



Chartered  
Insurance  
Institute

# P67

## Diploma in Insurance

### Unit P67 – Fundamentals of risk management

October 2018 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. Describe briefly the **two** main forms of reinsurance. (6)
  
2. Describe briefly the following types of risk:
  - (a) Market risk. (5)
  - (b) Reputation risk. (7)
  
3. Describe briefly **four** sources of internal information that an organisation might use to evaluate the risks it faces. (12)
  
4.
  - (a) Describe briefly the purpose of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). (3)
  - (b) Outline the significant updates to the COSO ERM Framework introduced in June 2017. (8)
  
5. The Excellent Cake Company has two factories in London. Both factories are supplied daily with chocolate powder using a single delivery van.  
  
Over the last planned 250 deliveries the van has been unavailable on 10 occasions. For each day that no delivery is received the probability of Factory 1 being unable to produce chocolate cakes using existing supplies is 0.1; the equivalent probability for Factory 2 is 0.05.  
  
Assuming no changes to existing circumstances and operations, calculate, **showing all your workings**, giving a brief explanation in **each** case:
  - (a) for how many of the next planned 300 deliveries is the delivery van likely to be unavailable; (4)
  - (b) the overall probability of the Excellent Cake Company being unable to produce any chocolate cakes for one day as a result of a chocolate powder delivery not taking place. (5)

6. State **seven** typical responsibilities that a risk manager within an organisation might have. (7)
7. Describe briefly the **four** levels of Renn and Rohrman's structured framework on risk perception. (8)
8. (a) Explain briefly risk maturity in the context of risk management. (3)  
(b) State **five** levels of maturity that an organisation could use, providing an example of an observable feature at **each** level. (10)
9. Outline **two** types of alternative risk transfer used by organisations to enable the transfer of financial risk. (8)
10. (a) Explain why risk categorisation systems are important to an organisation. (6)  
(b) Outline the difficulties experienced in categorising risk. (4)
11. (a) Describe briefly what is meant by a hazard and operability (HAZOP) study. (2)  
(b) Explain briefly, providing an example, how a HAZOP is used in the risk management process. (6)
12. Describe the various stages in the risk management process. (14)

QUESTIONS CONTINUE OVER THE PAGE

- 13. (a)** Explain briefly:
- (i)** why new and emerging risks occur; **(4)**
  - (ii)** why they are important to risk professionals and their organisations. **(4)**
- (b)** Provide **two** examples of new and emerging risks. **(2)**
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- 14. (a)** State the HM Treasury's definition of risk appetite used in The Orange Book: Management of Risk – Principles and Concepts. **(2)**
- (b)** Differentiate between risk appetite and risk tolerance. **(3)**
- (c)** Produce a table that illustrates a risk appetite policy and state how it could be used to decide whether particular risks can be tolerated. **(7)**

## PART II

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

15. As the Risk Manager of a company, that relies on raw materials supplied from suppliers both domestic and overseas to manufacture their products, you are concerned about the risks within the supply chain.
- (a) Explain the purpose of fault trees and their advantages in the risk identification process. (12)
  - (b) Describe the supply chain issues that a fault tree might illustrate. (13)
  - (c) Outline the risk controls that might be put in place to prevent supply chain risks. (5)
16. A supermarket chain has received notice of considerably increased renewal premiums due to market conditions outside their control.
- (a) Describe other risk financing options available to the supermarket chain in order to manage its insurance costs. *You should exclude alternative risk transfer from your answer.* (20)
  - (b) Explain the advantages and disadvantages to the supermarket chain of self-insurance. (10)
17. You are the Risk Manager for a newly formed risk management department in a well-known retail organisation. Major loss incidents have caused both internal and external concern, leading to the formation of your department.
- (a) Describe the impact that the 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. (15)

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