

Risk Management Primer ¹

Risk management is a term that has different meanings to different fields. It means one thing in the stock market, insurance and legal fields. The term is bandied about a lot. Even so, there is commonality to their parts. Two areas of risk management are discussed. The legal and engineering concepts of risk management are the primary focus of this section. Second, for preppers the purpose of introducing risk management is because it is important because you don't want to become injured or have an accident yourself. What is treatable in normal situations can easily be life threatening in times of emergency. Risk management and avoiding accidents cuts across all the topic areas in the following chapters. In terms of accident prevention, the primary focus is on barrier analysis which provides a good backdrop for understanding risk management. This is discussed in the next section.

Risk Management in the Legal Community – In the legal community, risk management has a legal focus in its approach toward handling risks. In the traditional approach there are four components or steps in the risk management process (Figure 1). These are 1) identification of the risks, 2) determine severity (probability and impact), and 3) apply a risk management strategy 4) in an effort to reduce the likelihood of injury, damage, or loss occurring to the individual. Although the main focus here is on the risk management strategies, a brief discussion of the first three components is necessary.

The first step is to identify the risks. In traditional risk management, this includes a plethora of risks including virtually anything and everything that can impact you or the organization. The focus here delimits the discussion to accidents. However, you can apply the process to include anything including sexual harassment, life insurance, automobile insurance, etc.

The second step is to determine the *severity* of the risk to you or the organization. Severity is composed of two factors, probability and impact. *Probability* refers to the frequency of occurrence. Getting sunburn has a high probability or frequency of occurrence. An automobile accident is hopefully a low probability although it might have a medium probability. *Impact* refers to the damage it will have on the organization or in this case, you. Generally, sunburn has a low impact on you and an

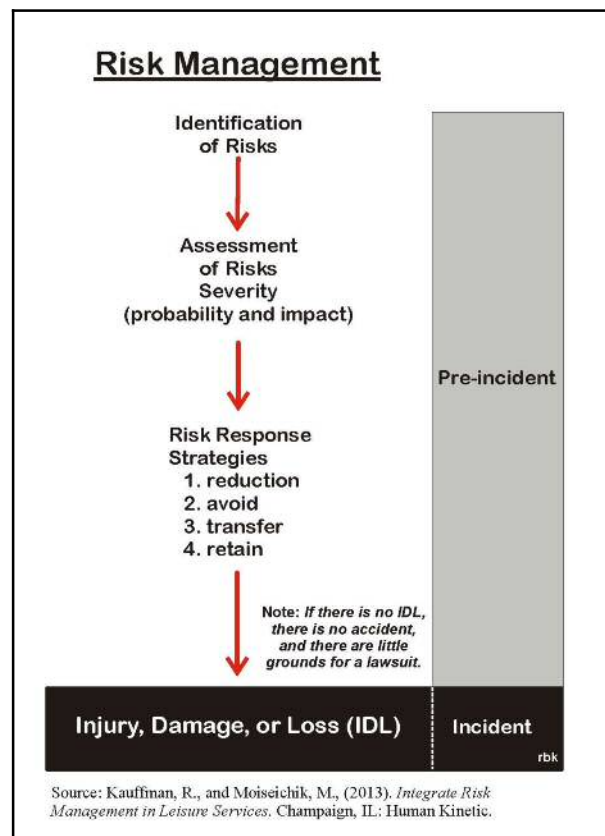


Figure 1: Risk Management Model – The four elements of the traditional risk management process.
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automobile accident has a high impact. The probability and impact are combined to create severity. This is done using a table not provided here. However, most people can calculate severity intuitively. Even though sunburn has a high probability, its low impact would suggest a low severity also. Even with a moderate probability, the high impact on you of an automobile accident suggests a high severity. For a more in depth discussion of this process, consult Chapter 8 in *Integrated Risk Management* (Kauffman and Moiseichik, 2013).

