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CPCU-500

ExamName: Becoming a Leader in Risk Management and Insurance

Exam Version: 6.0

Questions & Answers Sample PDF

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Question 1. (Single Select)

The Growers Insurance Company has begun a SWOT analysis because it has failed to meet its loss ratio goals for three consecutive years. Growers has various strategies in place that have proven successful in the past. Which of the following would be considered a strength that Growers might be able to capitalize on to address its problem?

A: Competition is continuing to drive insurance rates down.
B: Growers' underwriting staff is very experienced.
C: Growers' surplus is adequate for the present.
D: Various markets have been identified for growth.

Answer: B

Explanation:
In CPCU 500, SWOT is used as a strategic decision-making tool to clarify what an organization can control versus what it must respond to. The key rule is that Strengths and Weaknesses are internal (resources, capabilities, culture, processes), while Opportunities and Threats are external (market conditions, competitors, regulation, economic forces). Because Growers is trying to correct an unfavorable loss ratio, the best "strength" should be an internal capability that can directly improve underwriting performance.
Option B fits this definition. An experienced underwriting staff is an internal, controllable capability that can be leveraged to improve results through better risk selection, stronger pricing judgment, tighter terms and conditions, improved portfolio management, and more effective corrective action (for example, identifying segments driving loss experience and applying targeted underwriting changes). These actions are directly connected to managing frequency/severity and restoring underwriting profitability.
By contrast, option A is an external market force driven by competitors and is typically a threat because it pressures pricing downward. Option D describes a potential external opportunity (growth markets) rather than an internal strength. Option C is internal, but "adequate surplus" is more of a financial condition than a distinctive capability—and it does not directly address the underwriting drivers causing loss ratio deterioration as strongly as underwriting expertise does.

Question 2. (Single Select)

George is CFO of XYZ Medical and has just learned that the company is about to announce a major breach into its customer database. Two days before the proposed announcement date, George sells a 10,000 share block of his stock in XYZ Medical. After the hacking is announced, the share price falls by 27%. George's actions likely constitute

A: Business judgment.
B: Insider trading.
C: Outside trading.
D: Reasonable care.

Answer: B

Explanation:
CPCU 500 emphasizes professional responsibility, ethics, and sound decision-making as part of building a strong foundation for leadership in risk and insurance. A key principle is recognizing when a decision crosses from acceptable business conduct into unethical or illegal behavior. In this situation, George is a corporate officer who learns of a significant data breach before it is publicly disclosed. A major breach is typically material nonpublic information because a reasonable investor would likely consider it important when deciding whether to buy, sell, or hold the stock, and the later 27% price decline strongly reinforces its material impact.
Selling shares shortly before the public announcement indicates George acted while in possession of nonpublic information to avoid losses that other investors could not foresee. That aligns with the core concept of insider trading: trading a company's securities based on material information that is not available to the general public, which undermines market fairness and violates expected ethical standards.
The other options do not fit. "Business judgment" refers to legitimate management decision-making, not trading personal securities using confidential information. "Outside trading" is not a recognized concept here. "Reasonable care" relates to acting prudently to avoid harm, but it does not justify using confidential information for personal financial advantage. CPCU 500's ethical framework supports transparency, integrity, and avoiding conflicts of interest—standards George's actions likely violate.

Question 3. (Single Select)

The direct effects from labor union strikes fall under which one of the following general categories of risk sources?

A: Economic risk sources

B: Catastrophic risk sources

C: Human risk sources

D: Natural risk sources

Answer: C

Explanation:

CPCU 500 groups sources of risk into broad categories to help risk professionals identify where uncertainty originates and what types of controls may be effective. One of these categories is human risk sources, which arise from human actions, decisions, behavior, or conflict. These can be intentional or unintentional and include acts or conditions created by people that can disrupt operations or cause loss.

A labor union strike is a direct result of human behavior and organized human decision-making. The immediate consequences—work stoppages, reduced productivity, operational disruption, delayed shipments, and potential contract penalties—stem from a collective action by employees (and related negotiations with management). Because the trigger and the effects are rooted in people and their actions, CPCU 500 classifies strikes as human risk sources.

The other categories do not match the direct cause. Natural risk sources involve weather and geological events such as hurricanes, floods, and earthquakes. Catastrophic risk sources generally refer to large-scale events that produce severe, widespread losses (often natural disasters, terrorism, or major systemic events), not routine labor actions. Economic risk sources relate to changes in the economy or markets such as inflation, interest rates, unemployment, or recessions. While a strike can have economic impacts, the question asks about the direct effects and the source of the risk, which is the human action of striking rather than broader economic conditions.

Question 4. (Single Select)

The direct effects from labor union strikes fall under which one of the following general categories of risk sources?

A: Economic risk sources

B: Catastrophic risk sources

C: Human risk sources

D: Natural risk sources

Answer: C

Explanation:

Under CPCU 500, risk sources are categorized to help risk professionals understand where uncertainty originates and how it may affect an organization. The major general categories include natural, human, economic, and catastrophic risk sources. The key to answering this question is identifying the direct source of the risk rather than its secondary effects.

Labor union strikes are the result of deliberate human actions arising from workplace negotiations, disputes, or collective bargaining decisions. The operational disruptions—such as halted production, supply chain interruption, reduced revenue, or contractual penalties—stem directly from decisions and behaviors of people. Therefore, strikes are classified as human risk sources.

Although strikes may produce financial consequences, they are not categorized primarily as economic risk sources. Economic risk sources relate to broader market forces such as inflation, interest rate changes, recessions, or currency fluctuations. Similarly, strikes are not natural risk sources, which involve perils like hurricanes, earthquakes, or floods. Nor are they typically catastrophic risk sources, which refer to large-scale events causing widespread devastation across regions or industries.

CPCU 500 emphasizes analyzing risk by tracing it back to its origin. Since a labor strike originates from organized human decision-making and behavior, its direct effects are properly classified under human risk sources.

Question 5. (Single Select)

An earthquake destroyed the facilities of the main supplier of mufflers for an auto manufacturer. This is an example of which one of the following types of operational risk for the auto manufacturer?

A: Systems risk

B: Process risk

C: External event risk

D: Performance risk

Answer: C

Explanation:

CPCU 500 emphasizes anticipating breakdowns in how an organization operates, including disruptions that originate outside the organization but still affect its ability to deliver products and services. Operational risk commonly includes categories such as systems risk, process risk, performance risk, and external event risk. The key to this question is identifying that the trigger is not an internal failure at the auto manufacturer, but a disruptive event occurring in the external environment that impacts operations through the supply chain.

Here, an earthquake destroys the facilities of the manufacturer’s main supplier of mufflers. A natural disaster is an external event, and the resulting interruption is a classic supply chain disruption. Even though the loss physically occurs at the supplier’s site, the auto manufacturer experiences operational consequences such as production delays, inability to meet delivery schedules, increased costs to source alternative parts, potential penalties, and reputational harm. This aligns directly with external event risk, which includes losses caused by events outside the organization’s direct control (for example, natural catastrophes, political events, terrorism, or major third-party outages).

By contrast, systems risk relates to failures of IT systems or infrastructure, process risk involves breakdowns in internal procedures and controls, and performance risk focuses on failures to meet objectives due to people or execution issues. Because the initiating cause is an external catastrophe affecting a third party, the correct classification is external event risk.