Session 7: Introduction to Enterprise Risk Management

1. Scaffold Equipment manufactures and sells scaffolds and ladders that are used by construction firms. The products are sold directly to independent retailers in the United States. The company's risk manager knows that the company could be sued if a scaffold or ladder is defective, and someone is injured. Because the cost of products liability insurance has increased, the risk manager is considering other techniques to treat the company's loss exposures.
   a. Describe the steps in the risk management process.
   b. For each of the following risk management techniques, describe a specific action using that technique that may be helpful in dealing with the company's products liability exposure.
      1. Avoidance
      2. Loss prevention
      3. Loss reduction
      4. Noninsurance transfers

2. Avoidance is a risk-control technique that can be used effectively in a risk management program. Is it possible or practical for a firm to avoid all potential losses? Explain your answer.

3. Chris and Karen are married and own a three-bedroom home in a large Midwestern city. Their son, Christian, attends college away from home and lives in a fraternity house. Their daughter, Kelly, is a senior in high school. Chris is an accountant who works for a local accounting firm. Karen is a marketing analyst and is often away from home several days at a time. Kelly earns extra cash by babysitting on a regular basis.
   The family's home contains household furniture, personal property, a computer that Chris uses to prepare business tax returns on weekends, and a laptop computer that Karen uses while traveling. The Swifts also own three cars. Christian drives a 2004 Ford; Chris drives a 2009 Pontiac for both business and personal use; and Karen drives a 2011 Toyota and a rental car when she is traveling. Although the Swifts have owned their home for several years, they are considering moving because of the recent increase in violent crime in their neighborhood.
   a. Describe briefly the steps in the personal risk management process.
   b. Identify the major pure risks or pure loss exposures to which Chris and Karen are exposed with respect to each of the following:
      1. Personal loss exposures
      2. Property loss exposures
      3. Liability loss exposures
   c. With respect to each of the loss exposures mentioned above, identify an appropriate personal risk management technique that could be used to treat the exposure.