

## P67

### Diploma in Insurance

#### Unit P67 – Fundamentals of risk management

October 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. (a) State **four** factors on which risk management depends. (4)  
(b) Illustrate the steps in the risk management process. (8)
  
2. Explain briefly the following **three** types of risk and provide an example for **each**:  
(a) Pure risk. (3)  
(b) Speculative risk. (3)  
(c) Market risk. (3)
  
3. (a) State **four** advantages of insurance as a risk transfer mechanism. (4)  
(b) Describe briefly **four** disadvantages of insurance as a risk transfer mechanism. (8)
  
4. (a) Explain briefly risk appetite and risk tolerance. (4)  
(b) List **four** risk categories that an organisation might use when determining its risk appetite. (4)
  
5. (a) Explain control self assessment (CSA). (5)  
(b) Describe briefly **four** benefits to an organisation that applies CSA. (8)
  
6. (a) Explain the purpose and evolution of the UK Corporate Governance Code. (5)  
(b) State **five** recommended practices listed in the UK Corporate Governance Code. (5)

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7. (a) Explain risk aware culture as it relates to an organisation. (5)
- (b) Describe briefly the **five** activities that promote a risk aware culture known as LILAC. (10)
8. (a) Identify **five** advantages of using questionnaires as a means of risk identification. (5)
- (b) Identify **five** disadvantages of using questionnaires as a means of risk identification. (5)
9. Describe briefly the **four** levels of risk perception in Renn and Rohrman's structured framework. (8)
10. (a) Explain briefly risk maturity and its importance to an organisation. (4)
- (b) Identify **four** levels within a risk maturity model that could be applied to an organisation. (4)
11. Produce an extract from a risk register containing **two** examples of potential risks to an organisation. (12)
12. Explain briefly the **three** significant differences between the duty of fair presentation in the Insurance Act 2015, and the duty to take reasonable care not to make a misrepresentation under the Consumer Insurance (Disclosure and Representations) Act 2012. (6)
13. (a) Identify **three** roles within the risk management function of an organisation. (3)
- (b) Describe briefly **two** responsibilities, for **each** role identified in **part (a)** above. (6)

QUESTIONS CONTINUE OVER THE PAGE

14. Describe briefly the **four** key findings of the Penrose enquiry, relating to non-executive directors at the time of the Equitable Life collapse in 2000. (8)

## PART II

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

15. You are a risk management specialist working for a multi-national insurance broker. The new business team has asked you to join them in a presentation to a potential new client, who is concerned about their lack of business continuity arrangements.
- (a) Explain the importance and benefits of a business continuity management programme and include an explanation of the standards relating to business continuity. (15)
- (b) Explain the additional services that you can provide, other than traditional insurance broking, in supporting the potential new clients risk management arrangements. (15)
16. You are a risk manager of a large financial organisation. In view of recent cyber attacks on other organisations, the Board has asked you to report to them on technology and cyber risks.
- (a) Explain, with justification, **three** significant threats of technology and cyber risks to the organisation. (15)
- (b) Describe how the organisation could protect itself from the **three** significant threats identified in **part (a)** above. (15)
17. You are the Internal Audit Manager for a general insurance company. At a recent board meeting, you were asked to prepare for an internal audit of the risk management process.
- (a) Explain the purpose of the internal audit process. (5)
- (b) Describe the role and assurances provided by the Internal Audit Team in relation to risk management. (20)
- (c) Explain the actions that the Internal Audit Team will undertake before they begin a risk management audit. (5)

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