

Risk management in insurance

Purpose

To enable managers to understand the management of risk within the context of an insurance organisation.

Assumed knowledge

It is assumed that the candidate already has the knowledge gained from a study of the relevant sections of IF1 Insurance, legal and regulatory or equivalent examinations.

Summary of learning outcomes

1. Understand the role of risk management in the insurance sector.
2. Understand the elements of an effective risk management framework in the insurance sector.
3. Understand the regulatory framework for risk management in the insurance sector.
4. Understand the management of strategic risks.
5. Understand the management of core insurance risks.
6. Understand the management of financial risk.
7. Understand the management of operational risk.
8. Understand capital management in the insurance sector.

Important notes

- **Method of assessment:** 3 × 80 mark course-work questions. These are submitted online within a 12 month enrolment period. Candidates are required to pass all three coursework assignments to be awarded the credit for the unit.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
 1. Visit www.cii.co.uk/qualifications
 2. Select the appropriate qualification
 3. Select your unit on the right hand side of the page

1. Understand the role of risk management in the insurance sector

- 1.1 Explain the insurance and intermediary sectors in a global context.
- 1.2 Analyse the risks inherent in the insurance sector.
- 1.3 Discuss risk management in insurance organisations.
- 1.4 Discuss the risks issues with intermediaries and support organisations.
- 1.5 Evaluate stakeholder expectations for risk management.

2. Understand the elements of an effective risk management framework in the insurance sector

- 2.1 Explain the components of a typical risk management process in the insurance sector.
- 2.2 Analyse the concepts of risk appetite and its uses in the insurance sector.
- 2.3 Analyse the roles, responsibilities and priorities of different management and functional groups.
- 2.4 Explain the purpose and use of policy, procedures and systems in supporting a risk management framework.

3. Understand the regulatory framework for risk management in the insurance sector

- 3.1 Discuss the rationale for risk management regulation.
- 3.2 Explain the three pillars approach to risk management.

4. Understand the management of strategic risks

- 4.1 Analyse the relationship between strategy, business planning and risk management.
- 4.2 Analyse the risks associated with the strategies for insurance organisations.

5. Understand the management of core insurance risks

- 5.1 Discuss the difference between expected and unexpected losses.
- 5.2 Evaluate the management of underwriting risk.
- 5.3 Evaluate the management of claims and reserving risks.
- 5.4 Evaluate the use and application of reinsurance.

6. Understand the management of financial risk

- 6.1 Define financial risk in an insurance context.
- 6.2 Evaluate common techniques for managing financial risk.
- 6.3 Evaluate the drivers for an insurance company's financial risk management strategy.
- 6.4 Apply financial risk management techniques to specific scenarios.

7. Understand the management of operational risk

- 7.1 Discuss the scope of operational risk within an insurance organisation.
- 7.2 Analyse different techniques for assessing operational risk.
- 7.3 Evaluate how operational risk management can impact reputation.

8. Understand capital management in the insurance sector

- 8.1 Explain the role of operational capital.
- 8.2 Explain the role of solvency capital.
- 8.3 Evaluate the drivers for an insurance company's solvency capital requirements.
- 8.4 Evaluate strategies for capital management.

Reading list

The following list provides details of various publications which may assist you with your studies.

Note: The examination will test the syllabus alone. However, it is important to read additional sources as 10% of the exam mark is allocated for evidence of further reading and the use of relevant examples.

The reading list is provided for guidance only and is not in itself the subject of the examination.

The publications will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

Risk management in insurance. London: CII. Study text 992.

Insurance, legal and regulatory. London: CII. Study text IF1.

Books (and ebooks)

Bank and insurance capital management. Frans De Weert. Chichester: Wiley, 2011.*

Capital structure and corporate financing decisions: theory, evidence, and practice H. Kent Baker and Gerald S. Martin. Wiley, 2011.*

Capital requirements, disclosure, and supervision in the European insurance industry: new challenges towards Solvency II. Maria Grazia Starita, Irma Malafronte. Palgrave Macmillan, 2014.

Global perspectives on insurance today: a look at national interests versus globalisation. C Kempler et al. London: Palgrave Macmillan, 2010.*

Emerging risks: a strategic management guide. Anne Barr, Catherine Raimbault. Gower, 2011.*

Financial institutions management: a risk management approach. 7th ed. Anthony Saunders, Marcia Millon Cornett. McGraw-Hill, 2011.

