

Risk Management Careers

WHAT DO YOU CONSIDER risky professions? Which business operations do you consider risky? To what degree do you associate risk with the possibility of physical injury? In business, risk is typically associated with the danger of losing money or assets. This E-unit is an exploration of risk management careers. Risk management careers are focused on avoiding and/or minimizing monetary and operational business risks.



Objectives:



1. Summarize risk management careers
2. Review business operations risks that may create career opportunities.

Key Terms:



actuary	financial risk	risk analyst
analytical skill	financial services industry	risk management
asset-related risk	internal controls	risk management analyst
attention to detail	negligence	risk manager
chief risk officer	probability	risk model
compliance	professional liability insurance	technology risk
compliance officer	risk	timeliness
cybercrime		uncertain parameters
decision variables		

Risk Management Careers and Business Operations Risks

Risk is a statistical concept measured using mathematical formulas related to the future: the probability of damage, injury, liability, loss, or other negative outcomes caused by vulnerabili-

ties. **Probability** is the quantifiable likelihood (chance) of an occurrence: the odds of an event happening. In finance, risk is the probability that an event will occur or will differ from the expected: the probability that the actual return (proceeds, yield) on an investment will be lower than the expected return. Because any business activity may have an uncertain outcome, all are said to have some level of risk.

RISK MANAGEMENT CAREERS

Risk management is a process of identifying, assessing, controlling, and monitoring threats and risks of different kinds. The risk manager makes recommendations to minimize risks associated with operating a business. Threats or risks may involve financial uncertainty, strategic management errors, accidents, natural disasters, IT security, and related data breaches and risks. The goal of risk management is to protect a business from being vulnerable and to protect employees, customers, and the public from negative events. The risk manager's job is also to provide updates to stakeholders regarding risks and the measures being taken to avoid them.

Risk managers may use one, some, or all of the following strategies to minimize risk: risk assumption, risk avoidance, risk retention, and risk transfer. Negative events range from fire to terrorism and cyber attacks.

The following entities provide standards for risk management:

- ◆ Project Management Institute
- ◆ International Organization for Standardization (ISO)
- ◆ The National Institute of Science and Technology
- ◆ Actuarial societies

The Financial Services Industry

The **financial services industry** is a wide range of companies and institutions involved with money: money management, lending, investing, insuring, and securities issuance and trading. They include banks, credit card companies, insurance companies, investment bankers, securities traders and brokers, financial planners, Wall Street, and security exchanges. All have need for risk management. Employment opportunities also exist in regulatory agencies, securities exchanges, public accounting firms, financial information services, and financial consulting businesses.



FIGURE 1. Risk management is a process of identifying, assessing, controlling, and monitoring threats and risks of different kinds.

Risk management is a segment of the financial services industry that involves assessing and quantifying business risks and then taking steps to reduce or control them. Compliance issues, as well as securities trading and loan origination, are components of risk management careers. All risk managers have a bachelor's degree, and most have an MBA.

Several certifications are also available in the field of risk management:

- ◆ Financial Risk Manager (FRM)
- ◆ Professional Risk Manager (PRM)
- ◆ Society of Actuaries (SOA) certifications (life insurance, retirement plans, investments)
- ◆ Casualty Actuarial Society (CAS) certifications (property, casualty, and liability insurance)
- ◆ Risk and Insurance Management Society Fellow (RIMS Fellow)
- ◆ Chartered Enterprise Risk Analyst
- ◆ Certified Risk Manager
- ◆ Associate in Risk Management

Examples of Risk Management Careers

A **risk analyst** is a person who performs investigations to help maintain and protect business assets in addition to investigating asset loss incidents. Risk analyst is an entry-level position that usually requires a bachelor's degree and minimal experience. The analyst usually reports to a supervisor or manager. At this level, he or she is typically not involved with developing risk management policies for the business.

