DegreeLive

B.Com Honours | Semester VI | Calicut University

RISK MANAGEMENT IN BANKS AND INSURANCE

Course Code: COM6EJ304 • Module 1 Notes

Module I: Introduction to Risk & Risk Management Process

Covers risk definitions, Pure vs Speculative risk, static vs dynamic risk, risk management principles, risk identification & evaluation, loss frequency vs loss severity, and risk control organizational design.

Unit 1: Risk Meaning, Sources, & Risk Typologies

Risk: Uncertainty regarding occurrence of a loss. Pure Risk (Possibility of loss or no loss only, e.g. fire) vs Speculative Risk (Possibility of profit, loss, or break-even, e.g. stock investment). Static vs Dynamic Risk.

Unit 2: Risk Management Principles & Objectives

Principles: Pre-loss objectives (economy, anxiety reduction, meeting legal obligations) & Post-loss objectives (survival, business continuity, earnings stability).

Unit 3: Risk Management Process & Identification

Process Steps: 1. Risk Identification (Physical inspection, financial statement analysis, flowcharts) $ ightarrow$ 2. Risk Evaluation $ ightarrow$ 3. Strategy Selection $ ightarrow$ 4. Implementation.

Unit 4: Loss Frequency, Loss Severity, & Risk Control

Measurement Matrix: Loss Frequency (probable number of losses) vs Loss Severity (probable financial size of loss). High Severity + Low Frequency $implies$ Risk Transfer (Insurance). High Severity + High Frequency $implies$ Risk Avoidance.

Practical Case Framework 1 (Pure Risk vs Speculative Risk Classification Matrix): Compare risk nature, profit possibility, insurability status, and commercial example.

Pure vs Speculative Risk Comparison Table:

Risk Dimension	Pure Risk Category	Speculative Risk Category
Possible Outcomes	Loss or No Loss (Zero gain potential)	Gain, Loss, or Break-even
Insurability Status	Commercially Insurable by insurers	Uninsurable (Handled by hedging/swaps)
Corporate Example	Factory Fire, Theft, Flood damage	Currency fluctuations, Stock market trade

Practical Case Framework 2 (Loss Frequency vs Loss Severity Risk Management Matrix): Detail risk combination quadrant, appropriate risk technique, and corporate implementation.

Risk Frequency & Severity Decision Table:

Loss Frequency / Loss Severity Quadrant	Recommended Risk Management Technique	Corporate Operational Implementation
High Frequency + High Severity	Risk Avoidance	Discontinue high-risk product line / exit market
Low Frequency + High Severity	Risk Transfer (Commercial Insurance)	Purchase Property & Business Interruption Cover
High Frequency + Low Severity	Loss Prevention & Retention	Implement quality controls & self-insurance fund