

CISR

ELEMENTS
OF RISK
MANAGEMENT

S T U D Y G U I D E



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for Insurance Education & Research

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S T U D Y G U I D E

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-in questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but *do not* mistake it for a comprehensive "short-cut" to preparing for the final exam.

Be sure to take a look at the section, "Resources," that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.



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Tools to Assess Your Knowledge

Check-Ins, Knowledge Checks,
and Self-Quizzes by Topic

Section 1: Introduction to Risk Management

Defining Risk

Check-in



Directions: Use the following terms to fill in the blanks. Some terms may be used more than once.

area of expertise	negative	uncertainty
job function	positive	

Risk is a condition of either _____ or _____ arising from a given set of circumstances. The term does not solely describe possible _____ outcomes, the chance of loss, or no loss. Risk outcomes can also be _____. Perceptions of risk vary, depending on an individual's job function or _____.

▶▶ Knowledge Check



Directions: Imagine that one of your clients owns a company that manufactures and sells a variety of granola breakfast and snack products. Identify three examples of pure and speculative risk associated with your client's business.

Type of Risk	Examples
Pure	
Speculative	

Key Risk Management Terms

Check-in



Directions: Directions: Read each statement. Then select True or False.

1. A hazard is a cause of loss.

True

False

2. A situation, behavior, or condition that may lead to adverse financial consequences is an exposure.

True

False

3. A cyberattack is an example of an exposure.

True

False

4. A spill on a supermarket aisle is an example of a hazard because it increases the likelihood that someone will fall.

True

False

5. An insured who shows no regard for his insured property demonstrates a morale hazard.

True

False

Check-in



Directions: Read each example. Write the risk term that applies.

1. A passenger enters an elevator. His clothing is caught in the elevator door as the door closes. The passenger snatches the clothing from the door before the elevator begins to move. He is uninjured and his clothes are not damaged.

2. A mixing paddle on a faulty bakery mixer snaps and strikes an employee's hand. The employee's hand is cut and bleeding.

3. A driver is at fault in a minor auto accident. The other driver is uninjured, but the bumper on her car requires repairs. The other driver demands that the at-fault driver's insurance company pay for the loss.

Check-in



Directions: Match each term to its description.

A. average severity	_____ The total dollar amount of all losses for a given period of time
B. risk appetite	_____ A loss has occurred but is unlikely to occur again in the future
C. high frequency	_____ An organization's tolerance for risk
D. low frequency	_____ The product of loss frequency multiplied by loss severity
E. severity	_____ The total amount of losses in a given period divided by the total number of claims
F. expected losses	_____ A loss expected to continue occurring regularly

Check-in



Directions: Match each term to its description.

A. loss	_____ A cause of loss
B. exposure	_____ An unplanned event definite as to time and place that results in injury or damage to a person or property
C. peril	_____ An event that disrupts normal activities and may become a loss or business interruption
D. hazard	_____ A demand for payment or an obligation to pay as a result of a loss or occurrence
E. incident	_____ A situation, practice, or condition that may lead to an adverse financial consequence or loss; an activity or resource; people or assets
F. accident	_____ A reduction in asset value
G. occurrence	_____ An accident with the limitation of time removed; an “accident” extended over a period of time rather than a single, observable event
H. claim	_____ A condition or characteristic that may create or increase the likelihood or severity of a loss

▶▶ Knowledge Check



Imagine a client is seeking property insurance for a condominium building that her company manages. The building, located on Florida's Gulf Coast, is valued at \$10,000,000. It was built in 2002, has 10 floors and 100 condominium units. The building's roof has not been updated, and a recent inspection concluded that the main electrical panel needs repairs. It also appears that the majority of the unit owners do not own fire extinguishers, nor do they own hurricane shutters.

Directions: Give one example of each of the following risk management factors your client should consider:

Exposure	Building
Peril	
Hazard	
Incident	
Accident	

Risk Management

Check-in



Directions: Use the following terms to fill in the blanks.

behaviors	objects	quantitative
case studies	operations	Risk Control
interviews	procedures	Risk Financing
negative	qualitative	Risk Identification

_____ is the first and most important step in the risk management process. Any failure to identify risk exposes an organization to _____ financial consequences.

Once risks are identified, they are analyzed to assess their potential impact. Analysis takes two forms. _____ analysis allows the collection of information that does not lend itself easily to _____ analysis, or mathematical measurement. _____ and _____ are examples of this form of analysis.

_____ and _____ share the same position in the risk management process because they are interchangeable.

_____ applies methods or actions aimed at minimizing or avoiding the impact of a loss. The human approach to risk control focuses on people's _____. The engineering approach focuses on _____ and _____. The systems approach pays attention to _____ and policies, as well as negligent supervision.

Check-in



Directions: Match each term to its description.

A. Avoidance	_____ A response to a focus on the frequency with which events occur
B. Prevention	_____ The isolation of an exposure from other exposures, perils, or hazards
C. Reduction	_____ Creating asset back-ups
D. Segregation	_____ A response to a focus on the severity of incidents in an effort to recognize risk and take action to lower losses
E. Separation	_____ The shift of function, exposure, or responsibility of certain liabilities to another party
F. Duplication	_____ The elimination of risk
G. Transfer	_____ The process of spreading exposures or activities over several locations

▶▶ Knowledge Check



Review the diagram of the five steps of the risk management process. Summarize in your own words why each part of the process is necessary.



Section 1: Introduction to Risk Management



Section 1 Self-Quiz

Directions: Complete each item. For fill-in-the-blank items, choose the term that correctly completes the sentence. Answers may be used more than once.

accident	hazard	segregation
avoidance	incident	severity
business	liability	speculative
contractual	measure of loss	risk ability
exposure	occurrence	Risk Administration
financial	peril	risk management
frequency	physical	uncertainty

- Risk is defined as a condition of either positive or negative _____ arising from a given set of circumstances.
- Perceptions of risk depend upon an individual's job function or area of expertise. Select True or False.

True

False

- A risk manager may define risk as the person or property exposed to a potential loss. Select True or False.

True

False

- Pure risks include threats to property and people, as well as _____.
- The result of a pure risk is some _____.
- Unlike pure risk, _____ risk presents the opportunity for gain.
- Speculative risk is associated with _____ or _____ risk.

Section 1: Introduction to Risk Management

accident	hazard	segregation
avoidance	incident	severity
business	liability	speculative
contractual	measure of loss	risk ability
exposure	occurrence	Risk Administration
financial	peril	risk management
frequency	physical	uncertainty

8. Think about the definition of the term *loss*. Check each example of loss.
- a business interruption
 - physical property damage
 - injury to an employee or customer
9. A situation, practice, or condition that may lead to an insured's susceptibility to adverse financial consequences or loss is called a(n) _____.
10. A(n) _____ is a cause of loss.
11. A(n) _____ is a factor that increases the likelihood that a peril will occur.
12. A(n) _____ is an event that may lead to a loss or a claim, or an event that may cause a business interruption.
13. A(n) _____ is always an unexpected and unintentional event that tends to result in damage or injury.
14. An "accident" that occurs over an extended period of time is called a(n) _____.
15. The number of claims that occur or that an insurer expects to occur within a given period of time is labeled _____.

Section 1: Introduction to Risk Management

16. The dollar amount inflicted by a given loss or catastrophe, or the aggregate dollar amount of all losses for a given period of time, is defined by the word _____.
17. _____ describes an organization's ability or inability to assume financial responsibility for loss.
18. _____ is the implementation of a process intended to minimize the uncertainty of exposures that can adversely affect an individual's or an organization's assets and financial well-being.
19. Sequentially order (number them 1-5) the steps of the risk management process.

- _____ **Risk Control**
- _____ **Risk Administration**
- _____ **Risk Identification**
- _____ **Risk Analysis**
- _____ **Risk Financing**

20. The best method of risk control is _____, or the elimination of risk.
21. _____ involves isolating an exposure from other exposures, perils, or hazards.
22. The two types of risk transfer are _____ and _____.
23. The ongoing implementation and monitoring of the risk management process is called _____.

Section 2: Risk Identification

The Importance of Risk Identification

▶▶ Knowledge Check

Think about your organization and the risks you identified as potential threats to your organization's well-being. Predict what might happen to your organization if one of the risks you identified was overlooked.



General Classes of Risk

Check-in



Directions: Read each example and consider the risk class implications. Circle all of the risk classifications that apply.

1. The ABC Plastics Company produces medical supplies for distribution across the country. Government sanctions against certain oil-producing countries have led to resource scarcity. Scarcity has led to higher prices, which has triggered protests from national healthcare watchdog groups. How could the risks associated with these circumstances be classified?

Economic Class

Legal Class

Physical Class

Social Class

Technological Class

Juridical Class

Political Class

2. The XYZ Company manufactures children’s clothing and accessories. The company licensed rights to a variety of popular movie characters for use on children’s lunchboxes and backpacks. The movie company’s employment practices have recently come under scrutiny by state employment authorities, and a number of civil lawsuits are underway. How could the risks associated with these circumstances be classified?

Economic Class

Legal Class

Physical Class

Social Class

Technological Class

Juridical Class

Political Class

▶▶ Knowledge Check



A toy company works in partnership with global food manufacturers to create toy models of brand name foods for use in preschool, daycare, and home settings. For years, the toy company has seen revenue increase. Consequently, it has expanded its product line to include popular snack foods. In recent months, the company's marketing team has collected evidence of a growing initiative on social media to eliminate what some consumers call "unhealthy" food choices associated with children's play objects. Explain which classifications of risk apply to the toy manufacturer's current circumstances. Justify your choices.

Four Logical Classifications of Exposures

▶▶ Knowledge Check



Imagine yourself as the risk manager for XYZ Engineers, a Virginia company holding several engineering patents that apply to green energies. You have identified several areas of intellectual property under the property logical classification. Describe some of the perils and hazards associated with this classification.

Risk Identification Methods

Check-in



Directions: Read each statement. Then select True or False.

1. Risk management surveys are more effective at the company or event level because they reveal more industry-specific information.

True

False

2. Checklists are an efficient means of covering all areas of an operation.

True

False

3. One of the values of reports following annual surveys is the identification of emerging risks.

True

False

Check-in



Directions: Read each statement. Then select True or False.

1. One purpose of a compliance review is to examine an organization's adherence to insurance professional standards.

True

False

2. In most cases, an organization has little or no control over a compliance review.

True

False

3. An organization may conduct an internal review of procedures and policies or give the task to an external group or legal counsel.

True

False

4. Documented processes, procedures, and policies help organizations secure protection against exposures.

True

False

Check-in



Directions: Select the term that completes each statement.

1. Recognizing an organization's _____ others is an important outcome of reviewing contracts.

obligations to

reliance on

2. During contract reviews, a risk manager must be aware of the possibility of _____.

**noncompliance with
statutes and regulations**

**exposures to
financial risk**

Check-in



Directions: Select the term that completes each statement.

1. Financial statement analysis may reveal understated or overstated _____ being carried on an organization's books.

financial capabilities

values

2. Experts include human resource consultants, actuaries, and _____.

**people with
particular craft skills**

**people with
customer service
experience**

Check-in



Directions: Match each term to its description.

A. Expert review	_____ Examination of an organization's financial information to identify and value its exposures/assets
B. Financial statement analysis	_____ A graphical depiction of a process or system
	_____ Contributions from experienced individuals in the identification of exposures
C. Physical inspection	_____ Systematic searches for as many exposures, perils, and hazards as possible
	_____ Visits to physical sites to identify exposures to risk
D. Flowchart construction	_____ Historical examination of exposures and their valuations
	_____ Identification of contractual obligations and examination of contractual compliance
E. Contract review	_____ Determination of an organization's adherence to laws and regulations
F. Compliance review	_____ Examination of current policies and procedures for the purpose of identifying exposures
	_____ Identification of exposures and perils arising from insurance coverage gaps, insufficient limits, coverage limitations, and exclusions
G. Checklists, surveys, and questionnaires	
H. Insurance policy review	
I. Loss data analysis	
J. Procedures and policies review	

▶▶ Knowledge Check



Think about the processes that occur in your organization each day. Select one of those processes. Draw and label a flowchart to show the sequential steps in the process, and identify risks associated with those steps.

A large, empty rectangular box with a thin black border, intended for the student to draw and label a flowchart. The box occupies most of the page's width and height.

