

RISK MANAGEMENT BEYOND THE APPARENT AND BEYOND THE MANUAL

FLOREA IANCA MARIA MIRABELA,

ASSISTANT PHD., “CONSTANTIN BRÂNCUȘI” UNIVERSITY OF TÂRGU JIU, ROMANIA
FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION
e-mail: mariamirabela04@gmail.com

CIURLĂU LOREDANA

LECTURER PHD., “CONSTANTIN BRÂNCUȘI” UNIVERSITY OF TÂRGU JIU, ROMANIA
FACULTY OF ECONOMICS AND BUSINESS ADMINISTRATION
e-mail: leiurlău@yahoo.com

Abstract

“A business must primarily be able to create a consumer; hence the need to establish a marketing objective. Businesses must be able to innovate, to not be overtaken by competitors; hence the need for an objective innovation. All businesses depend on three factors of production (labor, material and capital resources) are thus need to set targets for employment and development. Resources must be employed in a productive way and must increase their productivity to ensure survival of the business, which is why it takes productivity objectives. Businesses exist in society and must assume responsibility for the impact they have, setting targets that take into account social dimensions of business. Finally, the need for profit, without which no objective could not be achieved because all involve effort, so costs can not be financed only from the profit that can eliminate the risk by covering potential losses. ”(PF Drucker :)

Cuvinte cheie: risk management, possible, financial institutions, risk identification

Clasificare JEL : M40, M41

1. Introduction

The purpose of this review is to highlight that risk management is one of the most important events disputed analyzed over time.

"Risk management is a world of contrasts. It can be nebulous or accurate. It can be defined narrowly, nondescript or can be hidden in their own language insurance".

Thus defines a known risk management specialist, Jim Bannister, that definition can only provide an insight into a comprehensive and highly interesting field, with extensive application in insurance and reinsurance.

The insurance industry is characterized by a conventional operating cycle: insurance companies collect premiums of insurance before providing monetary benefits themselves, as compensation. When investing the funds collected from premiums earned, insurers are exposed to risks, such as lack of liquidity, the need for credit, negative changes in interest rates, insurance, etc.

In addition to these risks common to all financial institutions, some risks are specific to the insurance industry –insufficient raw, errors in calculation of technical provisions, changes in frequencies risks, catastrophic losses, reinsurance risks, etc.

However, the paradox is that despite assurances to experience the applied risk management portfolio to its own customers, insurance companies face significant obstacles in managing their exposures affecting corporate value. The difficulties stem from the nature and complexity of the risks recorded and a lack of data on insurance losses of entities as a result of specific risks. The only area that offers a certain extent a guide to possible measures in cases insurance companies is negative for the banking sector.

The process generally of Management Risk

The risk in the activity of a company refers to the probability of not comply with the targets set in terms of performance (failure quality standards) program (non time) and cost (over budget).

The risk element is any element that has a measurable probability of deviating from the plan. This assumes of course that there is a plan. Strategies, plans and programs are elements that allow the company foreshadowing actual

reality and then dealing with the expected achievements. To achieve the company's goals is necessary to conduct sets of activities. An activity, denoted (a) can be considered risk element if the following conditions are met:

- (1) $0 < P(a) < 1$
- (2) $L(a) = 0$

Where : P (a) = the probability that an event (a) to produce

E (a) = the event occurs (a) the objectives

L (a) = monetary valuation of E (a)

Risk management is a cyclical process with several distinct phases:

- ✓ risk identification
- ✓ risk analysis and the risk response

The risk identification phase evaluates potential dangers, effects and probabilities of their occurrence to decide which risks must be prevented. In fact, in this phase all elements are identified that satisfy the conditions (1) and (2).

On this occasion, it eliminates inconsistencies and risks, is the risk elements with low probabilities of occurrence or little effect. This means they can be neglected those items for which P (a) or L (a) tend to zero.

The Risk identification should be performed regularly. It must consider both internal threats and external ones. Internal risks are risks that the management team can control or influence, while external risks are not under its control.[6]

The identification of risk may be identified using various methods:[2]

- preparation checklists that include potential sources of risk, such as environmental conditions, expected outcomes, staffing, changes to the objectives, errors and omissions design and execution, cost estimates and implementation deadlines etc .;
- analysis of company documents available in the archive, to identify problems which have arisen in situations like the current ones;
- experience using direct productive staff (heads of departments and teams) by inviting them to a meeting formal risk identification. Often people in the field are aware of the risks and problems that they notify the office. Effective communication land - office is one of the best sources of identification and mitigation;
- identify risks imposed from outside (through legislation, changes in the economy, technology, relations with trade unions) by appointing a person to attend meetings of professional associations, conferences and publications to specialized travel.

The second phase is the stage risk analysis consider the risks identified in the first phase and conduct a thorough quantification thereof. In order to analyze risk using a different mathematical instruments, ranging from probabilistic analysis to the Monte Carlo¹ analysis. Choosing the instrument- needs to be adapted mathematical analysis and take into account the available data accuracy.

