

# RISK MANAGEMENT AND INSURANCE

INTRODUCTION TO BUSINESS AND  
TECHNOLOGY

## OVERVIEW

- Introduction
- Risky Business
- Insurance Basics
- Analyzing Risk
- Review

## INTRODUCTION

- Risk is the chance of exposure to injury or loss.
- All of us face some level of risk every day. Loss of a cell phone, damage in a car accident, or theft of a laptop are all examples of risk we might face.
- As we deal with risk we have four choices: avoid risk, reduce risk, ignore risk, or transfer risk.
- In business, owners and managers strive to manage risk by determining both the likelihood of a specific risk and the monetary loss should the worst occur.
- If the likelihood and the monetary loss are both very low managers would probably ignore the risk or try to avoid it.
- As both the likelihood and monetary loss increase, managers will seek to reduce the risk or transfer it through purchasing insurance.

## ESSENTIAL QUESTIONS

- What is risk and how is it managed?
- What kinds of insurance does a business need?
- What are some basic insurance concepts I need to understand?
- How do I analyze risk in order to make insurance decisions?

## KEY TERMS

- Your team will be assigned 2-3 terms to research and define.
- You will then “teach” the class about the your term.

- |                    |                      |
|--------------------|----------------------|
| 1. Risk            |                      |
| 2. Risk Management | 10. Deductible       |
| 3. Insurance       | 11. Insured          |
| 4. Policy holder   | 12. Insurer          |
| 5. Policy premium  | 13. Liability        |
| 6. Policy          | 14. Peril            |
| 7. Probability     | 15. Hazard           |
| 8. Claim           | 16. Insurable risk   |
| 9. Coverage        | 17. Uninsurable risk |

## WHAT IS RISK?

- Risk is the likelihood or potential that a certain course of action will result in a loss of some sort.
- Risk has three components:
  1. must be an event that might cause harm.
  2. must be an undesirable outcome.
  3. has to be a probability that the risk will happen.
- Some risk events have a high probability of happening, but our loss is so minimal we don't even try to manage it.
  - Example: losing socks in the washing machine.
- Other risks would cause great damage and loss, but probability of event taking place is so small we would ignore the event.
  - Example: possibility of a flood in a desert. In between those two extremes are all kinds of risk events that we might consider managing.

## RISKY BUSINESS

- Remember – risk has 3 parts – what are they?
- Once risk is identified, there are 4 choices:
  - Ignore it
  - Avoid it
  - Reduce it
  - Transfer it
- Risk Management means identifying the risk THEN choosing how to deal with it

## RISKY BUSINESS – CON'T

- Transfer risk through insurance
- Policy holder – pays a premium to the insurer to protect them from financial loss should the thing they are insured against should occur
  - Example: car insurance for car accidents
- Insured person is still responsible to take steps to avoid and reduce risk
  - Example: car insurance, but you have to drive the speed limit, wear seat belt, obey traffic laws

## RISKY BUSINESS – CON'T

- For a risk to be insurable it must cause sufficient financial hardship that an individual or company would be willing to pay a premium for the coverage
- BUT the loss cannot be so huge that the insurance company could not afford to pay for it
- Uninsurable risks:
  - Impossible to value
  - Too large and/or too costly for insurance company to pay for
  - Too expensive to be worth paying premiums
  - Inevitable



**YOU TRANSFER RISK THROUGH INSURANCE. A POLICYHOLDER PAYS A PREMIUM TO THE INSURER IN EXCHANGE FOR PROTECTION AGAINST FINANCIAL LOSS SHOULD CATASTROPHE OCCUR.**

## RISKY BUSINESS – CON'T

- Categories of Risk:
- [Use this link to complete the activity](#)

Financial

Operational

Physical

Location

Compliance

Technology

Environmental

Human

## DISCUSSION

- Discuss within your teams, then be ready to share with the class:

*Are you a risk taker or are you risk adverse? As a business owner, would you want to create more policies to control things or rely on the people you hired to do the right thing. How would your attitude towards risk help you as a business owner? How would it hurt you? What risks would you want to be sure to insure for your business?*

## INSURANCE BASICS

- Use the link to complete the activity on [insurance basics](#)

