

CRM | PRACTICE OF RISK MANAGEMENT

STUDY GUIDE

EXAM PREP AND ANSWER KEY

- Knowledge Checks
- Check-Ins
- Self Quizzes
- Sample Exam Questions
- Glossary of Terms



RISK & INSURANCE
EDUCATION ALLIANCE

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STUDY GUIDE

EXAM PREP AND ANSWER KEY

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 Appendix 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: The Risk Manager

Section 1: The Risk Manager

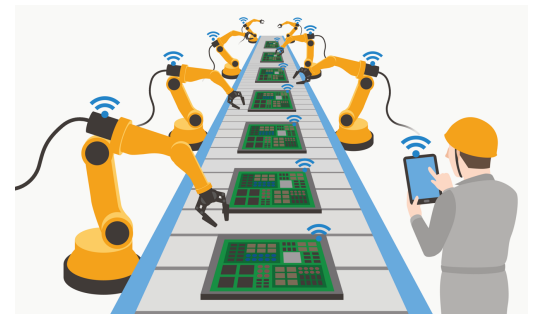
The Effective Risk Manager

» Knowledge Check



Directions: Read the following scenario and answer the question.

You are the newly hired risk manager for Richardson's Electronics, a manufacturer of various circuitry elements. Previously, each district manager was responsible for risk management activities in their district. Over the past several years, employee injuries have increased, as have the number of defective products coming from the assembly line. Senior management has determined that a centralized, company-wide approach is needed to achieve the desired improvements.



The district managers are unhappy with corporate oversight in an area where they previously had autonomy. One of the district managers approaches you and asks what you hope to bring to the table. In addition to creating uniformity and shared goals across the organization, what other benefits can you describe for him?

Essential Skillsets

Check-In



Directions: Match the soft skill to the example which best represents it.

A. Emotional Intelligence	_____ Keisha listens to both sides of a dispute between the safety engineer and the warehouse manager. She remains objective and helps both parties reach an amicable solution.
B. Diplomacy	_____ While discussing a new risk management initiative, Alejandro notices his colleague frowning and folding her arms defensively. He pauses and asks her if she has any concerns she would like to share.
C. Facilitation	_____ Jonah holds biweekly project meetings to promote an open exchange of information and ensure that all project team members are adequately supported.
D. Communication	_____ Harika is known for being an active listener. She is skilled at adjusting her messaging and communication style according to her audience.

The Management Model

» Knowledge Check



Directions: Read the prompt and answer the questions below.

Imagine you are tasked with hiring a new risk manager for your organization and need to develop the job description. What types of skills and experiences would you look for in a potential candidate?

Using your knowledge of skillsets and the management model, list **at least two** required skills and **at least one** preferred experience for each of the categories below. Provide a rationale for your choices and share how you might assess the degree to which a candidate possesses these skills and experiences.



Tip: Answers should be specific to your organization—there is no single correct response.

1. Technical Skills

a. Skills:

b. Experience:

c. Rationale:

d. Assessment method(s):

Section 1: The Risk Manager

2. Managerial/Leadership/Soft Skills

a. Skills:

b. Experience:

c. Rationale:

d. Assessment method(s):

Risk Administration

» Knowledge Check



Directions: Read the following scenario and answer the question.

You are responsible for training a newly hired risk manager. Your task is to create a training document outlining the expectations for risk administration. You can create any kind of training document you'd like (slide deck, infographic, outline, video script, etc.), but it must lay out the expectations for the risk manager with respect to the following:

- Communication/collaboration with stakeholders (senior/middle management, risk management team, external service providers, other employees, etc.)
- Monitoring and Reporting guidelines:
 - What items should be included in the report
 - Who should receive the report

Write, sketch, or otherwise design your training document in the space below, and remember—this is an open-ended assignment with no single correct answer!

Risk Management Services: A Value-Added Approach for Agents and Brokers

Check-In



Directions: Select the best response for the question.

Which of the following is an example of a basic *risk analysis* task that an agent or broker could perform?

- ☐ Performing a loss triangulation using industry data to aid a client in understanding an insurance carrier's pricing
- ☐ Performing an in-depth analysis of a client's complete claims history of incidents, accidents, and losses
- ☐ Bringing together internal and external funds to pay for losses
- ☐ Assisting a client in identifying previously unrecognized risks

Benefits to the Agency/Brokerage from Fee-Based Compensation



» Knowledge Check

Directions: Read the following scenario and answer the questions.

Marcia is an insurance agent who routinely performs risk management services for clients, such as analyzing the frequency and severity of losses to forecast future losses. Marcia feels that her agency could benefit from advertising risk management as a value-added service for clients and switching to a fee-based compensation model.

1. Marcia needs to convince the agency owner that a fee-based model is beneficial. Provide an example of how a fee-based compensation system might benefit the agency and/or the client.

2. Based on your understanding of the three methods of determining fees, which method do you think Marcia should recommend and why?

Section 1 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Complete the sentences using terms from the word bank. Not all terms will be used.

results	financial impact	past successes	communicate	team player
program	technical skills	risk manager	soft skills	leadership

The Four Steps to Success as a Risk Manager:

1. Demonstrate the positive _____ an effective risk management _____ can have on the organization.
2. Ensure that the risk manager is “plugged in” as a _____.
3. _____ risk management _____ to appropriate parties.
4. Understand that the _____ cannot rest on the merits of _____.

Section 1: The Risk Manager

5. **Directions:** List three ways in which the risk manager can positively impact an organization:

- a. _____
- b. _____
- c. _____

Directions: Select the best responses to the following questions. Some questions may have more than one correct response.

6. Which of the following is an example of a soft skill?

- ☐ Analyzing losses and exposures
- ☐ Diplomacy
- ☐ Managing claims
- ☐ Completing a cost-benefit analysis

7. Which of the following include examples of tasks a risk manager might complete during the *planning* stage of the management model? (Select all that apply.)

- ☐ Hiring the risk management staff
- ☐ Influencing the risk management team to take appropriate actions to carry out the program objectives
- ☐ Determining an insurance or self-insurance budget
- ☐ Determining the total cost of risk and establishing an allocation system

Section 1: The Risk Manager

8. Which group or entity is most responsible for implementing the actions and activities that will make the risk management program's goals and objectives part of the organization's everyday practices?
- ☐ The risk manager
 - ☐ Senior management
 - ☐ Middle management
 - ☐ Risk management service providers
9. Which of the following are reasons why the fee-based compensation system may prove beneficial to the agency or brokerage? (Select all that apply).
- ☐ Fees make budgeting and planning easier by supporting a stable revenue base.
 - ☐ Fee-based compensation is the traditionally accepted compensation method for agents and brokers.
 - ☐ Fees help to align the goals of the insurance provider and the agency/brokerage.
 - ☐ Fee-based compensation is the go-to compensation method for the vast majority of agencies and brokerages.
10. Joshua is a risk management consultant who charges clients by tracking his time spent on actual work in five-minute increments and multiplying the time spent by the hourly rate. Joshua's hourly rate includes general overhead expenses but not specific expenses incurred (such as travel). Which method is Joshua using to determine his fees?
- ☐ Hourly rate method
 - ☐ Straight-time method
 - ☐ Retainer method
 - ☐ Performance method

Section 2: The Risk Management Network

The Risk Management Team

Check-In



Directions: Select the best response to the following question.

Which of the following members of the external team are essential to help the risk manager assess potential exposures and access risk financing solutions?

- ☐ Claims adjuster
- ☐ Private investigators
- ☐ Insurance agents/brokers
- ☐ Human resource professionals

» Knowledge Check



Directions: Read the following scenario and answer the questions.

Alfonso is a risk manager for a large company with safety, environmental, human resources, finance, operations, legal, and audit departments. He has been tasked with creating the risk management procedures manual. Alfonso wants to assemble a risk management team comprising internal as well as external members.

1. Identify two examples of *internal* personnel that Alfonso should consider for his risk management team and explain what they would contribute to the risk management process.

2. Identify two examples of *external* service providers that Alfonso should consider for his risk management team and explain what they would contribute to the risk management process.

The Communication Process

Check-In



Directions: Match each example to the term that it best represents.

A. Encoding/Creation	_____ Jenna determines that a video conference will be the most effective way to deliver constructive feedback to her direct report.
B. Transmission	_____ After reading a memo from his supervisor, Jared asks for clarification on a few key points.
C. Reception/Decoding	_____ A CEO creates a chart to visually represent organizational changes in the company.
D. Feedback/Response	_____ A language barrier leads to a misunderstanding between colleagues.
E. Noise	_____ Fiona listens as her supervisor explains a new project.

Communication Within an Organization

Check-In



Directions: Select the best response for the following question.

An organization utilizes a crisis communication system in which the crisis manager is designated as the sole point of contact in the event of a crisis. She will receive and disseminate all information, and the other network members will communicate solely through her. This is an example of which type of communication network?

- ☐ Chain network
- ☐ Y network
- ☐ Wheel network
- ☐ Circle network
- ☐ All-channel network

» Knowledge Check



Directions: Read the following scenario and answer the question.

Peter, the risk manager, is conducting a performance review with Fred, one of the team members. During the review Fred keeps rolling his eyes and looks at the ceiling. When Peter asks Fred if he has any comments or questions, Fred responds, “Nope,” and asks, “Can I go now?”

1. What does Fred’s verbal and/or nonverbal communication signal?



2. What should Peter’s next steps be?

Stewardship Reports

» Knowledge Check



Directions: Read the following scenario and answer the question.

Jonas, the risk management intern, is gathering data for the annual stewardship report. He has identified the below items for inclusion in the report. Jessie, his manager, is concerned that Jonas has not fully grasped the concept of a stewardship report.

Which of the items listed below support Jessie's concerns? Explain your answer and include the type of feedback Jessie might provide to Jonas to help him improve.

1. TCOR for the past five years presented in graphic format
2. A report of the most expensive ongoing litigation
3. An overview of the current insurance program
4. A review of the average frequency and severity of claims over the past five years
5. Changes in common stock prices over the last three years
6. Expenditures on risk management and loss control initiatives over the previous five years

Section 2 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](http://CRM.AD.Resources(riskeducation.org)).

Directions: Select the best responses to the following questions. Some questions may have more than one correct answer choice.

1. Which of the following are reasons for adding external members to a risk management team? (Select all that apply.)
 - ☐ Office politics make it difficult to work with internal team members.
 - ☐ An expert is needed to provide a specific viewpoint for a single project.
 - ☐ Internal talent is not available for a particular project.
 - ☐ The risk manager has a personal conflict with a member of the internal team.

2. Which of the following might be brought on as external members of a risk management team to lend skills and expertise in the area of safety? (Select all that apply.)
 - ☐ A human resources specialist
 - ☐ A medical provider
 - ☐ A claims adjuster
 - ☐ A private investigator

Section 2: The Risk Management Network

3. Which statement best describes the importance of establishing a risk management network?
- ☐ The risk manager will gain access to essential information and expertise necessary to achieve the risk management objectives.
 - ☐ Risk managers usually have a very narrow understanding of how an organization operates and need to rely on others who are more business-savvy.
 - ☐ The risk manager needs someone else to blame if things go wrong.
 - ☐ Risk managers usually struggle with communication and need support from the communications and marketing departments.
4. The communication network at XYZ Corp. combines of several types of networks. Communication flows in all directions among all members of all groups. Which type of communication network does XYZ Corp. use?
- ☐ Y network
 - ☐ Wheel network
 - ☐ Circle network
 - ☐ All-channel network
5. When used effectively, which of the following are advantages of written communication? (Select all that apply.)
- ☐ Written communication allows the sender to take time to craft an effective message.
 - ☐ Written communication is especially useful for sensitive or controversial topics.
 - ☐ Written communication allows the sender to detect the receiver's reaction easily.
 - ☐ Written communication allows for documentation of the interaction.

Section 2: The Risk Management Network

6. Which of the following best describes the *main* purpose of a stewardship report?

- ☐ The stewardship report allows senior management to review the company's loss and claims histories in-depth.
- ☐ The stewardship report provides a periodic overview of the risk management program's successes, challenges, and opportunities for improvement.
- ☐ The stewardship report provides updates on the individual performance of each risk management team member.
- ☐ The stewardship report is provided anytime the company experiences a major loss and gives an overview of the incident and its outcomes.

7. List the steps of the communication process and briefly describe each.

a. _____

b. _____

c. _____

d. _____

Section 2: The Risk Management Network

Section 3: Information Technology for Risk Managers

Data Risk Assessment

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. Insurance companies are legally required to securely store personal information, disclose information-sharing practices to customers, and allow customers to “opt out” of having their information shared.

True

False

2. Risk managers do not need to be concerned with legislation surrounding data management, as this is the responsibility of legal and IT teams.

True

False

3. An individual’s personal information is protected and can never be shared with the government unless they are accused of a federal crime.

True

False

Elements of a Data Risk Assessment



» Knowledge Check

Directions: Explain how a data assessment supports the goal of compliance.

Risk Management Information Systems (RMIS)

Check-In



Directions: Match each RMIS function to the scenario that best illustrates it.

A. Claims Management	<p>_____</p> <p>ABC Manufacturing uses its RMIS to generate OSHA 300, 300A, and 301 forms and submit them to the appropriate authority.</p>
B. Policy Management	<p>_____</p> <p>A risk manager customizes her RMIS display to include key data such as KPIs, summary claims, uninsured losses, and deductibles.</p>
C. Reporting	<p>_____</p> <p>The risk manager for XYZ Corp uses the RMIS to track disability and settlement payments, issue checks, and provide reserve, paid, and incurred information for an entire line of business.</p>
D. Dashboard and Analytics	<p>_____</p> <p>A risk manager uses the RMIS to track accident investigation data to identify trends and mitigate losses.</p>
E. Health and Safety	<p>_____</p> <p>A risk manager tracks insurance certificates and proof of coverage documents to identify gaps and overlaps.</p>

» Knowledge Check



Directions: Read the scenario and answer the question that follows.

Marilyn, the risk manager for a growing manufacturing firm, believes it is time to invest in an RMIS to manage losses and to assist her in projecting the losses for next year. She knows her staff of two will need assistance with inputting the loss information, which is presently kept in paper files. She speaks with the C-suite executives and describes the functions available within the RMIS. The head of human resources suggests that the information stored in his databases could be housed in the RMIS.

Would this proposal be a proper use of the RMIS? If not, what could be done to improve the proposal and address data security?

Benchmarking



» Knowledge Check

Directions: Read the scenario and answer the questions that follow.

Anthony is the newly promoted risk manager for Finish It, a concrete plant. He previously worked in the claims department and has wondered how Finish It's performance measures up to others in the industry. Having recently attended the Practice of Risk Management course offered as a part of the Certified Risk Manager Program, he wonders if benchmarking is the best approach to finding his answer.

1. Is this an appropriate time to benchmark? Why or why not?

2. What type of benchmarking should Anthony undertake? How will he get the data he needs?

3. List at least one advantage and disadvantage of benchmarking.

Advantage: _____

Disadvantage: _____

Section 3 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org/CRM-AD-Resources).

Directions: Answer the following questions.

1. What is the primary purpose of conducting a data risk assessment?
 - ☐ To evaluate the effectiveness of data processing systems
 - ☐ To identify and mitigate potential risks associated with data handling and storage
 - ☐ To ensure data is being used for marketing purposes effectively
 - ☐ To calculate the financial value of the company's data assets

2. You are the new risk manager at a medium-sized manufacturing company. The CEO has tasked you with improving the company's approach to managing data risks. Before you start drafting your plan, you decide to familiarize yourself with the company's current data management practices and systems. What initial step you should take when conducting a data risk assessment?
 - ☐ Review the financial implications of potential data breaches.
 - ☐ Map the data cycle from the point of entry through storage to output.
 - ☐ Collaborate with other departments to inventory all data used by the organization.
 - ☐ Examine data protection and exposure reduction measures.

Section 3: Information Technology for Risk Managers

3. Which of the following best describes how an RMIS can be used to improve an organization's health and safety?
- ☐ It can generate employee handbooks and safety protocols.
 - ☐ Data from accident investigations can be analyzed to implement mitigation measures.
 - ☐ It can interface with a TPA's or claim provider's systems and facilitate communication with claims adjusters.
 - ☐ It can generate reports and submit them to the appropriate agencies.
4. Which of the following are true regarding considerations when selecting an RMIS? (Select all that apply.)
- ☐ Each organization will prioritize factors differently based on size, expected users, claims volume, desired features, industry, and budget.
 - ☐ Cost is the number one consideration for all organizations, regardless of size.
 - ☐ All RMIS provide a standard data dashboard, so customization is an unimportant consideration.
 - ☐ Organizations may wish to consider the availability, expertise level, and language capabilities of the customer service staff.

Section 3: Information Technology for Risk Managers

Directions: Complete the sentences by filling in the blanks using words from the word bank. Each word or phrase will be used only once.

imprecise	loss control	insufficient	comparison
risk financing	observer's paradox	baseline	creative solution
trend	external	internal	performance

5. _____ benchmarking can include comparisons between departments, locations, and divisions.
6. Benchmarking is critical when the organization needs to establish a _____ to measure the impact of a new program.
7. The _____ suggests that initiating benchmarking with the intent to seek improvement might actually cause improvement.
8. A disadvantage of benchmarking is that data may be too _____ or _____ to draw accurate conclusions.

Section 4: Total Cost of Risk

Benefits of the TCOR Model



» Knowledge Check

Directions: Consider your own organization as you answer the following questions.

1. Who would be the key stakeholders in a TCOR allocation? (Or, if you already allocate TCOR, who are the key stakeholders?)

2. How do you predict a TCOR allocation might alter behaviors within your organization? (Or, if you already allocate TCOR, how has it altered behaviors?)

The TCOR Allocation Process

Check-In



Directions: Read each statement and indicate whether it describes the exposure-based method or the experience-based method.

