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The Optimal Timing of Risk Management

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The Optimal Timing of Risk Management

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Abstract

Many risk management decisions involve the timing of implementing risk strategies. The cost of hedging, capital raising and securitization changes with the economic environment. The timing of de-risking and investment in new risk management functions affect the cost and benefit of these projects as well. Like investment timing, it is important to consider the timing in risk management decisions to maximize the gain of risk management projects.

This paper discusses methods of determining the appropriate timing of implementing a risk management strategy or investing in risk management projects. It explains the human biases that may lead to inferior timing decisions. It also covers the costs and benefits of risk management projects and the impact of new information on the decision-making process. Timing considerations for financial risk hedging, insurance risk hedging and investment in new risk management projects are explained. Factors used for timing decisions include economic conditions, market volatility, credit rating, borrowing cost, capital adequacy and financial resources.

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