The simplest method of quantifying the risks is the expected value (VA), which is calculated as the product of the probabilities of occurrence of certain events and their effects:

$$(3) \quad VA(a) = P(a) \times E(a)$$

Where : VA (a) = the expected value of the event (a)

~~P (a) = the probability of occurrence of the event (a)~~

E (a) = effect emerging phenomenon (a)

The action phase in the cycle risk management is the response to risk that attempts:

- ✓ to eliminate risks;
- ✓ to minimize risks and / or to allocate risks

¹ Monte Carlo analysis, developed in 1940, is a computerized method that uses tehnicistatistice sampling to obtain a probabilistic approximation of a model solution. In this context, simulation is to approximate the result of a random repetitive pattern by applying the algorithm model.

Remove risks is intended to remove risks. The management team or entrepreneur can: do not initiate a transaction or business; to set a very high price, covering risks; to make the offer, etc.

Most of the options that tend to eliminate the risk out of business organization. An organization with too high aversion to risk will not survive long and should invest their capital elsewhere.

Minimizing Risks can be achieved through a range of tools such as:

- **programming.** If risks are related to scientific programming lead time activities with network graphs can mitigate risk within reasonable limits.
- **training.** Many risks are related to occupational safety. It affects productivity and work quality. Through training and awareness programs in the field of occupational safety can reduce the likelihood of accidents and their effects.
- **redesign.** Risks can often be reduced through sensible redesign work teams, flows of materials, use of equipment and labor.

The risks allocation is also a powerful tool of risk management. It refers to the parties accept some or all responsibility for the consequences risk. Risk allocation should be made taking into account the the risk behavior towards the different organizations involved. In this general rule for allocating the risk is to allocate risk to the party who can bear and best control.[1]

Is also contracting strategy is an essential mechanism in the distribution of risk. The risks assumed by the company are usually formalized by contracts with beneficiaries. Risks related to human resources are covered, at least partially, by concluding collective agreements and individual employment. In most cases, the risks of material and equipment can be transferred to their suppliers, through the guarantees which they provide. Some risks may be removed by the conclusion of insurance contracts. Insurance Company assumes some of the risk of a price (the premium). If the risk occurs under conditions specified by the insurance contract, the insurer will reimburse the insured or any losses due to the risk. If the risk does not appear, the insurer keeps the premium.[4]

A formalized risk management process will yield positive results only if you consider all its aspects. Performance in the risk management process is given by the quality managers and staff involved, namely the weakest link within it. Company managers must ensure that the team conducting risk management is competent and found a middle ground between excessive technicalprocess and action based on intuition.

Identifying and assessing risks

Risk identification and assessment involves conducting the following actions:

- ✓ compiling the list of activities in the company;
- ✓ from the general objectives of setting targets specific divisions / departments within it;
- ✓ identify risks that may affect the achievement of objectives from:
 - identify problems that may arise in conducting and which may result in partial or total failure of the preset objectives; identifying the causes that generate these problems.
- ✓ risk assessment for each compartment; On a scale of 5 levels, assessing the probability of occurrence / materialization of the risk and how and impact / The risks

To manage risks in an organization it is necessary to know these risks, ie to identify and manage clear them. Risk identification, of risks assessment and impact assessment likelihood / of risk The consequences constitute the first steps in building an organization's risk profile.

Table 1. Assessment of probability of risks

	Highest probability	Explanation
1.	occasionally	It is very unlikely to happen for a long period of time (3-5 years). It has not been the case up to now
2.	less likely	It is unlikely to happen for a long period of time (3-5 years); It happened a few times so far
3.	possible	It is likely to happen over a period of time average (1-3ani); Tdecâteva often happened in the past 3 years.
4.	Very proubabil	It is likely to happen in a short period of time (less than 1 year); It has happened a few times in the year Structural height
5.	Almost certainly	It is likely to happen in a short period of time (less than

Table 2. Impact assessment of risks /The consequences of risk

	Highest impact / consequences	Explication
1.	insignificant	With very small impact on the structure and carry out activities and / or no financial impact
2.	infant	With low impact on the structure and carry out activities and / or with very low financial impact.
3.	moderate	The environmental impact on acativităților structure and achieving the objectives and / or financial impact environment
4.	major	With major impact on the structure and carry out activities and / or major financial impact
5.	critical	With major impact on the structure and carry out activities and / or financial impact

The efficiency and success in management risk does not mean you can say "We have identified 214 risks in the activities of companies and worked full instructions control and evaluation indicators" but rather "We identified the main risks applying its intent various levels of management, and managers have a platform for decision on those risks".

2. Conclusion

Insurance Management must ensure optimal conditions for the constitution on time and in the stipulated amount of insurance fund for continuous adaptation of the forms of insurance (voluntary by law) of goods, people and civil liability arising from the requirements of the insurance market and national and international reinsurance.

Keep in mind that risk is a possibility and not a fait accompli.

Skills training to identify risks is a matter of exercise.

In time, what seems difficult today, tomorrow will become routine, but never must become an automatism.

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