1. A restaurant franchise allocates costs equitably according to the number of employees at each location.

Exposure

Experience

2. One advantage of this method is that it encourages loss control.

Exposure

Experience

3. With this method, allocations could be made based on the percentage of losses compared to other units.

Exposure

Experience

4. The appreciation or depreciation of an asset could impact the outcome of this method.

Exposure

Experience

5. A chain of stores allocates costs equitably based on the losses incurred by each store location.

Exposure

Experience

Activity: Developing a TCOR Allocation Model

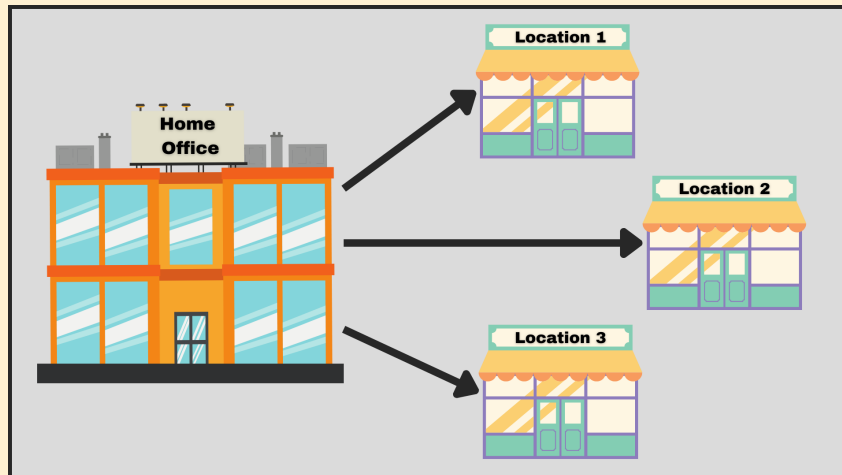
Directions: Read through the scenario and follow the steps as indicated. Look for **bold type** to find instructions and tips for each step of the activity.

Keep in mind that this is an open-ended activity designed to help you practice developing a TCOR allocation model. For most of the questions in this activity, there will not be a single correct answer.



Reflection Question:

You are the risk manager for a growing chain of restaurants. Currently, the organization consists of a home office and three restaurants. There are plans to add at least one location per quarter for the next five years. As the organization plans for future expansion, it has become clear that there needs to be a more organized approach to risk management. As the newly hired risk manager, you have been studying the loss data and the cost of risk; however, you have found that those outside the home office have very little knowledge about what costs are associated with the total cost of risk.



Gaining Buy-In

Before you can even begin the allocation process, you must educate those in the home office about the components of TCOR.

List each of the five components of TCOR and provide examples of included costs.

1. Component:

Examples:

2. Component:

Examples:

3. Component:

Examples:

4. Component:

Examples:

5. Component:

Examples:

Now that you better understand what is included in the TCOR, you are ready to begin the TCOR allocation process.

Step 1: Define the Desired Result

Answer the following questions to define the desired outcome of your TCOR allocation process.

1. What is to be accomplished by allocating costs?

2. How will progress be measured?

Section 4: Total Cost of Risk

3. What are the potential benefits of TCOR allocation for your organization?

4. What additional questions do you need to have answered to design an appropriate model?

Step 2: Determine the Costs to Allocate

State whether each of the following costs should be allocated across the organization and when the costs should be allocated.

1. Insurance costs: _____

2. Retained losses: _____

Section 4: Total Cost of Risk

3. RM departmental costs: _____

4. Outside service fees: _____

5. Indirect costs: _____



Remember:

When an organization decides against allocating specific costs to the TCOR, those costs could be charged to the organization as part of overhead operating expenses. Certain components of the TCOR may be assigned to the home office only, such as insurance premiums and retained losses for executive risk exposures, e.g., D&O and fiduciary liability.

What additional information would you need to design an appropriate cost allocation model?

Step 3: Select the Allocation Variables

1. If you had the following information, how might it impact your TCOR calculations?

By Location	Home Office	Store 1	Store 2	Store 3
# of Employees	15	12	20	6
Payroll	\$1,200,000	\$225,000	\$300,000	\$175,000
Square Footage	6,000	3,200	5,000	3,000
Sales	\$0	\$2,500,000	\$4,250,000	\$1,750,000
Retained losses	\$15,000	\$25,000	\$40,000	\$90,000
Outside Services	\$50,000	\$20,000	\$30,000	\$45,000

2. What information would influence your decision in choosing an allocation model?

Section 4: Total Cost of Risk

3. What data might unfairly skew the results?

Step 4: Create the Allocation Model

1. Based on the information provided, which method seems most appropriate?

2. Create the allocation model in the space provided on the next page.

Section 4: Total Cost of Risk

**Note:**

Once the allocation process has been implemented, the risk manager will need to analyze and track the system's success. Are the costs being allocated appropriately and fairly? Are the selected variables the right ones? Are all costs being accounted for properly? Are behaviors changing due to the allocation system? Are new control measures being put into place? Are costs coming down? Are incident rates dropping?

Section 4 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](http://CRM.AD.Resources(riskeducation.org)).

Directions: Complete the sentences by filling in the blanks using words from the word bank. Each word or phrase will be used only once.

accountability	alter behaviors	factors	fluctuating	loss control
competitive	losses	cost center	severity	budgeted

1. Identify _____ contributing to the TCOR to ensure that costs can be allocated and _____ accordingly.
2. Understanding the actual costs of a risk management program can create _____ in each departmental _____, division, store, etc.
3. The first two objectives of allocating TCOR serve to enhance _____ by motivating personnel to reduce frequency and _____, build risk control into projects, etc.
4. The allocation system allows the company to stay _____ by tracking and providing for all costs and holding _____ costs to a minimum.
5. The allocation system can _____ by expanding the risk management influence beyond the core team and encouraging managers to accept responsibility for departmental _____.

Section 4: Total Cost of Risk

6. **Directions:** List the four steps of the TCOR allocation process in the correct order.

- a. _____
- b. _____
- c. _____
- d. _____

Directions: Select the best response(s) for the following questions. Some questions may have more than one correct answer.

7. Which of the following are necessary for the risk management allocation system to be successful? (Select all that apply.)

- ☐ The allocation system works best when there are no specific objectives in place.
- ☐ The organization must have defined procedures in place to measure progress.
- ☐ The organization needs to determine what value method or factoring will be used for each allocation.
- ☐ It is essential to have the buy-in of senior management, but all decisions are solely at the discretion of the risk manager.

8. The hiring and training of new employees, overtime, and the loss of productivity following an accident are all examples of which component of TCOR?

- ☐ Insurance costs
- ☐ Retained losses
- ☐ Risk management departmental costs
- ☐ The quantified portion of indirect costs

Section 4: Total Cost of Risk

9. Which of the following could be considered *weaknesses* of the experience-based method of allocation? (Select all that apply.)
- ☐ It does not allow for strategic or discretionary allocation.
 - ☐ It produces no incentive to reduce losses.
 - ☐ It creates many details to be tracked for a fair and accurate allocation.
 - ☐ It is always complicated to adjust, no matter the method used.

Section 4: Total Cost of Risk

Section 5: Due Diligence

The Due Diligence Process

» Knowledge Check



Directions: Read the scenario and answer the question that follows.



Alexis Smith has responded to a job posting for the Chief Procurement officer position at XYZ Corp. She has been through two rounds of interviews and has made an excellent impression on the C-suite execs. They are prepared to make her an offer. As the risk manager, you remind them that they should perform a due diligence investigation of Ms. Smith.

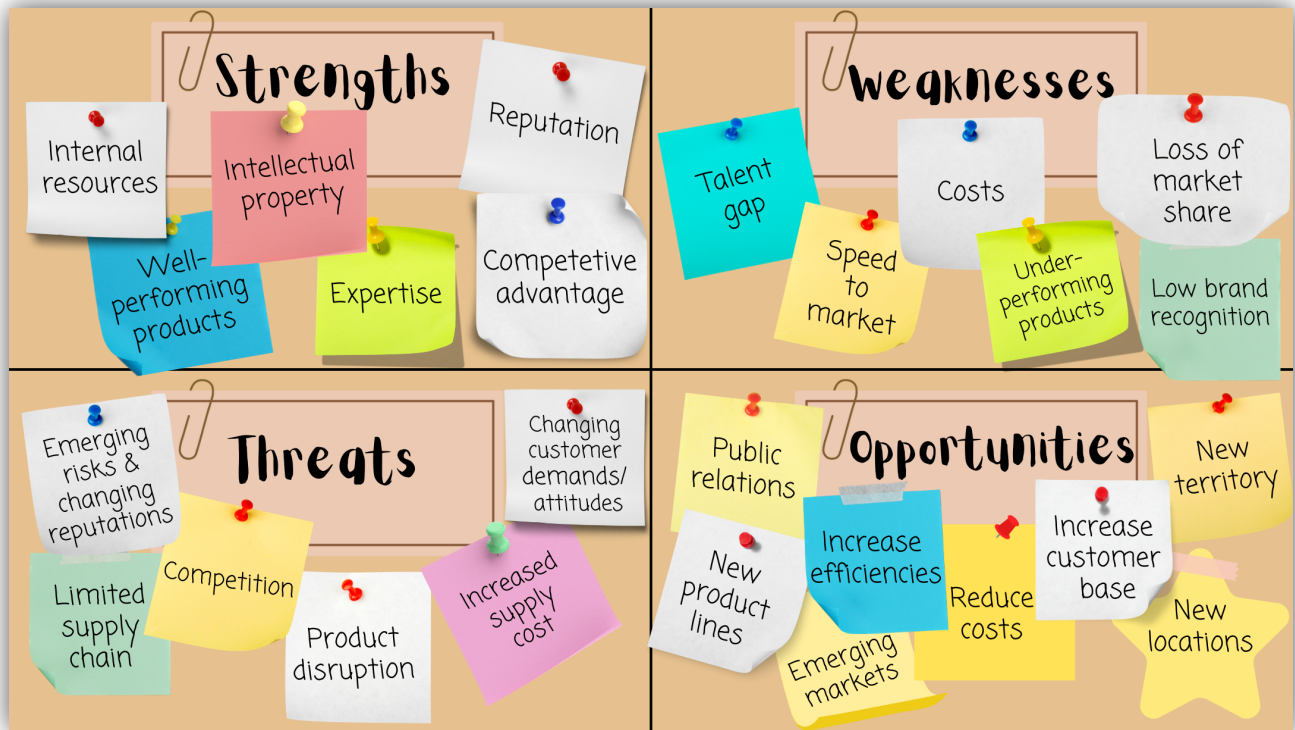
What items might comprise this type of due diligence investigation?

Managing Change—Validate the Need



» Knowledge Check

Directions: Once an organization has performed a SWOT analysis, it needs to utilize the results to determine how to build upon its strengths, correct its weaknesses, capitalize on its opportunities, and minimize its threats. Using the SWOT analysis below, create potential action items that the organization should explore for each category.



Section 5: Due Diligence

Category	Potential Action(s)
Strengths	
Weaknesses	
Opportunities	
Threats	

M&A Due Diligence—A Multidisciplinary Approach

Check-In



Directions: Match each deal type or M&A structure to the example that best represents it.

A. Entity Deal	_____ One firm takes over another firm, acquiring all assets and liabilities except those listed on the attached schedule.
B. Acquisition Deal	_____ A manufacturer of skincare products acquires a fast casual restaurant chain.
C. Horizontal Integration	_____ One firm takes over another firm, acquiring all its assets and liabilities.
D. Vertical Integration	_____ A soda company acquires a bottling plant and a trucking company.
E. Conglomerate Integration	_____ Two popular telecommunications companies merge into one corporation.

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.



Kai is the risk manager for Pizza Mia, a company that manufactures frozen pizzas. Pizza Mia is about to acquire a trucking company that provides refrigerated transport nationwide. Kai is informed that Pizza Mia will be acquiring all of the trucking company's assets but only certain liabilities, which are outlined in an attached schedule.

1. What type of deal is described in this scenario (entity or asset)? _____

2. What type of merger and acquisition structure is described in this scenario?

3. What portions of the acquisition agreement does Kai need to perform his risk management due diligence?

4. What should Kai's objective be when reviewing these documents?

Four Steps of the Due Diligence Process with M&A

Check-In



Directions: Determine whether each statement is true or false. If the statement is false, rewrite it to make it true.

1. The due diligence team should consist only of risk management professionals.

True

False

2. There is no need to vet newcomers to the successor organization, as their credentials, references, etc., will have already been carefully reviewed by the divesting organization.

True

False

3. Property exposures must be identified and reviewed, with particular attention to whether the property is considered a highly protected risk.

True

False

4. An insurance coverage review should address coverage, insurance carrier contracts, specific property and liability issues, and a detailed report on any captive insurance companies.

True

False

» Knowledge Check



Directions: Respond to the following prompt.

Discuss two post-merger actions for the acquiring organization's risk manager.

Section 5 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org/CRM-AD-Resources).

Directions: Answer the following questions. Some questions may have more than one correct answer.

1. Donna is a risk manager for a property management company and is working with her team to execute the due diligence process for the development of a new apartment complex. Donna attempts to ascertain whether her company has complete and accurate information regarding the property they intend to purchase. She tries to uncover any key issues that may have been previously unidentified, misidentified, or undisclosed by the seller. This is an example of which type of due diligence consideration?
 - ☐ Identify and confirm material issues.
 - ☐ Review key assumptions.
 - ☐ Identify any critical transition issues.
 - ☐ Identify personnel requirements.
2. Which of the following are activities that a risk manager would *most likely* engage in during the course of due diligence for bringing a new product online? (Select all that apply.)
 - ☐ Verifying credentials of a venture partner or contracting party
 - ☐ Verifying advertising and marketing issues
 - ☐ Verifying credentials, licensing, education, training
 - ☐ Obtaining testing opinions for safety, reliability, and warranty agreements

Section 5: Due Diligence

3. Identifying environmental concerns is *most important* as due diligence for which of the following?
- ☐ Entering into a new joint venture or contract
 - ☐ Purchasing new real estate assets
 - ☐ Hiring a third-party administrator (TPA)
 - ☐ Entering into a relationship with a new supplier
4. When conducting a SWOT analysis, _____ can often be turned into _____.
- ☐ strengths; weaknesses
 - ☐ weaknesses, opportunities
 - ☐ opportunities; threats
 - ☐ strengths; threats
5. Regulation that can affect an organization's business is an example of a _____.
- ☐ strength
 - ☐ weakness
 - ☐ opportunity
 - ☐ threat
6. Which type of merger or acquisition would an organization likely engage in if the goal was to diversify its assets?
- ☐ Horizontal
 - ☐ Vertical
 - ☐ Conglomerate
 - ☐ Entity

Section 5: Due Diligence

7. Which of the following is the responsibility of the risk manager with respect to mergers and acquisitions? (Select all that apply.)
- ☐ Structuring the contracts for the deal
 - ☐ Projecting the profits that will be made from the deal
 - ☐ Identifying and explaining exposures that the deal could pose
 - ☐ Quantifying insurance coverage gaps that may result from the M&A
8. SWOT analysis takes place during which step of the M&A due diligence process?
- ☐ Strategy and Expectations
 - ☐ Identification and Analysis
 - ☐ Decision-Making
 - ☐ Post-Merger Activities
9. Which one of the following due diligence activities should be performed *after* a merger or acquisition has been completed?
- ☐ Reviewing past and current investment and capital outlay programs of the organization being acquired
 - ☐ Reviewing the risk management programs of the organization being acquired
 - ☐ Reporting the results of the M&A qualitative analysis to management
 - ☐ Assessing the impact of the new exposures and adjusting the risk management program accordingly

Section 6: Managing the Risk of Intangible Assets

Introduction to Intangible Assets and Intellectual Property

» Knowledge Check



Directions: Each of the statements below contains one or more inaccuracies.
Rewrite each statement to make it true.

1. The only assets that matter to an organization are those with a specific monetary value, such as cash or property.

2. A copyright is a symbol, word, or words used by an organization to represent the organization and its product.

3. Trade dress is similar to a patent except that it applies to the visual design of a product that makes the product more commercially valuable.

Risk Management for Intellectual Property

» Knowledge Check



Directions: Read the scenario and answer the question that follows.

Leticia is the director of risk management for a manufacturer of thermal cups. Currently, the company is developing a new cup that is collapsable. Describe how Leticia might guide her team in conducting “offense” and “defense” to advance the company toward its goals while protecting against lawsuits or financial damages.

The Intangible Assets of Brand and Reputation

» Check-In



Directions: Select the best response to the question.

Which of the following best describes the difference between brand and reputation?

- ☐ A reputation is what an organization promises to its clients; brand is how stakeholders perceive the organization.
- ☐ A brand is how stakeholders perceive the organization; reputation is the number of five-star reviews the organization has.
- ☐ A brand is what an organization promises its clients; reputation is how stakeholders perceive the organization.
- ☐ A brand is a symbol or image used to identify an organization; reputation is how stakeholders perceive the organization.

» Knowledge Check

Directions: Read the description of a real-life brand and reputation crisis, and answer the question that follows.



In 1937, an appetite suppressant candy was sold under the brand Ayds (pronounced “aids”). In the mid-1980s, the brand began to be associated with Acquired Immune Deficiency Syndrome (commonly known as AIDS). This was due to the similarity in the pronunciation of the names, as well as the fact that AIDS caused patients to suffer massive weight loss.

Initially, the company resisted changing its name. In 1986, Frank DiPrima, the executive vice president and chief operating officer of the company that marketed Ayds, stated, “Consumers are smart enough to tell the difference between a disease and a diet product.” Di Prima went on to say, “The product has been around for 45 years. Let the disease change its name.”¹

Despite these objections, sales of Ayds diet candy had dropped as much as 50% by 1988 due to the negative association with the AIDS epidemic. That same year, the product was sold to the Dep Corporation, which attempted to rebrand the product as Diet Ayds (Aydslim in Britain). However, the association with the illness had fatally damaged the product name. As a result, the company was forced to withdraw the product from the market.

