Chartered Insurance Institute

E67

Diploma in Insurance

Examination element of M67 Fundamentals of risk management

Based on the 2022/2023 syllabus
examined from 1 May 2022 until 30 April 2023

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Contents

Introduction to Examination Guide	**3**
M67 Syllabus	**7**
Specimen Examination	**11**
Specimen Examination Answers and Learning Outcomes Covered	**20**

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Based on the 2022/2023 syllabus examined from 1 May 2022 until 30 April 2023

Introduction

This examination guide has been produced by the Qualifications and Assessment Department at the Chartered Insurance Institute to assist students in their preparation for the E67 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their E67 studies before attempting the specimen examination. Students should allow themselves one hour 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. The examination must be successfully passed within 18 months of enrolment on M67.

Although the specimen examination in this guide is typical of an E67 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 M67 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/learning/qualifications/diploma-in-insurance-qualification/unit-fundamentals-of-risk-management-m67/**
2) Select 'exam guide update' 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 M67 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.

Supporting information for the syllabus which contains a detailed overview of the areas covered can be found on the unit page. Select Supporting information for the 2022 syllabus on the right-hand side of the page.

Skill Specification

The examination syllabus categorises M67 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to understand the subject matter. Each learning outcome begins with the following cognitive skill:

Understanding - Candidates 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 E67 examination is 50 multiple choice questions. One hour is allowed for this examination.

The M67 syllabus provided in this examination guide will be examined from 1 May 2022 until 30 April 2023.

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.

E67 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

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.

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.

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 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

- 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 consisting 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 2022 until 30 April 2023.
- Candidates will be examined on the basis of English law and practice unless otherwise stated.
- This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is a free extension that is available from https://speechify.com/. If for accessibility reasons you require this document in an alternative format, please contact us on ukcentreadministration@cii.co.uk to discuss your needs.
- 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*
  2. Select the appropriate qualification

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3. Select your unit from the list provided
4. Select qualification update on the right hand side of the page

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 the senior roles within risk management, their purpose and responsibilities.

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 Discuss the key risk management standards.

3.4 Explain the various risk management tools and techniques.

3.5 Explain the regulatory and corporate governance environment affecting risk management.

4. Understand the different categories of risk.

4.1 Define and categorise the different forms of risks.

5. Understand current trends in risk management.

5.1 Discuss the principles of Enterprise Risk Management (ERM) and Governance Risk and Compliance (GRC) and how this affects risk management.

5.2 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 alternative risk financing options.

7. Understand the key risk management lessons learnt from major loss events.

7.1 Explain why risk management systems can fail and the consequences of their failure.

Reading list

The following list provides details of further reading 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 resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts

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

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 Hollans, 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/2nd ed. London: Risk Books, 2015/2011.*

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

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

Ebooks

The following ebooks are available through Discovery via *www.cii.co.uk/elibrary* (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.

Online resources

The Insurance Institute of London (IIL) podcast lecture series features leading industry figures and subject experts speaking on current issues and trends impacting insurance and financial services. Available online at *www.cii.co.uk/insurance-institute-of-london/* (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*.

Institute of Risk Management *www.theirm.org*.

Further articles and technical bulletins are available at *www.cii.co.uk/knowledge-services/* (CII/PFS members only).

Journals and magazines

The Journal. London: CII. Six issues a year.

Post magazine. London: Incisive Financial Publishing. Monthly. Contents searchable online at *www.postonline.co.uk*.

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

Access to further periodical publications is available from the Knowledge website at *www.cii.co.uk/journalsmagazines* (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.

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*.

These exemplar papers are also available on the RevisionMate website (*www.revisionmate.com*) after you have purchased the unit.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

1. The decision to make a financial investment is an example of what type of risk?
A. Fundamental.
B. Pure.
C. Speculative.
D. Unknown.

2. When considering an emerging risk, what **typical** outcome will **always** be in evidence?
A. Certainty.
B. A gain.
C. A loss.
D. Uncertainty.

3. An insurer is reviewing its book of commercial insurance policies and is using probability theory to analyse claims data, which is based on the following information

Postcode area	Number of risks insured	Number of claims reported
DN	10,700	400
S	1,500	320
WF	5,600	260
DE	3,400	45

From this information, the insurer will deduce that the likelihood of future claims arising is **greatest** in which postcode area?
A. DN.
B. S.
C. WF.
D. DE.

4. Rafiq chooses to accept the risks associated with his favourite pastime of deep-sea diving. This choice is an example of
A. risk delay.
B. risk frequency.
C. risk perception.
D. risk voluntariness.

