Examination element of M67
Fundamentals of risk management

Based on the 2017/2018 syllabus
examined from 1 May 2017 until 30 April 2018
E67 – Examination element of M67 Fundamentals of risk management
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E67 – Examination element of M67 Fundamentals of risk management

Based on the 2017/2018 syllabus examined from 1 May 2017 until 30 April 2018

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) 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/qualifications
2) Select the appropriate qualification
3) Select your unit 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.

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 (MCQs). One hour is allowed for this examination.

The M67 syllabus provided in this examination guide will be examined from 1 May 2017 until 30 April 2018.

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 or best 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

<table>
<thead>
<tr>
<th>Number of questions in the examination*</th>
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<tbody>
<tr>
<td>1. Understand the meaning of risk.</td>
</tr>
<tr>
<td>2. Understand the role and purpose of risk management.</td>
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<tr>
<td>3. Understand the core elements of the risk management process.</td>
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<tr>
<td>4. Understand the different categories of risk.</td>
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<tr>
<td>5. Understand current trends in risk management.</td>
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<tr>
<td>6. Understand the position of insurance within risk management.</td>
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<tr>
<td>7. Understand the key risk management lessons learnt from major loss events.</td>
</tr>
</tbody>
</table>

*The test specification (relevant to the M67 multiple choice question exam 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 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. a multiple-choice question (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 examination. This exam must be successfully passed within 18 months of enrolment.
• This syllabus will be examined from 1 May 2017 until 30 April 2018.
• 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
   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
  2. Select the appropriate qualification
  3. Select your unit 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 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.
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 or email knowledge@cii.co.uk.

**CII study texts**


**Books (and ebooks)**


**Ebooks**

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


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 (CII/PFS members only).

- 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.


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

Further articles and technical bulletins are available at 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 (CII/PFS members only).


Further periodical publications are available at www.cii.co.uk/journalsmagazines (CII/PFS members only).

Reference materials


*Also available as an ebook through Discovery via 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 multiple-choice 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.

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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 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.

Older guides are available via 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 (CII/PFS members only).
1. Within an organisation, when attempting to manage and control risk, the organisation should be aware that
   A. consideration of risk perception is not required.
   B. consideration should be given to internal controls only.
   C. uncertainty must be taken into account.
   D. uncertainty need not be considered.

2. The Chief Risk Officer within a large manufacturing organisation has been asked by the Board of Directors to provide an example of a pure risk. A suitable example would be
   A. a fire occurring in a new manufacturing process line.
   B. entering into a contract to purchase a new factory.
   C. making a strategic decision that affects the long-term future of the organisation.
   D. the purchase of a currency derivative.

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.

<table>
<thead>
<tr>
<th>Postcode area</th>
<th>Number of risks insured</th>
<th>Number of claims reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>EH</td>
<td>3,200</td>
<td>154</td>
</tr>
<tr>
<td>LS</td>
<td>500</td>
<td>57</td>
</tr>
<tr>
<td>M</td>
<td>4,200</td>
<td>139</td>
</tr>
<tr>
<td>N</td>
<td>1,600</td>
<td>109</td>
</tr>
</tbody>
</table>

   From this information the insurer will deduce that the likelihood of future claims arising is greatest in which postcode area?
   A. EH.
   B. LS.
   C. M.
   D. N.

4. When applying probability theory to a specific period of time, a measurement of 0.85 indicates that the event
   A. is very likely to occur.
   B. may occur, but is impossible to predict.
   C. will never occur.
   D. will occur, but very rarely.

5. Which type of risks are characterised by a perceived lack of control and catastrophic potential?
   A. Delay risks.
   B. Dread risks.
   C. Man-made risks.
   D. Unknown risks.
6. An organisation following the Renn and Rohrmann structured framework should be aware that an individual’s risk perception is influenced by common sense, which is also referred to as
A. collective reasoning strategies.
B. emotional factors.
C. knowledge of risks.
D. personal identity and views.

