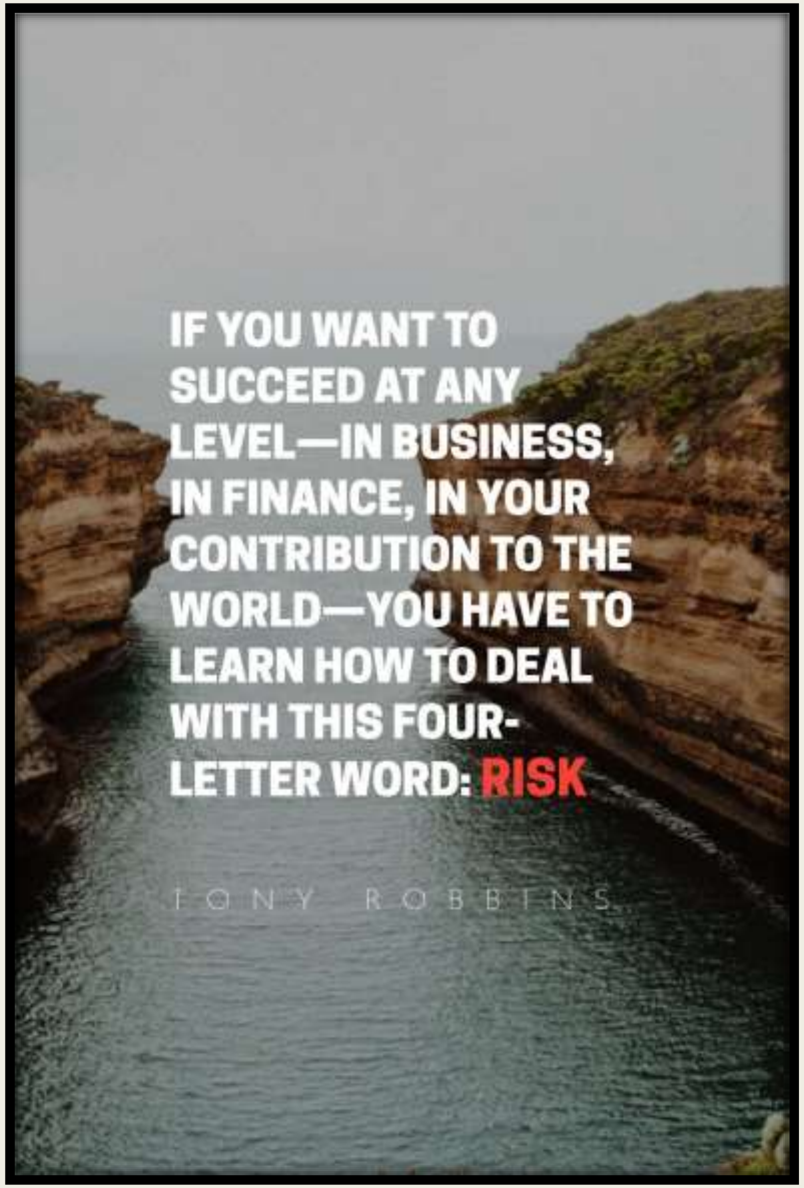
UNIT -1
RISK MANAGEMENT

"NOTHING GREAT COMES WITHOUT A RISK."



RISK

In business, risk management is defined as the process of identifying, monitoring and managing potential risks in order to minimize the negative impact they may have on an organization.

Risk caused by ....

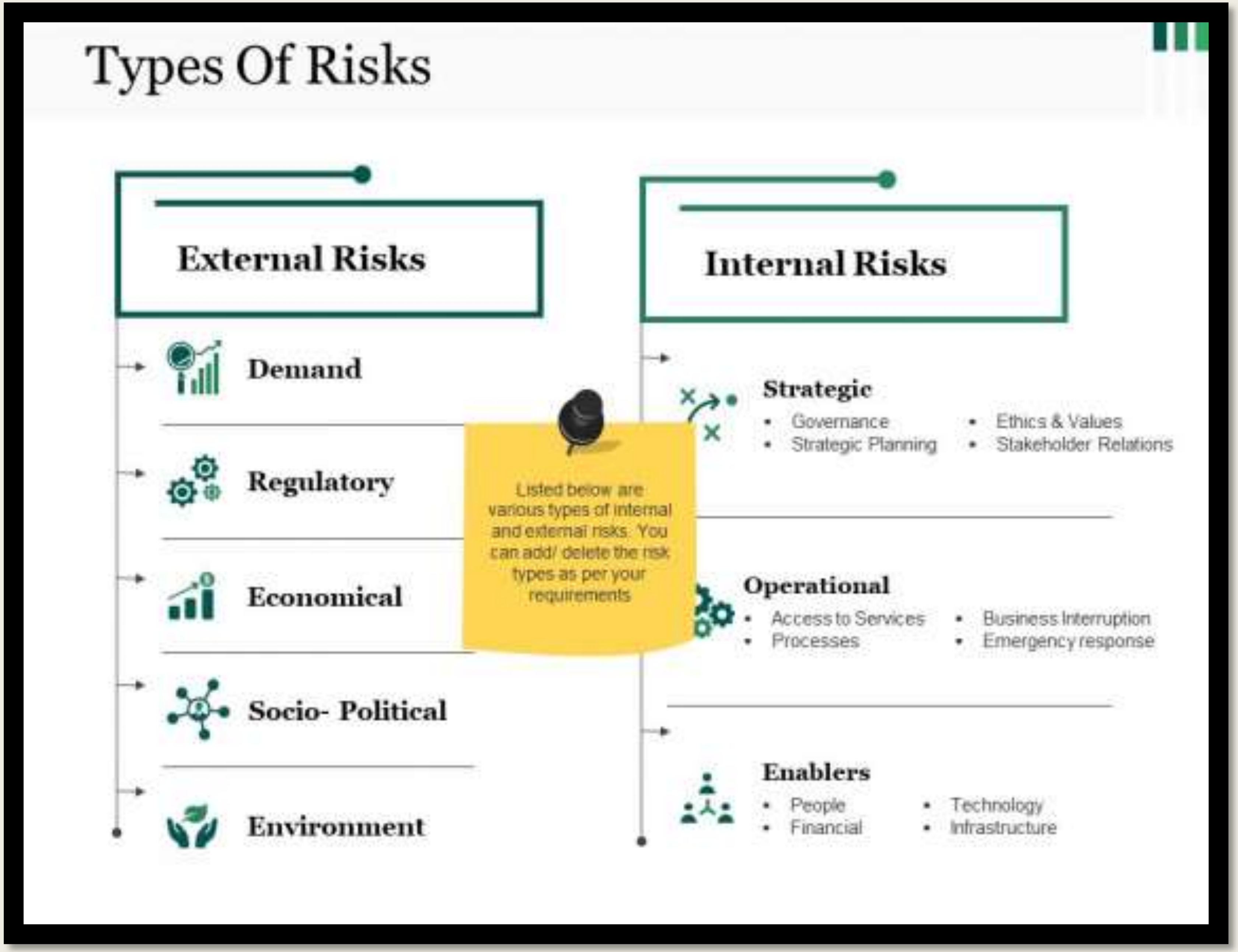
- Risks of nature
- Risks related to human nature (theft, burglary, embezzlement, fraud)
- Man-made risks
- Risks associated with data and knowledge
- Risks associated with the legal system (liability)—it does not create the risks but it may shift them to your arena
- Risks related to large systems: governments, armies, large business organizations, political groups
- Intellectual property

Risk Management- Introduction


This is a sample text. Insert your desired text here.
Assess Risk
This is a sample text. Insert your desired text here.
Identity Risk
Risk Management Process
Control Risk
Review Controls
This is a sample text. Insert your desired text here.
This is a sample text. Insert your desired text here.

Risk vs. Uncertainty

- Risk
  - Must make a decision for which the outcome is not known with certainty
  - Can list all possible outcomes & assign probabilities to the outcomes
- Uncertainty
  - Cannot list all possible outcomes
  - Cannot assign probabilities to the outcomes


Types Of Risks
External Risks
Demand
Regulatory
Economical
Socio- Political
Environment
Listed below are various types of internal and external risks. You can add/ delete the risk types as per your requirements
Internal Risks
Strategic
• Governance
• Strategic Planning
• Ethics & Values
• Stakeholder Relations
Operational
• Access to Services
• Processes
• Business Interruption
• Emergency response
Enablers
• People
• Financial
• Technology
• Infrastructure

Internal Risk

Internal Risk Control is what a manager and organization put in place to minimize risks coming from inside the organization.

External Risk

Risks that are external to the project and the project manager can not control. Good examples of external risks are changes in government legislation, changes in strategy from senior managers, and the economy.

Management by objectives (MBO) is a strategic management model that aims to improve the performance of an organization by clearly defining objectives that are agreed to by both management and employees.

Objectives of Risk Management

- Identifies and Evaluates Risk
- Reduce and Eliminate Harmful Threats
- Supports Efficient use of Resources
- Better Communication of Risk within Organisation
- Reassures Stakeholders
- Support Continuity of Organisation

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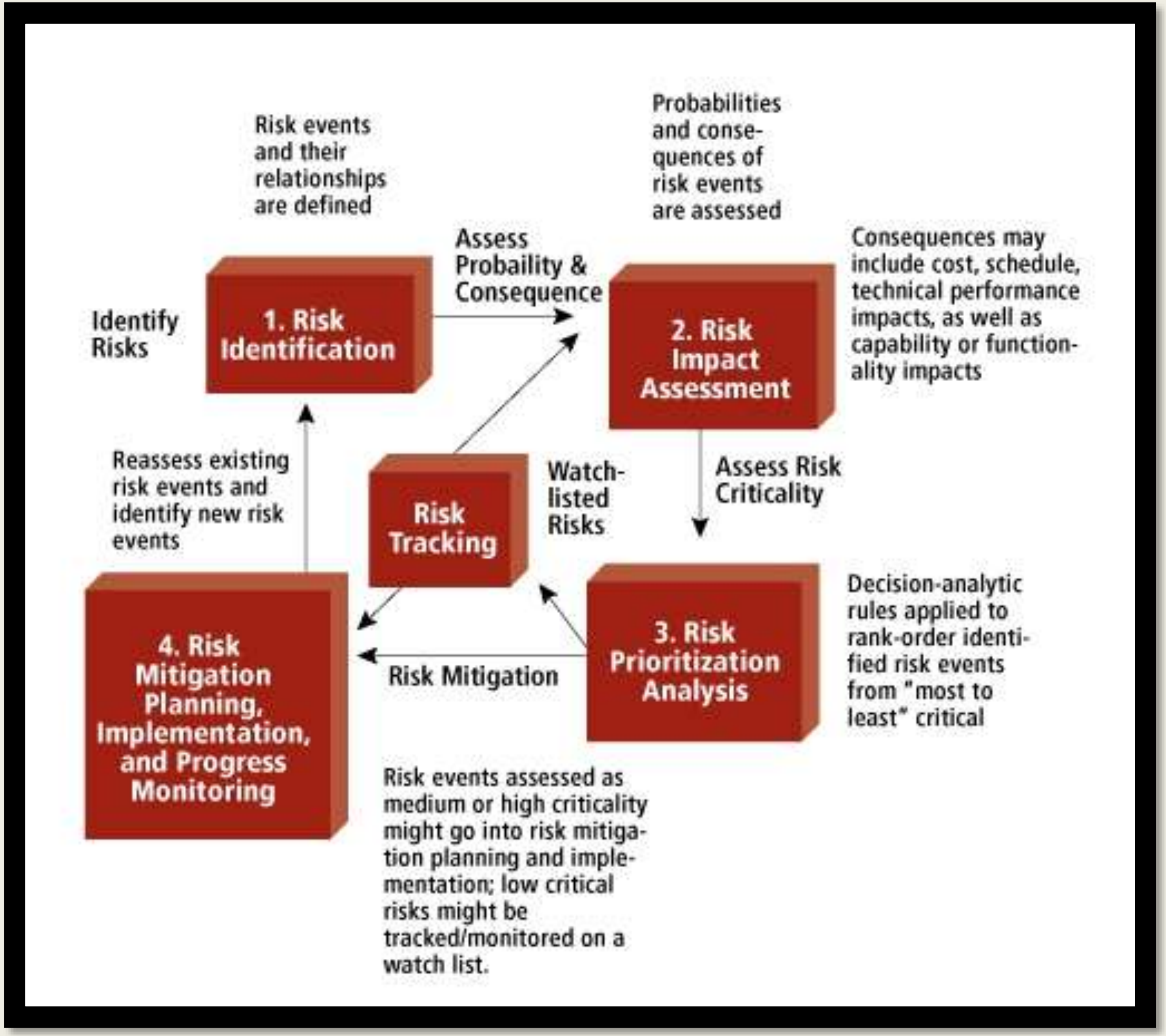
Sources of Risk

- ***Production***- yield/quality variability
- ***Marketing***- changes in price/external conditions
- ***Financial***- variability in debt/equity capital and ability to meet cash demands
- ***Legal***- responsibilities for contracts, statutory compliance, tort liability, and business structure
- ***Human***- managing people and estate transfers

Risk identification

- 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.


Risk events and their relationships are defined
Probabilities and consequences of risk events are assessed
Assess Probaility & Consequence
Identify Risks
1. Risk Identification
2. Risk Impact Assessment
Consequences may include cost, schedule, technical performance impacts, as well as capability or functionality impacts
Reassess existing risk events and identify new risk events
Risk Tracking
Watch-listed Risks
Assess Risk Criticality
4. Risk Mitigation Planning, Implementation, and Progress Monitoring
Risk Mitigation
3. Risk Prioritization Analysis
Decision-analytic rules applied to rank-order identified risk events from "most to least" critical
Risk events assessed as medium or high criticality might go into risk mitigation planning and implementation; low critical risks might be tracked/monitored on a watch list.

Holistic Risk Identification

- Most risks are concentrated in a specific area which makes it difficult to identify how a risk may impact the entire organization. Examples:
  - Financial risks are found in accounting and financial areas
  - Products liability risk are found in manufacturing areas
- Example, failure to recognize the financial problems of a supplier could cause production problems that lead to product defects loss of revenues

Measurement of risk

Risk Analysis

- *Risk management analysis comprises of a series of measures that should be employed to prevent the occurrence or to allow an elimination of risks. Risk management analysis is nothing more than a set of specific and defined processes to do everything so that the highlighted risks do not occur.*

Steps involved:

- **Stage 1: Assess the risk: What can go wrong?**
- **Stage 2: Evaluate the risk: How likely it is to occur?**
- **Stage 3: Analyse the risk: What would be the consequences?**
- **Stage 4: Manage the risk: What preventative steps can be taken?**

Monitoring risk

- More specifically: "Monitor Risks is the process of **monitoring the implementation of agreed-upon risk response plans, tracking identified risks, identifying and analyzing new risks, and evaluating risk process effectiveness throughout the project**."
- Risk monitoring is **the ongoing process of managing risk**. Risk management often has an initial phase that involves identifying risk, agreeing to treatments and designing controls.
- Risks need to be monitored **so that management can act promptly if and when the nature, potential impact, or likelihood of the risk goes outside acceptable levels**

Monitor Risks Process

Inputs

- Project management & risk management plan
- Project documents
- Work performance data
- Work performance reports

Tools & Techniques

- Data analysis e.g. technical performance analysis, reserve analysis
- Audits
- Meetings

Outputs

- Work performance information
- Change requests
- PM plan updates
- Project document updates
- OPA updates

Controlling risk

- The purpose of internal control and risk management is **to ensure that the company's operations are effective, that financial and other information is reliable, and that the company complies with the relevant regulations and operating principles.**

Some practical steps you could take include:

- trying a less risky option.
- preventing access to the hazards.
- organising your work to reduce exposure to the hazard.
- issuing protective equipment.
- providing welfare facilities such as first-aid and washing facilities.
- involving and consulting with workers.

Rationale for risk management

- The purpose of risk management is **to identify potential problems before they occur, or, in the case of opportunities, to try to leverage them to cause them to occur**. Risk-handling activities may be invoked throughout the life of the project.
- The aim of the risk assessment process is **to evaluate hazards, then remove that hazard or minimize the level of its risk by adding control measures, as necessary**. By doing so, you have created a safer and healthier workplace.
- **This indicator collectively identifies both fiscal, Outcomes programmatic, and documented deficiencies which could result in an increase or decrease in the level of risk.**

- Risk management **enables project success**
- 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.

Risk management is a type of skill

that how a skill to improve our daily routine work

to do as a professional way. Team work always

give a great success on some irregular risk

at the time of critical situation.

UNIT-2

RISK ASSESSMENT

Introduction

A risk assessment is a process to identify potential hazards and analyze what could happen if a hazard occurs. A business impact analysis (BIA) is the process for determining the potential impacts resulting from the interruption of time sensitive or critical business processes.

Types of risk assessment

Qualitative Risk Assessment.
Quantitative Risk Assessment.
Generic Risk Assessment.
Site-Specific Risk Assessment.
Dynamic Risk Assessment.

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.

Brainstorming, interviews, document analysis, checklists (risk categories), root cause analysis, and assumptions analysis.

Risk Assessment methods

- ***A qualitative risk assessment should be a systematic examination of what in the workplace could cause harm to people, so that decisions can be made as to whether existing precautions or control measures are adequate or whether more needs to be done to prevent harm.***
- **Risk = Severity x Likelihood**
- *In carrying out quantitative risk assessments, special quantitative tools and techniques will be used for hazard identification, and to estimate the severity of the consequences and the likelihood of realisation.*
- *Genric- Every employer shall make a suitable and sufficient assessment of the risks to the health and safety of his employees to which they are exposed whilst they are at work; and the risks to the health and safety of persons not in his employment arising out of or in connection with the conduct by him of his undertaking.*

Risk Analysis

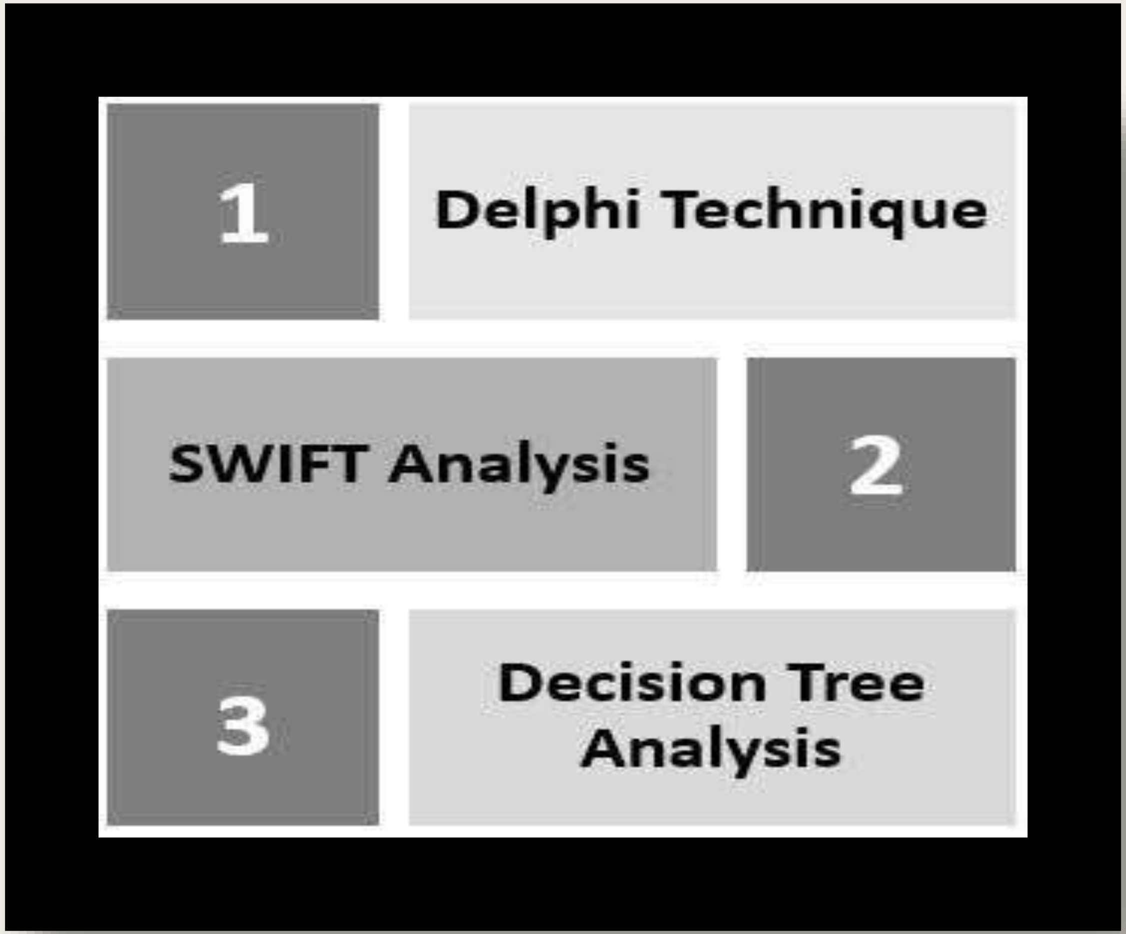
- Risk analysis is **the process of identifying and analyzing potential issues that could negatively impact key business initiatives or projects**. This process is done in order to help organizations avoid or mitigate those risks.

