Specimen coursework assignment and answer

992 Risk management in insurance

The specimen coursework assignment and answer provides a guide as to the style and format of coursework questions. These examples indicate the depth and breadth of answers sought by CII markers.

The answer given is not intended to be the definitive answer. Well-reasoned alternative answers can also gain marks.

Before commencing work on your coursework assignment, you need to familiarise yourself with the information in the *Coursework Support Centre* available on RevisionMate.

992 Specimen coursework assignment

Contents

992 Specimen coursework assignment

Coursework submission rules and important notes

Before you start your assignment, it is essential that you familiarise yourself with the information in the *Coursework Support Centre* available on RevisionMate.

Please note the following information:

- This assignment must not be provided to, or discussed with, any other person regardless of whether they are another candidate or not. If you are found to have breached this rule, disciplinary action may be taken against you.
- Important rules relating to referencing all sources including the study text, regulations and citing statute and case law.
- Penalties for contravention of the rules relating to plagiarism and collaboration.
- Coursework marking criteria applied by markers to submitted answers.
- Deadlines for submission of coursework answers.
- You must not include your name or CII PIN anywhere in your answer.
- There are 80 marks available per coursework assignment. You must obtain a minimum of 40 marks (50%) per coursework assignment to achieve a pass.
- Your answer must be submitted on the correct answer template in Arial font, size 11.
- Your answer must include a brief context, at the start of your answer, and should be referred to throughout your answer.
- Each assignment answer should be a maximum of 3,200 words. The word count does not include diagrams however, it does include text contained within any tables you choose to use. The word count does not include referencing or supplementary material in appendices. **Please be aware that at the point an assignment answer exceeds the word count by more than 10% the examiner will stop marking.**

Top tips for answering coursework assignments

- Read the *992 Specimen coursework assignment and answer,* available on RevisionMate.
- Read the assignments carefully and ensure you answer all parts of the assignments.
- You are encouraged to choose a context that is based on a real organisation or a division of an organisation.
- For assignments relating to regulation and law, knowledge of the UK regulatory framework is appropriate. However, marks can be awarded for non-UK examples if they are more relevant to your context.
- There is no minimum word requirement, but an answer with fewer than 2,800 words may be insufficiently comprehensive.

992 Specimen coursework assignment

Specimen coursework assignment and answer

You are the recently recruited Head of Risk Management for a large UK based general insurer that underwrites business on an international basis. This position has been newly established.

The insurer has grown significantly over the past decade. This growth has been achieved through acquisition of both UK and international insurers. This rapid growth has resulted in a lack of coherent risk management processes and systems.

The Board believes that good risk management will enhance the business, both from a risk management and profitability perspective. Having completed a high-level review, the Board have established the following three main concerns:

- Methods of distribution.
- Appropriate economic capital across products and international territories.
- Product consistency across the international markets.

Currently the insurer does not have a coherent Enterprise Risk Management (ERM) framework in place. The insurer's risks are managed within each individual department, with each department independently implementing their own risk management solutions. This has made group-level reporting and oversight very difficult.

- Describe a suitable ERM framework for the company.
- Analyse **five** potential costs that may be associated with the implementation of your ERM framework.
- Analyse **five** potential benefits that may be associated with the implementation of your ERM framework.
- Make recommendations, based on your analysis, for how you could minimise the costs and maximise the benefits for the company by implementing your ERM framework.

To be completed before submission:

Word count:	3,355

Start typing your answer here:

INTRODUCTION

I have recently joined a large UK-based general insurer as the newly-established Head of Risk Management.

The insurer has experienced rapid growth, over the past decade, through acquisition of both UK and international insurers, resulting in a lack of coherency in risk management processes and systems.

From a recent high-level review, the Board have established three main concerns: methods of distribution, appropriate economic capital across insurance products and international territories and product consistency across the international markets.

992 Specimen coursework assignment

The Board believe that good risk management and profitability go hand in hand. However, the insurer does not currently have a coherent enterprise risk management (ERM) framework. Risk management frameworks are essential in bringing together a company-wide focus on risk in a way which allows the whole company to come together in the way it identifies, analyses and controls risk. It creates a unified risk culture from the board of directors down to each department and sub-department.

