

THE CHARTERED INSURANCE INSTITUTE



I11

Certificate in Insurance

Unit 11 – Introduction to risk management

**Based on the 2016/2017 syllabus
examined from 1 September 2016 until 31 December 2017**

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the I11 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of an I11 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the I11 reading list, which is located on the syllabus in this examination guide and on the CII website at www.cii.co.uk.

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

- 1) Visit www.cii.co.uk/qualifications
- 2) Select the appropriate qualification
- 3) Select your unit on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The I11 syllabus is published on the CII website at www.cii.co.uk. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for I11 begin with *understand*. Different skill levels lead to different types of question, examples of which follow.

Understand To answer questions based on understanding, the candidate must be able to link pieces of information together in cause-and-effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

Examination Information

The method of assessment for the I11 examination is 75 multiple choice questions. 2 hours are allowed for this examination.

The I11 syllabus provided in this examination guide will be examined from 1 September 2016 until 31 December 2017.

Candidates will be examined on the basis of English law and practice unless otherwise stated.

The general rule is that legislative and industry changes will not be examined earlier than 3 months after they come into effect.

Please note that the Insurance Act 2015, which comes into effect on 12 August 2016, will be reflective in examinations and the specimen paper from 1 October 2016.

A multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct response to the problem posed.

One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

While no questions involve complex calculations, candidates are permitted to use calculators during the examination. 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.

Candidates are permitted to make rough notes. Candidates are **not** permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Introduction to risk management

Objective

To provide knowledge and understanding of the basic elements of risk and the role of insurance within these principles.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the basic elements of risk	19
2. Understand how risk can be identified and analysed	11
3. Understand how risk can be evaluated	10
4. Understand how risk can be treated	16
5. Understand how risk is managed in practice	12
6. Understand the elements of business continuity, continuity management and crisis management	7

Important notes

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- This syllabus will be examined from 1 September 2016 to 31 December 2017.
- The syllabus is examined on English law and practice unless otherwise stated
- 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/updates
 2. Select the appropriate qualification
 3. Select your unit on the right hand side of the page

1. Understand the basic elements of risk

- 1.1 Describe the components of risk
- 1.2 Explain the role of risk in society (complexity of modern life creating new risks, volatility: frequency and severity of disasters both natural and man-made, corporate crises, societal risk aversion, compensation culture, government's readiness to introduce legislation)
- 1.3 Describe risk perception
- 1.4 Describe risk appetite
- 1.5 Describe the main types of risk (upside, downside, operational, corporate)
- 1.6 Describe the main categories of risk (financial/non-financial, pure/speculative, particular/fundamental, homogeneous, emerging risks, reputational risks)

2. Understand how risk can be identified and analysed

- 2.1 Explain the need for risk information
- 2.2 Describe the potential sources of risk information (internal/external)
- 2.3 Describe the main methods of collecting risk information (including surveys)
- 2.4 Describe how and why risks are analysed (probability, severity, risk mapping)

3. Understand how risk can be evaluated

- 3.1 Describe how risk is evaluated
- 3.2 Explain the main criteria for evaluating risk (risk appetite: financial, legal, moral)
- 3.3 Describe the possible risk decisions (accept, avoid, treat)
- 3.4 Describe the use and content of risk registers in risk evaluation and the importance of regular review

4. Understand how risk can be treated

- 4.1 Explain the various risk control methods (Timing: before, during, after events and including Nature: prevention, containment, hard/soft)
- 4.2 Describe how and why risks may be spread
- 4.3 Describe how and why risks may be hedged
- 4.4 Describe the use of insurance as a risk transfer mechanism (insurability, benefits of insurance, co-insurance)
- 4.5 Describe other risk transfer mechanisms (commercial contracts, disclaimers, self-insurance, alternative risk transfer (ART) and captives)
- 4.6 Describe how risk may be financed

5. Understand how risk is managed in practice

- 5.1 Describe the risk management roles and responsibilities within organisations (Board, executives, managers, risk management specialists and all employees)
- 5.2 Describe the generic risk management process and the role of enterprise risk management (ERM)
- 5.3 Describe the risk categories applying to insurance organisations
- 5.4 Describe how insurance-related risks affect the risk management process in insurance operations (Insurers: underwriting and reserving risk. Brokers: professional indemnity)
- 5.5 Describe the range of risk management services available in the market

6. Understand the elements of business continuity, continuity management and crisis management

- 6.1 Describe the role and importance of business continuity management
- 6.2 Describe the three levels of business continuity (crisis management, continuity planning and business recovery)
- 6.3 Describe the 6-step process of business continuity planning

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.

