Sketching risk management domains that are integrated to achieve comprehensive personal risk management

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This text sets forth some parts of a theoretical framework for discussing personal risk management. *Key Demographics in Retirement Risk Management* focuses on the concept of comprehensive personal risk management (CPRM). In this article, I broaden the focus to deal with risk management within specified "life domains". The main text begins by stating the purpose of the broader framework; but before doing so, a few definitions are in order.

Risk

The meaning of the word "risk" varies, and one needs to consider the context of use to identify the applicable meaning. The word can mean an uncertain outcome to which one is exposed. (Note that the person might have chosen to have this exposure in search of a gain or an interesting experience. Thus, "risk" can point to something positive or negative.) In the second meaning of the word "risk", it means the probability of encountering an uncertain result, which may be either a positive or negative outcome. In a third common use of the word "risk", it means the cost of dealing with the consequences of having met a loss. (For more detail see *Key Demographics in Retirement Risk Management*, Chapter 1.)

Risk management

What is risk management? We see above that risk may refer to either positive or negative outcomes. Where negative outcomes are concerned, risk management is a collection of related actions designed to either (a) reduce exposure to an identified set of potential pitfalls or undesirable outcomes, or (b) increase one's capacity to cope with the consequences of these negative outcomes should they be encountered. A very simple example of this kind of risk management activity is the action of washing oneself to clean the skin and teeth in an attempt to reduce exposure to certain negative health outcomes. Another example is the purchase of accident insurance.

In the context where benefits are being sought, risk management is a collection of related actions designed to facilitate the achievement of perceived gains or positive outcomes. An example of this kind of risk management is seen in the arrangements that are made for travel to a place far away from one's home to enjoy vacation time by participating in certain pleasurable activities.

Thus, we all do risk management activities at various times. However, our level of competence varies, and this is what one has in mind when using the notion of risk literacy. This text deals with dimensions of risk literacy, and in doing so it refers only to the class of negative outcomes.

Why your level of risk literacy is important

At a lecture given at London School of Economics on May 21, 2014, Professor Gerd Gigerenzer, Director of the Center for Adaptive Behaviour and Cognition at the Max Planck Institute for Human Development, supported the proposition that a democracy needs risk-savvy citizens. In his talk he stated that "If you think that there are experts and there is no need for you to be risk savvy, that may be a dangerous thing ... because many experts who [advise you about risks you face] do not understand the risks themselves or do not know how to communicate them to you. ... Risk literacy, how to deal with risk and uncertainty, is necessary for a 21st century technological society." He went on to add that risk literacy is infrequently taught "in most high schools, and even in law schools and medical schools."

There are at least two subjects where some national governments have shown concern about citizens' levels of risk literacy. One subject comprises financial literacy specifically, and well-informed money management practices generally. Here, Canada and the USA have established agencies with the responsibility of seeking ways to improve financial literacy in the population. (There is related discussion in Chapters 1 and 8 of "*Key Demographics ...*"). Secondly, in the health field there are numerous efforts by corporate and government agencies to improve selected aspects of public risk literacy using mass media outlets.

The financial services industry sells to the public a variety of products where the effectiveness of marketing activities depends on relevant public information and the levels of financial intelligence in the population. Concerns about the said effectiveness bring financial industry leaders directly into the study of what to do in order to raise the level of personal attention to deliberate decision-making that might involve their financial products.

Thus, leaders of our major institutions are acknowledging that key aspects of risk literacy comprise an important concern when they reflect on dimensions of population well-being.

A broadened framework for studying personal risk management behaviours

When I exposited the concept of comprehensive personal risk management (CPRM) in writing and occasional seminars from 2010 to 2012, I recurrently met the following reaction from some persons: "well, people do not carry out, or people have little need for, the kind of optimization of resource allocation that lies at the heart of your concept of comprehensive personal risk management". My best response has been that CPRM is an ideal, and persons and groups will show different degrees of achievement of this ideal. Also, large and systematic differences among persons and groups in their approximation of this ideal comprise an important area for business activities and public policymaking.

In this theoretical essay, I set the concept of comprehensive personal risk management within a broader framework where there is focus on risk management in specific life domains. We continue to be concerned with questions about levels of public awareness and activities pertaining to relevant risk management issues. The broader framework that I have in mind brings us to ask questions such as:

- What do people know about risk management activity in specific life domain X, as well as about linking risk management activity in domain X to such activities in other domains?
- How attentive are they to what might seem to be requirements for engaging in risk management activities?
- What are they actually doing when they carry out such activities?

