharge to pay costs which are not covered by the premium. How individuals perceive insurances depends on their prices, and on the individuals' preferences and *budget constrain*. A risk averse individual may be willing to assure against a potential loss, but will pay only up to a certain price for this insurance: if the price exceeds this amount he will not acquire the

insurance.

We will use an analytical example for a better understanding:

Imagine an individual with an initial wealth of W_0 who faces the possibility of getting robbed an amount of R. He or she has the option of insuring an amount of K for a risk premium of λK. There are two possible scenarios:

S_1, with a probability of happening p_1: there is indeed a robbery, the individual loses R;

S_2, with a probability of happening p_2: there is no robbery.

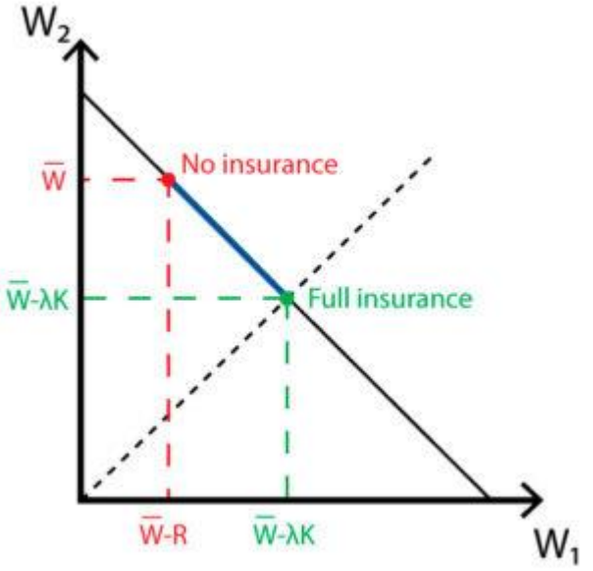
We'll have a budget constraint, in terms of wealth, such as:

$$W_1 = W_0 - R + K - \lambda K \leftrightarrow K = \frac{W_1 - W_0 + R}{1 - \lambda}$$

$$W_2 = W_0 + \frac{\lambda(W_0 - R)}{1 - \lambda} - \frac{\lambda}{1 - \lambda} * W_1$$

The optimum point, given the budget constraint and being MU the marginal utility, is:

$$MRS_{W_2}^{W_1} = \frac{p_1 MU(W_1)}{p_2 MU(W_2)}$$



Video Content / Details of website for further learning (if any):
https://policonomics.com/lp-risk-and-uncertainty2-insurance-model/

Important Books/Journals for further learning including the page nos.:

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IQAC

LECTURE HANDOUTS

L-43

MBA

II / III

Course Name with Code : 19MBC15- Risk Management and Insurance

Course Faculty : M.GOWRISHANKAR

Unit : V - Risk Aversion and Risk Management **Date of Lecture:**

Topic of Lecture: Demand for Insurance

Introduction: Empirical results indicate that level of income, development of insurance market and level of marketization are the common factors; level of education, development of social security pension, children dependency ratio and elderly dependency ratio mainly affect the demand for life insurance; and inflation mainly affects

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Detailed content of the Lecture:

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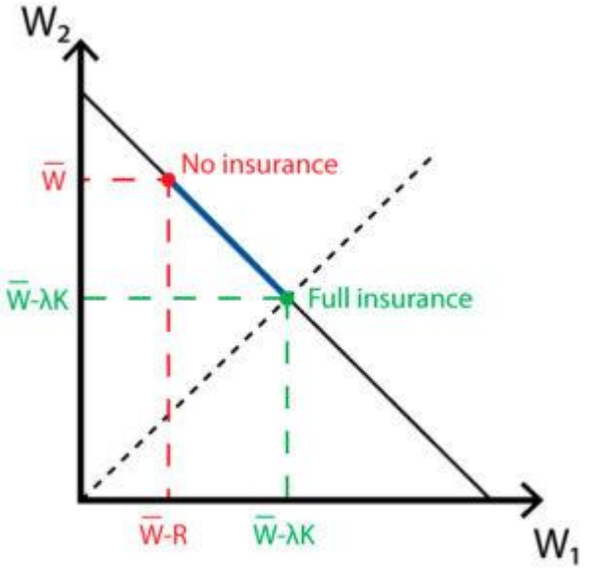

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LECTURE HANDOUTS | **L-44**

MBA | **II / III**

Course Name with Code : 19MBC15- Risk Management and Insurance

Course Faculty : M.GOWRISHANKAR

Unit : V - Risk Aversion and Risk Management **Date of Lecture:**

Topic of Lecture: Contractual provisions that limit coverage

Introduction: Limitation of Liability Clause — a contractual provision that caps the amount of liability one party to the contract may have to the other party.

