FI 421 - Property Risk Management
(Lecture 1)

Overview of Lecture 1 (chapter 1 CPCU 3)

I. Introduction to Risk Management

II. Risk Management Process

III. Types of Commercial Property Exposed to Loss

IV. Identifying Commercial Property Exposures

V. Analyzing Commercial Property Exposures

VI. Perils Affecting Property

VII.. Property Loss Consequences

I. Introduction to Risk Management

A. Terminology

1. pure risk

- risk involving the possibility of a loss or no loss

2. loss exposure

- set of circumstances that present a possibility of loss, whether or not the loss actually takes place

3. property loss

- damaging, destruction, taking, or loss of use of property in which an organization has a financial interest

4. liability loss

- a loss resulting from a claim made by someone seeking monetary

damages or some other legal remedy

B. Three elements to a loss exposure

1. item subject to peril

2. perils that may cause loss

3. potential financial impact

II. Risk management process

A. identify and analyze loss exposures

B. examine alternative risk management techniques

- risk control (avoidance, loss prevention, loss reduction, and segregation - separation and duplication)

- risk financing (retention and transfer)

C. select the best technique

D. implement technique

E. monitor the risk management

III. Types of Commercial Property Exposed to Loss

A. Real property

1. land

2. buildings and other structures permanently attached to the land

B. Personal property

1. money and securities
2. accounts receivable
3. inventory and merchandise
4. furniture, equipment, and supplies
5. machinery and tools
6. EDP equipment and media
7. valuable papers, books, and documents
8. vehicles
9. intangible assets

C. Nonowned property

1. bailed property
2. leased property
3. property on consignment
4. employees' property

IV. Identifying Commercial Property Exposures

A. Interviews and questionnaires

- structured and standardized
- insurance survey
- risk management survey

B. Flow chart analysis

- diagram of an organization's operations

- reveals interactive steps or processes and interdependencies

- can identify direct and indirect loss exposures

C. Financial statement method

- balance sheet

- income statement

D. Other methods

1. insurance coverage checklists

2. loss analysis (see below)

3. physical inspection

4. published information

5. contract analysis

V. Analyzing Commercial Property Exposures

A. Potential loss frequency

B. Potential loss severity

1. Maximum possible loss

2. Probable maximum loss

3. Total loss concept

VI. Perils Affecting Property

A. Terminology

1. peril

2. hazard

B. Classification by insurance categories

1. basic causes of loss (11 perils)

    - fire
    - lightning
    - explosion
    - windstorm and hail
    - smoke
    - aircraft and vehicle damage
    - riot and civil commotion
    - vandalism
    - sprinkler leakage
    - sinkhole collapse
    - volcanic action

2. broad causes of loss (14 perils)

    - basic plus
    - falling objects
    - weight of snow, ice, or sleet
    - water damage

3. others

    - special causes of loss (all-risk)
    - boiler explosion
    - crime perils
    - perils of transportation
    - computer virus

4. difficult to insure perils

    - earthquakes
    - flood
    - nuclear reaction

5. generally noninsurable perils

    - political risks
    - government seizure
    - normal wear and tear
    - intentional losses
    - faulty design and workmanship

6. unidentifiable perils

VII. Property Loss Consequences (financial effects)

A. Direct loss

- reduction in value
- increased cost to repair, rebuild or replace
- cost of debris removal
- cost of moving property to prevent further loss

B. Indirect loss

- **consequence of a direct loss**
- **loss of revenue, business interruption**
- **extra expenses to operate**
- **contingent business interruption**
- **loss of rental income**
- **loss of leasehold interest**
- **loss of tuition fees**
- **loss of use value in improvements and betterments**