

Sample Test Questions

1. Freddy Temple, the risk manager of a growing restaurant chain, has heard that a competitor just changed insurance brokers. Freddy wishes to look into selecting a different broker, but the current account executive is the nephew of a Board member. Provide three reasons Freddy might give to the CEO to justify selecting another broker.

Sample Answers:

- 1) It gives the appearance of a conflict of interest - nepotism
 - 2) There is a potential for confidential information to be shared/divulged
 - 3) The broker may have little incentive to recommend the most cost effective policy as it might affect his commission
2. Your CEO is interested in how an effective risk management program can have a positive impact on the organization. Please explain four positive impacts of an effective risk management program.

Sample Answers (any four):

- a. It raises awareness of the importance of risk management and promotes understanding and acceptance of risk management policies and procedures throughout the organization
 - b. It supports managerial objectives:
 - Improves planning and budgeting
 - Reduces frequency and severity of incidents, accidents, losses and claims
 - Projects future losses
 - Increases awareness of indirect losses
 - c. It improves morale and productivity among the work force.
 - d. It improves quality, processes, and technology.
 - e. It increases profitability (reduced costs or increased revenues):
 - Reduces claims management and legal costs
 - Optimizes cost of risk
 - Protects cash flow, assets and financial statements
 - f. It protects the organization's reputation and brand.
3. Ben Volio, the risk manager of Verona Markets, has accumulated a number of years of loss data related to his workers compensation exposures. He plans to use measures of statistical central tendency to determine the likely number of workers compensation losses the organization will face in the typical year.
 - A. Identify and briefly describe two measures of statistical central tendency (based on normal distributions) that Ben should use.

Appendix

Sample Answers (any two):

- Mean average, or arithmetic mean, or sum of all values divided by the number of observations (any of the underlined terms)
 - Median 50th percentile or half the values lie below and half the values lie above or middle value (any of the underlined terms)
 - Mode observation occurring most often or observation occurring most frequently (any of the underlined terms)
- B. Using the following values, calculate the two measures of statistical central tendency you listed above. Give the name of the measure of statistical central tendency and show your calculations.

Values: 1 4 2 1 1 7 5 3

Sample Answers (any two):

- Mean: Sum = 24, $24 \div 8 = 3$
- Median: 1, 1, 1, 2, 3, 4, 5, 7 = 2.5
- Mode: 1, 1, 1, 2, 3, 4, 5, 7 = 1