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

The publications will help you 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

Introduction to risk management. London: CII. Study text 111.

Books (and ebooks)

Handbook of insurance. Georges Dionne. New York: Springer, 2013.*

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

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

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

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.

Enterprise risk management: a common framework for the entire organisation. Philip E.J. Green. Oxford: Butterworth-Heinemann, 2016.

Enterprise risk management: from incentives to controls. James Lam. 2nd ed. Hoboken: Wiley, 2013.

Ethics and risk management. Lina Svedin. Charlotte, NC: Information Age Publishing, 2015.

Fundamentals of risk management: understanding, evaluating and implementing effective risk management. Paul Hopkin, Kogan Page, 2014.

Fundamentals of enterprise risk management: how top companies assess risk, manage exposure and seize opportunity. John J. Hampton. New York: American Management Association, 2015.

Principles of risk analysis: decision making under uncertainty. Charles E. Yoe. Boca Raton, Florida: CRC Press, 2012.

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).

- Efficiency tactics within the insurance industry. Ian Searle.
- An examination of factors leading to a “hard” or “soft” insurance market. Ian Searle.
- Risk control. Ian Searle.
- Risk identification. Ian Searle.
- Risk quantification. Ian Searle.
- Role of insurance professionals in the risk management sector. Ian Searle.

Institute of Risk Management www.theirm.org.

Journals and magazines

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

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

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.*

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

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).

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

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

Examination guides

An examination guide, which includes a specimen paper, is available to purchase via www.cii.co.uk.

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent versions of the examination guides.

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).

1. A peril is **best** described as the
 - A. event which gives rise to a loss.
 - B. effect of a loss.
 - C. financial impact of a risk.
 - D. non-measurable element of a risk.

2. What are the two **main** factors used to measure risk?
 - A. Cause and frequency.
 - B. Frequency and severity.
 - C. Reparation and cause.
 - D. Severity and reparation.

3. An organisation fails to operate sanctions for employees who take inappropriate levels of risk. This **typically** indicates an organisation with a
 - A. poorly functioning risk culture.
 - B. strongly functioning risk culture.
 - C. strong appetite for risk.
 - D. weak appetite for risk.

4. An insurer has set new underwriting limits in respect of a particular class of business. This action is **usually** described as part of which component of risk?
 - A. Risk hedging.
 - B. Risk mapping.
 - C. Risk tolerance.
 - D. Risk transfer.

5. When making a decision in relation to risk, what does the anchoring effect mean?
 - A. A company's risk appetite should always be aligned with its peers.
 - B. The first piece of information received may disproportionately influence the decision.
 - C. The last piece of information received will always disproportionately influence the decision.
 - D. Risk can only be measured against a fixed point of reference.

6. When a person accepts a risk voluntarily, their perception of the risk will **normally**
 - A. increase.
 - B. reduce.
 - C. become easier to quantify.
 - D. become harder to quantify.

7. In respect of controllability, the perception of risk increases where the
 - A. outcome can be influenced.
 - B. outcome cannot be influenced.
 - C. premium is known.
 - D. premium is unknown.