5. When applying probability theory to a specific period of time, a measurement of 1 indicates that the event
A. can always be insured against.
B. may occur, but is impossible to predict.
C. will not occur.
D. will occur.

6. One of the levels of Renn and Rohrmann's structured framework on risk perception is
A. emotional factors.
B. employment factors.
C. media reports.
D. physical factors.

7. What form of risk is **most likely** to have a positive influence on an individual's perception of driving a car?
A. Controlled risks.
B. Delayed risks.
C. Pure risks.
D. Unknown risks.

8. What is a **key** difference between pure and speculative risks?
A. Pure risks may result in a benefit to the risk taker, whilst speculative risks will only result in a loss or a break-even position.
B. Pure risks will affect a large population, whilst speculative risks will only affect an individual.
C. Speculative risks may result in a benefit to the risk-taker, whilst pure risks will only result in a loss or a break-even position.
D. Speculative risks will affect a large population, whilst pure risks will only affect an individual.

9. When considering the likelihood that a risk event may occur, a risk manager should **primarily** review the probability of its occurrence alongside
A. aggregation.
B. correlation.
C. frequency.
D. impact.

10. What **must** a Chief Risk Officer do, if anything, when identifying a significant new and emerging risk to the business?
A. Ignore the new risk as the audit team will be responsible for considering how it should be managed.
B. Report details of the new risk to the Board of Directors in a timely manner to agree additional budgets and actions.
C. Submit a report on the new risk to the Board of Directors at the end of the financial year.
D. Treat the new risk from existing budgets only.

11. Within a large organisation, the responsibility for monitoring and advising on the effectiveness of risk management decisions is **primarily** the responsibility of the
A. compliance function.
B. internal audit function.
C. legal function.
D. risk management function.

12. A **key** development of the evolution of risk management theory in the fifteenth century was the
A. collection and use of statistical data.
B. development of mathematical models.
C. introduction of probability theory.
D. invention of the printing press to share ideas and information.

13. A **key** benefit of effective risk management to a manufacturing company is **likely** to be
A. enhanced capacity of production.
B. an increased number of incidents.
C. a reduction in insurance costs.
D. a reduction in regulatory compliance.

14. A **key** factor that an audit team will consider when assessing a large global organisation's enterprise risk management systems and procedures is whether
A. all external risks have been transferred to insurers.
B. all internal risks have been treated.
C. relevant risk information is captured and communicated in a timely manner across the organisation.
D. the risk manager has set the correct level of risk appetite for the organisation.

15. Where an organisation is unable to assess a risk impact in financial terms, it may **typically**
A. calculate maximum probable loss outcomes.
B. devise risk appetite parameters.
C. implement detective controls.
D. measure the risk in qualitative terms.

16. In a risk management context, internal control activities within an organisation **typically** relate to
A. advice provided by intermediaries on the selection of insurers.
B. information that is obtained from regulatory bodies.
C. policies and procedures that help ensure that risk actions are taken.
D. surveys of selected stakeholders to collect reactions to specific risk issues.

17. For a risk committee to function effectively within a large organisation, it **must**
A. be chaired by the organisation's compliance officer.
B. consist of a minimum of four risk managers.
C. have full autonomy over every risk management decision.
D. have unrestricted access to accurate risk information.

18. Succession planning for senior management within an organisation is an example of
A. risk avoidance.
B. risk reduction.
C. risk retention.
D. risk transference.

19. A **key** disadvantage of relying on risk registers for effective risk management controls within an organisation is that they
A. are always updated too frequently.
B. are based on risk models that do not consider all circumstances.
C. do not rely on risk matrices to facilitate assessment.
D. may fail to take account of correlations between risks.

20. Where a simple risk description table is contained within a risk register, 'scope of risk' relates to
A. a description of associated possible events that might materialise.
B. a risk title or heading accompanied by a reference number.
C. several existing risk control mechanisms and activities that are in place.
D. which category or subcategory the risk is deemed to belong to.

21. The ISO 31000 risk management standard contains a process section which covers
A. the integration of risk management into an overall management framework.
B. mandatory and certifiable standards of performance.
C. risk identification, assessment and management.
D. the transference of identified risks only.

22. Published international risk management standards should **always** aim to
A. ensure risk management laws and regulations are fully adhered to.
B. establish a benchmark of best practice in the main areas of risk management.
C. promote internal controls as the primary method of effective enterprise risk management.
D. provide detailed guidance on the effective implementation of enterprise risk management frameworks.

23. Where an organisation adopts an internal control approach to risk management, it means that it will always
A. concentrate on reducing the uncertainty of outcomes by controlling risks.
B. concentrate solely on the assessment of all risks.
C. increase its ability to benefit from entrepreneurial flair.
D. increase its reliance on external compliance assessments.