I hypothesize that the statistical norm is that there is generally separate decision-making within specific risk management domains. However, we can compare individuals in terms of the degree to which their risk management styles and patterns approximate either the ideal of comprehensive risk management or the other extreme of fully segmented (or "stove-piped") risk management. In one culture there might be a high proportion of people among whom the boundaries among the decision-making segments are relatively open, and risk management styles in many cases substantially approach a comprehensive model. However, in another culture the boundaries may be fairly sealed, with risk management decisions being made within segments so that there is relatively little influence accorded to the flow of information from one segment to another.

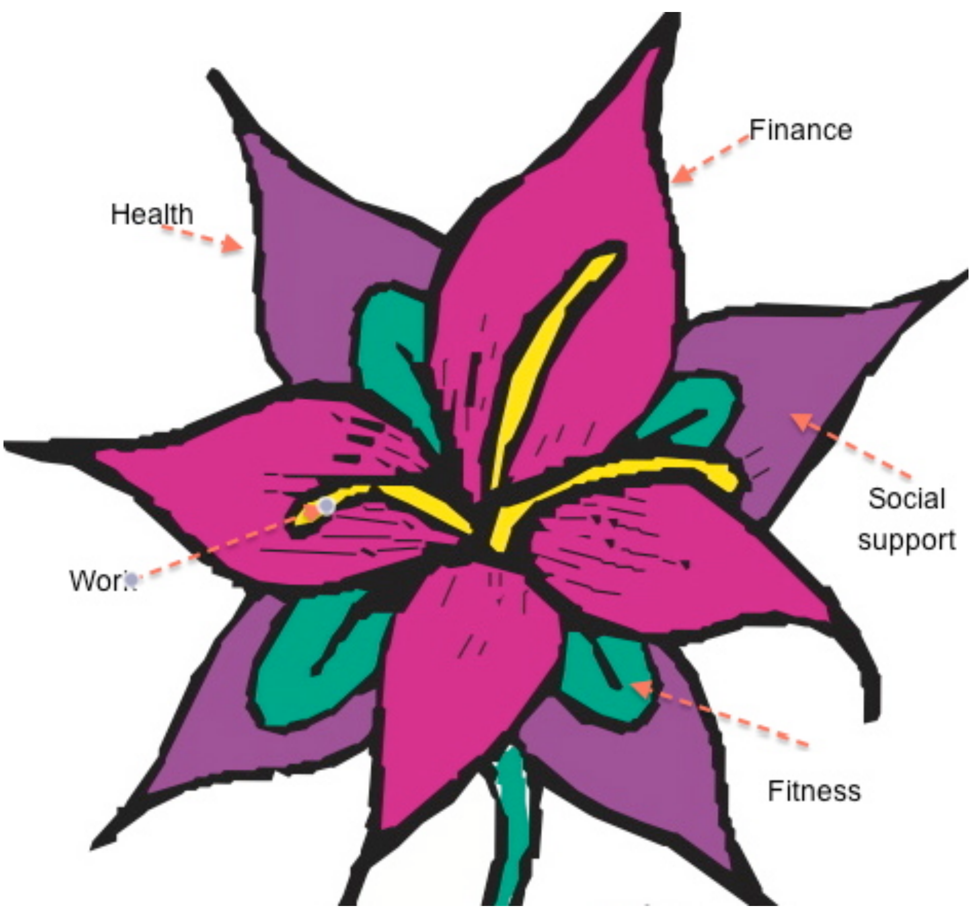
One aim of pertinent research would be to analyze the distribution of members of a given population over different levels of degree of comprehensiveness in their risk management styles. Also, it is conceivable that as we go from one culture to another, the shape of the overall distribution of the population in terms of proximity to fully comprehensive personal risk management (CPRM) might vary significantly. If a researcher thinks it is too ambitious or esoteric to measure performance in CPRM, he/she might be interested in addressing questions concerning the degree integration of (or linkages among) risk management behaviors across particular life domains.

Other important research would deal with questions about what attributes of persons are associated with doing well, or doing poorly, regarding risk management activities in particular life domains. This work might be expanded to measure and analyze intergroup variations in risk management performance. Such variations are important for business projects and for public policy-making. Chapter 5 of *Key Demographics in Retirement*

Risk Management illustrates research about patterns of inter-group variation, doing so by focusing on the utilization of the services of financial advisers.

Fleshing out the broadened framework

We can begin to map the broader framework within which to place comprehensive personal risk management. This can be done by identifying a set of major life domains across which personal risk management activities take place. The identification process would include noting key interrelations among the domains. Think of these domains as the component petals of a flower. The petals are integrated by a core that comprises comprehensive personal risk management. The following diagram represents this idea, and cites some of the major life domains with respect to which personal risk management is important. However, this text is only the first step towards a proper exposition of all the relevant life domains.