- Risk analysis seeks to identify, measure, and mitigate various risk exposures or hazards facing a business, investment, or project.
- Quantitative risk analysis uses mathematical models and simulations to assign numerical values to risk.
- Qualitative risk analysis relies on a person's subjective judgment to build a theoretical model of risk for a given scenario.
- Risk analysis is often both an art and a science.

Types of Risk Analysis

- Risk analysis can be quantitative or qualitative.
- Quantitative Risk Analysis
- Under quantitative risk analysis, a risk model is built using simulation or deterministic statistics to assign numerical values to risk. Inputs that are mostly assumptions and random variables are fed into a risk model.
- Qualitative Risk Analysis
- Qualitative risk analysis is an analytical method that does not identify and evaluate risks with numerical and quantitative ratings. Qualitative analysis involves a written definition of the uncertainties, an evaluation of the extent of the impact (if the risk ensues), and countermeasure plans in the case of a negative event occurring.

Techniques for risk analysis



RISK EXPOSURES

- Risk exposure is the measure of potential future loss resulting from a specific activity or event. 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.
- **Risk exposure = probability × impact.**


Risk Exposure
Types
Transaction Exposure
Operating Exposure
Economic Exposure
Translation Exposure
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Transaction Exposure: Definition

- The potential change in the value of financial positions due to changes in the exchange rate between the **inception** of a **contract** and the **settlement** of the **contract**.
- A special case of ***economic exposure.***
- But often explored and discussed as a type of exposure hedging.

Operating Exposure

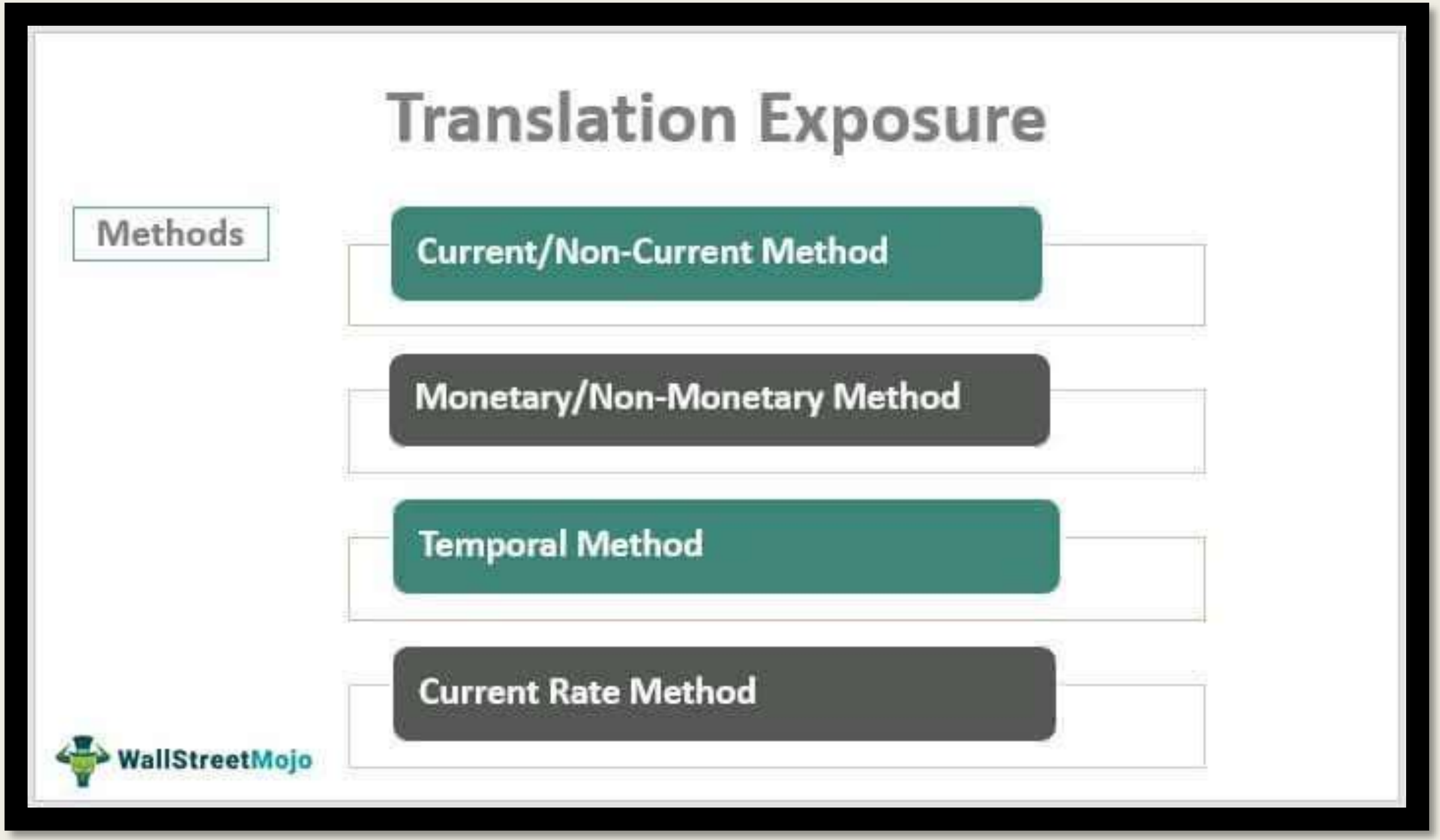
- Analyze change in PV of firm resulting from changes in **future** operating cash flows & competitive position caused by any **unexpected** change in exchange rates.
  - ***Operating cash flows*** arise from inter-company and intra-company receivables & payables, rent & lease payments, royalty & licensing fees.
  - ***Financing cash flows*** are payments for use of inter- and intra- company loans & stockholder equity.

Economic Exposure

- Changes in exchange rates can affect not only firms that are directly engaged in international trade but also purely domestic firms.
- Consider a Canadian bicycle manufacturer who sources and sells only in Canada.
- Since the firm's product competes against imported bicycles it is subject to foreign exchange exposure.

Translation Exposure

- *Potential for increase/ decrease in parent's net worth & reported income due to forex change.*
- Translation method differ:
  - based on operation
    - ***Integrated Foreign Entity:*** cash flow integrated w/ parent
    - ***Self-sustaining Foreign Entity*** –independent of parent
  - based on ***functional currency*** *(*currency of economic activity)
  - Which currency is ***functional***? *Not a discretionary management decision!*
    - *Cash flow*
    - *Sales prices*
    - *Sales market*
    - *Expenses*
    - *Financing*
    - *Intercompany tranactions*


Translation Exposure
Methods
Current/Non-Current Method
Monetary/Non-Monetary Method
Temporal Method
Current Rate Method
WallStreetMojo

Physical assets

- Physical assets are tangible assets and can be seen, touched and held, with a very identifiable physical existence. Physical assets include land, machinery, buildings, tools, equipment, vehicles, gold, silver, or any other form of material economic resource.
- Critical risks of physical assets are those risks with medium to high probability and medium to high impact on business objectives. To manage these critical risks, organizations should develop appropriate risk treatment plans taking the available resources into account.

Tangible Assets

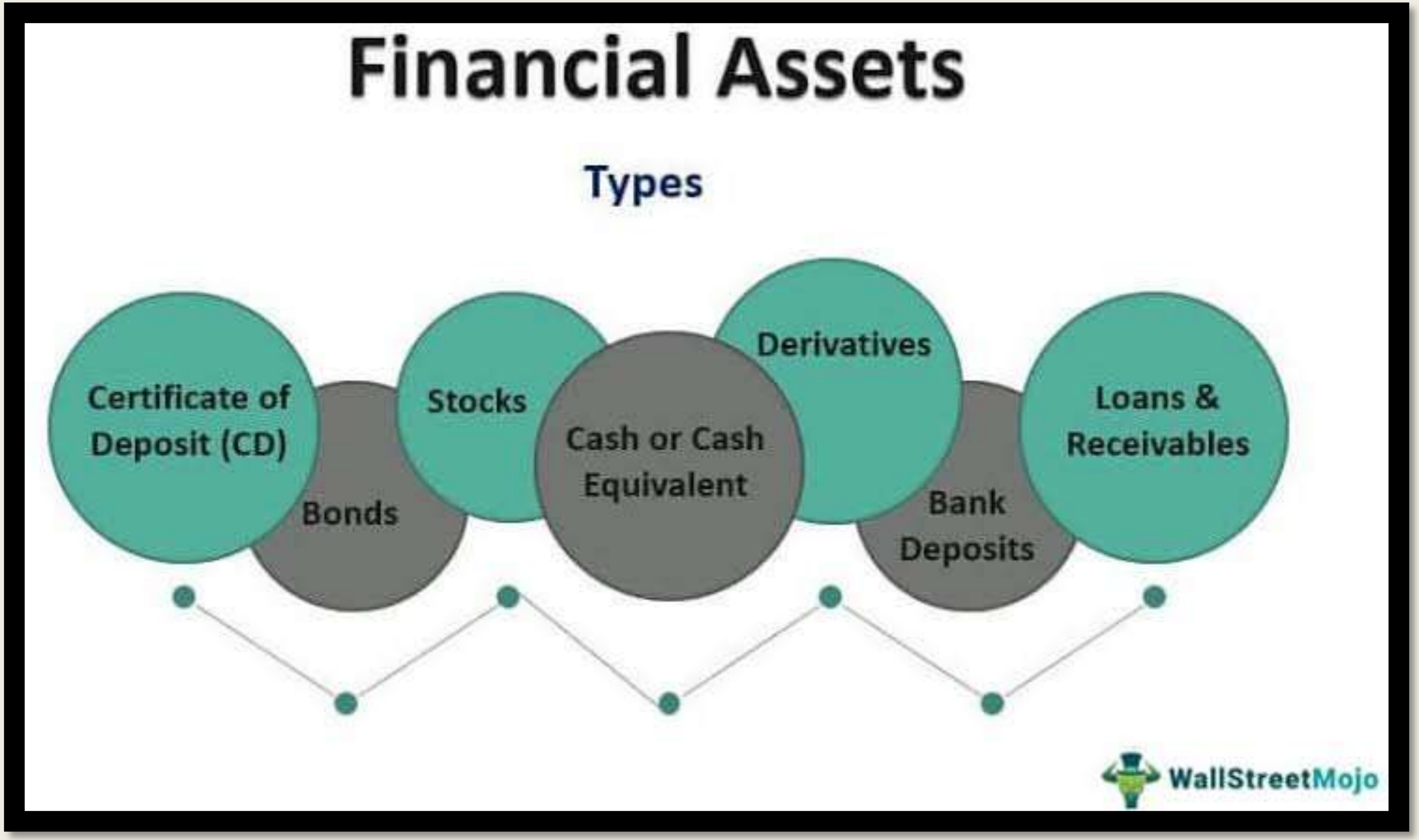
Plant
Land
Vehicles
Machinery
Building
Stock
Furniture

Financial assets

- A financial asset is a liquid asset that gets its value from a contractual right or ownership claim. Cash, stocks, bonds, mutual funds, and bank deposits are all are examples of financial assets.
- Bank deposits, stocks, bonds, loans.
- A financial asset is a liquid asset

that derives its value from any

contractual claim.


Financial Assets
Types
Certificate of Deposit (CD)
Bonds
Stocks
Cash or Cash Equivalent
Derivatives
Bank Deposits
Loans & Receivables
WallStreetMojo

Legal liability

- In law, 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.

What Four Factors Go Into Proving Liability?

- The Defendant Owed the Plaintiff a Duty of Care. As a plaintiff, you must know that the burden of proof lies on you.
- The Duty of Care Was Breached By a Negligent Act.
- The Breach Resulted In an Accident.
- The Accident Resulted In an Injury.

The important points

Liability refers to a person's legal obligation to compensate a victim of an accident or other incident. Home insurance can cover legal costs and damages when the insured is liable for accidental injury or damage

Legal liability

- Legal liability is the legal bound obligation to perform as required (e.g. pay debts or carry out duties).
  - In law, a person is legally liable when they are financially and legally responsible for something. Legal liability concerns both civil law and criminal law. Legal liability can arise from various areas of law, such as contracts, tort judgments or settlements, taxes, or fines given by government agencies.
  - A *tort* is an act that injures someone in some way, and for which the injured person may sue the wrongdoer for damages.
- Risk arising from the liability of non-performance (e.g. damage) resulting from the purchase, ownership, or use of a good or service offered by that company.

Risk control tools

- Risk control methods include **avoidance, loss prevention, loss reduction, separation, duplication, and diversification**.
- SWOT. **SWOT, or strengths, weaknesses, opportunities, threats**, is another tool to help with identifying risks.
- Transferring Risk. Transferring Risk can be achieved through the use of various forms of insurance, or the payment to third parties who are prepared to take the risk on behalf of the organization.
- Tolerating Risk.
- Treating Risk.
- Terminating Risk.

Risk control techniques

- 1. Risk reassessment
- 2. Risk audit
- 3. Variance and trend analysis
- 4. Technical performance measurement
- 5. Reserve analysis
- 6. Meetings

Risk Financing techniques

- **The practice of identifying and analyzing loss exposures and taking steps to minimize the financial impact of the risks they impose**.
- There are six main techniques that can be used. They are **avoidance, loss prevention, loss reduction, separation, duplication, and diversification**
- Those risk financing methods include: **(1) insurance; (2) self-insurance; (3) mutual insurance; (4) finite risk contracts; and (5) capital markets**. Below is a discussion of each. Most organizations recognize insurance as a risk financing method to manage risks.

RISK FINANCING TECHNIQUES

- Can be broadly divided into three categories:
  - **Risk Transfer**
    - Enables an organization to transfer its financial responsibility to pay for potential loss to the insurers.
  - **Risk Retention**
    - Use of organization internal funds or funds from its group of companies to finance the loss. Includes:
      - Paying losses as current expenses
      - Establishing a reserve
      - Payment of loss from organization captive insurance management
  - **Hybrid Technique**
    - Involves the combination of internal and external sources of funds to pay for the loss.

Risk Financing Techniques

- **Risk Retention**
  - Current expensing of losses
  - Unfunded loss reserve
  - Funded loss reserve
  - Borrowed funds
  - Self-insurance
- **Self-insurance** trust
- **Affiliated, captive** insurer

Risk Management Decisions

- 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**.

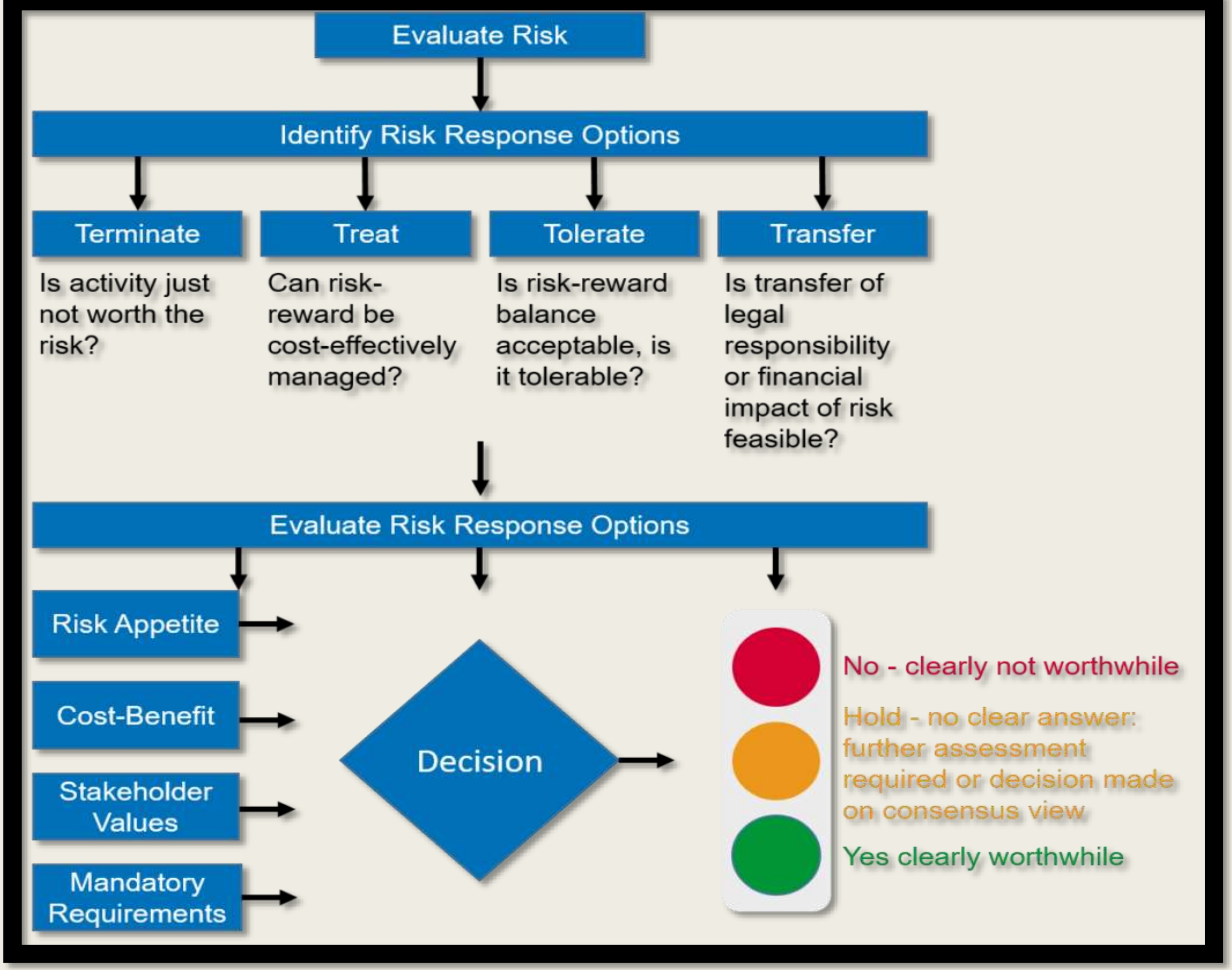
Common problems

It might be helpful to start out by providing a short list of the problems we've commonly seen that are related to suboptimal risk management decision making. As you read this list, ask yourself whether any of them might apply to your organization:

