

# Fundamentals of risk management

## Purpose

To explore the principles of risk management and the role of insurance within these principles.

## Assumed knowledge

It is assumed that the candidate already has knowledge of the fundamental principles of insurance as covered in IF1 Insurance, legal and regulatory or equivalent examinations.

Summary of learning outcomes	Number of questions in the examination*
1. Understand the meaning of risk.	9
2. Understand the role and purpose of risk management.	8
3. Understand the core elements of the risk management process.	12
4. Understand the different categories of risk.	5
5. Understand current trends in risk management.	6
6. Understand the position of insurance within risk management.	5
7. Understand the key risk management lessons learnt from major loss events.	5

\*The test specification (relevant to the M67 multiple choice question examination only) has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

## Important notes

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- **Method of assessment:**

Mixed assessment consisting of two components, both of which must be passed. One component is a coursework assignment and one is a multiple choice question (MCQ) examination. The details are:

1. an online coursework assignment using RevisionMate consisting of 10 questions which sequentially follow the learning outcomes. This must be successfully completed within 6 months of enrolment; and
2. an MCQ exam at one of the CII's online centres (paper-based MCQs are available in April and October for those sitting outside the UK). The MCQ exam consists of 50 MCQs. 1 hour is allowed for this exam. This exam must be successfully passed within 18 months of enrolment.

- This syllabus will be examined from 1 May 2018 until 30 April 2019.

- Candidates will be examined on the basis of 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](http://www.cii.co.uk/updates)
2. Select the appropriate qualification
3. Select your unit on the right hand side of the page

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- **Method of assessment:** Part I 14 compulsory questions (140 marks). Part II 2 questions selected from 3 (60 marks). Total of 200 marks. Three hours are allowed for this exam.
- The syllabus is examined on the basis of English law and practice unless otherwise stated.
- The general rule is that the exams are based on the English legislative position six months before the date of the exams.
- 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](http://www.cii.co.uk/qualifications)
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- 1. Understand the meaning of risk**
  - 1.1 Explain the difference between risk and uncertainty.
  - 1.2 Explain the basics of probability theory.
  - 1.3 Discuss risk perception.
  - 1.4 Explain the difference between pure and speculative risk.
- 2. Understand the role and purpose of risk management**
  - 2.1 Explain the evolution of the discipline of risk management.
  - 2.2 Outline the benefits of risk management.
  - 2.3 Explain key roles and responsibilities for risk management (board, managers, risk function etc).
  - 2.4 Explain the relationship between risk management, compliance and the audit function.
- 3. Understand the core elements of the risk management process**
  - 3.1 Outline the risk management process.
  - 3.2 Explain the purpose and contents of a risk register.
  - 3.3 Explain the various risk management standards that exist.
  - 3.4 Explain the various risk management tools and techniques (identification, assessment, monitoring, control and financing).
  - 3.5 Explain the regulatory and corporate governance context surrounding the risk management process.
- 4. Understand the different categories of risk**
  - 4.1 Define and categorise risk (e.g. various financial, operational, insurance risks, strategic and reputation).
  - 4.2 Discuss difficult to categorise risks.
  - 4.3 Examine the link between cause, events and effects.
- 5. Understand current trends in risk management.**
  - 5.1 Discuss the emergence of enterprise risk management (ERM).
  - 5.2 Discuss the emergence of governance, risk and compliance (GRC).
  - 5.3 Explain the role of the Chief Risk Officer and Risk Committee.
  - 5.4 Explain the concepts of risk aggregation and correlation.
- 6. Understand the position of insurance within risk management**
  - 6.1 Explain the role of insurance as a risk transfer mechanism.
  - 6.2 Explain the role of an insurance intermediary in supporting risk management.
  - 6.3 Discuss alternatives to insurance (captives, alternative risk transfer, self-insurance).
- 7. Understand the key risk management lessons learnt from major loss events**
  - 7.1 Explain why risk management systems can fail.
  - 7.2 Explain the consequences of the failure of risk management systems.
  - 7.3 Discuss examples of relevant loss events and explain the lessons learnt from them.

## 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](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

### CII study texts

Fundamentals of risk management. London: CII. Study text M67/P67.

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

### Books (and ebooks)

Approaches to enterprise risk management. London: Bloomsbury, 2010.\*

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

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

Introduction to insurance mathematics: technical and financial features of risk transfers. Annamaria Olivieri, Ermanno Pitacco. Berlin: Springer, 2011.

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

Rethinking risk measurement and reports. 2v. Klaus Bocker (ed). London: Incisive, 2010.

Risk: an introduction. Bernardus Ale. Routledge, 2010.\*

Risk analysis. 2nd ed. Terje Aven. Hoboken: Wiley, 2015.\*

Risk analysis in finance and insurance. 2nd ed. Alexander Melnikov. Chapman and Hall/CRC, 2010.\*

Risk culture and effective risk governance. Patricia Jackson, ed. London: Risk Books, 2014.

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

The risk management handbook. David Hillson. London: Kogan Page, 2016.\*

### Ebooks

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

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.

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

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

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

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

Risk management: concepts and guidance. Carl L. Pritchard. 5th ed. Boca Raton: CRC Press, 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](http://www.cii.co.uk/ciifactfiles) (CII/PFS members only).

- Alternative risk transfer (ART). Alan Punter.
- Insurance-linked securities (ILS). Alan Punter.
- Risk control. Ian Searle.
- Risk identification. Ian Searle.
- Risk transfer. Ian Searle.
- Recent developments to Solvency II. Brad Baker.

AIRMIC. [www.airmic.com](http://www.airmic.com).

Institute of Risk Management [www.theirm.org](http://www.theirm.org).

Risk.net: and online resource providing news, analysis and trends in risk management. Available via [www.cii.co.uk/risknet](http://www.cii.co.uk/risknet) (members only).

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

### Journals and magazines

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

Post magazine. London: Incisive Financial Publishing. Monthly. Also available online at [www.postonline.co.uk](http://www.postonline.co.uk).

Strategic risk. London: Newsquest Specialist Media. Eight issues a year.

Further periodical publications are available at [www.cii.co.uk/journalmagazines](http://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.

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

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### Exemplars

Exemplar papers are available for all mixed assessment units. Exemplars are available for both the coursework component and the MCQ exam component.

These are available on the CII website under the unit number before purchasing the unit. They are available under the following link [www.cii.co.uk/qualifications/diploma-in-insurance-qualification](http://www.cii.co.uk/qualifications/diploma-in-insurance-qualification).

These exemplar papers are also available on the RevisionMate website [www.revisionmate.com](http://www.revisionmate.com) after you have purchased the unit.

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### 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](http://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](http://www.revisionmate.com).

Older guides are available via [www.cii.co.uk/pastexamguides](http://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 (IIL) holds a lecture on revision techniques for CII written exams approximately three times a year. The slides from their most recent lectures can be found at [www.cii.co.uk/iilwrittenrevision](http://www.cii.co.uk/iilwrittenrevision) (CII/PFS members only).