Risk Management- Loses Metamorphosis

In this short article, I am presenting the seeds of a new Risk Management ideology, which I named Loses Metamorphosis, which could be the fourth risk management science aside with the main three Risk Management Sciences; Risk Assessment, Risk Control and Risk Finance, and which I hope it could be of good benefit.

And the word "metamorphosis" that I used to define this new ideology, derives from the Greek word μεταμόρφωσις, which means "transformation, transforming", from μετα- (meta-), "change" + μορφή (morphe), "form". In other words, this word is used to describe the change of the form without changing the origin self core. Later in this article, I will get more into the details of this and its relation with this new ideology.

Let us first start with defining the Risk management. As defined in many different books and resources, and even online, *Risk Management is the identification, assessment, and prioritization of risks (defined in ISO 31000 as the effect of uncertainty on objectives, whether positive or negative) followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events or to maximize the realization of opportunities. Risks can come from uncertainty in financial markets, threats from project failures (at any phase in design, development, production, or sustainment life-cycles), legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attack from an adversary, or events of uncertain or unpredictable root-cause. Several risk management standards have been developed including the Project Management Institute, the National Institute of Standards and*

Technology, actuarial societies, and ISO standards. Methods, definitions and goals vary widely according to whether the risk management method is in the context of project management, security, engineering, industrial processes, financial portfolios, actuarial assessments, or public health and safety or even military and intelligence planning.

The strategies to manage threats (uncertainties with negative consequences) typically include transferring the threat to another party, avoiding the threat, reducing the negative effect or probability of the threat, or even accepting some or all of the potential or actual consequences of a particular threat, and the opposites for opportunities (uncertain future states with benefits).

So, in other words, Risk Management is mainly divided into three main sciences and processes; Risk Assessment, Risk Control and Risk Finance, all with one target, which is to prevent, transfer or at least minimize the loses which might occur due to the negative impacts of these risks.

Loses can appear in different forms, yet all would be analysed, calculated, valued and represented at the end into figures of money and wealth loses. It happens that a company or an association or even individuals might fail to decrease the impact of a risk or transfer its damage, and so, losing some of their wealth due to the negative impacts of these uncontrolled risks. And here comes the big question

Could my wealth ever disappear?

And if so, can we track some or most of these loses and transform them back into profits?!

Well, wealth can totally disappear only if it was a fake!! And yes there are situations were wealth could be a fake, just numbers on a system, and these kinds and situations of fake wealth, have a totally different way of handling and managing, But this is not the our issue in this article.

Back to our normal "loses" issue. Before answering the question mentioned above "can we track some or most of these loses and transform them back into profits?!" Let us first define Wealth and Money in a different and new way. I see Money as energy, it never dies, it only transforms from one form into other forms. But it never dies or disappears. Yet we still, all, experience losing money, so where does it go?! And is it a hopeless case to recover these losses and get this money back?!

Well, it didn't disappear; it only ran out of my pocket, so the right question should be "where did it go?"

As we mentioned above, that Risk Management is all about controlling negative impacts that might occur from any possible future risks. It's all about money and wealth. In the business world, all kinds of losses are valued and measured into figures of currencies, stocks or valuable metals, even in the non-financial or not-to-profit organizations.

Companies, Corporates, Associations, Banks, Stock Markets, Intelligence Agencies and Governments, they all got their professional experts who work night and day on doing Risk Assessments, building all the possible scenarios and trying to predict all the possible and impossible future risks, and evaluate the possible impact of each and predicting the percentage of occurrence through all the known scientific statistical studies that could be possibly done, then going through the Risk Control and Risk Financing plans. All that effort is done, to decrease the possibility of any negative risks, or at least, transfer or decrease the negative impact and the amount of losses that may occur.

As we mentioned above, that money is like energy, it never dies, it only transforms. This simply means that the money I might

lose simply gets out of my pocket, unwillingly, and runs into other uncontrollable canal/s, that's why we count it as loses simply because they ran away into the uncontrollable canal/s.
Instead of just recording the losses as it is in the registers and that's it, we should study and analyze all the different possible canals that my lost wealth and money would run into. We need to know what other forms my lost wealth would be transformed into.
Instead of me watching desperately, all my wealth running away from my pocket into another canal, I should run and stand on that canal, in the way of my running away money and wealth, and let it, or most of it pour back into my pocket. And so, this amount of money could be transformed from the loss form into the profit form (Losses Metamorphosis).
Let me give you one simple example
We all know how data and information are extremely important in taking strategical decisions. All kinds of information and data, starting from the stock investing decisions till the health situation of the leading CEO.
If I am working as a Risk Manager for one big organization or company which holds 20 or 30% of the market shares, and I got some information about a future risk that my organization might be facing, and which could result in losing some of my company's market shares, let's say a risk of losing 10 or 15%, and that this risk is not possible to control. In that situation, it is very important to start studying the path/s and canal/s that my shares will eventually run into. My own loses will eventually be the profit of others. There could be more than a scenario. One scenario is that my future lost portion of market shares would be the profit of one or more of my competitors. There could be another scenario; maybe my competitors are not ready at that

time to invest this opportunity, may be they are not ready to fill this 10-15% gap created in the market, and so, it could be a wonderful opportunity for a new investor to start appearing and competing and filling this gap in the market. If we will work on the first scenario, it could be very wise to start planning the buying of some of my competitor/s stocks, and so benefit from the raise of the value that would occur in their stock, due to my own future risk/s that would negatively affect me. And I can later sell these stocks on higher values, and recover some or most of my losses, and even control my competitor's stock value. And if we will work on the second scenario, then it could be a good idea, that my own company would start another brand new company to gain and fill this 10-15% gap; May be its better to have two small companies with 15% of market share for each instead of one big company with 30% of the shares.

Another important example and application for the Losses Metamorphosis comes in the Recession periods. In economics, a recession is a business cycle contraction; it is a general slowdown in economic activity. Macroeconomic indicators such as GDP (Gross Domestic Product), employment, investment spending, capacity utilization, household income, business profits, and inflation fall, while bankruptcies and the unemployment rate rise.

Recessions generally occur when there is a widespread drop in spending (an adverse demand shock). This may be triggered by various events, such as a financial crisis, an external trade shock, an adverse supply shock or the bursting of an economic bubble. Governments usually respond to recessions by adopting expansionary macroeconomic policies, such as increasing money supply, increasing government spending and decreasing taxation.

But in reality, and by experience through all the past recessions and depressions since the early 1900's, not all the industries get affected negatively in these periods. On the contrary, some industries get more active. And based on the same philosophy, Money never vanishes; it only changes the routes and the canals, and runs from one direction into other direction/s. So, it is very important if my investment is one of the investments that gets quickly affected in the recession periods, that I should always make space for myself to work around or at least serve the industries that are not affected negatively, and so decrease the amount of wealth lost, by getting close to these canals that never gets affected at these times.

These are very simple applications of the new Risk Metamorphosis ideology, and there could be hundreds of different applications of Risk Metamorphosis that could be experienced on all levels of risk management, starting from the individual level, up to the countries and governments level.

There are a lot of important things to be discussed in that new ideology, one of them is the importance of the governmental control. You cannot just keep retrieving all you losses. Practical wise, this is not right even if it is possible

It is always good to lose some wealth without being able to retrieve them. This helps keeping the good health of any market, because every some number of cycles, you might need to have new blood running into the market, new investments, or at least new names and images.

It is all about decreasing the losses, and not totally stopping them.

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