Chapter 33: The Basics of Risk Management

I-Summary: This chapter defines and discusses risk. A risk is a possibility of loss or injury. All people and businesses face risk. Risk management is the systemic process of managing risk to achieve your objectives. There are several types of risks that can include controllable or uncontrollable. Risks can be further defined as economic, human, natural, or pure risks. You can purchase insurance to protect yourself from many risks. There are four ways to handle risks. You can avoid, reduce, retain, or transfer risk. You can attempt to avoid risk by thinking about the consequences of decisions. You can reduce risk by practicing safety and taking preventative measures before damage or loss occurs. You can retain risk by bearing the financial responsibility for the risk. You can also transfer risk by purchasing insurance.

I-Quiz

Quiz yourself to check your understanding. For each question, you will hear four answer choices. After you hear all four answer choices, choose your answer during the pause. Then you will hear the correct answer. Let's begin.

Question 1

Which term refers to the risk of damage to or loss of property due to theft, wind, fire, flood, or some other hazard?
a.   personal risk
b.   liability risk
c.   property risk
d.   human risk

Question 2

Which is NOT an example of human risk?
a.   customer dishonesty

b.   employee risk

c.   computer-related crime

d.   arson

Question 3

What is peril?

a.   anything that increases the likelihood of loss

b.   anything that may possibly cause a loss

c.   the chance of loss

d.   the price a person pays to be insured

Question 4

What is a hazard?

a.   anything that increases the likelihood of loss

b.   anything that may possibly cause a loss

c.   the chance of loss

d.   the price a person pays to be insured

Question 5

Which type of insurance protects family members after someone dies?

a.   liability insurance

b.   health insurance

c.   property insurance

d.   life insurance

Answer Key
1. The correct answer is C, property risk. Property risk is an economic risk of damage to property.

2. The correct answer is D, arson. Although arson is caused by people, it is classified as a natural risk.

3. The correct answer is B, anything that may cause a loss. Peril is anything that may possible cause a loss. People buy insurance against a wide range of peril including fire, robbery, and accidents.

4. The correct answer is A, anything that increases the likelihood of loss. Hazards are things such as defective electrical wiring that can increase the likelihood of loss.

5. The correct answer is D, life insurance. Life insurance protects families by paying a defined sum of money when a family members dies.