

CHAPTER

14

Risk Management

Part 1: Content Review

Matching

Write the letter of the correct term for each definition on the line provided.

Terms

- | | |
|--------------------|-------------------------|
| A. risk | F. premium |
| B. natural risk | G. claim |
| C. market risk | H. deductible |
| D. risk management | I. property insurance |
| E. insurance | J. disability insurance |

- _____ 1. The possibility of loss, damage, or injury.
- _____ 2. A financial service used to protect against loss.
- _____ 3. The process of documenting a loss against an insurance policy.
- _____ 4. Provides some financial income to employees who become sick or injured due to a nonwork related event or condition.
- _____ 5. The amount the insured is responsible for paying when a claim is made.
- _____ 6. The potential that the target market for new goods or services is much less than originally projected.
- _____ 7. The amount the insured pays for insurance coverage.
- _____ 8. Covers losses and damage to the assets of a business caused by a variety of events, such as floods, fire, smoke, and vandalism.
- _____ 9. A situation caused by acts of nature.
- _____ 10. The process of evaluating risk and finding ways to minimize or manage loss.

Multiple Choice

Place the letter of the correct answer to each question on the line provided.

- _____ 1. Which of the following is *not* one of the four basic types of risk?
- A. Natural
 - B. Economic
 - C. Market
 - D. Controllable
- _____ 2. _____ risks are situations that cannot be avoided, but can be minimized by purchasing insurance or creating a risk management plan.
- A. Economic
 - B. Controllable
 - C. Uncontrollable
 - D. Market
- _____ 3. _____ risks are situations that cannot be predicted or covered by purchasing insurance.
- A. Economic
 - B. Controllable
 - C. Uncontrollable
 - D. Market
- _____ 4. Which of the following is one of the basic ways to manage risk?
- A. Avoidance
 - B. Assumption
 - C. Adherence
 - D. Reliance
- _____ 5. A _____ risk is a risk with a possibility of loss, but no possibility of gain.
- A. controllable
 - B. pure
 - C. speculative
 - D. natural
- _____ 6. A(n) _____ provides the insured with protection against economic loss for a fee.
- A. broker
 - B. independent agent
 - C. policyholder
 - D. insurer
- _____ 7. _____ liability insurance protects against losses that result from legal issues.
- A. General
 - B. Product
 - C. Professional
 - D. Controllable
- _____ 8. Which of the following is *not* an example of commercial insurance?
- A. Commercial property
 - B. Commercial auto
 - C. Commercial professional
 - D. Equipment breakdown

Name _____

- _____ 9. Employees who are injured at work are covered by _____ insurance.
- A. disability
 - B. unemployment
 - C. business interruption
 - D. workers' compensation
- _____ 10. A(n) _____ defines the type of losses that are covered, amount of coverage in dollars, and other conditions to which the insured and insurer agree.
- A. insurance claim
 - B. insurance policy
 - C. commission agreement
 - D. fidelity bond

Completion

In the space provided, write the word(s) that best completes each of the following statements.

- _____ 1. A situation that occurs when business activities suffer due to changes in the US or world economy is _____ risk.
- _____ 2. A negative situation caused by actions of people is _____ risk.
- _____ 3. A risk that can result in either financial gain or financial loss is a(n) _____ risk.
- _____ 4. A(n) _____ risk is one that an insurance company will not cover.
- _____ 5. _____ is a risk management strategy in which a business takes steps to eliminate risk.
- _____ 6. A(n) _____ agent is an insurance agent who works for multiple insurance companies.
- _____ 7. A(n) _____ agent works for only one insurance company.
- _____ 8. _____ insurance covers financial losses caused by the actions or negligence of a person or business.
- _____ 9. A loss caused by employee actions, such as theft or embezzlement, is covered by a(n) _____.
- _____ 10. _____ insurance provides certain benefits to workers who have lost their jobs through no fault of their own.

Name _____

Part 2: Concept Review

Open Response

*Write your response to each of the following statements or questions in the space provided.
Use complete sentences.*

1. What are four basic risk management strategies? Briefly describe each strategy.

2. An orthodontist starts a new practice and purchases insurance to cover her office and equipment in the event of fire, theft, or certain natural disasters. Does she need any other insurance before seeing patients? Explain your answer.