8. Within an insurance company, who is **ultimately** responsible for setting the company's level of risk appetite?
- A. The actuaries.
 - B. The board of directors.
 - C. The compliance manager.
 - D. The underwriters.
9. A company has lost business as a result of targeting the wrong markets. This is an example of which type of risk?
- A. Market risk.
 - B. Strategic risk.
 - C. Systemic risk.
 - D. Upside risk.
10. The possibility that one party in a contract will default on its contractual payment obligations to the other party is **normally** an example of
- A. compliance risk.
 - B. concentration risk.
 - C. credit risk.
 - D. outsourcing risk.
11. A risk that carries extreme consequences and is outside people's control is **normally** described as
- A. catastrophic.
 - B. homogeneous.
 - C. speculative.
 - D. strategic.
12. In respect of pure risk, the **best** outcome for an individual is
- A. no change in the current situation.
 - B. a reduction in the cost of insurance.
 - C. a profit arising from a risk event.
 - D. a loss arising from a risk event.
13. Boundary risk in a company is **best** described as a risk that
- A. affects its cross-border operations.
 - B. is at the upper limit of its risk appetite.
 - C. is difficult to categorise.
 - D. is always the responsibility of more than one risk manager.

14. What **key** factor has increased societal risk in the last decade?
- A. Financial instability.
 - B. Regulatory intervention.
 - C. Risk perception.
 - D. Workforce migration.
15. When an employee commits a minor act of fraud, from a company's perspective which **primary** risk is in evidence?
- A. Corporate risk.
 - B. Financial risk.
 - C. Operational risk.
 - D. Reputational risk.
16. When calculating the probability of future losses it is particularly helpful for insurers to have data relating to
- A. fundamental exposures.
 - B. homogeneous exposures.
 - C. moral exposures.
 - D. speculative exposures.
17. In the context of insurance, moral hazards arise from the
- A. attitudes and behaviours of policyholders.
 - B. characteristics of the physical risk.
 - C. influence of external circumstances.
 - D. security measures used to protect property.
18. In terms of risk, a flood is **best** described as an example of a
- A. contingency.
 - B. control.
 - C. hazard.
 - D. peril.
19. A healthy risk culture in an organisation can be demonstrated by
- A. clear messages on acceptable levels of risk.
 - B. delayed decision-making on risk issues.
 - C. no audit checks being necessary.
 - D. rising profitability and demand for its products.

20. A risk survey carried out by an insurance surveyor will **most commonly** contain recommendations on risk
- A. control.
 - B. governance.
 - C. modelling.
 - D. statistics.
21. The **main** purpose of a risk matrix used within an organisation is to
- A. analyse the controls needed for each identified risk.
 - B. detail the remedial action taken in respect of each realised risk.
 - C. quantify the relevant importance of each identified risk.
 - D. record the accidents and losses from each realised risk.
22. A large retailer is **likely** to consider the use of business process analysis as part of its
- A. health and safety procedures.
 - B. internal compliance function.
 - C. risk identification procedures.
 - D. risk transfer process.
23. What is the **main** purpose of a scorecard in relation to the risk management process?
- A. It allows the costs of a risk mitigation programme to be assessed.
 - B. It compares risk appetite between peer companies.
 - C. It facilitates the identification and classification of risks.
 - D. It quantifies the effectiveness of risk controls and precautions.
24. What method does a motor insurer employ to continuously monitor insured risks during a policy period?
- A. Proposal forms.
 - B. Risk modelling.
 - C. Risk surveys.
 - D. Telematics.
25. Within an organisation, the risk team will **normally** use numerical values to quantify risk where the risk
- A. cannot be quantified in financial terms.
 - B. can only be quantified using historic data.
 - C. has been fully retained.
 - D. has been fully transferred.

26. In respect of risk management, foreign exchange rate fluctuation is a type of
- A. financial risk.
 - B. infrastructure risk.
 - C. operational risk.
 - D. reputational risk.
27. An organisation is considering its risks at the inherent level. This confirms that it is assuming that
- A. controls and precautions will work satisfactorily.
 - B. controls and precautions will fail to work.
 - C. the cost of risk control is economic.
 - D. the cost of risk control is uneconomic.
28. A manufacturer is reliant on computer-controlled machinery. To establish the risks posed by a power failure to such machinery, what technique can be used?
- A. Business process analysis.
 - B. Dependency charts.
 - C. Enterprise risk management.
 - D. Internal audit.
29. Within an organisation, the first stage in the risk management process is to
- A. eliminate the risks.
 - B. find the risks.
 - C. insure the risks.
 - D. transfer the risks.
30. Which type of risk identification technique involves organising meetings of subject experts to discuss particular areas of risk?
- A. External audit.
 - B. A questionnaire.
 - C. Remote monitoring.
 - D. A workshop.
31. Within an organisation's risk register, the **main** function of a risk owner is to
- A. eliminate the likelihood of losses.
 - B. ensure prescribed actions are completed.
 - C. recommend remedial actions.
 - D. recover any losses suffered.

