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FIN625 - Credit Analysis & Risk Management

Which of the following are the firms that specialize in providing advice to clients about investing in securities, but do not offer the trading services that are provided by dealers?

Production Managers

Sales Operators

Financial Advisers

Board of Directors

_____ is the post-loss objective in insurance risk management.

Meeting of legal obligation

Reduction of anxiety

Stability of earnings

Goals of economy

Which of the following arises in both direct exposures to obligors and may also occur through exposures to protection providers?

Concentration distribution

Concentration shelter

Concentration risk

Concentration unit

The term _____ refers to the sales and marketing activities of the insurance.

Rejection

Acceptance

Production

Induction

Since not all members of the pool are the _____, we can suppose not all them will claim at the same time.

Same gender or age

Same gender or health condition

Same income or age

Same age or health condition

Which one of the following is not a marketing system for life insurance?

Direct response system

Personal-producing general agent

Non-agency building system

Indirect response system

Which of the following is a written provision that adds to, deletes from, or modifies the provisions in the original contract?

Treaty

Agreement

Contract

Endorsement

Retention is used _____

The worst possible loss is not serious

When no other method of treatment is available

Losses are highly predictable

All available options

Who supports a pragmatic approach of mutual recognition for internationally active banks as a key basis for international supervisory cooperation?

The shareholder

The manager

The supervisor

The committee

Which of the following involves risks that are typically uninsurable?

Hedging

Gambling

Insurance

Underwriting

Which one of the following is not a loss forecasting method?

Probability analysis

Regression analysis

Financial analysis

Forecasting based on loss distribution

_____ is the first step towards successful investment planning

Choosing customer

Choosing credit manager

Choosing financial advisor

Choosing supervisor

All of the following are the objectives of post-loss EXCEPT:

Continue operations

Reduce anxiety

Maintain growth

Ensure survival of the firm

Which of the following are the firms that specialize in providing advice to clients about investing in securities, but do not offer the trading services that are provided by dealers?

Dealers

Marketers

Producers

Advisers

Which of the following situations best explain loss exposure?

A plant that may be damaged by an earthquake

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The vehicles parked in a monitored parking garage
The extension from transportation to games and video stores
The possession of more short-term liabilities than short-term assets

Which of the following are the firms that are registered with regulators to buy or sell securities on behalf of clients?

Dealers

Patrons

Buyers

Customers

_____ is required by the dealer to invest on behalf of customer.

Verbal permission

No authority

Verbal authority

Written authority

A financially _____ firm can have _____ retention level

Weak, higher

Weak, No

Strong, higher

Strong, lower

Of the following who is an insurer in which the salesperson is an employee of the insurer, not an independent contractor?

General agent

Exclusive agent

Direct writer

Independent agent

Which of the following is a technique for handling an already existing pure risk?

Insurance

Hedging

Underwriting

Gambling

Which of the following relies on the principle that the larger the pool, the more predictable the amount of losses will be in a given period?

Law of segregation

Law of cosines

Law of large numbers

Law of attraction

Which of the following has the purpose of achieving equity in rating?

Insurance

Infinity insurance

Liability insurance

Coinsurance

Which of the following is the difference between an insurer's assets and its liabilities?

Surplus

Loss

Deposits

Loans

Which of the following involves calculating the worst probable loss likely to occur in a given time period under regular market conditions at some level of confidence?

Regression analysis

Ration analysis

Trend analysis

Value at risk analysis

Which of the following refers to the pricing of insurance?

Revenue making

Profit making

Peacemaking

Rate making

When several lines of insurance simultaneously experience large losses, it is called

Big loss

Small loss

Clash loss

No loss

Which of the following includes loose standards, low premiums, favorable insurance terms, and less retention?

Stock market

Open market

Bond market

Soft market

Which of the following are not currently subject to provincial registration or regulation, although a number of jurisdictions are considering the issue?

Board of Directors

Financial Planners

Production Managers

Sale Operators

Which of the following refers to the process of selecting, classifying and pricing applications for insurance?

Production

Reinsurance

Underwriting

Claims adjusting

Combining the business organization through mergers and acquisition is called Corporation

Consolidation

Nationalization

Coordination

In which of the following condition the supervisor should explain to the bank the risk characteristics specific to the bank which resulted in the requirement and any remedial action necessary?