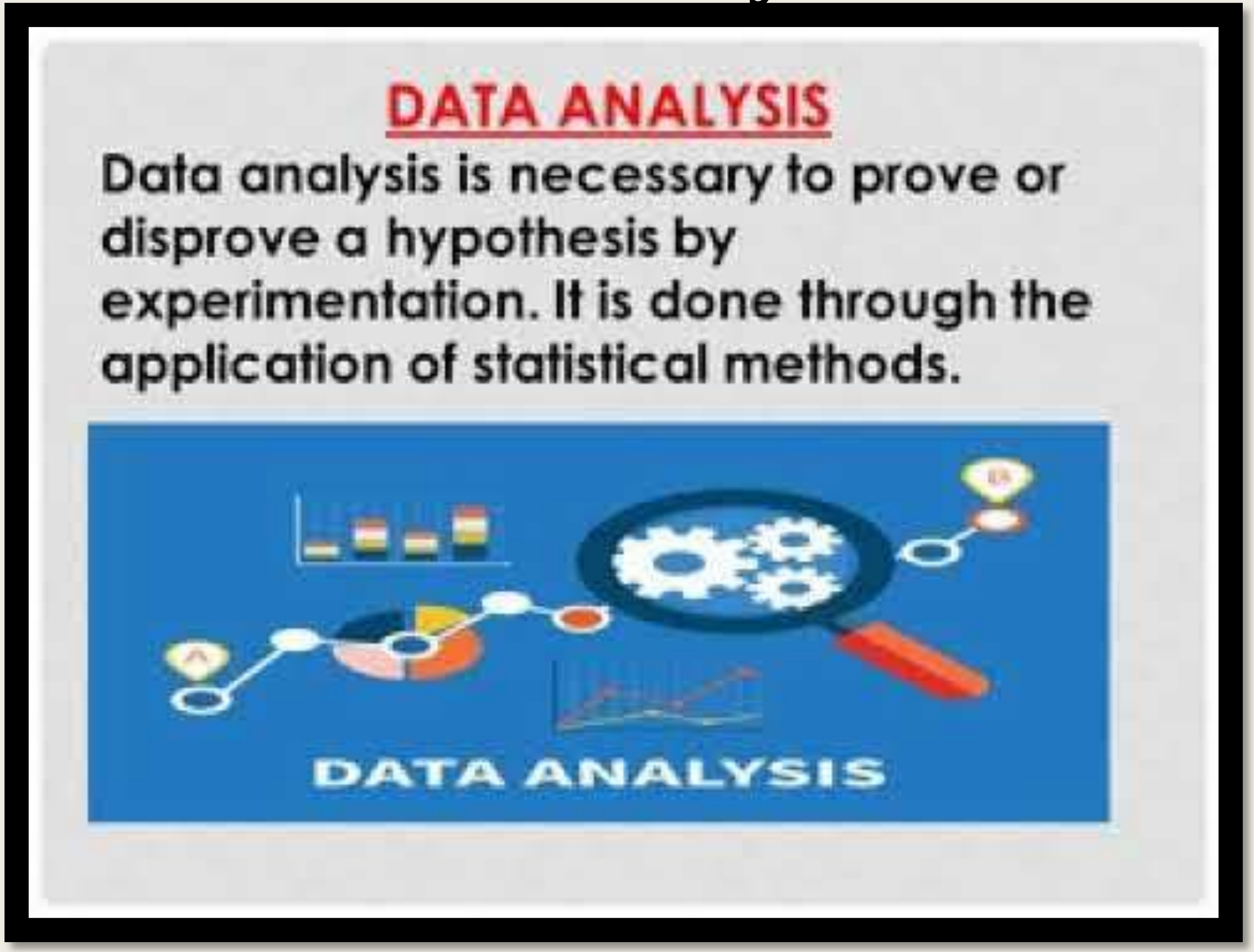
- •Routine noncompliance with policies
- •Inconsistent policy enforcement
- •Lack of clarity regarding accountability
- •Lack of clarity regarding authority
- •Frequent changes in risk management focus and direction
- •Loss events involving assets that no one seemed to know existed
- •Audit findings that come as a complete surprise

Risk management decision options

- The basic methods for risk management—
- **avoidance,**
- **retention,**
- **sharing,**
- **transferring,**
- **loss prevention**
- **reduction**


Evaluate Risk
Identify Risk Response Options
Terminate
Treat
Tolerate
Transfer
Is activity just not worth the risk?
Can risk-reward be cost-effectively managed?
Is risk-reward balance acceptable, is it tolerable?
Is transfer of legal responsibility or financial impact of risk feasible?
Evaluate Risk Response Options
Risk Appetite
Cost-Benefit
Stakeholder Values
Mandatory Requirements
Decision
No - clearly not worthwhile
Hold - no clear answer: further assessment required or decision made on consensus view
Yes clearly worthwhile

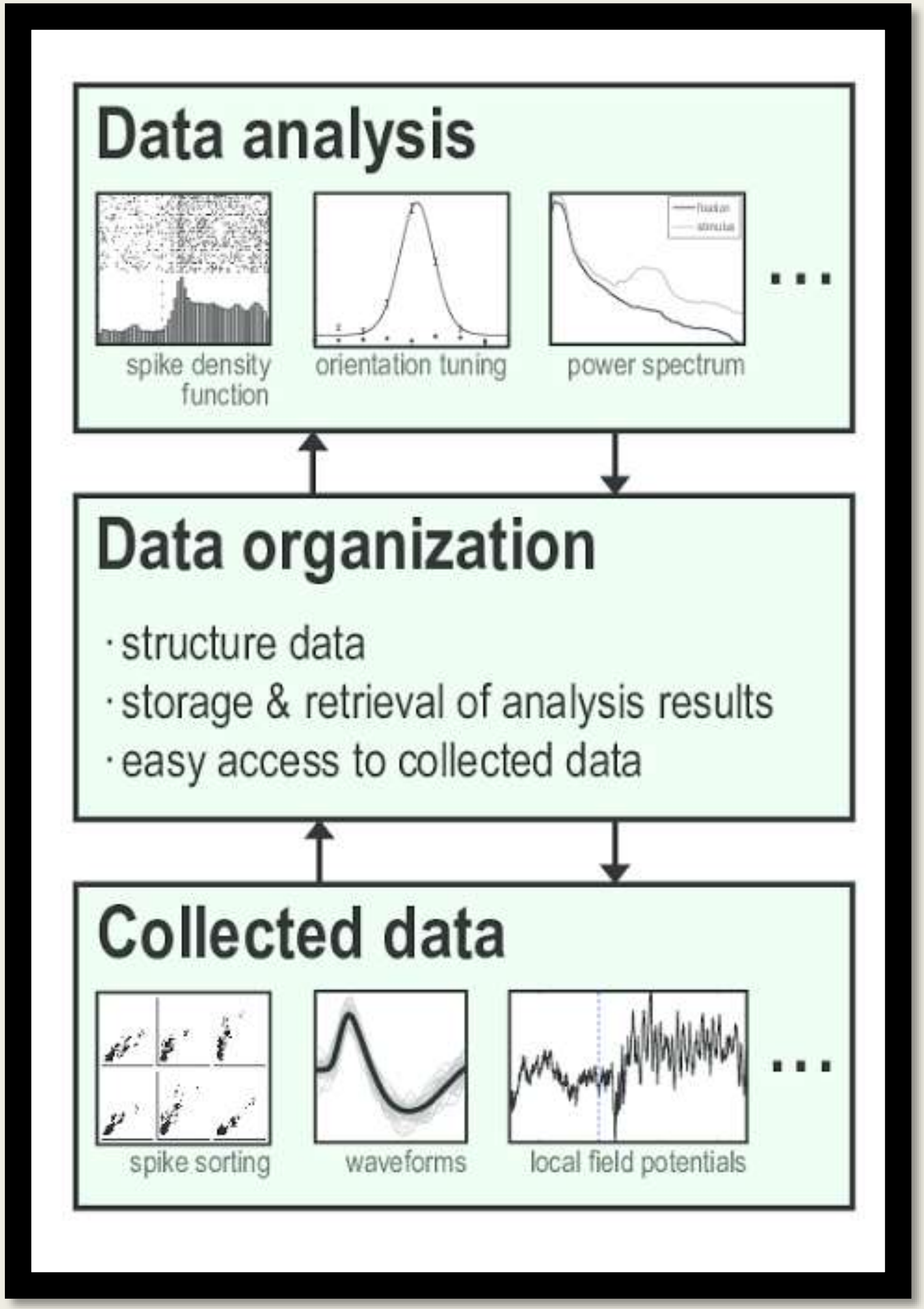
Data organization and Data analysis



Data organization

T**he practice of categorizing and classifying data to make it more usable**. Similar to a file folder, where we keep important documents, you'll need to arrange your data in the most logical and orderly fashion, so you — and anyone else who accesses it — can easily find what they're looking for.

There are three basic steps in data analysis:
Step 1 – Organizing and preparing the data for analysis.
Step 2 – Analyzing the data.
Step 3 – Interpreting results.



- Classification of data brings order to raw data. We can classify a bulk of data based on their need or purpose. The different types of data, based on which they are organised are given below:
- Chronological data
- Spatial data
- Qualitative data
- Quantitative data

Organization of data means **classification, tabulation, graphical presentation and diagrammatic presentation** of data. The methods that we use to organize data include classification, tabulation, graphical presentation and diagrammatic presentation.

The four types of data analysis are:

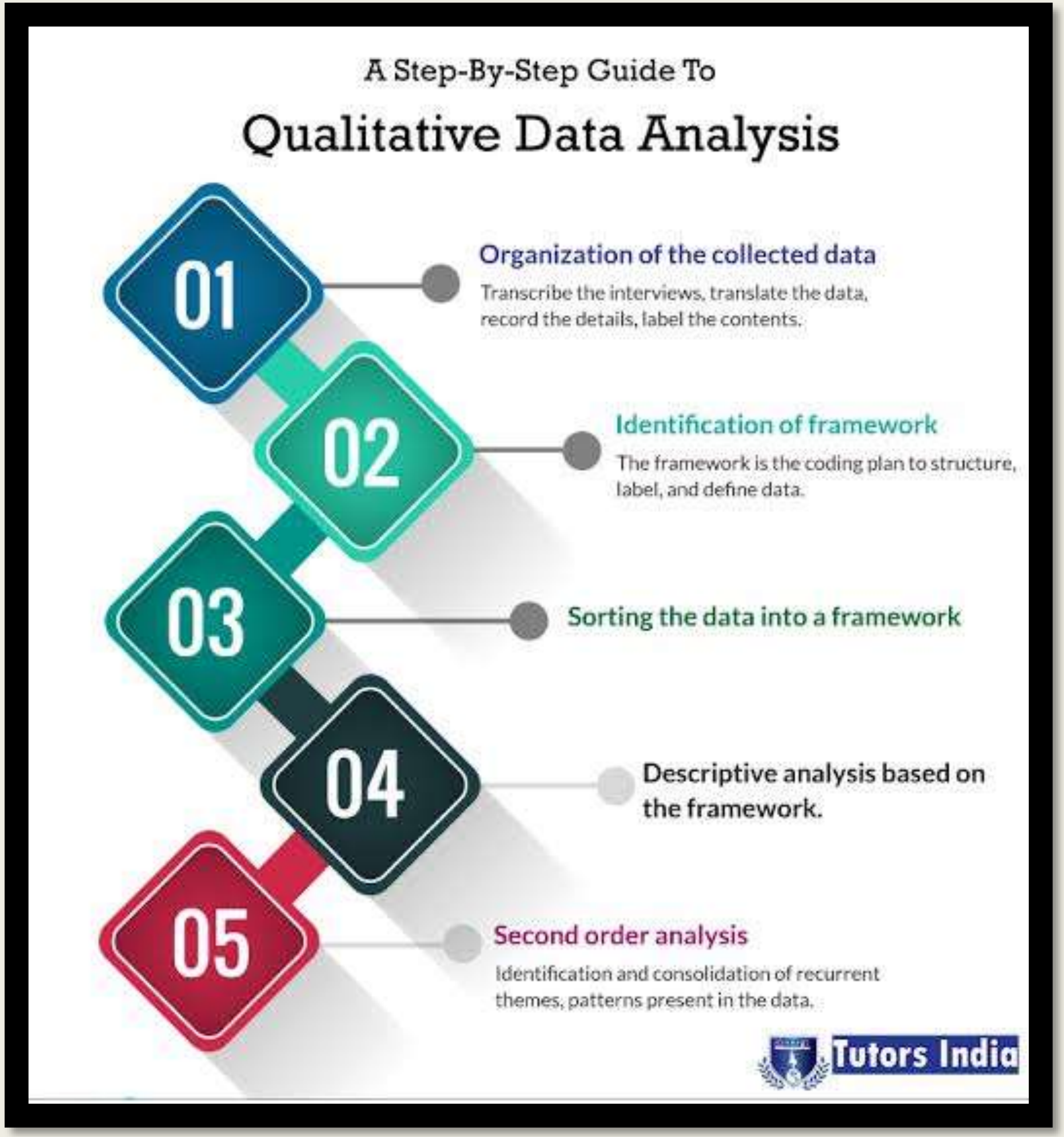
- Descriptive Analysis.
- Diagnostic Analysis.
- Predictive Analysis.
- Prescriptive Analysis

WHAT IS DATA ORGANIZATION?

- A process organizing collected factual material commonly accepted in the scientific community as necessary to validate research findings.
- "Research data is data that is collected, observed, or created, for purposes of analysis to produce original research results"(Boston University Libraries, n.d.a).

SEVEN WAYS OF ORGANIZING AND PRESENTING DATA ANALYSIS

1. By groups of people
2. By individuals
3. By issue or theme
4. By research question
5. By instrument
6. By case studies
7. By narrative account


A Step-By-Step Guide To
Qualitative Data Analysis
01
Organization of the collected data
Transcribe the interviews, translate the data, record the details, label the contents.
02
Identification of framework
The framework is the coding plan to structure, label, and define data.
03
Sorting the data into a framework
04
Descriptive analysis based on the framework.
05
Second order analysis
Identification and consolidation of recurrent themes, patterns present in the data.
Tutors India

Four Techniques in Risk Management Planning

Risk Avoidance	• Avoid having to deal with the risk at all. • For example, the client may abstain from drinking alcohol to prevent degenerative diseases from setting in at a later stage of his life.
Risk Control	• Reduce the severity of a possible loss or to curb possibility of the loss occurring • For example, wearing proper protective attire and sticking to guidelines when working in a hospital with COVID-19 patients.
Risk Retention	• Bearing the risk personally or internally • For example, David has RM500 in petty cash in a locked drawer in his house.
Risk Transfer	• Shifting a risk that is neither avoided nor retained through either insurance or non-insurance based contracts. • For example, Marvin van transfer the risk by purchasing insurance so that if accidence occur, the insurance company will absorbs the loss.

Risk Avoidance

Risk avoidance is **the elimination of hazards, activities and exposures that can negatively affect an organization and its assets**. Whereas risk management aims to control the damages and financial consequences of threatening events, risk avoidance seeks to avoid compromising events entirely.

Risk avoidance

- Defined:
  - A risk control strategy that attempts to prevent attacks to organizational assets, through there vulnerabilities.
- This is the most preferred risk control strategy as it seeks to avoid risk/treats entirely.
- Avoidance is accomplish through countering treats, removing vulnerabilities in assets, limiting access to assets, and adding protective safeguards.

Loss Control

- Two basic approaches to loss control measures:
  - **Domino Theory** (H.W. Heinrich) – all losses are the result of unsafe acts of persons – accidents are the fault of people.
    - Unsafe acts begin the chain of events which ultimately lead to accidents.
  - **Energy Release Theory** (Dr. William Haddon, Jr.) – accidents result form mechanical failure.
- These two approaches have been combined by many loss prevention experts.

Loss Reduction

- Loss reduction activities are used to lessen the severity of those losses which do occur.
- Examples: Automatic sprinklers, burglar alarms, etc.
  - Does not alter the chance of a loss, but when one does occur it is expected to be less severe.
- The total amount of loss can be reduced if damage is repaired promptly and the additional costs measured against down time are usually worth the expense.

Types of Loss Control

- Severity reduction
  - For example, an auto manufacturer having airbags installed in the company fleet of automobiles
    - The air bags will not prevent accidents from occurring, but they will reduce the probable injuries that employees will suffer if an accident does happen
- Separation
  - Involves the reduction of the maximum probable loss associated with some kinds of risks
- Duplication
  - Spare parts or supplies are maintained to replace immediately damaged equipment and/or inventories

Retention

- Retention means that an individual or business firm retains part of all the financial consequences of a given risk.
- Risk retention can be active or passive. Active retention means that an individuals consciously aware of the risk and deliberately plans to retain all or part of it.
- A motorist plan to take an insurance policy against the damage

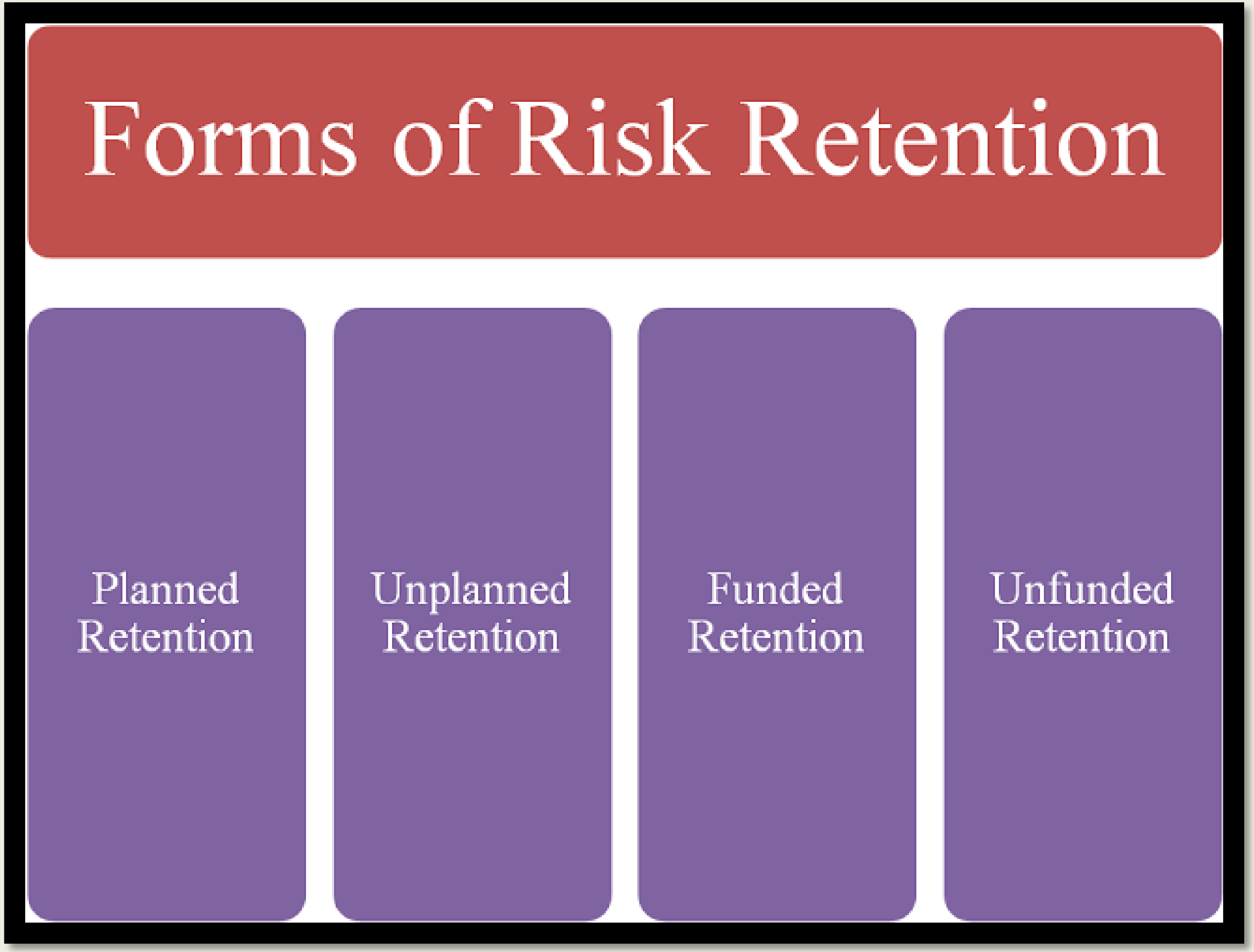
Retention

- **Retention means that the firm retains part or all of the losses that can result from a given loss**. Retention can be either active or passive.

- **Active risk retention** means that the firm is **aware of the loss exposure** and **plans to retain part or all of it**.