32. Following a risk evaluation exercise a manufacturing company decided to double the size of the deductible under its insurance policy. How is this **best** explained in terms of the company's risk position?
- A. Risk retention has increased.
 - B. Risk retention has reduced.
 - C. The risk of an insured event occurring has increased.
 - D. The risk of an insured event occurring has reduced.
33. When the risk controls within a firm are operating effectively, this will be an example of
- A. a fundamental risk.
 - B. an inherent risk.
 - C. a pure risk.
 - D. a residual risk.
34. A waste disposal organisation that fails to keep up with new safety regulations increases its exposure to
- A. fundamental risk.
 - B. homogeneous risk.
 - C. legal risk.
 - D. pure risk.
35. What characteristic in respect of a risk control is **most likely** to influence a company to retain the associated risk?
- A. Competitiveness.
 - B. Cost.
 - C. Regulation.
 - D. Transparency.
36. A retail store has installed video surveillance cameras, this represents risk
- A. control.
 - B. elimination.
 - C. tolerance.
 - D. transfer.
37. A **key** benefit that may follow from retaining a risk rather than eliminating it is a
- A. reduction in residual risk.
 - B. reduction in risk appetite level.
 - C. removal of risk controls.
 - D. potential for upside risk.

38. Within a manufacturing company it is unlikely that the frequency of some undesirable events can be reduced. In these circumstances a **key** benefit that can be obtained through adopting risk control is
- A. an increase in expertise.
 - B. an increase in production.
 - C. a reduction in control costs.
 - D. a reduction in the severity of losses.
39. When considering the methods of classifying risk, an example of an external risk to a catering company would be
- A. cashflow.
 - B. competition levels.
 - C. health and safety.
 - D. staff retention.
40. Within an organisation, a **key** purpose of a risk register is to
- A. identify all areas of the business that are failing.
 - B. identify who is responsible for an area of risk.
 - C. list all risk events that occur.
 - D. list all risk transfer arrangements.
41. A detective control is designed to identify risk at what stage(s) of the risk management process?
- A. Before a risk has occurred only.
 - B. At all stages of the risk management process.
 - C. After a risk has occurred only.
 - D. Both before and after a risk has occurred.
42. An organisation that seeks to manage the volatility of the price it pays for raw materials would **typically** use which risk management method?
- A. Accumulating.
 - B. Hedging.
 - C. Insuring.
 - D. Reserving.
43. Where a company separates the duties of two departments, this is **normally** described as which type of risk control?
- A. Corrective control.
 - B. Detective control.
 - C. Directive control.
 - D. Preventive control.

44. At what stage of the risk management process are corrective controls implemented?
- A. After a loss has occurred.
 - B. Before introducing preventive controls.
 - C. During risk identification.
 - D. When purchasing a contract of insurance.
45. A large company addresses some of its risks by adopting a formal self-insurance approach. This is **most likely** to involve
- A. establishing a captive arrangement.
 - B. establishing a hold harmless agreement.
 - C. purchasing a catastrophe bond.
 - D. reducing its policy deductibles.
46. Catastrophe bonds offer which **key** benefit to insurers?
- A. The risk can be spread more widely.
 - B. They are the most profitable type of insurance contract.
 - C. They are the only method of alternative risk transfer.
 - D. They eliminate all the risk to the insurer.
47. A **key** aspect of fundamental risk is that it only affects
- A. companies.
 - B. individuals.
 - C. large groups of people.
 - D. localised areas.
48. The type of risk transfer contract between two parties that releases one party from legal claims is known as a
- A. disclaimer.
 - B. guarantee.
 - C. hold harmless agreement.
 - D. surety.
49. When deciding which risk control to implement, a company would consider what **key** factor?
- A. Cost.
 - B. Delay.
 - C. Perception.
 - D. Trust.
50. The payment under a catastrophe bond is **normally** made following the
- A. attainment of the stated maturity date.
 - B. failure of a prescribed counterparty.
 - C. occurrence of an insured event.
 - D. threshold level of the bank rate exceeding the insurer's risk appetite.