What actions might have the company taken to reduce damage to Ayds’ reputation and brand?

¹ Advertising Age, “Ayds Name Won’t Be Suppressed by AIDS,” *The Central New Jersey Home News*, February 4, 1986, <https://www.newspapers.com/image/317494730/>

Management of an Organization's Reputation or Brand

» Knowledge Check



Directions: Throughout this section, there have been examples of how organizations have responded to different crises in ways that either protected their brand and reputation or caused further damage. In this exercise, you will compare the Bon Vivant Soup Crisis and the Tylenol Murders to determine why one company failed in the wake of its tragedy while the other ultimately succeeded. The table below provides an overview of the two incidents and the company's respective responses. For a more detailed overview, you can re-read the Bon Vivant Soup example under the heading "The Difference Between Brand, Logo, and Reputation" and the Tylenol example under "Communication → Step 1: Identify Critical Communication Events."

Company	Johnson & Johnson	Bon Vivant Soup
Critical Communication Event	Third-party product tampering (cyanide)	Botulism in product
Impact	Seven dead	One dead; one sick
Immediate Action	<ul style="list-style-type: none"> • Voluntarily recalled 31 million products, including products not affected by tampering • Halted production and advertising • Warned hospitals and distributors • Issued PSAs and offered to exchange previously purchased capsules for tablets 	<ul style="list-style-type: none"> • Voluntarily recalled over 1,000,000 cans of soup (recall of 6,444 in the lot affected was required by the FDA) • Remained largely silent • Sued the FDA to recover the lots that were not contaminated

Section 6: Managing the Risk of Intangible Assets

Immediate Action Cont.	<ul style="list-style-type: none"> Cooperated with law enforcement 	
Additional	<ul style="list-style-type: none"> Reintroduced Tylenol capsules in new, more secure packaging Offered sale promotions 	<ul style="list-style-type: none"> Rebranded as Moore & Co.
Initial Impact on Company	Immediate collapse of market share; rebounded in less than one year	Filed for bankruptcy
Current Status	Strong brand, trusted product	The successor company, Moore & Co., is no longer in business

1. Compare and contrast the communication strategies employed by each company in the wake of their critical events. Consider the recipients, communication channels, and content of the messaging.

2. How did these communication efforts and other risk control measures ultimately impact the success or failure of each company? (Consider any of the four risk control mechanisms for brand and reputation that might apply.)

Section 6: Managing the Risk of Intangible Assets

3. Imagine that you were the risk manager for the Bon Vivant soup company in 1971. Devise a communication plan to address the crisis in a way that would lead to a better outcome. (Fill in your answers in the table below).

Bon Vivant Soup Company Communication Plan	
Step 1: Identify critical communication event	Fatal botulism poisoning from a can of Bon Vivant Soup
Step 2: Identify recipients	
Step 3: Choose a communication channel	
Step 4: Create the content	

Section 6 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://www.riskeducation.org).

Directions: Fill in the blanks with the correct intellectual property terms from the word bank. Terms may be used only once. Not all terms will be used.

copyright	industrial design right	plant design	concession
logo	design patent	service mark	trade dress
patent	franchise	trademark	trade secret

1. A _____ is a grant of a property right for an invention that is issued to the inventor by the U.S. government after filing an application.
2. A _____ is a legally registered name or designation used to distinguish an organization's services from those of its competitors. It can be registered or unregistered.
3. A _____ is a form of protection provided to the creators of "original works of authorship," whether published or unpublished. It can include literary, dramatic, musical, artistic, and certain other intellectual works.
4. _____ is a legal term of art applying to the visual appearance or aesthetics of a product or packaging that identifies the source of the product to consumers.

Section 6: Managing the Risk of Intangible Assets

copyright	industrial design right	plant design	concession
logo	design patent	service mark	trade dress
patent	franchise	trademark	trade secret

5. A _____ is a symbol, word, or words used by an organization to represent the organization and its product. It can be registered or unregistered.
6. The term _____ denotes a contractual process of leasing a legally protected entity to another party for their use.
7. _____ refers to a right or privilege to operate commercially within the limits of a larger concern (such as a branded makeup counter in a department store).
8. A _____ is the right or license granted to an individual or group to have access to a business' proprietary knowledge, processes, and trademarks in order to market a company's goods or services in a particular area.

Directions: Select the best response(s) for each question. Some questions may have more than one correct answer choice.

9. Securing patents for products, design rights, and plant designs, and registering copyrights, trademarks, service marks, and trade dress are examples of which type of intellectual property risk control mechanism?
- ☐ Protecting the right to use assets
 - ☐ Identifying infringements
 - ☐ Protecting against infringements
 - ☐ Avoiding infringements against others

Section 6: Managing the Risk of Intangible Assets

10. Which of the following risk control measures would most likely be the responsibility of the research and development or product development departments?
- ☐ Securing firm contracts for licensing, franchising, and concessioning
 - ☐ Actively reviewing the marketing activities of competitors
 - ☐ Taking legal action when infringements are identified
 - ☐ Searching for potential infringements with new product ideas prior to production
11. Seth is a disgruntled employee who posts a rant about company policies and procedures on social media. The rant goes viral, and the company's reputation is negatively impacted. This action is an example of which type of factor that can influence a brand and reputation?
- ☐ Organizational behavior
 - ☐ Individual behavior
 - ☐ Criminal acts
 - ☐ Acts of individuals outside the organization
12. Which type of asset is most affected by human actions?
- ☐ Financial assets
 - ☐ Real property
 - ☐ Intellectual property
 - ☐ Brand and reputation

Section 6: Managing the Risk of Intangible Assets

13. XYZ Corp has identified a critical communication event. List the steps the company should take next, in the correct order.

- ☐ Choose a communication channel, create the content, and identify recipients
- ☐ Identify recipients, choose a communication channel, and create the content
- ☐ Create the content, identify recipients, and choose a communication channel
- ☐ Identify recipients, create the content, and choose a communication channel

Section 6: Managing the Risk of Intangible Assets

Section 7: Executive Risk

Directors and Officers Applicable Law

Check-In



Directions: Indicate whether each statement or scenario describes common law, private law, federal law, or state law.

1. Directors and officers at XYZ Corp must act in accordance with the rules and regulations outlined in the company bylaws.

Common Law Private Law Federal Law State Law

2. Directors and officers must adhere to legislation passed by the U.S. Congress and executive orders of the President of the United States.

Common Law Private Law Federal Law State Law

3. This area of law includes precedents set over the last 1,000 years and is rooted in English legal tradition.

Common Law Private Law Federal Law State Law

4. These types of laws often mirror Federal Law but can also establish additional protections and prohibitions.

Common Law Private Law Federal Law State Law

» Knowledge Check



Directions: Read the scenario and respond to the prompts that follow.

Jane is a member of the board of directors of a small manufacturing company. She has learned that a competitor is in financial distress and suggests to the company's board and executives that they attempt a hostile takeover of their competitor. She has done a little research and believes nothing stands in the way of taking that action.

1. Explain to Jane why the board members will create significant executive risk exposures for themselves if they follow her proposed course of action.

2. Does Jane's suggestion meet the standards of the Business Judgment Rule? Explain your answer.

Risk Control Techniques for Directors and Officers

Check-In



Directions: Indicate whether each statement is true or false.

1. The size of the board has no bearing on D&O exposures.

True

False

2. The primary task of the board of directors is to provide strategic management, oversight, and evaluation of management.

True

False

3. It is a common law requirement that the CEO or Board Chairperson of the board should chair all board meetings.

True

False

4. If the board secretary does a thorough job recording the meeting minutes, there should be no need for anyone to review them.

True

False

Check-In



Directions: Read the scenario and answer the question that follows.

Dale has been approached by the Board of Directors of his Homeowners Association to serve on the board. He is concerned that it would place him in a difficult position since he owns the property management company that manages the association. Dale hears from fellow homeowners dissatisfied with his company's services, who individually ask him questions and make suggestions about the company's practices.

Which of the following choices best describes the conflicts of interest Dale might face if he accepts the offer to join the board?

- ☐ Dale should not be concerned about conflicts of interest as long as he discloses that he owns the property management company.
- ☐ Dale could face a conflict of interest if any dissatisfied homeowners currently sit on the board or join the board later.
- ☐ Dale faces a conflict of interest in any decision or actions the board might take regarding the continued use of his management company.
- ☐ If Dale wants to join the board, he will need to sell 51% of his company shares to someone else to avoid a conflict of interest.

» Knowledge Check



Directions: Read the scenario and answer the following questions.

You were recently hired as the Director of Risk Management for a small manufacturing company. You have been tasked with reviewing the company's directors and officers exposures and developing a plan to control these risks. You are provided with the following information regarding the composition of the board:

- 10 of the 15 directors on the board represent company management.
- Of the five directors who remain, three have a background in law, and two have a background in finance.
- All outside directors are personal friends of the company's CEO.
- Currently the board has no formal evaluation process but conducts an informal "check-in" at the end of each year.
- Typical board meetings have an attendance rate of 50% or less.

1. What problems can you identify with the composition of the board and procedural actions that may lead to directors and officers exposures?

2. What risk control techniques would you employ to reduce these exposures?

Fiduciary Exposures

Check-In



Directions: Match each scenario with the fiduciary responsibility it best describes.

A. Prudence	_____ Jai acts with the sole intention of benefitting the plan participants.
B. Loyalty	_____ Lisa acts in accordance with ERISA and all plan documents.
C. Adherence	_____ Julio minimizes risk by spreading investments across varied sources.
D. Diversification	_____ Carmen carefully researches each investment and diligently monitors her clients' portfolios.

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

The fiduciaries of the Jones Trust benefit plans have delegated several functions to a third-party asset management firm in order to transfer fiduciary liability exposures. For the first several months, the process works without problems. Everyone is happy, and the fiduciaries see no need to meet with or consult with their asset manager. Midway through the plan year, the Trust receives numerous complaints of inaccurate application of benefits and significant delays in claims processing. These complaints result in several lawsuits against both the Trust and its asset manager.

The Trust's attorneys argue that a delegation defense protects them. Are they correct? Why or why not?

Section 7 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org/CRM-AD-Resources).

Directions: Select the best response(s) for each question. Some questions may have more than one correct answer choice.

1. Directors and officers must understand the *ultra vires act*. Select the correct definition for this term.
 - ☐ An action outside the permissible boundaries contained in state and/or federal laws
 - ☐ An action outside the permissible boundaries of the organization's charter and bylaws
 - ☐ An action that conflicts with one or more of the four common law duties of directors and officers
 - ☐ An action which directly leads to a conflict of interest on the part of a director or officer

2. Bianca is an officer for XYZ Corp. Before any board of directors vote, Bianca carefully studies the information available so that she can make an informed decision. This is an example of which aspect of the Business Judgement Rule?
 - ☐ Business decision
 - ☐ Disinterestedness
 - ☐ Due care
 - ☐ Good faith

Section 7: Executive Risk

3. Which of the following statements are true regarding directors and officers liability? (Select all that apply.)
- ☐ Directors and officers cannot be held personally liable for acts conducted on behalf of the organization.
 - ☐ Joint and several liability applies only to general employees of an organization and not to directors and officers.
 - ☐ The master-servant rule (*respondeat superior*) does not apply to directors and officers.
 - ☐ Each director and officer is liable for every other director and officer's organizational behavior (or misbehavior).
4. Board composition is an important risk control measure for directors and officers liability. Which of the following accurately lists the major considerations with respect to board composition?
- ☐ Independence, size, self-evaluation, and education
 - ☐ Independence, external evaluation, education, and prestige of members
 - ☐ Size, external evaluation, education, and prestige of members
 - ☐ Size, self-evaluation, education, and outside connections

Section 7: Executive Risk

5. The board at Caring Barks, a developing nonprofit animal rescue organization, uses delegation to hire a third-party accountant. The board carefully selects a qualified candidate with experience managing finances for nonprofit startups. The accountant assures the organization they do not need to file for 501c(3) tax-exempt status due to their small size or to pay income taxes. The board chooses to act on this advice and soon finds themselves facing an IRS audit. Can the board fall back on the reliance defense in this scenario?
- ☐ No, because they neglected to use due care when hiring the accountant.
 - ☐ No, because they neglected their oversight responsibility for managing the accountant.
 - ☐ Yes, because the accountant was hired with due care and in good faith.
 - ☐ Yes, because the reliance defense absolves the directors and officers of all liability for acting on the advice of an outside party.
6. A fiduciary is directly involved with both sides of a transaction. This is an example of which type of conflict of interest?
- ☐ Employed by plan sponsor
 - ☐ Plan termination
 - ☐ Self-dealing transaction
 - ☐ Party in interest

Section 7: Executive Risk

7. List the four common law duties of directors and officers and briefly describe each.

a. _____

b. _____

c. _____

d. _____

8. List the four duties of fiduciaries and briefly describe each.

a. _____

b. _____

c. _____

d. _____

Section 7: Executive Risk

Section 8: International and Multinational Risks

The International and Multinational Risk Landscape

Check-In



Directions: Select the best response to the following question.

Which of the following statements accurately describes how domestic risks differ from international risks?

- ☐ Domestic risks tend to be more complex and broader in scope than international risks.
- ☐ Domestic risks tend to be less susceptible to currency fluctuations than international risks.
- ☐ Domestic risks involve more regulatory variability than international risks but are also generally narrower in scope.
- ☐ Domestic risks tend to be less complex than international risks but are more susceptible to currency fluctuations.

Qualitative Analysis Tools

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

Big Tech, Inc. has recently launched a revolutionary new social media app in the United States and Canada. Due to its success, the company is now looking to expand its reach into European and Asian markets.

1. Fill in the chart below with factors the company should consider when completing a PESTLE analysis around expanding into new global markets. Consider issues specific to smartphone apps and social media. (Your lists do not need to be comprehensive—pick 1–2 factors for each category).

P olitical	
E conomical	
S ocial	
T echnological	
L egal	
E nvironmental	

Section 8: International and Multinational Risks

2. Based on your answers above, identify 1-2 potential opportunities and 1-2 potential threats. Your answer will be hypothetical. For example, if you stated that in your PESTLE analysis you would need to consider local attitudes around social media usage, you could state that a positive view on social media could present an opportunity, while negative attitudes could pose a threat.

Potential Opportunities (Upside Risk)	
Potential Threats (Downside Risk)	

Risk-Scoring Models as Prioritization Tools

» Knowledge Check



Directions: Respond to the following prompt.

Explain how a risk manager could use risk mapping and a risk register to analyze and prioritize risk.

Risk Mitigation Strategies

Check-In



Directions: Indicate whether each of the following is an example of risk transfer, risk avoidance, or risk reduction.

- Global Corp. has a dedicated human resources department in each of its international locations to ensure that the company complies with local employment laws.

Risk Transfer

Risk Avoidance

Risk Reduction

- International, Inc. uses financial instruments to hedge against currency and interest rate fluctuations.

Risk Transfer

Risk Avoidance

Risk Reduction

- Worldwide Bank uses a credit derivative to minimize the financial risk of its debtors defaulting on loans.

Risk Transfer

Risk Avoidance

Risk Reduction

- TechCorp requires all employees to successfully complete annual cybersecurity training.

Risk Transfer

Risk Avoidance

Risk Reduction

- Multinational Holdings outsources the development of its new mobile app to a third party.

Risk Transfer

Risk Avoidance

Risk Reduction

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

Browning Supplies is considering expanding its operations overseas, primarily in Europe and the United Kingdom. They are concerned that the Euro has not been adopted in all countries and that they may be faced with currency fluctuations. Which mitigation strategy would you suggest they use? Why?

Legal and Cultural Considerations for International Risk Management



» Knowledge Check

Directions: Read the scenario and complete the activity that follows.

You are the risk manager for the tech company MegaCorp. The company is looking to expand its operations into Country Z, and you have been tasked with leading a team of cross-functional employees from departments such as marketing, IT, and legal to conduct a risk assessment for the expansion.

For each of the following categories, describe considerations that your team will need to take into account, information they will need to learn, and understandings they will need to develop to succeed in this new market. Provide examples where appropriate.

Legal and Regulatory	
Cultural Norms	
Stakeholder Engagement	

Client and Employee Considerations for International Travel

» Knowledge Check



Directions: Respond to the following prompt.

Health and safety issues are a concern for international travelers. Explain some precautions travelers can take to minimize health and safety issues.

Section 8 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Select the best responses for the following questions.

1. Which of the following are generally true of international risks but not domestic risks? (Select all that apply.)
 - ☐ They can be complex due to factors such as geopolitical dynamics and language barriers.
 - ☐ They generally involve shared cultural context and common legal systems.
 - ☐ Costs and profits can be impacted by currency fluctuations.
 - ☐ They generally involve consistent legal and regulatory frameworks.

2. Which current global risk trend is *most closely associated* with U.S. dependence on foreign production?
 - ☐ Misinformation and disinformation
 - ☐ Climate-related threats
 - ☐ Technological change and uncertainty
 - ☐ Geopolitical tensions

Section 8: International and Multinational Risks

3. In scenario planning, which steps must be taken before a risk manager can develop scenarios?
- ☐ Identify key factors and monitor indicators
 - ☐ Identify key factors and define the scope and timeframe
 - ☐ Define scope and timeframe and develop strategies
 - ☐ Monitor indicators and develop strategies
4. Gloria is searching for a tool she can use to track the details of all identified risks, such as likelihood, impact, mitigation strategies, and those responsible for mitigation. Which tool would be most useful for Gloria in this scenario?
- ☐ PESTLE analysis
 - ☐ Risk mapping
 - ☐ Risk register
 - ☐ SWOT analysis
5. Which of the following describes an example of risk acceptance?
- ☐ An organization opts to conduct business in a country with a risk of supply chain disruptions because it feels their supply chain is diversified enough to handle the risk.
 - ☐ An organization purchases an international insurance policy to provide financial protection for products and liability risks.
 - ☐ An organization opts not to open a new plant in a country due to values misalignment with that country's government.
 - ☐ An organization regularly updates its crisis management plans.

