

P67

Diploma in Insurance

Unit P67 – Fundamentals of risk management

April 2017 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. Define strategic risk and operational risk and describe briefly **two** examples of **each**. (8)

2. State **five** Basel II events and provide an example of **each**. (10)

3. (a) Identify **five** difficulties that must be recognised when interpreting data from a risk register. (5)

(b) Explain briefly why such difficulties need to be considered. (5)

4. Describe **four** responsibilities likely to be associated with a Chief Risk Officer. (12)

5. Describe **three** external sources of information that an organisation might use to identify risks. (9)

6. Explain **four** influences associated with risk perception. (12)

7. Explain the reasons why an organisation would choose to adopt the principles of a published risk management standard. (15)

8. Identify **six** items of content that could be found in an organisation's risk management policy statement. (6)

9. Define corporate governance and explain briefly its importance to an organisation. (6)
10. Produce an example of a probability/impact/tolerance matrix to illustrate tolerance to risk. (12)
11. (a) Identify and outline the **four** classes of risk controls. (8)
(b) Provide an example of **each** class. (4)
12. Explain briefly **five** benefits that risk management provides to an organisation. (10)
13. (a) Explain briefly the operation of a captive insurance company. (5)
(b) Identify **five** advantages in creating a captive. (5)
14. Describe, with an appropriate example:
- (a) excess layers; (4)
- (b) umbrella policies. (4)

QUESTIONS CONTINUE OVER THE PAGE

PART II

Answer TWO of the following THREE questions

Each question is worth 30 marks

15. (a) Explain the functions of the Committee of Sponsoring Organization of the Treadway Commission (COSO). (12)
- (b) Describe the structure of COSO's risk management framework. (10)
- (c) Explain the reasons, according to COSO, why risk management systems can fail. (8)
16. As a risk manager, you have been asked by the Board to look at the possibility of utilising alternative means of risk transfer.
- (a) Explain the various means of alternative risk transfer available and how **each** would benefit your organisation. (20)
- (b) State the reasons why a risk financing plan is important to a large organisation. (10)
17. You are the Risk Manager for a newly formed risk management department in a well known retail organisation. Recent major loss incidents have caused both internal and external concern, leading to the formation of your department.
- (a) Describe the impact that the recent major loss incidents may have had on the organisation in terms of costs and stakeholder interests. (15)
- (b) Describe how the risk management department will create a risk aware culture within the organisation and the challenges they may face. (15)

