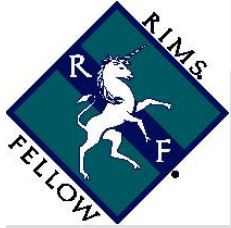


Tools for Risk Managers

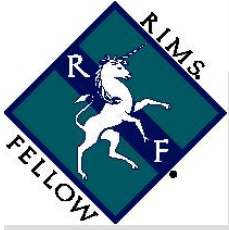


Decision Trees Computer Simulation Risk Mapping (Enterprise Risk Management)



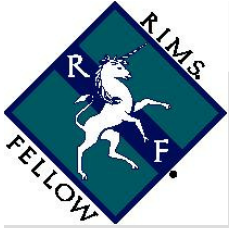
Introduction

- How many general liability claims will your organization have next year?
- What will happen if you change your cost allocation system?
- If you invest \$50,000 in a lost control investment, what is the payoff?



What Is risk?"

- Risk simply means that a given action has more than one possible outcome (toss a coin!)
- In our risk adverse culture, we emphasize the negative aspect of risk. Yet there is often positive outcomes as well.
- Risk should not be used as a synonym with 'loss'.
- Interpreting risks is a psychological as well as a statistical exercise (we do not treat positive/gains and negative/loss events the same)

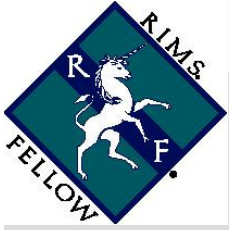


Risky Business

- “More than one possible outcome”
- “Material consequences”

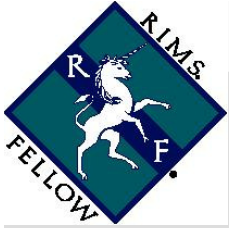


In practice: Walk the plank: the “2x4” challenge: same board with **different** consequences!)



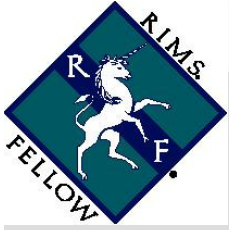
Exercise: Using Decision Trees

- An example for you to pick the right decision using litigation / settlement options



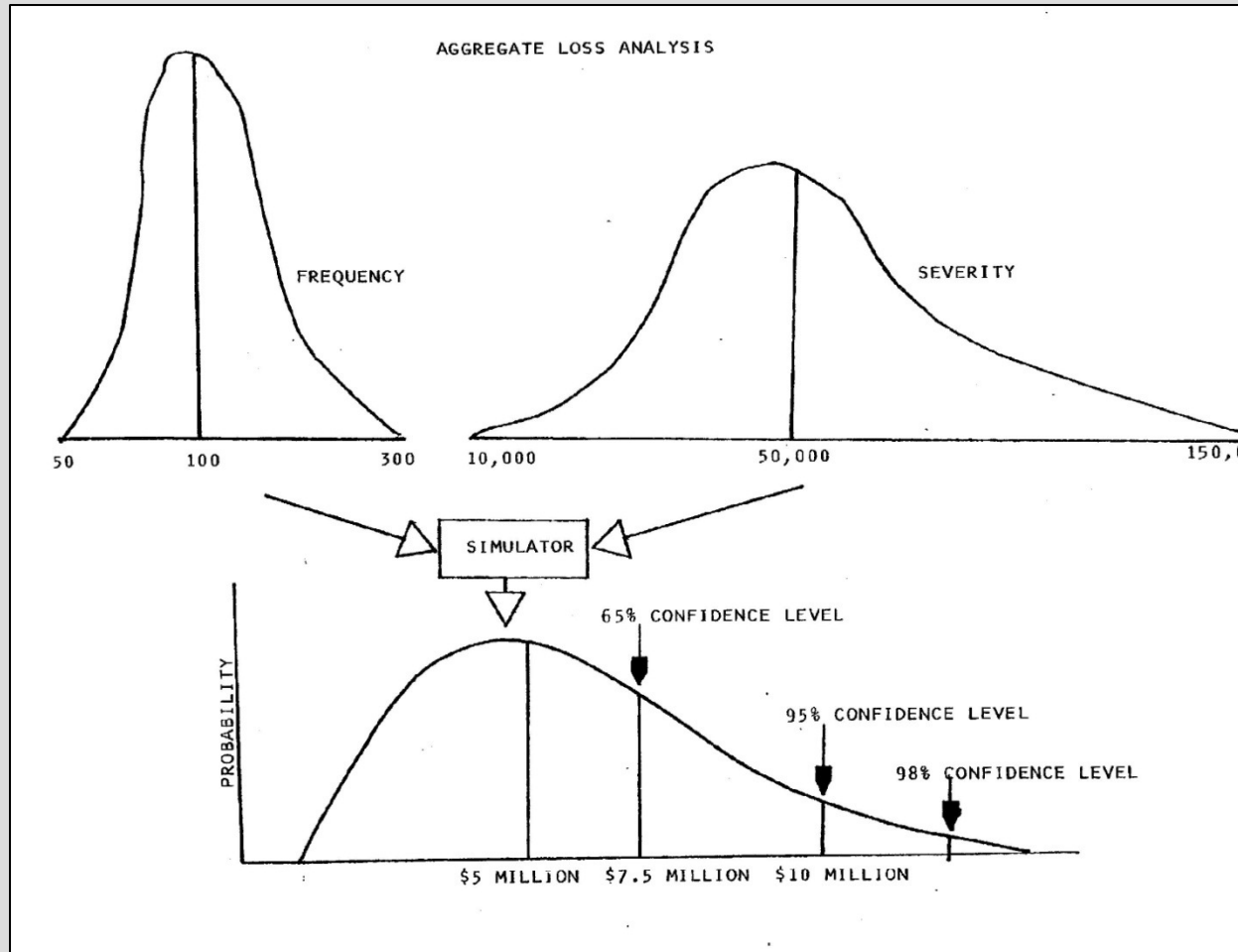
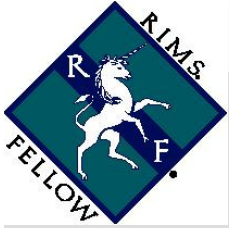
Computer Simulation tools to do the job