Section 2 Self-Quiz

Directions: Complete each item. For fill-in-the-blank items, choose the term that correctly completes the sentence. Answers may be used more than once.

compliance	hazard	loss data	tangible
economic	human resources	peril	technological
exposure	intangible	physical	
financial loss	juridical class of risk	political	
flowcharts	legal	social	

- The potential for several buildings to be damaged by heavy winds within the geographical area nicknamed "Tornado Alley" is an example of a(n) _____.
- Tornadoes that frequently occur within Tornado Alley represent a(n) _____.
- An older building that was engineered only to withstand winds of less than 110 miles per hour, or a tornado in the EF1 damage category, is an example of a(n) _____.
- The most obvious result of overlooking the Risk Identification step in the risk management process is an increased likelihood of _____.
- Monetary exchange rates, inflation rates, and import-export tariffs are examples of risks in which general class of risk? _____
- Government regulation, new legislation, and compliance are examples of risks in which general class of risk? _____
- Fire and water damage, earthquake damage, and bodily injury are examples of risks in which general class of risk? _____

Section 2: Risk Identification

compliance	hazard	loss data	tangible
economic	human resources	peril	technological
exposure	intangible	physical	
financial loss	juridical	political	
flowcharts	legal	social	

8. The loss of reputation, brand damage, and social trends are examples of risks in which general class of risk? _____
9. Lost data and disruption to service or online access are examples of risks in which general class of risk? _____
10. Legal costs and legal decisions are examples of risks in which general class of risk?

11. Trade agreements, legislation, and social unrest are examples of risks in which general class of risk? _____
12. _____ property can be seen or touched, and includes real property like buildings and personal property, such as equipment.
13. Patents and intellectual property are examples of _____ property.
14. _____ are an organization's internal people exposure.

Section 2: Risk Identification

15. Check each example of a peril arising from liability.
- Libel, slander, false imprisonment
 - Products and completed operations
 - Product malfunctions
 - Failure to enforce or inadequate policies and procedures
16. Check each example of an exposure arising from net income.
- International business interests
 - Investment activities
 - Weather (no property damage)
 - Overextension of credit or excessive borrowing
17. Check each example of a risk identification method.
- Checklists, surveys, and questionnaires
 - Compliance review
 - Procedures and policies review
 - Contract review
 - Flowchart construction
 - Physical inspection
18. In the risk identification method, _____ analysis, risk managers examine historical information and data to identify exposures and their valuations.
19. _____ are useful for understanding product development processes, decision-making processes, architectural site analyses, and scheduling processes.
20. An organization conducts a(n) _____ review to determine how well it complies with regulations and laws, which may be statutory, state, or federal.

Section 3: Risk Analysis

The Uses of Risk Analysis

Check-in



Directions: Use the following terms to fill in the blanks.

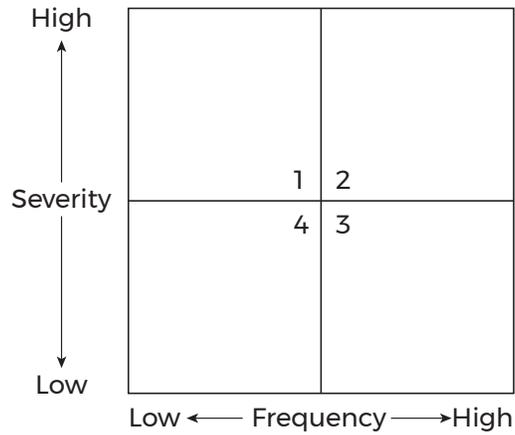
chance of loss	negative outcome	severity
minimal	refinement	validation

Risk is more than a(n) _____ or
 a(n) _____. Risk Analysis provides
 _____ of loss data. It also provides
 _____ of loss data. Such information allows risk factors
 to be prioritized, so those with the greatest _____ or
 _____ receive more attention than those that have
 _____ impact on an organization.

▶▶ Knowledge Check



Consider each of the following exposures. Then indicate in which quadrant each exposures should be placed.



1. An earthquake in California:

Quadrant _____

2. Knife cuts to chefs in a restaurant kitchen

Quadrant _____

3. Tornadoes in Kansas and Oklahoma

Quadrant _____

4. Fender-benders due to icy roads in south Texas

Quadrant _____

5. A bridge collapse during rush-hour traffic

Quadrant _____

Check-in



Directions: Use the following terms to fill in the blanks. Terms may be used more than once.

annual	greater	risk prioritization
colors	impact	risk scores
frequency	likelihood	severity
	mitigation	

Heat Mapping uses _____ to indicate patterns or groupings of how risk will impact an organization. Values are assigned based on measurement scales for both _____ and _____ for each risk. The higher the number assigned to a risk, the _____ the _____ or _____ of an event. A heat map can help assist an organization with _____.

A risk register is a highly customizable tool that prioritizes risks based on a scale of anticipated potential _____. A risk manager can use a risk register to track issues, likelihood, potential impact, and _____ measures. The key to using a risk register successfully is conducting this exercise on a(n) _____ basis to see if the controls are resulting in decreases to the _____ over time.

Check-in



Directions: Indicate "A" or "B" to identify each analysis method as qualitative or quantitative.

**A. Qualitative
analysis
method**

_____ Cost-benefit analysis

_____ Heat mapping

_____ Loss projections

_____ TCOR calculations and analyses

**B. Quantitative
analysis
method**

_____ Root cause analysis

_____ Risk register

_____ Time value of money calculations

_____ Risk mapping

▶▶ Knowledge Check



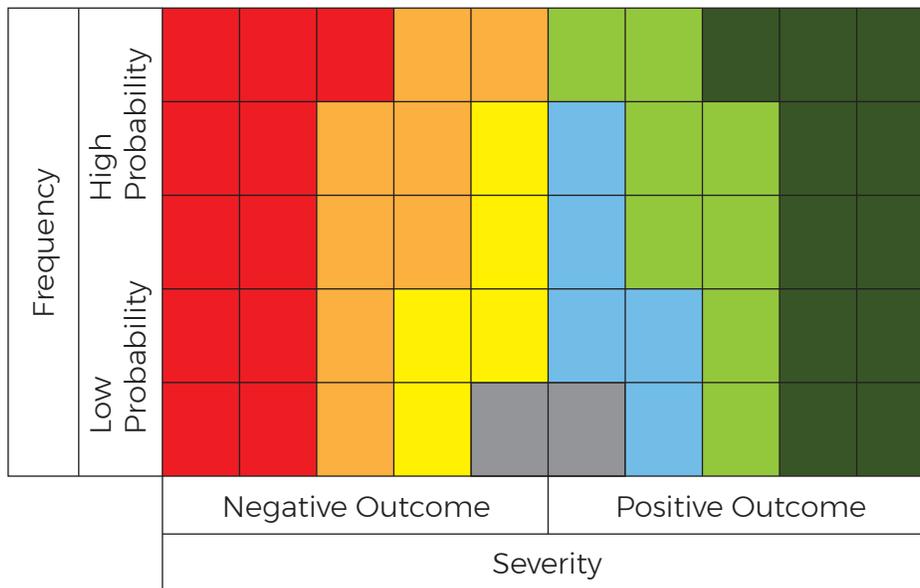
As the risk manager for a large beverage distributor, you have identified the following risks:

1. Catastrophic hurricane
2. Fleet maintenance
3. Vehicular accidents
4. Drivers
5. Supply chain exposures
6. Inventory
7. Competition
8. New distribution opportunities
9. Fuel prices
10. Warehouse fire

After being asked to present your findings to the CEO, you determined that a heat map would be the best way to help the CEO visualize the impact these risks have on the organization.

Directions: Write the number of each identified risk in the following heat map. (For example, you might decide that a hurricane would have low probability but high negative outcome, so you would write the number 1 in the bottom left red square.)

A Sample Heat Map



Loss Trending

Check-in



Directions: Check each true statement.

- Loss trending converts historical loss data to current dollar amounts.
- Loss data are reported to and stored by an insurance carrier in an RMIS.
- Loss development is used to calculate anticipated ultimate losses.
- Ultimate losses must be calculated because some claims take extensive periods of time to develop or close.
- Losses related to accidents that have occurred but have not been reported are excluded from loss calculations.
- Operational changes within an organization have little or no impact on loss calculations.



Knowledge Check



Your supervisor has been examining unadjusted loss data for claims that have occurred over the last five years and identifies some trends. Explain to your supervisor what must be done to loss data before trends can be determined and why those actions are necessary.

Section 3 Self-Quiz

Directions: Complete each item. For fill-in-the-blank items, choose the term that correctly completes the sentence. Answers may be used more than once.

cost-benefit	loss development	risk mapping
event	loss projections	risk register
heat mapping	loss trending	root cause
Ishikawa diagram	prioritization	severity
likelihood	qualitative analysis	TCOR

- Validation and refinement of loss data allow for the _____ of risk factors.
- A risk manager uses a(n) _____ analysis to systematically drill down to the cause of an incident.
- This word is used interchangeably with the word “incident.”
A(n) _____ is an incident that may or may not become a claim.
- _____ is the chance something will happen. It is also known as frequency.
- _____ describes the impact of an event, should that event occur.
- A risk manager carries out _____ to seek information that is initially difficult to measure mathematically.
- _____ is a visual analytical tool that identifies all risks to an organization and indicates their frequency, on a scale from low to high, and their potential impact, or severity, on a scale from low to high.

Section 3: Risk Analysis

8. _____ is a visual representation of complex sets of data interpretations that uses colors to indicate patterns or groupings of how risk will impact an organization.
9. The following diagram is an example of a(n) _____.

	Current Risk Score				Target Risk Score		
Risk Description	Prob	Impact	Rating	Controls	Prob	Impact	Rating
Choking hazard							
Food poisoning							
Theft							

10. The head of a “fish” is the identified problem, incident, or accident in a(n) _____.
11. _____ use historical loss data to predict future risk frequency and severity.
12. A(n) _____ analysis measures total anticipated benefits after costs are subtracted.
13. A risk manager who conducts a(n) _____ analysis calculates the sum of all costs and expenses associated with risks and risk management within an organization.
14. _____ takes historical data (losses) and converts that loss data to current dollar amounts.
15. _____ is the process by which data are adjusted to account for lag time to settle claims, recognize frequency development, acknowledge incurred but not reported (IBNR) accidents, and the index for inflation, or a calculation of the rate of inflation in an economy.

Section 4: Risk Control

Risk Control Techniques

Check-in



Directions: Read each statement. Then select True or False.

1. Risk avoidance is the mitigation of an exposure to help reduce the severity of a loss.

True

False

2. Risk avoidance is a business organization's preferred risk management method.

True

False

3. Exposures related to past activities may remain despite risk avoidance.

True

False

Check-in



Directions: Use the following terms to fill in the blanks.

budgetary impact	loss reduction	pre-loss
elimination	operations	prevention
interrupt	post-loss	

While avoidance is the _____ of exposures, _____ is intended to _____ events that lead to loss, not avoid them entirely. Unlike avoidance, prevention is a risk control technique that permits organizations to continue _____.

Actions taken to minimize the severity, or _____, of unprevented losses represent the risk control technique called _____. The approach is applied before and after losses. A coastal hotel, for example, takes _____ actions when it prepares an emergency evacuation plan and implements _____ actions when it provides medical attention to staff and guests after a hurricane has occurred.

Check-in



Directions: Match each term to its example.

A. Segregation	_____ An ice cream start-up builds a second walk-in freezer in its warehouse.
B. Separation	_____ A car dealership sells its sports utility vehicles from its suburban lot and its compact and hybrid cars from its downtown location.
C. Duplication	_____ A waste management company establishes a compost facility at a site separate from its landfill facility to prevent contamination.

Check-in



Directions: Match each term to its example.

avoidance	prevention	loss reduction
segregation	separation	duplication
	transfer	

- _____ 1. A machine shop requires employees to use personal safety equipment while they are using the shop's drill presses.
- _____ 2. An appliance store splits unsold inventory between two warehouses 20 miles apart.
- _____ 3. A company relies on a common carrier to distribute manufactured goods rather than buying trucks to transport its products.
- _____ 4. A dairy farmer installs generators as an energy alternative in cases of power failure.
- _____ 5. A large retail company installs a fire suppression system.
- _____ 6. After there are several reported cases of babies swallowing ornaments decorating a crib mobile, the manufacturer ends production of the mobile.

