

RISK

The Simple Definition

Noun:

- Possibility of loss or injury
- Someone or something that creates or suggests a hazard
- (insurance) The chance of loss; a person or thing that is a specified hazard; an insurance hazard from a specified cause

Adjective:

- Riskless
- At risk

Transitive Verb:

- Risked, risking, risks
- To expose to a chance of loss or danger
- To incur the risk of

Discussion

Deceptively simple, the concept of risk has its roots in the ancient Italian maritime trade. It stems from the combination of the concept of chance, or uncertainty, on the Seas and the materiality of loss of ships and cargo (regretfully, crew was expendable). In order to have risk, one must have both uncertainty and exposure to loss. Consider the gamers who wager \$100,000 on the ponies. Prior to the race, both parties have risk. There is uncertainty (usually...) that the designated pony will show and there is exposure to payment of \$100,000 depending on outcome. After the race there continues to be risk, but with a notable shift. The uncertainty is no longer on the pony, but on the bettor who has “lost” and the exposure rests upon ability to pay the required wager. Now if we tweak the scenario and consider the state lottery that will pay \$100,000 to the winning number, there is no risk. Clearly there is uncertainty as to whether the number will drop, but there is no exposure to loss as one has rarely heard of someone fearing to win the lottery, and faithfully the states have honored their funding commitments. Shifting to the business world, we consider the company that, tomorrow, must make payment of \$100,000 interest on its loan from funds that it has. While there may be exposure to loss if economics have not been kind, there is no risk as there is no uncertainty that the payment must be made. These examples show the characteristics of time; vulnerability, severity or significance; and relative occurrence or frequency that are inherent in risk. In business environments we generally have segmented risk in order to develop specific mitigants. The next section considers some of these business definitions.

Business Definitions

Throughout literature the term “risk” has been linked with other terms to classify or specify particular areas of concern. We have attempted to list the primary terms used throughout this monograph in order to provide a common ground for discussion. By no means is this meant to be a complete list as virtually any adjective could be applied to “risk” when referring to a specific combination of uncertainty and exposure.

- Business Risk
 - Business continuation
Ability to conduct business “as usual”
 - Regulatory
Ability to satisfy existing regulatory requirements
Uncertainty associated with changes in regulatory requirements
 - Market conduct
Company activities in marketing and administering products
 - Political
Uncertainty associated with changes in the political environment

DRAFT – Risk Definition version 1

- Enterprise Risk
Concern with events that could lead to the complete financial destruction of the company
- Environmental Risk
Uncertainty and severity of the financial and non-financial impact of environmental hazards
- Financial Risk
 - Credit Risk
Degree of uncertainty of credit worthiness or ability to pay associated with marketable securities
 - Interest Rate Risk
Uncertainty associated with the company's ability to invest assets and receive a return that matches the return guaranteed on investment products
 - Capital Exposure
The amount of money needed to meet contractual obligations associated with an event
- Operational Risk
Uncertainty of non-financial events that may result in failure and associated financial loss