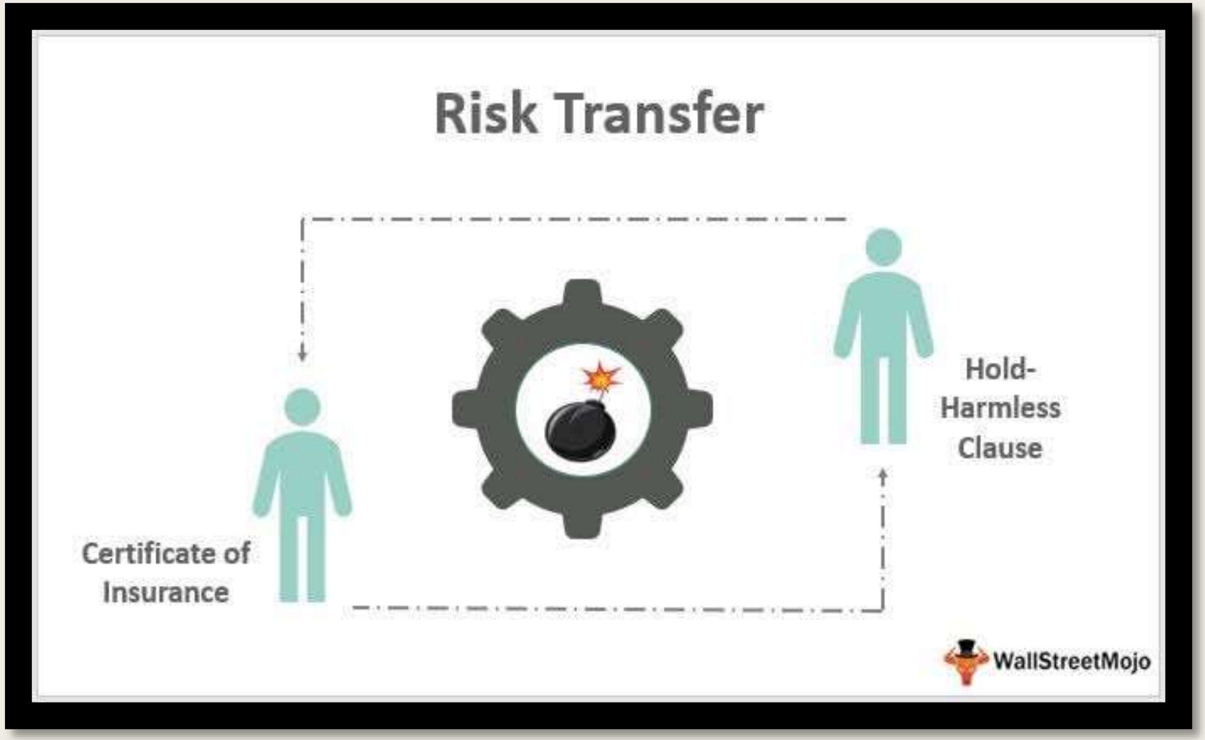
- **Passive retention**, however, is **the failure to identify a loss exposure, failure to act, or forgetting to act.**

- **Retention can be effectively used in a risk management program under the following conditions.**


Forms of Risk Retention
Planned Retention
Unplanned Retention
Funded Retention
Unfunded Retention

Risk Transfer

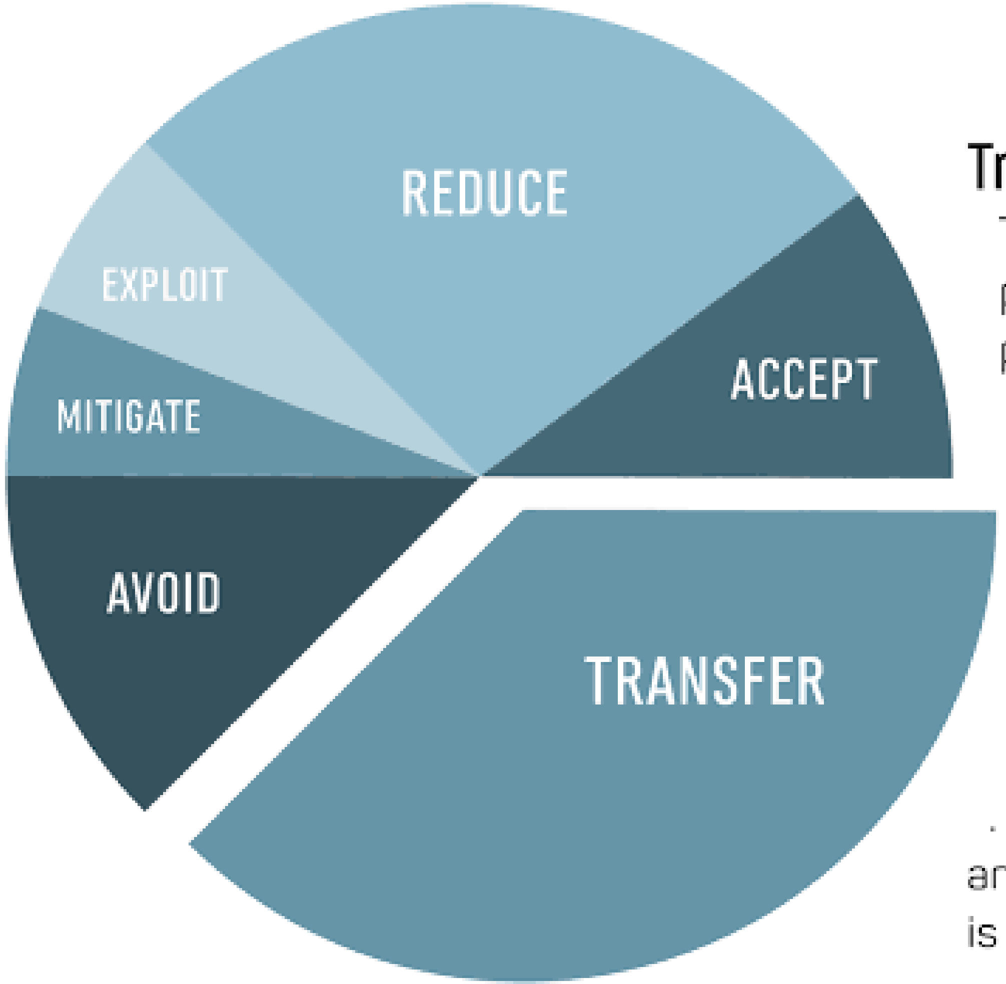
Risk transfer is **a risk management and control strategy that involves the contractual shifting of a pure risk from one party to another**. One example is the purchase of an insurance policy, by which a specified risk of loss is passed from the policyholder to the insurer.



Risk transfer

Means causing another party to accept the risk, typically by contract or by hedging.

- Insurance is one type of risk transfer that uses contracts.
- Other times it may involve contract language that transfers a risk to another party without the payment of an insurance premium.
- Liability among construction or other contractors is very often transferred this way.
- On the other hand, taking offsetting positions in derivatives is typically how firms use hedging to financially manage risk.
- LIABILITY **WAIVER + INDEMNITY**
  - **Release Forms**



Transferring risk:

The prime example is using an insurance policy, where a large amount of risk of loss is passed from the policyholder to the insurer.

Outsourcing

Types of outsourcing include hiring professional services, and other forms of contracting.either a project or service to typically transfer a variety of risks to a partner organization that is . better prepared to handle the risk. Kidnap and Ransom is one good example. Another is Emergency Medical Evacuation.

Risk Transfer Methods

- Retention
- Captives
- Purchasing Employee benefits plans
- Purchasing Insurance Cover

Previous Next


V
A
R
VALUE
AT
RISK

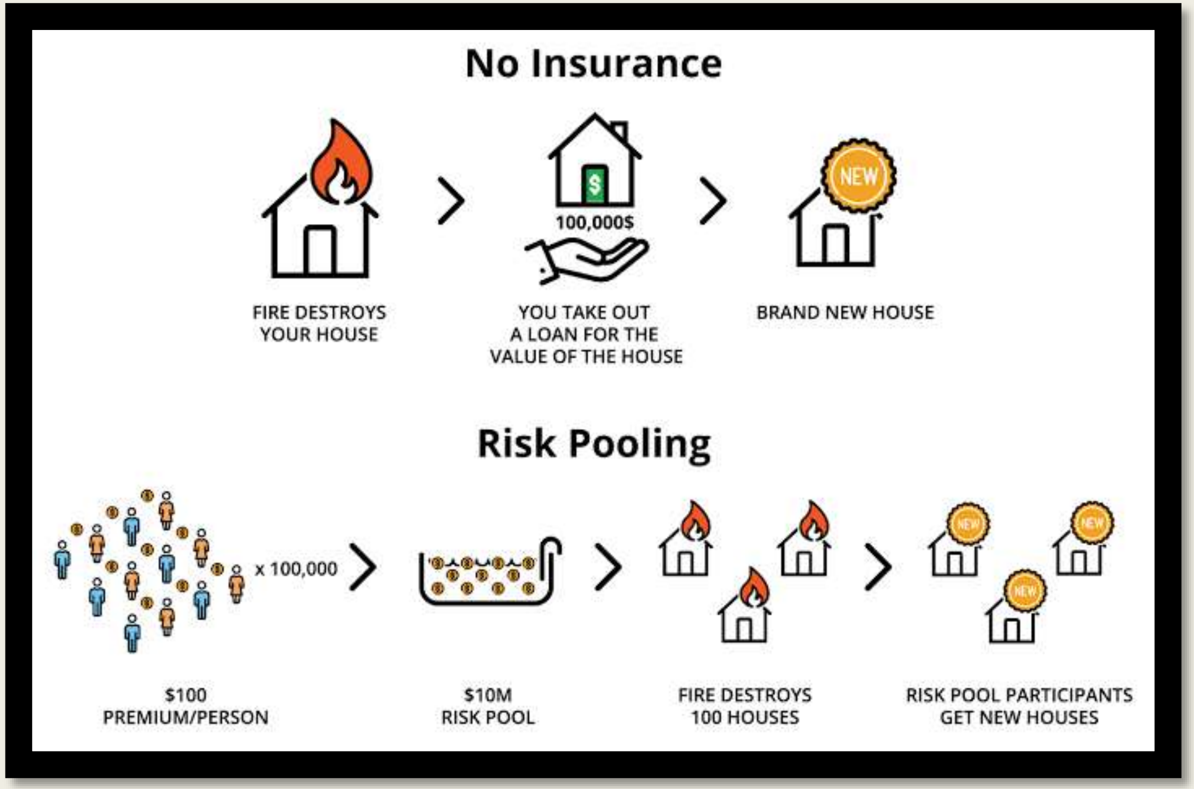
- Risk management enables better decisions, from setting corporate strategy, to driving major projects, to operational decision-making. With reliable, timely, and current information on risk (both the negative and positive potential) people can make better quality decisions

8 Benefits of Risk Management (Beyond Project Control)

- It's easier to spot projects in trouble.
- There are fewer surprises.
- There's better quality data for decision making.
- Communication is elevated
- Budgets rely less on guesswork
- The expectation of success is set.
- The team remains focused. .
- Escalations are clearer and easier.

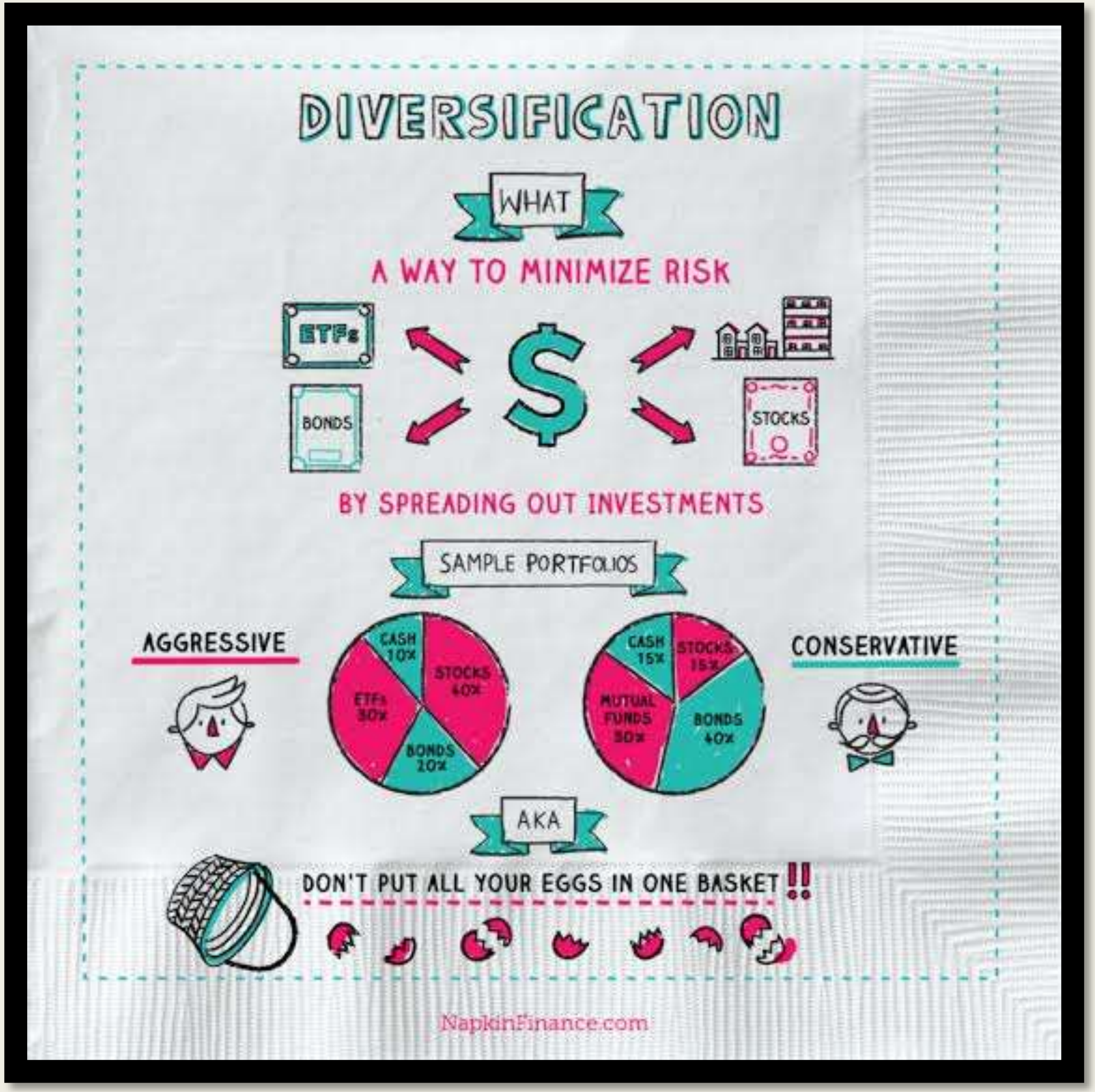
Risk pooling

- Risk pooling is **the practice of sharing all risks among a group of insurance companies**. With risk pooling arrangements, instead of participants transferring risk to someone else, each company reduces their own risk.



Diversification of risk

- Diversification of risk is simply **another way of looking at a diversified portfolio**. The latter is an investment management strategy where we divide our investment between separate assets. Different assets carry different degrees of risk, reacting differently to any given event.


DIVERSIFICATION
WHAT
A WAY TO MINIMIZE RISK
ETFs
BONDS
$
STOCKS
BY SPREADING OUT INVESTMENTS
SAMPLE PORTFOLIOS
AGGRESSIVE
CASH 10%
STOCKS 40%
ETFs 30%
BONDS 20%
CASH 15%
STOCKS 15%
MUTUAL FUNDS 30%
BONDS 40%
CONSERVATIVE
AKA
DON'T PUT ALL YOUR EGGS IN ONE BASKET !!
NapkinFinance.com

