# RISK MANAGEMENT TEMPLE EXAM 2 PRACTICE (SAMPLE)

## STUDY GUIDE

## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

• Practice answering questions under realistic conditions,

• Improve accuracy and speed,

• Review explanations to strengthen weak areas, and

• Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

# How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

### 1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

### 2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

### 3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

### 4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

### 5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

### 6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

# Questions

1. **In a cost-benefit analysis for risk mitigation, which metric is commonly used to compare alternatives?**
   - A. Payback period
   - B. Internal rate of return
   - C. Net present value
   - D. Break-even point

2. **Which insurance products are listed as having adverse selection issues?**
   - A. Health insurance
   - B. Flood insurance
   - C. Terrorism insurance
   - D. All of the above

3. **Worry Value will increase if Insurance coverage decreases?**
   - A. Insurance coverage decreases
   - B. Insurance coverage increases
   - C. Premium increases
   - D. Monetary cost increases

4. **In life insurance, which relationship must have insurable interest in the insured life S?**
   - A. The owner and the beneficiary
   - B. Only the insurer
   - C. Only the insured
   - D. Neither owner nor beneficiary

5. **Which option best describes funded retention?**
   - A. No separate fund to pay for losses
   - B. A stand-alone insurance policy
   - C. Firmly set aside funds every period to pay for losses that are predictable and high severity
   - D. Unfunded retention

**6. Which statement best describes crisis management within the risk management lifecycle?**

A. It is unrelated to risk management

B. It provides the framework and actions to respond to major incidents and protect stakeholders

C. It focuses only on post-incident recovery costs

D. It ends the risk management process after a crisis

**7. What is the purpose of risk governance in an organization?**

A. To focus only on financial risk.

B. To remove risk from all processes.

C. To assign blame after incidents.

D. To provide oversight, define roles, ensure alignment with strategy, and integrate risk management across functions.

**8. Which insurance product is most susceptible to adverse selection?**

A. Health insurance

B. Flood insurance

C. Terrorism insurance

D. Auto insurance

**9. Why is risk communication essential and who should be informed?**

A. Ensures stakeholders understand risk, supports decisions, and builds trust; tailored to audience.

B. It is optional and only required for major risks.

C. It should be addressed after decisions are made.

D. It is primarily a legal requirement with no impact on decisions.

**10. What is threat modeling and how does it support risk management?**

A. A structured process to identify threats and apply appropriate security controls.

B. A method to forecast market threats to a product's launch.

C. A compliance check for regulatory threats.

D. A technique to minimize development time.

# Answers

1. C
2. D
3. A
4. A
5. C
6. B
7. D
8. A
9. A
10. A

# Explanations

## 1. In a cost-benefit analysis for risk mitigation, which metric is commonly used to compare alternatives?

A. Payback period

B. Internal rate of return

C. Net present value

D. Break-even point

*Net present value is used to compare risk mitigation alternatives because it accounts for the time value of money by discounting all expected cash inflows and outflows to their present value and then subtracting costs from benefits. This approach captures both how much money you expect to gain or lose and when those amounts occur, using a discount rate that reflects the organization's cost of capital and the risk profile of the options. The option with the higher NPV represents greater value creation after considering timing and risk, making it a direct, comparable measure across different projects or strategies of varying sizes. Other metrics miss important parts of the picture. Payback period focuses only on when the initial investment is recovered and ignores any value created after that point and the timing of later cash flows. Internal rate of return looks at the rate of return implied by the cash flows but can be misleading when comparing projects of different scales or with unconventional cash flows, and it doesn't directly indicate how much value is created. Break-even point tells you when revenues cover costs but provides no information about overall profitability or risk-adjusted value.*

