Answer Key to Unit 4 Assessment

1. The risk map profiles all the risks identified as important to a business and relates frequency to severity of risks.

2. Self-insuring means risk is retained within the firm.

3. A typical risk management process includes:
   a. identifying risks,
   b. assessing risks,
   c. forecasting future frequency and severity of losses,
   d. mitigating risks,
   e. creating plans,
   f. conducting cost-benefits analyses,
   g. implementing programs for loss control, and
   h. insurance.

4. Risk transference involves paying someone else to bear some or all of the risk of certain financial losses that cannot be avoided, assumed, or reduced to acceptable levels.

5. Two examples of risk transfer are formation of a corporation with limited liability for its stockholders and insurance.

6. The objectives of risk mapping objectives are:
   a. To aid in the identification of risks and their interrelations,
   b. To provide a mechanism to see clearly what risk management strategy will be the best to undertake,

   c. To compare and evaluate the firm's current risk handling,
   d. To support selection of risk management strategies,
   e. To show the leftover risks after all risk mitigation strategies are put in place, and
   f. To facilitate communication of risk strategy.

7. The functions of a Risk Management Information System (RMIS) include:
   a. collecting data;
   b. allowing risk managers to slice and dice the data to evaluate risks; and
   c. facilitating estimations of frequency, probability distributions, and trends analysis.

8. A cash flow analysis looks at the amount of cash that will be saved and brings it into today's present value.

9. Data warehousing is a system of collecting and storing large sets of data for strategic analysis and operations.