Advertisement

Journal of Applied Corporate Finance / Volume 14, Issue 4 / pp. 27-40

INTEGRATING RISK MANAGEMENT AND CAPITAL MANAGEMENT

Prakash Shimpi

First published: 11 April 2005

https://doi.org/10.1111/j.1745-6622.2002.tb00446.x

This article is a shorter, less technical version of Chapter 3 of Prakash Shimpi (ed.), *Integrating Corporate Risk Management* (Texere LLC, London and New York, 1999, 2001). Copyright is held by Swiss Re.

PDF

Abstract

Capital management and risk management are two sides of the same coin. But by treating them separately, the conventional theory and practice of corporate finance fails to account for important connections between them. Moreover, an exclusive focus on debt and equity ignores the full range of capital resources available to a corporation, thus distorting management's view of the firm's cost of capital (and its return on equity).

An understanding of the role of corporate capital–including off-balance sheet as well as paid-up capital—and its relationship to the riskiness of a firm's activities provides the foundation on which the author builds a corporate finance framework that ties together both the insurance and capital markets. This framework, called the "Insurative Model," captures the economics of both conventional insurance and corporate finance instruments and embraces a wide variety of solutions and instruments—be they debt, equity, insurance, derivative, contingent capital, or any other—and allows managers to evaluate their effectiveness in a consistent, unified way.

The Insurative Model demonstrates that a company's decisions on insurance and risk retention can

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences

Accept All

Reject Non-Essential

Download PDF

ABOUT WILEY ONLINE LIBRARY

Privacy Policy
Terms of Use
About Cookies
Manage Cookies
Accessibility
Wiley Research DE&I Statement and Publishing Policies

HELP & SUPPORT

Contact Us
Training and Support
DMCA & Reporting Piracy
Sitemap

OPPORTUNITIES

Subscription Agents
Advertisers & Corporate Partners

CONNECT WITH WILEY

The Wiley Network
Wiley Press Room

Copyright © 1999-2026 John Wiley & Sons, Inc or related companies. All rights reserved, including rights for text and data mining and training of artificial intelligence technologies or similar technologies.

WILEY

This website utilizes technologies such as cookies to enable essential site functionality, as well as for analytics, personalization, and targeted advertising. You may change your settings at any time or accept the default settings. You may close this banner to continue with only essential cookies. Privacy Policy

Manage Preferences
Accept All
Reject Non-Essential