This lack of an ERM framework is likely to result in each department taking an autonomous approach to the management of their risks. Group-reporting and oversight has become fragmented, as a result, and lacks consistency throughout the organisation. As Head of Risk Management, I have been tasked to:

- Describe a suitable ERM framework.
- Analyse **five** potential costs that may be associated with the implementation of your ERM framework.
- Recommend how I could minimise the **five** potential costs associated with the implementation of the proposed ERM framework and maximise the benefits for the insurer.

DESCRIPTION OF A SUITABLE ERM FRAMEWORK

<u>Definition of ERM</u>

The Committee of Sponsoring Organisations of the Tredway Commission (COSO), defines ERM as:

> *"…a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives."* (COSO, 2004)

COSO's definition of ERM highlights the following fundamental concepts:

- A process, ongoing and flowing through an entity.
- Effected by people at every level of an organisation.
- Applied in strategy setting.
- Applied across the enterprise.
- Designed to identify potential events.
- Able to provide reasonable assurance to managers and directors.
- Geared to achievement of objectives.

A cross-enterprise strategy's (which is what an ERM comes down to) are being adopted my more and more companies who link risk management with governance and compliance.

According to Butterworth and Brocklehurst:

> "Many organisations are taking steps to bring together the risk assessment under the umbrella of governance, risk and compliance (GRC)" (Butterworth and Brocklehurst 992 Risk Management in Insurance (2021) Ch 1, P15)

In other words, organisations require a consistent set of risk management procedures and processes, including a joined-up approach to reporting and communicating risk management information. This may sound like a fundamental change requiring lengthy consultation and implementation, however there are internationally recognised risk management standards which have already been developed and have been or are being adopted by our competitors.

Risk management and the evolution of ERM frameworks

There is no doubt that risk management has an increasingly significant role to play in the management of all organisations and in particular, financial organisations.

Mario Greco, Chief Executive Officer (CEO) of Italy's multi-national insurance group Generali, stated that in an ever more complex world, risk management has become a core business function.

> *"Managing risks should influence everything from strategic decision-making to day-to-day interaction with customers, regulators or suppliers. Good risk management is not a burning platform but the eternal flame."* (Greco, October 2015).

Talking about the role of companies like Generali, Greco added:

> *"Industry should play its part in providing new ways of approaching problems as well as innovative solutions to them"*. (Greco, October 2015)

As the profile of risk management increases, it is no coincidence that ERM has emerged as a key business tool for risk managers over the last few years.

According to Phil Griffiths:

> *"Risk Management has become a vital ingredient in the entrepreneurial culture and is needed to develop, expand and improve business performance. There is clear evidence that good risk management adds considerable value to the business."* (Phil Griffiths, 2012)

Currently, the management of risk at my insurance company is dealt with on a departmental basis. The key benefit of implementing an ERM framework will be to provide a central focus.

Available Risk Management Standards

To standardise the approach taken by organisations, various risk management standards have been promulgated by risk management bodies and national/international working groups.

Three key risk management standards that could be applied are:

- The International Organisation for Standardization (ISO). ISO 31000, as published in 2009.
- COSO's 'Enterprise Risk Management – Integrated Framework'.
- The Institute of Risk Management (IRM) Standard (2002).

In the context of my insurer, which is UK-based but with international operations, **ISO 31000** is the most appropriate standard.

According to Risk Management CII study text, ISO 31000 sets the risk management framework in the context of the firm (Butterworth et Brocklehurst, 2021). Therefore, this is a true ERM approach, as opposed to a more risk management specific approach. ISO 31000 is an internationally recognised standard that can be used for the insurer's international operations. The adoption of this standard should address the Board's three main concerns of methods of distribution, appropriate economic capital across products and international territories, and product consistency across international markets.

This standard suggests that the strategic context, the organisational context and the risk management context must **all** be considered in order for risk assessment to be properly analysed.

ISO 31000 includes the essential steps in the implementation and ongoing support of the risk management process. The first component of the ISO 31000 framework is "mandate and commitment" (https://www.iso.org/iso-31000-risk-management.html) by the Board and is followed by the design of the framework, implementation of risk management, monitoring and reviewing the framework and improving the framework.

