Section 2 – Risk Financing Program Selection

External Financing – using one or more external sources of funds to finance risk

Hold Harmless Clause – agreement in which one party agrees to hold the other free from the responsibility for any liability or damage that might arise (liability and financial responsibility)

Indemnification Clause – agreement in which the obligation of the indemnitor is to compensate the loss of the indemnitee (purely financial responsibility)

Internal Financing – using the organization's funds for the financing of losses

Self-Insured Retention (SIR) – the dollar amount specified in the insurance policy that must be paid by the insured before the insurance policy will respond. The insured is responsible for loss including defense costs until the retention is reached.

Uninsured loss (planned or unplanned) – a loss that is not covered by insurance

Loss Sensitivity – recognition of the impact of losses (frequency and severity) on a risk financing program

Frequency – the likelihood that a loss will occur

Severity – the impact or the amount of damage caused by a loss

Degree of Certainty – being able to accurately predict costs associated with risk financing options is critical in managing the TCOR. Understanding the amounts and timing of these costs help the organization in the allocation of resources and budgetary considerations.

Collateral – property, usually in the form of funds or liquid personal property (e.g., inventory, accounts receivable), pledged to an insurer to assure any funds advanced on behalf of the insured are repaid to the insurer in the event the insured defaults