A **risk manager** is a financial manager who develops risk management loss prevention programs. A risk manager understands industry and legislative practices with which a business is required to comply and analyzes the company's financial data to develop strategies that reduce financial risk. According to the U.S. Bureau of Labor Statistics, as of February 2017, the median annual salary for a risk manager was \$106,010. A risk manager usually has a bachelor's degree in one or more of the following fields: accounting, finance, economics, and/or business.

A **risk management analyst** is a professional who builds models to help a company assess risks associated with various parts of its operations. A **risk model** is the application of statistical methods to economic data: math that calculates the impact of **uncertain parameters** (things a business cannot control) and **decision variables** (things a business can control) to predict what the outcome will be on company profits, investments, etc. The model allows the business to develop "what if" scenarios and choose the best option. It also allows management to understand the consequences associated with the various choices that might be made given different circumstances. Typically, the risk management analyst has a bachelor's degree and approximately three years of experience.

A **chief risk officer** is a professional who oversees all risk management functions within a company, including risk modeling, business analysis, and loss prevention programs. The chief risk officer usually has a bachelor's degree and 10 to 15 years of experience.

An **actuary** is a highly trained statistician with expertise in evaluating various types of risks. Insurance companies employ the majority of actuaries. Persons in this profession are also

employed by pension funds and in all industries to implement policies and procedures that mitigate (lessen) risk. Their job tasks include detailed analysis of data to quantify risks, including advanced modeling techniques (forecasting), quantitative analysis, and statistical analysis. Actuaries are required to have a bachelor's degree as well as targeted coursework in statistics or actuarial science, business, finance, and economics.

Risk Management Skills

Risk management skills are those abilities that prevent losses to the business and help avoid risks when possible. Some risks cannot be avoided. In those cases, the risk management department seeks to minimize losses to the business. Risk management careers require analytical skill, communication skills, familiarity with internal controls, attention to detail, and timeliness.

Analytical skill is the ability to use tools and techniques to scrutinize available information, leading to the understanding and solving of problems. Risk management employees review reports and data as well as company and industry statistics to assess risk levels.

Good communication skills are essential when sharing loss prevention methods with others inside an organization. Risk managers also often serve as liaisons between a company and its insurance providers.

Risk managers must be very familiar with a company's internal controls. **Internal controls** are procedures or policies in place to safeguard assets, promote accountability, increase efficiency, and stop fraudulent behavior. Risk factors may vary with the type of industry in which a business operates. For example, different risks are associated with running a hotel or a restaurant than running a manufacturing facility. It is common for risk managers to specialize their knowledge in a particular industry for which they become experts.

Attention to detail is thoroughness and accuracy when completing tasks.

Timeliness is completing tasks on schedule and within deadlines.

Risk managers may be involved with training to help avoid or minimize risks. After risks are identified, training employees on the best way to avoid risks or uncertainties can alleviate the risks.



FIGURE 2. An internal audit is an example of a business's internal control. This risk management procedure helps safeguard assets, promote accountability, increase efficiency, and stop fraudulent behavior.

BUSINESS OPERATIONS RISKS

General and Insurance Risks

Businesses have general company-wide risks associated with their specific types of operation. For example, a manufacturing business may encounter greater physical risk due to employees working around machinery and equipment than a service business operated in an office setting. All businesses seek to avoid circumstances that involve employee or customer injury from slips, falls, etc.

Businesses acquire insurance policies to cover the financial risks associated with injuries to employees or customers. For example, some professions require professional liability insurance. **Professional liability insurance** is protection against customers who claim they were harmed because of negligence by a specialist or expert (professional). **Negligence** is failure to use proper care while carrying out duties. Doctors, lawyers, and accountants all carry professional liability insurance.

Compliance Risks

Compliance is the act of conforming to a rule established by industry, legislation, or company policy. A business may hire a **compliance officer**: a person responsible for monitoring a company's adherence to rules and regulations. Businesses have various compliance risks, including those related to safety and to tax rules and regulations. For example, there are:

- ◆ Specific safety compliance requirements for operating a coal mine
- ◆ Specific tax compliance rules that must be met by businesses
- ◆ Specific financial reporting requirements set by the Securities and Exchange Commission (SEC) for all publicly traded companies



FIGURE 3. Businesses must comply with regulations established by industry, legislation, and company policy. A business may hire a compliance officer to monitor its adherence to rules and regulations.

