



CFE-101 Sample Flashcards

You have downloaded a sample of our CFE-101 flashcards. The flashcards are designed to help you memorize key material for the SOA's CFE-101 exam.

The flashcards are in a "Q&A" format that is well-suited for reviewing the material at a high level after you complete section of the online seminar. The cards are sequenced in exactly the same order as the rest of the online seminar. Practicing your ability to recall the material in the form of an answer to a question is a great way to get ready for the actual exam.

Flashcard Formats Available

The same cards are in each format below. Only the format of the cards differs, as explained below.

1. **"Singles"**. This version contains alternating front/back sides of each card in sequence. This format is well suited for PDF viewers on your computer, tablet, or phone. Simply flip through the pages.
2. **"FrontBack"**. This version has 3 cards per page. If you print this PDF double-sided on U.S. Letter (8.5" x 11") paper, the front and back of each card will be aligned. This format also works well on Avery 5388 3x5" index cards, which can be [purchased on Amazon](#). Printing instructions are included with the full flashcard set available in the online seminar.
3. **Mobile version**. TIA's free Flashcards app for [iPhone](#), [Android](#), and the web (see Flashcards tab in online seminar) lets you study, filter, and shuffle your flashcards wherever you are. All cards are fully integrated with the online seminar, and your progress syncs across all apps. No printing or manual effort on your part to load the cards. Simply sign in, and get started.

Samples of the PDF formats are included in this PDF. You can see samples of the mobile flashcards by simply downloading the app for free.

If you have any questions, email me anytime.

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List the key features of ERM.

Source: CFE101-101: ERM for Capital and Solvency Purposes

1. Overall Governance Structure
2. Risk Management Policy
3. Risk Tolerance Statement
4. Feedback Loop

Describe the board vs. management role in risk management.

- **Board's role: oversee and monitor risk management and reporting**
- **Management's role: day-to-day risk management**
 - ▶ CEO = critical link between the Board and management
 - ▶ CEO should have ERM responsibilities and promote risk management as a core competency

Describe the risk committee - keys to effectiveness and responsibilities.

- **Risk committee** - established by the board
 - ▶ Includes risk, audit, financial reporting, and compliance staff
 - ▶ **More effective if:**
 - ▶ Diverse, inquisitive, experienced individuals
 - ▶ Members allowed to challenge risk assessment processes
 - ▶ Board and management buy-in
 - ▶ Reporting is effective
- **Typical risk committee charter responsibilities**
 - ▶ **Framework effectiveness**
 - ▶ **Compliance** with supervisory requirements
 - ▶ Establish **independent risk function** to execute committee's mandate

List the good characteristics of a CRO (appointed by CEO).

Source: CFE101-101: ERM for Capital and Solvency Purposes

- Has Board's support
- Works with CFO to integrate earnings and risk management
- Highly visible and accountable
- Facilitates risk debate and coordinates risk activities

List the questions the CRO should ask about.

Source: CFE101-101: ERM for Capital and Solvency Purposes

- Board's understanding of risk tolerance (very important to establish)
- Management's incentives
- Flow of risk information
- Insurer's performance on a risk-adjusted basis

Explain the importance of a common risk language in the insurer.

- **Competing risk language is bad**
 - ▶ Inhibits management buy-in
 - ▶ Confuses people; prevents ERM culture
 - ▶ Reinforces silos
 - ▶ Form over function: May fail to identify “real” risks
 - ▶ Creates inefficiencies and duplication
 - ▶ Leads to inconsistent risk measurement
- **Best practices for a common risk management language**
 - ▶ Universally understood top-down risk rating system
 - ▶ Standard templates and risk categories
 - ▶ Thresholds for reporting and escalation

List the steps to proactively embed risk management behaviors.

Source: CFE101-101: ERM for Capital and Solvency Purposes

- Include proactive principles in risk management strategy and policies
- Set corporate risk goals for senior managers
- Define behaviors in roles and succession/talent development
- Training programs

List the 3 aspects of developing a risk behavior model.

Source: CFE101-101: ERM for Capital and Solvency Purposes

1. Focus on **choosing/managing risk**, not eliminating it
2. Encourage people to **speak up**
3. **Empower** people and give them **skills** needed for desired behaviors

State the steps to develop a culture implementation plan.

- **Develop a risk management behavioral model**
 - Focus on tangible behaviors
- **Get support of senior management and develop their risk awareness**
 - Leverage existing programs to promote “business as usual”
- **Embed/reinforce behaviors in frameworks and processes**
 - Benchmark and measure behaviors at least annually
- **Time frame should be realistic**

List the key considerations in performance management and reward systems.

Source: CFE101-101: ERM for Capital and Solvency Purposes

- ERM implementation will **fail** if the managers don't have incentives
- Key considerations:
 - Size of incentive should motivate the targeted individual
 - Include senior management at a minimum
 - Use clear, activity-based measurements (milestones, financial stats, VaR, etc.)

State the ways that the insurer's risk function can become involved in new activities.

Source: CFE101-101: ERM for Capital and Solvency Purposes

- Utilize actuarial skills to identify/assess risks
- Strategy team should assess risks
- Prepare risk assessments before launch
- Engage relevant supervisors

List the aspects to address in the risk management policy.

Source: CFE101-101: ERM for Capital and Solvency Purposes

- Clear risk management philosophy
- Relationship between risk management and mission/values/objectives
- How risk management is embedded in activities (pricing, reserving, etc.)
- Governance and oversight (responsibilities of board, management, other areas)
- Behavioral expectations
- Scope of activities covered
- Supervisory requirements
- NB acquisition
- Risk categories and definitions

List the strategic choices in risk tolerance statement.

Source: CFE101-101: ERM for Capital and Solvency Purposes

- Use the same **time horizon** as corporate strategy (3–5 years)
- Set **boundaries** for how much risk the insurer is prepared to accept
- Make a **clear link** between risk tolerances and limits
- Base risk tolerance on **insurer-specific** circumstances
- **Focus on which risks to take**, not on how much risk to take

Describe risk tolerances vs risk limits.

Tolerance = broader risk exposure that the board accepts

- Set to achieve business strategy
- Must be translatable into risk limits
- **Parameters used to describe risk tolerance:**
 - LOBs the insurer will or won't accept
 - Earnings volatility
 - Desired capital for supervisory requirements, desired rating, and/or EC
 - Maximum aggregate risk exposure

Limit = specific threshold that can be monitored (e.g. KRIs)

- Counterparty credit limits for investments and reinsurers
- Target credit quality for reinsurers/assets
- Concentration limits
- Underwriting/pricing limits
- Reserve adequacy
- Liquidity benchmarks

List the steps of the typical roadmap to establish risk tolerance.

Source: CFE101-101: ERM for Capital and Solvency Purposes

1. **Measure** qualitative and quantitative risk separately
2. **Merge** qualitative and quantitative measurements into current risk appetite
3. **Define** and assess ongoing risk appetitive
4. **Develop** metrics to monitor
5. **Monitor** activities relative to defined appetite

State the common characteristics of emerging risks.

1. **High uncertainty:** little information \Rightarrow frequency/severity difficult to assess
2. **Difficult to quantify**
3. **No industry position:** no single insurer wants to make the first move
4. **Difficult to communicate:** danger of reacting to phantom risks
5. **Supervisory involvement often necessary**

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