Slahadeen university/
Administration and Economics
Dep: Finance and Banking
Risk management
Stage 2
Chorus 1 ..... Chapter 1
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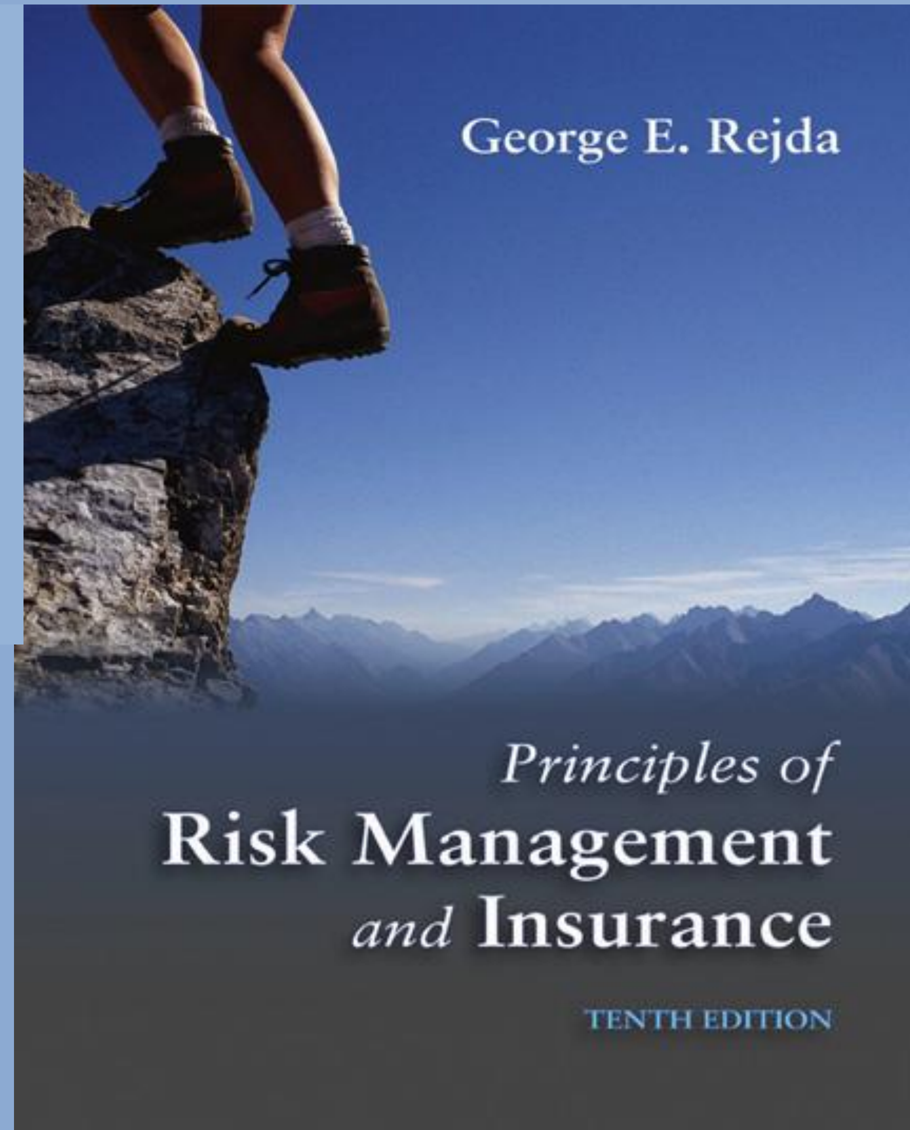

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Chapter 1

Agenda

- **what is the risk?**
- **Risk ... fear ... Loss**
- **How do insurance companies view the risk?**
- **How does the insurance know the risk?**
- **The most common Kinds of Risk Are**
- **Introduction to Risk Management**
- **practical side**
- **theoretical level**

The First Research: Risk

The human challenges risks that face it to preserve its life and income so it uses all means that enable it to avoid any loss. In reality, the risk may not be considered a problem unless a person fails to anticipate it, but rather in this the condition the risk becomes one of the most important problems that could threaten its psychological and financial stability.

-***What are the human challenges to face the risks***

First: what is the risk?

- \- Risk Definition: The intended main meaning of the term “Risk” in the past was: “**<u>Raising</u>** Money, Fate, Honor, and Status.
- \- The danger is presented as “oversight of perdition”
- -It also means:“The uncertainty of occurrence of a loss”

First: what is the risk?

For example,

- War risk or fire risk, the risk word here denotes in its connotation to a physical event,
- and the latter may be used in a moral state, such as the risk that the merchant will not know the outcome of its business at the end of the year in advance.

First: what is the risk?

- Or the same term may be used to show a financial loss,
- such as our saying ((risk of losing income as a result of a car accident,
- or a description of a certain behavior, such as saying that driving a car at a high speed is a risk)).

Risk ... fear ... loss

- -Another kind of risk involves the fear of loss but without any hope for profit, and the probabilities of this risk can be measured,
- -for example, maker of glassware knows that these glassware are usually break,
- - but it does not know for certain how much the loss resulting from the glass breaking of a particular day,
- -but it can, for practical purposes, estimate its loss the daily average is roughly based on the annual average.

Risk ... fear ... loss

- -Likewise, some ships embarking on a sea voyage are sinking, and one cannot predict any confidence in what whether a particular ship is to sink or not.
- - But by depending on data about sinking prepared based on observing the movements of hundreds of thousands of ships over a long period, an average can be extracted to measure the probability of sinking a ship.