51. A property insurer decides to exclude the peril of earthquake from its insurance policy coverage. This is an example of which type of risk control?
- A. Corrective.
 - B. Detective.
 - C. Directive.
 - D. Preventive.
52. An organisation absorbs the loss of obsolete assets from its operating income without making any provision to cover them. Which method of risk funding is this known as?
- A. Contingency reserve.
 - B. Current reserve.
 - C. Internal risk.
 - D. Non-replacement.
53. A transport company is seeking to manage financial risk through hedging. To achieve this, the organisation is **most likely** to purchase
- A. commercial paper.
 - B. corporate bonds.
 - C. derivatives.
 - D. treasury bills.
54. What are detective controls **mainly** designed to identify?
- A. Cost saving strategies.
 - B. The efficiency of existing controls.
 - C. The incidence of risk events.
 - D. Risk management controls.
55. When considering preventive controls, what **key** factor **normally** makes physical barriers more effective than natural barriers?
- A. Cost.
 - B. Implementation.
 - C. Reliability.
 - D. Staff tolerance.
56. When a company is assessing its risk management procedures, directive controls should **most commonly** be used
- A. before a risk event only.
 - B. after a risk event only.
 - C. both before and after a risk event.
 - D. at the occurrence of a risk event only.

57. To ensure an independent view is considered before a large firm makes a **key** strategic decision, the firm should consult its
- A. Chief Risk Analyst.
 - B. Chief Risk Officer.
 - C. corporate governance committee.
 - D. non-executive directors.
58. A firm that actively takes measured risks to profit from their upside is seeking to maximise
- A. credit risk.
 - B. market risk.
 - C. opportunity risk.
 - D. strategic risk.
59. In an insurance company, which risk applies to the designing of policy wordings?
- A. Accumulation risk.
 - B. Concentration risk.
 - C. Liquidity risk.
 - D. Underwriting risk.
60. Within an organisation, the **best** definition of risk evaluation is
- A. assessing the severity of risk events.
 - B. deciding upon acceptable risk levels.
 - C. identifying which risks exist.
 - D. predicting the frequency of risk events.
61. For a company that operates on an international basis, a **key** benefit of enterprise risk management is
- A. improved identification of systematic risk.
 - B. increased competitive advantage in all markets.
 - C. more in-depth knowledge of risks at the local level.
 - D. reduced regulatory reporting requirements.
62. For what **main** reason would an insurance broker review an insurer's financial strength?
- A. To assess the insurer's underwriting policy.
 - B. To determine the insurer's ability to pay claims.
 - C. To guarantee the prompt payment of claims.
 - D. To identify which insurer will have the lowest premiums.
63. Where an insurer is exposed to reserving risk, this is **typically** described as
- A. an accumulation of exposures arising from a single event.
 - B. an exposure to similar types of risk.
 - C. not having sufficient funds to meet any claims.
 - D. uncertainty of the amount of an insured event.

64. An insurer is subject to a cyber attack which causes a short-term system failure. This is **primarily** an example of
- A. compliance risk.
 - B. legal risk.
 - C. operational risk.
 - D. regulatory risk.
65. To mitigate the financial consequences of negligent advice, insurance brokers **must** obtain
- A. employers' liability insurance.
 - B. product guarantee insurance.
 - C. product liability insurance.
 - D. professional indemnity insurance.
66. For an insurer, the analysis of a large number of homogeneous risks will **primarily** allow it to
- A. assess risk levels objectively.
 - B. assess risk levels subjectively.
 - C. reinsure a greater proportion of risks.
 - D. retain a greater proportion of risks.
67. Following receipt of a claim, an insurer is reviewing the reinstatement sum insured of a policyholder's factory premises. What external agent is the insurer **most likely** to appoint?
- A. An appraisal and valuation specialist.
 - B. A business continuity management specialist.
 - C. A corporate governance consultant.
 - D. A risk management consultant.
68. Risk analysts engaged by an insurer are **primarily** involved in supplying
- A. business process analysis.
 - B. claims management.
 - C. statistical output.
 - D. thought leadership.
69. Following a major incident, a business continuity plan is **primarily** designed to
- A. identify the cause.
 - B. mitigate the impact.
 - C. prevent future recurrence.
 - D. provide directive controls.

