

P67

Diploma in Insurance

Unit P67 – Fundamentals of risk management

October 2016 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. Identify the **six** requirements directors must have regard for 'amongst other matters', within the terms of the Companies Act 2006. **(6)**

2. Describe briefly what is meant by 'risk management' and outline the **four** factors upon which the risk management process depends. **(7)**

3. Outline **five** advantages to an organisation in creating a captive insurance company. **(10)**

4. **(a)** Describe briefly what is meant by a hazard and operability (HAZOP) study. **(2)**
(b) Explain briefly, providing an example, how a HAZOP is used in the risk management process. **(6)**

5. **(a)** Describe briefly an example of a risk categorisation system. **(6)**
(b) Explain why risk categorisation systems are important to an organisation. **(4)**

6. Explain, with an appropriate example, why it is incorrect to think of risk only in negative terms. **(12)**

7. Outline the purpose and key content of the document 'A Structured Approach to Enterprise Risk Management (ERM) and the Requirements of ISO 31000'. **(10)**

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8. Describe briefly the risks that might arise for an organisation through their involvement with the following stakeholder groups:
- (a) Suppliers. (3)
 - (b) Distributors. (3)
 - (c) Quoted shareholders. (3)
 - (d) Employees. (3)
9. Describe briefly **four** of the key developments in risk management theory since 1950. (12)
10. Although corporate governance codes differ across the world there are a number of principles that generally appear in all such codes.
- Identify **five** such commonly adopted principles. (10)
11. (a) State what is indicated if a risk event has a probability of 0.00. (3)
- (b) A company has a workforce of 50,000. Historically, the company experiences two workplace injuries per 1,000 employees each year.
- (i) Calculate the probability rating of an injury occurring in the next policy year. (2)
 - (ii) Calculate how many employees an underwriter would expect to be injured in the next policy year. (2)
- (c) State the circumstances in which a statistician would **add** the individual probabilities of two events occurring to obtain the combined probability of both events occurring. (3)

QUESTIONS CONTINUE OVER THE PAGE

- 12. (a)** State the HM Treasury's definition of risk appetite used in *The Orange Book: Management of Risk – Principles and Concepts*. **(3)**
- (b)** Differentiate between risk appetite and risk tolerance. **(2)**
- (c)** Produce a table that illustrates a risk appetite policy and state how it could be used to decide whether particular risks can be tolerated. **(7)**
- 13.** Explain why a commercial organisation would wish to purchase insurance as part of its risk financing programme. **(10)**
- 14.** Explain the possible consequences of a failure to observe the duties regarding risk presentation under the Insurance Act 2015 and the Consumer Insurance (Disclosure and Representations) Act 2012. **(11)**

PART II

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

- 15.** Discuss the main challenges and opportunities that an organisation operating worldwide will face in taking a global approach to its insurance arrangements. **(30)**
- 16.** You are a newly appointed risk manager for a chain of retail stores. You have been asked to gather information to identify the risks that might be facing the organisation.
- Prepare a report that:
- (a)** identifies the various sources of information, tools and techniques that could be used to assist you; **(20)**
 - (b)** discusses the types of new and emerging risks that might affect the organisation. **(10)**
- 17. (a)** Discuss the extent to which excessive risk taking may have contributed to the financial crisis of 2008. **(15)**
- (b)** Explain some of the changes introduced since 2008 to protect against such excessive risk taking. **(15)**

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