SETTING UP A RISK ORGANIZATION

TI &RM Chapter 3

Q: 1Which of the following statements best describes a risk organization within a bank?

a) A unit that focuses only on conducting internal audits.

b) A department responsible for employee promotions and rewards.

c) A unit responsible for identifying, assessing, and managing risks.

d) A group dedicated solely to treasury operations.

Q: 2Who among the following should be included within a bank's risk organization?

a) Only the risk management department staff

b) Only the board of directors and executive management

c) Only internal and external auditors

d) The risk takers, policy makers, auditors, and everyone concerned with 'risk'

Q: 3The risk management organization in a bank divides responsibilities among which of the following three levels?

a) Shareholders, Customers, and Regulators

b) Risk Analysts, Compliance Officers, and Auditors

c) Treasury, Marketing, and Human Resources

d) Board of Directors, Executive Management, and Operating Management

Q: 4What is the primary role of the Board of Directors in the bank's risk management?

a) The board of directors of the bank is the supreme decision-making body.

b) It decides the course of action the bank should follow

c) The Board must determine the acceptable level of risk the bank can take in pursuit of maximizing returns

d) All of the above

Q: 5Which of these not a Risk Management Activities performed by board ?

a) Monitoring the bank's overall risk situation to identify and evaluate potential risks.

b) Assessing the bank's total exposure across various assets and activities.

c) Evaluating the effectiveness of risk assessment methods and the proposed risk management organizational structure.

d) None of the above

Q: 6 Who is responsible for implementing the risk management framework set by the Board?

a) Operating Management

b) Internal Audit

c) Executive Management

d) Shareholders

Q: 7 Which of the following is NOT a function of Executive Management in risk management?

a) Developing policies and procedures

b) Providing risk-related inputs to the Board

c) Managing daily trade deals and cash movements

d) Integrating Risk into Planning

Q: 8 _____________ includes people who actually do business or those who take risks as a routine.

a) Operating Management

b) Internal Audit

c) Executive Management

d) Shareholders

Q: 9Which of the following is NOT a responsibility of operating management?

a) Operating within relevant levels of authority, prescribed ceilings and laid down procedures
b) Obtaining adequate information about the customer /counterparty before entering into transaction.
c) Gathering sufficient details of market situation to make decisions on pricing.
d) Establish a robust reporting system for both regular risk updates and exceptional situations.

Q: 10 Which of the following is NOT a prerequisite for effective risk management in banks?

a) Commitment from Senior Management
b) Weak technology systems
c) Cross-Organizational Awareness and Participation
d) Comprehensive Policies and Procedures

Q: 11 Which of the following is a fundamental for effective risk management in banks?

1. Data Quality and Accounting

2. Segregation of Duties
3. Verification of External Data Sources
4. Human Resources and System Support

a) 1 and 2 only
b) 1, 2, and 3 only
c) 2, 3, and 4 only
d) All of the above

Q: 12 What is concentration risk?

a) Risk from cyber threats
b) Risk from multiple product launches
c) Excessive exposure to a single segment
d) Lack of customer data

Q: 13 Whose responsibility is it to ensure that risk management is implemented across all functions in a bank?

a) Customers
b) Only IT Department
c) Only Audit Team
d) Everyone in the organization

Q: 14 What is the correct interpretation of the myth "Risk is Bad"?

a) Risk should always be avoided at all costs

b) Risk only leads to financial loss

c) Risk involves a balance between potential reward and cost

d) Risk is unnecessary in the financial sector

Q: 15 Which of the following is NOT true about the misconception that risk is bad?

a) Bankers balance the expected reward against potential cost

b) Financial sector embraces the ability to measure and manage risk.

c) Risk has no relation to potential rewards

d) Risk is often viewed negatively by safety professionals

Q: 16 Which of the following statements are correct about the goal of risk management?

1. The sole purpose of risk management is to increase shareholder value
2. Risk management should support all stakeholders, not just shareholders
3. Long-term survival is more important than short-term share price rise

a) 1 and 2 only

b) 2 and 3 only

c) 1 and 3 only

d) All of the above

Q: 17 According to modern risk management principles, which of the following groups should be considered as stakeholders?

a) Only shareholders

b) Only regulators and investors

c) Only employees and customers

d) Employees, customers, suppliers, investors, lenders, regulators, and the community

Q: 18 Risk can be completely transferred using insurance and other tools__________.

a) True

b) False

Q: 19 A cultural shift is needed, building risk awareness and decision-making capabilities across all levels and departments creating a "culture of risk . What is meant by creating a "culture of risk" in a bank?

a) Making employees afraid of taking risks

b) Encouraging secrecy around risky decisions

c) Empowering all individuals to participate in risk management

d) Assigning all risk tasks to the IT department

Q: 20 Which of the following is not a question that a risk organization should ask while assessing its risk position?

a) What risks will the bank not accept? (e.g. environmental or quality compromises)

b) What risks will the organization take on new initiatives? (e.g. new product lines)

c) What risks will the organization accept for competing objectives? (e.g. gross profit vs. market share?)

d) What is the organization's favorite product line?

Q: 21 The risk organization can work effectively in isolation without coordination with other departments.

a) True

b) False

Q: 22 Which of the following departments must collaborate with the risk organization for effective risk management?

a) Finance and security,

b) Insurance and audit,

c) human resources and compliance

d) All of the above

Q: 23 Risk organization does not work in isolation. It requires coordination amongst practically all functionaries, particularly finance, security, insurance, audit, human resources, operations, compliance and legal departments. This joint effort helps answer the three key questions and determine the bank's risk appetite – the amount of risk it is willing to accept in pursuit of its goals. The appetite decides four options for managing the risks. These are____________.

a) Avoid, accept, reduce, or share

b) Invest, insure, terminate, or outsource

c) Create, control, multiply, or eliminate

d) Monitor, evaluate, budget, or resolve

Q: 24 Which of the following statements about challenges faced by Indian banks in risk management are correct?

a) Risk data resides in different offices and levels, leading to scattered data and duplicated efforts.

b) Important data remains trapped in physical documents across the organization.

c) Same data is collected repeatedly in multiple offices, increasing workload and waste.

d) All of the above

Q: 25 Which of the following statements about improving risk management practices in Indian banks are not correct?

a) Banks are adopting centralized Management Information Systems (MIS) to streamline data collection and reporting.

b) Core banking solutions are being implemented to enable comprehensive data access and analysis.

c) Banks avoid sharing best practices to maintain competitive advantage.

d) Forums for sharing best practices across banks could help expedite improvements in risk management.

Q: 26 Which of the following actions should banks take to improve risk management?

a) Conduct a bank-wide audit to identify and rank critical risk exposure areas.

b) Assess the current risk environment and prevalent risk management practices.

c) Develop benchmarks or standards for each risk-taking activity.

d) Avoid defining clear roles and responsibilities to maintain flexibility.