The third step in the risk management process is to determine the appropriate risk management strategy and apply it. There are four approaches: *reduction*, *avoidance*, *transfer* and *retention*. Reduction and avoidance focus on dealing with the risks. Transfer and retention focus on who handles the cost of the injury, damage, or loss once the mishap occurs. Transfer is a strategy where you seek to transfer the cost of the injury to someone else. This can be to the participant with a *waiver*, to the *insurance company*, or to a *subcontractor*. With retention, you absorb the cost yourself. The deductible portion of your automobile insurance is an example of retention. With a \$500 deductible policy, you pay the first \$500 (retention) before your insurance (transfer) kicks in.

Reduction and avoidance focus on dealing with the actual risks that lead to injury, damage or loss. In the legal community there are four processes usually associated with reduction. These are *inspect*, *warn*, *remove*, and *repair*. For the prepper, you might inspect your food supply to maintain its viability. If it is past the expiration date, you might consider removing the food from your stores. Repair might include replacing the removed food. Placing a sign in the pantry indicating when the food should be inspected is an example of warning. Again, remember that the intent of these strategies is to reduce the likelihood of being negligent and being sued. Most preppers are more interested in surviving than being sued. Regardless, at some level, the process is intuitive where you determine the likelihood of something occurring and its impact to you if it occurs. Then you determine a strategy regarding how to handle it.

The Four Ts – In the engineering field, the four risk management strategies are *terminate*, *treat*, *transfer* and *tolerate* (Stephenson, 1991). People familiar with risk management will note the similarity of the 4Ts with the risk management alternatives of reduction, avoidance, transfer, and retention. For convenience, the legal risk management strategies are often placed in parentheses in this section. From an engineering perspective, the underlying principle in the 4Ts is that all risks should be eliminated or that any risk is a bad risk. Unfortunately, for the prepper or for that matter anyone else, elimination of all risk is not a possibility.

There are two ways to *terminate* (i.e. avoidance) the risks. First, the activity can be terminated, eliminating the activity. Generally, this is a difficult alternative for preppers. Second, major risks can often be engineered out of the system. Creating a water storage system engineers many of the problems associated with water purification out of the system. In this sense, storing water engineers water purification and avoids the problem of contaminated water.

The application of administrative controls can be used to *treat* (i.e. reduce) and reduce the level of risks. This usually includes warning devices, safety devices, procedures, and training. Packing your car prior to a bug-out is an example of training. You are determining the contents taken with you and whether everything fits in your car prior to the actual event. Plus it is a trial run that provides you with experience.

Risks can be *transferred* (i.e. transferred). Stephenson (1999) indicates that insurance is the usual method for transferring the risk. It is important to note that this approach does not diminish the risks, it only transfers from one party to another who is responsible for the risks. This is no different from the legal

approach to risk management.

If the risks can't be terminated, treated, or transferred, they are *tolerated* (i.e. retention). Inherent in toleration is the reality that not all risks can be eliminated. If the risks are treated, there is often a residual risk which is tolerated. For the prepper, this means that no matter what your preparations, in time of disaster or emergency, what you have with you is what you have (Note: Think of the pocket dump). You have to make due with what you have.

Summary – Risk management is bandied about and has evolved into a generic term. Although this section is brief, it introduces the concept of risk management and provides a frame for barrier analysis. For preppers, the emphasis is on survival rather than on being sued for being negligent. In this respect, the focus is more on reducing accidents and barrier analysis is the better tool. Regardless, you should have a fundamental understanding of risk management because as a general strategy, it has utility. Determine the likelihood of an incident occurring and its impact to you if it does occur. Then determine a strategy how to best handle it. Basically, the approach is still sound although its primary focus is on negligence and being sued.

References:

- Kauffman, R., and Moiseichik, M., (2013). *Integrate Risk Management in Leisure Services*. Champaign, IL: Human Kinetic. Ch.8.
- Stephenson, J., (1991). *Safety System 2000 - A Practical Guide for Planning, Managing, and Conducting Safety Programs*. New York, New York: Van Nostrand Reinhold.