▶▶ Knowledge Check



A hurricane struck Florida’s Gulf Coast, causing significant damage to a five-star hotel. The hotel has a golf club, golf course, and separate parking structure. The hotel maintains a fleet of minivans and employs drivers to shuttle guests to and from the airport.

During the storm, it was necessary to evacuate guests and employees, and injuries were reported. After the storm, the property required extensive repairs related to wind damage and flooding. Plus, water damage made it necessary to replace the hotel’s fleet of golf carts and two minivans.

Knowing the extent of the damage, what risk control measures should the hotel have taken prior to the loss? Write your answers in the chart.

Sample Answer:

Guests	
Avoidance	
Prevention	
Loss Reduction	
Segregation	
Transfer	

Section 4: Risk Control

Golf carts	
Avoidance	
Prevention	
Loss Reduction	
Segregation	
Transfer	
Damage to the building	
Avoidance	
Prevention	
Loss Reduction	
Segregation	
Transfer	

Section 4: Risk Control

Minivans	
Avoidance	
Prevention	
Loss Reduction	
Segregation	
Transfer	

Accident Prevention Basics

Check-in



Directions: Use the following terms to fill in the blanks.

identify	permitted	uncontrollable
lack of awareness	preventable	unsafe acts
operations	sinkholes	unsafe conditions
overlooked	training	

- _____ , or behaviors, are one common and _____ reason for accidents. Often, the cause is a(n) _____. Companies have not taken the time to _____ unsafe behaviors. Neither have they provided their employees with adequate _____ training.
- _____ are also a reason for employee accidents. While some unsafe conditions are inherent to specific business _____ , such conditions are sometimes _____ or even _____ by managers seeking to increase production, promote efficiency, or save money.
- Large natural events like earthquakes are _____ acts and considered catastrophic. Much smaller natural events like _____ can also have significant damaging effects on both people and property.

Knowledge Check

Here are six steps for accident prevention:

1. Eliminate a potential hazard.
2. Substitute a less hazardous substance or process for another.
3. Make physical modifications to a design to reduce the likelihood of injury.
4. Establish rules or processes aimed to reduce the likelihood of injury.
5. Provide personal protective equipment to employees.
6. Offer training.

Directions: Read the following scenario. Explain how these steps could prevent an accident from occurring.

Your organization specializes in mechanical and structural repair. Your employees often work on scaffolding, outside in the heat, and with open welding flames. Your equipment is several years old, and the majority of the tanks have visible dents from years of use.

Section 4 Self-Quiz

Directions: Use the following terms to fill in the blanks. Answers may be used more than once.

avoidance	hold harmless	prevention	uncontrollable events
contractual	limit of liability	segregation	unsafe acts
duplication	loss reduction	transfer	

1. Risk _____ is the complete elimination of an exposure to avoid the chance of loss.
2. An action intended to interrupt a sequence of events that leads to loss is called _____.
3. _____ reduces frequency of loss, not the severity, or budget impact, of loss.
4. _____ is an action taken to minimize the severity, or budgetary impact, of an unprevented loss.
5. An action intended to isolate an exposure from other exposures, perils, or hazards is called _____.
6. The establishment of backups for critical systems or operations is called _____.
7. Movement of some or all risk to another party is called _____.
8. Responsibility for certain liabilities moves to another party in a(n) _____ transfer.

Section 4: Risk Control

avoidance	hold harmless	prevention	uncontrollable events
contractual	limit of liability	segregation	unsafe acts
duplication	loss reduction	transfer	

9. A(n) _____ agreement is an arrangement whereby one party assumes the liability inherent in a situation, thereby relieving another party of that liability.
10. A(n) _____ clause is a pre-event limitation of the amount, type, or method of calculation of damages available by one or both parties to an agreement.
11. What do the items in the following list have in common? Write your answer on the lines.
- Unsafe acts or behaviors
 - Lack of awareness
 - Lack of or insufficient training
 - Unsafe conditions
 - Uncontrollable events
-
-

12. Check each example of accident prevention.

- enter into an exculpatory agreement
- eliminate a potential hazard
- substitute a less hazardous substance or process for another
- establish a waiver of subrogation
- make physical modifications to a design to reduce the likelihood of injury
- offer training

Section 5: Risk Financing

Risk Financing

Check-in



Directions: Select each true statement.

- Risk financing involves all acquisitions of funds, regardless of cost.
- Internal risk financing includes unplanned retention.
- External risk financing includes contractual transfers.
- The term *optimal cost* is a precisely defined term that means the best product for a customer at market prices.
- Risk control and risk financing are closely related, as in the case of a company that purchases insurance to cover potential losses while also taking steps within the company to mitigate those losses.

Check-in



Directions: Match each term to its description.

A. the insurer	_____ A consideration in exchange for a promise of indemnification
B. the insured	_____ Susceptibility to loss
C. exposure	_____ A transferee that takes contractual responsibility for the financial consequence of a risk
D. insurance	_____ A transferor with a relationship with a transferee
E. premium	_____ A promise of indemnification for specified losses in exchange for payment of premium

▶▶ Knowledge Check



You speak to your organization’s management team about creating a risk financing program. A manager asks you to explain retention in relation to creating a risk financing plan. How do you respond?

Insurable Risks

Check-in



Directions: Use the following terms to fill in the blanks. Terms may be used more than once.

calculable	many	unintended
exceed	retention	unlikely
few	risk manager	

An underwriter views risk as something that is _____ to occur. An insurable risk is one that is shared by _____, and is unexpected and _____, such as the likelihood that an audience member will sink a basketball from across a court in a charity event. An insurable risk is also reasonably _____, like auto accidents. Damage to autos is an example of an insurable risk that generates enough premium paid by _____ to pay for the losses of a(n) _____.

A(n) _____ has a different perspective on what constitutes an insurable risk. From this perspective, insurable risks are *not* reasonably _____ within an organization and are capable of causing great harm. Insurable risks are those that _____ an organization's risk appetite and are less costly than the cost of _____ because of insurance market conditions.

Check-in



Directions: Read each statement. Then select True or False.

1. From an underwriter's perspective, an insurable risk is a risk that generates enough premium paid by the many to pay for the losses of the few.

True **False**

2. From an underwriter's perspective, an insurable risk is a non-catastrophic risk or a risk that is unlikely to strike many simultaneously.

True **False**

3. From a risk manager's perspective, an insurable risk is not reasonably calculable by an organization.

True **False**

4. From a risk manager's perspective, an insurable risk stays within an organization's risk appetite.

True **False**

5. Standard insurance carriers are admitted and licensed by the states in which they operate.

True **False**

6. The majority of coverage for catastrophic risks such as floods, earthquakes, and windstorms is provided through the excess and surplus lines market.

True **False**

7. The NFIP offers affordable flood insurance to property owners, renters, and businesses to fill the gaps existing in flood insurance programs provided by many insurance carriers.

True **False**

8. Claims activity levels are a consideration in assigning the label *high risk* to a property.

True **False**

9. The NFIP is a government-run program that provides flood insurance to lower the financial burden on property owners who receive limited coverage from insurance carriers.

True **False**

10. All insurance professionals face the challenge of determining the right mix of internal and external funds.

True **False**

▶▶ Knowledge Check



You meet with your organization's CFO, who is reviewing the upcoming policy renewal. She asks two questions. First, why was the property insurance purchased through surplus lines? And what was the purpose of the additional NFIP policy?

Respond to both of the CFO's questions.

Risk Retention and Transfer

Check-in



Directions: Match each term to its purpose in a retention/transfer diagram.

<p>A. Vertical axis</p>	<p>_____ The portion of expected losses an organization is willing and able to retain</p>
<p>B. Horizontal axis</p>	<p>_____ The marginal retention beyond budgeted retention that an organization may also choose to retain all or part of</p>
<p>C. External Financing</p>	<p>_____ Represents the total amount paid for all claims during a policy period</p>
<p>D. Budgeted Retention</p>	<p>_____ Insurance purchased to pay for losses that fall outside of an organization's risk appetite and ability</p>
<p>E. Tolerance Corridor</p>	<p>_____ Represents the total amount per claim or per occurrence in dollars</p>

Check-in



Directions: Read each statement. Then select True or False.

1. An organization that chooses to insure everything selects a guaranteed cost plan as a risk financing option.

True

False

2. An organization that chooses a guaranteed cost plan is likely to have few excess funds available for covering financial losses.

True

False

3. An organization with a guaranteed cost plan is likely to have the ability to manage claims services internally but unlikely to have excess funds to cover losses.

True

False

4. One distinctive advantage of a fully insured program is that an organization has a high degree of certainty when budgeting for insurable losses.

True

False

5. Standardized coverage is a benefit of guaranteed cost plans.

True

False

6. An advantage of both the guaranteed cost plan and the dividend plan is that both provide security while also providing a return of premium based on an organization's losses.

True

False

Check-in



Directions: Match each term to its description.

<p>A. Guaranteed cost plan</p>	<p>_____ The insured reimburses the insurer a portion of each loss up to a stated amount.</p>
<p>B. Dividend plan</p>	<p>_____ The reimbursement from an insurance carrier when an organization experiences a good year in terms of losses</p>
<p>C. Deductible plan</p>	<p>_____ A fully insured program that transfers all risk of loss to an insurance company</p>
<p>D. Self-insured risk financing plan</p>	<p>_____ The use of internal funds to cover possible losses and possibly external funds through reinsurance or excess coverage</p>

▶▶ Knowledge Check



Select one of the following scenarios. Then explain which risk financing plan would be most appropriate.

1. Your organization is extremely risk adverse and desires a plan with the lowest loss sensitivity.

2. Your organization has a sophisticated risk management program and prefers to retain risk as opposed to paying premium.

3. Your organization can control most of its risk and has the financial resources to retain much of its risk. The organization is interested in retaining risk but wants coverage for large losses.

Section 5 Self-Quiz

Directions: Complete each item. For fill-in-the-blank items, choose the term that correctly completes the sentence. Answers may be used more than once.

budgeted	retention	transfer
deductible	risk financing	
insurer	standard	

- The acquisition of funds at the most favorable or optimal cost to pay losses is called _____.
- The use of internal funds to pay losses is called _____.
- The use of external funds to pay losses is called a(n) _____ of financial responsibility.
- A(n) _____ takes contractual responsibility for the financial consequence of a risk.
- Insurance carriers that are considered _____ are admitted and licensed by the states in which they operate.
- A(n) _____, or transfer diagram, depicts an organization's financial ability and risk appetite.
- _____ retention is the portion of expected losses an organization is willing and able to retain.
- In a(n) _____ risk financing plan, an insured elects to reimburse an insurer for losses up to a stated amount.

Section 5: Risk Financing

Directions: Select True or False.

9. Insurance is a transfer of risk.

True

False

10. Insurance is a contractual responsibility to assume the financial consequences of a risk.

True

False

11. A guaranteed cost risk financing plan provides an insured with the most stability.

True

False

12. Check all characteristics of an insurable risk as seen from an underwriter's perspective.

- a risk shared by many
- a risk that causes crippling severity to an organization
- an unexpected and unintended risk
- a risk which generates enough premium paid by the many to pay for the losses of the few
- a risk that exceeds an organization's risk appetite

Section 6: Risk Administration

Implementation and Monitoring of a Risk Management Program

Knowledge Check

Explain the differences between the implementation and monitoring of a risk management program.



The Role of a Risk Manager

Check-in



Directions: There are numerous things a risk manager must do to be successful. Read the scenario. Then check each example of a successful behavior the risk manager demonstrates.

Elizabeth is the risk manager for a large widget manufacturing company with several facilities. She has earned the Certified Risk Manager (CRM) designation and regularly attends courses offered by The National Alliance to hone her skills and stay current on best practices and emerging trends in the risk management industry.

Elizabeth is also a member of the Widget Manufacturers Association (WMA.) The Association offers a Liability Pool to its members. Elizabeth recently moved her company's liability coverage to the pool after completing an analysis of rates and premiums. This move also provides her with loss control services and important information specific to widget manufacturing companies.

When she received a bulletin from the WMA detailing new federal requirements for tempered steel—which is used to make widgets—she immediately consulted with the company leadership team and corporate counsel to alert them of the change and to assist in compliance with the new regulations. Elizabeth also consulted with a manufacturing expert to determine if this change would impact the quality and performance of the company's products, or the manufacturing process as a whole. She knows that any changes in the manufacturing process will require the review of current risk management procedures and implementation of new or revised procedures.