Where the capital requirements are set above the minimum for an individual bank

Where the capital requirements are set below the minimum for the multiple banks

Where the capital requirements are set above the minimum for the multiple banks

Where the capital requirements are set below the minimum for the individual banks

All of the following are the objectives of pre-loss EXCEPT:

Continue operations

Reduce anxiety

Prepare for potential losses in the most economical way

Meet any legal obligations

Which of the following is a provision that amends or changes the original policy?

Blueprint

Rider

Elicitation

Line rider

A _____ is a provision by which a specified amount is subtracted from the total loss payment that otherwise would be payable

Deductible

Aggregate deductible

Accumulated deductible

Straight deductible

Insurance is based on how many principles?

One

Two

Three

Four

Wherever possible, who should avoid performing redundant and uncoordinated approval and validation work in order to reduce the implementation burden on banks?

Lower level managers

Supervisors

Top level managers
Middle level managers

Which of the following may be carried out for purposes other than credit risk transfer (e.g. funding)?

Digital transactions
Purchase transactions
Request transactions

Securitization transactions

Which of the following is any single exposure or group of exposures with the potential to produce losses large enough to threaten bank's ability to maintain its core operations?

Risk concentration

Multiplication concentration
Element concentration
Mental concentration

Captive insure is _____ of the parent company

Subsidiary

All available option
Banking concern
Independent

The single most important cause of major problems in banks is _____

Diversification

Risk concentration

Risk avoidance
Risk tolerance

Which of the following can be statistically calculated using a measure of dispersion, such as the standard deviation?

Objective risk

Sovereign risk
Operational risk
Subjective risk

SPE stand for:

Special purpose entity

Objective:

Aging population:

A greater demand for savings-based life insurance products, long-term care insurance. e.g. longevity risk

Insurance related

Loss event of a property

Direct loss:

- Reductions in property values caused by a loss event

Consequential (indirect) losses

- Reductions in income or increases in expenses that result from direct losses

High risk drivers:

High risk drivers who have difficulty obtaining auto insurance in the voluntary market can obtain insurance in the shared (residual) market

Group insurance marketing:

Many insurers use group marketing methods to sell individual insurance policies to:

- Employer groups
- Labor unions
- Trade associations

What is used to calculate objective risk? Standard dev

Objective risk is defined as the relative variation of actual loss from expected loss

- It can be statistically calculated using a measure of dispersion, such as the **standard deviation**

Subjective risk is defined as uncertainty based on a person's mental condition or state of mind

- Two persons in the same situation may have different perceptions of risk
- High subjective risk often results in conservative behavior

Characteristics of hard market

Hard" market: tight standards, high premiums, unfavorable insurance terms, more retention

Soft" market": loose standards, low premiums, favorable insurance terms, less retention

Subjective:

Short – 03

What are the main features of a sound supervisory review process?

The supervisory review process recognizes the responsibility of bank management in developing an internal capital assessment process and setting capital targets that are commensurate with the bank's risk profile and control environment.

The five main features of a rigorous process are as follows:

- Board and senior management oversight
- Sound capital assessment
- Comprehensive assessment of risks
- Monitoring and reporting
- Internal control review

Explain fidelity coverage:

Fidelity coverage covers losses that result directly from the dishonest or fraudulent acts of employees acting alone or in collusion with others, with the active and conscious purpose of causing the insured to sustain such loss

- Excludes losses due to trading or loan transactions

Long – 05

If the external credit assessment is used for securitization transaction, what is the operational criterion for such external credit assessment?

Operational Requirements for use of External Credit Assessments – lesson 27

The following operational criteria concerning the use of external credit assessments apply in the standardized and IRB approaches of the securitization framework:

a. To be eligible for risk-weighting purposes, the external credit assessment must take into account and reflect the entire amount of credit risk exposure the bank has with regard to all payments owed to it. For example, if a bank is owed both principal and interest, the assessment must fully take into account and reflect the credit risk associated with timely repayment of both principal and interest.

b. The external credit assessments must be from an eligible ECAI as recognized by the bank's national supervisor in accordance with paragraphs BASEL II with the following exception.

