http://understandinsurance.com.au/understanding-risk

Understanding risk

Life is inherently risky and it would be impossible to protect yourself against every potential risk you face. But if you are going to work hard, put money aside and invest it in things that are important to you or improve your life, it makes sense to protect those things as best you can.

Managing your risk involves a little bit of thought and planning to identify where you might be vulnerable to loss or damage. You do your best to protect your property, but you can also protect yourself from the impact of a natural disaster or if an unexpected event happens.

Risk management basics

Most of us engage in simple risk management strategies every day.

We drive carefully, put our salaries straight into a bank account, lock our house or car when we leave them, and keep our wallets, handbags and mobile phones with us when we go to a cafe or a park.

Insurance is an important component of risk management, but it’s not the only one.

Before you make the decision to buy insurance, it makes sense to review your own risks and work out how you can reduce the chance of them occurring and if they do occur, how you might reduce the impact on your life.

For example, you can reduce the risk of bushfire by making sure you have cleared flammable materials away from your house.

You can then take out insurance cover so that you are not risking severe financial consequences in the unlikely event your house is damaged or destroyed by bushfire. You are only protected once you pay your premium and, in some circumstances, the policy may not take effect for a predetermined time.

For more information on managing your risks click here [http://understandinsurance.com.au/identifying-and-managing-your-risks#tab-1] .

Risk in insurance terms

In insurance terms, risk is the chance something harmful or unexpected could happen.

This might involve the loss, theft, or damage of valuable property and belongings, or it may involve someone being injured.

Insurers assess and price various risks to work out how much they would need to pay out if a policyholder suffered a loss for something covered by the policy. This helps the insurer determine the amount (premium) to charge for insurance.

To be able to put a financial value on a risk, insurers calculate the probability that the insured item or property might be accidentally lost, stolen, damaged or destroyed, how often this might occur and how much it would cost to repair or replace.

By pricing risk, insurers know how much money they need to reserve to pay claims. The Australian Prudential Regulation Authority [http://www.apra.gov.au] (APRA) also has rules in place to ensure insurers have enough capital to pay a very high volume of claims.

For more on how insurers calculate premiums and evaluate risk click here [http://understandinsurance.com.au/premiums-explained#tab-1] .