

# INSURANCE STUDY MATERIAL – SAMPLE



SAMPLE : Study Material-2020

SAMPLE CONTENT

Tel : 01264 749556

e-mail : [enquiry@wiseracademy.co.uk](mailto:enquiry@wiseracademy.co.uk)

[www.wiseracademy.co.uk](http://www.wiseracademy.co.uk)

---

# Chapter – 1

## Risk and Insurance

---

**In this chapter you will learn about...**

- The concept of risk
- Risk management
- Categories of risk
- Types of risk

SAMPLE CONTENT

## Risk and Insurance

### Risk Perception – What does risk mean to you?

There are many meanings for the word “risk” and in the insurance market place it is used in a number of ways. Risk can mean many different things and can be used in lots of situations. Everyone takes decisions every day based on risk. The decisions that you make can be minor or they can be of huge significance.

### What types of risk do you take on a daily basis?

- Whether to wear a coat to work in the morning based on the weather forecast
- Whether or not to go on a fair ground ride for fear it may make you feel ill
- Whether or not to leave your current job and set up your own company

Essentially we display one of two main attitudes when we consider risk. We tend to be either...



### What is risk?

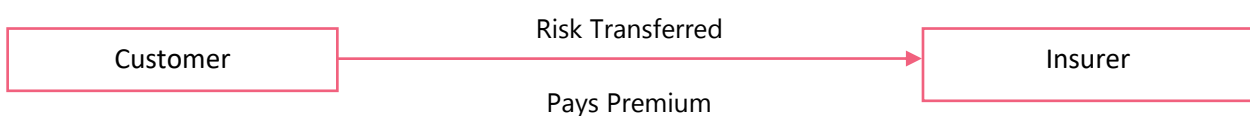
Risk refers to the uncertainty and the unpredictability of something happening. If you own a car what risks could you, as the owner of the vehicle, be faced with?

- Car being stolen
- Car being set alight
- Car being vandalised
- Risk of damage if you were to be involved in an accident with another vehicle which was your fault
- Risk of damage if you were to be involved in an accident with another vehicle which was not your fault

In each of the examples above the scenarios present a risk to the owner of the car

In each scenario it is possible to insure the risk. This is achieved by the owner of the car paying an amount of money, called a premium, to the insurer in return for the insurer accepting the presently unknown costs the insured may incur in the event of an insured event occurring. The insurer will pay for the policyholder’s loss, damage or liability as a result of such an incident. **This is referred to as transferring of risk.**

The insurer accepting the unknown potential risk for an agreed premium describes the function of insurance as a **risk transfer mechanism**. In return for a known premium the customer achieves peace of mind in knowing that any possible future losses will be met by the insurers, thus removing the uncertainty.



## Risk Management

Risk Management is of ever-increasing importance as companies take control and formulate strategies for the management (and hopefully reduction) of risk within their particular business. Risk Managers are commonly appointed and many are members of **AIRMIC** which is the (**A**ssociation of **I**nsurance and **R**isk **M**anagers in **I**ndustry and **C**ommerce.)

**AIRMIC** has been influential in setting standards in areas of risk management and, with other organisations, has published a Risk Management standard that has been widely adopted.

### Why is Risk Management important?

- Reduces potential losses by identifying and managing (reducing or eliminating) hazards
- Provides shareholders with confidence in the companies' ability to manage risk
- For companies quoted on the stock market it is a legal requirement to identify all significant risks to which the business is exposed and explain in their annual report to shareholders how these are being managed
- Provides a strict approach to quantifying risks.

### **The decision to transfer the risk to an insurer is the final stage in the risk management process.**

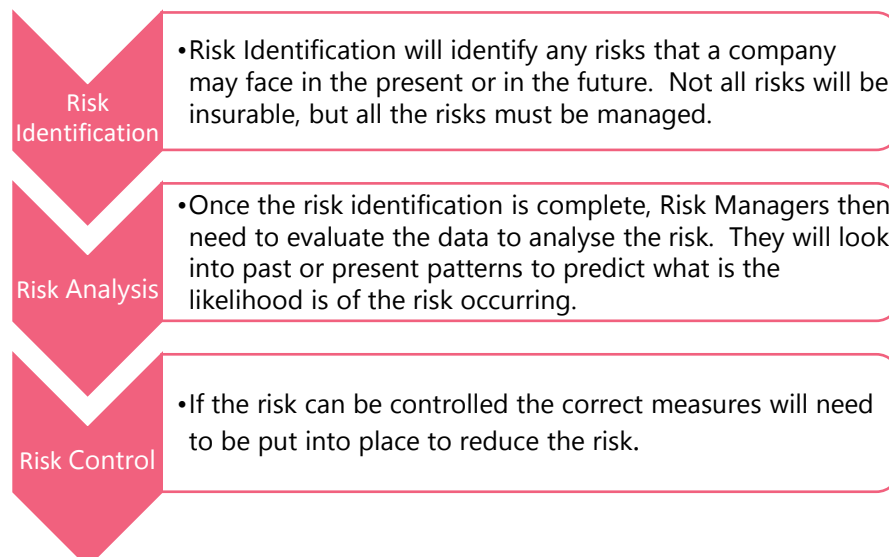
Where general insurance is concerned Risk Management is viewed differently by individuals than by businesses. For general insurance certain elements may be compulsory, such as third party motor insurance which the law requires all motorists to have. Alternatively it could be that another party has a financial interest in the item that you are insuring, such as the mortgage company who may insist you affect home insurance.

