Answer Key to Unit 5 Assessment

1. A chief risk officer (CRO) manages the organization’s enterprise risk management (ERM) strategy. The CRO is usually part of the corporation’s executive team and is responsible for all risk elements.

2. A company with a good reputation and good products creates a firm’s brand equity. Franchise value is an alternative term for brand equity. Franchise value reflects a positive image of corporate responsibility.

3. Risk managers should be at least partially held accountable for a firm’s losses. For instance, risk managers may buy too much or too little insurance for risks. The interests between risk managers and the firm must be aligned.

4. An example of conflicts of interest between risk managers and the company is the mortgage underwriters and mortgage bankers during the housing boom. The mortgage underwriters had a financial incentive (commissions) to issue the loans regardless of the intrinsic risks.

5. To evaluate a firm’s ability to absorb losses, risk managers must have in-depth knowledge of the firm’s financial resources, such as credit lines, assets, and insurance arrangements.

6. A balance sheet provides a snapshot of a firm’s assets and liabilities.

7. Annual financial reports include balance sheets and income statements.