7. How can the perception of risk by senior management *typically* have a fundamental effect on the future direction of a manufacturing organisation?
A. It will determine which risk management tools are used in identifying risks.
B. It will have a direct effect on the marketability of its products and services.
C. It will influence the composition of its risk management committee.
D. It will shape the organisation’s risk appetite and attitude towards risk acceptance.

8. How does a pure risk differ from a speculative risk?
A. A pure risk always has an environmental cause whereas a speculative risk always involves human error.
B. A pure risk can be measured in probability terms whereas a speculative risk cannot.
C. A pure risk is not subject to regulatory control but a speculative risk always is.
D. A pure risk only leads to the possibility of a loss, whereas a speculative risk may lead to a gain.

9. As part of an organisation’s risk management process, when considering risk and uncertainty, the risk team **must** be aware that
A. risk assessment is the sole method of reducing uncertainty.
B. risk can apply to both opportunities and threats to the organisation.
C. uncertainty should always be considered completely separately from risk.
D. uncertainty should only be considered when reviewing long-term objectives.

10. How did the large fluctuations in prices of many raw materials and commodities in the 1970’s influence the evolution of risk management?
A. An increase in the use of captive insurers.
B. Derivatives being used as a risk management tool.
C. Financial institutions increasing their market and credit risk management services.
D. The development of business continuity planning.

11. A **key** influence on the evolution of risk management theory in the 19th Century was based on
A. calculating the standard deviation of a distribution around a mean.
B. economists analysing the relationship between unemployment and interest rates.
C. mathematicians collecting measurements to provide statistical data.
D. placing a greater emphasis on the human element of decision making.
12. When considering risk management within a manufacturing organisation, what is a key benefit of conducting a detailed structured analysis of the entire organisation?
   A. It would allow the organisation to develop silo-based risk management techniques.
   B. It would identify all counterparty risks that affect financial stability.
   C. It would identify alternative production methods and remove all risks.
   D. It would uncover weaknesses and provide valuable information that can be used to improve processes.

13. Why is it important that an organisation attempts to measure the benefits of risk management in financial terms?
   A. It will improve the delivery of services to customers.
   B. It will ensure faster recovery from emergency incidents.
   C. It will quantify the level of internal and external resources that are required.
   D. It will record all electronic interventions to provide an audit trail.

14. Within a large global organisation, who has the primary responsibility of identifying individual risk owners and making sure appropriate risk control activities are carried out?
   A. Board of Directors.
   B. Chief Risk Officer.
   C. Risk Committee.
   D. Risk Manager.

15. In relation to a large organisation’s risk management process, what does the internal audit function typically have responsibility for?
   A. Helping to evaluate existing risk controls in specified areas of the business only.
   B. Preparing designated parts of an up-to-date risk register.
   C. Providing detailed assurance that risk management processes are effective.
   D. Setting detailed targets and objectives within the Board remit.

16. Within a large global organisation, the compliance function is normally
   A. autonomous and reports directly to the board.
   B. a part of the audit function only.
   C. a part of both the risk management and audit functions.
   D. a part of the risk management function only.

17. An organisation operates with separate and independent risk management, compliance and audit functions. The organisation’s board of directors should be aware that
   A. all costs will be reduced and more risks will be eliminated.
   B. holistic risk management processes will be more effective across the organisation.
   C. this is likely to create a more robust approach to managing risk.
   D. work will often be duplicated and costs will usually be increased.
18. A large organisation is assessing a risk using a typical risk management process and has just established and identified the risks to which it is exposed. What is **likely** to be the next stage in the process?
   A. Analysing risks.
   B. Eliminating risks.
   C. Evaluating risks.
   D. Treating risks.

19. One of the **primary** reasons that an organisation should monitor and regularly review its risk management process is to
   A. consider whether lessons could be learned for future management of risks.
   B. ensure that all significant risks are eliminated immediately.
   C. evidence that all risks are measured in financial terms only.
   D. evidence that an internationally-recognised framework is followed at all times.