UNIT -3
INTRODUCTION TO INSURANCE

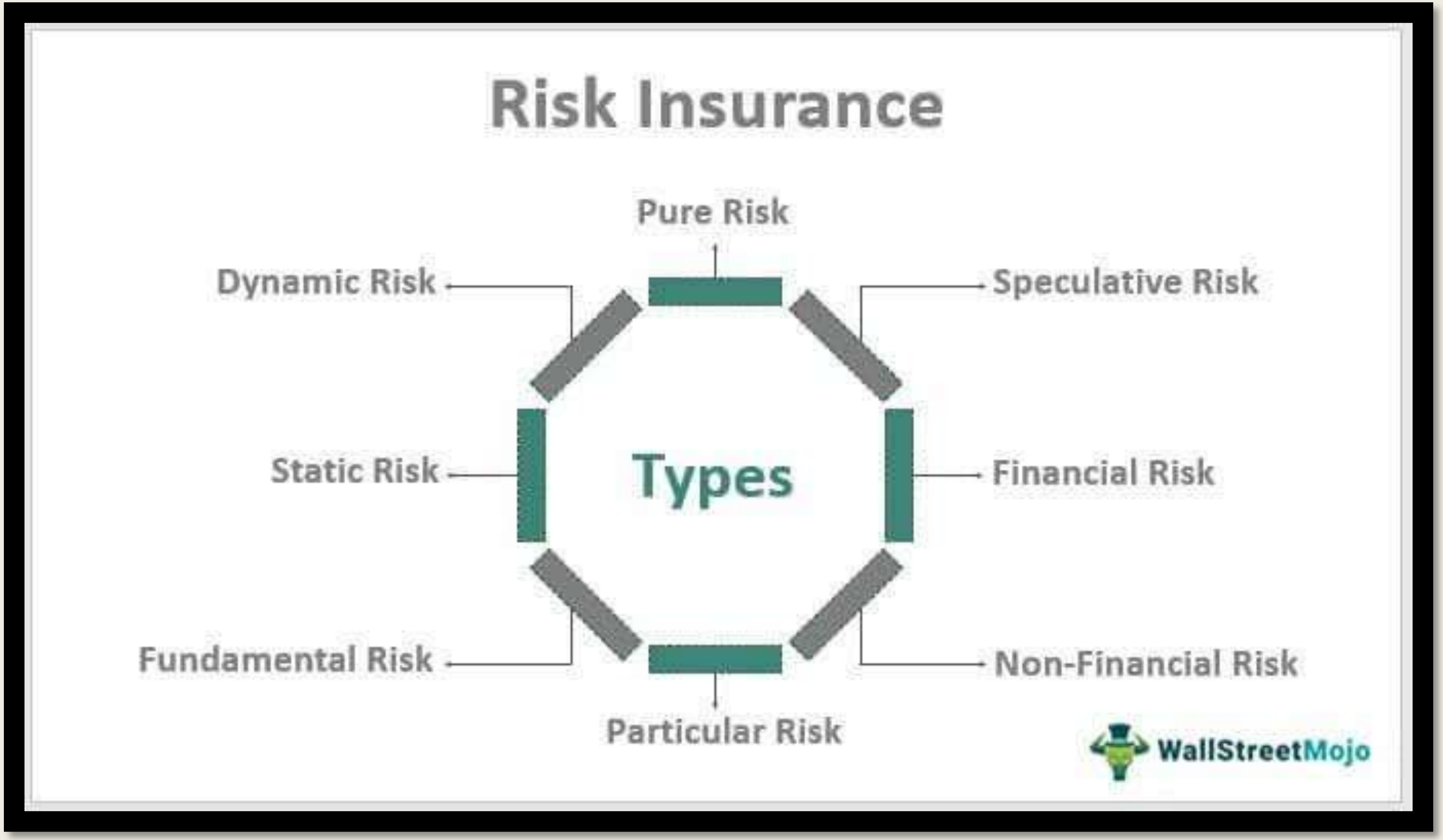
Definition of Risk and Insurance

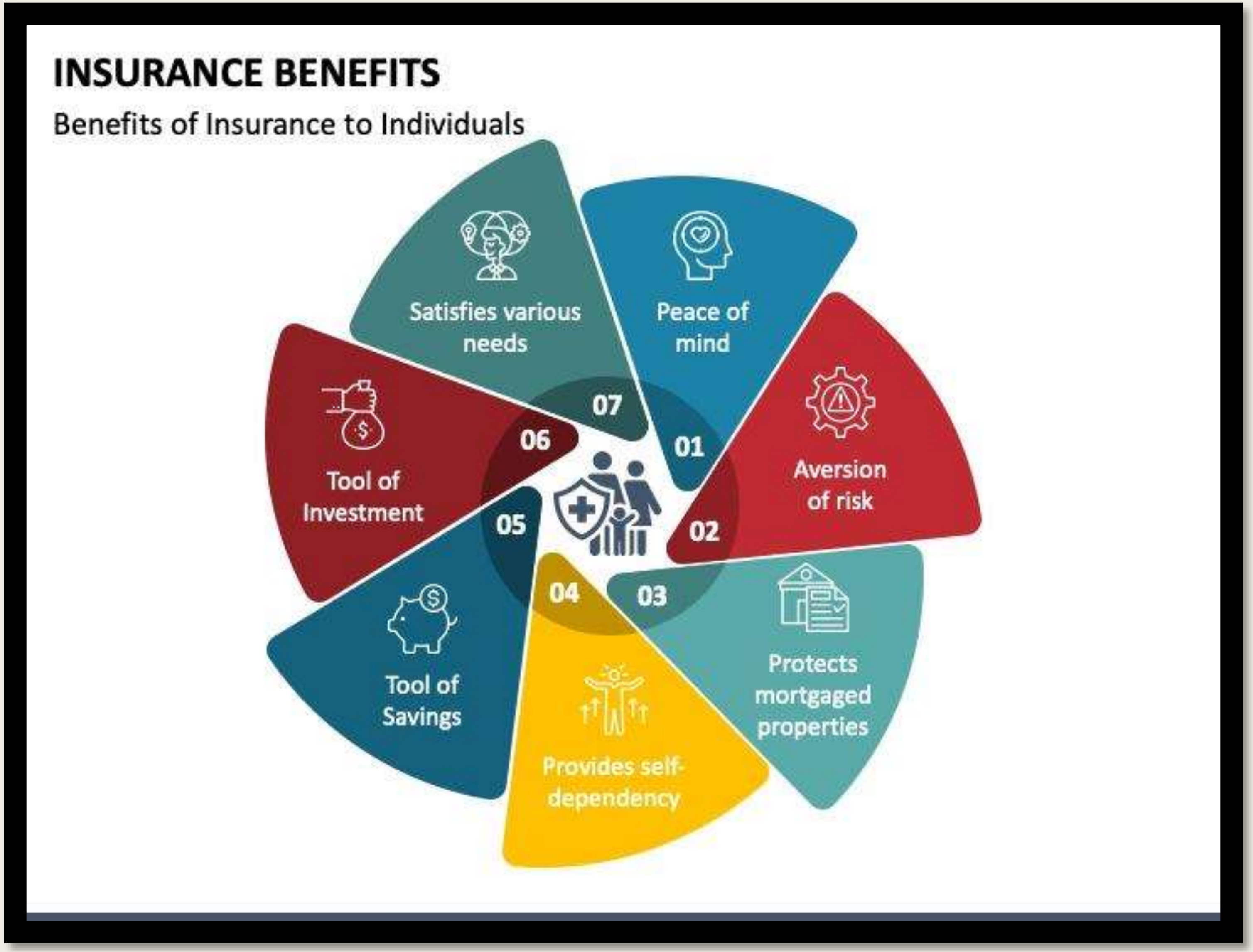
Risk

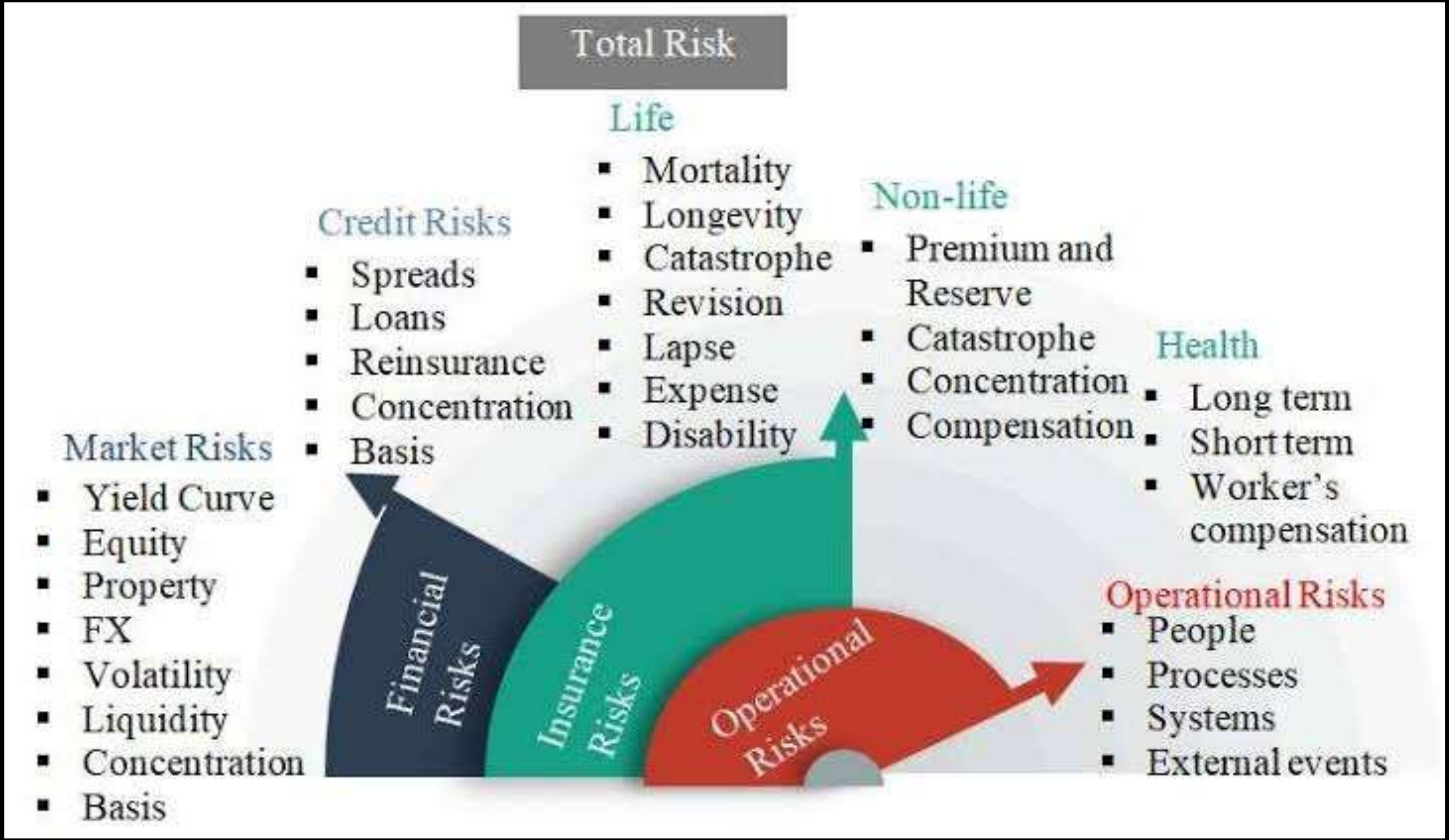
- Risk is the variation in possible outcomes of an event.
- Degree of risk is a measure of the accuracy with which the outcomes of an event based on chance can be predicted

Insurance

- Insurance is a financial arrangement that redistributes the costs of unexpected losses.
- Insurance involves the transfer of potential losses to an insurance pool.


Risk Insurance
Pure Risk
Dynamic Risk
Speculative Risk
Types
Static Risk
Financial Risk
Fundamental Risk
Non-Financial Risk
Particular Risk
WallStreetMojo


INSURANCE BENEFITS
Benefits of Insurance to Individuals
01
Peace of mind
02
Aversion of risk
03
Protects mortgaged properties
04
Provides self-dependency
05
Tool of Savings
06
Tool of Investment
07
Satisfies various needs


Total Risk
Life
Mortality
Longevity
Catastrophe
Revision
Lapse
Expense
Disability
Credit Risks
Spreads
Loans
Reinsurance
Concentration
Basis
Non-life
Premium and Reserve
Catastrophe
Concentration
Compensation
Health
Long term
Short term
Worker's compensation
Market Risks
Yield Curve
Equity
Property
FX
Volatility
Liquidity
Concentration
Basis
Operational Risks
People
Processes
Systems
External events
Financial Risks
Insurance Risks
Operational Risks

Insurance

- Insurance is **a way to manage your risk**. When you buy insurance, you purchase protection against unexpected financial losses. The insurance company pays you or someone you choose if something bad happens to you. If you have no insurance and an accident happens, you may be responsible for all related costs.

Characteristics of Insurance

- Personal Contract
- Pooling of Risk
- Unilateral
- Cost of Risk
- Assures of Compensation
- Executory
- No misrepresentation or concealment

commercemates.com

Basic Characteristics of Insurance

- An insurance plan or arrangement typically includes the following characteristics:
- 1. Pooling of losses
- 2. Payment of fortuitous losses
- 3. Risk transfer
- 4. Indemnification

Gambling

Gambling, the betting or staking of something of value, with consciousness of risk and hope of gain, on the outcome of a game, a contest, or an uncertain event whose result may be determined by chance or accident or have an unexpected result by reason of the bettor's miscalculation.

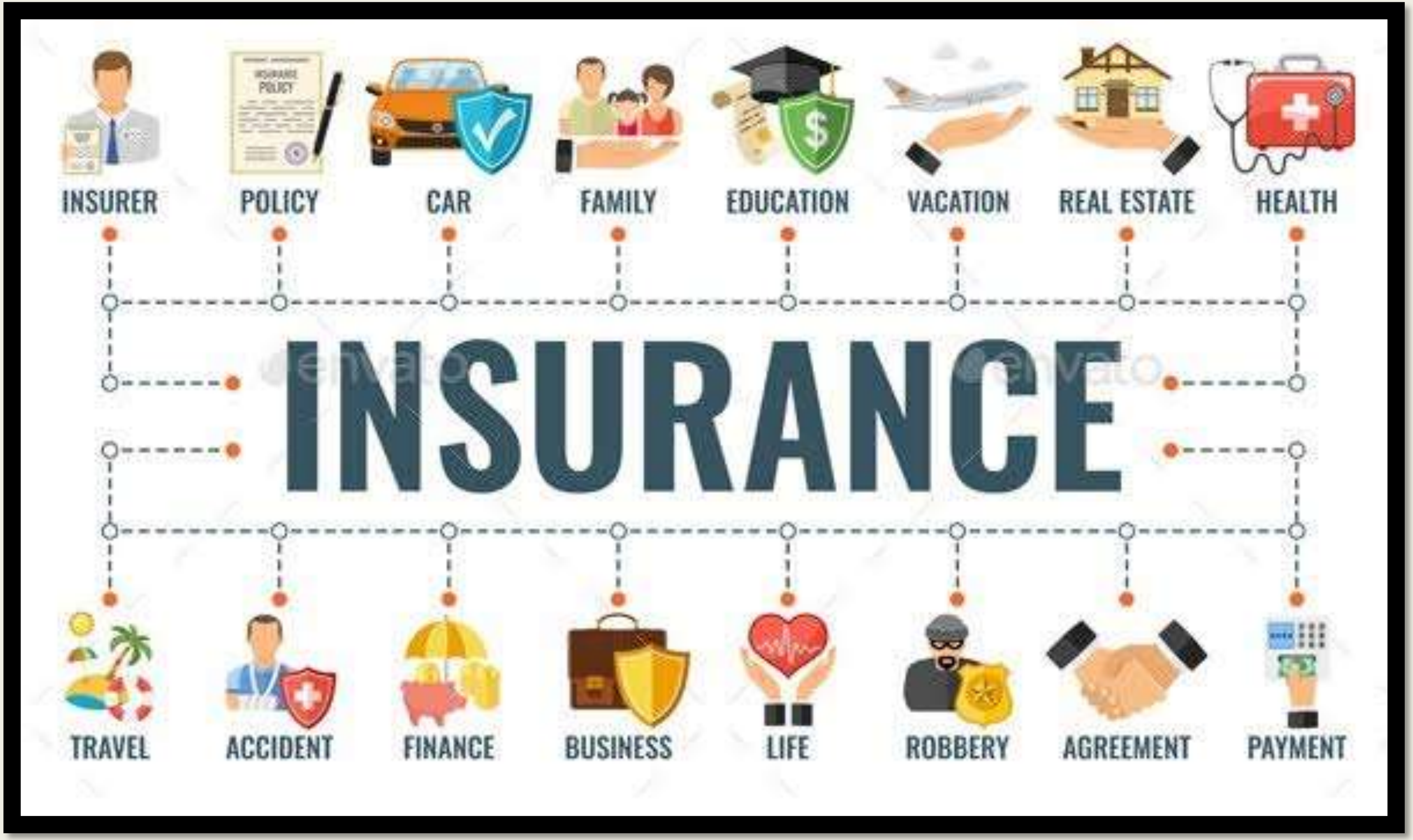
Insurance vs. Gambling

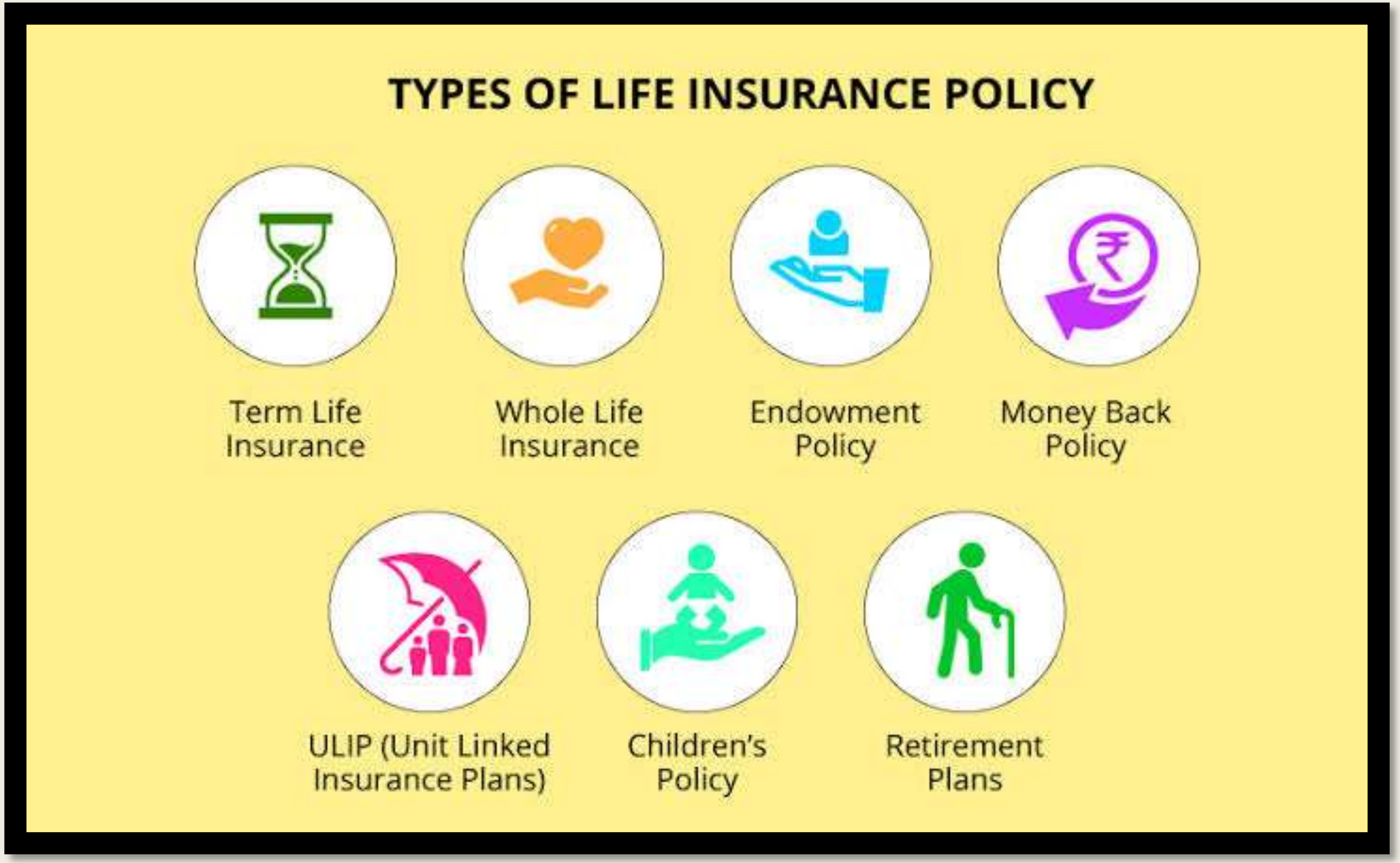
Insurance

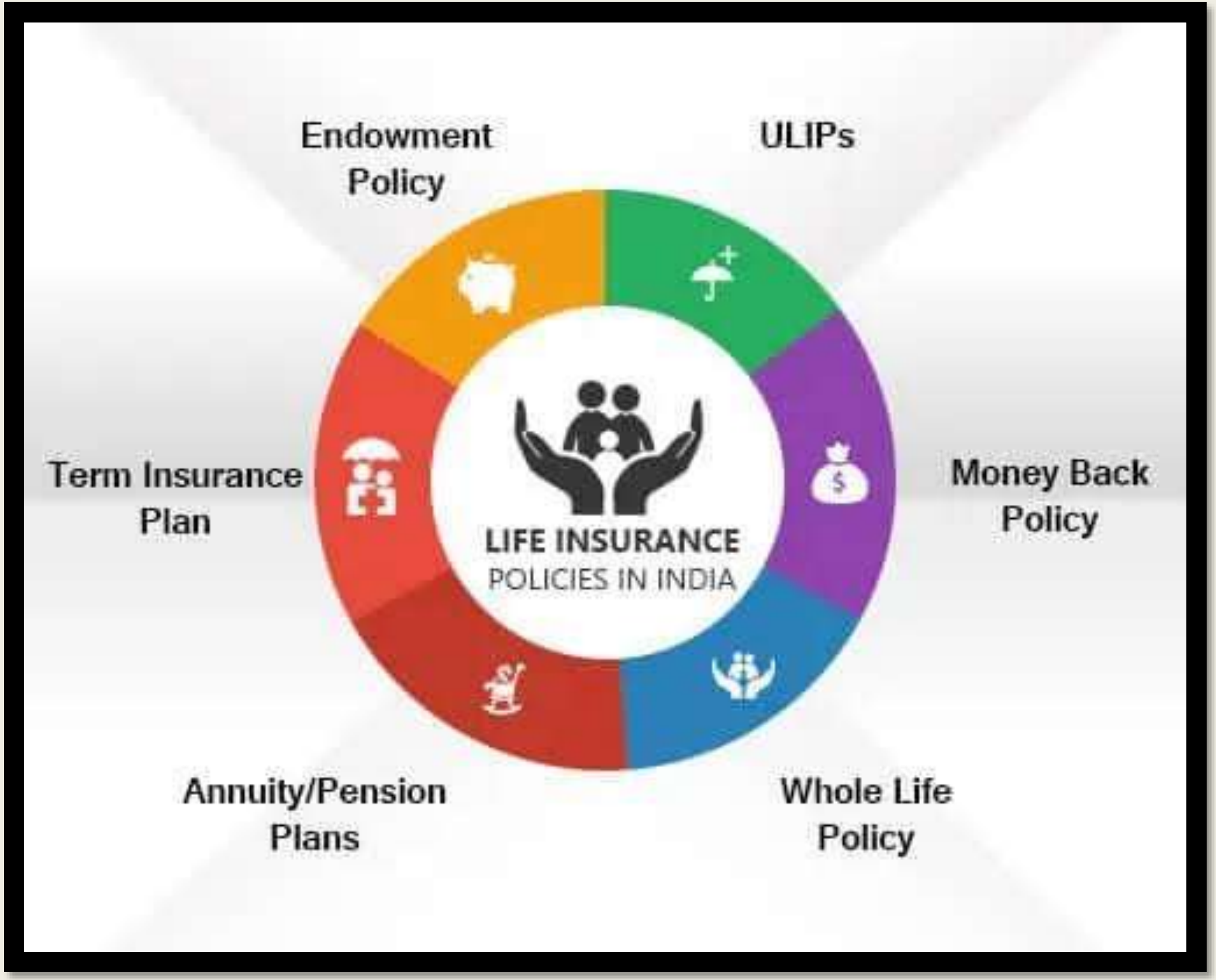
- Insurance is a technique for handing an already existing pure risk
- Insurance is socially productive:
  - both parties have a common interest in the prevention of a loss

