



Risk Management: Risk Identification Methods

An Online Continuing Education Course for Engineers

Course Number: BS-1020

Credit: 1 Hour / 1 PDH / 1 CPD

Risk Management: Risk Identification Methods

William "Bill" A. Hein, P.E.

Introduction

This course is designed to build on the Risk Identification component outlined in the basic concepts of *The Risk Management Process* course. The identification of risk is the initial step in the risk management process, and this course will provide a deeper understanding of the methods and applications used to identify risk within a project or business venture.

Risk identification must be a deliberate and systematic process that is intended to determine and document the risk factors to which the organization is or may be exposed.

This course will provide an understanding of:

- the four logical classifications of risk exposures (property, human capital, liability, and net income),
- the three types of risk exposure sources (strategic, operational and project)
- how to initiate the risk identification process,
- methods used to identify risk,
- what to do with the data collected during the risk identification process, and
- assigning ownership for identified risk factors to establish accountability.

Upon completion of this course, the reader will be able to complete the risk identification process for the business organization. This will allow for the effective completion of future steps in the risk management process.

Overview

Risk identification must be the first step in the risk management process. To address risk, it has to be identified. Risk identification requires identifying and examining the exposures to loss to which an organization may incur.



The exposures, perils, and hazards that may impact the accomplishment of the organization's objectives resulting in adverse financial results must first be identified if they are to be effectively managed and controlled during subsequent steps in the risk management process.

It is also important to continually be aware of changing conditions that could impact business operations and periodically identify new and emerging risks.

The overall objective of a risk management program is to identify potential risk exposures before they occur. This will then allow for the implementation of effective methods for the handling of each risk going forward.

Risk exposures are classified into four groups. These classifications are property, human capital, liability, and net income. The proper classification of exposures is one of the most important parts of the risk management process.

The property classification includes real property and assets, intangible property, and intellectual property.

The human capital includes relationships between the organization and others such as shareholders, officers, employees, contractors (direct and independent), volunteers, and customers.

The liability classification is the legal exposure to the organization created by its property, operations, products, or actions of its human capital.

The net income classification is the organization's exposure to the potential loss to their property, assets, or human capital that result in a loss of income, productivity, human resources, or speculative risk. Speculative risk is the potential of loss or gains from an asset such as stock investments.

During the risk identification process, it is important to consider the strategic risk, operational risks and project risks of the organization.

Strategic risks are those that are the result of strategic decisions made by the management of the organization.

Operational risks are those risks that result from the business activities and operations of the organization.

Project risks are those risks that result from and throughout the life cycle of projects in which the organization is involved.

The nature of the risk identification process is an interactive process. It includes:

- Reviewing current and future operations or projects,
- Utilizing a variety of team members, and
- The use of objective and unbiased external participants.

They are identifying risks involves considering what, when, why, where, and how things can happen. Express identified risk factors in specific terms to allow for effective treatment during the risk analysis and risk control stages of the risk management process.

Any risk that goes unidentified cannot be managed through the risk management program. This exposes the organization to the potential of loss.

As risk factors are identified, they should be assigned to specific individuals who will have the overall responsibility for managing and monitoring the risk factor.

When conducting the risk identification process, consideration must be given to:

- Knowing what to consider during the risk identification step,
- Obtaining risk data from as many different sources as possible,
- Determining and applying the appropriate risk identification method or technique,
- Systematic and complete documentation of identified risks, and
- The effectiveness of the methods used during the risk identification step.

There are many different methods of identifying risk exposures to the organization. Each risk factor may be identified by one or more of these methods.

The following review methods can be utilized for the identification of risks to which the organization is or may be exposed:

- Insurance policies
- Insurance surveys and recommendation reports
- Property and operational surveys
- Inspections or checklists
- Flowcharts of operations
- Asset lists
- Peril lists
- Compliance or safety audits
- Loss of data analysis
- Policy and procedures
- Contracts
- Financial statements
- Industry lists for operations similar to yours
- Brainstorming
- Scenario analysis
- Stakeholder analysis

It is important to remember that methods of risk identification each have their strengths and weaknesses. Work to engage as many risk identification methods as possible to maximize the outcome of your risk identification efforts.

The ultimate objective is to get down to the root cause of the risks identified. This will allow for the most likely and effective opportunity to deal with each identified risk appropriately.

During the risk identification process, it is important not only to be forward-looking but also to be mindful of the historical perspective of risk to which the organization is exposed.

When necessary or when internal expertise is not available, external experts should be utilized in the risk identification process.

The level of detail in the risk identification component will impact the overall effectiveness of the risk management process.

Please do not take this component lightly and play down its need. Unless all possible risks are identified, the potential of loss exists.

Often a gut feeling can lead to identifying the risk that otherwise may have been overlooked. While beneficial, it is important to remember not to become confident and to remember to remove non-risks from actual risks.

The risk identification process can only be beneficial to the overall risk management process if the risks identified are documented for future action and resolution.

The ultimate goal is to identify as many of the exposures to risk that the organization may be facing. It is important to remember that some risk factors may not be blatantly obvious so be alert to exposures to risk that other organizations have incurred and evaluate their potential within your operations.

Risk Identification Methods

The identification of risk has the potential of involving the most risk management techniques. It is only by a thorough investigation and identification of as many risk exposures to which the organization is exposed that effective exposures to risk can be achieved.

The identification of risk factors must consider the cause and effect of the risk factor. Knowing the cause of the potential risk can point to potential risk handling methods later in the risk management process. Likewise, anticipating the effect of the risk factor should it occur will also be helpful with the decision for the appropriate risk handling method.

The risk identification process must include reviewing and exploring the exposures to risk for property, liability, human resources and net income (financial impact) to which the organization is exposed.

A variety of risk identification methods are available for this step in the risk management process. Following are some of the methods used.

Insurance

process. In property, but these assets exposures m

Review each presented by

For example, a property, what unattended? W

physical details about the location? Is it used for remote storage? If so what is stored and what is the value? What are the risk

To view the remainder of the course material and to take the quiz for PDH credit, you must purchase the course.

Close this window and click "Add to cart" on the product page.