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B.Com Honours | Semester VI | Calicut University

RISK MANAGEMENT IN BANKS AND INSURANCE

Course Code: COM6EJ304 • Module 3 Notes

Module III: Risk Management & Control Tools in Insurance

Covers insurance risk control tools, Risk Avoidance vs Reduction vs Retention, Enterprise Risk Management (ERM), personal risk applications (Life & Health), retirement planning, annuities, and employee benefits.

Unit 11: Insurance Risk Concepts & Control Techniques

Insurance Risk Control: Physical & financial techniques to reduce frequency & severity of loss. Principles: Principle of Indemnity, Utmost Good Faith (Uberrimae Fidei), Insurable Interest, & Proximate Cause.

Unit 12: Personal Risk Control & Enterprise Risk Management (ERM)

Risk Control Tools: Risk Avoidance, Risk Reduction (Loss prevention/suppression), Risk Retention (Self-insurance deductibles), Non-Insurance Transfer (Hold-harmless agreements), & **Enterprise Risk Management (ERM):** Holistic management of financial, strategic, & operational risks across entire organization.

Unit 13: Personal Risk Applications (Life & Health Risk)

Personal Applications: Human Life Value (HLV) approach to life insurance sum assured calculation, health insurance indemnity covers, & critical illness riders.

Unit 14: Retirement Planning, Annuities, & Employee Benefits

Retirement Tools: Accumulation phase $ ightarrow$ Distribution phase via Annuities (Immediate vs Deferred Annuity, Life Annuity with return of purchase price), Group Gratuity & Superannuation pension schemes.

Practical Case Framework 1 (Risk Management Control Tools & Techniques Matrix): Compare risk control method, operational mechanism, financial impact, and insurance application.

Risk Control & Financing Methods Table:

Risk Handling Method	Operational Action Mechanism	Primary Financial Impact
Risk Avoidance	Completely eliminate exposure to loss activity	Zero financial loss risk (Abandons opportunity)
Loss Control / Reduction	Install sprinkler systems / fire alarms	Reduces probable loss severity & insurance premium
Risk Financing (Retention)	Deductibles & Self-insurance captive funds	Absorbs small predictable losses internally

Practical Case Framework 2 (Enterprise Risk Management ERM Architecture Matrix): Compare ERM risk pillar, core risk scope, risk measurement tool, and organizational owner.

Enterprise Risk Management (ERM) Pillars Table:

ERM Risk Pillar	Organizational Risk Scope Covered	Primary Assessment & Monitoring Tool
Hazard Risk	Property fire, natural disasters, liability suits	Property Insurance & Actuarial Loss Curves
Financial Risk	Interest rate volatility, currency risk, credit default	Value at Risk (VaR) & Stress Testing
Strategic Risk	Competitive disruption, reputation damage	Scenario Planning & Risk Heat Mapping