Gambling

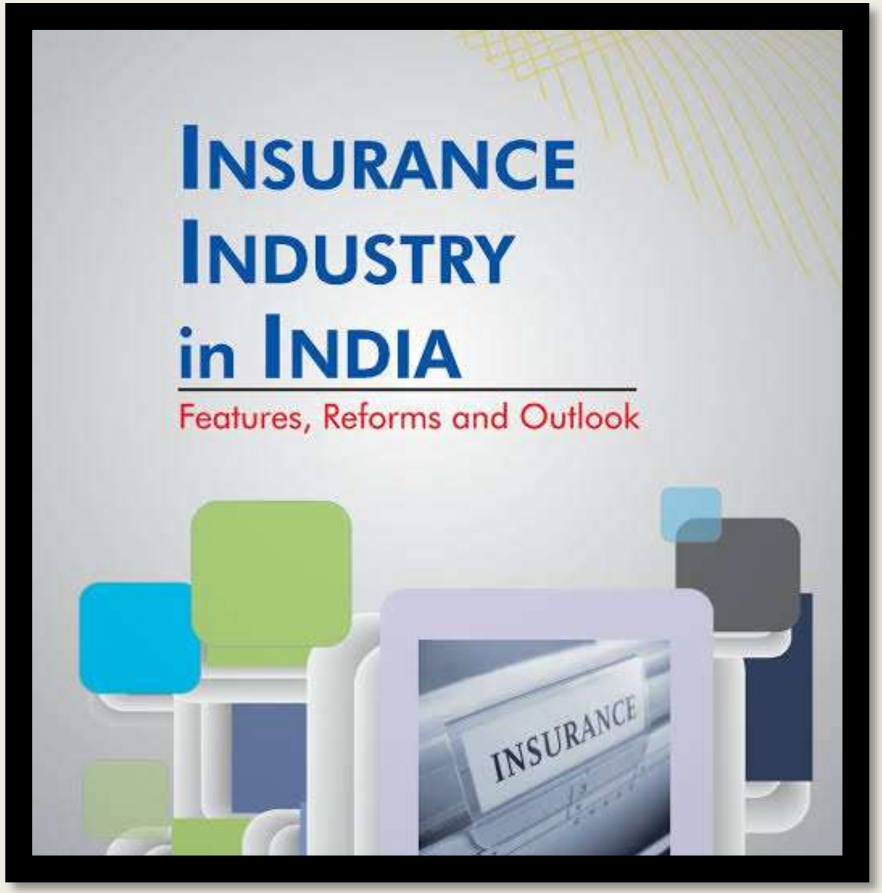
- Gambling creates a new speculative risk
- Gambling is not socially productive
  - The winner's gain comes at the expense of the loser

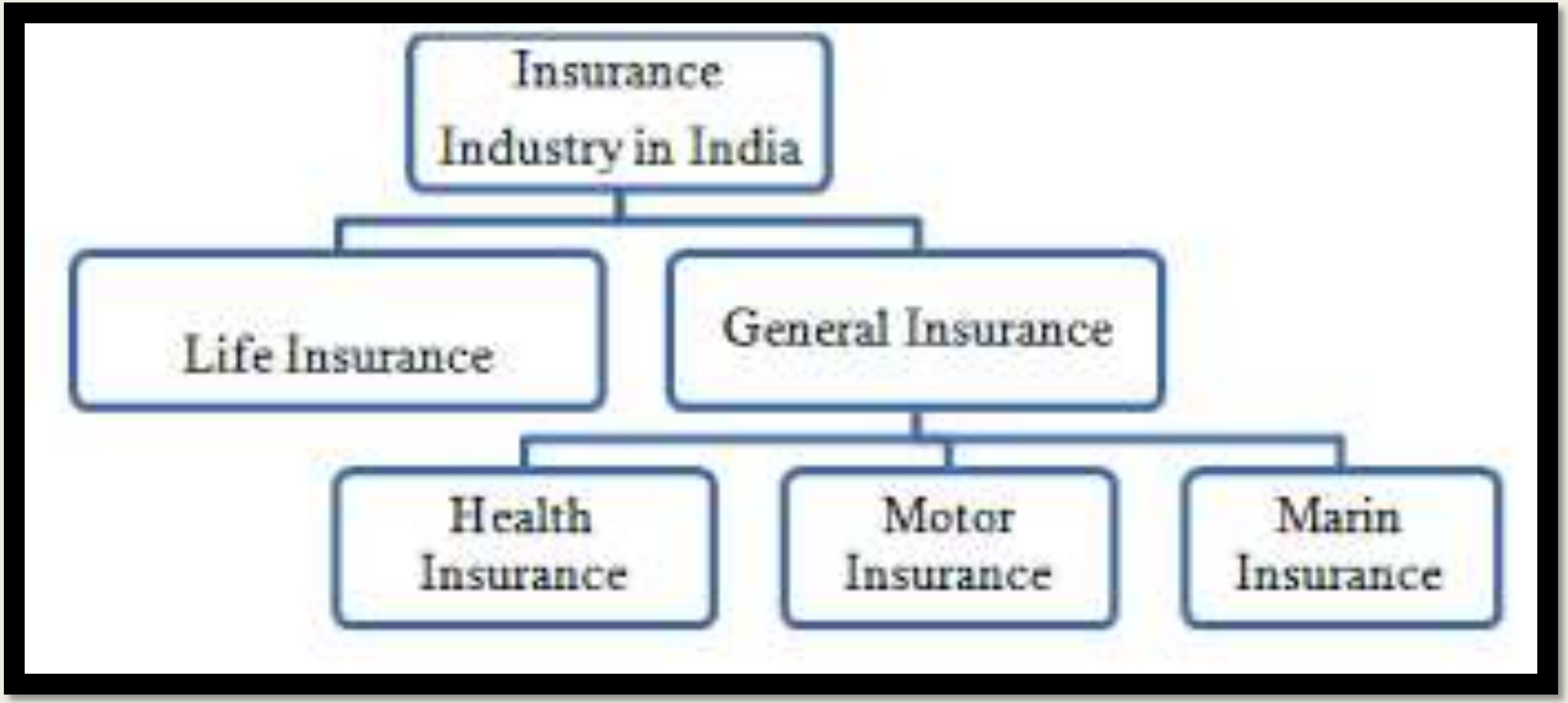

INSURER
POLICY
CAR
FAMILY
EDUCATION
VACATION
REAL ESTATE
HEALTH
INSURANCE
TRAVEL
ACCIDENT
FINANCE
BUSINESS
LIFE
ROBBERY
AGREEMENT
PAYMENT


TYPES OF LIFE INSURANCE POLICY
Term Life Insurance
Whole Life Insurance
Endowment Policy
Money Back Policy
ULIP (Unit Linked Insurance Plans)
Children's Policy
Retirement Plans


Endowment Policy
ULIPs
Term Insurance Plan
LIFE INSURANCE
POLICIES IN INDIA
Money Back Policy
Annuity/Pension Plans
Whole Life Policy


INSURANCE


INSURANCE
INDUSTRY
in INDIA
Features, Reforms and Outlook
INSURANCE


Insurance Industry in India
Life Insurance
General Insurance
Health Insurance
Motor Insurance
Marin Insurance

Indian Insurance In 21st Century

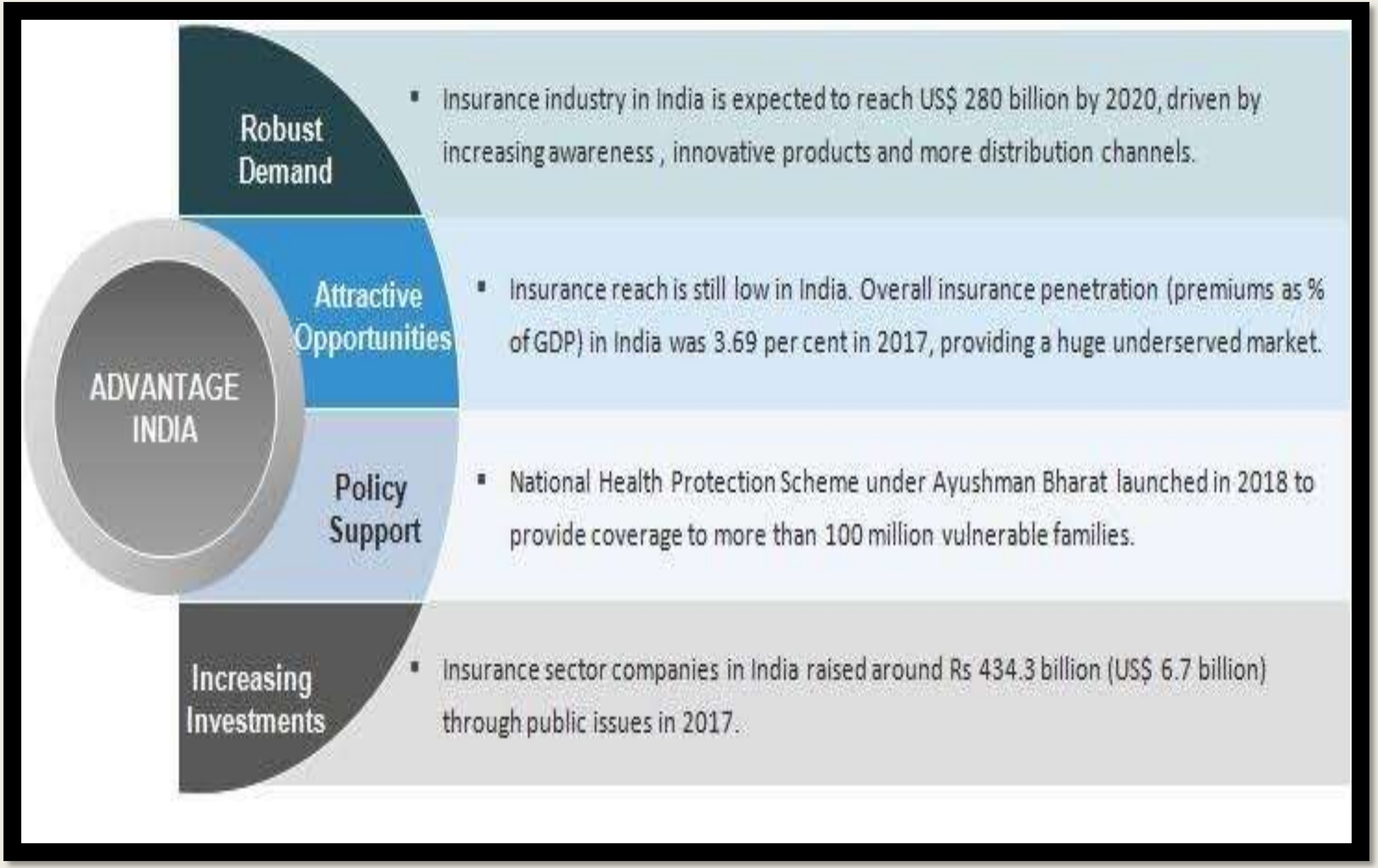
- 2000:IRDA starts giving licenses to private insurers: ICICI prudential and HDFC Standard Life insurance first private insurers to sell a policy.

- # 2001: Royal Sundaram Alliance first non life insurer to sell a policy .

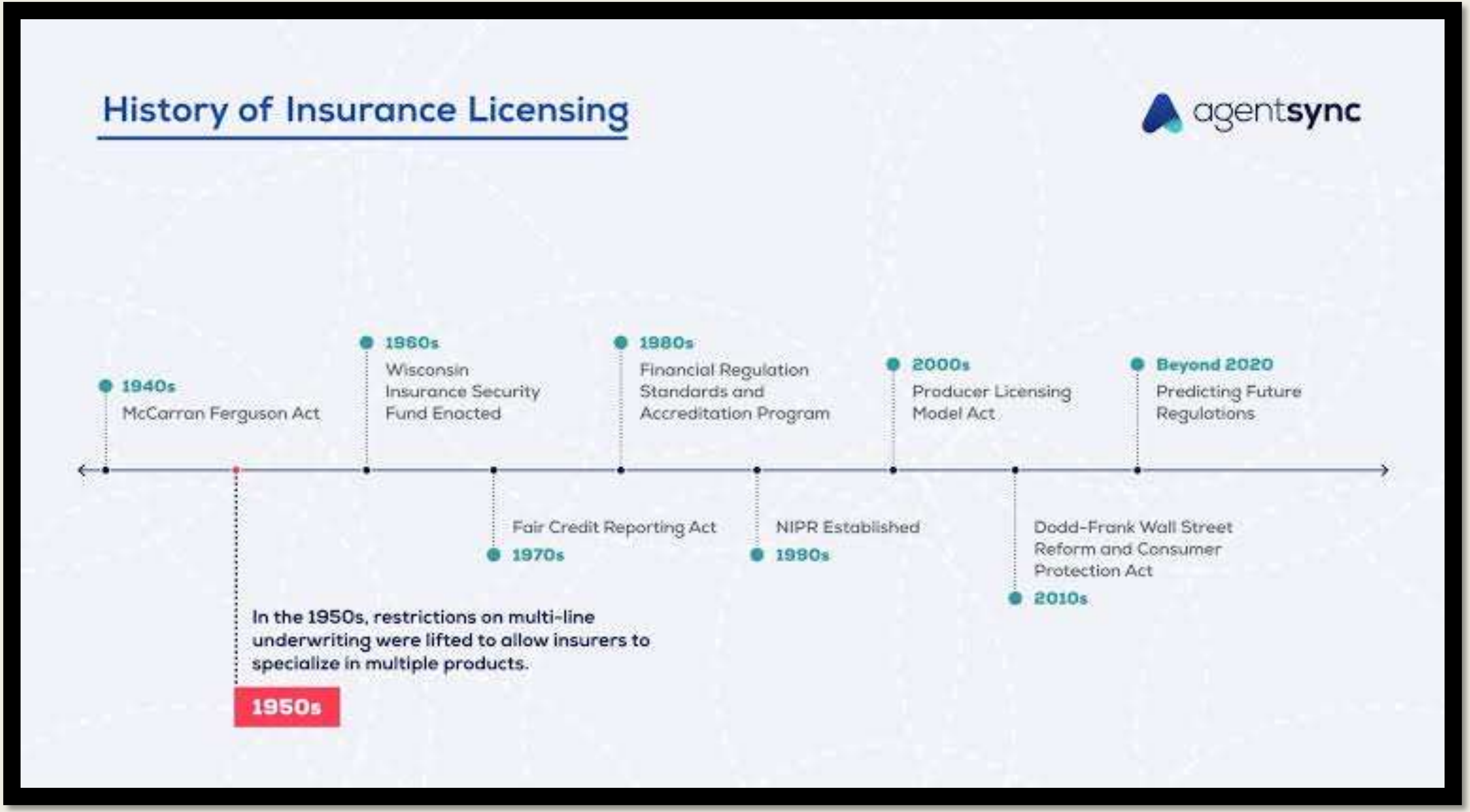
- # 2007:First Online Insurance portal, set up by an Indian Insurance Broker, Bonsai Insurance Broking Pvt Ltd.

- # The Government of India liberalized the insurance sector in March 2000 with the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership.

- # Minimum capital requirement for direct life and Non-life Insurance company is INR1000 million and that for reinsurance company is INR 2000 million. In the 2004-05 budgets, the Government proposed for increasing the foreign equity stake to 49%, this is yet to be effected. Under the current guidelines, there is a 26 percent equity cap for foreign partners in direct insurance and reinsurance Company.


ADVANTAGE INDIA
Robust Demand
Insurance industry in India is expected to reach US$ 280 billion by 2020, driven by increasing awareness , innovative products and more distribution channels.
Attractive Opportunities
Insurance reach is still low in India. Overall insurance penetration (premiums as % of GDP) in India was 3.69 per cent in 2017, providing a huge underserved market.
Policy Support
National Health Protection Scheme under Ayushman Bharat launched in 2018 to provide coverage to more than 100 million vulnerable families.
Increasing Investments
Insurance sector companies in India raised around Rs 434.3 billion (US$ 6.7 billion) through public issues in 2017.


LIC
ICICI PRUDENTIAL
LIFE INSURANCE
BAJAJ Allianz
Life Insurance Company Ltd.
SBI Life
INSURANCE
With Us, You're Sure
SAHARA INDIA
Life Insurance
IndiaFirst
LIFE INSURANCE
RELIANCE
kotak
Life Insurance
IDBI FEDERAL
in association with Ageas
IDBI Federal Life Insurance Co Ltd
MetLife
Star Union Dai-ichi
LIFE INSURANCE
Canara HSBC
Life Insurance
with Oriental Bank of Commerce
FUTURE GENERALI
TOTAL INSURANCE SOLUTIONS
Birla Sun Life
Insurance
Edelweiss Tokio life
INSURANCE
bharti AXA
jeevan suraksha ka naya nazariya
AVIVA
AEGON RELIGARE
LIFE INSURANCE
MAX NEW YORK LIFE
LIFE INSURANCE
HDFC Life
SHRIRAM
Life Insurance
DLF Pramerica
LIFE INSURANCE
ING
TATA AIG
LIFE
A new look at life


History of Insurance Licensing
agentsync
1940s
McCarran Ferguson Act
1950s
In the 1950s, restrictions on multi-line underwriting were lifted to allow insurers to specialize in multiple products.
1960s
Wisconsin Insurance Security Fund Enacted
1970s
Fair Credit Reporting Act
1980s
Financial Regulation Standards and Accreditation Program
1990s
NIPR Established
2000s
Producer Licensing Model Act
2010s
Dodd-Frank Wall Street Reform and Consumer Protection Act
Beyond 2020
Predicting Future Regulations

TODAY'S AGENDA

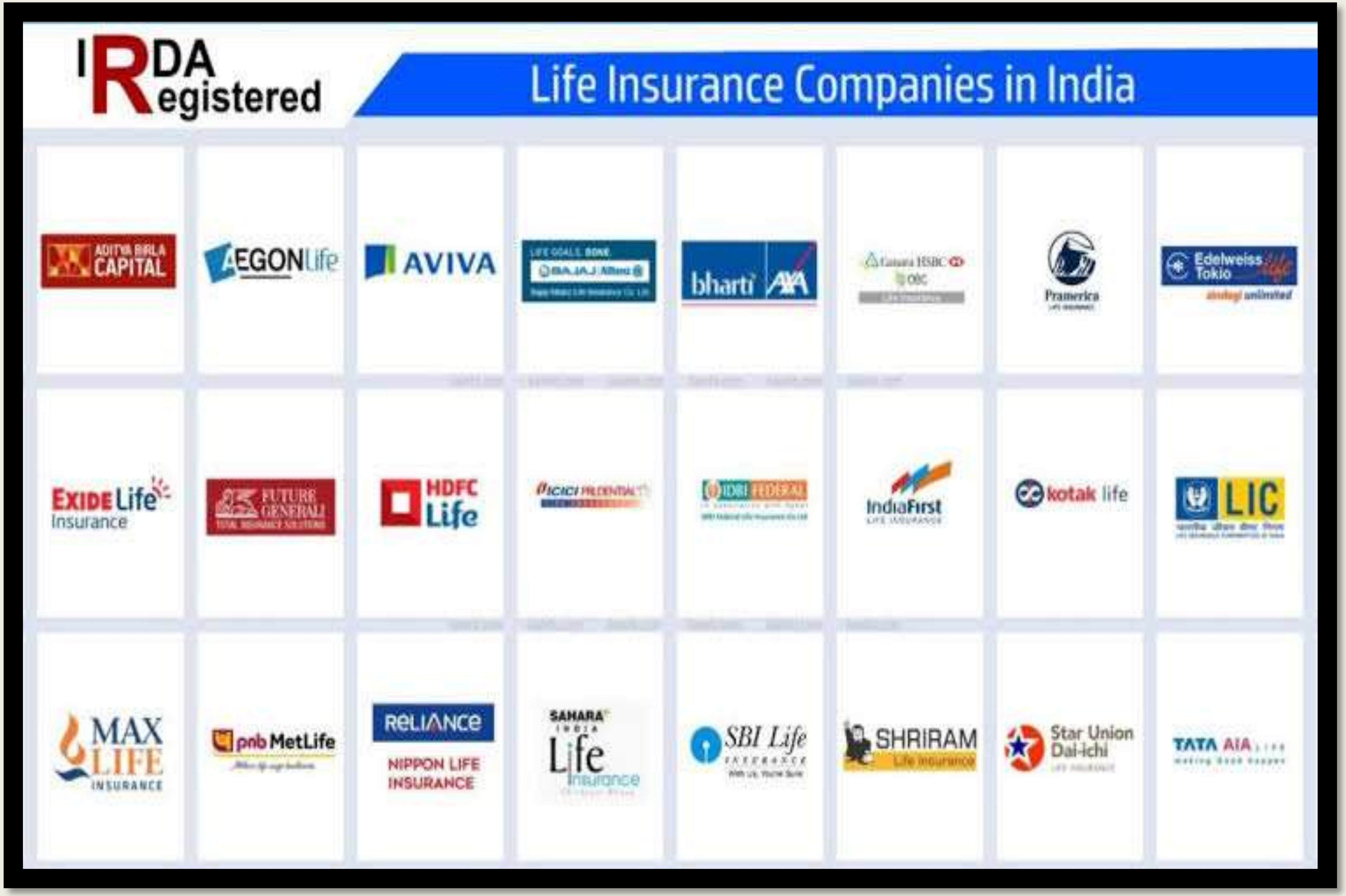
- About Insurance
- History of IRDA
- Mission of IRDA
- Regulatory frame work
- Composition of authority
- Removal from office
- Functions
- Duties and powers of IRDA

Regulatory Framework

MAJOR PLAYERS IN GENERAL INSURANCE COMPANIES

1. Bajaj Allianz General Insurance Company Ltd.
2. Icici Lombard General Insurance Company Ltd.
3. Reliance General Insurance Company Ltd.
4. Bharti AXA General Insurance Company ltd.
5. SBI General Insurance Company Ltd.
6. L & T General Insurance Company Ltd.
7. Tata AIG General Insurance Company Ltd.
8. Agriculture Insurance Company Of India Ltd.