Elements of the ERM

ISO 31000 describes the components of a risk management framework as follows:

- Design Framework
- Implement Risk Management
- Monitor and Review Framework
- Improve Framework

The diagram below illustrates the cyclical approach to ERM framework design proposed by ISO 31000:

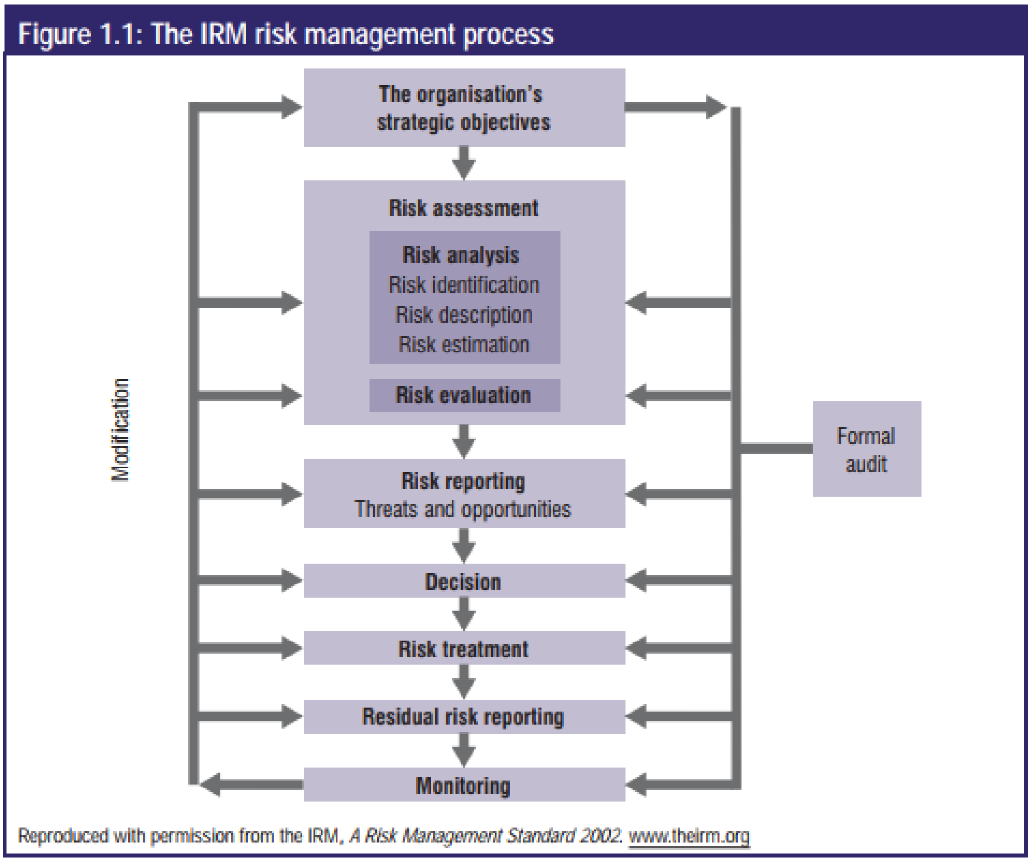

Figure 1.1: The IRM risk management process

Reproduced with permission from the IRM, *A Risk Management Standard 2002*. www.theirm.org

Source: Butterworth et Brockenhurst, (2021), page 1/4.

Before the process begins, it is essential to ensure there is agreement at board level, with the achievement of a mandate and commitment at that level. The key here is to ensure that the organisation's strategic goals are included at the design stage. The justification for obtaining board level approval is to ensure that there is sufficient board level support for ERM. This should ensure that ERM is embedded from the top down, that ERM is properly communicated and that the costs associated with implementing the framework are authorised.

According to the Institute of Risk Managers (IRM):

> *"ISO 31000 describes a framework for implementing risk management, rather than a framework for supporting the risk management process."* (IRM, 2010)

This means that the proposed risk management framework will provide the high-level detail of how the framework can support risk management in my organisation, rather than a detailed description of the risk management process.

