Fundamentals of risk management

Chartered Insurance Institute

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 2020 until 30 April 2021.
- 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/qualifications*
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update on the right hand side of the page

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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 environment affecting risk management.

4. Understand the different categories of risk

4.1 Define and categorise the different forms of risks (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 principles of Enterprise Risk Management (ERM) and Governance Risk and Compliance (GRC) and how this affects risk management.

5.2 Explain the role of the Chief Risk Officer and Risk Committees.

5.3 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 and the lessons we can learn from past loss events.

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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/PFS members can access most of the additional study materials below via the Knowledge Services webpage at *https://www.cii.co.uk/knowledge-services/*.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources , please go to *https://www.cii.co.uk/knowledge-services/* or email *knowledge@cii.co.uk*.

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.*

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

Ebooks

The following ebooks are available through Discovery via *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 fact files are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Written by subject experts and practitioners, the fact files cover key industry topics as well as less familiar or specialist areas of general insurance, life, and pensions and financial services, with information drawn together in a way not readily available elsewhere. Available online via *www.cii.co.uk/ciifactfiles* (CII/PFS members only).

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

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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 *https://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 *https://www.cii.co.uk/knowledge-services/* (CII/PFS members only).

Journals and magazines

The Journal. London: CII. Six issues a year. Archive available online at *https://www.thepfs.org/search-results/?q=the+journal* (CII/PFS members only).

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.

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).

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