- Remains up-to-date with changes within the risk management industry
- Seeks the most beneficial and cost-effective solutions for protecting their organizations
- Recognize themselves as sources of vast amounts of information that require communication to numerous stakeholders
- Communicates with management as well as employees in non-supervisory roles
- Constantly reviews risk management policies and procedures
- Maintains quality control
- Uses materials and reports to provide evidence of the strengths and weaknesses of a risk management program

Check-in



Directions: Read each statement. Then select True or False.

1. A risk manager may select either an agent or a broker to represent her company.

True

False

2. Because every organization is different, it unlikely that an agency will be familiar with similar organizations.

True

False

3. A risk manager might ask an agent whether the agent has recommended appropriate coverages to accounts similar to the risk manager's.

True

False

4. The competencies of an agency's personnel are of concern to effective risk managers.

True

False

5. An agency's stage of growth is less important to a risk manager's decision than is the agency's management profile.

True

False

▶▶ Knowledge Check



You have been asked to speak to your board of directors regarding the role of a risk manager and why your organization needs a risk management department. What specific reasons will you present to board members? Write them here.

The Risk Management Network

▶▶ Knowledge Check



As the risk manager for a large organization, you have identified cybersecurity as a main threat, but you do not have much experience with this exposure. What members of your risk network could you reach out to, and how might they be able to help?

Section 6 Self-Quiz

1. Check all examples that represent a source of evidence a risk manager might use to determine the effectiveness of a risk management program.

- open and closed claims
- risk financing plans
- contracts
- significant incidents/accidents

Directions: Read each statement. Then select True or False.

2. A risk manager provides a finance plan during the final step of the risk management process.

True

False

3. Implementation of a risk management plan relies heavily on the risk manager's control of an organization's resources.

True

False

4. The two parts of the final step in the risk management process are implementation and monitoring.

True

False

5. A risk manager's success rests entirely with those who have the ability to execute risk management strategy.

True

False

6. Risk managers conduct monthly assessments to maintain quality control.

True

False

Section 6: Risk Administration

7. For long-term success, risk managers must be active participants on their organizations' leadership teams.

True

False

8. For long-term success, risk managers must create adaptable processes and approaches that evolve to fit new needs, best practices, and emerging risks.

True

False

9. To achieve their objectives, risk managers require contributions from both internal and external networks of people.

True

False

10. To select network members who will be the best fit for their organizations, risk managers consider a person's personal attributes, such as interpersonal skills.

True

False

Answer Key

Section 1: Introduction to Risk Management

Defining Risk

Check-in



Directions: Use the following terms to fill in the blanks. Some terms may be used more than once.

area of expertise	negative	uncertainty
job function	positive	

Risk is a condition of either positive or negative uncertainty arising from a given set of circumstances. The term does not solely describe possible negative outcomes, the chance of loss, or no loss. Risk outcomes can also be positive. Perceptions of risk vary, depending on an individual's job function or area of expertise.

▶▶ Knowledge Check



Directions: Imagine that one of your clients owns a company that manufactures and sells a variety of granola breakfast and snack products. Identify three examples of pure and speculative risk associated with your client's business.

Type of Risk	Examples
Pure	A food product could contain contaminants.
	A line worker could suffer a back injury.
	A fire could occur.
Speculative	The client introduces a reduced carbohydrate line, which could have a lasting impact or be of limited interest to consumers.
	The client pays an athlete for an endorsement, tying the brand to the image of the athlete. Should the athlete's reputation be tarnished, the client's product could suffer.
	The client decides to expand into a new geographic territory. Expansion could result in financial gain or loss, or no change at all.

Key Risk Management Terms

Check-in



Directions: Read each statement. Then select True or False.

1. A hazard is a cause of loss.

True

False

A peril is a cause of loss.

2. A situation, behavior, or condition that may lead to adverse financial consequences is an exposure.

True

False

3. A cyberattack is an example of an exposure.

True

False

A cyberattack is an example of a peril, or cause of loss.

4. A spill on a supermarket aisle is an example of a hazard because it increases the likelihood that someone will fall.

True

False

5. An insured who shows no regard for his insured property demonstrates a morale hazard.

True

False

Check-in



Directions: Read each example. Write the risk term that applies.

1. A passenger enters an elevator. His clothing is caught in the elevator door as the door closes. The passenger snatches the clothing from the door before the elevator begins to move. He is uninjured and his clothes are not damaged.

incident

2. A mixing paddle on a faulty bakery mixer snaps and strikes an employee's hand. The employee's hand is cut and bleeding.

accident

3. A driver is at fault in a minor auto accident. The other driver is uninjured, but the bumper on her car requires repairs. The other driver demands that the at-fault driver's insurance company pay for the loss.

claim

Check-in



Directions: Match each term to its description.

A. average severity	<u>E</u> The total dollar amount of all losses for a given period of time
B. risk appetite	<u>D</u> A loss has occurred but is unlikely to occur again in the future
C. high frequency	<u>B</u> An organization's tolerance for risk
D. low frequency	<u>F</u> The product of loss frequency multiplied by loss severity
E. severity	<u>A</u> The total amount of losses in a given period divided by the total number of claims
F. expected losses	<u>C</u> A loss expected to continue occurring regularly

Check-in



Directions: Match each term to its description.

A. loss	<u> C </u> A cause of loss
B. exposure	<u> F </u> An unplanned event definite as to time and place that results in injury or damage to a person or property
C. peril	<u> E </u> An event that disrupts normal activities and may become a loss or business interruption
D. hazard	<u> H </u> A demand for payment or an obligation to pay as a result of a loss or occurrence
E. incident	<u> B </u> A situation, practice, or condition that may lead to an adverse financial consequence or loss; an activity or resource; people or assets
F. accident	<u> A </u> A reduction in asset value
G. occurrence	<u> G </u> An accident with the limitation of time removed; an “accident” extended over a period of time rather than a single, observable event
H. claim	<u> D </u> A condition or characteristic that may create or increase the likelihood or severity of a loss

▶▶ Knowledge Check



Imagine a client is seeking property insurance for a condominium building that her company manages. The building, located on Florida's Gulf Coast, is valued at \$10,000,000. It was built in 2002, has 10 floors and 100 condominium units. The building's roof has not been updated, and a recent inspection concluded that the main electrical panel needs repairs. It also appears that the majority of the unit owners do not own fire extinguishers, nor do they own hurricane shutters.

Directions: Give one example of each of the following risk management factors your client should consider:

Exposure	Building
Peril	Hurricane, fire, flood
Hazard	Faulty electrical panel, age of roof, lack of fire extinguishers, lack of hurricane shutters
Incident	The main circuit breaker keeps tripping, causing the residents to lose power.
Accident	Eventually the faulty electrical system started a fire that damaged the building causing \$2,000,000 in losses. Several of the residents also were injured due to smoke inhalation.

Risk Management

Check-in



Directions: Use the following terms to fill in the blanks.

behaviors	objects	quantitative
case studies	operations	Risk Control
interviews	procedures	Risk Financing
negative	qualitative	Risk Identification

Risk Identification is the first and most important step in the risk management process. Any failure to identify risk exposes an organization to negative financial consequences.

Once risks are identified, they are analyzed to assess their potential impact. Analysis takes two forms. Qualitative analysis allows the collection of information that does not lend itself easily to quantitative analysis, or mathematical measurement. Interviews and case studies are examples of this form of analysis.

Risk Control and Risk Financing share the same position in the risk management process because they are interchangeable. Risk Control applies methods or actions aimed at minimizing or avoiding the impact of a loss. The human approach to risk control focuses on people's behaviors. The engineering approach focuses on objects and operations. The systems approach pays attention to procedures and policies, as well as negligent supervision.

Check-in



Directions: Match each term to its description.

A. Avoidance	<u> B </u> A response to a focus on the frequency with which events occur
B. Prevention	<u> D </u> The isolation of an exposure from other exposures, perils, or hazards
C. Reduction	<u> F </u> Creating asset back-ups
D. Segregation	<u> C </u> A response to a focus on the severity of incidents in an effort to recognize risk and take action to lower losses
E. Separation	<u> G </u> The shift of function, exposure, or responsibility of certain liabilities to another party
F. Duplication	<u> A </u> The elimination of risk
G. Transfer	<u> E </u> The process of spreading exposures or activities over several locations

▶▶ Knowledge Check



Review the diagram of the five steps of the risk management process. Summarize in your own words why each part of the process is necessary.



Risk Identification: This is the most important step in the entire risk management process. Simply put, if you do not identify a risk, you are unable to analyze, control, or finance the risk. In most cases, failure to identify risk puts the burden or loss solely on the organization as an unplanned or unfunded loss.



Risk Analysis: This step allows you to determine frequency and severity of identified risk. It is important to know how often certain losses may occur, and once they do, how much they may cost. Once you have analyzed your risk, you are able to decide if you should control or finance it, but in most cases, you will do a combination of both.



Risk Control: When you choose to control a risk, you are taking a conscious action or inaction to minimize, at the optimal cost, the frequency and severity of claims. All decisions made during this step are an effort to prevent, mitigate, avoid, or eliminate risk. Organizations that have excellent control techniques are able to keep costs down and employees safe.



Risk Financing: This step allows you to consider using internal funds to manage claims or external funds (insurance, non-insurance contractual transfer, and borrowing) to pay or shift liability to another party. The objective is to find the appropriate balance of options that suit an organization best.



Risk Administration: The ongoing implementation and monitoring of the risk management process is a crucial and often overlooked step. As a risk manager, you must be able to make changes to a risk management program when exposures or operations change, new risks are identified, or frequency and severity increase.

Section 1 Self-Quiz

Directions: Complete each item. For fill-in-the-blank items, choose the term that correctly completes the sentence. Answers may be used more than once.

accident	hazard	segregation
avoidance	incident	severity
business	liability	speculative
contractual	measure of loss	risk ability
exposure	occurrence	Risk Administration
financial	peril	risk management
frequency	physical	uncertainty

- Risk is defined as a condition of either positive or negative uncertainty arising from a given set of circumstances.
- Perceptions of risk depend upon an individual's job function or area of expertise. Select True or False.

True

False

- A risk manager may define risk as the person or property exposed to a potential loss. Select True or False.

True

False

accident	hazard	segregation
avoidance	incident	severity
business	liability	speculative
contractual	measure of loss	risk ability
exposure	occurrence	Risk Administration
financial	peril	risk management
frequency	physical	uncertainty

Section 1: Introduction to Risk Management

4. Pure risks include threats to property and people, as well as liability.
5. The result of a pure risk is some measure of loss.
6. Unlike pure risk, speculative risk presents the opportunity for gain.
7. Speculative risk is associated with business or financial risk.
8. Think about the definition of the term loss. Check each example of loss.
 - a business interruption
 - physical property damage
 - injury to an employee or customer
9. A situation, practice, or condition that may lead to an insured's susceptibility to adverse financial consequences or loss is called a(n) exposure.
10. A(n) peril is a cause of loss.
11. A(n) hazard is a factor that increases the likelihood that a peril will occur.
12. A(n) incident is an event that may lead to a loss or a claim, or an event that may cause a business interruption.
13. A(n) accident is always an unexpected and unintentional event that tends to result in damage or injury.
14. An "accident" that occurs over an extended period of time is called a(n) occurrence.
15. The number of claims that occur or that an insurer expects to occur within a given period of time is labeled frequency.
16. The dollar amount inflicted by a given loss or catastrophe, or the aggregate dollar amount of all losses for a given period of time, is defined by the word severity.
17. Risk ability describes an organization's ability or inability to assume financial responsibility for loss.

Section 1: Introduction to Risk Management

18. Risk management is the implementation of a process intended to minimize the uncertainty of exposures that can adversely affect an individual's or an organization's assets and financial well-being.
19. Sequentially order (number them 1-5) the steps of the risk management process.

- 3 Risk Control
- 5 Risk Administration
- 1 Risk Identification
- 2 Risk Analysis
- 4 Risk Financing

20. The best method of risk control is avoidance, or the elimination of risk.
21. Segregation involves isolating an exposure from other exposures, perils, or hazards.
22. The two types of risk transfer are physical and contractual.
23. The ongoing implementation and monitoring of the risk management process management process is called Risk Administration.