3. Identify three ways employees can pose a risk to their employers. How can these risks be managed?

Name _____

4. Insurance companies offer many different types of liability insurance for businesses. What is data breach insurance? What is covered?

5. Identify a business you might be interested in starting. Make a list of ten different business activities that would pose a risk to your business that could result in a loss. Classify each activity as either a controllable or uncontrollable risk. For each risk, indicate if you think it can be avoided, reduced, transferred, or must be assumed.

Name _____

Part 3: Math Skills

Basic Math

Businesses assume risk every day involving many factors, including fire, storms, vandalism, and theft. They try to reduce risks with proper planning and insurance coverage. This requires basic math skills.

Answer the following questions involving risk planning.

1. Computer Tech Solutions provides software support and computer repairs in a leased building. The owner pays \$117 a month for a business insurance policy that covers business equipment, store fixtures, and liability. What is the annual cost of this insurance coverage?

2. The Grand Inn is a small hotel that the owner purchased 31 years ago. The owner wants insurance to replace the hotel and furnishings in the event it is destroyed by fire or storm. The estimated cost of reconstruction is \$1,950,000. New furniture and hotel supplies would cost \$175,000. It would cost an additional \$20,000 to meet new city ordinances that were enacted since the hotel was built. How much insurance coverage does the owner need?

3. Maggie Johnson Specialties is an antiques and collectibles dealer. Johnson has insurance to cover the cost of inventory, which was purchased for \$335,000. However, some of the antiques and collectibles in inventory have risen in value since they were purchased. The owner estimates that it would cost \$500,000 to replace the store's inventory today. How much is the owner currently at risk if all of store's inventory were lost or stolen?

4. Simpson's Garden Center has insurance that covers 90 percent of the damage to its store and greenhouses from fire, storm, and vandalism. A windstorm causes \$28,000 damage to its greenhouses. How much is covered by insurance? How much will be paid by the owner?

5. Speed Wheels has insurance on its race car track that covers up to \$150,000 in damage with a \$7,500 deductible. This means that Speed Wheels must pay the first \$7,500 before the insurance coverage begins. The race track is vandalized and incurs \$14,200 in damages. How much will the insurance pay toward this damage?

Name _____

Part 4: Communication Skills

Reading

When reading company policies, it is important to seek explanation if you do not understand something. Failure to do so may result in miscommunication between you and your superiors. Read the passage that follows and focus on the content. After you have read the passage, write your answers in the activities that follow.

Commitment to Safety

Safety is a part of every employee's job responsibility. It is a major part of YOUR responsibility here at Elroy Company. Every employee should perform every job in a safe manner. Correct and safe procedures, tools, equipment, and protective devices should be used at all times. If you have any questions about these, please talk to your supervisor or the Human Resources Director. You must immediately report any possible safety hazard, near-miss accident, or injury to your supervisor, the Human Resources Director, or other member of the management team. If you suffer an occupational injury or illness, no matter how minor, **YOU MUST REPORT IT IMMEDIATELY** to your supervisor or the Human Resources Director. Failure to report occupational injuries and illnesses, accidents, or near-miss incidents as they occur is grounds for disciplinary action, up to and including termination.

This section of the *Employee Handbook* is intended to provide guidelines on how the Company can and will fulfill our responsibilities for the protection of our employees and premises. It is not intended to be a substitute for common sense and an employee's own diligence. Nor is it expected to replace sound safety policies and procedures, which are carefully monitored, enforced, reviewed, and corrected to establish the high standards for safety we strive to achieve. This section cannot possibly address every safety situation; however, it does endeavor toward continuous improvement and compliance with all applicable state, local, and federal safety laws and regulations.

We ask that you recognize safety hazards and remain alert while performing your duties here. It is only through a combined effort from you and Elroy Company that we will all remain safe, secure, and healthy.

Our safety belief is simple: "Continuous improvement of our Safety Program through training, awareness, motivation, and self-evaluation are keys to achieving and maintaining an accident-free workplace."

Reading Questions

1. Is Elroy Company solely responsible for employee safety?

2. If a safety hazard is found, to whom and when should it be reported?

3. What purpose does the Employee Handbook serve in employee safety? Does it address every possible safety situation?
