

LESSON 2.4 RISK IDENTIFICATION METHODS**NOTES GUIDE**

Risk managers use a variety of methods for identifying potential loss exposures. By the end of this lesson, you will be able to describe and provide examples of ten commonly used risk identification methods. Risk managers typically use several risk identification methods to develop a full understanding of each type of exposure. One method alone rarely provides the detail that is necessary for proper client protection.

There are many other methods that can be used for risk identification, but we will cover these ten commonly used risk identification methods.

TEN COMMONLY USED RISK IDENTIFICATION METHODS

1. **Checklist, Surveys, and Questionnaires**
2. **Compliance Review**
3. **Procedures And Policies Review**
4. **Contract Review**
5. **Insurance Policy Review**
6. **Financial Statement Analysis**
7. **Loss Data Analysis**
8. **Expert Review**
9. **Flow Charts**
10. **Physical Inspections**



If you think of these methods as ten separate tools in a toolbox, you will realize that each of the items in the toolbox are of equal value. No single method is intrinsically better than another.

Checklists, Surveys, and Questionnaires

Generic checklists can be used to provide a _____ of the exposures faced by most businesses. This overview can then be enhanced by using industry-specific checklists, as well as other risk identification methods.

Because checklists, surveys, and questionnaires are standard in nature, they can be used by _____.

Risk managers always use a combination of risk identification methods to gain a more accurate understanding of risk management considerations.

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Compliance Review

This risk identification method determines an organization's compliance with _____ and _____, which may be statutory, state, or federal. Compliance reviews also examine adherence to established professional _____, including those imposed by industry and government insurance programs.

Why might it be important for a risk manager to conduct a compliance review?

Policies and Procedures Review

Reviewing the implementation of current and relevant policies and procedures helps a risk manager to identify exposures throughout an organization.

Describe the primary purpose of a policies and procedures review.

Adhering to documented processes, policies, and procedures secures organizations protection for their daily practices. Having documented processes, policies, and procedures in place ensures that key _____ are _____ and taken into consideration for risk assessment.

LESSON 2.4 RISK IDENTIFICATION METHODS**Contract Review**

Careful review of contracts helps a risk manager determine an organization's _____ as well as the obligations of others to the organization.

What are some examples of contracts that should be reviewed?

Insurance Policy Review

Risk managers review insurance policies to identify exposures and perils arising from:

- a. _____
- b. _____
- c. _____
- d. _____

By conducting an insurance policy review, risk managers are able to identify coverage needs and procure the necessary insurance to protect the company.

As the risk manager, you need to identify all operational aspects and ensure the proper risk financing methods are in place. As insurance is a large part of risk financing, it is crucial the risk manager examines the insurance that is in place.

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Financial Statement Analysis

Analysis of financial statements assists risk managers in the identification of _____ and the _____ of assets and possible losses. It also assists in determining an organization's financial capabilities and with financial-based decision-making in all areas across the operation.

What are the primary financial statements that are relevant to risk managers?

It's very important for risk managers to have a complete understanding of a company's financial health in order to properly control, finance, and administer risk.

In addition to gaining a broad understanding of the company's revenues, profit margins, and cash flows, financial statement analysis will also assist with _____ and reveal the company's _____.

Debt is one of the biggest concerns of any organization, and it is vital for the company to know how to manage outstanding debt.

Financial statement analysis may also reveal the _____ of new equipment that will need to be added to the insurance policies.

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Loss Data Analysis

It's very important for risk managers to understand a company's historical loss data.

What is a **loss run** report?

Loss data analysis provides a _____ examination of exposures and their valuation.

Why would a risk manager use loss data analysis?

Expert Review

Experts can be valuable to the risk identification process. They provide professional _____, _____, and _____ for resolving issues associated with a given topic.

Flowchart

Why do risk managers use flowcharts?

Flowcharts can help risk managers understand _____ processes, _____ processes, architectural site analysis, and _____ processes. They are also helpful in identifying _____ and _____ in a process.

LESSON 2.4 RISK IDENTIFICATION METHODS**Physical Inspections**

Both _____ and _____ inspectors can visit physical facilities to identify exposures to risk.

Who would be considered an internal inspector?

Who would be considered an external inspector?

LESSON 2.4 RISK IDENTIFICATION METHODS**Review Activity**

Match the risk identification method with the correct description.

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|--|---|
| 1. _____ Expert Review | A. Examination of an organization's financial information to identify and value exposures |
| 2. _____ Financial Statement Analysis | B. Review of a graphical depiction of a process or system |
| 3. _____ Physical Inspection | C. Contributions from experienced individuals in the identification of exposures |
| 4. _____ Flowchart Review | D. Systematic searches for as many exposures, perils, and hazards as possible |
| 5. _____ Contract Review | E. Visits to physical sites to identify exposures to risk |
| 6. _____ Compliance Review | F. Historical examination of exposures and their valuation |
| 7. _____ Checklists, Surveys, and Questionnaires | G. Identification of contractual obligations and examination of contractual compliance |
| 8. _____ Insurance Policy Review | H. Determination of an organization's adherence to laws and regulations |
| 9. _____ Loss Data Analysis | I. Examination of current policies and procedures for the purpose of identifying exposures |
| 10. _____ Policies and Procedures Review | J. Identification of exposures and perils arising from insurance coverage gaps, insufficient limits, and exclusions |

LESSON 2.4 RISK IDENTIFICATION METHODS

ACTIVITY

Today's activity asks you to use the same business that you have used for the last two days to examine risk identification methods.

As you complete this activity, you will begin to think more like a risk manager when it comes to determining the most serious risks that could negatively impact a specific business, as well as getting an overall handle on as many of the risks facing the organization as you can imagine.

1. Organize your thinking on risk identification methods by using the chart. List two examples for each method showing how you could use it to identify risks in the business that you selected. If you need more room, create a chart like the one below on your own paper.

Checklist, Survey, & Questionnaire	Compliance Review
Policies & Procedure Review	Contract Review
Insurance Policy Review	Financial Statement Analysis
Loss Data Analysis	Expert Review
Flowchart	Physical Inspection