Life Insurance Companies In India
1. Bajaj Allianz
2. Birla Sunlife
3. HDFC Life
4. ICICI Pru
5. LIC
6. Max Life
7. PNB Metlife
8. Kotak Life
9. TATA AIA
10. Reliance Life
11. SBI Life
12. Aviva Life
13. Shriram Life
14. Bharti AXA
15. Future Generali
16. IDBI Federal
17. Canara HSBC OBC
18. Aegon Life
19. DLF Pramerica
20. Star Union Dai-ichi
21. India First
22. Edelweiss Tokio


IRDA Registered
Life Insurance Companies in India
ADITYA BIRLA CAPITAL
AEGON Life
AVIVA
bharti AXA
Pramerica
Edelweiss Tokio life
Exide Life Insurance
FUTURE GENERALI
HDFC Life
IndiaFirst
kotak life
LIC
MAX LIFE INSURANCE
pnb MetLife
RELIANCE
NIPPON LIFE INSURANCE
SAHARA
Life Insurance
SBI Life
SHRIRAM
Life Insurance
Star Union Dai-ichi
TATA AIA

UNIT 4
LIFE INSURANCE

What is Life Insurance?

- Life Insurance can be termed as an agreement between the policy owner and the insurer, where the insurer for a consideration agrees to pay a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness, critical illness or maturity of the policy.

BASICS OF LIFE INSURANCE

- Life insurance is **a contract between an insurer and a policy owner**.
- A life insurance policy guarantees the insurer pays a sum of money to named beneficiaries when the insured dies in exchange for the premiums paid by the policyholder during their lifetime.
- There are three main types of permanent life insurance: **whole, universal, and variable**.

Features of life insurance

- Outcome of a contract
- Payment of premium
- Payment of sum assured
- Insurable interest
- Financial help
- Encourages saving

Contract of life insurance

- Life Insurance: A contract of life insurance (also known as 'life assurance') is **a contract whereby the insurer undertakes to pay a certain sum either on the death of the insured or on the expiry of a certain number of years**.
- Certain elements like **offer and acceptance, free consent, capacity to enter into a contract, lawful consideration and lawful object** must be present for the contract to be valid; (ii) The contract of life insurance is a contract of utmost good faith.

TYPES OF LIFE INSURANCE POLICY

WHAT IS ANNUITIES?

- *"An annuity is a periodical level payment made in exchange at the purchase money for the remainder of the life time of a person or for a specified period. The recipient is usually as an annuitant". However, evidence of age is essential at the time of proposal.*
- *The payment of annuity generally continues up to the life. so the premium rate is determined according to longevity. The amount premuim is higher at younger age and lower at advanced age.*

Types of Annuities

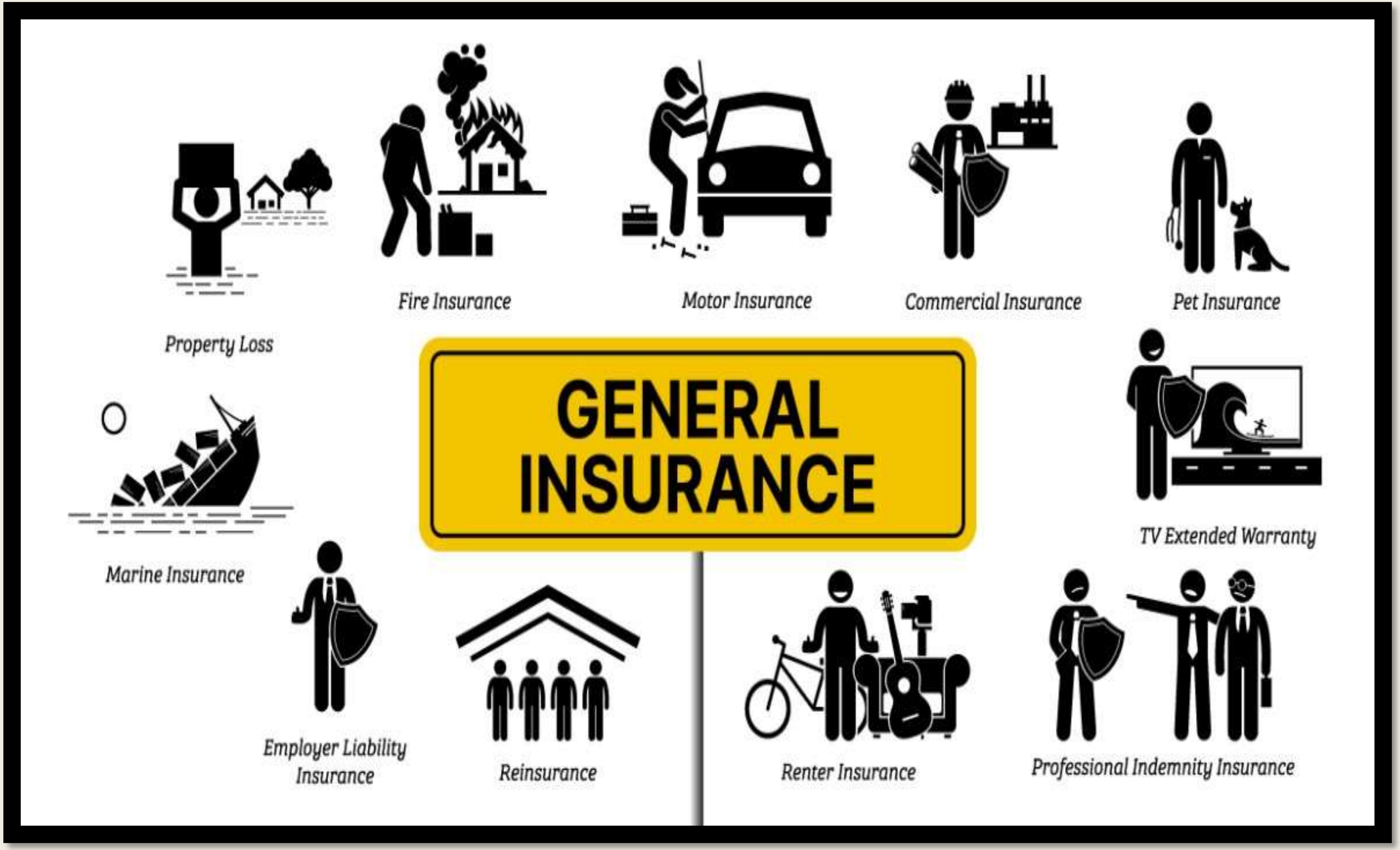
Fixed	Indexed	Variable
Pays at a fixed rate	Pays based on the value of an external index	You actually own investments inside the account

General insurance

General insurance, also referred to as non-life insurance, is related to insurance of properties, assets, real estate, gazettes, automobiles etc. Under this agreement, the insurer/insurance company assures the insured for the uncertainty of the subject matter on payment of premium.

some examples general company are-

- GICI
- Kotak Mahindra General Insurance

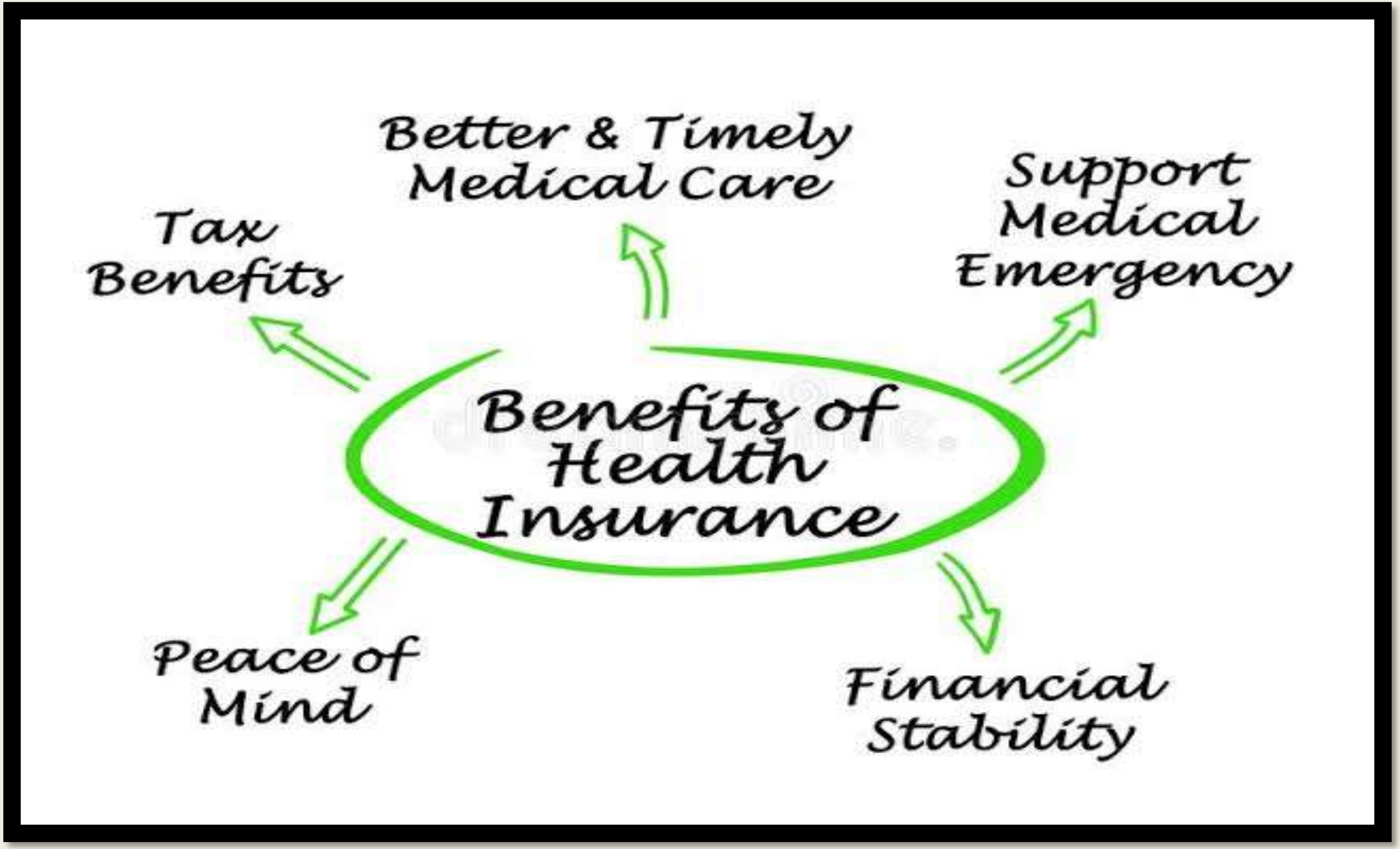

Property Loss
Fire Insurance
Motor Insurance
Commercial Insurance
Pet Insurance
GENERAL INSURANCE
Marine Insurance
TV Extended Warranty
Employer Liability Insurance
Reinsurance
Renter Insurance
Professional Indemnity Insurance

HEALTH INSURANCE

Definition.

Health insurance is defined as insurance against the risk of incurring medical expenses among individuals.

- Health insurance covers a small but growing portion of the population in most developing countries
- Important element of insurance include
  - *risk-sharing*
  - *prepayment.*
  - *Premiums*
- Plans vary in the extent of and mechanisms for insurance coverage for drugs.


Better & Timely
Medical Care
Tax
Benefits
Support
Medical
Emergency
Benefits of
Health
Insurance
Peace of
Mind
Financial
Stability

BENIFITS OF HEALTH INSURANCE

- COVER ANY UNFORSEEN DISEASES
- PRE & POST HOSPITALISATION EXPENSES
- TAX BENEFIT
- CAN BUY HEALTH INSURANCE ONLINE
- CASHLESS CLAIM OPTIONS

FIRE INSURANCE

- Insurance that is used to cover damage to a property caused by fire. Fire insurance is a specialized form of insurance beyond property insurance, and is designed to cover the cost of replacement, reconstruction or repair beyond what is covered by the property insurance policy.
- Policies cover damage to the building itself, and may also cover damage to nearby structures.

Features of Fire Insurance

- Written Agreement
- Payment of Premium
- Contract of Indemnity
- Compensation for Fire losses
- Covers Insured Amount
- No Mis-representation or Concealment
- Period of InsuranceClaims

DEFINITION OF MARINE INSURANCE

The contract of marine insurance is a special (insurance) *contract of indemnity* which protects against physical and other losses to moveable property and associated interests, as well as against liabilities occurring or arising during the course of a *seavoyage* *(R. Thomas).* S. 1 of MIA 1906: A contract of marine insurance is a contract whereby the insurer undertakes to *indemnify the assured, in manner and to the extent* thereby agreed, against marine losses, that is to say, the losses incident to marine adventure.

Nature Of Marine Insurance Contract

Marine insurance contract being a contract should satisfy the essential elements of a valid contract. The essential elements of a marine insurance contract from the perspective of Indian Contract Act includes:-

- **Offer** - In the form of proposal.
- **Acceptance** - Issue of cover note/policy
- **Consideration** - Premium payable on the policy

MARINE INSURANCE

Covers damage to ship due to any mishap like crash, collision or piracy attacks

Provides coverage to cargo against any damage, loss or misplacement

Covers the loss of freight

Covers life of crew members and others on ship

paisabazaar

MEANING OF MOTOR INSURANCE

- Motor insurance belongs to miscellaneous class of insurance
- In motor insurance the risks are of two types

✓ Legal liability for damages for bodily injuries or damage to property caused to other

✓ Damage to or loss of one's own automobile

- In India first Motor Vehicle Act was passed in 1939

Motor Insurance

- Minimum entry age 18 years
- Own -damage cover
- Third Party Liability cover
- Personal Accident cover
- No-claim bonus

Types of Motor Insurance

- Car Insurance
- Two Wheeler Insurance
- Commercial Vehicle Insurance

- Easy transfer of policy
- On accidental death, compensation to family
- Option of add-on or additional coverage

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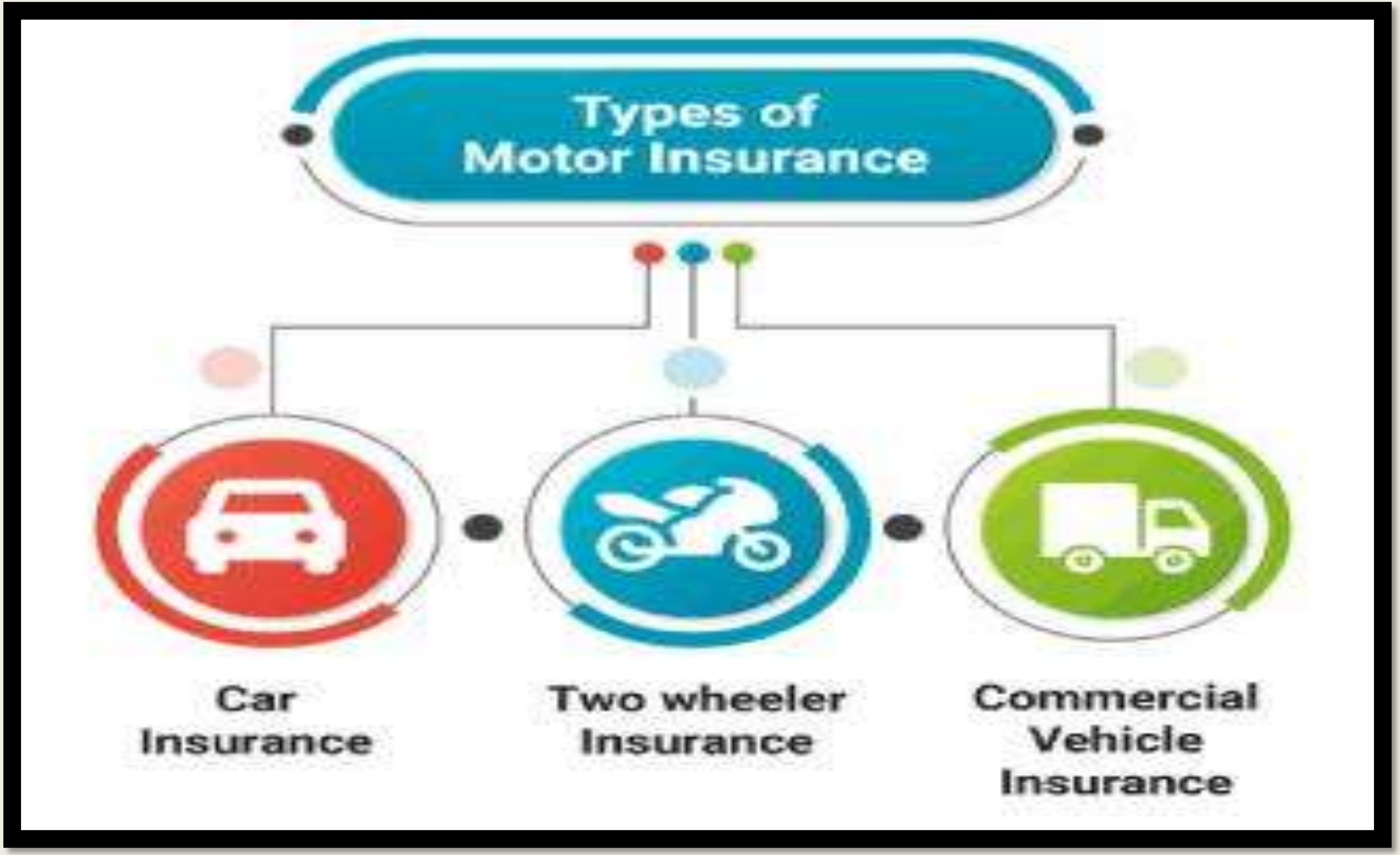
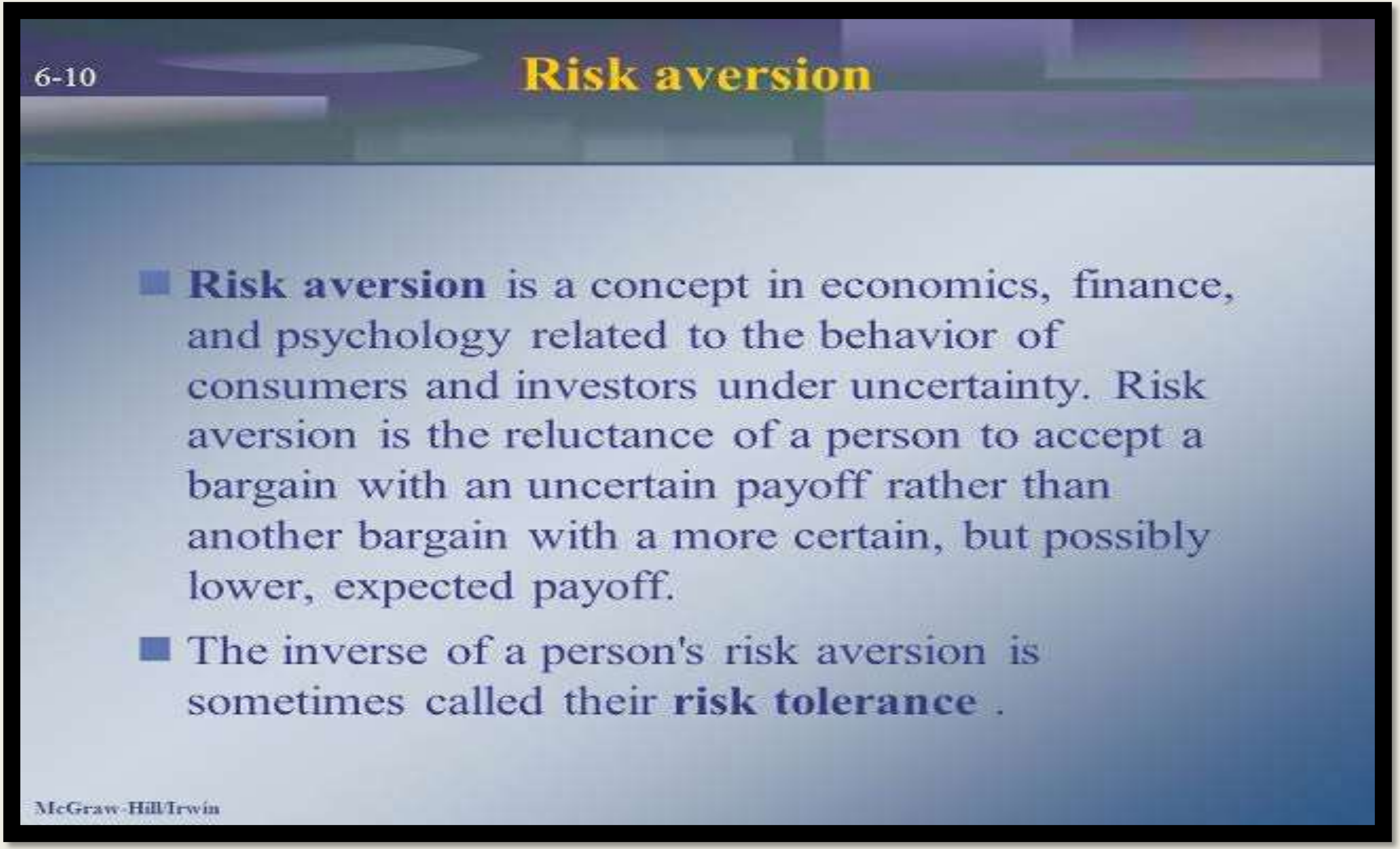

