

# RISK AND ITS CLASSIFICATION

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# Risks & Risk Management

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- ◉ What is risk?

The possibility of incurring a loss.

- ◉ What is risk management?

It is a systematic process of managing risk to achieve set objectives.

# Types of Risk

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- Different types of risk:
  - Economic and non-economic
  - Pure risk and speculative
  - Controllable risk and uncontrollable
  - Insurable risk and uninsurable

# Economic Risks

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- Results in financial loss.
- Three categories of economic loss:
  - **Personal risk** – Result in personal losses
  - **Property risk** – Loss of personal or business property including money, buildings and vehicles.
  - **Liability risk** – Harm or injury to other people or their property because of your actions.
- **Example**: A factory incurred a loss due to a fire.

# Examples of Economic Risks

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➤ **Personal risk –**

John went snowboarding at Snowshoe and broke his leg. The hospital bill was \$1400.

➤ **Property risk –**

Mr. A invested in stock market and lost money when his stock's value dropped.

➤ **Liability risk –**

A customer slipped on spilled water in the store aisle before an employee cleaned the spill.

# Types of Risk

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## Non-economic Risk

- May result in embarrassment or inconvenience without financial impact.
- **Examples:**
  - Requesting customers to move to another check-out lane.
  - Emotional Distress

# Types of Risk

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- **Pure Risk**

- Threat of a loss without an opportunity for gain.
- Examples:
  - Fire damages the building.
  - Car Accident.

- **Speculative Risk**

- Offers the chance of gain or loss.
  - Example: Gambling and Investing

# Types of Risk

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## Controllable Risk

- Occurs when conditions can be controlled to lessen the chance of harm.

### Examples:

- Poor cash flow in a company
- Addressing skills issues



# Types of Risk

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- **Uncontrollable Risk**
  - Cannot be controlled or reduced by your actions.
  - Example: Riding along a highway with other speeding automobiles. You can control your driving but not the other drivers.

# Ways to Handle Risks

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- **Transfer the risk**

- Allowing someone else to assume the risk.

Examples:

- A book company has a contract for a trucking company to transport its books.
- Joan rides the bus to work.

# Insurable Risks

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- **Insurable Risk**

- Meets criteria of an insurance company for coverage.

- **Examples:**

- An artist purchased property insurance to cover his collection.

- Owner purchased liability insurance for the business.

- Automobile insurance is purchased to cover liability and property damage risks

# Unpredictable Risk

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## Unpredictable amount of loss

### Example:

- A competitor of Staples, an office supply store, moved right across the street.

# Ways to Handle Risks

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- Avoid
- Transfer
- Insure
- Assume

# Ways to Handle Risks

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- **Avoid the risk**
  - Declining to engage in particular activities.
    - Example:
      - A book company declines an order to produce 6000 books in one day.
      - Goggle, Inc. declined expanding their business into a new city.
      - Joan does not drive a vehicle for fear of having an accident.

# Ways to Handle Risks

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- **Transfer - Insure the risk**
  - Purchasing insurance to cover risk.
    - Example: General Electric sells insurance to customers to cover their appliances.
    - A book company has a life insurance policy on its key employees.
    - Ms. K insures his auto for property damage since he still owes money to the bank.

# Ways to Handle Risks

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## Example:

- Mary runs a coffee shop and offers a variety of services.
- A & G Inc 's company vehicle is paid for and dropped the property damage (comprehensive & collision) insurance.
- Tom signed for a \$10,000 loan for new equipment.



# Uninsurable Risks

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## ◎ Some risks are

- Too expensive for businesses to insure
- Uninsurable due to nature of risk

# References

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