

P67

Diploma in insurance

Unit P67- Fundamentals of risk management

October 2014 examination

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit P67 – Fundamentals of risk management

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 200 marks, as follows:

Part I	14 compulsory questions	140 marks
Part II	2 questions selected from 3	60 marks

- You should answer **all** questions in Part I and two out of the three questions in Part II.
- You are advised to spend no more than two hours on Part I.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show each step in any calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Answer each question on a new page. If a question has more than one part, leave six lines blank after each part.

PART I

Answer ALL questions in Part I

Note form is acceptable where this conveys all the necessary information

1.
 - (a) Explain briefly risk appetite. (3)
 - (b) State **three** risk categories that an organisation may use when determining its risk appetite. (3)
 - (c) State the advantages of outlining a risk appetite policy. (4)

2.
 - (a) State **five** advantages of using questionnaires as a means of risk identification. (5)
 - (b) State **five** disadvantages of using questionnaires as a means of risk identification. (5)

3. Describe the Dow Fire and Explosion Index and explain the process that would be followed to assess a risk. (12)

4.
 - (a) Explain risk aware culture as it relates to an organisation. (4)
 - (b) Describe briefly the **five** activities that promote a risk aware culture known as LILAC. (5)

5. Explain the difference between the terms 'speculative risk' and 'operational risk' providing **two** examples of **each** type. (8)

6. State **three** sources of external information and explain how they assist the risk manager in identifying and evaluating risks. (9)

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7. Outline the role of a risk committee giving **five** examples of its responsibilities. (12)
8. (a) Describe briefly the purpose of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). (3)
- (b) Identify and outline **four** components of the COSO second cube face. (8)
9. (a) Identify the **five** key steps in the risk management process. (5)
- (b) Explain **two** of the key steps identified in **part (a)** above. (6)
10. Describe briefly **three** types of risk management services offered by intermediaries and explain how they support their commercial clients in meeting their risk management goals. (12)
11. (a) Explain the purpose of flow charts and their usefulness, in the context of risk identification. (3)
- (b) Prepare a flow chart for a business of your choice. (5)
12. Identify **six** benefits of risk management. (6)
13. Describe briefly the **four** classes of risk controls providing an example of each. (12)
14. Explain the recommended practices that boards of listed companies should adhere to under the UK Corporate Governance Code. (10)

QUESTIONS CONTINUE OVER THE PAGE

PART II

Answer TWO of the following THREE questions
Each question is worth 30 marks

- 15.** You are the Internal Audit Manager within an organisation. At a recent Board meeting, you were asked to prepare for an internal audit of the risk management process.
- (a)** State the aim of an Internal Audit team as defined by the Institute of Internal Auditors (IIA). **(2)**
 - (b)** Explain the role and assurances that the internal audit has to provide in relation to risk management. **(18)**
 - (c)** Explain how the responsibilities of the internal audit function differ from those of the risk management committee. **(10)**
- 16.** A supermarket chain has experienced an increase in the number of property insurance claims and as a result has received notice of considerably increased renewal premiums on their group policy from their insurers.
- (a)** Describe the options available to the supermarket chain in order to manage its insurance costs, whilst controlling its future claims experience (*exclude alternative risk transfer*). **(20)**
 - (b)** Explain the advantages and disadvantages to the supermarket chain of self-insurance. **(10)**
- 17.**
- (a)** Discuss how the 2008 financial crisis developed and the causes. **(20)**
 - (b)** Outline **five** reasons why risk management systems can fail. **(10)**

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