70. What **key** change has expanded the interconnectivity of risks, increasing the need for business continuity management?
- A. Automation.
 - B. Globalisation.
 - C. Increased life expectancy.
 - D. Specialist skill shortages.
71. A **key** reason why a supplier would implement a business continuity plan would be to
- A. demonstrate resilience to its customers.
 - B. ensure risk management is embedded in its operations.
 - C. increase the deductibles under its insurance arrangements.
 - D. prevent the need for risk controls.
72. What **key** consideration would lead a UK listed company to adopt business continuity planning?
- A. It demonstrates engagement with shareholders.
 - B. It is a mandatory requirement of the UK Corporate Governance Code.
 - C. Some risk events can only be insured through retention.
 - D. Some risk events cannot be prevented or insured.
73. A company is in the process of implementing the six-step approach for business continuity management. It is now embedding the process within the organisation's culture and this means it
- A. has two further steps to complete the process.
 - B. is focussing on the initial step of the process.
 - C. is focussing on the final step of the process.
 - D. must now set up a monitoring committee to review the process.
74. What is **normally** considered to be the **primary** aim of the continuity planning component of a business continuity management programme?
- A. Recovering the losses incurred from a major accident.
 - B. Returning to normal operations as quickly as possible.
 - C. Reducing the likelihood of an undesired event occurring.
 - D. Monitoring the impact of a crisis situation.
75. What is the **main** purpose of a recovery plan as part of a firm's business continuity management programme?
- A. To document procedures that recovers a firm's infrastructure.
 - B. To minimise damage to a company's brand following an insured event.
 - C. To mitigate the effect of a crisis event.
 - D. To reduce the risk of future unwanted events.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			Learning Outcome 3			Learning Outcome 5		
1	A	1.1	31	B	3.4	57	D	5.1
2	B	1.1	32	A	3.3	58	C	5.3
3	A	1.1	33	D	3.1	59	D	5.3
4	C	1.1	34	C	3.2	60	B	5.2
5	B	1.3	35	B	3.3	61	A	5.5
6	B	1.3	36	A	3.3	62	B	5.4
7	B	1.3	37	D	3.3	63	D	5.4
8	B	1.4	38	D	3.3	64	C	5.3
9	B	1.5	39	B	3.4	65	D	5.4
10	C	1.5	40	B	3.4	66	A	5.4
11	A	1.5	10 Questions			67	A	5.5
12	A	1.5				68	C	5.5
13	C	1.5	Learning Outcome 4			12 Questions		
14	D	1.2	41	C	4.1			
15	C	1.6	42	B	4.3	Learning Outcome 6		
16	B	1.6	43	D	4.1	69	B	6.1
17	A	1.6	44	A	4.1	70	B	6.1
18	D	1.1	45	A	4.5	71	A	6.1
19	A	1.4	46	A	4.5	72	D	6.1
19 Questions			47	C	4.2	73	C	6.3
			48	C	4.4	74	B	6.2
Learning Outcome 2			49	A	4.1	75	A	6.1
20	A	2.2	50	C	4.5	7 Questions		
21	C	2.4	51	D	4.2			
22	C	2.2	52	D	4.6			
23	C	2.3	53	C	4.3			
24	D	2.3	54	C	4.1			
25	A	2.4	55	C	4.1			
26	A	2.4	56	A	4.1			
27	B	2.3	16 Questions					
28	A	2.2						
29	B	2.1						
30	D	2.3						
11 Questions								