(Image source: Nova Development Corporation (no date), *Art Explosion 525,000* for Macintosh, flower_060. I have written to Nova for permission to publish this modification of flower_060, and they have replied with a "case closed" memo. In assume this is their form of granting permission. If I am wrong, I ask Nova staff to contact me immediately, and I will remove the image.)

With each major life domain we may associate a particular set of risk management activities, Let us say that these are sets of domain-focused or domain-specific risk management activities.

There's nothing new in the content of these ideas. I am just organizing the ideas into a framework to support a more broadened approach to studying personal risk management behavior, at least by comparison with a heavy focus on CPRM.

An additional image is helpful when thinking about the interrelationships among sets of domain-specific risk management activities. This image is that of a matrix, where a pattern of X marks placed in the cells of the matrix points to the various inter-sectoral linkages of each lie domain. Here is a first draft of the matrix.

A	B	C	D	E	F	G
	Health	Finance	Work	Fitness	Social support	... (others)
ealth		X	X	X	X	
inance	X		X			
/ork	X	X			X	
itness	X		X			
ocial upport	X		X			
. (others)						

In looking at the matrix please read along the rows. My model is that influence flows from items in the rows to items in the columns. A polished representation of this matrix would include a somewhat formal definition of each life domain, along with provision of the minimum set of X marks within the matrix so as to point to the essential inter-sectoral linkages that need to be considered in approaching an achievement of comprehensive personal risk management. This text is not the desired polished representation. Rather, it is my first step towards that goal.

The next phase of theoretical effort will be to begin describing major features of personal risk management within particular life domains, as well as their linkages to such activities in other life domains. This will be a long process involving several texts; because a vast subject field is involved.

Focus on major life domains

With regard to this task of describing the features, here are some preliminary comments.

There is already extensive literature concerning these features of personal risk management activities in the life domains of health and financial management. Notions of risk and risk management are recurrently found in this literature.

There is also a good deal of relevant literature in the highly overlapping life domains of family relationships and social support (the latter includes building one's social capital). However, discussions that focus upon concepts of risk and risk management are less frequently found in these areas, despite their great relevance to persons as they age into later life.

Two other highly overlapping life domains that deserve mention here are education and work. (When we speak of work it is best to explicitly say that both paid and unpaid work are pertinent.) Everybody knows about the enormous volume of literature concerning these two topics. Although risk and risk management might not figure prominently as concepts in this literature, it is easy to find articles where ideas that are pertinent to risk and risk management get much attention.

There is an important issue surrounding the question of whether physical and mental fitness, as well as social interconnectedness, are sub-domains of the health life domain. A lot depends on how "health" is defined.

If we focus upon absence of disease when thinking about health, then it is best to treat all these as highly overlapping life domains. This approach would attract concentrated analytical attention to such matters as bone density, vision efficacy, hearing capacity, and cognitive power; because, given this approach to health, a person may seem healthy and yet be quite weak in performance on all four of these topics.

One could say that such topics fall into he area of fitness or wellness, broadly defined. In a society where the health industry is all focused on fixing disease and illness states into which people have already fallen, focus on fitness and wellness may not get great priority. However, the priority of these topics increases when we approach them with concerns about risk management activities. Hence, for the purposes of fleshing out the description of life domains in the context of personal risk management, much work needs to be done in connection with health, fitness, and their linkages.

The descriptions of the key features of risk management activities in different life domains and of the major linkages of activities with and across life domains form part of the foundation for demographic analysis of intergroup variations. And again I point to Chapter 5 of the book is an illustration of aspects of this kind of work.

Above I have sketched some considerations about describing life domains, associated sets of risk management activities, and attention to linkages among sets across life domains. The linkages arise in several natural ways; but they also can happen because scarce risk management resources need to be optimally allocated across domains. This brings us back to comprehensive personal risk management (CPRM). A range of demographic analyses focusing on behavioral variations among population groups can be developed.

Work plan

In closing, I plan to produce a series of discussions that target particular segments of personal risk management, while trying to call attention to the desirable influence of information from life domains other than the one that is targeted in a particular discussion. My first area of concentration will be that of money-management generally, and within it investment management across financial market cycles. I plan to prepare a sequence of blogs that deal with risk challenges and related risk management activities related to different elements or sub-domains of money-management.

Work to fill in the theoretical gaps in the framework outlined above will continue. Theoretical texts will be produced from time to time. My strategy in the theoretical work is to begin by elaborating the architecture of risk management domains and then follow with a series of documents that target risk management challenges and strategies within specific domains. While doing so, I will pay attention to the linkages of decision-making in a particular domain to the flow of information from other domains.

References

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