Risk ... fear ... loss

- -In addition, factory workers sometimes suffer injuries when working with machines. It is unpredictable in this case, whether or not a particular worker is a victim of an accident.
- -Facing this kind of risks collectively sends reassurance in the hearts of individuals and raises their skills in performing all life activities; such a confrontation is possible with an application law of large numbers.
- -Insurance concerns this kind of pure measurable risk.

How do insurance companies view the risk?

- Insurance companies define risk as the difference between expected losses that on its basis the net insurance premium was calculated and actual losses that the Insurance Company abides to compensate policyholders who have suffered from accidents of insured risks.
- ***How do insurance companies view the risk?***

How do insurance companies view the risk?

- The risk is **((occurrence of an accident that requires the insurance company to pay what committed to))**
- - or it ((The accident that is likely to occur and does not depend on the will of the parties alone, in particular the will of the insured and this accident may be happy one such as marriage, childbirth,
- ***How do insurance companies view the risk?***

How do insurance companies view the risk?

- , but in most cases the opposite is like fire, theft and death, and that is why it is called disaster)).

How does the insurance know the risk?

- The risk is also known as **((insurance contract of the future probable accident, and for the accident is probabilistic, that it may or may not happen without its occurrence or non-occurrence being stopped upon the will of one of the contractors.))**

-How does the insurance know the risk?

The most common kinds of Risks Are

- The risks of accident injuries that are covered by personal accident insurance.
- The risks of old age that are covered by pension insurance.
- The risks of illness that are covered by health insurance.
- The risks of death that are covered by life insurance.
- The risks of fire that are covered by fire insurance.

What are the most common types of risks?

The most common kinds of Risks Are :

- The risks of aircraft accidents that are covered by aircraft insurance.
- The risks of theft that are covered by insurance against theft and robbery.
- The risks of sinking accidents that are covered by marine insurance.
- The risks of natural disasters, loss, stop working , and civil liability that are covered by earthquakes and hurricanes insurance , profits insurance , work stop insurance, and civil liability insurance

What are the most common types of risks?

Introduction to Risk Management:

Many centuries have passed, during which insurance remained the prevailing method of dealing with risks.

- He is the one who diagnoses, analyzes and evaluates it. It proposes insurance policies and coverages that suit these risks, in accordance with its commercial and technical standards and foundations, and sets requirements, exceptions, and limitations.

- I almost liken the insured in his relationship with the insurance company to a car owner who is ignorant of mechanical matters and is forced to hand over the reins of his affairs to the mechanic.
- - The latter is the one who diagnoses the defect and determines the treatment and repair costs. The owner has no choice but to submit and pay the fees determined by the mechanic.
- -

- The twentieth century witnessed tremendous changes at all levels, technological, economic and social, which can be summarized as follows:
- 1- Tremendous development in technology and means of production, resulting in new complex products.
- -2- Medium enterprises have grown into large establishments, some of which are giant, whose activities have crossed national borders, playing an influential role in the international economy. Foremost among them are multinational companies.

- 3 - The social division of labor between establishments and economic sectors deepened on a complementary basis, which made any defect in one of the rings portend losses in the other rings.
- 4 - The growing awareness of society and public opinion about the dangers arising from technological development and its reflection in the legislation of countries. As is the case with the risk of pollution, professional liability of all kinds...
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- 5- and others.In light of these radical changes, industrial facilities have begun to pay more and more attention to the risks they face and the costs of treating them. They felt the need to exchange news among themselves about the dangers to which they are exposed and ways to address and finance them

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- From the practical side
- In 1929, the largest industrial companies in the United States of America met in Boston to discuss insurance issues of common interest. As a result of this meeting, an insurance section was established in the American Management Association, to advance the mission of exchanging information and experiences among the members of the association as far as the risks faced by various industries are concerned.
- In 1932, the Risk Research Institute was founded in New York. In 1950, the National Insurance Buyers Association was founded, which was later called the American Society of Insurance Management, and its membership includes more than Over 1,800 industrial facilities.

- Thus, we note that the risk management trend arose in the midst of research into the problems of insurance coverage
- For different industries.

- The balance of this trend increased in the aftermath of World War II, when it witnessed
- The insurance market has developed qualitatively from a seller's market to a buyers' market, meaning that customers (the insured) are no longer just a passive party that accepts
- What the other party (insurance companies) provides in terms of requirements, exceptions, standard covers, and prices
- Do not accept discussion

- At the theoretical level:
- 1- At the theoretical level, the term risk management did not make its way all at once, but rather gradually. Instead of the traditional titles of insurance books, the term risk began to make its way alongside the term insurance. In the fifties, books were published under the title “Risk and Insurance.”
- 2- The emergence of risk management theory in the twentieth century does not mean that risk management practices are also the product of the twentieth century. Perhaps we are not exaggerating if we say that some of these practices extend their roots back to the beginning of a person’s awareness of the dangers that surrounded his life, and his search for ways to confront them.

- 3 - The primitive man's sense of danger was very acute. His search for measures to confront them represented a matter of life and death for him. A ferocious beast could attack him while he was sleeping and devour him, or he could be swept away by torrents and floods.
- 4- He had to take measures to confront these dangers and limit their destructive effects as much as possible. To confront predators, primitive man resorted to sleeping on top of trees, or in caves, closing their openings with large rocks, or lighting fires...etc.

- 5- We do not want to draw a dividing line between "insurance" and "risk management" because they are based on the same ground: risks and ways to address them. However, this should not lead us to believe that risk management falls within the insurance department.
- 6- Risk management in its contemporary sense is a broad and comprehensive framework for addressing the risks faced by an establishment or any economic unit. While insurance represents one of the main methods and channels for risk management.