Prerequisite knowledge for Complete understanding and learning of Topic:

- **Analytical** risk assessment skills.
- **Problem-solving** mantra.
- Financial **knowledge** and skills.
- Ability to build relationships

Detailed content of the Lecture:

Limitation of Liability Clause — a contractual provision that caps the amount of liability one party to the contract may have to the other party. Frequently used to equalize the imbalance between the potentially enormous risks assumed in performing a contract, as related to the relatively small profit or fee received for that performance. Design contracts, for example, commonly include a limitation of liability clause that limits the architect's or engineer's liability for design flaws to the amount of its fee for work performed under the contract. Note that these provisions only apply to the liability of one contracting party to the other. They do not limit liability with respect to others who are not subject to the contract. When drafted appropriately, these clauses are largely enforceable.

Liability Provisions in Business Contracts

Monday, August 8, 2016

If your job includes reviewing, drafting or negotiating contracts, you've probably seen these provisions. Are they boilerplate that you spend little time on? Do you fully understand exactly what they do? Do you negotiate or revise them?

Allocation of Risk

Fundamentally, the purpose of insurance, indemnification, and limitation clauses is to allocate risks. In general, insurance transfers risk from the contracting parties to a third party—an insurance company. Indemnification usually transfers risk between the parties to the contract. Limitation of liability prevents or limits the transfer of risk between the parties.

With those basic concepts in mind, think about the risks that arise out or relate to the contract. Take the time to imagine nightmare scenarios as well as other events that might be less devastating but more likely to occur. Then think about who should bear each of those risks. Do the insurance, indemnification, and limitation of liability provisions allocate the risks appropriately? If not, the parties should consider carefully negotiating to reach agreement on the risk allocation and then drafting or revising the provisions necessary to accomplish their mutual intentions. These issues can be as important as price and other material terms in the contract.

Clear Drafting

As with any contract provision, ambiguity can be bad for both parties. If you're uncertain how the risk allocation provisions apply to one of the risk scenarios that concerns you, consider adding language that specifically addresses that situation. Make it as clear as you can, and consider not just who should bear the risk but how that should work. Should there be a deadline for one party to notify the other? Should the party bearing the risk be required or even permitted to control the defense of third-party litigation? If insurance covers only part of the problem, what happens to the rest? Whatever your answers to these questions, it may be important to address them specifically in the insurance, indemnification, or limitation of liability provisions of the contract.

Obstacles to Enforcement

The law governing the contract can make a big difference in whether a risk allocation provision will be enforceable. For example, many states have statutes limiting the extent to which a party can be indemnified for its own acts, especially in industries such as construction, transportation, oil and gas, and health care. Some courts also apply those anti-indemnity laws to limitation of liability provisions. States differ on the extent to which the contract between the parties may impact their common law rights and remedies. Insurance coverage may or may not hinge on the language of the insurance requirements in the contract or on the indemnity provision. All of these variables are worth considering.

Understanding Insurance

Contractual insurance requirements often describe the type of policies that one or both parties must carry, and they may even identify some terms and endorsements that must be included. The parties dutifully purchase the specified policies but unfortunately may misunderstand the coverage.

For example, Owner hires Contractor to erect a second building on Owner's site, and their contract

requires Owner to be an additional insured under Contractor's commercial general liability policy. In the course of the project, Owner's existing first building is damaged. Owner may think that its additional insured status allows it to submit a claim to Contractor's CGL insurer and get paid for the damage. Probably not. It's a commercial general liability policy, covering the insured's liability to third parties. Being an additional insured can allow Owner to be covered against a third party's claim for injury or damage, such as an injury suffered by a subcontractor's employee. There may still be an avenue for Owner to have Contractor's CGL policy pay for the damage to Owner's property. If the facts support an allegation that the damage was caused by an act or omission of Contractor, Owner can demand or sue Contractor, and then the CGL carrier may pay for Contractor's liability for damaging Owner's first building. But that has nothing to do with Owner's status as an additional insured.

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IQAC

LECTURE HANDOUTS

L-45

MBA

II / III

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Course Faculty : M.GOWRISHANKAR

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