Section 8: International and Multinational Risks

6. Which of the following statements is true regarding cultural sensitivity and stakeholder engagement?
- ☐ Communication norms are generally the same worldwide.
 - ☐ Cultural misunderstandings can be the source of significant risks.
 - ☐ Individuals should be fluent in a country's language if they wish to do business there.
 - ☐ Organizations should always hire third-party contractors familiar with a country's customs when conducting international business.
7. Which of the following is a risk of permanent establishment?
- ☐ The organization can lose its residency status in its home country.
 - ☐ The organization can be subjected to corporate income tax, including back taxes and fines.
 - ☐ The legitimacy of the organization's compliance program will be at risk.
 - ☐ The organization may be forced to work with a global PEO.

Directions: Write a responses to the following prompts.

8. Identify two benefits of international insurance programs and provide examples of those benefits.

Section 8: International and Multinational Risks

9. List four recommended steps for the management of international risks.

a. _____

b. _____

c. _____

d. _____

10. Which legal documents are often required for international travel?

Section 8: International and Multinational Risks

Answer Key

Section 1: The Risk Manager

Section 1: The Risk Manager

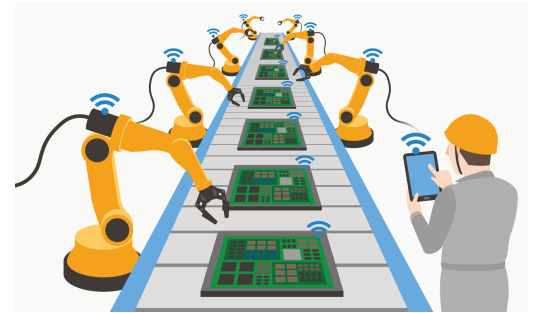
The Effective Risk Manager

» Knowledge Check



Directions: Read the following scenario and answer the question.

You are the newly hired risk manager for Richardson's Electronics, a manufacturer of various circuitry elements. Previously, each district manager was responsible for risk management activities in their district. Over the past several years, employee injuries have increased, as have the number of defective products coming from the assembly line. Senior management has determined that a centralized, company-wide approach is needed to achieve the desired improvements.



The district managers are unhappy with corporate oversight in an area where they previously had autonomy. One of the district managers approaches you and asks what you hope to bring to the table. In addition to creating uniformity and shared goals across the organization, what other benefits can you describe for him?

An effective risk manager will accomplish the following to support managerial decisions:

- Enhance profits by reducing frequency and severity of employee injuries.
- Allow management to plan and budget more accurately with predictable and manageable losses.
- Support enhanced quality control processes to reduce the number of defective products.
- Establish a company-wide equipment maintenance program to ensure defective products are not the result of faulty equipment.

Answers continue on next page.

Section 1: The Risk Manager

- Reduce exposures in new operations, mergers, and acquisitions.
- Increase productivity and morale in the work force by showing that senior management is invested in employee safety and quality control.
- Protect the organization's reputation and brand.

Essential Skillsets

Check-In



Directions: Match the soft skill to the example which best represents it.

A. Emotional Intelligence	<u>B</u> Keisha listens to both sides of a dispute between the safety engineer and the warehouse manager. She remains objective and helps both parties reach an amicable solution.
B. Diplomacy	<u>A</u> While discussing a new risk management initiative, Alejandro notices his colleague frowning and folding her arms defensively. He pauses and asks her if she has any concerns she would like to share.
C. Facilitation	<u>D</u> Jonah holds biweekly project meetings to promote an open exchange of information and ensure that all project team members are adequately supported.
D. Communication	<u>C</u> Harika is known for being an active listener. She is skilled at adjusting her messaging and communication style according to her audience.

The Management Model

» Knowledge Check



Directions: Read the prompt and answer the questions below.

Imagine you are tasked with hiring a new risk manager for your organization and need to develop the job description. What types of skills and experiences would you look for in a potential candidate?

Using your knowledge of skillsets and the management model, list **at least two** required skills and **at least one** preferred experience for each of the categories below. Provide a rationale for your choices and share how you might assess the degree to which a candidate possesses these skills and experiences.



Tip: Answers should be specific to your organization—there is no single correct response.

1. Technical Skills

- a. Skills: analyzing results of accident investigations; conducting cost-benefit analyses
- b. Experience: coordinating compliance programs in accordance with state regulations
- c. Rationale: Our organization is focused on reducing workplace accidents in a highly regulated industry, and a risk manager needs to be able to effectively analyze potential investments in safety equipment and programs.
- d. Assessment method(s): review resumé; ask targeted questions during interview and reference check; ask candidate to take an exam that tests knowledge of state regulations

2. Managerial/Leadership/Soft Skills

- a. Skills: clear communicator; solution-minded
- b. Experience: developing risk management policies and procedures; building a risk management team using internal and external sources
- c. Rationale: We need to hire someone who can overhaul the organization's current risk management program, develop a policy and procedures manual, and build a risk management team from the ground up.
- d. Assessment method(s): ask targeted interview and reference check questions; ask the candidate to develop a one-page risk management procedure on a single topic

Risk Administration

» Knowledge Check



Directions: Read the following scenario and answer the question.

You are responsible for training a newly hired risk manager. Your task is to create a training document outlining the expectations for risk administration. You can create any kind of training document you'd like (slide deck, infographic, outline, video script, etc.), but it must lay out the expectations for the risk manager with respect to the following:

- Communication/collaboration with stakeholders (senior/middle management, risk management team, external service providers, other employees, etc.)
- Monitoring and reporting guidelines:
 - What items should be included in the report
 - Who should receive the report

Section 1: The Risk Manager

Write, sketch, or otherwise design your training document in the space below, and remember—this is an open-ended assignment with no single correct answer!

Answers will vary.

Risk Management Services: A Value-Added Approach for Agents and Brokers

Check-In



Directions: Select the best response for the question.

Which of the following is an example of a basic *risk analysis* task that an agent or broker could perform?

- ☒ Performing a loss triangulation using industry data to aid a client in understanding an insurance carrier's pricing
- ☐ Performing an in-depth analysis of a client's complete claims history of incidents, accidents, and losses
- ☐ Bringing together internal and external funds to pay for losses
- ☐ Assisting a client in identifying previously unrecognized risks

Benefits to the Agency/Brokerage from Fee-Based Compensation



» Knowledge Check

Directions: Read the following scenario and answer the questions.

Marcia is an insurance agent who routinely performs risk management services for clients, such as analyzing the frequency and severity of losses to forecast future losses. Marcia feels that her agency could benefit from advertising risk management as a value-added service for clients and switching to a fee-based compensation model.

1. Marcia needs to convince the agency owner that a fee-based model is beneficial. Provide an example of how a fee-based compensation system might benefit the agency and/or the client.

Showing a separate fee instead of hiding an unknown commission facilitates a better evaluation of compensation versus service and highlights the value-added services an insurance provider offers. Fee-based compensation assures the insurance provider that their hard work will be compensated accordingly and not reduced for doing their job well.

With the general assumption that an organization desires the broadest possible coverage at an affordable premium, the insurance provider can pursue alternatives that would lessen the commission received without harming their revenue stream.

2. Based on your understanding of the three methods of determining fees, which method do you think Marcia should recommend and why?

Marcia should recommend the straight-time method. This method can be as simple as (time worked x hourly rate) + specific expenses. It also shows the client the actual time spent on specific tasks, which reinforces the value-added nature of the risk management services.

Section 1 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Complete the sentences using terms from the word bank. Not all terms will be used.

results	financial impact	past successes	communicate	team player
program	technical skills	risk manager	soft skills	leadership

The Four Steps to Success as a Risk Manager:

1. Demonstrate the positive financial impact an effective risk management program can have on the organization.
2. Ensure that the risk manager is “plugged in” as a team player.
3. Communicate risk management results to appropriate parties.
4. Understand that the risk manager cannot rest on the merits of past successes.

Section 1: The Risk Manager

5. **Directions:** List three ways in which the risk manager can positively impact an organization:

Answers will vary but could include any of the following:

- Enhance profits by reducing costs or increasing revenues (in the form of reduced TCOR and protecting assets and cash flow).
- Allow management to plan and budget more accurately.
- Reduce the frequency and severity of losses.
- Allow more effective analysis of losses for the projection of future losses.
- Provide an increased awareness of indirect losses.
- Reduce exposures in new operations, mergers, and acquisitions.
- Increase productivity and morale in the work force.
- Improve product quality, processes, and technology.
- Protect the organization's reputation and brand.

Directions: Select the best responses to the following questions. Some questions may have more than one correct response.

6. Which of the following is an example of a soft skill?

- ☐ Analyzing losses and exposures
- ☒ Diplomacy
- ☐ Managing claims
- ☐ Completing a cost-benefit analysis

Diplomacy is a soft skill; the other examples listed are technical skills.

Section 1: The Risk Manager

7. Which of the following include examples of tasks a risk manager might complete during the *planning* stage of the management model? (Select all that apply.)

- ☐ Hiring the risk management staff
- ☐ Influencing the risk management team to take appropriate actions to carry out the program objectives
- ☒ Determining an insurance or self-insurance budget
- ☐ Determining the total cost of risk and establishing an allocation system

Hiring the risk management staff is an example of organizing; influencing the team to take action is an example of leading; and determining and allocating TCOR is an example of evaluating.

8. Which group or entity is most responsible for implementing the actions and activities that will make the risk management program's goals and objectives part of the organization's everyday practices?

- ☐ The risk manager
- ☐ Senior management
- ☒ Middle management
- ☐ Risk management service providers

While all levels of an organization impact risk management goals in one way or another, middle management is ultimately responsible for implementing the actions and activities that support the risk management program's goals into practice, i.e., carrying out loss control techniques, gathering claims data, and providing feedback.

Section 1: The Risk Manager

9. Which of the following are reasons why the fee-based compensation system may prove beneficial to the agency or brokerage? (Select all that apply).

☒ Fees make budgeting and planning easier by supporting a stable revenue base.

☐ Fee-based compensation is the traditionally accepted compensation method for agents and brokers.

☒ Fees help to align the goals of the insurance provider and the agency/brokerage.

☐ Fee-based compensation is the go-to compensation method for the vast majority of agencies and brokerages.

Though commission-based compensation is the traditional method for agencies and brokerages and is still widely used, fee-based compensation has numerous advantages, including providing a more level and stable revenue base to simplify the budgeting process, as well as helping to align the goals of the agency/brokerage and the insurance provider.

10. Joshua is a risk management consultant who charges clients by tracking his time spent on actual work in five-minute increments and multiplying the time spent by the hourly rate. Joshua's hourly rate includes general overhead expenses but not specific expenses incurred (such as travel). Which method is Joshua using to determine his fees?

☐ Hourly rate method

☒ Straight-time method

☐ Retainer method

☐ Performance method

This is an example of the straight-time method. See the subheading "Methods of Fee-Based Compensation" in the Learning Guide to review the three methods.

Section 1: The Risk Manager

Section 2: The Risk Management Network

The Risk Management Team

Check-In



Directions: Select the best response to the following question.

Which of the following members of the external team are essential to help the risk manager assess potential exposures and access risk financing solutions?

- ☐ Claims adjuster
- ☐ Private investigators
- ☒ Insurance agents/brokers
- ☐ Human resource professionals

It may be difficult or even impossible for the risk manager to assess or access the insurance market without the assistance of an insurance agent or broker.

» Knowledge Check



Directions: Read the following scenario and answer the questions.

Alfonso is a risk manager for a large company with safety, environmental, human resources, finance, operations, legal, and audit departments. He has been tasked with creating the risk management procedures manual. Alfonso wants to assemble a risk management team comprising internal as well as external members.

1. Identify two examples of *internal* personnel that Alfonso should consider for his risk management team and explain what they would contribute to the risk management process.

Answers may differ; suggested answers include: operations, corp. legal, environmental

2. Identify two examples of *external* service providers that Alfonso should consider for his risk management team and explain what they would contribute to the risk management process.

Answers may differ; suggested answers include: fire department/first responders, law enforcement, OSHA, agent/broker

The Communication Process

Check-In



Directions: Match each example to the term that it best represents.

A. Encoding/Creation	<u>B</u> Jenna determines that a video conference will be the most effective way to deliver constructive feedback to her direct report.
B. Transmission	<u>D</u> After reading a memo from his supervisor, Jared asks for clarification on a few key points.
C. Reception/Decoding	<u>A</u> A CEO creates a chart to visually represent organizational changes in the company.
D. Feedback/Response	<u>E</u> A language barrier leads to a misunderstanding between colleagues.
E. Noise	<u>C</u> Fiona listens as her supervisor explains a new project.

Communication Within an Organization

Check-In



Directions: Select the best response for the following question.

An organization utilizes a crisis communication system in which the crisis manager is designated as the sole point of contact in the event of a crisis. She will receive and disseminate all information, and the other network members will communicate solely through her. This is an example of which type of communication network?

- ☐ Chain network
- ☐ Y network
- ☒ Wheel network
- ☐ Circle network
- ☐ All-channel network

The wheel network is a circular network in which information flows between a single person or position to and from all others in the network. There are no network connections between the various members in the network. In a crisis communication system, a designated spokesperson receives and disseminates information.

» Knowledge Check



Directions: Read the following scenario and answer the question.

Peter, the risk manager, is conducting a performance review with Fred, one of the team members. During the review Fred keeps rolling his eyes and looks at the ceiling. When Peter asks Fred if he has any comments or questions, Fred responds, “Nope,” and asks, “Can I go now?”

1. What does Fred’s verbal and/or nonverbal communication signal?

Answers may differ; a suggested answer follows:

Fred’s non-verbal communication signals that he is not being attentive to what Peter is saying and finds it boring and perhaps bothersome. It also shows a lack of respect for Peter and a disregard for the performance review process. It seems that Fred does not even value his position or care about keeping his job.



2. What should Peter’s next steps be?

Peter should create written documentation of the conversation and consider asking a representative of the Human Resources department to participate in a counseling session with Fred. If Fred’s performance is sub-par, he may wish to put Fred on a performance plan with measurable deliverables. If Fred’s behavior and attitude is affecting others on the team, Peter may need to terminate him.

Stewardship Reports

» Knowledge Check



Directions: Read the following scenario and answer the question.

Jonas, the risk management intern, is gathering data for the annual stewardship report. He has identified the items listed below for inclusion in the report. Jessie, his manager, is concerned that Jonas has not fully grasped the concept of a stewardship report.

Which of the items in the list support Jessie's concerns? Explain your answer and include the type of feedback Jessie might provide to Jonas to help him improve.

1. TCOR for the past five years presented in graphic format
2. A report of the most expensive ongoing litigation
3. An overview of the current insurance program
4. A review of the average frequency and severity of claims over the past five years
5. Changes in common stock prices over the last three years
6. Expenditures on risk management and loss control initiatives over the previous five years

While items 1-4 and 6 are valid elements of a stewardship report, they should not be included without some type of analysis:

#1 How has the TCOR changed? Does it represent improved loss control and reduced frequency and severity of claims? That would be a success for the RM department.

#2 It is important to include information about ongoing litigation, but information is also needed on closed matters since the last report. Did they resolve as expected? Were reserves adequate for final resolution?

#3 The overview of the current insurance program should also include changes from previous years, e.g., deductibles, limits, broader or narrower coverage grants, excess liability limits and terms, etc.

Section 2: The Risk Management Network

#4 This is a valuable report, it should also include any information on causes or external factors which may drive those changes, e.g., new legislation, new operations with new exposures, etc.

#5 It is unlikely that this belongs in the stewardship report unless the changes in market price can be correctly tied to the organization's activities, e.g., catastrophic events causing loss of life and destruction (a plant blows up destroying most of the town and killing eight workers; a new formulation makes a certain medication more widely accessible to underserved patients).

#6 While stakeholders will be interested in this information, it does not stand alone. Stakeholders will want to know about the return on their investment. Has the frequency and/or severity of accidents, injuries, or claims been reduced because of those initiatives? Has the carrier offered better terms, discounts, or credits based on those improved results?

Section 2 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Select the best responses to the following questions. Some questions may have more than one correct answer choice.

1. Which of the following are reasons for adding external members to a risk management team? (Select all that apply.)

- ☐ Office politics make it difficult to work with internal team members.
- ☒ An expert is needed to provide a specific viewpoint for a single project.
- ☒ Internal talent is not available for a particular project.
- ☐ The risk manager has a personal conflict with a member of the internal team.

The range of outside service providers is broad and can be tapped according to the functions that require support. It is imperative for the risk manager to recognize when outside assistance may be necessary.

2. Which of the following might be brought on as external members of a risk management team to lend skills and expertise in the area of safety? (Select all that apply.)

- ☐ A human resources specialist
- ☒ A medical provider
- ☐ A claims adjuster
- ☒ A private investigator

See the chart under the “Hiring the External Team” subheading.

Section 2: The Risk Management Network

3. Which statement best describes the importance of establishing a risk management network?

- ☒ The risk manager will gain access to essential information and expertise necessary to achieve the risk management objectives.
- ☐ Risk managers usually have a very narrow understanding of how an organization operates and need to rely on others who are more business-savvy.
- ☐ The risk manager needs someone else to blame if things go wrong.
- ☐ Risk managers usually struggle with communication and need support from the communications and marketing departments.

A risk management network provides the risk manager with access to information and expertise they themselves may not possess.

4. The communication network at XYZ Corp. combines of several types of networks. Communication flows in all directions among all members of all groups. Which type of communication network does XYZ Corp. use?

- ☐ Y network
- ☐ Wheel network
- ☐ Circle network
- ☒ All-channel network

See the graphics under the “Communication Networks” subheading.

Section 2: The Risk Management Network

5. When used effectively, which of the following are advantages of written communication? (Select all that apply.)

- ☒ Written communication allows the sender to take time to craft an effective message.
- ☐ Written communication is especially useful for sensitive or controversial topics.
- ☐ Written communication allows the sender to detect the receiver's reaction easily.
- ☒ Written communication allows for documentation of the interaction.

