Another term that means almost the same thing as risk is exposure**.** An exposure is a condition or situation that presents a possibility of loss. For example, a home that is built on a flood plain is *exposed* to the possibility of flood damage.

1.4. MANAGING RISK

We spend our entire lives coping with risk: crossing the street, going swimming, buying a new house, traveling by plane. These risks sometimes result in small losses, such as a stubbed toe or a lost pocket comb, that we accept as a normal part of life. But risks may also result in serious financial losses, such as when a house burns down or a person is injured in a car accident. The consequences of such serious financial losses can be quite severe and far reaching.

People have developed several different methods for managing the risk of serious financial loss. One method is simply to **avoid risk**. For example, you can avoid the risk of being in an auto collision by never getting into a car.

But it isn't practical to avoid all risks. Fortunately, that isn't the only method of managing risk. You can also **control risk** to some extent. For example, training workers in the safe use of welding tools can curtail the frequency of fires on the job. Risk control techniques that curtail loss frequency come under the heading of loss prevention. Or, installing a sprinkler system in a factory won't prevent a fire from occurring, but it will limit the severity of any fire that does occur. Risk control techniques that limit loss severity come under the heading of risk reduction.

In some cases, people simply **retain a risk**. That is, if any loss occurs, they will pay for it themselves. Sometimes people retain only a portion of a risk—the portion that remains after other means of managing the risk have been employed. If people are aware of a risk and decide to retain it (or a portion of it), then they do so intentionally. If people are not aware of a risk, they may retain it unintentionally, and they may be surprised if a loss occurs.

The final method of managing risk is to **transfer it**. This option includes, but is not limited to, insurance. For example, a **hold harmless agreement** may shift liability from an owner or contractor to a tenant or subcontractor. (A hold harmless agreement is a contractual arrangement where one party assumes the liability of a situation and relieves the other party of responsibility.) However, for many risks, the best way to transfer them is through insurance. We'll focus on this way of handling the possibility of loss in the rest of this unit.