ANSWERS TO THE
QUESTIONS IN THE
COURSE GUIDE

Risk Management Principles and Practices

ARM 54

1st Edition

2016

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Assignment 1

Introduction to Risk Management

Educational Objective 1

Every organization faces uncertainties which can affect its ability to meet its objectives. Traditionally, these uncertainties (risks) were viewed only for their potentially negative consequences. Over time, the concept of dealing with uncertainties has developed into evaluating both negative and positive outcomes.

Several definitions of risk and risk management have been developed to expand this view. For consistency, this author likes the use of the RIMS definitions of each:

Risk – an uncertain future outcome that can either improve or worsen your position, and

Risk management – a business discipline that drives deliberation and action regarding uncertainties and untapped opportunities that affect an organization’s strategy and strategy execution.

A whole-organization approach (holistic) to risk management recognizes four high-level categories of risk – hazard risk, operational risk, financial risk, and strategic risk. Each category has functional sub-categories. This process enables an organization to recognize how interconnected the several risk areas are in the overall functioning of the organization.

It is also important to recognize the interconnectedness of risks which are internal to the organization and those which exist externally of it.

Key Words and Phrases

1. Hazard risk is risk of accidental loss. The possible outcomes are either that a loss will occur, or that no loss will occur.

2. Risk profile is the set of characteristics common to all risks in a portfolio.

Review Questions

1-1. Every organization faces uncertainties which can affect its ability to meet its objectives. Traditionally, these uncertainties (risks) were viewed only for their potentially negative consequences. Over time, the concept of dealing with uncertainties has developed into evaluating both negative and positive outcomes.

1-2. The ISO 31000:2009 definition of risk management makes the blanket statement that it is “Coordinated activities to direct and control an organization with regard to risk”.

1-3. The holistic approach to risk management considers an organization-wide approach of managing all types of risks, not just those that are familiar or easy to quantify. This enables the organization to see an accurate perspective of the significance of various risks, and how interconnected they can be.

1-4. A whole-organization approach (holistic) to risk management recognizes four high-level categories of risk – hazard risk, operational risk, financial risk, and strategic risk.

1-5. The evolution of risk management has occurred partially because of the high-profile failures of large organizations within the last 20 years or so, and the global financial crisis.

1-6. Major changes in the risk landscape have developed because of trends in technology, globalization of business, and the world financial market. This globalization exposes organization to a wider
range of hazard, political, economic, and financial risks than at previous times. And again, the way everything interconnects can amplify their effect and have a bearing on the measures used to address them.

**Application Question**

1-7. The described risks fall into the categories of:

(a) Operational  
(b) Strategic  
(c) Financial  
(d) Hazard  
(e) Financial
MULTIPLE CHOICE QUESTIONS WORKBOOK

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Assignment 1

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1. International regulatory agencies required improvements in risk management processes and disclosures after what event? (Text 1.3)
   - (A) 9/11
   - (B) The 2008 financial crisis
   - (C) The Fukushima earthquake and tsunami
   - (D) Major currency collapses since 2010

2. What is the main way in which the concept of risk has developed over time? (Text 1.3 – 1.5)
   - (A) That not much at all can be done about controlling hazard risk
   - (B) That risk be considered uncertainty about an outcome that could be either positive or negative
   - (C) That transference is the best solution for handling hazard risk
   - (D) That risk is a choice rather than a fate

3. Which type of risk presents only the chance of loss or no loss? (Text 1.6)
   - (A) Hazard risk
   - (B) Operational risk
   - (C) Financial risk
   - (D) Strategic risk

4. The 2001 collapse of Enron and Arthur Andersen was the catalyst for what item of legislation that contained requirements for disclosure of risk management controls? (Text 1.6)
   - (A) Sarbanes-Oxley Act
   - (B) Dodd-Frank Act
   - (C) UK Corporate Governance Code
   - (D) EU Protocol

5. Risk management theory that considers an organization-wide approach to risk management is known as what type of approach? (Text 1.6 – 1.7)
   - (A) Cross-functional
   - (B) Comprehensive
   - (C) Interrelational
   - (D) Holistic

6. The risk management landscape has changed dramatically in recent history because of changes in all but which of the above? (Text 1.7)
   - (A) Technology
   - (B) Globalization
   - (C) Global warming
   - (D) Finance

7. A systemic risk involves: (Text 1.9)
   - (A) A risk that loss in one area of an organization may cause loss in another area of the organization
   - (B) A risk that all of the current suppliers of an organization’s inputs will be unable to produce the inputs
   - (C) A risk that an event will cause multiple key people in an organization to leave at once
   - (D) A potential major disruption in the function of an entire market or financial system

8. An organization’s cost of risk consists of all of the following components, EXCEPT: (Text 1.9 – 1.10)
   - (A) Cost of regulatory fines for not maintaining adequate hazard insurance
   - (B) Costs of accidental losses not reimbursed by insurance or outside sources
   - (C) Insurance premiums or noninsurance indemnity costs
   - (D) Costs of risk control techniques
Assignment 1

Introduction to Risk Management

1. B is the answer. RIMS and other risk management groups conducted conferences and published discussions about risk in light of the financial crisis and other risk events.

2. B is the answer. This approach to risk management allows for risk control activity which can result in exploiting the possible positive outcome of a risk. Response D is a good foundational concept of being in business in the first place, and using proactive risk management methods as well.

3. A is the answer. With the other three, the risk contains the possibility of a gain, loss, or neither.

4. A is the answer. Public companies were required to disclose risk management controls and discussed in annual financial statements.

5. D is the answer. The other responses get at the basic idea as well.

6. C is the answer. The text describes how changes in each of these areas, and their interconnectedness, calls for a different approach to risk management than was taken in previous years.

7. D is the answer. Multiple large-scale business failures globally can endanger entire economic systems.

8. A is the answer. The other three are components of the cost of risk, and the fourth cost is the cost of administering risk management activities.