Risk management

Objective: To develop in the candidate:

- an understanding and an appreciation of the role of risk management in producing an effective and efficient strategy for handling risk in any organisation;
- the ability to apply knowledge and skills to practical situations;
- the ability to synthesise different aspects of the syllabus and apply them to given scenarios.

Notes:

- The syllabus will be based on English law and practice.
- The April session will test the legal position as of 31st August of the preceding year.
- The October session will test the legal position as of 28th February of the same year.
1. The context of risk management

1.1 Relationship between risk and the organisation
Candidates should be able to:
– explain the relationship between risk and the objectives of the organisation;
– explain the significance of risk management to corporate strategy and to the organisation’s stakeholders.

1.2 Definition of risk management
Candidates should be able to:
– understand the course definition of risk management.

1.3 The need for risk management
Candidates should be able to:
– explain the need for and value of risk management and the potential costs involved in neglecting it.

1.4 Risk management and corporate governance
Candidates should be able to:
– discuss the implications of corporate governance for risk management, including but not limited to, the Cadbury, Greenbury, Hampel, Sarbannes Oxley and Turnbull reports;
– discuss the implications to risk management of the Basel II accord.

1.5 The risk management process
Candidates should be able to:
– discuss the fundamental steps in the risk management process.

1.6 The role of the risk manager
Candidates should be able to:
– describe the role of the risk manager.

1.7 Global risk
Candidates should be able to
– describe the implications of managing global risks.

2. Identification of risk

2.1 Sources and use of information for the risk management process
Candidates should be able to:
– explain the internal and external sources of information needed to carry out the risk management process;
– describe the purpose and approaches to quality testing information and ensuring credibility;
– discuss the use and application of risk information.

2.2 Techniques used to identify risks
Candidates should be able to:
– describe and use the following risk identification techniques:
  • checklists;
  • risk mapping;
  • risk matrices;
  • physical inspections;
  • organisational charts;
  • control self assessments;
  • business impact analysis;
  • flow charts;
  • fault trees;
  • HAZOPs;
  • brainstorming/workshops;
– describe the advantages and disadvantages of the above techniques.

3. Assessment and analysis of risk

3.1 Quantitative and qualitative analysis
Candidates should be able to:
– explain the differences between quantitative and qualitative analysis;
– describe the following methods of risk analysis in terms of the likelihood of the happening of an event, the potential consequences and their magnitude:
  • hazard indices;
  • risk modelling;
  • probability theory;
  • dependency modelling.

3.2 Internal and external comparisons
Candidates should be able to:
– explain the use of benchmarking when comparing levels of risk.

4. Prioritisation of risk

4.1 Attitude and approach to risk
Candidates should be able to:
– describe the factors which may affect an organisation’s ‘risk appetite’, including type of risk and corporate philosophy.

4.2 Ranking risk
Candidates should be able to:
– discuss the methods of ranking risks in terms of statutory and management priorities.

5. Risk control

5.1 Risk control plans
Candidates should be able to:
– describe the preparation and implementation of risk control plans.

5.2 Business continuity management
Candidates should be able to:
– discuss the use and methods of business continuity management.

5.3 Risks within the service chain
Candidates should be able to:
– discuss the reasons for and approaches to controlling risks within the service chain.

5.4 Technology and e-commerce risks
Candidates should be able to:
– discuss the reasons for and approaches to controlling technology and e-commerce risks.

5.5 Damage risk control
Candidates should be able to:
– discuss the control of:
  • physical property risk;
  • digital risk;
  • intellectual property risk.

5.6 Intellectual asset exposure and controls
Candidates should be able to:
– understand risk management of exposures to the loss or leakage of information and other intellectual assets, brand and reputational risk, including:
  • the value and importance of brand values;
  • damage prevention strategies;
  • the options to respond to threats to the brand and other reputational issues.
5.7 Liability control
Candidates should be able to:
– discuss the control of liability risks, including:
  • public;
  • products;
  • employees;
  • workplace legislation;
  • professional indemnity;
  • third party.

5.8 Product risk control
Candidates should be able to:
– discuss the control of product risk, including:
  • quality control;
  • brand/reputational risk;
  • research and development exposures;
  • product recall.

5.9 Other risk control
Candidates should be able to:
– discuss the control of other risks, including:
  • political risks;
  • environmental risks;
  • contractual risks;
  • counterparty risks.

5.10 Evaluation of risk control
Candidates should be able to:
– discuss the evaluation of risk control options, including cost-benefit analysis of both risk acceptance and risk management.

6. Retained risk
6.1 Retained risk
Candidates should be able to:
– discuss the purpose of and process for determining retained risk, including:
  • self insurance/funding;
  • captives.

6.2 Evaluation of risk financing
Candidates should be able to:
– evaluate risk financing options, including cost-benefit analysis.

6.3 Preparation and implementation of risk financing plans
Candidates should be able to:
– describe the preparation and implementation of risk financing plans.

7. Transferring risk
7.1 Transferring risk
Candidates should be able to:
– discuss the options available for transferring risk, including the use of:
  • contractual transfer;
  • insurance;
  • alternative risk transfer including securitisation and use of derivatives.

7.2 Risk and insurance programmes
Candidates should be able to:
– explain how and why the risk and insurance programmes should converge.

8. Monitoring and review
8.1 Reasons and frequency of review
Candidates should be able to:
– explain the reasons for and frequency of review.

8.2 Methods of monitoring and reviewing risk
Candidates should be able to:
– discuss the methods of monitoring and review.

Reading list
The following list provides details of various publications which may assist with your studies. Periodicals and publications listed will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

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.

CII/Personal Finance Society members can borrow most of these additional study materials from CII Knowledge Services and may be able to purchase some at a special discount.

For further information on lending and discounts go to www.cii.co.uk/knowledge.


Reference materials
Periodicals
The Journal. London: CII. Six issues a year. Also available online (CII/Personal Finance Society members only) at www.cii.co.uk/knowledge/journal.

Websites
Association of Insurance and Risk Managers – www.airmic.com
CII Knowledge Services – www.cii.co.uk/knowledge
Institute of Risk Management – www.theirm.org
Please refer to the 655 coursebook for a detailed list of useful websites.

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 for the last two sittings. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on 020 8989 8464. Older examination guides are available (for members only) at www.cii.co.uk/knowledge/examguides.

Exam technique/study skills
There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at www.cii.co.uk/knowledge/careersupport (CII/Personal Finance Society members only).

For a more interactive approach, you should consider: Winning the brain game. London: CII, 2006. CD-ROM.