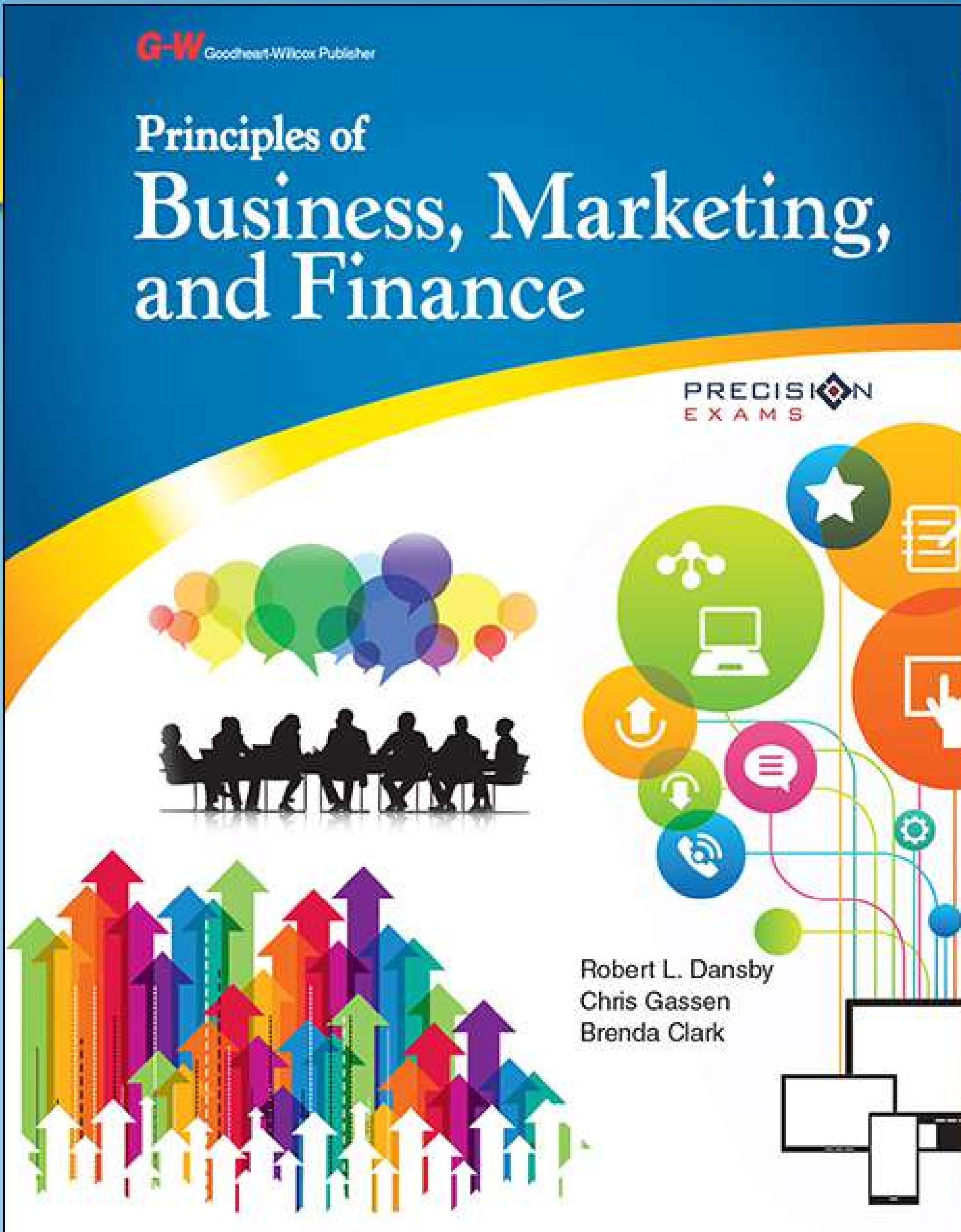

Presentations for PowerPoint

Principles of Business, Marketing, and Finance

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14

Risk Management

Section 14.1

Understanding Risk

Objectives

- **Identify** various types of risk.
- **Explain** the concept of risk management.

Key Terms

- risk
- natural risk
- economic risk
- market risk
- human risk
- risk management
- controllable risks
- uncontrollable risks
- pure risk
- speculative risk
- insurance
- uninsurable risk

Essential Question

How can a business identify and manage risk?