The effective use of written communication ensures that a record of the communication will exist, and the slower nature of this medium allows the writer to carefully consider their words.

6. Which of the following best describes the *main* purpose of a stewardship report?

- ☐ The stewardship report allows senior management to review the company's loss and claims histories in-depth.
- ☒ The stewardship report provides a periodic overview of the risk management program's successes, challenges, and opportunities for improvement.
- ☐ The stewardship report provides updates on the individual performance of each risk management team member.
- ☐ The stewardship report is provided anytime the company experiences a major loss and gives an overview of the incident and its outcomes.

The purpose of a stewardship report is to provide an overview of risk management programs on a periodic basis which will identify successes, challenges, and opportunities for improvements that are aligned with an organization's mission and operational and strategic goals.

Section 2: The Risk Management Network

7. List the steps of the communication process and briefly describe each.
 - a. Encoding/Creation: The sender creates a message by encoding the idea or information into symbols such as written or spoken words.
 - b. Transmission: The sender selects a medium for transmission and sends the message.
 - c. Reception/Decoding: The receiver receives the message and interprets the symbols to extract the idea or meaning of the message.
 - d. Response/Feedback: The receiver provides a response or feedback. They may confirm that the message was received and understood, or they may ask for clarification.

Section 2: The Risk Management Network

Section 3: Information Technology for Risk Managers

Data Risk Assessment

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. Insurance companies are legally required to securely store personal information, disclose information-sharing practices to customers, and allow customers to “opt out” of having their information shared.

True

False

This stipulation of the Gramm-Leach-Bliley Act of 1999 applies to all financial institutions, including insurance companies.

2. Risk managers do not need to be concerned with legislation surrounding data management, as this is the responsibility of legal and IT teams.

True

False

The risk manager will need to carefully review the organization's operations to ensure compliance with federal, state, and local laws.

3. An individual's personal information is protected and can never be shared with the government unless they are accused of a federal crime.

True

False

The Cybersecurity Information Sharing Act of 2015 (CISA) allows for the sharing of internet traffic information between the U.S. government and technology and manufacturing companies in cases of cybersecurity threats. However, it prevents the sharing of personally identifiable data that is not relevant to cybersecurity.

Elements of a Data Risk Assessment

» Knowledge Check



Directions: Explain how a data assessment supports the goal of compliance.

A data assessment will identify those data items which impact compliance with a variety of state and federal enactments. Once the risk manager understands and identifies those data elements, steps can be taken to secure the data so that it is not knowingly—or unknowingly—transmitted to others who should not have access. Similarly, the assessment allows the risk manager, in conjunction with the IT department, to review security protocols and policies to prevent access by those outside the organization.

Risk Management Information Systems (RMIS)

Check-In



Directions: Match each RMIS function to the scenario that best illustrates it.

A. Claims Management	<u>C</u> ABC Manufacturing uses its RMIS to generate OSHA 300, 300A, and 301 forms and submit them to the appropriate authority.
B. Policy Management	<u>D</u> A risk manager customizes her RMIS display to include key data such as KPIs, summary claims, uninsured losses, and deductibles.
C. Reporting	<u>A</u> The risk manager for XYZ Corp uses the RMIS to track disability and settlement payments, issue checks, and provide reserve, paid, and incurred information for an entire line of business.
D. Dashboard and Analytics	<u>E</u> A risk manager uses the RMIS to track accident investigation data to identify trends and mitigate losses.
E. Health and Safety	<u>B</u> A risk manager tracks insurance certificates and proof of coverage documents to identify gaps and overlaps.

» Knowledge Check



Directions: Read the scenario and answer the question that follows.

Marilyn, the risk manager for a growing manufacturing firm, believes it is time to invest in an RMIS to manage losses and to assist her in projecting the losses for next year. She knows her staff of two will need assistance with inputting the loss information, which is presently kept in paper files. She speaks with the C-suite executives and describes the functions available within the RMIS. The head of human resources suggests that the information stored in his databases could be housed in the RMIS.

Would this proposal be a proper use of the RMIS? If not, what could be done to improve the proposal and address data security?

Because the RMIS will be used by the risk management team, they could potentially access confidential information about coworkers. If the RMIS can secure that information by providing firewalls or limit the access/permissions to Human Resources information, then it could be used. There is also a qualitative issue regarding this proposed use. The employees may believe that the risk management team has access or will abuse access even when told they do not.

Benchmarking



» Knowledge Check

Directions: Read the scenario and answer the questions that follow.

Anthony is the newly promoted risk manager for Finish It, a concrete plant. He previously worked in the claims department and has wondered how Finish It's performance measures up to others in the industry. Having recently attended the Practice of Risk Management course offered as a part of the Certified Risk Manager Program, he wonders if benchmarking is the best approach to finding his answer.

1. Is this an appropriate time to benchmark? Why or why not?

Yes, this is an appropriate time to benchmark. Anthony is looking for a baseline upon which, it is assumed, he will develop strategies for improvement.

Section 3: Information Technology for Risk Managers

2. What type of benchmarking should Anthony undertake? How will he get the data he needs?

Because Anthony is interested in an industry comparison, he should perform external benchmarking. This will provide him with a comparison of Finish It's claims performance with "best in class" competitors. He can obtain data from industry organizations, trade groups, regulatory agencies, and/or online resources.

3. List at least one advantage and disadvantage of benchmarking.

Advantage:

- Encourages continuous improvement
- Helps prioritize areas in need of improvement
- Enhances creativity and "out of the box" thinking

Disadvantage:

- Results cannot be taken at face value (bias, tendency to assume that lower frequency or severity is always better).
- Data can be easily misinterpreted or manipulated.
- Data comparison issues (inconsistent data, inadequate comparison groups)

Section 3 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Answer the following questions.

1. What is the primary purpose of conducting a data risk assessment?

- ☐ To evaluate the effectiveness of data processing systems
- ☒ To identify and mitigate potential risks associated with data handling and storage
- ☐ To ensure data is being used for marketing purposes effectively
- ☐ To calculate the financial value of the company's data assets

The primary purpose of a data risk assessment is to identify and mitigate risks pertaining to data handling and storage. This protects company and client information and helps to ensure compliance with government regulations.

Section 3: Information Technology for Risk Managers

2. You are the new risk manager at a medium-sized manufacturing company. The CEO has tasked you with improving the company's approach to managing data risks. Before you start drafting your plan, you decide to familiarize yourself with the company's current data management practices and systems. What initial step you should take when conducting a data risk assessment?

- ☐ Review the financial implications of potential data breaches.
- ☐ Map the data cycle from the point of entry through storage to output.
- ☒ Collaborate with other departments to inventory all data used by the organization.
- ☐ Examine data protection and exposure reduction measures.

The first step in the data risk assessment process is to conduct a data inventory in order to understand the types and volume of data, the nature of the data, and whether the data is subject to compliance.

3. Which of the following best describes how an RMIS can be used to improve an organization's health and safety?

- ☐ It can generate employee handbooks and safety protocols.
- ☒ Data from accident investigations can be analyzed to implement mitigation measures.
- ☐ It can interface with a TPA's or claim provider's systems and facilitate communication with claims adjusters.
- ☐ It can generate reports and submit them to the appropriate agencies.

The RMIS allows for the storage of accident investigation data, which, when analyzed, can identify exposures requiring attention and mitigation. The resulting reduction of frequency and severity supports the health and safety of the workforce.

Section 3: Information Technology for Risk Managers

4. Which of the following are true regarding considerations when selecting an RMIS? (Select all that apply.)

- ☒ Each organization will prioritize factors differently based on size, expected users, claims volume, desired features, industry, and budget.
- ☐ Cost is the number one consideration for all organizations, regardless of size.
- ☐ All RMIS provide a standard data dashboard, so customization is an unimportant consideration.
- ☒ Organizations may wish to consider the availability, expertise level, and language capabilities of the customer service staff.

See the content in this section under “Considerations When Selecting an RMIS.”

Directions: Complete the sentences by filling in the blanks using words from the word bank. Each word or phrase will be used only once.

imprecise	loss control	insufficient	comparison
risk financing	observer’s paradox	baseline	creative solution
trend	external	internal	performance

5. Internal benchmarking can include comparisons between departments, locations, and divisions.
6. Benchmarking is critical when the organization needs to establish a baseline to measure the impact of a new program.
7. The observer’s paradox suggests that initiating benchmarking with the intent to seek improvement might actually cause improvement.
8. A disadvantage of benchmarking is that data may be too insufficient or imprecise to draw accurate conclusions. (Answers can be in either order.)

Section 4: Total Cost of Risk

The Benefits of the TCOR Model



» Knowledge Check

Directions: Consider your own organization as you answer the following questions.

1. Who would be the key stakeholders in a TCOR allocation? (Or, if you already allocate TCOR, who are the key stakeholders?)

Answers will vary.

2. How do you predict a TCOR allocation might alter behaviors within your organization? (Or, if you already allocate TCOR, how has it altered behaviors?)

Answers will vary.

The TCOR Allocation Process

Check-In



Directions: Read each statement and indicate whether it describes the exposure-based method or the experience-based method.

1. A restaurant franchise allocates costs equitably according to the number of employees at each location.

Exposure

Experience

2. One advantage of this method is that it encourages loss control.

Exposure

Experience

3. With this method, allocations could be made based on the percentage of losses compared to other units.

Exposure

Experience

4. The appreciation or depreciation of an asset could impact the outcome of this method.

Exposure

Experience

5. A chain of stores allocates costs equitably based on the losses incurred by each store location.

Exposure

Experience

Activity: Developing a TCOR Allocation Model

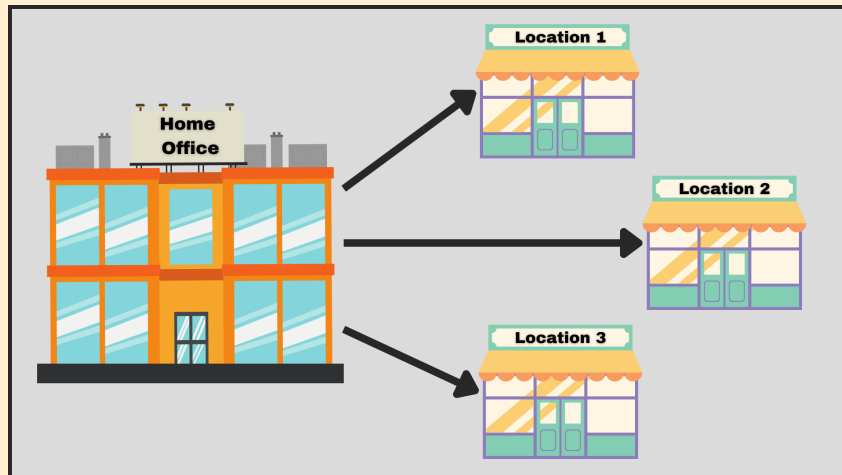
Directions: Read through the scenario and follow the steps as indicated. Look for **bold type** to find instructions and tips for each step of the activity.

Keep in mind that this is an open-ended activity designed to help you practice developing a TCOR allocation model. For most of the questions in this activity, there will not be a single correct answer.



Reflection Question:

You are the risk manager for a growing chain of restaurants. Currently, the organization consists of a home office and three restaurants. There are plans to add at least one location per quarter for the next five years. As the organization plans for future expansion, it has become clear that there needs to be a more organized approach to risk management. As the newly hired risk manager, you have been studying the loss data and the cost of risk; however, you have found that those outside the home office have very little knowledge about what costs are associated with the total cost of risk.



Gaining Buy-In

Before you can even begin the allocation process, you must educate those in the home office about the components of TCOR.

List each of the five components of TCOR and provide examples of included costs.

1. Component:

insurance costs

Examples:

premium, collateral

2. Component:

retained losses

Examples:

first \$500 of every claim, SIR, deductibles

3. Component:

risk management departmental costs

Examples:

risk manager salary, benefits, training

4. Component:

outside service fees

Examples:

attorneys, safety consultants, actuaries

5. Component:

quantified portion of indirect costs

Examples:

disruption in production, overtime to cover tasks of injured employees

Now that you better understand what is included in the TCOR, you are ready to begin the TCOR allocation process.

Step 1: Define the Desired Result

Answer the following questions to define the desired outcome of your TCOR allocation process.

1. What is to be accomplished by allocating costs?

Allocating cost will: assist in making effective risk management decisions by measuring progress in reducing the TCOR; establish accountability in the workplace; facilitate the effective management of financial budgets and product pricing; promote and enhance the focus on safety and loss control by demonstrating the financial impact of the TCOR.

2. How will progress be measured?

Progress will be measured through reduced frequency and severity of claims and greater awareness of individual actions; everyone becomes a risk manager (qualitative—not measured in numbers).

3. What are the potential benefits of TCOR allocation for your organization?

It can create accountability, enhance loss control, support the competitive advantage, and alter employee behavior.

4. What additional questions do you need to have answered to design an appropriate model?

We need enough information to create the model. We need the exposures, e.g., payroll, number of employees in total and by division/location, square footage of all buildings (for property; and we need the experience information, e.g., retained losses/claims broken out by division/location by line of coverage. We also need the TCOR components outlined in Step 2 that follows.

Step 2: Determine the Costs to Allocate

State whether each of the following costs should be allocated across the organization and when the costs should be allocated.

Note: The decision is based on the type of organization and the actual costs, so answers will vary. Sample answers:

1. Insurance costs: Most lines of insurance can be allocated: auto, GL, workers comp, etc.
2. Retained losses: For the allocated insurance costs, some percentage of retained losses should be allocated.
3. RM departmental costs: These can be allocated based on headcount or equally by department; often these are considered corporate expenses and not allocated.
4. Outside service fees: These can be allocated based on utilization by the various departments/units.
5. Indirect costs: These can be allocated by usage. If a safety consultant conducts training for all employees, the costs are borne equally by department/unit.



Remember:

When an organization decides against allocating specific costs to the TCOR, those costs could be charged to the organization as part of overhead operating expenses. Certain components of the TCOR may be assigned to the home office only, such as insurance premiums and retained losses for executive risk exposures, e.g., D&O and fiduciary liability.

Section 4: Total Cost of Risk

What additional information would you need to design an appropriate cost allocation model?

- a. the actual costs to perform the allocation
- b. the retained losses/claims by location and line of business
- c. the exposure information

Step 3: Select the Allocation Variables

1. If you had the following information, how might it impact your TCOR calculations?

By Location	Home Office	Store 1	Store 2	Store 3
# of Employees	15	12	20	6
Payroll	\$1,200,000	\$225,000	\$300,000	\$175,000
Square Footage	6,000	3,200	5,000	3,000
Sales	\$0	\$2,500,000	\$4,250,000	\$1,750,000
Retained losses	\$15,000	\$25,000	\$40,000	\$90,000
Outside Services	\$50,000	\$20,000	\$30,000	\$45,000

This information would allow calculation of both an exposure and an experience model to make comparisons and create a final model.

2. What information would influence your decision in choosing an allocation model?

Is it fair to all parties? Will there be resistance? Will it truly meet the objectives of creating accountability, enhancing loss control, supporting the competitive advantage, and altering employee behavior?

3. What data might unfairly skew the results?

If the smallest location (exposures) has the largest experience (number of claims or costs); outliers may be capped or removed.

Step 4: Create the Allocation Model

1. Based on the information provided, which method seems most appropriate?

Because of organizational diversity, there is no one “best model.” The risk manager should look at a couple models and their potential impacts and results before making a decision.

2. Create the allocation model in the space provided on the next page.

The allocation model will vary based on a number of factors, and there is no single correct method. See the Appendix for a case study showing a full TCOR allocation model.



Note:

Once the allocation process has been implemented, the risk manager will need to analyze and track the system's success. Are the costs being allocated appropriately and fairly? Are the selected variables the right ones? Are all costs being accounted for properly? Are behaviors changing due to the allocation system? Are new control measures being put into place? Are costs coming down? Are incident rates dropping?

Section 4 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](http://CRM.AD.Resources(riskeducation.org)).

Directions: Complete the sentences by filling in the blanks using words from the word bank. Each word or phrase will be used only once.

accountability	alter behaviors	factors	fluctuating	loss control
competitive	losses	cost center	severity	budgeted

1. Identify factors contributing to the TCOR to ensure that costs can be allocated and budgeted accordingly.
2. Understanding the actual costs of a risk management program can create accountability in each departmental cost center, division, store, etc.
3. The first two objectives of allocating TCOR serve to enhance loss control by motivating personnel to reduce frequency and severity, build risk control into projects, etc.
4. The allocation system allows the company to stay competitive by tracking and providing for all costs and holding fluctuating costs to a minimum.
5. The allocation system can alter behaviors by expanding the risk management influence beyond the core team and encouraging managers to accept responsibility for departmental losses.

Section 4: Total Cost of Risk

6. **Directions:** List the four steps of the TCOR allocation process in the correct order.

- a. Define the desired result.
- b. Determine the costs to allocate.
- c. Select the allocation variables.
- d. Create the allocation model.

Directions: Select the best response(s) for the following questions. Some questions may have more than one correct answer.

7. Which of the following are necessary for the risk management allocation system to be successful? (Select all that apply.)

- ☐ The allocation system works best when there are no specific objectives in place.
- ☒ The organization must have defined procedures in place to measure progress.
- ☒ The organization needs to determine what value method or factoring will be used for each allocation.
- ☐ It is essential to have the buy-in of senior management, but all decisions are solely at the discretion of the risk manager.

In order to develop an effective allocation system, the organization must determine its goals and objectives for using an allocation system and have defined procedures to measure progress. Additionally, the organization needs to determine what value method or factoring will be used for each allocation. The risk manager needs both buy-in and input from senior management at the outset of the process, as the decisions are not solely at their discretion.