Section 2: Risk Identification

The Importance of Risk Identification

▶▶ Knowledge Check



Think about your organization and the risks you identified as potential threats to your organization's well-being. Predict what might happen to your organization if one of the risks you identified was overlooked.

Sample Answer:

Answers will vary, but let's say that someone identified high employee turnover as a risk to her organization. This is a serious risk to an organization's financial well-being, given the costs of recruiting, hiring, and training new employees. There are also financial losses attached to employee and customer dissatisfaction, workflow interruptions, and customer loss.

General Classes of Risk

Check-in



Directions: Read each example and consider the risk class implications. Select all of the risk classifications that apply.

- The ABC Plastics Company produces medical supplies for distribution across the country. Government sanctions against certain oil-producing countries have led to resource scarcity. Scarcity has led to higher prices, which has triggered protests from national healthcare watchdog groups. How could the risks associated with these circumstances be classified?

Economic Class

Legal Class

Physical Class

Social Class

Technological Class

Juridical Class

Political Class

- The XYZ Company manufactures children's clothing and accessories. The company licensed rights to a variety of popular movie characters for use on children's lunchboxes and backpacks. The movie company's employment practices have recently come under scrutiny by state employment authorities, and a number of civil lawsuits are underway. How could the risks associated with these circumstances be classified?

Economic Class

Legal Class

Physical Class

Social Class

Technological Class

Juridical Class

Political Class

▶▶ Knowledge Check



A toy company works in partnership with global food manufacturers to create toy models of brand name foods for use in preschool, daycare, and home settings. For years, the toy company has seen revenue increase. Consequently, it has expanded its product line to include popular snack foods. In recent months, the company's marketing team has collected evidence of a growing initiative on social media to eliminate what some consumers call "unhealthy" food choices associated with children's play objects. Explain which classifications of risk apply to the toy manufacturer's current circumstances. Justify your choices.

Sample Answer:

Social: As our culture moves toward healthier lifestyle choices, we do not want to be seen as an organization that is promoting unhealthy options for children. Failure to adapt to the changing public perception of acceptable food options will lead to a decrease in revenue.

Economic: If our products are seen as "unhealthy," this could have a direct impact on our revenue and ability to maintain our current workforce.

Political: The government is taking steps to educate people on the consequences of unhealthy lifestyle choices, including the identification of unhealthy foods. If any foods that our products are modeled after are identified as unhealthy, we will see an impact on both social and economic risk classifications.

Four Logical Classifications of Exposures

▶▶ Knowledge Check



Imagine yourself as the risk manager for XYZ Engineers, a Virginia company holding several engineering patents that apply to green energies. You have identified several areas of intellectual property under the property logical classification. Describe some of the perils and hazards associated with this classification.

Sample Answer:

Perils associated with this logical classification could include theft, cyber liability, cyber breaches, and physical damage to the patents, if the technology is kept on site.

Hazards associated with this logical classification include poor network security, a disgruntled employee, poor building construction, and poor electrical wiring.

Risk Identification Methods

Check-in



Directions: Read each statement. Then select True or False.

1. Risk management surveys are more effective at the company or event level because they reveal more industry-specific information.

True

False

2. Checklists are efficient means of covering all areas of an operation.

True

False

Checklists may not identify new exposures or cover all areas of an operation.

3. One of the values of reports following annual surveys is the identification of emerging risks.

True

False

Check-in



Directions: Read each statement. Then select True or False.

1. One purpose of a compliance review is to examine an organization's adherence to insurance professional standards.

True

False

2. In most cases, an organization has little or no control over a compliance review.

True

False

3. An organization may conduct an internal review of procedures and policies or give the task to an external group or legal counsel.

True

False

4. Documented processes, procedures, and policies help organizations secure protection against exposures.

True

False

Check-in



Directions: Select the term that completes each statement.

1. Recognizing an organization's obligations to others is an important outcome of reviewing contracts.

obligations to

reliance on

2. During contract reviews, a risk manager must be aware of the possibility of exposures to financial risk.

**noncompliance with
statutes and regulations**

**exposures to
financial risk**

Check-in



Directions: Select the term that completes each statement.

1. Financial statement analysis may reveal understated or overstated values being carried on an organization's books.

financial capabilities

values

2. Experts include human resource consultants, actuaries, and people with particular craft skills.

**people with
particular craft skills**

**people with
customer service
experience**

Check-in



Directions: Match each term to its description.

A. Expert review	<u> B </u> Examination of an organization's financial information to identify and value its exposures/assets
B. Financial statement analysis	<u> D </u> A graphical depiction of a process or system
	<u> A </u> Contributions from experienced individuals in the identification of exposures
C. Physical inspection	<u> G </u> Systematic searches for as many exposures, perils, and hazards as possible
D. Flowchart construction	<u> C </u> Visits to physical sites to identify exposures to risk
	<u> I </u> Historical examination of exposures and their valuations
E. Contract review	<u> E </u> Identification of contractual obligations and examination of contractual compliance
F. Compliance review	<u> F </u> Determination of an organization's adherence to laws and regulations
	<u> J </u> Examination of current policies and procedures for the purpose of identifying exposures
H. Insurance policy review	<u> H </u> Identification of exposures and perils arising from insurance coverage gaps, insufficient limits, coverage limitations, and exclusions
I. Loss data analysis	
J. Procedures and policies review	

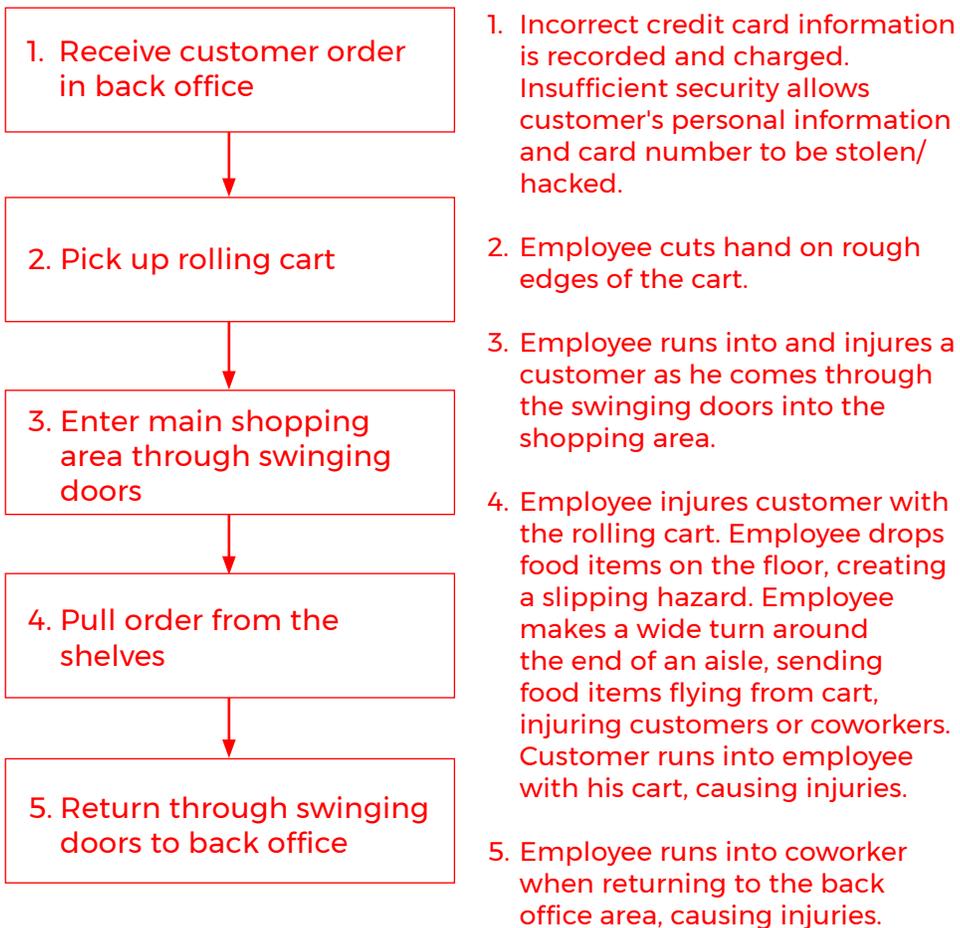
▶▶ Knowledge Check



Think about the processes that occur in your organization each day. Select one of those processes. Draw and label a flowchart to show the sequential steps in the process, and identify risks associated with those steps.

Sample Answer:

Answers will vary depending on participants' examples.



Section 2 Self-Quiz

Directions: Complete each item. For fill-in-the-blank items, choose the term that correctly completes the sentence. Answers may be used more than once.

compliance	hazard	loss data	tangible
economic	human resources	peril	technological
exposure	intangible	physical	
financial loss	juridical	political	
flowcharts	legal	social	

1. The potential for several buildings to be damaged by heavy winds within the geographical area nicknamed "Tornado Alley" is an example of a(n) exposure.
2. Tornadoes that frequently occur within Tornado Alley represent a(n) peril.
3. An older building that was engineered only to withstand winds of less than 110 miles per hour, or a tornado in the EF1 damage category, is an example of a(n) hazard.
4. The most obvious result of overlooking the Risk Identification step in the risk management process is an increased likelihood of financial loss.
5. Monetary exchange rates, inflation rates, and import-export tariffs are examples of risks in which general class of risk? economic
6. Government regulation, new legislation, and compliance are examples of risks in which general class of risk? legal
7. Fire and water damage, earthquake damage, and bodily injury are examples of risks in which general class of risk? physical
8. The loss of reputation, brand damage, and social trends are examples of risks in which general class of risk? social

Section 2: Risk Identification

compliance	hazard	loss data	tangible
economic	human resources	peril	technological
exposure	intangible	physical	
financial loss	juridical	political	
flowcharts	legal	social	

9. Lost data and disruption to service or online access are examples of risks in which general class of risk? technological
10. Legal costs and legal decisions are examples of risks in which general class of risk? juridical
11. Trade agreements, legislation, and social unrest are examples of risks in which general class of risk? political
12. Tangible property can be seen or touched and includes real property like buildings and personal property, such as equipment.
13. Patents and intellectual property are examples of intangible property.
14. Human resources are an organization's internal people exposure.
15. Check each example of a peril arising from liability.
 - Libel, slander, false imprisonment
 - Products and completed operation
 - Product malfunctions
 - Failure to enforce or inadequate policies and procedures
16. Check each example of an exposure arising from net income.
 - International business interests
 - Investment activities
 - Weather (no property damage)
 - Overextension of credit or excessive borrowing

Section 2: Risk Identification

17. Check each example of a risk identification method.
- Checklists, surveys, and questionnaires
 - Compliance review
 - Procedures and policies review
 - Contract review
 - Flowchart construction
 - Physical inspection
18. In the risk identification method, loss data analysis, risk managers examine historical information and data to identify exposures and their valuations.
19. Flowcharts are useful for understanding product development processes, decision-making processes, architectural site analyses, and scheduling processes.
20. An organization conducts a(n) compliance review to determine how well it complies with regulations and laws, which may be statutory, state, or federal.

Section 3: Risk Analysis

The Uses of Risk Analysis

Check-in



Directions: Use the following terms to fill in the blanks.

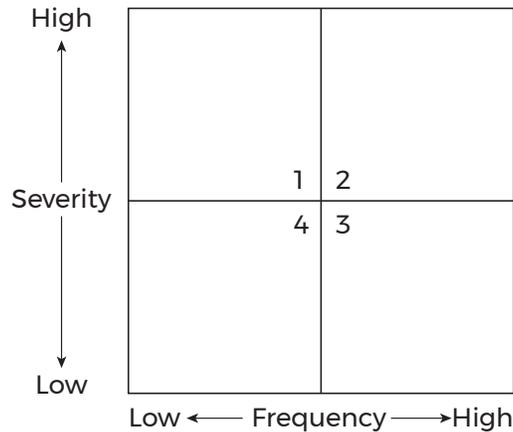
chance of loss	negative outcome	severity
minimal	refinement	validation

Risk is more than a negative outcome or a chance of loss. Risk Analysis provides validation of loss data. It also provides refinement of loss data. Such information allows risk factors to be prioritized, so those with the greatest frequency or severity receive more attention than those that have minimal impact on an organization.

▶▶ Knowledge Check



Consider each of the following exposures. Then indicate in which quadrant each exposures should be placed.



1. An earthquake in California

Item 1: The earthquake is a high frequency and high severity exposure. Consequently, it belongs in quadrant 2.

