



This is “Preface”, article 4 from the book [Enterprise and Individual Risk Management \(index.html\)](#) (v. 1.0).

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# Preface

## Introduction and Background

This textbook is designed to reflect the dynamic nature of the field of risk management as an introduction to intermediate-level students. With co-author experts Etti Baranoff, Patrick L. Brockett, and Yehuda Kahane, the timely issues of the field are kept alive. The catastrophes of the first decade of the new millennium, including the credit crisis of 2008–2009, are well depicted and used to illustrate the myriad of old and new risks of our times. With such major man-made and natural catastrophes, this field is of utmost importance for sustainability. The need to educate students to consider risks at every phase in a business undertaking is central, and this textbook provides such educational foundation.

This field requires timeliness as new risk management techniques and products are being developed in response to risks derived from innovations and sophistication. As such, this book allows the reader to be on the forefront of knowledge in the arena of risk management. Tomorrow's leaders in business and politics and tomorrow's citizens, consumers, and voters need to understand risks to make successful decisions. This book provides you with the background for doing so.

With the pedagogical enhancements of Unnamed Publisher and the ability to make changes dynamically, this textbook brings the best to educators. An important advantage of this book's publication format is that it can be updated in real time online as new risks appear (e.g., pandemic risk, financial crisis, terrorist attacks). Risk management consequences can be discussed immediately.

The management of risk is, essentially, the strategy for surviving and thriving in a volatile, uncertain, complex, and ambiguous world. Prior to the industrial revolution and the advanced communication age, decisions could be made easily using heuristics or "gut level feel" based on past experience. As long as the world faced by the decision maker was more or less the same as that faced yesterday, gut level decision making worked fairly well. The consequences of failure were concentrated in small locations. Entire villages were extinguished due to lack of crop risk planning or diseases. There were no systemic contagious interlocking risks, such as those that brought the financial markets to their knees worldwide in 2008–2009.

Today the stakes are higher; the decision making is more complex, and consequences more severe, global, and fundamental. Risk managers have become part of executive teams with titles, such as chief risk officer (CRO), and are empowered to bridge across all business activities with short-term, long-term, and far-reaching goals. The credit crisis revealed that lack of understanding of risks, and their combined and correlated ramifications has far-reaching consequences worldwide. The study of risk management is designed to give business stakeholders the weapons necessary to foresee and combat potential calamities both internal to the business and external to society overall. The “green movement” is an important risk management focus.

At the time of this writing (December 2009), more than 190 nations’ leaders are gathered at the Copenhagen Climate Summit to come to some resolutions about saving Earth. The evolution into industrialized nations brought a sense of urgency to finding risk management solutions to risks posed by the supply chain of production with wastes flowing into the environment, polluting the air and waters. The rapid population growth in countries such as China and India that joined the industrialized nations accelerated the ecological destruction of the water and air and has impacted our food chain. The UN 2005 World Millennium Ecosystem Report—a document written by thousands of scientists—displays a gloomy picture of the current and expected future situation of our air, water, land, flora, and fauna. The environmental issue has become important on risk managers’ agendas.

Other global worries that fall into the risk management arena are new diseases, such as the mutation in the H1N1 (swine) flu virus with the bird flu (50 percent mortality rate of infected). One of China’s leading disease experts and the director of the Guangzhou Institute of Respiratory Diseases predicted that the combined effect of both H1N1 (swine) and the H5N1 (bird) flu viruses could become a disastrous deadly hybrid with high mortality due to its efficient transmission among people. With systemic and pervasive travel and communication, such diseases are no longer localized environmental risks and are at the forefront of both individuals’ and firms’ risks.

With these global risks in mind and other types of risks, as are featured throughout the textbook, this book enables students to work with risks effectively. In addition, you will be able to launch your professional career with a deep sense of understanding of the importance of the long-term handling of risks.

Critical to the modern management of risk is the realization that all risks should be treated in a holistic, global, and integrated manner, as opposed to having individual divisions within a firm treating the risk separately. Enterprise-wide risk management was named one of the top ten breakthrough ideas in business by the

*Harvard Business Review* in 2004. L. Buchanan, "Breakthrough Ideas for 2004," *Harvard Business Review* 2 (2004): 13–16. Throughout, this book also takes this enterprise risk management perspective as well.

## Features

- **An emphasis on the big picture—the Links section.** Every chapter begins with an introduction and a links section to highlight the relationships between various concepts and components of risk and risk management, so that students know how the pieces fit together. This feature is to ensure the holistic aspects of risk management are always upfront.
- **Every chapter is focused on the risk management aspects.** While many solutions are insurance solutions, the main objective of this textbook is to ensure the student realizes the fact that insurance is a risk management solution. As such there are details explaining insurance in many chapters—from the nature of insurance in [Chapter 6 "The Insurance Solution and Institutions"](#), to insurance operations and markets in [Chapter 7 "Insurance Operations"](#) and [Chapter 8 "Insurance Markets and Regulation"](#), to specifics of insurance contracts and insurance coverage throughout the whole text.
- **[Chapter 1 "The Nature of Risk: Losses and Opportunities"](#) and [Chapter 2 "Risk Measurement and Metrics"](#) are completely dedicated to explaining risks and risk measurement.**
- **[Chapter 3 "Risk Attitudes: Expected Utility Theory and Demand for Hedging"](#) was created by Dr. Puneet Prakash to introduce the concepts of attitudes toward risk and the solutions.**
- **[Chapter 4 "Evolving Risk Management: Fundamental Tools"](#) and [Chapter 5 "The Evolution of Risk Management: Enterprise Risk Management"](#) provide risk management techniques along with financial risk management.**
- **[Chapter 17 "Life Cycle Financial Risks"](#)–[Chapter 22 "Employment and Individual Health Risk Management"](#) focus on all aspects of risk management throughout the life cycle. These can be used to study employee benefits as a special course.**
- **Cases** are embedded within each chapter, and boxes feature issues that represent ethical dilemmas. [Chapter 23 "Cases in Holistic Risk Management"](#) provides extra risk management and employee benefits cases.
- **Student-friendly.** A clear, readable writing style helps to keep a complicated subject from becoming overwhelming. Most important is the pedagogical structure of the [Unnamed Publisher](#) system.