Section 4: Total Cost of Risk

8. The hiring and training of new employees, overtime, and the loss of productivity following an accident are all examples of which component of TCOR?
- ☐ Insurance costs
 - ☐ Retained losses
 - ☐ Risk management departmental costs
 - ☒ The quantified portion of indirect costs
9. Which of the following could be considered *weaknesses* of the experience-based method of allocation? (Select all that apply.)
- ☒ It does not allow for strategic or discretionary allocation.
 - ☐ It produces no incentive to reduce losses.
 - ☒ It creates many details to be tracked for a fair and accurate allocation.
 - ☐ It is always complicated to adjust, no matter the method used.

Some advantages of the experienced-based allocation system are that it encourages loss reduction and it can be easy to adjust, depending on the method used.

Weaknesses include that it does not allow for strategic or discretionary allocation, it creates many details to be tracked to keep the allocation fair and accurate, and, depending upon the method used, it can be complex to adjust. It also may obliterate the department's budget.

Section 4: Total Cost of Risk

Section 5: Due Diligence

The Due Diligence Process

» Knowledge Check



Directions: Read the scenario and answer the question that follows.



Alexis Smith has responded to a job posting for the Chief Procurement officer position at XYZ Corp. She has been through two rounds of interviews and has made an excellent impression on the C-suite execs. They are prepared to make her an offer. As the risk manager, you remind them that they should perform a due diligence investigation of Ms. Smith.

What items might comprise this type of due diligence investigation?

A due diligence investigation would include (but not be limited to):

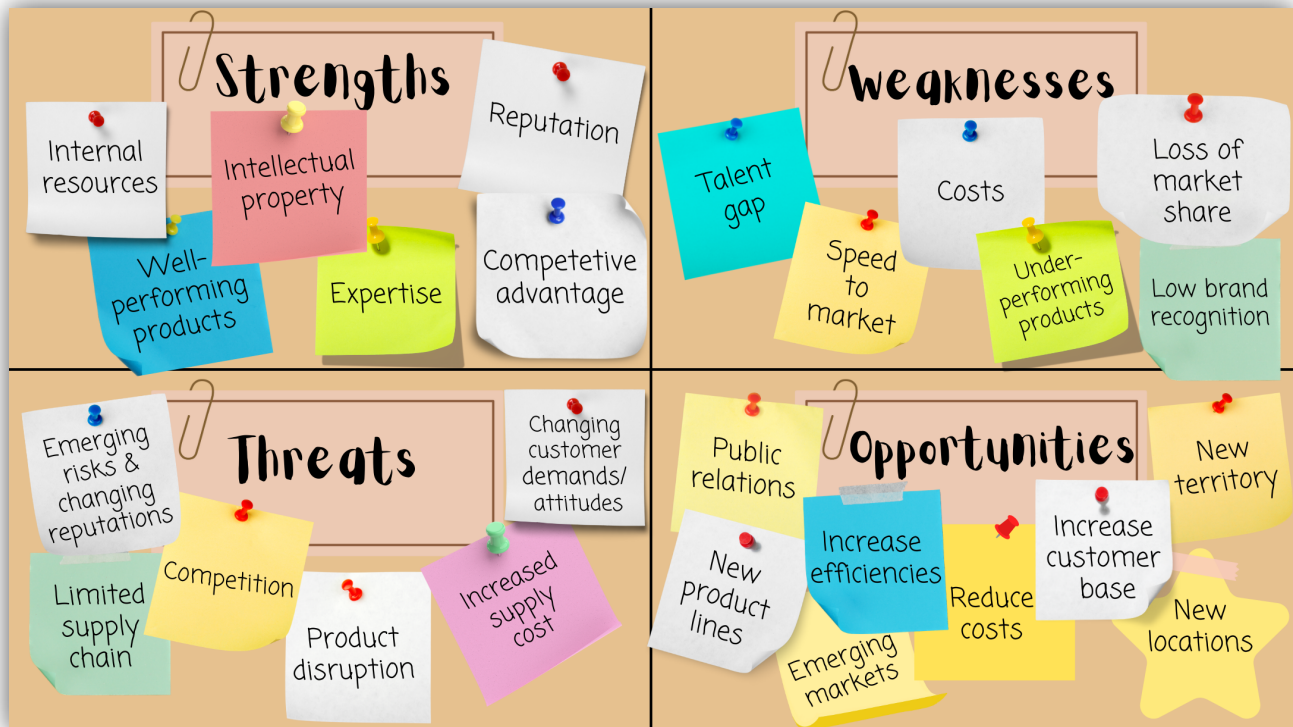
- a background check to determine credit worthiness as she will be responsible for making purchases on XYZ's behalf
- a criminal check to confirm that there have been no prior financial issues
- a review of references to learn about prior work assignments and performance
- a review of any certifications, designations, college degrees, etc., to confirm her credentials for the position
- a review of her social media accounts for insight into her non-work persona and activities.

Managing Change—Validate the Need



» Knowledge Check

Directions: Once an organization has performed a SWOT analysis, it needs to utilize the results to determine how to build upon its strengths, correct its weaknesses, capitalize on its opportunities, and minimize its threats. Using the SWOT analysis below, create potential action items that the organization should explore for each category.



Section 5: Due Diligence

Category	Potential Action(s)
Strengths	<ul style="list-style-type: none">• <u>Create complimentary products.</u>• <u>Create a targeted ad campaign to focus on strengths.</u>
Weaknesses	<ul style="list-style-type: none">• <u>Outsource specific projects or tasks if personnel are lacking.</u>• <u>Determine how to increase speed to market.</u>• <u>Consider brand recognition activities.</u>
Opportunities	<ul style="list-style-type: none">• <u>Promote service projects to create a social media presence.</u>• <u>Introduce well performing products in new territories.</u>
Threats	<ul style="list-style-type: none">• <u>Enforce non-compete agreements to reduce employees jumping to competitors.</u>• <u>Consider acquiring a supplier to reduce supply chain issues.</u>

M&A Due Diligence—A Multidisciplinary Approach

Check-In



Directions: Match each deal type or M&A structure to the example that best represents it.

A. Entity Deal	<u>B</u> One firm takes over another firm, acquiring all assets and liabilities except those listed on the attached schedule.
B. Acquisition Deal	<u>E</u> A manufacturer of skincare products acquires a fast casual restaurant chain.
C. Horizontal Integration	<u>A</u> One firm takes over another firm, acquiring all its assets and liabilities.
D. Vertical Integration	<u>D</u> A soda company acquires a bottling plant and a trucking company.
E. Conglomerate Integration	<u>C</u> Two popular telecommunications companies merge into one corporation.

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.



Kai is the risk manager for Pizza Mia, a company that manufactures frozen pizzas. Pizza Mia is about to acquire a trucking company that provides refrigerated transport nationwide. Kai is informed that Pizza Mia will be acquiring all of the trucking company's assets but only certain liabilities, which are outlined in an attached schedule.

1. What type of deal is described in this scenario (entity or asset)? Asset
2. What type of merger and acquisition structure is described in this scenario?

Forward vertical integration

3. What portions of the acquisition agreement does Kai need to perform his risk management due diligence?

Kai will need, at minimum, sections of the acquisition agreement that pertain to risk management, such as any section referring to:

- insurance and retention programs
- outstanding liabilities
- indemnification agreements.

4. What should Kai's objective be when reviewing these documents?

Kai's objective should be to ascertain whether his findings from the due diligence process are consistent with the acquisition agreement.

Four Steps of the Due Diligence Process with M&A

Check-In



Directions: Determine whether each statement is true or false. If the statement is false, rewrite it to make it true.

1. The due diligence team should consist only of risk management professionals.

True

False

Members of the due diligence team should be selected strategically to ensure that the team represents each functional business area of the organization.

2. There is no need to vet newcomers to the successor organization, as their credentials, references, etc., will have already been carefully reviewed by the divesting organization.

True

False

Failure to vet the newcomers brought into the organization can be construed as negligence as much as if the organization sought out the newcomers.

3. Property exposures must be identified and reviewed, with particular attention to whether the property is considered a highly protected risk.

True

False

-
4. An insurance coverage review should address coverage, insurance carrier contracts, specific property and liability issues, and a detailed report on any captive insurance companies.

True

False

» Knowledge Check



Directions: Respond to the following prompt.

Discuss two post-merger actions for the acquiring organization's risk manager.

Answers may include:

- Gather data and prepare documentation. The risk manager should create a schedule or spreadsheet of insurance policies to address any coverage gaps, insufficient limits, duplications, etc.
- Visit the new locations. The risk manager should arrange to visit as many of the new locations as possible. A personal inspection is one of the best ways to identify exposures and starts the process of building bridges between personnel.
- Ensure that assets are properly valued and insured. The risk manager must see that physical assets are properly valued and addressed appropriately in the successor insurance and risk management program.
- Develop projections for the new exposures. When the new exposures come into the organization, the risk manager must project expected incidents and claims, as well as the total cost of risk for the new exposures and consider how those new exposures will affect the existing insurance and risk management program.

Section 5 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Answer the following questions. Some questions may have more than one correct answer.

1. Donna is a risk manager for a property management company and is working with her team to execute the due diligence process for the development of a new apartment complex. Donna attempts to ascertain whether her company has complete and accurate information regarding the property they intend to purchase. She tries to uncover any key issues that may have been previously unidentified, misidentified, or undisclosed by the seller. This is an example of which type of due diligence consideration?

☒ Identification and confirmation of material issues

☐ Conducting a review of key assumptions

☐ Identification of any critical transition issues

☐ Identification of personnel requirements

Donna is working to confirm that all material issues have been identified or disclosed.

Section 5: Due Diligence

2. Which of the following are activities that a risk manager would *most likely* engage in during the course of due diligence for bringing a new product online? (Select all that apply.)

☐ Verifying credentials of a venture partner or contracting party

☒ Verifying advertising and marketing issues

☐ Verifying credentials, licensing, education, training

☒ Obtaining testing opinions for safety, reliability, and warranty agreements

Verifying advertising and marketing issues and obtaining testing opinions for safety, reliability, and warranty agreements are due diligence activities that are typically necessary to bring a new product online.

3. Identifying environmental concerns is *most important* as due diligence for which of the following?

☐ Entering into a new joint venture or contract

☒ Purchasing new real estate assets

☐ Hiring a third-party administrator (TPA)

☐ Entering into a relationship with a new supplier

Identifying environmental concerns should always be part of due diligence for purchasing new real estate assets.

4. When conducting a SWOT analysis, _____ can often be turned into _____.

☐ strengths; weaknesses

☒ weaknesses; opportunities

☐ opportunities; threats

☐ strengths; threats

Weaknesses can often become opportunities by identifying resources the organization could add and new products and services it could offer.

Section 5: Due Diligence

5. Regulation that can affect an organization's business is an example of a _____.

- ☐ strength
- ☐ weakness
- ☐ opportunity
- ☒ threat

Regulation is an example of a threat—a potential negative impact for which the organization needs to prepare.

6. Which type of merger or acquisition would an organization likely engage in if the goal was to diversify its assets?

- ☐ Horizontal
- ☐ Vertical
- ☒ Conglomerate
- ☐ Entity

A conglomerate merger or acquisition, in which unrelated companies are combined, would be ideal for increasing a company's diversity.

7. Which of the following is the responsibility of the risk manager with respect to mergers and acquisitions? (Select all that apply.)

- ☐ Structuring the contracts for the deal
- ☐ Projecting the profits that will be made from the deal
- ☒ Identifying and explaining exposures that the deal could pose
- ☒ Quantifying insurance coverage gaps that may result from the M&A

The risk manager can identify new exposures that will be assumed by the organization, quantify coverage gaps in the current insurance program which will exist after the M&A, and propose ways to mitigate those risks.

Section 5: Due Diligence

8. SWOT analysis takes place during which step of the M&A due diligence process?

☒ Strategy and Expectations

☐ Identification and Analysis

☐ Decision-Making

☐ Post-Merger Activities

SWOT analysis is key to identifying the organization's goal for the M&A.

9. Which one of the following due diligence activities should be performed *after* a merger or acquisition has been completed?

☐ Reviewing past and current investment and capital outlay programs of the organization being acquired

☐ Reviewing the risk management programs of the organization being acquired

☐ Reporting the results of the M&A qualitative analysis to management

☒ Assessing the impact of the new exposures and adjusting the risk management program accordingly

Reviewing investment and capital outlay programs, reviewing risk management programs, and reporting the results of the analysis should all be completed before the M&A deal is closed.

Section 5: Due Diligence

Section 6: Managing the Risk of Intangible Assets

Introduction to Intangible Assets and Intellectual Property

» Knowledge Check



Directions: Each of the statements below contains one or more inaccuracies. Rewrite each statement to make it true.

1. The only assets that matter to an organization are those with a specific monetary value, such as cash or property.

In addition to monetary and property assets, an organization's intangible assets, such as customer perceptions and intellectual property, are crucial to an organization's competitive advantage.

2. A copyright is a symbol, word, or words used by an organization to represent the organization and its product.

A trademark is symbol, word, or words used by an organization to represent the organization and its product. A copyright is a form of protection provided to the creators of "original works of authorship," including literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished.

3. Trade dress is similar to a patent except that it applies to the visual design of a product that makes the product more commercially valuable.

An industrial design right (or design right or design patent) is similar to a patent except that it applies to the visual design of a product that makes the product more commercially valuable. Trade dress is a legal term of art applying to visual appearance or aesthetics of a product or packaging that identifies the source of the product to consumers. It is closely related to a trademark.

Risk Management for Intellectual Property

» Knowledge Check



Directions: Read the scenario and respond to the prompt that follows.

Leticia is the director of risk management for a manufacturer of thermal cups. Currently, the company is developing a new cup that is collapsable. Describe how Leticia might guide her team in conducting “offense” and “defense” to advance the company toward its goals while protecting against lawsuits or financial damages.

A strong defense avoids potential infringements by searching for potential infringements with new product ideas prior to production. This activity is generally conducted by the organization’s research and development, product development, marketing, or advertising departments. Their goal should be to ascertain that planned products and services have not been previously protected by other parties.

On the offensive side, once potential infringements are identified, the organization can exercise its legal rights to protect its intellectual property. This may be as simple as sending a cease-and-desist letter to warn the infringer of potential action in hopes of stopping the infringement, seeking a temporary restraining order to curtail the infringement, or suing in federal court to stop the infringement and demand financial damages.

The Intangible Assets of Brand and Reputation

Check-In



Directions: Select the best response to the question.

Which of the following best describes the difference between brand and reputation?

- ☐ A reputation is what an organization promises to its clients; brand is how stakeholders perceive the organization.
- ☐ A brand is how stakeholders perceive the organization; reputation is the number of five-star reviews the organization has.
- ☒ A brand is what an organization promises its clients; reputation is how stakeholders perceive the organization.
- ☐ A brand is a symbol or image used to identify an organization; reputation is how stakeholders perceive the organization.

From the perspective of risk management, brand can be thought of as the promises made by an organization to its clients, while reputation is the perception of the company held by stakeholders such as owners, creditors, and regulatory bodies. A good reputation is paramount to business success, as it can impact financial results by protecting the organization's reputation and brand. In short, a brand is what a company promises to its clients, while a reputation is how stakeholders perceive it.

» Knowledge Check

Directions: Read the description of a real-life brand and reputation crisis, and answer the question that follows.



In 1937, an appetite suppressant candy was sold under the brand Ayds (pronounced “aids”). In the mid-1980s, the brand began to be associated with Acquired Immune Deficiency Syndrome (commonly known as AIDS). This was due to the similarity in the pronunciation of the names, as well as the fact that AIDS caused patients to suffer massive weight loss.

Initially, the company resisted changing its name. In 1986, Frank DiPrima, the executive vice president and chief operating officer of the company that marketed Ayds, stated, “Consumers are smart enough to tell the difference between a disease and a diet product.” Di Prima went on to say, “The product has been around for 45 years. Let the disease change its name.”²

Despite these objections, sales of Ayds diet candy had dropped as much as 50% by 1988 due to the negative association with the AIDS epidemic. That same year, the product was sold to the Dep Corporation, which attempted to rebrand the product as Diet Ayds (Aydslim in Britain). However, the association with the illness had fatally damaged the product name. As a result, the company was forced to withdraw the product from the market.

What actions might have the company taken to reduce damage to Ayds’ reputation and brand?

The company could have recognized sooner that association with the AIDS crisis had the potential to irrevocably damage the product’s brand and reputation. The organization might have attempted a rebrand sooner and should have considered an entirely different name to eliminate association with the AIDS disease.

The company may also have been negatively impacted by the individual behavior of Frank DiPrima, as his flippant comments regarding the brand’s association with such a serious illness may have further tarnished the reputation of the brand.

² Advertising Age, “Ayds Name Won’t Be Suppressed by AIDS,” *The Central New Jersey Home News*, February 4, 1986, <https://www.newspapers.com/image/317494730/>

Management of an Organization's Reputation or Brand

» Knowledge Check



Directions: Throughout this section, there have been examples of how organizations have responded to different crises in ways that either protected their brand and reputation or caused further damage. In this exercise, you will compare the Bon Vivant Soup Crisis and the Tylenol Murders to determine why one company failed in the wake of its tragedy while the other ultimately succeeded. The table below provides an overview of the two incidents and the company's respective responses. For a more detailed overview, you can re-read the Bon Vivant Soup example under the heading "The Difference Between Brand, Logo, and Reputation" and the Tylenol example under "Communication → Step 1: Identify Critical Communication Events."