### Function of Risk Management

Risk management may be defined as....

The identification, analysis and economic control of those risks which can threaten the assets or earning capacity of an enterprise

The main focus on risk management is identification and treatment of defined risks. Risk management must be continuous and a developing process within the firm's strategy. It should identify all of the risks surrounding the firm's current, past and future activities. This will identify the three steps within risk management.



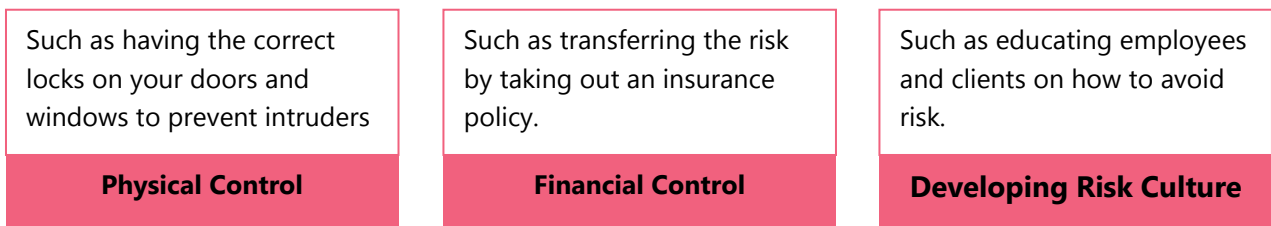
**Risk Control in detail..**

If the risk can be controlled the correct measures will need to be put into place to reduce the risk.

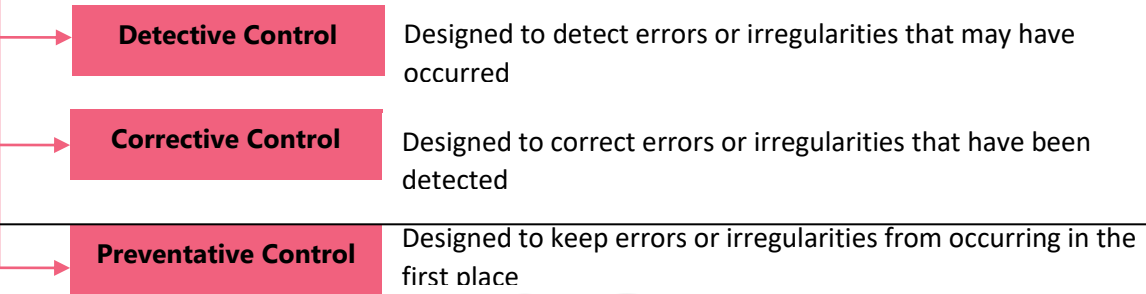
**Example:**

In a car paint spraying factory’s a Risk Manager would identify that continuous spraying of toxic paint could damage the employee’s health. The Risk Manager would then need to look at previous data based on the health of the employees and also research the effects the paint may have on the employees. The risk control element will then be put into place to reduce the harmful effects of inhaling the paint. This could be in the form of all employees wearing a mask when they are paint spraying.

**Aspects of Risk controls**



Depending on what the internal physical controls were designed for they will be either be a:



Insurers as usual are on prevention and control. The way in which they do this is by imposing certain conditions and making recommendations designed to improve the risk.

Insurance company surveyors will often inspect business premises and produce a report with recommendations on how to improve the risk to an acceptable standard from the insurer’s point of view. Insurers may then offer premium reductions as an incentive to the customer to implement risk improvements.

Insurers are involved in researching areas of loss prevention and control, although the majority of the work is carried out, on their behalf, by...

The **Loss Prevention Council (LPC)** which forms part of the... **Building Research Establishment (BRE)** and the **Fire Protection Association (FPA)**. The work that these bodies undertake includes...