## 2. Which insurance products are listed as having adverse selection issues?

A. Health insurance

B. Flood insurance

C. Terrorism insurance

D. All of the above

*Adverse selection happens when the person buying insurance knows more about their own risk than the insurer, so higher risk individuals are more likely to buy coverage or to buy more of it. This skews the insured pool toward riskier cases and can push prices up or even undermine the market if not managed. Health insurance is a classic example: individuals have private information about their health and future risk, so sicker people often seek coverage more eagerly and may use more benefits. If premiums don't accurately reflect individual risk, the pool becomes riskier on average, driving up costs and sometimes prompting healthier people to drop out. Flood insurance faces the same dynamic. Homeowners in flood-prone areas know their true exposure, and unless premiums perfectly reflect that risk or subsidies distort pricing, the high-risk segment tends to enroll at higher rates, concentrating losses in the pool and raising expected costs for everyone. Terrorism insurance also exhibits adverse selection. Entities with greater exposure to terrorism risk—due to location, industry, or activities—are more motivated to secure coverage. If pricing can't precisely differentiate risk, the insurer's pool can become disproportionately riskier, challenging profitability and pricing. Because adverse selection can arise across these different insurance lines, the option that includes all of them best represents where adverse selection issues can occur.*

## 3. Worry Value will increase if Insurance coverage decreases?

A. Insurance coverage decreases

B. Insurance coverage increases

C. Premium increases

D. Monetary cost increases

*Protection level and worry value move inversely: when insurance coverage declines, potential losses become larger and more uncertain, so the worry value increases. Worry value measures how much concern or risk aversion is felt given potential outcomes; with less protection, the financial impact of a loss is bigger, raising that concern. If coverage increases, exposure drops, which reduces worry. The other factors—premium or monetary cost rising—are about costs, not the direct level of concern tied to protection, so they don't explain why worry value would rise.*

## 4. In life insurance, which relationship must have insurable interest in the insured life S?

A. The owner and the beneficiary

B. Only the insurer

C. Only the insured

D. Neither owner nor beneficiary

*Insurable interest is the legitimate financial stake someone has in the continued life of another. In life insurance, this stake is required for the party who applies for the policy and for the person who would benefit from the policy's payout. The policyowner must have an insurable interest in the insured's life because they stand to suffer a financial loss if the insured dies. If a beneficiary is named, that beneficiary should also have an insurable interest in the insured's life so the payout serves a genuine financial need rather than a mere wager on someone's death. The insurer itself is the underwriter of the risk and does not need to have insurable interest in the insured's life. Therefore, the relationship that must have insurable interest is both the owner and the beneficiary.*

## 5. Which option best describes funded retention?

A. No separate fund to pay for losses

B. A stand-alone insurance policy

C. Firmly set aside funds every period to pay for losses that are predictable and high severity

D. Unfunded retention

*Funded retention means creating a dedicated reserve inside the organization to pay for losses, contributing to that fund on a regular basis so it can cover anticipated, potentially large losses. This approach keeps funds available specifically for these losses rather than paying out of general cash flow or transferring the risk to an insurer. The option that describes this best states that funds are firmly set aside every period to pay for losses that are predictable and high severity, which captures both the ongoing accumulation of reserves and the goal of covering substantial, foreseeable losses. In contrast, having no separate fund describes unfunded retention, where losses are covered from current resources as they occur. A stand-alone insurance policy describes external risk transfer rather than retention funded by internal reserves. Unfunded retention similarly relies on current resources without a dedicated reserve.*

### 6. Which statement best describes crisis management within the risk management lifecycle?

A. It is unrelated to risk management

B. It provides the framework and actions to respond to major incidents and protect stakeholders

C. It focuses only on post-incident recovery costs

D. It ends the risk management process after a crisis

*Crisis management in the risk management lifecycle is the set of processes used to respond to major incidents and protect people, assets, and the organization as a whole. It involves preparing crisis plans, forming a crisis management team, establishing clear command and control, and enabling rapid decision-making. A key part is robust communications—both internal, to coordinate actions, and external, to inform stakeholders such as employees, customers, regulators, and the public—to manage impact and reputational risk. This area also covers the practical steps during a crisis: activating escalation procedures, ensuring safety, maintaining critical operations, coordinating with external responders, and implementing immediate recovery actions. The aim is to minimize harm and preserve continuity while decisions are made under pressure. After the crisis, the process feeds lessons learned back into risk assessment and planning, strengthening defenses and response capabilities for future events. Why this fits best is that crisis management is about guiding the organization through high-severity events with a structured framework, not about ignoring risk, focusing only on costs after the fact, or ending the risk management process. It sits at the intersection of preparation, response, and recovery, integrating with broader risk management to protect stakeholders and sustain operations during and after a crisis.*

