

P67

Diploma in Insurance

Unit P67 – Fundamentals of risk management

October 2015 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. Outline the various stages in the risk management process. (14)

2. (a) Outline the objectives for a governance, risk and compliance (GRC) framework. (6)
(b) State the main benefits expected from adopting a GRC framework. (4)

3. Outline the consequences of the failure of the BP risk management systems that led to the Deepwater Horizon 'disaster' in 2010. (10)

4. Describe briefly **six** sources of internal information that an organisation might use to evaluate the risks it faces. (12)

5. List **ten** top risk concerns facing organisations as illustrated by the responses in the AON Global Risk Management Surveys since 2007. (10)

6. Outline the type of risk control class that should be used and provide an example for **each** of the following situations:
 - (a) To stop a risk from happening or an unwanted outcome arising. (2)
 - (b) To ensure that a particular outcome is achieved. (2)
 - (c) To identify unwanted occurrences that have already happened. (2)

7. State **three** advantages and **three** disadvantages of both physical inspections and brainstorming workshops as methods of collecting risk data. (12)

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8. (a) Explain briefly:
- (i) why new and emerging risks occur; (4)
 - (ii) why they are important to risk professionals and their organisations. (4)
- (b) Provide **two** examples of new and emerging risks. (2)
9. Describe briefly the **four** levels of Renn and Rohrmann's structured framework on risk perception. (8)
10. State **seven** typical responsibilities that a risk manager within an organisation might have. (7)
11. (a) Describe briefly insurance derivatives and catastrophe bonds, and how they are used as a means of alternative risk transfer. (6)
- (b) Explain how a risk financing plan might assist an organisation in choosing its options in financing risks it faces. (5)
12. Define the following types of risk:
- (a) Market risk. (5)
 - (b) Reputation risk. (7)
13. Describe briefly **each** of the following risk categorisation systems:
- (a) COSO reporting. (3)
 - (b) FIRM classification. (3)
 - (c) PESTLE analysis. (4)
14. Identify **four** of the key provisions contained within the Sarbanes-Oxley Act 2002 and outline what the Act has established since it came into effect in 2002. (8)

QUESTIONS CONTINUE OVER THE PAGE

PART II

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

- 15.** You are the Risk Manager for an organisation that operates within an enterprise risk management (ERM) framework. The organisation has recently acquired a business that has not previously had such a framework in place. For the benefit of the newly acquired company:
- (a)** define ERM, explaining why it is important; **(5)**
 - (b)** describe how ERM emerged, the benefits and how it operates within an organisation; **(15)**
 - (c)** describe an internal control framework that might be used within an organisation with an ERM system. **(10)**
- 16.** You are a risk management consultant brought in to advise an organisation on its attitude to risk.
- Advise the Board on the advantages of adopting a risk aware culture, how to define its risk appetite and how to establish its risk tolerance levels. **(30)**
- 17. (a)** Explain mathematical probability theory and outline its limitations when used to analyse and predict future risk impact and trends. **(15)**
- (b)** Illustrate how a risk manager might rate and rank risks in terms of both frequency and impact in order to decide which to prioritise for control. **(15)**

