

CHAPTER 2

2.0

THE MANAGEMENT OF INSURANCE RISKS

Having discussed insurance and risk earlier in this book, this chapter is aimed at the management of the risk and hence the emergence in Nigeria in 1988 a new association known as "Faculty of Risk Management" {FARIM}. Its goal is aimed at creating risk management awareness with a view to preventing losses and preserving valuable assets. FARIM's membership comprises individuals and corporate bodies from all sectors of the Nigerian economy. The job of the risk manager is to identify the pure risks to which the enterprise is exposed. He thereafter quantifies and analyses them. He now proceeds to classify the risks, bearing in mind the potential maximum loss of each and also the predictability of loss. Having done this, he (the risk manager) may now choose the tools he deems best to deal with each risk.

The risk manager may either recommend the stoppage of some hazardous processes or embark on a loss prevention measure, by not storing all of one's eggs in one basket. All the possibilities, having been exhausted, the entrepreneur may decide, as a last resort, to either bear the risk himself or transfer the risk to someone else. Insurance has proven to be, in almost all the cases, the most effective tool used for transferring of pure risks. The insured saves himself, the anxiety of probable loss when he pays a premium to

an insurance company that promises to indemnify him, if the insured event occurs.

The risk manager must take cognizance of the resources of the firm, for a heavily capitalized company may see a loss to a lowly capitalized company as inconsequential.

2:1

STEPS IN RISK HANDLING

2:1:1

Risk Identification

Risk management takes the view that an organization or firm is exposed to risk in a variety of ways and that one such way may lead to a huge financial loss. Think of a large complex factory, shopping center, airport or any large risk, and where would you begin the task of risk identification?

2:1:2

Risk Identification Techniques

Using a manufacturing plant as the risk, the following techniques will be used after a physical inspection may have been carried out. They are as follows:-

(a) **Organizational Charts**

Risks will be easily identified from the organizational structures of the plant and even the entire company.