Handbook of the economics of risk and uncertainty. Mark Machina, W. Kip Viscusi. North Hollans, 2014.*

Insurance brokers: an industry accounting and auditing guide. 5th ed. M Grice, S Ouarbya. London: CCH Wolters Kluwer, 2012.

Introduction to risk management and insurance. 10th ed. Mark S Dorfman, David A Cather. Upper Saddle River, New Jersey: Pearson Prentice Hall, 2013.

Life insurance risk management essentials. Michael Koller. Heidelberg: Springer, 2011.

ORSA: Design and implementation. Bogie Azdemir. London: Risk Books, 2015.

Risk management for insurers: risk control, economic capital, and Solvency II. Rene Doff. 3rd ed. London: Risk Books, 2015.

Risk management and insurance: perspectives in a global economy. Harold Skipper and W Jean Kwon. Oxford: Blackwell, 2007.

Solvency II handbook: practical approaches to implementation. Rene Dorf. London: Risk Books, 2014.

Strategic project risk appraisal and management. Elaine Harris. Farnham, Gower, 2009.

The economic value of general insurance. London: ABI, 2005.

Ebooks

The following ebooks are available through Discovery via www.cii.co.uk/discovery (CII/PFS members only):

A short guide to operational risk. David Tattam. Gower, 2011.

Dynamic risk assessment: the practical guide to making risk-based decisions with the 3-level risk management model. Stephen Asbury. Routledge, 2014.

Foundations of financial risk: and overview of financial risk and risk-based regulation. Richard Apostolik, Christopher Donohue. New Jersey: Wiley, 2015.

Fundamental aspects of operational risk and insurance analytics: a handbook of operational risk. Marcelo G. Cruz. Wiley, 2015.

Principles of risk management and insurance. 12th ed. George E. Rejda, Michael J. McNamara. Pearson Education, 2014.

Risk management and financial institutions. John Hull. Wiley, 2015.

Risk analysis in finance and insurance. 2nd ed. A V Melnikov. Boca Raton, Florida: CRC Press, 2011.

Treatises on Solvency II. Meinrad Dreher. Heidelberg: Springer, 2015.

Factfiles and other online resources

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

- The business of insurance broking. Ian Youngman
- Insurance accounting (general business). Ian Hutchinson.
- Insurance in the single market. Paul Clarke.
- An examination of factors leading to a “hard” or “soft” insurance market. Ian Searle.
- Efficiency tactics within the insurance industry. Ian Searle.
- Recent developments to Solvency II. Brad Baker.

Institute of Risk Management www.theirm.org.

Further articles and technical bulletins are available at www.cii.co.uk/knowledge (CII/PFS members only).

Journals and magazines

Financial times. London: Financial Times. Daily. Also available online at www.ft.com.

Post magazine. London: Incisive Financial Publishing. Weekly. Also available online at www.postonline.co.uk.

The Economist. London: Economist Newspaper. Weekly.

The Journal. London: CII. Six issues a year. Also available online via www.cii.co.uk/knowledge (CII/PFS members only).

Further periodical publications are available at www.cii.co.uk/journalmagazines (CII/PFS members only).

Reference materials

Concise encyclopedia of insurance terms. Laurence S. Silver, et al. New York: Routledge, 2010.*

Code of ethics. London: CII, 2014. Available online at www.cii.co.uk.

Dictionary of insurance. C Bennett. 2nd ed. London: Pearson Education, 2004.

International Financial Reporting Standards. IFRS Foundation. London: IFRS Foundation. Annual.

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via www.cii.co.uk/lamont (CII/PFS members only).

Manual of accounting. 4v. PriceWaterhouseCoopers. Haywards Heath: Bloomsbury Professional. Annual.

Risk management: principles and guidelines (BS ISO 31000:2009). British Standards Institute, March 2010.

The UK Corporate Governance Code. Financial Reporting Council. September 2012. Available online via www.frc.org.uk.

*Also available as an ebook through Discovery via www.cii.co.uk/discovery (CII/PFS members only).

Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides from the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Alternatively, if you have a current study text enrolment, the latest exam guides are available via www.revisionmate.com.

Older guides are available via www.cii.co.uk/pastexamguides (CII/PFS members only).

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilrevision (CII/PFS members only).