2. Knife cuts to chefs in a restaurant kitchen

Item 2: Knife cuts to chefs working in busy restaurant kitchens are a high frequency but low severity type of injury. So, this exposure belongs in quadrant 3.

3. Tornadoes in Kansas and Oklahoma

Item 3: Kansas and Oklahoma are in a geographical region called "Tornado Alley." Tornadoes occur frequently and often with devastating impact. So, this exposure belongs in quadrant 2—high frequency and high severity.

4. Fender benders due to icy roads in south Texas

Item 4: Snow and ice are uncommon in South Texas. When they do occur, drivers' unfamiliarity with such precipitation can easily lead to auto accidents. However, such weather conditions are rare, making them low frequency-low severity events. So, this exposure belongs in quadrant 4.

5. A bridge collapse during rush-hour traffic

Item 5: In contrast to the other items described so far, a bridge collapse during rush hour traffic would belong in quadrant 1. It is a low frequency-high severity risk. While such events do not occur frequently, the financial consequences can be quite severe.

Check-in



Directions: Use the following terms to fill in the blanks. Terms may be used more than once.

annual	greater	risk prioritization
colors	impact	risk scores
frequency	likelihood	severity
	mitigation	

Heat mapping uses colors to indicate patterns or groupings of how risk will impact an organization. Values are assigned based on measurement scales for both severity and frequency for each risk. The higher the number assigned to a risk, the greater the impact or likelihood of an event. A heat map can help assist an organization with risk prioritization.

A risk register is a highly customizable tool that prioritizes risks based on a scale of anticipated potential impact. A risk manager can use a risk register to track issues, likelihood, potential impact, and mitigation measures. The key to using a risk register successfully is conducting this exercise on a(n) annual basis to see if the controls are resulting in decreases to the risk scores over time.

Check-in



Directions: Indicate "A" or "B" to identify each analysis method as qualitative or quantitative.

**A. Qualitative
analysis
method**

 B Cost-benefit analysis

 A Heat mapping

 B Loss projections

 B TCOR calculations and analyses

**B. Quantitative
analysis
method**

 A Root cause analysis

 A Risk register

 B Time value of money calculations

 A Risk mapping

▶▶ Knowledge Check



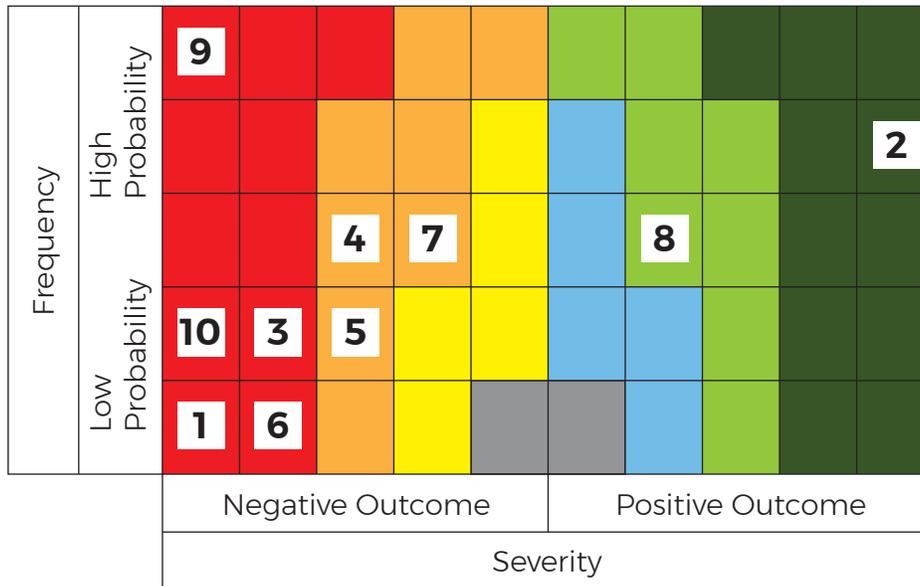
As the risk manager for a large beverage distributor, you have identified the following risks:

1. Catastrophic hurricane
2. Fleet maintenance
3. Vehicular accidents
4. Drivers
5. Supply chain exposures
6. Inventory
7. Competition
8. New distribution opportunities
9. Fuel prices
10. Warehouse fire

After being asked to present your findings to the CEO, you determined that a heat map would be the best way to help the CEO visualize the impact these risks have on the organization.

Directions: Write the number of each identified risk in the following heat map. (For example, you might decide that a hurricane would have low probability but high negative outcome, so you would write the number 1 in the bottom left red square.)

A Sample Heat Map



Loss Trending

Check-in



Directions: Check each true statement.

- Loss trending converts historical loss data to current dollar amounts.
- Loss data are reported to and stored by an insurance carrier in an RMIS.
- Loss development is used to calculate anticipated ultimate losses.
- Ultimate losses must be calculated because some claims take extensive periods of time to develop or close.
- Losses related to accidents that have occurred but have not been reported are excluded from loss calculations.
- Operational changes within an organization have little or no impact on loss calculations.

▶▶ Knowledge Check



Your supervisor has been examining unadjusted loss data for claims that have occurred over the last five years and identifies some trends. Explain to your supervisor what must be done to loss data before trends can be determined and why those actions are necessary.

Sample Answer:

Unadjusted loss data can be misleading because they do not account for the following:

- Claims that take multiple years to develop and reach an ultimate claims cost
- Accidents that have occurred but have not yet been reported
- Changes in costs due to inflation
- Changes in exposure base, such as new locations being added, an increase in product offerings, or a divestiture

For these reasons, risk managers should adjust for:

- Frequency development
- Severity development
- Changes in the exposure base
- Inflation

Section 3 Self-Quiz

Directions: Complete each item. For fill-in-the-blank items, choose the term that correctly completes the sentence. Answers may be used more than once.

cost-benefit	loss development	risk mapping
event	loss projections	risk register
heat mapping	loss trending	root cause
Ishikawa diagram	prioritization	severity
likelihood	qualitative analysis	TCOR

1. Validation and refinement of loss data allow for the prioritization of risk factors.
2. A risk manager uses a(n) root cause analysis to systematically drill down to the cause of an incident.
3. This word is used interchangeably with the word “incident.” A(n) event is an incident that may or may not become a claim.
4. Likelihood is the chance something will happen. It is also known as frequency.
5. Severity describes the impact of an event, should that event occur.
6. A risk manager carries out qualitative analysis to seek information that is initially difficult to measure mathematically.
7. Risk mapping is a visual analytical tool that identifies all risks to an organization and indicates their frequency, on a scale from low to high, and their potential impact, or severity, on a scale from low to high.
8. Heat mapping is a visual representation of complex sets of data interpretations that uses colors to indicate patterns or groupings of how risk will impact an organization.

Section 3: Risk Analysis

9. The following diagram is an example of a(n) risk register .

Risk Description	Current Risk Score			Controls	Target Risk Score		
	Prob	Impact	Rating		Prob	Impact	Rating
Choking hazard							
Food poisoning							
Theft							

10. The head of a “fish” is the identified problem, incident, or accident in a(n) Ishikawa diagram.

11. Loss projections use historical loss data to predict future risk frequency and severity.

12. A(n) cost-benefit analysis measures total anticipated benefits after costs are subtracted.

13. A(n) risk manager who conducts a TCOR analysis calculates the sum of all costs and expenses associated with risks and risk management within an organization.

14. Loss trending takes historical data (losses) and converts that loss data to current dollar amounts.

15. Loss development is the process by which data are adjusted to account for lag time to settle claims, recognize frequency development, acknowledge incurred but not reported (IBNR) accidents, and the index for inflation, or a calculation of the rate of inflation in an economy.

Section 4: Risk Control

Risk Control Techniques

Check-in



Directions: Read each statement. Then select True or False.

1. Risk avoidance is the mitigation of an exposure to help reduce the severity of a loss.

True

False

Risk avoidance is the complete elimination of an exposure to avoid the chance of loss entirely.

2. Risk avoidance is a business organization's preferred risk management method.

True

False

Risk avoidance may not align with an organization's goals and profit motives.

3. Exposures related to past activities may remain despite risk avoidance.

True

False

Check-in



Directions: Use the following terms to fill in the blanks.

budgetary impact	loss reduction	pre-loss
elimination	operations	prevention
interrupt	post-loss	

While avoidance is the elimination of exposures, prevention is intended to interrupt events that lead to loss, not avoid them entirely. Unlike avoidance, prevention is a risk control technique that permits organizations to continue operations.

Actions taken to minimize the severity, or budgetary impact, of unprevented losses represent the risk control technique called loss reduction. The approach is applied before and after losses. A coastal hotel, for example, takes pre-loss actions when it prepares an emergency evacuation plan and implements post-loss actions when it provides medical attention to staff and guests after a hurricane has occurred.

Check-in



Directions: Match each term to its example.

A. Segregation	<u>C</u> An ice cream start-up builds a second walk-in freezer in its warehouse.
B. Separation	<u>B</u> A car dealership sells its sports utility vehicles from its suburban lot and its compact and hybrid cars from its downtown location.
C. Duplication	<u>A</u> A waste management company establishes a compost facility at a site separate from its landfill facility to prevent contamination.

Check-in



Directions: Match each term to its example.

avoidance	prevention	loss reduction
segregation	separation	duplication
	transfer	

- prevention 1. A machine shop requires employees to use personal safety equipment while they are using the shop's drill presses.
- separation 2. An appliance store splits unsold inventory between two warehouses 20 miles apart.
- transfer 3. A company relies on a common carrier to distribute manufactured goods rather than buying trucks to transport its products.
- duplication 4. A dairy farmer installs generators as an energy alternative in cases of power failure.
- loss reduction 5. A large retail company installs a fire suppression system.
- avoidance 6. After there are several reported cases of babies swallowing ornaments decorating a crib mobile, the manufacturer ends production of the mobile.

▶▶ Knowledge Check



A hurricane struck Florida’s Gulf Coast, causing significant damage to a five-star hotel. The hotel has a golf club, golf course, and separate parking structure. The hotel maintains a fleet of minivans and employs drivers to shuttle guests to and from the airport.

During the storm, it was necessary to evacuate guests and employees, and injuries were reported. After the storm, the property required extensive repairs related to wind damage and flooding. Plus, water damage made it necessary to replace the hotel’s fleet of golf carts and two minivans.

Knowing the extent of the damage, what risk control measures should the hotel have taken prior to the loss? Write your answers in the chart.

Sample Answer:

Guests	
Avoidance	
Prevention	
Loss Reduction	The hotel should have had basic medical supplies and ample food and water on hand.
Segregation	
Transfer	

Section 4: Risk Control

Golf carts	
Avoidance	
Prevention	
Loss Reduction	The carts should have been stored on one of the parking garage's higher levels.
Segregation	
Transfer	
Damage to the building	
Avoidance	
Prevention	The hotel could have constructed a sea wall between the ocean and the hotel.
Loss Reduction	The hotel could have used roofing and other building materials built to withstand significant wind speeds.
Segregation	
Transfer	

Section 4: Risk Control

Minivans	
Avoidance	The hotel could avoid offering shuttle service.
Prevention	
Loss Reduction	The minivans should have been parked in different locations rather than together.
Segregation	
Transfer	The hotel could have contracted a shuttle service to evacuate guests and employees.

Accident Prevention Basics

Check-in



Directions: Use the following terms to fill in the blanks.

identify	permitted	uncontrollable
lack of awareness	preventable	unsafe acts
operations	sinkholes	unsafe conditions
overlooked	training	

1. Unsafe acts, or behaviors, are one common and preventable reason for accidents. Often, the cause is a(n) lack of awareness. Companies have not taken the time to identify unsafe behaviors. Neither have they provided their employees with adequate training.
2. Unsafe conditions are also a reason for employee accidents. While some unsafe conditions are inherent to specific business operations, such conditions are sometimes overlooked or even permitted by managers seeking to increase production, promote efficiency, or save money.
3. Large natural events like earthquakes are uncontrollable acts and considered catastrophic. Much smaller natural events like sinkholes can also have significant damaging effects on both people and property.

Knowledge Check

Here are six steps for accident prevention:

1. Eliminate a potential hazard.
2. Substitute a less hazardous substance or process for another.
3. Make physical modifications to a design to reduce the likelihood of injury.
4. Establish rules or processes aimed to reduce the likelihood of injury.
5. Provide personal protective equipment to employees.
6. Offer training.