Company	Johnson & Johnson	Bon Vivant Soup
Critical Communication Event	Third-party product tampering (cyanide)	Botulism in product
Impact	Seven dead	One dead; one sick
Immediate Action	<ul style="list-style-type: none"> Voluntarily recalled 31 million products, including products not affected by tampering Halted production and advertising Warned hospitals and distributors Issued PSAs and offered to exchange previously purchased capsules for tablets 	<ul style="list-style-type: none"> Voluntarily recalled over 1,000,000 cans of soup (recall of 6,444 in the lot affected was required by the FDA) Remained largely silent Sued the FDA to recover the lots that were not contaminated

Section 6: Managing the Risk of Intangible Assets

	<ul style="list-style-type: none"> Cooperated with law enforcement 	
Additional	<ul style="list-style-type: none"> Reintroduced Tylenol capsules in new, more secure packaging Offered sale promotions 	<ul style="list-style-type: none"> Rebranded as Moore & Co.
Initial Impact on Company	Immediate collapse of market share; rebounded in less than one year	Filed for bankruptcy
Current Status	Strong brand, trusted product	The successor company, Moore & Co., is no longer in business

1. Compare and contrast the communication strategies employed by each company in the wake of their critical events. Consider the recipients, communication channels, and content of the messaging.

Both companies issued voluntary product recalls in excess of what the FDA required. Johnson & Johnson identified numerous recipients: hospitals and distributors, consumers, and law enforcement, and communicated across numerous channels, including direct communications with hospitals/distributors and law enforcement, and televised PSAs for the general public. They initially took action to bring a quick resolution to the crisis by providing warnings and offers to exchange products that had been purchased. They eventually followed up with reassuring messaging that included new product safety features and sales promotions. Bon Vivant remained largely silent following the recall and, instead, tried to quietly rebrand.

2. How did these communication efforts and other risk control measures ultimately impact the success or failure of each company? (Consider any of the four risk control mechanisms for brand and reputation that might apply.)

Johnson & Johnson took the opportunity to publicly demonstrate its company code of ethics by going above and beyond what was legally required in response to the crisis. Their recall, exchange program, and introduction of enhanced safety measures ultimately garnered goodwill with the public and with the FDA. Tylenol and Johnson &

Section 6: Managing the Risk of Intangible Assets

Johnson were able to quickly rebound from the tragedy and protect their brand and reputation in the long-term.

Outside of the initial recall, Bon Vivant maintained limited communication with the public. Suing the FDA over the destruction of the undamaged lots of soup brought the company's name back into the spotlight despite the attempt to rebrand and ultimately destroyed any remaining goodwill the company may have had.

3. Imagine that you were the risk manager for the Bon Vivant soup company in 1971. Devise a communication plan to address the crisis in a way that would lead to a better outcome. (Fill in your answers in the table below).

Responses will vary, but a sample answer is included below:

Bon Vivant Soup Company Communication Plan	
Step 1: Identify critical communication event	Fatal botulism poisoning from a can of Bon Vivant Soup
Step 2: Identify recipients	<ul style="list-style-type: none">• Bon Vivant customers• Grocery stores that stock Bon Vivant soup• General public
Step 3: Choose a communication channel	<ul style="list-style-type: none">• Television, radio, magazine ads• Newspaper press releases• Direct communication (i.e., letters, calls, in-person visits) to stores and distributors
Step 4: Create the content	<ul style="list-style-type: none">• Initially promote PSAs regarding the recall• Follow-up ad campaign to address crisis—state safety measures the company is taking to prevent another tragedy• Publish coupons/advertise sales in newspapers• Communicate any promotions or discounts to retailers

Section 6 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Fill in the blanks with the correct intellectual property terms from the word bank. Terms may be used only once. Not all terms will be used.

copyright	industrial design right	plant design	concession
logo	design patent	service mark	trade dress
patent	franchise	trademark	trade secret

1. A patent is a grant of a property right for an invention that is issued to the inventor by the U.S. government after filing an application.
2. A service mark is a legally registered name or designation used to distinguish an organization's services from those of its competitors. It can be registered or unregistered.
3. A copyright is a form of protection provided to the creators of "original works of authorship," whether published or unpublished. It can include literary, dramatic, musical, artistic, and certain other intellectual works.
4. Trade dress is a legal term of art applying to the visual appearance or aesthetics of a product or packaging that identifies the source of the product to consumers.

Section 6: Managing the Risk of Intangible Assets

5. A trademark is a symbol, word, or words used by an organization to represent the organization and its product. It can be registered or unregistered.
6. The term license denotes a contractual process of leasing a legally protected entity to another party for their use.
7. Concession refers to a right or privilege to operate commercially within the limits of a larger concern (such as a branded makeup counter in a department store).
8. A franchise is the right or license granted to an individual or group to have access to a business' proprietary knowledge, processes, and trademarks in order to market a company's goods or services in a particular area.

Directions: Select the best response(s) for each question. Some questions may have more than one correct answer choice.

9. Securing patents for products, design rights, and plant designs, and registering copyrights, trademarks, service marks, and trade dress are examples of which type of intellectual property risk control mechanism?
 - ☒ Protecting the right to use assets
 - ☐ Identifying infringements
 - ☐ Protecting against infringements
 - ☐ Avoiding infringements against others

Section 6: Managing the Risk of Intangible Assets

10. Which of the following risk control measures would most likely be the responsibility of the research and development or product development departments?
- ☐ Securing firm contracts for licensing, franchising, and concessioning
 - ☐ Actively reviewing the marketing activities of competitors
 - ☐ Taking legal action when infringements are identified
 - ☒ Searching for potential infringements with new product ideas prior to production
11. Seth is a disgruntled employee who posts a rant about company policies and procedures on social media. The rant goes viral, and the company's reputation is negatively impacted. This action is an example of which type of factor that can influence a brand and reputation?
- ☐ Organizational behavior
 - ☒ Individual behavior
 - ☐ Criminal acts
 - ☐ Acts of individuals outside the organization
12. Which type of asset is most affected by human actions?
- ☐ Financial assets
 - ☐ Real property
 - ☐ Intellectual property
 - ☒ Brand and reputation

Section 6: Managing the Risk of Intangible Assets

13. XYZ Corp has identified a critical communication event. List the steps the company should take next, in the correct order.

- ☐ Choose a communication channel, create the content, and identify recipients
- ☒ Identify recipients, choose a communication channel, and create the content
- ☐ Create the content, identify recipients, and choose a communication channel
- ☐ Identify recipients, create the content, and choose a communication channel

Section 6: Managing the Risk of Intangible Assets

Section 7: Executive Risk

Directors and Officers Applicable Law

Check-In



Directions: Indicate whether each statement or scenario describes common law, private law, federal law, or state law.

1. Directors and officers at XYZ Corp must act in accordance with the rules and regulations outlined in the company bylaws.

Common Law **Private Law** **Federal Law** **State Law**

Private law is the collection of behavior controls laid forth in an organization's verbal and written doctrines.

2. Directors and officers must adhere to legislation passed by the U.S. Congress and executive orders of the President of the United States.

Common Law **Private Law** **Federal Law** **State Law**

These are examples of federal law.

3. This area of law includes precedents set over the last 1,000 years and is rooted in English legal tradition.

Common Law **Private Law** **Federal Law** **State Law**

Common law is the body of law consisting of past legal decisions rendered by judges and juries, dating back to the early English legal system.

4. These types of laws often mirror federal law but can also establish additional protections and prohibitions.

Common Law

Private Law

Federal Law

State Law

While many states have “mirror laws,” they can also establish regulations to govern businesses within (and sometimes outside) state boundaries. Decisions rendered by judges and juries, dating back to the early English legal system.



» Knowledge Check

Directions: Read the scenario and respond to the prompts that follow.

Jane is a member of the board of directors of a small manufacturing company. She has learned that a competitor is in financial distress and suggests to the company’s board and executives that they attempt a hostile takeover of their competitor. She has done a little research and believes nothing stands in the way of taking that action.

1. Explain to Jane why the board members will create significant executive risk exposures for themselves if they follow her proposed course of action.

Jane has suggested an action which is governed and regulated by several federal laws that affect operational, investment, and financing decisions of directors and officers. There may be applicable state and local laws as well. She has not suggested whether the proposed acquisition will be an asset deal or an entity deal. The viability of the proposed acquisition needs to be explored. In addition, stockholders and stakeholders may bring claims against the board members for not fully weighing the pros and cons of the takeover.

2. Does Jane's suggestion meet the standards of the Business Judgment Rule? Explain your answer.

Jane is not following the Business Judgment Rule because she has failed to take due care in researching the viability of this takeover. While Jane has done "a little research," she clearly has not considered potential legal implications and possible outcomes of such a deal. It is possible (though not entirely clear) that Jane may not be acting in an entirely disinterested manner, as she may be acting on the expectation of a personal financial benefit, without considering how such a deal may impact the organization or its stakeholders.

Risk Control Techniques for Directors and Officers

Check-In



Directions: Indicate whether each statement is true or false.

1. The size of the board has no bearing on D&O exposures.

True

False

While there is no "magic number" of board members, a board should be large enough to provide diversification and required expertise, but not so large that it becomes unwieldy.

2. The primary task of the board of directors is to provide strategic management, oversight, and evaluation of management.

True

False

3. It is a common law requirement that the CEO or Board Chairperson of the board should chair all board meetings.

True

False

Any member of the board can be appointed to act as the chair of a meeting.

Section 7: Executive Risk

4. If the board secretary does a thorough job recording the meeting minutes, there should be no need for anyone to review them.

True

False

The minutes should have a pre-finalization review by the directors to ascertain accuracy and completeness and by legal counsel for conformity to legal standards and the avoidance of problematic language.

Check-In



Directions: Read the scenario and answer the question that follows.

Dale has been approached by the Board of Directors of his Homeowners Association to serve on the board. He is concerned that it would place him in a difficult position since he owns the property management company that manages the association. Dale hears from fellow homeowners dissatisfied with his company's services, who individually ask him questions and make suggestions about the company's practices.

Which of the following choices best describes the conflicts of interest Dale might face if he accepts the offer to join the board?

- ☐ Dale should not be concerned about conflicts of interest as long as he discloses that he owns the property management company.
- ☐ Dale could face a conflict of interest if any dissatisfied homeowners currently sit on the board or join the board later.
- ☒ Dale faces a conflict of interest in any decision or actions the board might take regarding the continued use of his management company.
- ☐ If Dale wants to join the board, he will need to sell 51% of his company shares to someone else to avoid a conflict of interest.

Dale faces a real conflict of interest in any decision or actions the board might take regarding continued use of his management company. This includes contract negotiation, fees, critiques, etc. Dale would need to recuse himself from any discussions and any required votes.

He will have a challenge showing that he is a disinterested board member as his company is a vendor and its revenues flow to him. Continued employment by the Association benefits him directly. In short, he should decline the offer of board membership.

» Knowledge Check



Directions: Read the scenario and answer the following questions.

You were recently hired as the Director of Risk Management for a small manufacturing company. You have been tasked with reviewing the company's directors and officers exposures and developing a plan to control these risks. You are provided with the following information regarding the composition of the board:

- 10 of the 15 directors on the board represent company management.
- Of the five directors who remain, three have a background in law, and two have a background in finance.
- All outside directors are personal friends of the company's CEO.
- Currently the board has no formal evaluation process but conducts an informal "check-in" at the end of each year.
- Typical board meetings have an attendance rate of 50% or less.

1. What problems can you identify with the composition of the board and procedural actions that may lead to directors and officers exposures?

- The outside directors present a problem in that they are all friends of the CEO and will likely follow his lead in decision-making. They are not disinterested and may not have the company's best interests at heart.
- The board should be independent of management. The primary task of the board of directors is to provide strategic management, oversight, and evaluation of company management.
- Although not specifically discussed in this section, attendance of less than 50% of the board would seem to not be a quorum. It seems, on the surface, that board members do not consider their service to be important and appear to have something "more important" to attend to.
- Self-evaluation by individual board members is essential. The board must be willing to analyze its own performance as a group as well as the performance of its individual members. The annual "check in" does not meet this requirement.

1.

2. What risk control techniques would you employ to reduce these exposures?

- Board composition should be revised and addressed. Fewer members of management should be included. A majority of the “friends” should be removed from the board. A much more diverse board is desirable.
- The bylaws should be reviewed to determine how many board members are required for a quorum, and board meetings should only be held when a quorum is present.
- In terms of procedural actions, a formal self-evaluation process should be instituted.

Fiduciary Exposures

Check-In



Directions: Match each scenario with the fiduciary responsibility it best describes.

A. Prudence	<u>B</u> Jai acts with the sole intention of benefitting the plan participants.
B. Loyalty	<u>C</u> Lisa acts in accordance with ERISA and all plan documents.
C. Adherence	<u>D</u> Julio minimizes risk by spreading investments across varied sources.
D. Diversification	<u>A</u> Carmen carefully researches each investment and diligently monitors her clients' portfolios.

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

The fiduciaries of the Jones Trust benefit plans have delegated several functions to a third-party asset management firm in order to transfer fiduciary liability exposures. For the first several months, the process works without problems. Everyone is happy, and the fiduciaries see no need to meet with or consult with their asset manager. Midway through the plan year, the Trust receives numerous complaints of inaccurate application of benefits and significant delays in claims processing. These complaints result in several lawsuits against both the Trust and its asset manager.

The Trust's attorneys argue that a delegation defense protects them. Are they correct? Why or why not?

The Trust is not fully protected by the delegation defense.

While delegation is a strong risk control method for fiduciaries, the one aspect of being a fiduciary they cannot delegate is the oversight responsibility, the duty to hire competent and honest administrative and investment firms, and to monitor their performance and the performance of all other fiduciaries.

A delegation of responsibility cannot be made and forgotten. The fiduciary must continuously monitor and evaluate the program through a formal periodic review and day-to-day review. When the delegate fails to perform adequately, the fiduciary must be willing to revoke the delegation.

Section 7 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Select the best response(s) for each question. Some questions may have more than one correct answer choice.

1. Directors and officers must understand the *ultra vires act*. Select the correct definition for this term.
 - ☐ An action outside the permissible boundaries contained in state and/or federal laws
 - ☒ An action outside the permissible boundaries of the organization's charter and by-laws
 - ☐ An action that conflicts with one or more of the four common law duties of directors and officers
 - ☐ An action which directly leads to a conflict of interest on the part of a director or officer

The *ultra vires act* is a private law term that refers to an action outside the permissible boundaries of the organization's charter and bylaws.

Section 7: Executive Risk

2. Bianca is an officer for XYZ Corp. Before any board of directors vote, Bianca carefully studies the information available so that she can make an informed decision. This is an example of which aspect of the Business Judgement Rule?

- ☐ Business decision
- ☐ Disinterestedness
- ☒ Due care
- ☐ Good faith

Directors and officers must exercise *due care* by making studied, informed decisions after serious consideration of the relevant information that is reasonably available.

3. Which of the following statements are true regarding directors and officers liability? (Select all that apply.)

- ☐ Directors and officers cannot be held personally liable for acts conducted on behalf of the organization.
- ☐ Joint and several liability applies only to general employees of an organization and not to directors and officers.
- ☒ The master-servant rule (*respondeat superior*) does not apply to directors and officers.
- ☒ Each director and officer is liable for every other director and officer's organizational behavior (or misbehavior).

In directors and officers liability, the acts of those individuals are not vicariously transferred to the organization. Each director and officer is personally liable for their organizational misbehavior and without limit. Further, each director and officer is liable for the organizational behavior of every other director or officer. This total responsibility for organizational behavior is called "joint and several liability."

Section 7: Executive Risk

4. Board composition is an important risk control measure for directors and officers liability. Which of the following accurately lists the major considerations with respect to board composition?

- ☒ Independence, size, self-evaluation, and education
- ☐ Independence, external evaluation, education, and prestige of members
- ☐ Size, external evaluation, education, and prestige of members
- ☐ Size, self-evaluation, education, and outside connections

Boards should have a degree of independence from management. While there is no exact prescription for size, the board should be large enough to have diversity of expertise, but not so large that meetings become unmanageable. Boards should have a process of self-evaluation. New board members should be educated about the organization, applicable laws, and past board decisions.

5. The board at Caring Barks, a developing nonprofit animal rescue organization, uses delegation to hire a third-party accountant. The board carefully selects a qualified candidate with experience managing finances for nonprofit startups. The accountant assures the organization they do not need to file for 501c(3) tax-exempt status due to their small size or to pay income taxes. The board chooses to act on this advice and soon finds themselves facing an IRS audit. Can the board fall back on the reliance defense in this scenario?

- ☐ No, because they neglected to use due care when hiring the accountant.
- ☐ No, because they neglected their oversight responsibility for managing the accountant.
- ☒ Yes, because the accountant was hired with due care and in good faith.
- ☐ Yes, because the reliance defense absolves the directors and officers of all liability for acting on the advice of an outside party.

The board used due care when hiring the accountant, and acted on his advice in good faith.

Section 7: Executive Risk

6. A fiduciary is directly involved with both sides of a transaction. This is an example of which type of conflict of interest?

- ☐ Employed by plan sponsor
- ☐ Plan termination
- ☒ Self-dealing transaction
- ☐ Party in interest

Self-dealing transactions mean the fiduciary is immediately involved in both sides of a transaction or the fiduciary has a close relationship with a person dealing with the plan. The conflict of interest is between the self-interest of the fiduciary and the fiduciary's obligation to the plan.

7. List the four common law duties of directors and officers and briefly describe each.

- a. Duty of Obedience - must conform to applicable legal standards and requirements
- b. Duty of Loyalty - must act with undivided and unselfish loyalty or faithfulness with no conflict between the organization and self-interests
- c. Duty of Care (or Duty of Diligence) - must conduct competent oversight of the organization in an expedient, knowledgeable manner using the standard of care of a reasonably prudent person in a similar position in similar circumstances
- d. Duty of Disclosure - must disclose any interest in any transaction where the director or officer could be a beneficiary

8. List the four duties of fiduciaries and briefly describe each.

- a. Prudence - must act as reasonably prudent persons in similar circumstances using the same level of care, skill, and diligence
- b. Loyalty - Actions on behalf of the plan must be solely for the benefit of the plan participants.
- c. Adherence - must adhere to ERISA standards and the plan documents
- d. Diversification - The plan investments must be sufficiently diversified to minimize risk.

Section 8: International and Multinational Risks

The International and Multinational Risk Landscape

Check-In



Directions: Select the best response for the following question.

Which of the following statements accurately describes how domestic risks differ from international risks?