20. A risk register has been produced for a large engineering company. What is a **key** difficulty of such a register?
   A. It is impossible to update it on a regular basis.
   B. It is likely to list only a very small number of risks.
   C. It may fail to take account of correlations between risks.
   D. Stakeholders must be consulted upon all risk management decisions.

21. What is a **key** consideration when designing an organisational risk register?
   A. All staff can update and accept new risks.
   B. All staff receive training on updating the register.
   C. It is always installed on a web-based system.
   D. The organisation’s risk profile is captured.

22. The ISO 31000 standard separates risk management areas into
   A. frameworks, processes and audit.
   B. principles, frameworks and compliance.
   C. principles, frameworks and processes.
   D. principles, processes and compliance.

23. Which risk management standard places a specific emphasis on internal risk controls?
   A. AIRMIC.
   B. COSO.
   C. FERMA.
   D. ISO 31000.
24. One **key** reason for a risk manager to review an organisational chart is to
   A. determine the extent of present and visible risks.
   B. determine the process of the delivery of services.
   C. establish a decision-making route.
   D. establish the potential impact of a possible risk incident.

25. A risk manager in an organisation is evaluating a risk and multiplies the probability of the risk occurring with the potential impact. The result of the calculation is the production of a risk
   A. appetite.
   B. control.
   C. factor.
   D. matrix.

26. In a manufacturing organisation, what is a fault tree **typically** designed to show?
   A. It evaluates the potential cost of a disruption.
   B. It identifies key personnel at each stage in the process.
   C. It identifies the likelihood of an interruption arising.
   D. It outlines possible solutions to potential interruptions.

27. A logistics manager for a supermarket chain identifies that there is a continual delay in the deliveries to stores. What is the most **appropriate** technique to identify the cause of the problem?
   A. Decision tree.
   B. Flow chart.
   C. Hazard and operability study.
   D. Physical inspection.

28. What **key** advantage does a Governance Risk and Compliance framework offer when compared to retaining separate and independent risk control functions?
   A. It can promote individual risk initiatives at working levels.
   B. It is easily introduced and quickly implemented.
   C. It places less reliance on risk decisions at board level.
   D. It provides a consolidated risk management function.

29. To comply with the UK Corporate Governance Code, to which body must all UK-listed companies provide information concerning solvency, liquidity, risk management and viability on an annual basis?
   A. The Financial Conduct Authority.
   B. The Financial Policy Committee.
   D. The Prudential Regulation Authority.
30. Where an insurance organisation has failed to keep up with new legislation governing its day-to-day activities, it **primarily** increases its exposure to
   
   A. compliance and regulatory risk.  
   B. insurance and regulatory risk.  
   C. liquidity and business risk.  
   D. market and strategic risk.  

31. A large organisation is assessing the financial strength of one of its customers. Which types of risk are being assessed?  
   
   A. Credit and liquidity.  
   B. Liquidity and legal.  
   C. Market and strategic.  
   D. Operational and credit.  

32. Within an organisation, business risk can **typically** be categorised as the  
   
   A. alleged or actual breach of contract between an organisation and counterparty.  
   B. probability of a loss being inherent in an organisation's operations and environment.  
   C. risk of an organisation not being able to meet its financial obligations.  
   D. uncertainty relating to the occurrence of an insured event.  

33. Why can it be difficult for an organisation to categorise risks?  
   
   A. Audit and compliance functions must always categorise risks differently.  
   B. Risk categories are always applied differently across an organisation.  
   C. There is no universally accepted definition of individual risks.  
   D. Universal risk categorisations must always be used.  

34. Understanding the potential causes of risk events will **primarily** help an organisation to  
   
   A. comply with corporate governance standards.  
   B. eliminate all risks.  
   C. improve internal audit procedures.  
   D. reduce the frequency of loss.  

35. Where a large organisation uses enterprise risk management to create a framework to consider all risks affecting the organisation, this is **typically** known as  
   
   A. a consolidated approach.  
   B. connected methodology.  
   C. a holistic approach.  
   D. seamless methodology.
36. Which type of risk framework is expected to improve efficiency by aligning strategy, processes, technology and people?