Financial Risks

Businesses incur financial risks that must be managed. A **financial risk** is a chance of loss associated with any monetary operation involving borrowing, lending, or investing money. Financial institutions, in particular, take fiscal risks as a part of their daily business operations.

Risk managers for these institutions must evaluate the monetary risks involved with lending transactions, trading securities, etc. For example:

- ◆ Banks are required to identify their risks and place a dollar value on the amount of risk undertaken.
- ◆ The 2008 financial crisis hinged on the risk practices associated with mortgage-lending institutions and the investment vehicles they offered. As a result, additional regulations were placed on lending institutions.

Technology Risks

A **technology risk** is a chance of a disruption in business operations caused by computer and/or technology failure. Business disruption occurs when a company's network and technology systems are ill equipped to handle heavy customer and employee use or data storage requirements. Business disruption can also occur because of cybercrime. Thus, safety measures must be in place. **Cybercrime** is criminal activity carried out using a computer or the Internet. *Forbes* reported that the loss to business from cybercrime is projected to reach \$2 trillion by 2019.

A larger company often has an information technology (IT) department that works with the risk management department to ward off attacks and keep the technology systems maintained. A smaller company may be required to hire an outside consulting firm on an as-needed basis to be cost effective.



FIGURE 4. Cybercrime may include stealing customer credit card information, disrupting company technology systems, and stealing proprietary product information.

Asset-Related Risks

An **asset-related risk** is a hazard associated with the possible loss of value of business assets due to damage, theft, or other occurrences. Businesses purchase insurance to cover property damage loss caused by inclement weather, accidents, etc. Retail businesses may employ a variety of methods to limit risk associated with theft from employees and customers. For example:

- ◆ Security tags may be attached to merchandise that must be removed at the time of purchase to avoid activation of alarms by scanners at the entrances and exits.
- ◆ Security officers may be employed to pose as customers in various parts of a store to monitor for shoplifting and theft.



FURTHER EXPLORATION...

ONLINE CONNECTION: Certified Fraud Examiner

Risk management often involves fraud detection and prevention. The Association of Certified Fraud Examiners (ACFE) provides career resources for those interested in a career in fraud examination. For more information, go to the ACFE website at <http://www.acfe.com/career-center-main.aspx>.



Fraud is a crime that uses deceit (dishonesty) to take something valuable from another.

- ◆ Employees may be required to lock personal items in an employee lounge and not take purses, backpacks, etc., onto the floor where merchandise is held.
- ◆ Clear trash bags may be used to prohibit employees from sneaking stolen merchandise out via trash disposal.
- ◆ Security cameras are common throughout business locations to monitor potential liabilities from theft, injury, etc.

Summary:



Risk management is a process of identifying, assessing, controlling, and monitoring threats and risks of different kinds. Risk management is important in business operations. Several career opportunities exist in this field. Risk management professionals typically have a degree in accounting, finance, economics, and/or business. Some specialize in a particular industry. Qualifications include excellent analytical and communication skills, familiarity with internal controls, attention to detail, and timeliness. Risk management professionals use risk models, monitoring, insurance, and training to minimize risk.

Checking Your Knowledge:



1. What is risk management?
2. What risks do businesses face?
3. Name at least four categories of business operations risks.
4. Describe how large and small companies handle technology risks differently.

5. Name four ways retail businesses reduce the risk of theft from employees and customers.

Expanding Your Knowledge:



Interview a local insurance agent to discuss the types of insurance policies used in typical business operations.

Web Links:



Working in Financial Risk Management (FRM)

<https://www.youtube.com/watch?v=-Fskf7g0CD0>

Meet a Risk Manager in the Insurance Industry

<https://www.youtube.com/watch?v=egrK6MvK4Zw>