Types of
Motor Insurance
Car
Insurance
Two wheeler
Insurance
Commercial
Vehicle
Insurance

UNIT 5
RISK AVERSION AND RISK MANAGEMENT


6-10
Risk aversion
Risk aversion is a concept in economics, finance, and psychology related to the behavior of consumers and investors under uncertainty. Risk aversion is the reluctance of a person to accept a bargain with an uncertain payoff rather than another bargain with a more certain, but possibly lower, expected payoff.
The inverse of a person's risk aversion is sometimes called their risk tolerance .
McGraw-Hill/Irwin

RISK AVERSION AND DEMAND FOR INSURANCE

- **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.

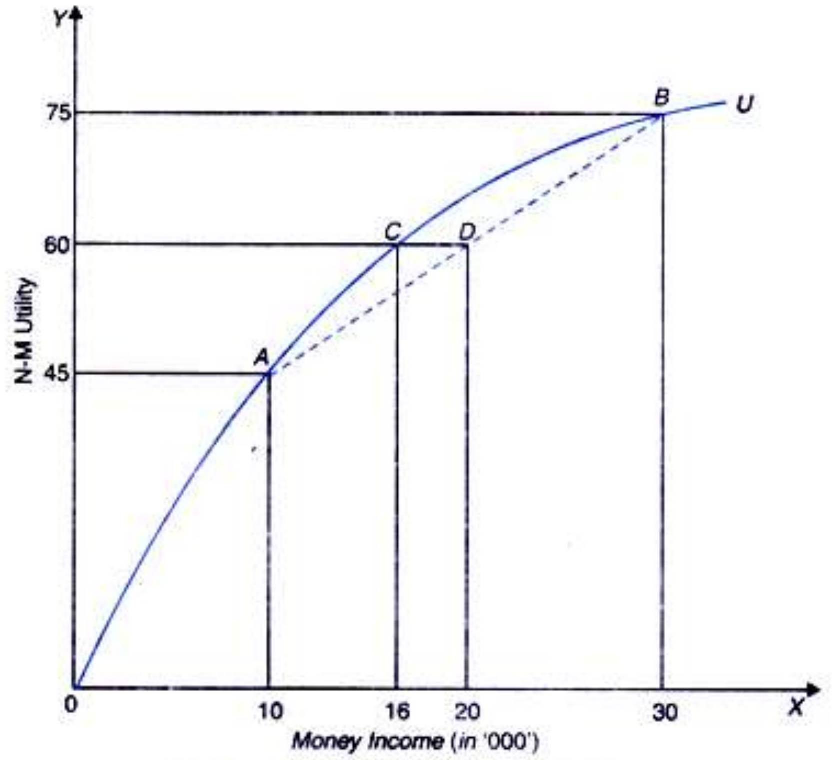
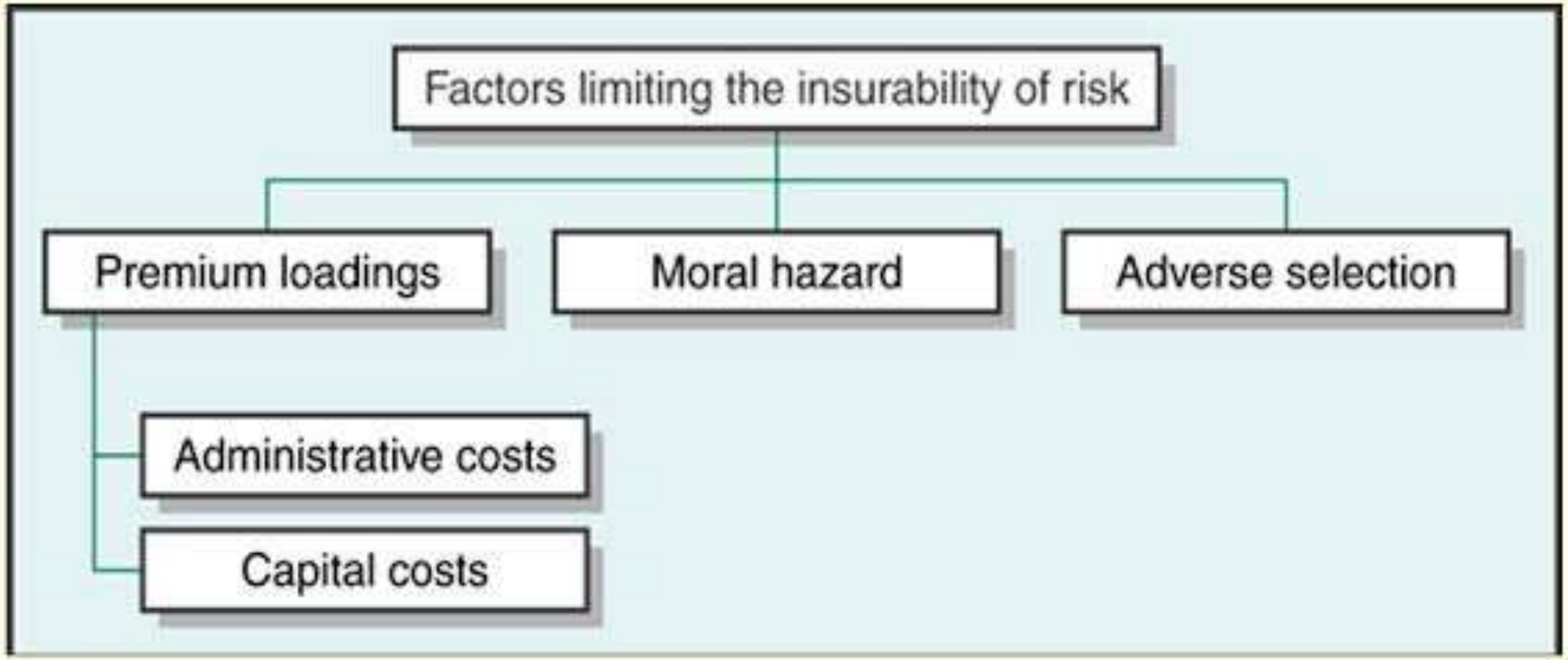


Fig. 17.7. Insurance and Risk Premium

Factors Limiting the Insurability of Risk



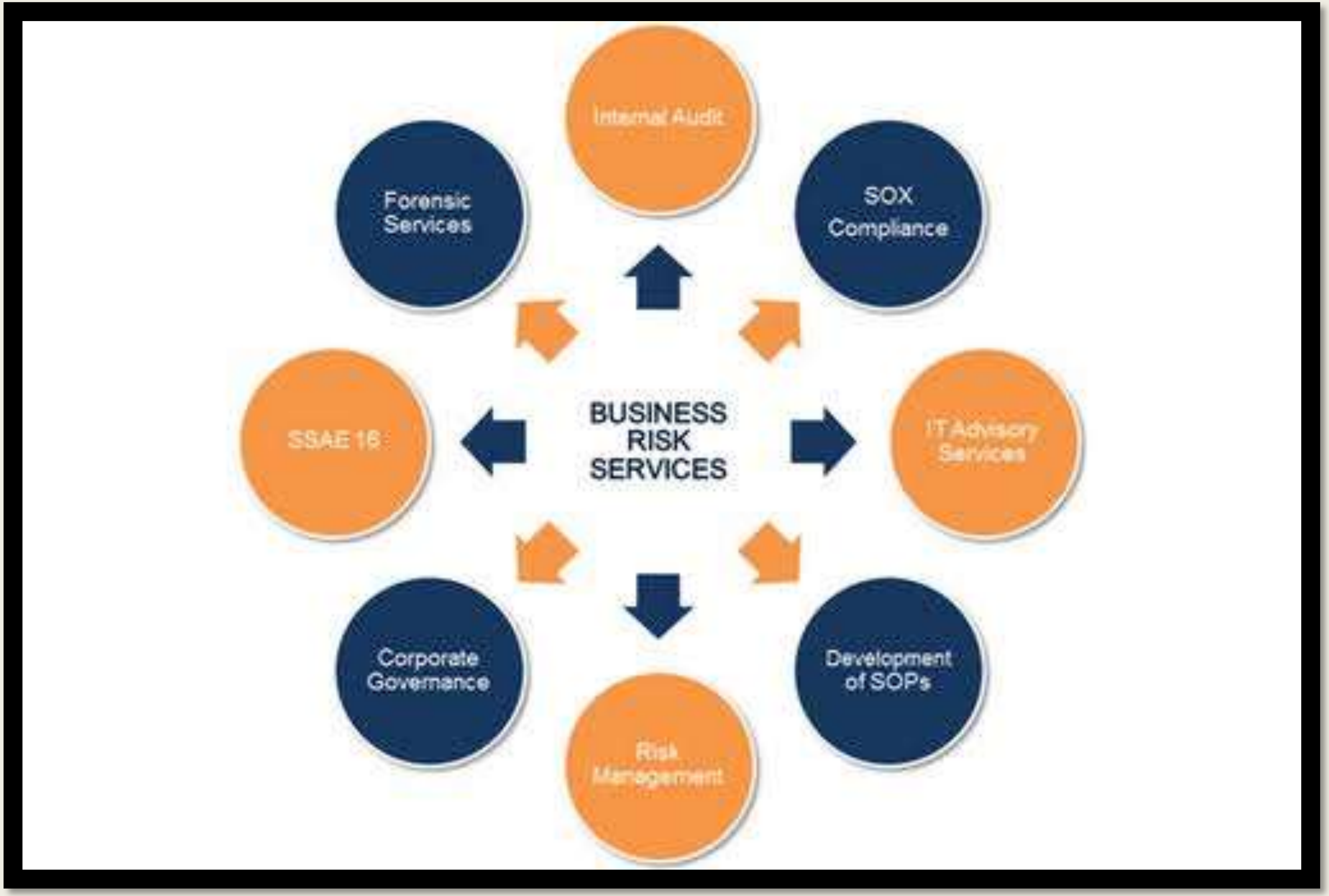
Elements of Insurable Risk

1. Large numbers of exposure units.
2. Define and measurable loss.
3. Determinable probability distribution.
4. Calculable chance of loss.
5. Fortuitous loss.
6. Non-catastrophic loss.
7. Premium should be economically feasible.

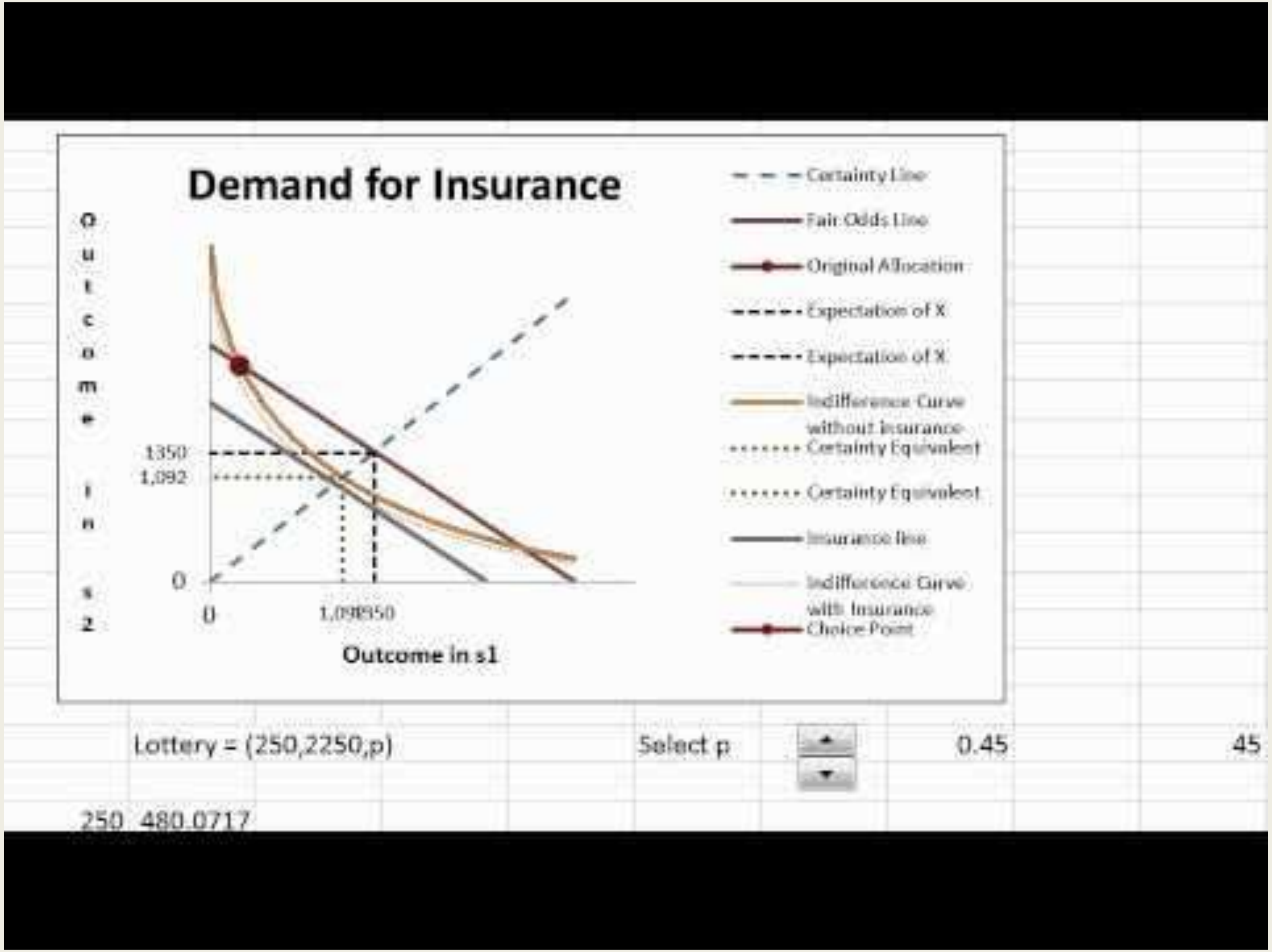
CHARACTERISTICS OF AN IDEALLY INSURABLE RISK

- Private insurers only insure pure risk but not all pure risks are insurable. A pure risk ideally should have certain characteristics to be insurable.

1. *Large number of exposure units.*
2. *Loss must be accidental and unintentional.*
3. *Loss must be determinable and measurable.*
4. *Chance of loss must be calculable.*
5. *Premium must be economically feasible.*


Internal Audit
SOX Compliance
IT Advisory Services
Development of SOPs
Risk Management
Corporate Governance
SSAE 16
Forensic Services
BUSINESS RISK SERVICES


BRM Services
Enterprise Risk Management
Internal Audits
Process Re-Engineering
Fraud Risk Management
Forensics
Business Advisory



Demand for Insurance
Outcome in s2
1350
1,092
0
0
Outcome in s1
Certainty Line
Fair Odds Line
Original Allocation
Expectation of X
Expectation of X
Indifference Curve without Insurance
Certainty Equivalent
Certainty Equivalent
Insurance line
Indifference Curve with Insurance
Choice Point
Lottery = (250,2250,p)
Select p
0.45
45
250 480.0717

Contractual Provisions in Life Insurance

- The law requires that approved policies satisfy at least the minimum provisions of the law. The format and wording of life insurance policies sold in New York by different insurers may differ from one another. However, the following provisions appear in life insurance contracts issued in New York:

1- Entire-contract provision
2- Incontestable clause
3- Suicide clause
4- Grace period
5- Reinstatement clause
6- Misstatement-of–age provision

COINSURANCE IN HEALTH INSURANCE

Coinsurance clause in health insurance contracts, requires the insured to pay a specified percentage of covered medical expenses in excess of the deductible .A typical plan requires the insured to pay 20, 25, or 30 percent of covered expenses in excess of the deductible up to a maximum annual limit.

The **purposes of coinsurance in health insurance** are

(1) to **reduce premiums** and (2) to **prevent** overutilization of policy benefits .

Insurance by Type of Contract

- Aleatory - dollar outcome is assumed unequal
- Conditional - performance is conditional upon the occurrence of an uncertain event
- Adhesion - ambiguities are construed against the writer of the contract
- Personal - requires privity of contract – cannot freely exchange parties to the contract
- Unilateral - only one party has to perform - the insurer

Common Liability Contract Provisions

- Certain provisions appear in virtually all liability insurance contracts
- They include
  - The insuring clause
  - Supplementary payments
  - Definition of the insured
  - Exclusions
  - Limits of liability
  - Specification of claims-made or occurrence coverage
  - Notice


INSURANCE
CLAIM
CONTRACT
EXCESS
POLICY

LIMITATIONS

This cover is subject to:

- The owner-driver is the registered owner of the vehicle insured
- The owner-driver is the insured named in this policy
- The owner-driver holds an effective driving license
  - In accordance with the provisions of rule 3 of the central motor vehicles rules 1989, at the time of the accident.