Directions: Read the following scenario. Explain how these steps could prevent an accident from occurring.

Your organization specializes in mechanical and structural repair. Your employees often work on scaffolding, outside in the heat, and with open welding flames. Your equipment is several years old, and the majority of the tanks have visible dents from years of use.

Sample Answer:

1. Eliminate a potential hazard: All equipment should be inspected, and any faulty equipment should be replaced.
2. Substitute a less hazardous substance or process for another: Use a glue that is less toxic than the glue currently used.
3. Make physical modifications to a design to deduce the likelihood of an injury: Invest in mechanical lifts that can adjust for height, allowing employees to use proper form when welding instead of being bent over.
4. Establish rules or processes aimed to reduce the likelihood of injury: Create a safety plan and a policy outlining what clothing can be worn while welding, including personal protective equipment.
5. Provide personal protective equipment: Provide all employees with a welding jacket, fire blanket, and fire extinguisher.
6. Offer training: Require that all employees participate in safety or job-related training.

Section 4 Self-Quiz

Directions: Use the following terms to fill in the blanks. Answers may be used more than once.

avoidance	hold harmless	prevention	uncontrollable events
contractual	limit of liability	segregation	unsafe acts
duplication	loss reduction	transfer	

1. Risk avoidance is the complete elimination of an exposure to avoid the chance of loss.
2. An action intended to interrupt a sequence of events that leads to loss is called prevention.
3. Prevention reduces frequency of loss, not the severity, or budget impact, of loss.
4. Loss reduction is an action taken to minimize the severity, or budgetary impact, of an unprevented loss.
5. An action intended to isolate an exposure from other exposures, perils, or hazards is called segregation.
6. The establishment of backups for critical systems or operations is called duplication.
7. Movement of some or all risk to another party is called transfer.
8. Responsibility for certain liabilities moves to another party in a(n) contractual transfer.
9. A(n) hold harmless agreement is an arrangement whereby one party assumes the liability inherent in a situation, thereby relieving another party of that liability.
10. A(n) limit of liability clause is a pre-event limitation of the amount, type, or method of calculation of damages available by one or both parties to an agreement.

Section 4: Risk Control

11. What do the items in the following list have in common? Write your answer on the lines.

- Unsafe acts or behaviors
- Lack of awareness
- Lack of or insufficient training
- Unsafe conditions
- Uncontrollable events

They are common root causes of accidents.

12. Check each example of accident prevention.

- enter into an exculpatory agreement
- eliminate a potential hazard
- substitute a less hazardous substance or process for another
- establish a waiver of subrogation
- make physical modifications to a design to reduce the likelihood of injury
- offer training

Section 5: Risk Financing

Risk Financing

Check-in



Directions: Select each true statement.

- Risk financing involves all acquisitions of funds, regardless of cost.
- Internal risk financing includes unplanned retention.
- External risk financing includes contractual transfers.
- The term *optimal cost* is a precisely defined term that means the best product for a customer at market prices.
- Risk control and risk financing are closely related, as in the case of a company that purchases insurance to cover potential losses while also taking steps within the company to mitigate those losses.

Check-in



Directions: Match each term to its description.

A. the insurer	<u> E </u> A consideration in exchange for a promise of indemnification
B. the insured	<u> C </u> Susceptibility to loss
C. exposure	<u> A </u> A transferee that takes contractual responsibility for the financial consequence of a risk
D. insurance	<u> B </u> A transferor with a relationship with a transferee
E. premium	<u> D </u> A promise of indemnification for specified losses in exchange for payment of premium

▶▶ Knowledge Check



You speak to your organization's management team about creating a risk financing program. A manager asks you to explain retention in relation to creating a risk financing plan. How do you respond?

Sample Answer:

Retention is the use of internal funds to pay for losses. When developing a risk financing program, the organization must determine the amount of internal funds that can be dedicated/allotted for losses. This determination will be made in part by the organization's risk appetite and ability. The risk financing program will be built around the organization's level of retention.

Insurable Risks

Check-in



Directions: Use the following terms to fill in the blanks. Terms may be used more than once.

calculable	many	unintended
exceed	retention	unlikely
few	risk manager	

An underwriter views risk as something that is unlikely to occur. An insurable risk is one that is shared by many, and is unexpected and unintended, such as the likelihood that an audience member will sink a basketball from across a court in a charity event. An insurable risk is also reasonably calculable and one that generates enough premium paid by many to pay for the losses of a(n) few, such as auto insurance.

A(n) risk manager has a different perspective on what constitutes an insurable risk. From this perspective, insurable risks are *not* reasonably calculable within an organization and are capable of causing great harm. Insurable risks are those that exceed an organization's risk appetite and are less costly than the cost of retention because of insurance market conditions.

Check-in

Directions: Read each statement. Then select True or False.

1. From an underwriter's perspective, an insurable risk is a risk that generates enough premium paid by the many to pay for the losses of the few.

True

False

2. From an underwriter's perspective, an insurable risk is a non-catastrophic risk or a risk that is unlikely to strike many simultaneously.

True

False

3. From a risk manager's perspective, an insurable risk is not reasonably calculable by an organization.

True

False

4. From a risk manager's perspective, an insurable risk stays within an organization's risk appetite.

True

False

From a risk manager's perspective, an insurable risk exceeds an organization's risk appetite.

5. Standard insurance carriers are admitted and licensed by the states in which they operate.

True

False

6. The majority of coverage for catastrophic risks such as floods, earthquakes, and windstorms is provided through the excess and surplus lines market.

True

False



7. The NFIP offers affordable flood insurance to property owners, renters, and businesses to fill the gaps existing in flood insurance programs provided by many insurance carriers.

True

False

8. Claims activity levels are a consideration in assigning the label *high risk* to a property.

True

False

9. The NFIP is a government-run program that provides flood insurance to lower the financial burden on property owners who receive limited coverage from insurance carriers.

True

False

The purpose of the NFIP is to offer affordable flood insurance to property owners, renters, and businesses. It is not used to address gaps in coverage limits.

10. All insurance professionals face the challenge of determining the right mix of internal and external funds.

True

False

▶▶ Knowledge Check



You meet with your organization’s CFO, who is reviewing the upcoming policy renewal. She asks two questions. First, why was the property insurance purchased through surplus lines? And what was the purpose of the additional NFIP policy?

Respond to both of the CFO’s questions.

Sample Answer:

Depending on the value, location, and construction, this property might not have been able to be written in the standard market. The surplus lines market offers coverage for risks that the standard market will not. Flood insurance might be required based on the flood zone of the property. Standard markets typically do not insure for flood exposures. The purpose of the NFIP is to offer affordable flood insurance to property owners, renters, and businesses.

Risk Retention and Transfer

Check-in



Directions: Match each term to its purpose in a retention/transfer diagram.

A. Vertical axis	<u> D </u> The portion of expected losses an organization is willing and able to retain
B. Horizontal axis	<u> E </u> The marginal retention beyond budgeted retention that an organization may also choose to retain all or part of
C. External Financing	<u> B </u> Represents the total amount paid for all claims during a policy period
D. Budgeted Retention	<u> C </u> Insurance purchased to pay for losses that fall outside of an organization’s risk appetite and ability
E. Tolerance Corridor	<u> A </u> Represents the total amount per claim or per occurrence in dollars

Check-in



Directions: Read each statement. Then select True or False.

1. An organization that chooses to insure everything selects a guaranteed cost plan as a risk financing option.

True

False

2. An organization that chooses a guaranteed cost plan is likely to have few excess funds available for covering financial losses.

True

False

3. An organization with a guaranteed cost plan is likely to have the ability to manage claims services internally but unlikely to have excess funds to cover losses.

True

False

Just as an organization with a guaranteed cost plan is unlikely to have excess funds to cover losses, it is also unlikely to have the ability to manage claims internally.

4. One distinctive advantage of a fully insured program is that an organization has a high degree of certainty when budgeting for insurable losses.

True

False

5. Standardized coverage is a benefit of guaranteed cost plans.

True

False

6. An advantage of both the guaranteed cost plan and the dividend plan is that both provide security while also providing a return of premium based on an organization's losses.

True

False

There is no return of premium associated with guaranteed cost plans.

Check-in



Directions: Match each term to its description.

A. Guaranteed cost plan	<u> C </u> The insured reimburses the insurer a portion of each loss up to a stated amount.
B. Dividend plan	<u> B </u> The reimbursement from an insurance carrier when an organization experiences a good year in terms of losses
C. Deductible plan	<u> A </u> A fully insured program that transfers all risk of loss to an insurance company
D. Self-insured risk financing plan	<u> D </u> The use of internal funds to cover possible losses and possibly external funds through reinsurance or excess coverage

▶▶ Knowledge Check



Select one of the following scenarios. Then explain which risk financing plan would be most appropriate.

1. Your organization is extremely risk adverse and desires a plan with the lowest loss sensitivity.

guaranteed cost: A guaranteed cost plan has little to no loss sensitivity from the viewpoint of the insured. The cost of insurance remains the same, regardless of the number of claims. Once the premium is paid, there is no further risk of financial responsibility for losses other than the deductible.

2. Your organization has a sophisticated risk management program and prefers to retain risk as opposed to paying premium.

self-insured: The cost of self-insurance is always less than traditional insurance. This type of plan requires a strong risk management program, risk professionals, and a sophisticated risk management information system.

Section 5: Risk Financing

3. Your organization can control most of its risk and has the financial resources to retain much of its risk. The organization is interested in retaining risk but wants coverage for large losses.

deductible plan: A deductible plan allows an organization to take more control of overall claims, but still provides coverage for losses above the deductible. The insured reimburses the insurer a portion of each loss up to a stated amount.

Section 5 Self-Quiz

Directions: Complete each item. For fill-in-the-blank items, choose the term that correctly completes the sentence. Answers may be used more than once.

budgeted	retention	transfer
deductible	risk financing	
insurer	standard	

- The acquisition of funds at the most favorable or optimal cost to pay losses is called risk financing.
- The use of internal funds to pay losses is called retention.
- The use of external funds to pay losses is called a(n) transfer of financial responsibility.
- A(n) insurer takes contractual responsibility for the financial consequence of a risk.
- Insurance carriers that are considered standard are admitted and licensed by the states in which they operate.
- A(n) retention or transfer diagram depicts an organization's financial ability and risk appetite.
- Budgeted retention is the portion of expected losses an organization is willing and able to retain.
- In a(n) deductible risk financing plan, an insured elects to reimburse an insurer for losses up to a stated amount.

Directions: Select True or False.

- Insurance is a transfer of risk.

True

False

Insurance is not a transfer of risk. It is a contractual responsibility to assume the financial consequences of a risk.

Section 5: Risk Financing

10. Insurance is a contractual responsibility to assume the financial consequences of a risk.

True

False

11. A guaranteed cost risk financing plan provides an insured with the most stability.

True

False

12. Check all characteristics of an insurable risk as seen from an underwriter's perspective.

- a risk shared by many
- a risk that causes crippling severity to an organization
- an unexpected and unintended risk
- a risk which generates enough premium paid by the many to pay for the losses of the few
- a risk that exceeds an organization's risk appetite

Section 6: Risk Administration

Implementation and Monitoring of a Risk Management Program

▶▶ Knowledge Check

Explain the differences between the implementation and monitoring of a risk management program.



Sample Answer:

Implementation is the part of the process in which the desired actions are initiated.

Monitoring is the part of process in which the risk manager evaluates the results of the actions and uses feedback to modify the process.

The Role of a Risk Manager

Check-in



Directions: There are numerous things a risk manager must do to be successful. Read the scenario. Then check each example of a successful behavior the risk manager demonstrates.

Elizabeth is the risk manager for a large widget manufacturing company with several facilities. She has earned the Certified Risk Manager (CRM) designation and regularly attends courses offered by The National Alliance to hone her skills and stay current on best practices and emerging trends in the risk management industry.

Elizabeth is also a member of the Widget Manufacturers Association (WMA.) The Association offers a Liability Pool to its members. Elizabeth recently moved her company's liability coverage to the pool after completing an analysis of rates and premiums. This move also provides her with loss control services and important information specific to widget manufacturing companies.