A. Controls, risk and supervision.
B. Corporate, governance and control.
C. Governance, risk and compliance.
D. Supervision, audit and compliance.

37. When implementing an enterprise risk management (ERM) framework, a large organisation should be aware that ERM

A. only allows for risks to be measured in financial terms.
B. relies largely upon the analysis and evaluation of risks against criteria that are set by the Board.
C. will always improve the competitive position of the organisation.
D. will always require assessment of risk management processes from both internal and external auditors.

38. What is typically the day-to-day responsibility of a Chief Risk Officer within a large organisation?

A. Ensuring that all key risks are adequately managed and reported.
B. Preparing and maintaining individual insurance arrangements.
C. Producing policies on compliance matters.
D. Providing assurance that individual risk management processes are effective.

39. A train has crashed and is badly damaged. There have been numerous claims from injured passengers as well as a loss of revenue for the train operator. This is an example of

A. risk aggregation.
B. risk categorisation.
C. risk probability.
D. risk severity.

40. A key requirement for successfully implementing a governance risk and compliance framework within an organisation is for

A. consistent terminology to be introduced across the organisation’s risk management and assurance functions.
B. risk management and compliance functions to create individual risk management frameworks at all levels.
C. risk management costs to be reduced when all risk events occur.
D. senior managers to increase their risk tolerance.

41. An organisation will typically find that their insurance arrangements will exclude cover for

A. consequential losses following natural disasters.
B. credit risks.
C. product liability claims.
D. the value of their computerised database.
42. Insurance policies issued by a commercial insurer operating solely in the UK are directly governed under which Act?
   C. Insurance Act 2015.

43. A broker is undertaking a business interruption review on behalf of a client. This would most commonly include an evaluation of the
   A. effectiveness of a business continuity plan.
   B. effectiveness of risk reserving.
   C. level of risk tolerance.
   D. level of self insurance.

44. What is a primary benefit of a commercial customer self-insuring a risk?
   A. Claims costs will reduce.
   B. Controllability of risk will increase.
   C. Its short-term cash-flow position is likely to improve.
   D. Staff training requirements will decrease.

45. A large manufacturing organisation has renewed an insurance policy and has accepted a significant increase in the policy deductible. What is this most likely to indicate?
   A. Decreased risk avoidance.
   B. Decreased risk tolerance.
   C. Increased risk elimination.
   D. Increased risk retention.

46. For what primary reason could enterprise risk management (ERM) systems fail?
   A. ERM decisions are always ignored across a business when a top-down approach is used.
   B. Financial constraints could compromise the implementation of ERM systems.
   C. Management can never override ERM decisions.
   D. The use of ERM systems do not give the required assistance to risk managers.

47. What could a financial organisation make primary use of, to assess whether its risk management systems are likely to fail?
   A. Key control indicators.
   B. Key risk indicators.
   C. Silo-based risk management.
   D. Physical inspections.
48. A large organisation has entered into a surety arrangement using a counterparty to guarantee certain credit risks. The main risk to the organisation of the counterparty failing is that the organisation would
   A. be liable for all future losses incurred on these credit agreements.
   B. be responsible for all of the counterparty’s losses.
   C. be unable to self insure these risks.
   D. have losses limited to the premium paid only.

49. An engineering company is assessing the key risks faced within the manufacturing process. Although cover is in place for most of the potential losses that may arise, the company should be aware that
   A. automated warnings will always eliminate human error.
   B. the consequences of human error can never be insured against.
   C. human error cannot be eliminated.
   D. the use of physical barriers will always eliminate human error.

50. As a direct result of recent disasters in the oil drilling and exploration sector, for companies in this sector there has been an increase in
   A. business continuity planning and the use of lower policy deductibles.
   B. coinsurance and silo-based risk management.
   C. governance, risk and control and self-insurance.
   D. new regulations and safety controls.
## Specimen Examination Answers and Learning Outcomes Covered

<table>
<thead>
<tr>
<th>Question</th>
<th>Answer</th>
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