“An eligible credit assessment must be publicly available. In other words, a rating must be published in an accessible form and included in the ECAI's transition matrix. Consequently, ratings that are made available only to the parties to a transaction do not satisfy this requirement.”

c. Eligible ECAs must have a demonstrated expertise in assessing securitizations, which may be evidenced by strong market acceptance.

Discuss different benefits of no fault auto insurance.

No-fault Auto Insurance

- No-fault auto insurance is another method for compensating injured accident victims
- About half of the states have no-fault auto insurance laws in effect
 - After an auto accident involving bodily injury, each party collects from his or her own insurer regardless of fault
 - Enacted because of dissatisfaction and defects in the traditional tort liability system
- No-fault plans vary among the states:
 - Under a pure no-fault plan, accident victims cannot sue at all, regardless of the amount of the claim
 - No states have enacted a pure no-fault plan
 - Under a modified no-fault plan, victims have a limited right to sue:
 - In some states, an injured driver may sue if the bodily injury claim exceeds a certain monetary threshold
 - In some states, an injured driver may sue if the bodily injury claim exceeds a verbal threshold, e.g., if the injury involves death, dismemberment, disfigurement, or permanent loss of a bodily member or function
 - An add-on plan pays benefits to an accident victim without regard to fault, and the injured person has the right to sue the negligent driver who caused the accident
 - Not a true no-fault plan

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- Under a choice no-fault plan, motorists can elect to be covered under the state’s no-fault law and pay lower premiums
 - Or, they can retain the right to sue under the tort liability system and pay higher premiums
- **No-fault benefits** are provided by adding an endorsement to an auto insurance policy
 - Benefits are restricted to the injured person’s economic loss, which includes:
 - Medical expenses
 - Loss of earnings
 - Essential services expenses, e.g., housework
 - Funeral expenses
 - Survivors’ loss benefits, i.e., periodic payments to a surviving spouse and dependent children
 - In some states, insurers must also offer optional no-fault benefits above the prescribed minimums

Early amortization:

Early amortization provisions are mechanisms that, once triggered, allow investors to be paid out prior to the originally stated maturity of the securities issued. For risk-based capital purposes, an early amortization provision will be considered either controlled or non-controlled. A controlled early amortization provision must meet all of the following conditions.

1. The bank must have an appropriate capital/liquidity plan in place to ensure that it has sufficient capital and liquidity available in the event of an early amortization.
2. Throughout the duration of the transaction, including the amortization period, there is the same pro rata sharing of interest, principal, expenses, losses and recoveries based on the bank’s and investors’ relative shares of the receivables outstanding at the beginning of each month.
3. The bank must set a period for amortization that would be sufficient for at least 90% of the total debt outstanding at the beginning of the early amortization period to have been repaid or recognized as in default; and
4. The pace of repayment should not be any more rapid than would be allowed by straight-line amortization over the period set out in criterion (3).
5. An early amortization provision that does not satisfy the conditions for a controlled early amortization provision will be treated as a non-controlled early amortization provision.

BOP - Business-owners Policy

A business-owners policy (BOP) is a package policy specifically designed for small- to medium-sized retail stores, office buildings, apartment buildings, and similar firms

- The ISO BOP provides both property and liability coverage in one policy
- Businesses are ineligible if their loss exposures are outside those contemplated for the average small- to medium-sized firm
 - e.g., auto repair shops and bowling alleys
- Property losses are covered on an “all-risks” basis
 - Coverage includes buildings described in the declarations, fixtures, permanently installed machinery and equipment
- Business personal property, including property in the insured’s care, is also covered

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- A peak season provision provides for a temporary increase of 25% of the amount of insurance when inventory values are at their peak
- Some addition coverages include debris removal, collapse, and interruption of computer operations
- For an additional cost, business-owners can also cover:
 - Outdoor signs
 - Money and securities
 - Employee dishonesty
 - Mechanical breakdown
- The BOP also includes business liability coverage similar to the commercial general liability policy (CGL)
 - The business-owner is insured for bodily injury and property damage liability, and advertising and personal injury liability
 - Medical expense insurance is also provided