When she received a bulletin from the WMA detailing new federal requirements for tempered steel—which is used to make widgets—she immediately consulted with the company leadership team and corporate counsel to alert them of the change and to assist in compliance with the new regulations. Elizabeth also consulted with a manufacturing expert to determine if this change would impact the quality and performance of the company's products, or the manufacturing process as a whole. She knows that any changes in the manufacturing process will require the review of current risk management procedures and implementation of new or revised procedures.

- Remains up-to-date with changes within the risk management industry
- Seeks the most beneficial and cost-effective solutions for protecting their organizations
- Recognize themselves as sources of vast amounts of information that require communication to numerous stakeholders
- Communicates with management as well as employees in non-supervisory roles
- Constantly reviews risk management policies and procedures
- Maintains quality control
- Uses materials and reports to provide evidence of the strengths and weaknesses of a risk management program

Check-in



Directions: Read each statement. Then select True or False.

1. A risk manager may select either an agent or a broker to represent her company.

True

False

2. Because every organization is different, it unlikely that an agency will be familiar with similar organizations.

True

False

A risk manager seeks an agency with a client base that includes similar organizations to her/his own.

3. A risk manager might ask an agent whether the agent has recommended appropriate coverages to accounts similar to the risk manager's.

True

False

4. The competencies of an agency's personnel are of concern to effective risk managers.

True

False

5. An agency's stage of growth is less important to a risk manager's decision than is the agency's management profile.

True

False

The risk manager needs to know if an agency has grown since it first began. Management influences growth.

▶▶ Knowledge Check



You have been asked to speak to your board of directors regarding the role of a risk manager and why your organization needs a risk management department. What specific reasons will you present to board members? Write them here.

Sample Answer:

Risk managers:

- use the most beneficial, economical, feasible, and sensible methods for managing risk.
- are able to identify current and emerging risks on behalf of management.
- promote safety and security.
- review current laws, regulations, and guidelines to ensure that an organization is in compliance.

The Risk Management Network

▶▶ Knowledge Check



As the risk manager for a large organization, you have identified cybersecurity as a main threat, but you do not have much experience with this exposure. What members of your risk network could you reach out to, and how might they be able to help?

Sample Answer:

Insurance broker: This individual can provide information concerning coverage and needed limits.

General counsel: This individual can provide advice on what is required by statute after a cyber incident.

Outside expert: This individual will review current policies and procedures and help strengthen internal controls to meet industry best practices.

Section 6 Self-Quiz

1. Check all examples that represent a source of evidence a risk manager might use to determine the effectiveness of a risk management program.

- open and closed claims
- risk financing plans
- contracts
- significant incidents/accidents

Directions: Read each statement. Then select True or False.

2. A risk manager provides a finance plan during the final step of the risk management process.

True

False

Risk Administration is the final step in the risk management process.

3. Implementation of a risk management plan relies heavily on the risk manager's control of an organization's resources.

True

False

A risk manager doesn't need to control an organization's resources in order to implement a plan. Instead, he/she needs to partner with others inside and outside the organization.

4. The two parts of the final step in the risk management process are implementation and monitoring.

True

False

5. A risk manager's success rests entirely with those who have the ability to execute risk management strategy.

True

False

6. Risk managers conduct monthly assessments to maintain quality control.

True

False

Assessments can occur monthly, but they can also occur in other increments of time or may be issue-driven.

Section 6: Risk Administration

7. For long-term success, risk managers must be active participants on their organizations' leadership teams.

True

False

8. For long-term success, risk managers must create adaptable processes and approaches that evolve to fit new needs, best practices, and emerging risks.

True

False

9. To achieve their objectives, risk managers require contributions from both internal and external networks of people.

True

False

10. To select network members who will be the best fit for their organizations, risk managers consider a person's personal attributes, such as interpersonal skills.

True

False

Resources

Preparing for the Final Exam

Keep in mind, the most important measure of your knowledge will be witnessed in your service to your organization. Think of an exam as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The exam period is one hour long. The exam itself is composed of 50 multiple-choice questions that ask you to demonstrate what you know. Each question is worth two points. You are required to earn a minimum of 70 out of 100 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the exam. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

Here are some techniques you can use to help you prepare for the Final Exam. Apply these same techniques to each section in this Learning Guide.

1. Review the Section Goal.
2. Re-read the Introduction.
3. Review each Learning Objective.
4. Change each head and subhead into a question. Then answer the question. For example, header: Risk Financing Plans
Question: What are some examples of risk financing plans?
5. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific learning objective.
6. Check your answers to each Check-in activity. Correct your original answers, if necessary.
7. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
8. Re-read the summary at the end of each section.
9. Check your answers for each section Self-Quiz. Correct your original answers, if necessary.
10. Review any comments, highlights, or notes you made in each section.

(Continued.)

11. Rewrite important ideas in your own words. Find ways to relate your work experiences to those ideas.
12. Make flash cards to help you review important vocabulary.

Sample Exam Questions

The Final Exam has a variety of questions similar to the ones below. In this sample, correct answers have been provided.

Sample 1

1. What kind of risk situation or incident has either a loss or no loss outcome?
 - a) speculative risk
 - b) pure risk
 - c) simple risk
 - d) finite risk

Sample 2

2. Which of the following characteristics describe an insurable risk from the perspective of an underwriter? Select all that apply.
 - a) a risk shared by many
 - b) a risk that generates enough premium paid by the many for the losses of the few
 - c) a risk that is reasonably calculable as to likelihood
 - d) a risk that is catastrophic in nature

Sample 1: The correct answer is **b, pure risk**.

Sample 2: The correct answers are **a, b, and c**.

Glossary of Terms

accident an unexpected and unintentional event that tends to result in damage or injury

accounting rate of return (ARR) a tool that measures the percentage return of average annual cash flows on initial investment

active retention a planned financing solution in which internal funds can be used to pay losses

avoidance precludes or discontinues an activity to avoid the chance of loss, eliminating both positive and negative outcomes

budgeted retention the portion of expected losses an organization is willing and able to retain

claim a demand for payment or a company's obligation to pay as result of a loss or occurrence

contractual transfer the shift of responsibility of certain liabilities to another party; includes exculpatory agreements, waivers of subrogation, limit of liability clauses, and hold harmless agreements

cost-benefit analysis a measurement of total anticipated benefits after costs are subtracted

deductible plan a risk financing program in which an insured elects to reimburse the insurer for losses up to a stated amount

dividend plan a guaranteed cost plan that has dividend options which return a portion of the premium when an insurer has had an overall good year and the insured meets a certain loss ratio criterion

duplication establishing backups for critical systems or operations

economic class of risks risks arising from internal operations, general economic conditions, external competition, conditions in the financial marketplace, and entrepreneurial activities, such as new products or services

exculpatory agreement a pre-event exoneration of one party for events that may result in any loss or a specified loss to another party

expected losses an estimate of total losses of a given type that an insurance company can "expect" in a given period

exposure a situation, practice, or condition that may lead to an insured's susceptibility to adverse financial consequences or loss

Glossary of Terms

external financing insurance purchased to pay for losses that fall outside an organization's risk appetite and ability

frequency the number of claims that occur, or an insurer expects to occur, within a given period of time

guaranteed cost plan a finance plan for organizations that have low risk appetites, desire little variability in cost of risk, and have little or no ability to manage services. The rate is multiplied by the exposure and is then adjusted by both the experience modifier and any scheduled and/or discretionary credits/debits.

hazard a factor that increases the likelihood a peril will occur

heat mapping a visual representation of complex sets of data interpretations which uses colors to indicate patterns or groupings of how risk will impact an organization

hold harmless agreement an arrangement whereby one party assumes the liability inherent in a situation, thereby relieving another party of that liability

human resources an organization's internal people exposure

implementation the part of Risk Administration in which a desired risk management plan is initiated

incident an event that may lead to a loss or a claim, or may cause a business interruption

indemnification agreement another name for a hold harmless agreement

indemnitee the party in a hold harmless agreement that is relieved of liability

indemnitor the party in a hold harmless agreement that assumes liability

insurable risk a risk an underwriter may perceive as something that has little chance of occurring and low severity should it occur. An insurable risk, from a risk manager's perspective, is an exposure that is often subject to loss and can negatively affect an organization.

insurance a promise of compensation for specified losses in exchange for payment of premium

intangible property property that has value but no physical form

judicial class of risks risks arising from decisions made by judges and juries, or adverse trends in the legal climate

legal class of risks risks inherent in compliance or arising from common law and statutory liability

likelihood the chance that something will happen

limit of liability clause a pre-event limitation of the amount, type, or method of calculation of damages available to one or both parties to an agreement

Glossary of Terms

loss a reduction in asset value

loss development the process by which data are adjusted to account for lag time to settle claims, recognize frequency development, and index for inflation

loss development factor (LDF) a value used to adjust (multiply) known claims to determine an anticipated value for claims over a specific time period

loss projection the use of historical loss data to predict future risk frequency and severity; also called loss forecast

loss reduction the process of adjusting historical losses with factors such as inflation; this allows historical losses to be valued in current dollar amounts

loss trending an action taken to minimize the severity, or budgetary impact, of an unprevented loss

monitoring regular examination and evaluation of the results of a risk management plan

occurrence an “accident” that occurs over an extended period of time

passive retention an unplanned financing solution in which internal funds are used to pay losses

payback analysis a tool that measures the length of time needed to recover the cost of a capital investment

peril a cause of loss

physical class of risks risks associated with people and property

physical transfer the shift of some or all of an operational function or exposure to an outside source or third party

political class of risks risks arising from changes in the law, reinterpretations or changes in governmental policy, politics, and diplomacy, and conflict and global governance

pre-loss approach an action taken prior to loss

post-loss approach an action taken after a loss

prevention an action designed to minimize the frequency of losses

pure risk a chance of loss or no loss

reduction an action taken to minimize the severity, or budgetary impact, of an unprevented loss

retention use of internal funds to pay losses

retention/transfer diagram a graphic depiction of an organization’s financial ability and risk appetite

Glossary of Terms

risk a condition of either positive or negative uncertainty arising from a given set of circumstances

risk ability an organization's level of ability or inability to self-insure or assume financial responsibility for loss

Risk Administration the fifth step in the risk management process; the ongoing implementation and monitoring of a risk management program

Risk Analysis the second step in the risk management process; using the exposures identified in the Risk Identification step to assess the potential impact of those exposures upon a client; it takes two forms—qualitative and quantitative

risk appetite a willingness to accept or tolerate risks, or simply, the extent of aversion to risk

Risk Control the third step in the risk management process; it applies a set of methods or actions intended to minimize or avoid the impact of loss

Risk Financing the fourth step in the risk management process; it involves the acquisition of internal and external funds at the most favorable cost to pay losses

Risk Identification the first step in the risk management process; it involves the identification and examination of all of an organization's exposures

risk management the implementation of a process intended to minimize the uncertainty of exposures that can adversely affect an individual's or organization's assets and financial well-being

risk mapping a visual analytical tool that identifies all risks to an organization and indicates their frequency on a scale from low to high, and their potential impact on a scale from low to high

risk register a prioritization of risks based on a scale of anticipated potential impact

root cause analysis a systematic method for drilling down to the "root cause" of an incident

segregation an action intended to isolate an exposure from other exposures, perils, or hazards

self-insured risk financing plan a complete retention plan. Risk financing is accomplished by maintaining access to funds—internal or external—to cover possible losses as opposed to purchasing an insurance policy. In reality, most organizations are not purely self-insured, as they often purchase reinsurance or excess coverage.

separation the distribution of exposures or activities over several locations

severity the aggregate dollar amount of all losses for a given period of time

social class of risks risks associated with public relations and social stability

Glossary of Terms

speculative risk the possibility of loss, no loss, or chance of gain

tangible property property that can be seen or touched, and includes real property, such as buildings, and personal property, such as equipment

technological class of risks risks arising from the world's growing use and dependence upon technology, as well as risks created by emerging technologies

time value of money (TVOM) calculation a measure of the value of money over a given amount of time, considering a given amount of interest

tolerance corridor the marginal retention beyond the budgeted retention that an organization may also choose to retain, either entirely or in some part

tort liability liability for negligence

total cost of risk (TCOR) calculation a calculation of all costs and expenses associated with risks and risk management within an organization

transfer the shift of physical or contractual (or both) risk to another party

transfer of financial responsibility the use of external funds to pay losses

waiver of subrogation a pre-event agreement that prevents an insurance carrier from recovering payments it makes on a claim from a third party