It is important that framework design is considered as an ongoing, ever evolving process. Through our monitoring of the risk management process, we will be aware if changes need to be made. Also, our strategy and attitude to risk, the risk architecture, might change. The framework can always be improved by amending our protocols, methods of communication or the risk management process itself. It is this adaptability that provides and delivers many of the benefits that will be analysed below.

The justification for doing this is that we should always strive to manage our risks better, to avoid the possibility of financial or reputational damage. We can improve the framework by identifying what our competitors do well and avoid repeating our mistakes.

My description of a suitable ERM framework, and its four components, pre-supposes that everyone involved in its adoption understands the benefits. There are, however, costs as well as benefits. The next section of this assignment analyses the five most significant costs and five most significant benefits to the business before making recommendations.

ANALYSIS: FIVE POTENTIAL COSTS

There are many costs associated with the implementation of an ERM. The most obvious is the financial cost and management time invested. However, there are other costs beyond the financial which maybe harder to evaluate. Paul Klumpes makes the point that:

> *"…UK Insurance firms focusing on accounting rates of return (such as return on equity ROE) tend to use different approaches to managing risk for performance reporting than for management planning and control."* (Klumpes, 2012)

The true costs of implementing an appropriate ERM framework are hard to quantify. I believe the five most significant costs are as follows:

1. The cost of obtaining management support.
2. Set up challenges.
3. Defining a common risk language.
4. Sourcing appropriate data
5. Additional training.

There are a range of other costs, but these are the most significant and will need to be addressed before the ERM framework can be implemented. Each of the above will be analysed in more detail below:

1. <u>The cost of obtaining management support</u>

If the ERM framework is to be successfully implemented managerial support will be required. Risk management culture is set at board level and the tone is communicated from the top down. The Board need to agree on the ERM framework design and how it should be implemented. Staff at all levels should understand the priority given to risk management within the organisation. Strong leadership will be required at all levels.

In addition to the board, the support of senior management at division and departmental level should also be obtained prior to implementation. Our company has grown significantly over the last ten years by the acquisition of a number of different companies, many of whom are based in overseas territories. Each separate business has been responsible for their own risk management and group reporting. If the ERM framework is imposed on our organisation without wider management support it is unlikely to be successful. Risks need to be owned by all departments, or the ERM will not succeed at the implementation level, let alone on an ongoing basis.

2. Set up challenges

Setting up new procedures and processes will be expensive in the short term. Systems set up costs in terms of compatibility and IT will be high. Staff who take on new roles and responsibilities may have to be trained, or even new roles created. A new risk management policy will need to be created. Risk identification, prioritisation and reporting will need new processes and procedures. Uniformity across different departments and territories will take time to bed-in. All these set up challenges can be overcome in the medium term, but initial costs may be high and setting up may need to take priority over other work.

3. Defining a common risk language

Perhaps because of the speed with which risk management has evolved as a profession rather than just an activity, the language of risk management has become complex and quite diverse. A common terminology is unlikely to exist between organisations, let alone businesses operating in different territories. The creation of a common risk management terminology will take initial investment in both time and money, as common polies and procedures are established and put in place. Every employee will need to understand the language used; this is particularly important when establishing a common group risk reporting procedure.

4. Sourcing Appropriate Risk Data

Adopting an ERM framework means sourcing appropriate risk data which can be identified, analysed and evaluated. This may mean that new systems will need to be purchased and new staff employed or trained. There are associated opportunity costs when employees spend time on ERM and away from their core roles.

This may cause friction within the work force as staff are given additional responsibilities without understanding why. The ERM framework must be integrated with existing procedures and operations or it will become too much of a burden. The more simplified it can be the more likely it is to be successfully implemented and used on an ongoing basis.

5. Additional Training

This organisation has not had an ERM framework before and so significant changes to way staff operate may need to be implemented. Successful implementation will be where *all* staff adopt the new procedures and policies. Therefore, additional training will be required at monetary cost and in terms of staff and management time.

There will always be a cost to any new activity in our company. Particularly the introduction of a new activity. However, a coherent approach to risk management will surely outweigh the costs. In the next section we will look at the benefits of adopting an ERM.

