Risk Management

Section A

1. Define Risk Management?

Risk Is A Future Potential Of Losing Something Of Value, Weighed Against The Potential To Gain Something Of Value. Values Such As Physical Health, Social Status, Emotional Well Being Or Financial Wealth That Can Be Gained Or Lost

Features Of Risks Include:

- Future Potential Event
- Uncertainty
- Impact
- Exposure
- Intangible

2. Mention The Types Of Hazards?

- Physical Hazard
- Moral Hazard
- Morale Hazard

3. Mention The Types Of Risks

- Financial Risk
- Static And Dynamic Risks
- Fundamental And Particular Risks
- Pure And Speculative Risks
- Exchange Rate Risks
- Business Risks
- Liquidity Risks
- Country Risks
- Market Risks
- Credit Risks
- Operational Risks

4. Define Forward Contracts?

A Forward Contract Or Simply A Forward Is A Non-Standardized Contract Between Two Parties To Buy Or To Sell An Asset At A

Specified Future Time At A Price Agreed Upon Today, Making It A Type Of Derivative Instrument.

5. Define Future Contracts?

A Futures Contract Is A Contract Between Two Parties Where Both Parties Agree To Buy And Sell A Particular Asset Of Specific Quantity And At A Predetermined Price, At A Specified Date In Future.

6. Define Options?

Options Are Contracts That Grant The Right, But Not The Obligation To Buy Or Sell An Underlying Asset At A Set Price On Or Before A Certain Date. The Right To Buy Is Called A Call Option And The Right To Sell Is A Put Option.

7. Define Swaps?

A Swap Is A Derivative Contract Through Which Two Parties Exchange Financial Instruments. These Instruments Can Be Almost Anything, But Most Swaps Involve Cash Flows Based On A Notional Principal Amount That Both Parties Agree To.

8. Name The Types Of Derivatives Tool?

- Forward
- Futures
- Options
- Swaps

9. Name The Types Of Options?

- Call Option
- Put Option
- Real Option
- Traded Option
- Vanilla And Exotic Options
- American Options
- European Options
- Index Options
- Stock Options

10. Name Different Types Of Swaps?

- Currency Swaps
- Interest Rate Swaps

11. Define Customer Relationship Management

Customer Relationship Management (Crm) Is A Term That Refers To Practices, Strategies And Technologies That Companies Use To Manage And Analyze Customer Interactions And Data Throughout The Customer Lifecycle, With The Goal Of Improving Customer Service Relationships And Assisting In Customer Retention And Driving Sales Growth.

12. Define Pure Risks?

The Risk Involved In Situations That Present The Opportunity For Loss But No Opportunity For Gain. Pure Risks Are Generally Insurable,

Whereas Speculative Risks (Which Also Present The Opportunity For Gain) Generally Are Not.

13. Define Derivatives?

A Derivative Is A Financial Contract Between Two Parties That Derives Its Value From Other Underlying Assets

Underlying Securities For Derivatives Are:

- Commodities
- Precious Metals
- Short Term Debt Securities
- Interest Rates
- Stock Index

14. What Is Corporate Risk Management?

It Refers To All Methods That A Company Uses To Minimise Financial Losses. Risk Managers, Executives, Line Managers, Employees, Perform Practices To Prevent Loss Exposure Through Internal Controls Of People And Technologies

15. State Various Risk Financing Techniques?

- Avoidance
- Retention
- Loss Control
- Insurance And Non Insurance Transfers

16. Define Hedging?

It Is A Risk Reduction Technique Whereby Entity Uses A Derivative Or Other Similar Instrument To Offset Future Changes In The Fair Value Or Cash Flows Of An Asset Or Liability, It Eliminates The Risk Of Price Movement

17. State Any 2 Features Of Commodity Market?

- Organised
- Standardised
- Eliminates Counterparty Risks
- Regulated Market Environment
- Physical Delivery Of Commodities

18. Define Business Risks

Business Risk Is The Possibilities A Company Will Have Lower Than Anticipated Profits Or Experience A Loss It Is Influenced By Sales Volume, Input Costs Etc

Types Of Business Risks:

- Strategic Risks
- Compliance Risks
- Financial Risks
- Operational Risks
- Reputational Risks
- Other Risks

19. What Is Value At Risk?

It Is A Statistical Technique Used To Measure And Quantify The Level Of Financial Risks Within A Firm Or Investment Portfolio Over A Specific Time Frame, It Is Used By Investment And Commercial Banks To Determine The Extent And Occurrence Of Potential Loss

20. Name The Traders In Derivative Market?

- Arbitrageurs
- Hedgers
- Speculators

21. Define Liquidity Risk?

It Refers To The Uncertaininty Caused By Secondary Market For A Company To Meet Its Future Short Term Financial Obligation Is Called Liquidity Risks

