

Exhibit 1-2 to review the elements of a loss exposure.) Later chapters of this text will cover the uses of the types of loss exposures and the relationship between values and causes of loss. For now, you should know and be able to explain the four types of loss exposures.

## WHY RISK MANAGEMENT IS IMPORTANT

As you no doubt realize after this quick look at the basics of risk management, handling uncertainties about whether losses will occur can be a complex and involved undertaking. This is especially true for large organizations that face a bewildering number and variety of loss exposures. Is it worth the effort? Why is risk management important?

First, risk management prevents or reduces losses. Risk management's ability to anticipate and limit the financial consequences of losses is a primary benefit for individuals, organizations, and society at large. In addition, risk management finds predictable ways to pay for those losses that do occur.

Individuals and organizations are relieved of at least some of the emotional and financial burden of losses. The ability to handle the possibilities of loss enables individuals and organizations to survive and thrive when they might otherwise face unendurable burdens. Reducing uncertainty to a manageable level is essential for the survival of any business enterprise and many other organizations.

Society also benefits from the prevention or reduction of losses because fewer and less costly losses mean that more funds are available for other uses, uses that can spur economic growth.

Beyond that, managing risk increases peace of mind. Thanks to risk management, individuals and organizations actively control potential losses. This element of control reduces the amount of anxiety experienced because of the possibility of loss and enables individuals and organizations to engage in worthwhile activities they might otherwise avoid.

### Risk Management Benefits:

- Prevention of losses
- Reduction of the financial consequences of losses
- Peace of mind

## SUMMARY

The purpose of this chapter was simply to introduce you to the basics, some fundamental risk management terms and concepts—risk, loss, loss exposures, and so on. You will find these terms and ideas turning up time and again throughout this text. They make up the language of risk management, and learning that language now will help you as you proceed through this course.