### 7. What is the purpose of risk governance in an organization?

A. To focus only on financial risk.

B. To remove risk from all processes.

C. To assign blame after incidents.

D. To provide oversight, define roles, ensure alignment with strategy, and integrate risk management across functions.

*Risk governance establishes the framework for overseeing risk across the organization. It defines who is responsible for risk, how risk decisions are made, and how risk management activities align with the organization's strategy. By creating clear roles, responsibilities, and reporting lines, it ensures accountability and consistent practices across all functions, so risk is identified, assessed, monitored, and addressed in a coordinated way. It also links risk management to strategic objectives, setting risk appetite and policies and ensuring ongoing oversight by leadership. This holistic approach is why the option describing oversight, defined roles, alignment with strategy, and cross-functional integration best captures the purpose. It isn't about focusing only on financial risk, removing risk from all processes, or assigning blame after incidents—these don't reflect the broad, proactive, and collaborative nature of risk governance.*

## 8. Which insurance product is most susceptible to adverse selection?

A. Health insurance

B. Flood insurance

C. Terrorism insurance

D. Auto insurance

*Adverse selection happens when one side of a deal has better information about risk than the other, so high-risk individuals are more likely to buy the product. In health insurance, people know their own health status and future medical needs, while insurers can't perfectly price that private risk up front. If premiums reflect average risk, those with high expected medical costs are strongly motivated to enroll, and healthier individuals may opt out or wait, shrinking the pool of low-cost customers. That makes costs rise and can push more healthy members out, creating a cycle that undermines the market. Other types of insurance—like flood, terrorism, or auto—rely more on observable factors (location, usage history, or policy specifics) and often have mitigating features or government involvement that reduce the degree of adverse selection. Health insurance is therefore the most susceptible.*

## 9. Why is risk communication essential and who should be informed?

A. Ensures stakeholders understand risk, supports decisions, and builds trust; tailored to audience.

B. It is optional and only required for major risks.

C. It should be addressed after decisions are made.

D. It is primarily a legal requirement with no impact on decisions.

*Risk communication is essential because it makes uncertainties and potential outcomes clear to the people who need to act on them, helping them understand what could happen and what decisions to make. It supports better choices about which mitigations to deploy and demonstrates transparency, which in turn builds trust that management is handling risks responsibly. The strongest answer notes that this communication should be tailored to the audience, since different stakeholders—from executives and operators to customers, regulators, and community groups—have different information needs, risk perceptions, and levels of technical understanding. Who should be informed includes decision-makers who allocate resources, those directly affected by the risk and by mitigation measures, and the broader group involved in or impacted by the risk, such as project teams, employees, suppliers, customers, investors, regulators, and the public. Effective risk communication is proactive and ongoing, allowing for two-way dialogue, feedback, and adjustments as new information emerges. It isn't optional, it isn't something only after decisions are made, and it isn't merely a legal checkbox; it directly influences the quality of decisions and the effectiveness of mitigation.*

### 10. What is threat modeling and how does it support risk management?

A. A structured process to identify threats and apply appropriate security controls.

B. A method to forecast market threats to a product's launch.

C. A compliance check for regulatory threats.

D. A technique to minimize development time.

*Threat modeling is a structured process to identify threats to a system and determine and implement the right security controls. In risk management, this approach provides a clear, systematic way to list what needs protection, understand how things could go wrong, estimate how likely each threat is and how much impact it would have, and then prioritize mitigations based on that risk. By mapping assets, potential attackers, attack surfaces, and existing weaknesses, threat modeling helps teams select controls that address the most significant risks and track improvements as the system evolves. It also keeps security decisions aligned with business goals and resource constraints, making risk mitigation more proactive and defensible over time. This isn't about forecasting market threats to a product's launch, performing regulatory threat compliance checks, or rushing development—none of those directly target identifying and reducing security risk in a systematic way.*

# Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://riskmgmttemple2.examzify.com

We wish you the very best on your exam journey. You've got this!