

Trifurcation:
An Approach to Analyzing the Impact of Risk Treatment Alternatives

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Abstract

When companies engage in risk management activities, they can be seen as modifying their distributions of future outcomes. Often, this takes the form of trading off a sure cost for a decrease in some potential risk of loss. Companies may carry out these activities with several goals in mind, such as reduction in earnings volatility or preservation of capital. This paper will demonstrate a method for evaluating possible strategies by dividing the effects on costs and risks into three tranches: earnings, impact and estate. The tranches can be associated with different interests of the various stakeholders. This trifurcation analysis can help to explain the risk-reward trade-offs of different risk treatment alternatives and can aid in risk-related decisionmaking.

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