Manager/Supervisor Risk Management

#2 – 11/3/11

A twice weekly e-mail training for YCPARMIA members

TOPIC: WHAT IS RISK MANAGEMENT?

The simple answer is by saying what it isn't: it is not Risk avoidance. To avoid Risk the entity would have to lock its doors, divest itself of all property, terminate its employees, and stop all activity.

Risk, for our purposes can be defined as "uncertainty of loss." Risk is inherent in everything that we do; the most immediate example is when you get into your vehicle to drive to work. You are constantly exposed, regardless of how careful you might be, to the risk of something bad happening. It is not certain that something bad will happen, but it might, and if it does it will probably have an adverse effect on your health, your wealth, and/or the quality of your life.

Since we can't avoid the Risk (with a capitol R), we attempt to manage it. Except Risk is not a single thing; it is a collection of different "exposures" or possibilities of loss. So the first step is identifying the risks (little r) that we are exposed to by our operations. Many of the risks are obvious, while others (some with catastrophic results) go unrecognized until a loss occurs. After the risks are identified they can be analyzed, and a plan for controlling, or managing, each risk can be developed.

Traditionally there are three broad options:

- The entity can take steps to reduce the risk;
- The entity can take steps to eliminate the risk; or,
- The entity can take steps to transfer the risk.

A word about claim/litigation management: this is damage control; something bad has already happened, and now we are just trying to minimize the financial impact.

So for our purposes, Risk Management is the ongoing process of analyzing all exposure to the possibility of loss and determining how to handle these exposures through such practices as reducing the risk, eliminating the risk, or transferring the risk.

As a manager/supervisor you are in the prime position -- the closest management point to where the entity's activities meet the majority of the risks of unintended loss.

Next Topic: Risk Financing