Identifying Risk

- **Risk** is the possibility of loss, damage, or injury
  - **Natural risk** is a situation caused by acts of nature
  - **Economic risk** is a situation that occurs when business activities suffer due to changes in the US or world economy
  - **Market risk** is the potential that the target market for new goods or services is much less than originally projected
  - **Human risk** is a negative situation caused by the actions of people

Identifying Risk

- **Risk management** is the process of evaluating risk and finding ways to minimize or manage loss
- **Controllable risks** are situations that cannot be avoided, but can be minimized by purchasing insurance or creating a risk management plan
- **Uncontrollable risks** are situations that cannot be predicted or covered by purchasing insurance

Identifying Risk

- **Pure risk** is a risk with a possibility of loss, but no possibility of gain
  - *Personal risks* directly affect an individual
  - *Property risks* affect personal or business property
  - *Liability risks* result from the possibility of losing money, property, or other assets as a result of legal proceedings
- **Speculative risk** is a risk that can result in either financial gain or financial loss

Managing Risk

- Basic strategies to manage risk:
  - Avoid
  - Reduce
  - Transfer
  - Assume

Managing Risk

- *Avoidance* is taking steps to eliminate risk
- *Reducing* is a strategy of minimizing risks that cannot be avoided
- *Transferring* is sharing the risk with others
  - **Insurance** is a financial service used to protect against loss
- *Assuming* risk means accepting full responsibility for a loss
  - **Uninsurable risk** is one that an insurance company will not cover

Section 14.1 Review

1. What is business risk?

   Business risk is the possibility of loss or injury that affects a business.

2. List four basic types of risk.

   The four basic types of risk are natural risk, economic risk, market risk, and human risk.

3. What are some examples of pure risks?

   Pure risks include personal risks, property risks, and liability risks.

Section 14.1 Review

4. Why are speculative risks not insurable?

   Most speculative risks are not insurable because they are taken willingly in hopes of making a gain.

5. Once risks have been identified, how can they be managed?

   Many potential risks identified can be avoided, reduced, transferred, or assumed.

Section 14.2

Business Insurance

Objectives

- **Explain** the role of insurance companies in helping customers managing risk.
- **Identify** the types of insurance.
- **Describe** common insurance coverage for businesses.

Key Terms

- insurance policy
- premium
- claim
- deductible
- general liability insurance
- product liability insurance
- professional liability insurance
- commercial insurance
- liability insurance
- business interruption insurance
- fidelity bond
- directors and officers insurance
- data breach insurance
- property insurance
- workers' compensation insurance
- unemployment insurance
- disability insurance

Essential Question

How can insurance help manage business risk?

Insurance Companies

- Insurance companies offer financial protection through insurance policies
- An **insurance policy** defines the type of losses that are covered, amount of coverage in dollars, and other conditions to which the two parties agree
  - **Premium:** Amount insured pays for insurance coverage
  - **Claim:** Process of documenting a loss against an insurance policy
  - **Deductible:** Amount the insured is responsible for paying when a claim is made

Insurance Companies

- *Independent agent* is an insurance agent who works for multiple insurance companies; *brokers*
- *Contract agent* is an insurance agent who works for only one insurance company

Types of Insurance

- **General liability insurance** protects against financial losses that result from legal issues
- **Product liability insurance** protects against financial losses due to a product defect that may cause injury to the user of the product
- **Professional liability insurance** protects service-based businesses from financial losses caused by errors and negligence in how a service is provided

Types of Insurance

- **Commercial insurance** is insurance that protects commercial property from risks
  - *Commercial property insurance* covers buildings and other assets of the business
  - *Commercial auto insurance* protects vehicles owned by a business from accidents and other losses
  - *Inland marine insurance* protects property being transported for business
  - *Equipment breakdown insurance* covers losses due to the accidental breakdown of machinery and equipment
  - *Ordinance or law insurance* covers losses caused when local building ordinances or laws are enforced

Business Insurance

- **Liability insurance** covers financial losses caused by the actions or negligence of a person or business
  - **Business interruption insurance** covers lost income and expenses caused by a property damage loss
  - **Fidelity bonds** cover financial and property losses caused by employee actions
  - **Directors and officers insurance** covers financial losses caused by company's executive officers
  - **Data breach insurance** covers legal fees and financial losses sustained when a company's data files are accessed without permission

Business Insurance

- **Property insurance** covers losses and damage to the assets of a business caused by a variety of events, such as floods, fire, smoke, and vandalism
- Vehicle insurance covers commercial vehicles owned by the business

Business Insurance

- Various types of insurance coverage may be part of employee benefits
  - **Workers' compensation insurance** covers medical expenses and lost wages for employees injured at work
  - **Unemployment insurance** provides certain benefits to workers who lose their jobs through no fault of their own
  - **Disability insurance** provides some income to employees who become sick or injured due to a nonwork related event or condition

Section 14.2 Review

1. Explain the most well-known service provided by insurance companies.

   The most well-known service provided by insurance companies is financial protection through insurance policies. The insurance company, the *insurer*, protects the *insured*, the policyholder. For a fee, the insurer provides the insured with protection against economic loss.

2. Name two types of insurance agents.

   Two types of insurance agents are independent and contract.

Section 14.2 Review

3. How does the Small Business Administration (SBA) categorize some types of insurance needs?

   The Small Business Administration (SBA) categorizes some types of insurance needs as general liability, product liability, professional liability, and commercial insurance.

4. List types of common insurance coverage for businesses.

   Most business have coverage for liability, property, auto, and employees of the business.

Section 14.2 Review

5. List three examples of coverage provided by employers for employees.

   Examples of employee insurance include worker’s compensation, unemployment, and disability insurance.