**THE RISK MANAGEMENT PROCESS**

The risk management process can be divided into a

series of individual steps that must be accomplished

in managing risks. Identifying these individual steps

helps guarantee that important phases in the pro-

cess will not be overlooked. Although it is useful

for the purpose of analysis to discuss each of these

steps separately, it should be understood that in ac-

tual practice the steps tend to merge with one an-

other. The six steps in the risk management process

are:

Determination of objectives

Identification of risks

Evaluation of risks

Consideration of alternatives and selection of the

risk treatment device

Implementation of the decision

Evaluation and review

1)**Determination of Objectives**

The first step in the risk management process is the

determination of the objectives of the risk manage-

ment program: deciding precisely what it is that the

organization would like its risk management pro-

gram to do. Despite its importance, determining the

objectives of the program is the step in the risk man-

agement process that is most likely to be overlooked.

As a consequence, the risk management efforts of

many firms are fragmented and inconsistent. Many

of the defects in risk management programs stem

from an ambiguity regarding the objectives of the

program.

**2) Identifying Risk Exposures**

Obviously, before anything can be done about the

risks an organization faces, someone must be aware

of them. In one way or another, someone must dig

into the operations of the company and discover the

risks to which the firm is exposed. In one sense, risk

identification is the most difficult step in the risk

management process. It is difficult because it is a

continual process and because it is virtually impos-

sible to know when it has been done completely.

It is difficult to generalize about the risks that a

given organization is likely to face because differ-

ences in operations and conditions give rise to dif-

fering risks. Some risks are relatively obvious, while

many can be, and often are, overlooked. To re-

duce the possibility of failure to discover important

risks facing the firm, most risk managers use some

systematic approach to the problem of risk identifi-

cation.

**3)Evaluating the risk**

Once the risks have been identified, the risk man-

ager must evaluate them. Evaluation implies some

ranking in terms of importance, and ranking sug-

gests measuring some aspect of the factors to be

ranked. In the case of loss exposures, two facets

must be considered: the possible severity of loss,

and the possible frequency or probability of loss.

Evaluation involves measuring the potential size of

the loss and the probability that the loss is likely to

occur.

**4) Consideration of Alternatives and**

**Selection of the Risk Treatment Device**

Once the risks have been identified and evaluated,

the next step is consideration of the approaches

that may be used to deal with risks and the selec-

tion of the technique that should be used for each

one.

**5) Implementation of the Decision**

The decision is made to retain a risk. This may be

accomplished with or without a reserve and with

or without a fund. If the plan is to include the accu-

mulation of a fund, proper administrative procedure

must be set up to implement the decision. If loss pre-

vention is selected to deal with a particular risk, the

proper loss-prevention program must be designed

and implemented. The decision to transfer the risk

through insurance must be followed by the selec-

tion of an insurer, negotiations, and placement of

the insurance.

**5) Evaluation and Review**

Evaluation and review must be included in the pro-

gram for two reasons. First, the risk management

process does not take place in a vacuum. Things

change; new risks arise and old risks disappear. The

techniques that were appropriate last year may not

be the most advisable this year, and constant atten-

tion is required. Second, mistakes are sometimes

made. Evaluation and review of the risk manage-

ment program permits the risk manager to review

decisions and discover mistakes, ideally before they

become costly.