According to the Casualty Actuarial Society:

> "…there will always remain risks that are not easily quantifiable. These are risks that are not well defined, unpredictable as to frequency, amount or location, risks subject to manipulation and human intervention and newer risks." (May, 2003)

In the next section we will analyse the benefits of implementing an appropriate ERM framework.

ANALYSIS: FIVE POTENTIAL BENEFITS

There are many significant benefits to the business for adopting a suitable ERM framework. These benefits need to be clearly communicated to staff at all levels. As with the costs, there are a number of benefits, but the five most significant are: -

1. Assisting the company with structural and strategic changes
2. Used to identify specific action steps
3. Helps the company to shift its focus
4. Reduce unacceptable performance variability
5. Align and integrate varying views of risk management

These benefits will be analysed below.

1. <u>Assisting the company with structural and strategic changes</u>

Our company is diverse in terms of its different business functions. A coherent ERM framework will be a powerful tool for management in terms of creating risk awareness, enhancing operational effectiveness and establishing strategy. The ERM framework will help to focus the alignment of business strategy with corporate culture and provide a management tool to adjust strategy where required by understanding the risks which operate within the business as a whole. An effective ERM framework will identify where structural and strategic changes are required before they have an adverse impact.

2. <u>Used to identify specific action steps</u>

The term risk optimisation describes a business which is aware of its risks and operates in an environment where it eliminates or minimises those risks which adversely affect business while enhancing business performance. Understanding the risks and the impact they may have on the business allows the business to identify specific action steps and take action where it has the greatest impact. In short, an ERM framework will allow us to operate with our eyes 'wide open'.

3. <u>Helps the company to shift its focus</u>

An ERM framework will provide a better understanding of the risks inherent in our business. This knowledge helps to enhance our decision making at both the operational and strategic levels. From day to day crisis response, to the evaluation of risk in our business strategy, an ERM framework will help us to shift our focus from our usual tasks to enhance decision making at every level. Decisions are more effective when taken from a position of knowledge.

4. Reduce unacceptable performance variability

ERM provides an effective method of evaluating the likelihood and impact of major events and assists in the development of appropriate responses to prevent their occurrence. At the very least it can control the impact of major events in our favour, leading to more consistent performance and the occurrence of unacceptable variance practice. ERM can also assist in crisis management and business continuity planning at all levels.

5. Align and integrate varying views of risk management

At present risk management is being dealt with on a fragmented basis within each department. ERM provides an organisation wide approach that is more cost effective (as it eliminates duplication) and also leads to an integrated response to risk. It encompasses all areas of organisational exposure to risk. It also allows us to consider aggregation of risks.

There are benefits to all parts of the business in adopting an effective ERM framework. In the next section I will make recommendations to minimise the costs while maximising the benefits.

RECOMMENDATIONS TO MINIMISE THE COSTS AND MAXIMISE THE BENEFITS

Having analysed both the costs and the benefits, these recommendations follow on from the analysis. The costs are not purely financial, so it is possible to minimise the negative impact without just ‘throwing money at it’.

Obtaining management support

Management support can be obtained by clearly communicating the benefits to the business of implementing the ERM framework. The recommendations I would make are to gain support of the board as a first step. Once this has been obtained a clear message can be communicated to all departments and divisions across the whole company explaining what ERM is, what the benefits are and what the commitment will be. It is essential that this message is communicated from the top and the culture of risk management is established at board level.

Maintaining support

As a second step, I recommend that all departments and divisions are consulted at the ERM framework design stage to get their input and buy in. A working party or committee can be established to act as a steering group during implementation. Members of the group should include a cross section from the business as a whole rather than just being risk management staff. This ensures that the diverse risks from all our operations are included in the implementation and ongoing operation of the risk management process.

Common risk language

The third recommendation would be to create a common risk language when producing the procedures and processes and communicating a clear and consistent message through the steering group/risk committee. The ownership for the central procedures would be held at Head of Risk Management level, but distributed to all departments and the content of all group communications would follow a similar format.