22. Give The Meaning Of Static Risks?
    Static Risks Are Risks That Involve Losses Brought About Irregular Action Of Nature Or By Dishonest And Mistakes Of A Man, It Effects Only The Individuals

23. What Are Acceptable And Non Acceptable Risks?
    Acceptable Risks Are Those Which Are Tolerable By The Society In View Of The Social, Political And Economic Benefits
    Non Acceptable Are Those Which Are Not Tolerable By The Society

Section B Or C

1. Explain Risk Management Process?

Step 1: Identify The Risks

List The Things That Might Inhibit The Ability To Meet Objectives, And The Risks That Harms The Company

Step 2: Identify The Causes

Try To Identify What Might Cause These Things To Occur

Step 3: Identify The Control

Identify All The Things That Are In Place That Are Aimed At Reducing The Likelihood Of Your Risks From Happening

Step 4: Establish Your Likelihood And Consequences

Every Person Working In The Organisation Needs To Contribute For Growth Of A Company

Step 5: Establish Your Risk Rating Descriptors

Extreme Risks Need To Be Decided In Advance, Prioritise The Risks As Per There Effect To The Company

Step 6: Add Other Controls

Any Risks That Is Rated High Need To Have Additional Controls , It Overcome It

Step 7: Make A Decision

If It Is A High Risky Project, Then Decisions Are To Be Taken, Weather To Continue Of Withheld The Project

Step 8: Monitor And Review

All Risks Are To Be Monitored And Reviewed Regularly As Per There Priorities , And Should Be Continuously Assessed To Overcome Them

2. What Are The Various Means Of Managing Risks
   - Avoidance
   - Loss Control
   - Retention
   - Non Insurance Transfers
   - Insurance

3. Explain The Limitations Of Risk Management
   - Complex Calculation
   - Unmanaged Loss
   - Ambiguity
   - Depends On External Entities
   - Mitigation
   - Difficulty In Implementing
   - Performance
   - Potential Threats

4. Explain The Different Types Of Risk Exposure?
   - Personal Loss Exposure
   - Property Loss Exposure
   - Liability Loss Exposure
   - Catastrophic Loss Exposure
   - Accidental Loss Exposure

5. Explain The Different Types Of Business Risks
   - Strategic Risks
   - Compliance Risks
   - Financial Risks
   - Operational Risks
   - Reputational Risks

- Other Risks

6. Explain The Features Of Commodity Markets

- Organised: All Commodity Markets Are Traded In Organised Exchange, Namely India Has Six National Commodity Exchanges Namely, Multi Commodity Exchange(Mcx), National Commodity And Derivatives Exchange (Ncdex), National Multi-Commodity Exchange (Nmce) And Indian Commodity Exchange (Icex), The Ace Derivatives Exchange (Ace) And The Universal Commodity Exchange (Ucx).
- Standardised: It Is Highly Standardised With Quality, Quantity And Delivery Date
- Eliminates Counterparty Risks: They Use Clearing Houses To Guarantee The Terms Of Future Contracts, By Eliminating Risks
- Facilitates Margin Trading: The Traders In Commodity Markets Do Not Put There Entire Value In The Contract , Rather Invest Only 4-5% Of There Stock Value
- Closing A Position: All Commodity Markets Are Closely Regulated By Government Agencies , To Ensure Fair Practice
- Regulated Market Environment: These Contracts Are Highly Standardised With Quality, Quantity And Delivery Date Which Is Predetermined
- Physical Delivery: Actual Delivery Of Commodities Are Made On Expiry Of The Contract As Specified By The Commodity Exchange.

7. Difference Between Forwards And Futures?

	Forward Contract	Future Contract
Definition	A Forward Contract Is An Agreement Between Two Parties To Buy Or Sell An Asset (Which Can Be Of Any Kind) At A Pre-Agreed Future Point In Time At A Specified Price.	A Futures Contract Is A Standardized Contract, Traded On A Futures Exchange, To Buy Or Sell A Certain Underlying Instrument At A Certain Date In The Future, At A Specified Price.
Structure & Purpose	Customized To Customer Needs. Usually No Initial Payment Required. Usually Used For	Standardized. Initial Margin Payment Required. Usually Used For Speculation.