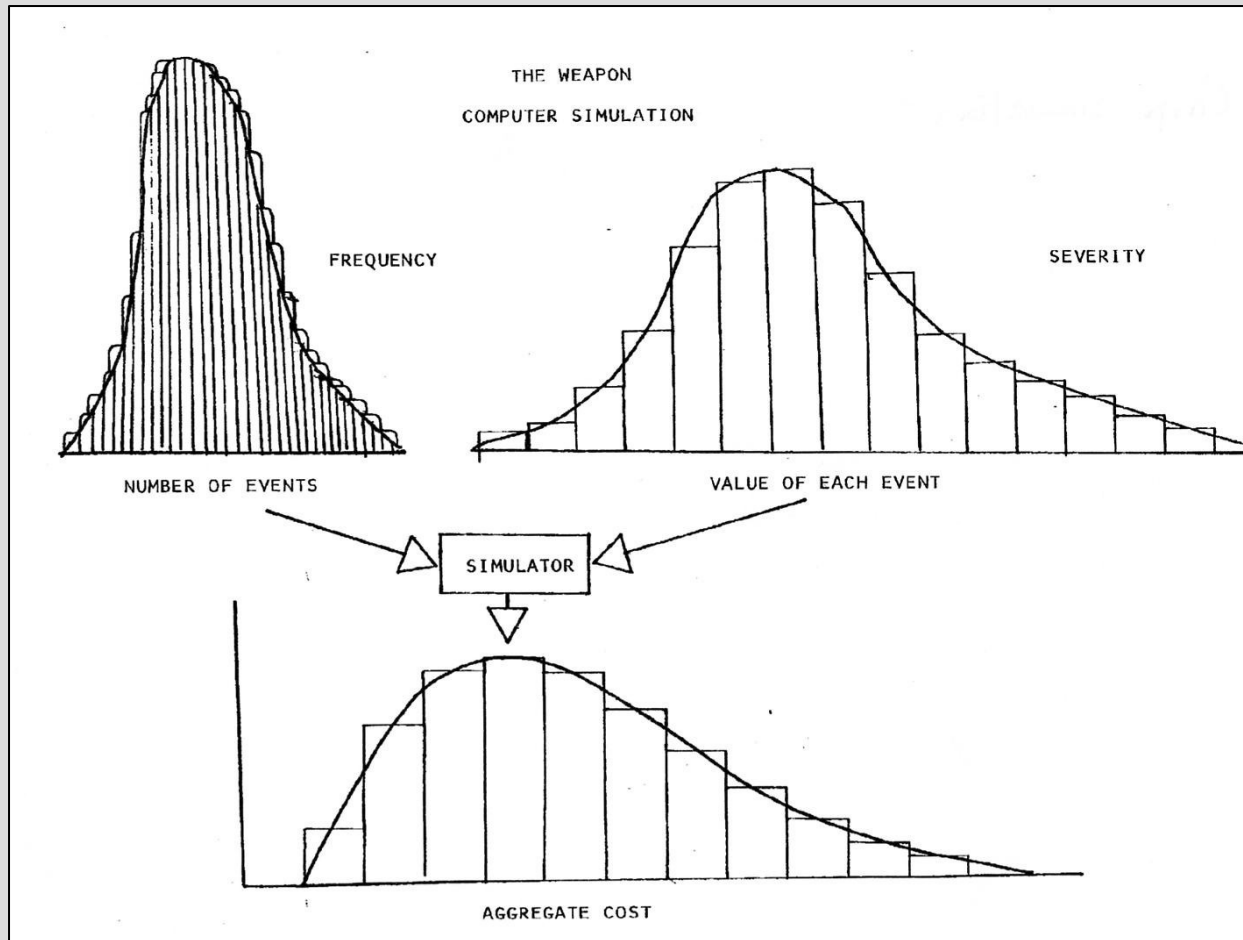
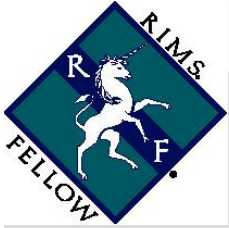
- Leverages your Excel skills to perform powerful analyses.
- Provides straight forward methods to:
 - Describe the relationships involved
 - Model the probability distributions of *your* variables in the simulation model.
- Supports data fitting options to find the ‘best fit’ for the probability distributions based on your data (Careful: your data may need adjustment.)

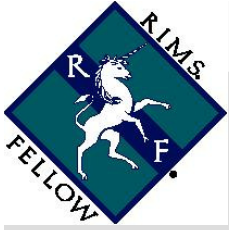


Frequency: the number of events per unit of time (year, etc.)

Severity: the probability distribution for each loss







Exercise: How much would you budget?

- Using the work sheets (to be Handed Out), how much would you budget for General Liability Losses in 2008?