

NAME: _____

DATE: _____

INSTRUCTION

Handling Financial Risk

What + Why: Learn the four main risk management strategies and how federal deposit protection programs help protect consumer money so you can better understand how people prepare for financial risk.

Financial risks cannot always be avoided. People use different strategies to prepare for and handle financial risk. Some strategies focus on avoiding risk completely, while others focus on reducing, accepting, or shifting the financial impact if something goes wrong.

Use the table to review the four main risk management strategies and examples of how they work in real-life situations.

Risk Management Strategy	What It Means	Example From Risk Strategy Sort	New Example
Avoidance	Stays away from risk	Sofia chooses not to invest in cryptocurrency because she does not understand it.	
Reduction	Lowers the chance or impact of the risk	Aarav keeps some money in savings in case his investments lose value.	
Retention	Covers the risk using their own money or resources	DeShawn chooses to rely on his emergency fund instead of buying renters insurance.	
Transfer	Shifts the risk to someone else	Caleb's long-term disability insurance will kick in if he loses his job for an extended amount of time.	

Some risk management strategies involve handling risk personally, while others involve shifting part of the financial risk to another person, company, or organization.

Insurance is one example of risk transfer because it shifts some financial responsibility to an insurance company. Federal deposit protection programs like the FDIC and NCUA are also examples of risk transfer because they help protect consumer deposits if a financial institution fails.

FDIC and NCUA Protection

Here's a list of what FDIC and NCUA protect and what they do not protect.

FDIC/NCUA Protect:	FDIC/NCUA Do NOT Protect:
• Checking accounts • Savings accounts • CDs/share certificates • Other deposit accounts	• Stocks • Bonds • Mutual funds • ETFs • Cryptocurrency • Other investments that are meant for growth

Key Terms

- **insurance:** a social and contractual device that transfers the risk of financial loss from individuals or businesses to an insurer OR a practice by which a company or government agency provides full or partial financial compensation for loss or damage caused by events beyond the control of the insured party in return for a premium
- **Federal Deposit Insurance Corporation (FDIC):** a U.S. government agency with many responsibilities, including insuring bank deposits up to \$250,000 and overseeing financial institutions for safety, soundness, and consumer protection
- **National Credit Union Association (NCUA):** a U.S. government agency with many responsibilities, including insuring credit union deposits up to \$250,000 and overseeing credit unions for safety, soundness, and consumer protection
- **risk management:** identifying, analyzing, and taking steps to reduce or eliminate the exposures to loss faced by an organization or individual
- **risk transfer:** the choice to share the risk of financial loss with another party, such as an insurance provider