24. A mergers and acquisition proposal document has been submitted for consideration by the Board of Directors of an organisation. This document will be useful in identifying risks as it will
A. assess the probability that particular risks will materialise into insurance claims.
B. formalise the findings of an internal audit assessment.
C. predict project benefits and the resources that will be required.
D. record the outcomes of initial project meetings.

25. When an organisation is looking to expand into a new business market, the emergency services may be able to provide the organisation with useful information on
A. identified risks and risk trends.
B. individual insurance claims and their frequency.
C. management and governance issues.
D. the transferability of identified risks.

26. When an organisation is reviewing its risk management concerns, a **key** limitation of a physical survey is that it is **typically**
A. confined to a collection of regulatory financial requirements.
B. focused narrowly on one specific aspect of the risk.
C. too descriptive in terms of the responses captured.
D. used to provide an informal analysis of multiple concepts.

27. What method is the insurance risk manager of a large commercial airline **most likely** to use when categorising all risks faced by the organisation?
A. The airline's own classification system.
B. Flow charts or questionnaires.
C. Risk surveys completed by external consultants.
D. The standardised global classification system for all risks.

28. A risk manager is analysing the cause and effect of a recent risk event which has occurred within the organisation. The risk manager should consider that
A. an emerging risk will always have an identifiable cause.
B. there may be multiple unconnected causes.
C. there will only ever be one cause.
D. the risk event is not relevant to the analysis.

29. When operating within a risk management framework, identifying risks that are unacceptable to an organisation is known as risk
A. analysis.
B. evaluation.
C. monitoring.
D. treatment.

30. In an organisation, operational risk is **typically** defined as a risk of loss resulting from
A. cash deficiencies to meet immediate financial obligations.
B. inadequate processes and systems.
C. long-term objectives not being fulfilled.
D. negative returns from equity investments.

31. Within a large manufacturing company, financial risks are **most commonly** associated with
A. dishonesty.
B. fraud.
C. liquidity and profitability issues.
D. loans and consumer credit defaults.

32. Within a large organisation, why might a risk manager find it difficult to categorise risks?
A. The compliance function will always predetermine the organisation's risk categories.
B. There is never a clear purpose for such risk categorisations.
C. There is no universally accepted definition of individual risks.
D. The organisation must comply with the risk categories set out in the UK Corporate Governance Code.

33. A car dealer is arranging insurance cover for the majority of the risks it faces to protect itself against identified potential losses. The dealer will **typically NOT** be able to arrange insurance for
A. correlated losses.
B. credit losses.
C. losses from fraud.
D. losses from reputational damage.

34. A financial services organisation has reviewed its decision-making processes and has found risk management failings relating to data protection and anti-money laundering policies. As a result of these failings, which types of risk is the organisation **most likely** to have been subject to?
A. Compliance and regulatory risk.
B. Credit and liquidity risk.
C. Legal and operational risk.
D. Strategic and business risk.

35. A risk manager is reviewing two separate risks within the organisation. She believes that they could be interrelated, which could result in greater damage than if the risks had remained completely separate. She is therefore **most likely** to be considering the concept of
A. aggregation and correlation.
B. controllability and delay.
C. frequency and probability.
D. severity and impact.

36. The Compliance Director within a large organisation is considering implementing a governance, risk and compliance framework. The **primary** objective she would be seeking to achieve is to
A. eliminate inherent conflict between the compliance, risk and audit functions.
B. enable information gathering and reporting to remain independent across the organisation.
C. ensure the compliance, risk and audit functions are fully interdependent.
D. seek an immediate reduction in training requirements across the organisation.

37. Enterprise Risk Management within a large financial organisation is regarded as
A. a function of internal and external audit processes.
B. a function of isolated risk management processes.
C. a holistic approach to risk management.
D. a silo-based approach to risk management.

38. In a large international bank, to whom would the Chief Risk Officer **typically** report to in respect of an assessment of risks for the bank?
A. The Board of Directors only.
B. The Chief Executive Officer only.
C. The internal risk managers and the audit department only.
D. The Chief Executive Officer, the Board of Directors and appropriate senior management committees.

39. As a result of recent flooding, a delivery company's vehicles have all been destroyed. The company now faces losses in respect of its vehicles, revenue and reputational damage. These are examples of
A. aggregated losses.
B. internal losses only.
C. negatively-correlated losses.
D. positively-correlated losses.

40. The **main** way in which governance, risk and compliance improves operational efficiency within a manufacturing organisation is by
A. aligning strategy, processes, technology and staff.
B. integrating feedback received from customers within the production process.
C. minimising the reliance on upwards reporting of management decisions.
D. preserving a range of operational differences within each department.

