TISHK INTERNATIONAL UNIVERSITY

DEPARTMENT OF FINANCE AND BANKING

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RISK MANAGEMENT AND INSURANCE QUESTIONS BANK

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Section I Multiple Choice Questions

1. ------------ is a term that encompasses all major risks faced by a business firm. Such risks include pure risk, speculative risk, strategic risk, operational risk, and financial risk.
   a. Enterprise Risk b. Finance Risk c. Interest Risk d. Bank risk
2. Personal risk involve the following except.
   a. Premature death b. Poor health c. Pure risk d. Retirement risk
3. Retention as a technique of risk financing include the following except
   a. Active retention b. Passive retention c. Process retention d. Self-insurance
4. The technique of risk management that focus on having back-ups or copies of important documents or property available in case a loss occurs, is known as
   a. Avoidance b. Duplication c. Loss prevention d. Separation
5. ------------- is a technique for transferring the risk of unfavourable price fluctuations to a speculator by purchasing and selling futures contracts on an organized financial market.
   a. Hedging b. Speculation c. Financial securities d. Trading
6. ------------- is the uncertainty relating to an event that results in financial loss, which can be measured quantitatively.
   a. Capital b. Loss c. Risk d. Insurance.
7. ------------- is defined as the relative variation of actual loss from expected loss.
   a. Risk b. Objective risk c. Subjective Risk d. Loss
8. ---------- refers to the long-run relative frequency of an event based on the assumptions of an infinite number of observations and of no change in the underlying conditions.
   a. Objective probability b. Subjective Risk c. Subjective probability d. Bond
9. --------- is the probability that an event that causes a loss will occur
   a. Chance of luck b. Chance of loss c. Chance of lack d. Chance of occur
10. A physical condition that increases the frequency or severity of loss is known as --------
    a. Moral Hazard b. Attitudinal Hazard c. Physical Hazard d. Legal Hazard

Section II True or False

11. Refinancing risk is the risk that the cost of rolling over or re-borrowing funds will rise above the returns being earned on asset investments.
    True or False
12. The risk of default that is associated with general economy wide or macro conditions affecting all borrowers is known as Firm-specific credit risk.
    True or False

13. Off-balance-sheet Risk is the risk incurred by a financial intermediary due to activities related to contingent assets and liabilities.

    True or False

14. Foreign exchange risk is the risk that repayments from foreign borrowers may be interrupted because of interference from foreign governments.

    True or False

15. Operational risk is not exclusively the result of technological failure.

    True or False

16. Insolvency Risk is the risk that a financial intermediary may not have enough cash or assets that can be easily converted to cash that can be use for its day to day activities.

    True or False

17. The carelessness or indifference to a loss, which increases the frequency or severity of a loss is known as Attitudinal Hazard

    True or False

18. Speculative Risk is defined as a situation in which there are only the possibilities of loss or no loss.

    True or False

19. Generally private insurers generally concentrate on pure risks and do not emphasize the insurance of speculative risks.

    True or False

20. Non-diversifiable risk is a risk that affects only individuals or small groups and not the entire economy.

    True or False

<u>Section III Essay</u>

21. Differentiate between Refinancing risk and reinvestment risk.
22. Explain market risk
23. Differentiate between firm-specific credit risk and systematic credit risk
24. Explain the distinction between foreign exchange risk and country/sovereign risk
25. Clearly explain the difference between economies of scale and economies of scope
26. What is Technology risk and how is it related to operational risk?
27. Describe Risk control, and list the six (6) techniques of risk control.
28. Briefly explain the following:
    a. Avoidance
    b. Loss Prevention
    c. Loss Reduction
29. Explain the three (3) techniques of risk financing.
30. Explain the four (4) types of hazard.
31. a. Define Insurance
    b. Explain the law of large numbers
32. Explain the four (4) basic characteristics of Insurance
33. Explain how pooling can reduce objective risk and more appropriately determine the chance of loss.

34. List the six (6) characteristics of an insurable risk
35. Explain the reasons behind the requirement that the loss of insurable risk must be accidental and unintentional.
36. Insurable risk's loss must be determinable and measurable. Explain what does this statement mean with at least one example?
37. Explain the three (3) approaches to mitigate the problem of a catastrophic loss
38. a. What is reinsurance?
    b. What is adverse selection in Insurance?
39. Explain the two (2) main differences between Insurance and Gambling
40. Explain the two (2) main differences between Insurance and Hedging