Section 6-1 Risk Assessment and Strategies

PERSONAL RISK MANAGEMENT

What is Risk?

- The chance of injury, damage, or economic loss.
- Some risks are avoidable and have a small chance of occurrence
- Other risk are unpredictable and unavoidable
- Some risky events may cause serious losses

Examples of Risks

- Driving a car-accident can occur
  - Could cause you personal injury
  - Could cause personal injury to passengers
  - Could cause damage to your vehicle
  - Could cause damage to another vehicle
  - Could cause damage to property (fence, building, yard)
- Skiing-accident could occur
  - Could cause personal injury to you
  - Could cause personal injury to someone else

What is a Loss?

- Some type of physical injury, damage to property, or disappearance of property or other assets.
- Loss could be personal–such as a broken leg or illness
- Loss could be loss of property through theft or damage (vandalism)
- Loss could be major or have a significant effect on your life and future.
  - Loss of job means you may not be able to make your house or car payments

Probability

- The likelihood of a risk actually resulting in a loss.
  - Taking a risk doesn’t mean you will suffer a loss
  - Avoiding a risk doesn’t mean that you can’t still suffer a loss
  - You can take steps to lessen the risk or the resulting loss

Types of Risk-Personal

- Personal Risk
  - Loss something of personal value to you
    - Example: break leg, not be able to participate in an activity that you enjoy

Types of Risk-Financial Loss

- Financial loss-a loss in terms of money
  - These can be big or small
    - Example: Small Loss
      - Driving without a spare tire—you risk being unable to change a flat tire—you may have to pay someone to help you-could cost more than the cost of a spare tire
    - Example: Large Loss
      - Driving without car insurance—get into accident—could have to pay for damages to your vehicle and other vehicle—could get fine if state requires insurance—to many tickets could cost you your driver's license

Types of Risk-Financial Resources

- This could jeopardize your future.
- You could lose your ability to earn income
- If you cause an injury to another person—it could result in a financial judgment
  - Court ordered payment of money

Risk Assessment

- The process of identifying your risks and deciding how serious they are.
  - Helps you make better choices
  - Allows you to take action to protect yourself
  - Make a list of the items you want to protect and seriousness associated with the item if you lost it through injury or theft

Managing through Risk Strategies

- **Risk Avoidance**-stopping or avoiding the behavior that leads to risk.
  - Examples:
    - Skiing-choosing not to ski
    - Sky diving-choosing not to sky dive

Managing through Risk Strategies

- **Risk Reduction**-finding a way to lower your chance of incurring a loss
  - Changing your actions
  - Reduce risk of financial loss by having insurance
    - Example: Skiing-to reduce the risk take ski lessons and to reduce the risk of financial loss-get medical insurance

Managing through Risk Strategies

- **Risk Assumption**—a strategy in which you accept the consequences of risk (also known as risk retention). Risks that are not avoided or transferred are retained.
- **Self-insure** is a method of assuming risk, this involves setting aside money to be used in the event of injury or loss of assets
  - Setting aside money will help cushion the financial burden you could incur due to an injury or loss
  - Self-insuring is a way to reduce insurance costs
  - Example: Obtaining health insurance with lower premium by paying a higher portion of your medical expenses.

Managing through Risk Strategies

- **Risk Transfer-**Also known as risk shifting, occurs when you buy insurance to shift the risk of financial loss to an insurance company.
  - Insurance company pays for the loss cause by damaging events that could occur
  - Example: health insurance would protect you from injuries from a skiing accident
- Homeowners have many risks
  - Need to protect personal property
  - Face loss of valuable items through burglary
  - Property loss and damage through vandalism/accidents

Implementing Risk Transfer

- **Insurance premium**-the price you pay for insurance coverage
  - Premiums can be paid monthly, quarterly, semiannually or annually
  - Premium is based on the possible loss to the insurance company
  - Premiums can be lowered through various ways
    - Homeowner's insurance discounts through—security alarm system, improvements, fire alarms/smoke detectors
    - Car insurance discounts through—make and model of car, good grades, good driving record, combining polices, car safety features