We could look to professional groups such as the Association of Insurance and Risk Managers (AIRMIC), the Institute of Risk Management (IRM), the Federation of European Risk Management Association (FERMA) and the Chartered Insurance Institute (CII) for guidance on industry wide standards, for use of a common risk language and for adoption of the recognised industry standard, ISO 31000. Staff involved in risk management should seek to obtain one of the increasingly available professional qualifications in this field.

Sensitive integration

Where possible, existing systems as well as current policy and procedures should be adopted and utilised rather than purchasing new systems. This also reduces the drain on IT. In the same way it should be possible to train existing staff rather than hire new staff. It is accepted that, at some point, it will make better sense from both a financial and management time perspective to purchase new systems. However, the key to an effective ERM framework is to win staff over, to establish new procedures and policies and to be joined up in terms of our risk language and our operational procedures.

Ongoing management

Designing an ERM framework using ISO 31000 should not be seen as an isolated, one off, exercise. Instead ERM is a continually evolving and changing process. The risk management process needs to be monitored, assessed and then the identified improvements adopted accordingly. Furthermore, it is essential that senior management support the process and that all staff are engaged in adopting the new practices and taking on additional responsibility.

In conclusion, there are challenges and costs associated with the implementation of the framework. These should be understood and addressed during the design phase to ensure that funds are allocated accordingly, senior management and staff are briefed, and expectations are managed.

It is important that we as an insurance company take every step to ensure we recognise all types of risk, minimise their impact, or even see them as new opportunities. ERM will help us to focus our efforts at collective risk management and for us all to take ownership. However, ERM does have its costs and limitations and these must also be understood.

Reference list

Books:

- Butterworth, M. & Brocklehurst, N. (2021) Advanced Diploma in Insurance: 992 Risk management in insurance, The Chartered Insurance Institute, UK.

Journals, Reports and Surveys:

- AIRMIC News “Risk profession on the Rise” (Oct 2015)
- Acharyya and Mutenga “The Benefits of Implementing Enterprise Risk Management; evidence from the non-life insurance industry” (April 2013)
- Casualty Actuarial Society “Overview of Enterprise Risk Management” (May 2003)
- COSO, (2004), [online], available at: https://www.coso.org/Documents/COSO-ERM-Executive Summary.pdf, [accessed 3rd Feb 2021].
- KPMG Enterprise Risk Management “An emerging model for building shareholder value” (November 2001)
- Phil Griffiths FCA “Enterprise Risk Management – The Key to Business Success” (May 2012)
- IRM - “A structured approach to Enterprise Risk Management (ERM) and the requirements of ISO 31000” (2010)
- Paul Klumpes "The Actuary" (Mar 2012)
- Protiviti Report “Guide to Enterprise Risk Management: Frequently asked Questions” 2006

Internet Sites:

- International Organisation for Standardisation, (2017), ISO 31000 Risk Management, [online] https://www.iso.org/iso-31000-risk-management.html, accessed 3rd Feb 2021
- www.airmic.com [Accessed 3rd Feb 2021]
- www.bsi.com [Accessed 3rd Feb 2021]
- Business Risk Management Ltd Source: http:// www.businessrisk.co.uk – Enterprise Risk Management – The Key to Business Success – Phil Griffiths FCA [Accessed 3rd Feb 2021]
- www.ferma.eu [Accessed 3rd Feb 2021]

- www.rims.org/ERM/pages/Whatis ERM.aspx [Accessed 3rd Feb 2021]
- www.wikipedia.org/wiki/Risk_management [Accessed 3rd Feb 2021]

Glossary of key words

Analyse

Find the relevant facts and examine these in depth. Examine the relationship between various facts and make conclusions or recommendations.

Construct

To build or make something; construct a table.

Describe

Give an account in words (someone or something) including all relevant characteristics, qualities or events.

Devise

To plan or create a method, procedure or system.

Discuss

To consider something in detail; examining the different ideas and opinions about something, for example to weigh up alternative views.

Explain

To make something clear and easy to understand with reasoning and/or justification.

Identify

Recognise and name.

Justify

Support an argument or conclusion. Prove or show grounds for a decision.

Outline

Give a general description briefly showing the essential features.

Recommend with reasons

Provide reasons in favour.

State

Express main points in brief, clear form.