



مجموعة جامعة
الجميع للذكاء
للتعليم القابضة

MIDOCEAN
UNIVERSITY
BY EVERYONE'S SMART UNIVERSITY

Risk Management

MGM 510

Lecture 3

Prepared by
Dr. Hamed Almahadin

www.midocean.ae



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Chapter#3 Types of Risks

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Topics to Cover in Week 3

- Risk Classification.
- Four Types of Risk.
- Manage uncertainty risks.
- Control Management.
- Categories of operational disruption.
- Minimize compliance risks

- Risks can be classified in many ways.
- Hazard risks can be divided into many types of risks, including:
 - Risks to property
 - Risks to people
 - Risks to the continuity of a business

Types of Risks

- Risks can be classified according to the timeframe for the impact of the risk.
- The classification of risks as long-, medium- and short-term impact is a very useful means of analyzing the risk exposure of an organization.

long-term risks

- Long-term risks will impact several years, perhaps up to five years, after the event occurs or the decision is taken.
- Long-term risks therefore relate to strategic decisions.

Medium-term risks

- **Medium-term risks** have their impact some time after the event occurs or the decision is taken, and typically this will be about a year later.
- **Medium-term risks** are often associated with projects or programs of work.

- **Short-term risks** have their impact immediately after the event occurs.

- Accidents at work, traffic accidents, fire and theft are all short-term risks that have an immediate impact and immediate consequences as soon as the event has occurred.

- **Short-term risks** cause immediate disruption to normal efficient operations and are probably the easiest types of risks to identify and manage or mitigate.

- **Insurable risks** are quite often short-term risks, although the exact timing and magnitude/impact of the insured events is uncertain.
- Insurance is designed to provide protection against risks that have immediate consequences.

Four Types of Risk

- Compliance risks;
- Hazard risks;
- Control risks;
- Opportunity risks.

- **Compliance** is defined as the outcome for adhering to a rule.

- **Compliance risk** captures the legal and financial penalties for failing to act under internal and external regulations and legislature.

Examples of Compliance Risks

- Failure to conduct due diligence on new customers.
- Failure to report suspicious transactions



Hazard risks are the risks that can only inhibit achievement of the corporate mission.

Typically, these are insurable-type risks or perils, and will include fire, storm, flood, injury and so on.

Control risks are risks that cause doubt about the ability to achieve the organization's mission.

- Internal financial control protocols are a good example of a response to a control risk.
- Control risks are the most difficult type of risk.

Control risks are associated with uncertainty, and examples include the potential for failure to achieve legal compliance and losses caused by fraud .

They are usually dependent on the successful management of people and effective implementation of control protocols.

- **Opportunity risks** are the risks that are (usually) deliberately sought or embraced by the organization.

- These risks arise because the organization is seeking to enhance the achievement of the mission, although they might inhibit the organization if the outcome is adverse.
- This is the most important type of risk for the future long-term success of any organization.

Embrace Opportunity Risks

- Some risks are taken deliberately by organizations in order to achieve their mission.
- These risks are often marketplace or commercial risks that have been taken in the expectation of achieving a positive return.

Embrace Opportunity Risks

- **Opportunity risks** can otherwise be referred to as commercial, speculative or business risks.
- **Opportunity risks** are the type of risk with potential to enhance.
- All organizations have some appetite for seizing opportunities and are willing to invest in them.

Manage uncertainty risks

- The organization has to accept a level of uncertainty.
- Uncertainty or control risks are an inevitable part of undertaking a project.
- A contingency fund to allow for the unexpected will need to be part of a project budget, as well as contingent time built into project schedules.

Manage uncertainty risks

- The organization must make the necessary resources available to identify the controls, implement the controls and respond to the consequences of any control risk materializing.

Manage uncertainty risks

- The nature of control risks and the appropriate responses depend on the level of uncertainty and the nature of the risk.
- Uncertainty represents a deviation from the required or expected outcome.

Manage uncertainty risks

- “The risk management requirements of the UK corporate governance code (September 2016) concentrate on internal control with little reference to risk assessment.”

- Control management is the basis of the approach to risk management adopted by internal auditors and accountants.
- Control management is concerned with reducing the uncertainty associated with significant risks and reducing the variability of outcomes.

Mitigate hazard risks

- The range of hazard risks that can affect an organization needs to be identified.
- Hazard risks can result in unplanned disruption for the organization.

Categories of operational disruption

Category	Examples of Disruption
People	■ Lack of people skills and/or resources Inappropriate behavior by a senior manager ■ Unexpected absence of key personnel ■ health, accident or injury to people

Categories of operational disruption

Category	Examples of Disruption
Premises	■ Inadequate, insufficient or denial of access to premises ■ Damage to or contamination of premises ■ Damage to and breakdown of physical assets ■ Theft or loss of physical assets

Categories of operational disruption

Category	Examples of Disruption
Processes	■ Failure of IT hardware or software systems ■ Disruption by hacker or computer virus ■ Inadequate management of information ■ Failure of communication or transport systems

Categories of operational disruption

Category	Examples of Disruption
Products	■ Poor product or service quality ■ Disruption caused by failure of supplier ■ Delivery of defective goods or components ■ Failure of outsourced services and facilities

Minimize compliance risks

- All organizations will be aware of the wide range of compliance requirements that they have to fulfil.
- These compliance requirements vary considerably between business sectors, and many sectors are highly regulated with their own dedicated regulator for the industry or sector.

Minimize compliance risks

- Generally speaking, organizations will work towards ensuring full compliance with all applicable rules and regulations and, thereby, minimize the compliance risks.

Minimize compliance risks

- In many cases, dedicated teams of specialist risk professionals will be employed, and this is particularly the case in relation to health and safety, money-laundering and security arrangements.

Minimize compliance risks

- It is important for organizations to recognize their compliance risks and include consideration of these risks in their risk management activities.
- It is also important to ensure that the various areas of risk management expertise within the company co-operate with each other, so that an organized and/or co-ordinated approach to compliance is achieved.

Thank You