41. What method of risk retention involves setting up a separate company which is owned and controlled by the parent organisation?
A. Captive insurance arrangement.
B. Co-insurance agreement.
C. Contingency reserve fund.
D. Reinsurance company.

42. A small plant hire company is seeking to protect itself against responsibility for the legal liability incurred as a result of bodily injury to third parties. In terms of risk transfer, the organisation is **most likely** to
A. issue a disclaimer notice.
B. purchase public liability insurance.
C. reduce the deductible under its existing employers' liability insurance.
D. set up an internal risk fund.

43. A large global organisation has employed an insurance intermediary to assist the organisation in achieving its risk management objectives. The organisation will therefore **most likely** require the intermediary to

A. advise on insurer selection only.

B. advise on insurer selection and establish an internal risk fund.

C. facilitate risk surveys, advise on insurer selection and implement appropriate insurance arrangements.

D. sit on the organisation's risk committee and report all risk issues directly to the Board of Directors.

44. A global organisation has established a captive insurance arrangement rather than transferring all insured risks externally. A **key** disadvantage of this course of action is

A. increased risk retention.

B. increased short-term cashflow requirements.

C. reduced margin from insurance programmes.

D. slower analysis and settlement of claims.

45. A motor insurer has established processes to assess a commercial insured's dependency on the insured's suppliers and how it achieves safe and appropriate fleet risk management. The insurance broker, acting on behalf of the insurer, will **typically** attain these through the use of

A. business interruption reviews and a check of the driver handbook.

B. business interruption reviews and questionnaires.

C. online proposal forms and risk surveys.

D. risk surveys and questionnaires.

46. A risk manager is considering the likelihood that the risk management systems employed within his organisation might fail. He should be aware that

A. the failure of risk management systems does not need to be considered if cost savings have been achieved.

B. key risk indicators will always be used to identify risk controls that have failed.

C. risk management systems will never fail when enterprise risk management is employed.

D. risk management systems will typically fail because of human behaviour.

47. When considering the **likely** consequences of the failure of an organisation's risk management systems, the organisation should be aware that the

A. primary consequences will always arise immediately after the risk event has occurred.

B. primary and secondary consequences will always be of equal severity.

C. secondary consequences may be far more severe than primary consequences.

D. secondary consequences will be reduced if the appropriate governance risk and compliance framework is introduced immediately after the risk event has occurred.

48. A large company is considering its risk management standards following an extensive risk management review. What is the company **most likely** to utilise to assess whether its risk management processes will fail?

A. Fault trees.

B. Flow charts.

C. Key control indicators.

D. Key risk indicators.

49. What is the **key** consideration by a large international bank when assessing global risks using computer-based risk modelling?

A. Assumptions used may not be correct and outcomes may not be correctly interpreted.

B. The Board of Directors will not have the facility to override the computer-based recommendations.

C. The Board of Directors will not need to disseminate risks as this will be done by the computer-based modelling.

D. The outcomes of global risks cannot be assessed using computer-based models.

50. For what **key** reason may risk management systems **typically** fail in a large organisation?

A. The application and use of an external risk management standard.

B. The attitudes of key personnel.

C. Increased internal audit requirements.

D. Relaxed financial constraints on insurance costs.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Learning Outcome 1			**Learning Outcome 4**			**Learning Outcome 7**		
1	C	1.4	30	B	4.1	46	D	7.1
2	D	1.1	31	C	4.1	47	C	7.1
3	B	1.2	32	C	4.1	48	C	7.1
4	D	1.3	33	D	4.1	49	A	7.1
5	D	1.2	34	A	4.1	50	B	7.1
6	A	1.3	**5 questions**			**5 questions**		
7	A	1.3						
8	C	1.4	**Learning Outcome 5**					
9	C	1.2	35	A	5.2			
9 questions			36	A	5.1			
			37	C	5.1			
Learning Outcome 2			38	D	5.1			
10	B	2.3	39	A	5.2			
11	B	2.4	40	A	5.1			
12	D	2.1	**6 questions**					
13	C	2.2						
14	C	2.4	**Learning Outcome 6**					
15	D	2.2	41	A	6.3			
16	C	2.3	42	B	6.1			
17	D	2.3	43	C	6.2			
8 questions			44	A	6.2			
			45	A	6.2			
Learning Outcome 3			**5 questions**					
18	B	3.1						
19	D	3.2						
20	A	3.2						
21	C	3.3						
22	B	3.3						
23	A	3.4						
24	C	3.4						
25	A	3.4						
26	B	3.4						
27	A	3.4						
28	B	3.4						
29	B	3.1						
12 questions								