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### **Risk Management**

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Risk Management refers to the identification, measurement and treatment of exposure to potential accidental losses nearly always in situations where the sole possible outcomes are losses or no change within the status. It's a general management function that seeks to assess and address the causes and effects of uncertainty and risk on a corporation. The aim of risk management is to enable a corporation to progress towards its goals and objectives within the most direct, efficient, and effective path. Risk Management is that the executive function of handling specified risks facing the commercial enterprise. Generally, the danger manager deals with pure, not speculative risk. Generally, risk management is defined as a scientific process for the identification and evaluation of pure loss exposures faced by a corporation or individuals and for the choice and implementation of the foremost appropriate techniques for treating such exposures. Many risk managers use the term "loss exposure" to spot potential losses. Loss exposure may be a situation or circumstance during which a loss is feasible, no matter a loss occurs. For instance defective products which will end in lawsuits against the corporate. The objectives of risk management are often broadly classified into two: Pre-loss Objectives Post-loss Objectives. Risk identification is that the process by which a business systematically and continually identifies property, liability, and personnel exposures as soon as or before they emerge. The danger manager tries to locate the areas where losses could happen thanks to a good range of perils. Unless the danger manager identifies all the potential losses confronting the firm, he or she is going to not have any opportunity to work out the simplest thanks to handle the undiscovered risks. To identify all the potential losses the danger manager needs first a checklist of all the losses that would occur to any business. Second, he or she needs a scientific approach to get which of the potential losses included within the checklist are faced by his/her business. The danger manager may personally conduct this two-step procedure or may depend on the services of an insurance broker, broker, or consultant. Generally, a risk manager has several sources of data which will be wont to identify major and minor loss exposures. they're as follows: a. Physical inspection of company plant & machineries can identify major loss exposures. b. Extensive risk analysis questionnaire are often wont to discover hidden loss exposures that are common to several firms. c. Flow charts that show production and delivery processes can reveal production bottlenecks where a loss can have severe financial consequences to the firm. d. Financial statements are often wont to identify the main assets that has got to be protected. e. Departmental & historical claims data are often invaluable in identifying major loss exposures. Risk managers must even be conscious of new loss exposures which will be emerging. More recently, misuse of the web and e-mail transmissions by employees have exposed employers to potential legal liability due to transmission of pornographic material and theft of tip. The second step within the risk management process is

to gauge and measure the impact of losses on the firm. This involves an estimation of the potential frequency and severity of loss. Loss frequency refers to the probable number of losses which will occur during some given period of your time, while loss severity refers to the probable size of the losses which will occur. Once the danger manager estimates the frequency and severity of loss for every sort of loss exposure, the varied loss exposures are often ranked consistent with their relative importance. Both loss frequency and loss severity data are needed to gauge the relative importance of an exposure to potential loss. However, the importance of an exposure depends mostly upon the potential loss severity not the potential frequency. a possible loss with catastrophic possibilities although infrequent, is way more serious than one expected to supply frequent small losses and no large losses. On the opposite hand, loss frequency can't be ignored. If two exposures are characterized by an equivalent loss severity, the exposure whose frequency is bigger should be ranked more important. There's no formula for ranking the losses so as of importance, and different persons may develop different rankings. The rational approach, however, is to put more emphasis on loss severity.