- ☐ Domestic risks tend to be more complex and broader in scope than international risks.
- ☒ Domestic risks tend to be less susceptible to currency fluctuations than international risks.
- ☐ Domestic risks involve more regulatory variability than international risks but are also generally narrower in scope.
- ☐ Domestic risks tend to be less complex than international risks but are more susceptible to currency fluctuations.

See the table, “Key Differences Between Domestic and International Risk,” in the beginning of this section to review differences between domestic and international risks.

Qualitative Analysis Tools

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

Big Tech, Inc. has recently launched a revolutionary new social media app in the United States and Canada. Due to its success, the company is now looking to expand its reach into European and Asian markets.

1. Fill in the chart below with factors the company should consider when completing a PESTLE analysis around expanding into new global markets. Consider issues specific to smartphone apps and social media. (Your lists do not need to be comprehensive—pick 1–2 factors for each category).

Answers may vary.

Political	
Economical	
Social	
Technological	
Legal	
Environmental	

Section 8: International and Multinational Risks

2. Based on your answers above, identify 1-2 potential opportunities and 1-2 potential threats. Your answer will be hypothetical. For example, if you stated that in your PESTLE analysis you would need to consider local attitudes around social media usage, you could state that a positive view on social media could present an opportunity, while negative attitudes could pose a threat.

Answers may vary.

Potential Opportunities (Upside Risk)	
Potential Threats (Downside Risk)	

Risk-Scoring Models as Prioritization Tools

» Knowledge Check



Directions: Respond to the following prompt.

Explain how a risk manager could use risk mapping and a risk register to analyze and prioritize risk.

By prioritizing risks on a risk map or a risk register, the risk manager is able to determine which risks cause the greatest exposures and need the most attention in terms of control or mediation strategies. The risk manager may decide for the organization to retain, self-insure, or accept risks with low frequency and severity.

By performing the analysis year-over-year, the risk manager can track improvement in the reduction of frequency/severity and determine whether the risk control measures are effective.

Risk Mitigation Strategies

Check-In



Directions: Indicate whether each of the following is an example of risk transfer, risk avoidance, or risk reduction.

1. Global Corp. has a dedicated human resources department in each of its international locations to ensure that the company complies with local employment laws.

Risk Transfer

Risk Avoidance

Risk Reduction

By ensuring compliance with local laws, Global Corp. is avoiding legal and compliance risks.

2. International, Inc. uses financial instruments to hedge against currency and interest rate fluctuations.

Risk Transfer

Risk Avoidance

Risk Reduction

This is an example of financial hedging to reduce the financial risks associated with international business transactions.

3. Worldwide Bank uses a credit derivative to minimize the financial risk of its debtors defaulting on loans.

Risk Transfer

Risk Avoidance

Risk Reduction

Credit derivatives allow the creditor to effectively transfer the risk of a debtor defaulting to a third party.

4. TechCorp requires all employees to successfully complete annual cybersecurity training.

Risk Transfer

Risk Avoidance

Risk Reduction

Employee training is a risk reduction measure that can reduce the likelihood of human error.

5. Multinational Holdings outsources the development of its new mobile app to a third party.

Risk Transfer

Risk Avoidance

Risk Reduction

Outsourcing this function transfers some of the risk to the third-party developer.

» Knowledge Check



Directions: Read the scenario and answer the questions that follow.

Browning Supplies is considering expanding its operations overseas, primarily in Europe and the United Kingdom. They are concerned that the Euro has not been adopted in all countries and that they may be faced with currency fluctuations. Which mitigation strategy would you suggest they use? Why?

Browning may seek to reduce the risk by using financial instruments such as futures, options, and swaps to hedge against currency and interest rate fluctuations. They may also seek to transfer the risk by maintaining an allocated transfer risk reserve to manage transfer risks. This reserve is a buffer against potential losses due to currency conversion challenges.

Legal and Cultural Considerations for International Risk Management

» Knowledge Check



Directions: Read the scenario and complete the activity that follows.

You are the risk manager for the tech company MegaCorp. The company is looking to expand its operations into Country Z, and you have been tasked with leading a team of cross-functional employees from departments such as marketing, IT, and legal to conduct a risk assessment for the expansion.

For each of the following categories, describe considerations that your team will need to take into account, information they will need to learn, and understandings they will need to develop to succeed in this new market. Provide examples where appropriate.

Answers will vary. Sample answers provided.

Legal and Regulatory	The team must assess legal risks, including national and local laws in Country Z, especially in areas such as human rights, data protection and privacy, anti-bribery and corruption, trade compliance, labor laws, and environmental regulations. They should consider engaging local experts and/or a PEO to ensure full understanding when developing a plan for compliance with Country Z's laws.
Cultural Norms	The team must understand the local culture, including work ethics, religious beliefs, and social norms. For example, if the local culture values family time and has specific holidays, the corporation should respect this in their operations. Again, it would be advisable to work with local experts to understand the cultural climate in Country Z. The team should also assess the potential for protests or backlash from the local community and have a management plan in place to mitigate these risks.

Stakeholder Engagement	The risk management team and MegaCorp leadership must engage with various stakeholders, including local government officials, community leaders, and potential employees. Effective engagement, where plans are communicated clearly and concerns or suggestions are listened to, can lead to a more favorable business environment and reduce potential risks.
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Client and Employee Considerations for International Travel

» Knowledge Check



Directions: Respond to the following prompt.

Health and safety issues are a concern for international travelers. Explain some precautions travelers can take to minimize health and safety issues.

1. Obtain vaccination rules/precautions of the destination country from the Centers for Disease Control and Prevention (CDC) or World Health Organization (WHO) websites.
2. Travelers should keep a list of prescriptions in their wallet. They should pack enough medication for the duration of the trip, plus a little extra in case of delays.
3. Have a small first aid kit comprehensive enough to handle common health issues travelers might encounter.
4. Translating medical conditions into the local language of the country can be very helpful, especially in emergencies. Consider downloading Google Translate or a similar app to aid in translation.
5. It is important to know the destination's local laws and customs. It may be legal in the U.S. but may not be in the destination's country.
6. Check for any travel advisories or warnings issued for the destination issued by the country's foreign affairs department. Travelers may register with the U.S. State Department Smart Traveler Enrollment Program (STEP) before travel abroad.

Section 8 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, along with other study materials, is available on the Resources webpage at [CRM AD Resources \(riskeducation.org\)](https://riskeducation.org).

Directions: Select the best responses for the following questions.

1. Which of the following are generally true of international risks but not domestic risks? (Select all that apply.)
 - ☒ They can be complex due to factors such as geopolitical dynamics and language barriers.
 - ☐ They generally involve shared cultural context and common legal systems.
 - ☐ Costs and profits can be impacted by currency fluctuations.
 - ☒ They generally involve consistent legal and regulatory frameworks.

2. Which current global risk trend is *most closely associated* with U.S. dependence on foreign production?
 - ☐ Misinformation and disinformation
 - ☐ Climate-related threats
 - ☐ Technological change and uncertainty
 - ☒ Geopolitical tensions

Section 8: International and Multinational Risks

3. In scenario planning, which steps must be taken before a risk manager can develop scenarios?
- ☐ Identify key factors and monitor indicators
 - ☒ Identify key factors and define the scope and timeframe
 - ☐ Define scope and timeframe and develop strategies
 - ☐ Monitor indicators and develop strategies
4. Gloria is searching for a tool she can use to track the details of all identified risks, such as likelihood, impact, mitigation strategies, and those responsible for mitigation. Which tool would be most useful for Gloria in this scenario?
- ☐ PESTLE analysis
 - ☐ Risk mapping
 - ☒ Risk register
 - ☐ SWOT analysis
5. Which of the following describes an example of risk acceptance?
- ☒ An organization opts to conduct business in a country with a risk of supply chain disruptions because it feels their supply chain is diversified enough to handle the risk.
 - ☐ An organization purchases an international insurance policy to provide financial protection for products and liability risks.
 - ☐ An organization opts not to open a new plant in a country due to values misalignment with that country's government.
 - ☐ An organization regularly updates its crisis management plans.

Section 8: International and Multinational Risks

6. Which of the following statements is true regarding cultural sensitivity and stakeholder engagement?
- ☐ Communication norms are generally the same worldwide.
 - ☒ Cultural misunderstandings can be the source of significant risks.
 - ☐ Individuals should be fluent in a country's language if they wish to do business there.
 - ☐ Organizations should always hire third-party contractors familiar with a country's customs when conducting international business.
7. Which of the following is a risk of permanent establishment?
- ☐ The organization can lose its residency status in its home country.
 - ☒ The organization can be subjected to corporate income tax, including back-taxes and fines.
 - ☐ The legitimacy of the organization's compliance program will be at risk.
 - ☐ The organization may be forced to work with a global PEO.

Directions: Write responses to the following prompts.

8. Identify two benefits of international insurance programs and provide examples of those benefits.

Answers will vary, but may include:

- Consistent Coverage

International insurance programs level out differences in conditions and coverage, providing a consistent standard of insurance protection worldwide. This ensures that all operations, regardless of location, are covered under the same terms and conditions.

- Regulatory Compliance

These programs consider the various regulatory and tax regimes in different countries, ensuring compliance with local laws.

Section 8: International and Multinational Risks

- Centralized Management

International insurance programs offer centralized management of insurance policies, making it easier to oversee and control the company's global risk profile.

- Efficient Claims Processing

In the event of a claim, these programs provide efficient and prompt claims processing, ensuring that funds are transferred promptly to the office managing the master program.

- Cost Efficiency

By consolidating insurance coverage into a single program, companies can achieve cost efficiencies and potentially negotiate better terms and pricing based on an improved risk profile at the corporate level.

- Digital Access

All international program data shared can be accessed digitally, making the service seamless and sustainable.

9. List four recommended steps for the management of international risks.

- a. Identify risks using appropriate tools.
- b. Analyze the likelihood and impact of each risk.
- c. Prioritize risks based on frequency and severity and the organization's risk appetite.
- d. Select mitigation strategies for each risk based on the organization's capabilities and resources.

10. Which legal documents are often required for international travel?

- Passport – always required
- Visa(s) – required for certain countries
- Proof of travel insurance – required for certain countries
- Proof of vaccinations – required for certain countries (required vaccines vary by country)

Appendix

Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test 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 testing period for the Final Exam is 2 1/2 hours long. The test itself is composed of 17–21 short-answer questions for a total of 200 possible points. Questions appear in the order of presentation of the topics.

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

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your Learning Guide.

1. Review the Section Goal.
2. Review each Learning Objective.
3. 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?

4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.
5. Check your answers to each Check-In. Correct your original answers, if necessary.
6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
7. Re-read the summary at the end of each section.
8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.

Preparing for the Final Exam

9. Review any comments, highlights, or notes you made in each section.
10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.
11. Make flash cards to help you review important vocabulary.

Sample Exam Questions

1. Effective risk management is never a one-person job. Resources outside the risk management department are required to be effective. A successful Risk Manager builds a network of support to access information and expertise they don't have.
 - A. Additional resources may be required when time is of the essence. Provide one other instance under which the services of others, both internal and external, may be required. (4 points)

Sample Answers: (Any 1)

An outside or objective viewpoint is required

An outside expert is more cost effective

Upper management requests it

A limited term activity or special project arises OR a one-off situation

- B. The members of the network could include internal or external individuals or departments within the organization which can provide expertise. Identify two types of individuals, internal or external, or internal departments which may be included in your network. (6 points)

Sample Answers: (Any 2; 3 points each)

Risk management

Health, safety and environmental

Human resources

Functional areas of the organization (such as operations, sales, marketing, maintenance, etc)

Preparing for the Final Exam

Legal

Agents, brokers, carriers, captives managers (provide credit for any one of these)

RMIS providers

Actuaries

2. The members of the network could include internal or external individuals or departments within the organization which can provide expertise. Identify two types of individuals, internal or external, or internal departments which may be included in your network. (6 points) The Risk Manager enlists the help of the Information Technology function within an organization to develop an appropriate Risk Management Plan for its data-related exposures. One important element in the Risk Management Plan is the Data Risk Assessment. Identify the four parts of a Data Risk Assessment. (8 points)

Sample Answers:

Data inventory OR what data do you have?

Data risk analysis OR why is retention of data risky?

Data mapping OR tracking of the data cycle, from point of input through storage to output, to identify systems involved that expose organization to risk

Data protection and exposure reduction OR what steps have been taken by the organization to protect the data and reduce the exposure?

3. Identify and briefly explain for the CFO the two allocation models that can be used in your Total Cost of Risk Allocation System. Include one characteristic of each. (8 points)

Sample Answers:

Exposure based: each unit is assigned costs on an equitable basis based on the exposures each unit presents

Exposure Characteristic:

- Easy to administer and adjust if exposures change
- Simple to understand
- Supports period-to-period consistency
- Not linked to loss experience
- No incentive to reduce losses because of allocation

Experience based: each unit is assigned costs on an equitable basis, based on the loss experience each unit presents

Experience characteristics:

- Encourages loss control
- Supports accountability
- Doesn't allow for strategic or discretionary allocation
- May be more difficult to administer due to volume of data

Glossary of Terms

all-channel network – a combination of other patterns within the flow of an organization's communication network; communication flows in all directions and among members of all groups.

Business Judgment Rule – the single most powerful defense available to a director or officer that provides some immunity from liability for violating the duty of care to the corporation; it recognizes that not all decisions of the directors or officers will benefit the organization or its stakeholders. For this defense to be available, the following five elements must be satisfied by directors and officers: they acted on an informed business-decision basis with disinterestedness, took due care, progressed in good faith, and performed with no abuse of discretion.

chain network – a communication network that is simple, linear, and sequential

collateral – transfers the use of assets as collateral to mitigate risk

credit derivative – a financial contract that allows parties to minimize their exposure to credit risk. These allow the creditor to effectively transfer the risk of a debtor defaulting to a third party.

data mapping – the tracking of the data cycle, from the point of entry, or input, through storage to output

data risk assessment (DRA) – a systematic process for evaluating the potential risks associated with an organization's data assets

diplomacy – the art of negotiation and conflict management

disinterestedness – As it relates to the Business Judgment Rule, a decision must be made independently and disinterestedly without expecting personal financial benefit unless it benefits the organization and all of its stakeholders.

due care – As it relates to the Business Judgment Rule, an informed decision must be made based on reasonable and relevant information.

Glossary

due diligence – Actions are taken to investigate documents and records of a business and/or person prior to examination of a proposed action before it is undertaken, executing a contract or entering into a business transaction; to assess the health and viability of a business or entity; and/or to perform an investigation of a business, situation, activity, or person to assist with effective decision-making.

emotional intelligence – the capability of individuals to recognize and understand their own and others' emotions, navigate social complexities through adjusting behaviors, and make informed decisions

experience allocation method – distributes the TCOR costs based on loss experience of the individual departments or operating units

exposure allocation method – allocates TCOR costs based on exposure units, such as the number of vehicles or employees in each department

external benchmarking – the comparison of an organization's performance to that of the "best in industry" (competitors) or "best in class" (those recognized in performing certain functions)

fiduciary duty – 1) under common law, liability imposed upon a party who stands in a special relationship of trust with another party for a breach of that trust; 2) under the Employee Retirement Income Security Act of 1974 (ERISA), liability imposed upon any person who exercises any discretionary authority or control with respect to the management or administration of an employee benefit plan or its assets

intellectual property – property that has value but lacks a physical existence, such as industrial property consisting of inventions, designs; or trademarks and copyrights, such as artistic works

internal benchmarking – the comparison of the organization's own performance from one time period to another, or between departments, locations, divisions, etc.

international company – an extension of the domestic parent company. It conducts operations from the home country only. This typically involves importing and exporting goods to and from other countries

Master Controlled Program – (also known as a Controlled Master Program) pairs a master policy issued in the United States with local (admitted) policies issued worldwide

multifactor authentication (MFA) – a security layer that requires the user to provide two or more pieces of evidence to be authenticated

Glossary

multinational company – a company that owns and controls the production of goods or services in at least one country other than its home country. It has investments in other countries, and it focuses its products and services on the local (foreign) markets.

no abuse of discretion – A director or officer is protected against honest errors in judgment that can be justified by a rationale or that are not egregious on their face.

noise – anything that distorts a message by interfering with the communication process

party in interest transaction – any transaction involving any fiduciary, counsel, or employee of a plan, plan service provider, or anyone with a stated interest in or relationship with a party in interest

permanent establishment – refers to a fixed place of business from which the operations of the organization are conducted

retention – that portion of a claim for which the organization uses internal funds to pay losses

risk administration – the implementation of risk management policies and procedures and the monitoring of their effectiveness

risk management information system (RMIS) – a relational database that supports the risk manager in identifying, measuring, and managing risk

risk management stewardship report – a formal summary of the objectives, accomplishments, and challenges of the risk management efforts that are shared with appropriate management, the board of directors, and stakeholders

risk mapping – a visual tool used to understand the landscape of potential risks. A risk map consists of a graph divided into four quadrants, each reflecting a different blending of frequency and severity characteristics for each risk.

risk register – a document that contains details of all identified risks, including their nature, likelihood, impact, and mitigation strategies

scenario planning – a strategic method to make flexible long-term plans by envisioning possible futures and how they could affect an organization

self-dealing transaction – any transaction using plan assets for personal gain, transactions on behalf of persons whose interests are averse to the plan, and personal in nature

Glossary

total cost of risk (TCOR) – the sum of all costs and expenses associated with risk and the management of risk within an organization; $TCOR = \text{insurance costs} + \text{retained losses} + \text{risk management departmental costs} + \text{outside services fees} + \text{indirect costs}$

transactional or linear communication – a direct transfer of information used in one-on-one and group presentations

transformational communication – an open exchange of ideas, beliefs, and values with appropriate management, the board of directors, and stakeholders

wheel network – a circular communication network; information flows between a single person or a single position to and from all others in the network

y network – communication flows from the risk manager to two or more risk management department staff members