	Hedging.	
Transaction Method	Negotiated Directly By The Buyer And Seller	Quoted And Traded On The Exchange
Market Regulation	Not Regulated	Government Regulated Market (The Commodity Futures Trading Commission Or Cftc Is The Governing Body)
Institutional Guarantee	The Contracting Parties	Clearing House
Risk	High Counterparty Risk	Low Counterparty Risk
Guarantees	No Guarantee Of Settlement Until The Date Of Maturity Only The Forward Price, Based On The Spot Price Of The Underlying Asset Is Paid	Both Parties Must Deposit An Initial Guarantee (Margin). The Value Of The Operation Is Marked To Market Rates With Daily Settlement Of Profits And Losses.
Contract Maturity	Forward Contracts Generally Mature By Delivering The Commodity.	Future Contracts May Not Necessarily Mature By Delivery Of Commodity.
Expiry Date	Depending On The Transaction	Standardized
Method Of Pre-Termination	Opposite Contract With Same Or Different Counterparty. Counterparty Risk Remains While Terminating With Different Counterparty.	Opposite Contract On The Exchange.
Contract Size	Depending On The Transaction And The Requirements Of The Contracting Parties.	Standardized
Market	Primary & Secondary	Primary

8. Explain The Different Types Of Risks?

- Financial Risks: It Is The Risk Borne By Equity Share Holders Due To A Firms Use Of Debt, If The Company Raises Capital By Borrowing Money, It Needs To Repay Back At Some Future Date
- Static And Dynamic Risks: Dynamic Risks Are Those Resulting From Changes In The Economy, Static Risks Occur Even If There Is No Change In The Economy
- Fundamental And Particular Risks: Fundamental Risks Involve Losses That Are Impersonal In Origin And Consequence, Particular Risks Involve Losses That Arise Out Of Individual Events And Are Felt By Individuals Rather Than The Entire Group
- Pure And Speculative Risks: Speculative Risks Are Those Where There Is A Possibility Of Profits Or Loss, And Are Not Insurable, Where As Pure Risks Are Those Which Is Insurable And There Is Only Possibility Of Loss.
- Exchange Rate Risks: This Is Particularly Important For The Investors Dealing With Over Seas Investment , And Those Who Deal With Other Countries Currencies
- Business Risks: It Is The Uncertainty Of Income Caused To A Company, Due To Its Sales Volume, Cost, Etc
- Liquidity Risks: It Is The Uncertainty Introduced By The Secondary Market , To Meet Its Future Short Term Obligation
- Country Risks: It Is Also Termed As Political Risks, It Is The Risk Of Investing Funds In Another Company
- Market Risks: It Deals With Risks Caused Due To Primary, Secondary Market Price Fluctuations, This Type Occurs While Dealing In Shares And Other Securities
- Credit Risks: It Is The Risk Of Loss Caused Due To A Debtors Non Payment Of A Loan Or Other Principal Amount.
- Operational Risks: It Is The Risk Caused Due To Inadequate Or Failed Internal Process

9. Explain Derivatives?

A Derivative Is A Contract Between Two Or More Parties Whose Value Is Based On An Agreed-Upon Underlying Financial Asset (Like A Security) Or Set Of Assets (Like An Index). Common Underlying Instruments Include Bonds, Commodities, Currencies, Interest Rates, Market Indexes And Stocks.

Futures Contracts, Forward Contracts, Options, Swaps, And Warrants Are Common Derivatives. A Futures Contract, For

Example, Is A Derivative Because Its Value Is Affected By The Performance Of The Underlying Contract.

- Forwards
- Futures
- Options
- Swaps

Forward

A **Forward Contract** Or Simply A **Forward** Is A Non Standardized **Contract** Between Two Parties To Buy Or To Sell An Asset At A Specified Future Time At A Price Agreed Upon Today, Making It A Type Of Derivative Instrument.

Features Of Forward Contracts:

1. Counter Party Risks
2. Underlying Assets
3. Flexibility
4. Settlement
5. Contract Price

Advantages Of Forward Contracts:

1. Hedge Risks
2. No Margin Required
3. No Initial Cost
4. Negotiability

Futures

1. Highly Standerdised
2. Future Exchanges
3. Fluctuatios In The Prices
4. No Counter Party Risks
5. Helps In Risk Management
6. Guarentees Performance
7. Limits Price Fluctuation
8. There Is No Counter Party Risks

Swaps:

It Is A Method Of Reducing Financial Risks

1. Currency Swaps
2. Interest Rate Swaps

Options

It Is An Agreement That Gives The Owner The Right , But Not The Obligation To Buy Or Sell Specific Asset

Types:

- Call Option
- Put Option
- American Option
- Traded Options
- Vanilla And Exotic Options
- Index Options
- Stock Options

10. Explain The Reasons For Interest Rate Changes?
    - ➢ Political short term gains
    - ➢ Deferred consumption
    - ➢ Inflationary expectations
    - ➢ Alternative investments
    - ➢ Risk of investments
    - ➢ Liquidity preference
    - ➢ High tax rates
    - ➢ Status of economy

11. Explain The Characteristics Of Swaps?

- ➢ Basically a forward
- ➢ Double coincidence of wants
- ➢ Comparative credit advantage
- ➢ Flexibility
- ➢ Necessity of an intermediary
- ➢ Easy settlements
- ➢ It is a long term agreement