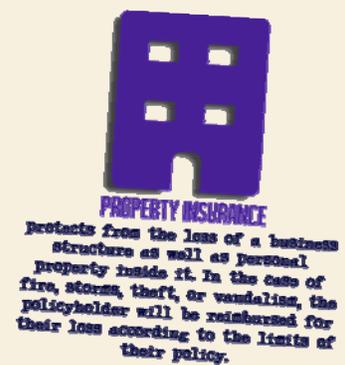
# INSURANCE BASICS

- Types of Business Policies
- There are four basic insurance policies that every business should have:
  - Property Insurance
  - Liability Insurance
  - Business Auto Insurance
  - Workmen's Compensation Insurance

## INSURANCE BASICS – TYPES OF BUSINESS POLICIES

### • Property Insurance

- protects from the loss of a business structure as well as personal property inside it.
- In the case of fire, storms, theft, or vandalism, the policyholder will be reimbursed for their loss according to the limits of their policy.
- Deductibles usually apply.
- Property insurance policyholders need to be sure their coverage is for the replacement value of their property rather than the market value in order to be assured of being able to buy new property.



## INSURANCE BASICS – TYPES OF BUSINESS POLICIES

### • **Liability Insurance**

- The key to liability insurance is that the policy holder is "at fault."
- While many of you will recognize liability insurance as a component of automobile insurance, liability also extends to the workplace.
- Whether a customer is injured from a defective product or an employee is injured by faulty equipment, liability insurance can transfer some of the risk of these occurrences.

## INSURANCE BASICS – TYPES OF BUSINESS POLICIES

### • **Business Auto Insurance**

- Very similar in scope to individual auto insurance, a business auto policy will cover all of the vehicles owned by the business.
- By law, most states require all vehicles to carry liability insurance which will pay for injury or property damage if the person driving the company vehicle is at fault.
- Businesses can also carry collision and comprehensive insurance which protects the business owned vehicles.



#### **BUSINESS AUTO INSURANCE**

will cover all of the vehicles owned by the business and, by law, most states require all vehicles to carry liability insurance which will pay for injury or property damage if the person driving the company vehicle was at fault.

## INSURANCE BASICS – TYPES OF BUSINESS POLICIES

- **Workmen's Compensation Insurance**

- Nearly every state requires businesses to carry workmen's compensation insurance.
- This type of insurance pays the medical bills of employees injured on the job as well as wage replacement for the time they are off from work from being injured.
- Generally, an employee paid under workmen's compensation insurance gives up the right to sue the employer for negligence associated with the accident that caused their injury.

## OH, THE THINGS WE WILL INSURE! ASSIGNMENT

- If you were an insurance company and you wanted to create a new type of insurance, what would you insure? Think about the risk of being in business and think about a risk that is not currently covered by insurance.
- Once you have come up with an idea, create a brochure or flyer, and call it: "Oh, The Things We Will Insure!"
- In your brochure or flyer, explain the risk, why a business would want insurance for it, what your insurance will and will not cover, and the cost. Make sure your product is attractive, engaging, and complete before you turn it in.
- Submit via Google Classroom for grading.

## ANALYZING RISK

- A business owner wants to do everything possible to insure the success of their business.
- One of the things that is critical is a clear analysis of the kinds of risks a business faces.
- This analysis can serve as the background for establishing policies and procedures for a company.
- Complete the [analyzing risk activity using this link](#)

## TEN RULES FOR REDUCING RISK ASSIGNMENT

- Now that you know more about analyzing risk, you are ready to do some research on reducing risk in a business.
- Using the internet, research rules for reducing risk.
- After you have collected a number of rules, choose your top 10.
- Now assume you are a risk management adviser for the Small Business Association. Prepare a SHORT presentation that you can give to individuals starting their first business.
- In your presentation, you will need to state the rule, briefly explain why the rule is important and to what aspect of the business the rule would apply (i.e. to protect workers from injury).
- Also, note any specific steps that would need to be taken to apply the rule.
- Remember, that insurance is not all there is to risk management, so make sure that some of your rules address avoiding and reducing risk as well as transferring it. Read the rubric before you complete your assignment so you will know how you will be graded. Turn your presentation in when complete via Google Classroom.

# REVIEW

- Risk has three components:
  1. an event that causes harm
  2. an undesirable outcome
  3. a probability of the event occurring
- When faced with risk we can ignore it, avoid it, reduce it or transfer it.
- Businesses have several types of risk to consider.
- [Review Activity](#)