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*.

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<u>Coursework submission rules and important notes</u>

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

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.
- All material taken from study texts and websites (or anywhere else) should be in *italics* so that it is clear you are not passing it off as your own. Whenever material that is not your own is used, please cite where it was sourced from in brackets.
- Penalties for contravention of the rules relating to plagiarism and collaboration.
- You must not use Artificial Intelligence (AI) tools to generate content (any part of an assignment response) and submit it as if it was your own work.
- 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.
- Each assignment answer should be a maximum of 3,200 words. The word count does not include labels and headings however, it does include text and numbers contained within any tables or diagrams 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.**

<u>Top tips for answering coursework assignments</u>

- Read the *992 Specimen coursework assignment and answer,* available on the unit webpage.
- Read the assignments carefully and ensure you answer all parts of the assignments.
- For assignments relating to regulation and law, knowledge of the UK regulatory framework is appropriate.
- There is no minimum word requirement, but an answer with fewer than 2,800 words may be insufficiently comprehensive.

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Specimen coursework assignment and answer

Scenario

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

FXT plc has grown significantly over the past decade. This growth has been achieved through the 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, FXT plc does not have a coherent Enterprise Risk Management (ERM) framework in place. Its risks are managed within each individual department, with each department independently implementing its own risk management solutions. This has made group-level reporting and oversight very difficult.

Question

- Explain, with justification, a suitable ERM framework for FXT plc.
- Analyse **five** potential significant costs and **five** potential significant benefits that may be associated with the implementation of the suitable ERM framework.
- Make recommendations, based on your analysis, to minimise the costs and maximise the benefits for FXT plc of implementing the ERM framework.

To be completed before submission:

Word count:	3175

Start typing your answer here:

EXPLANATION AND JUSTIFICATION OF A SUITABLE ERM FRAMEWORK FOR FXT PLC(FXT)

Definition of ERM

One good definition is provided by The Committee of Sponsoring Organisations of the Tredway Commission (COSO). In 2017 it issued the most recent version of its ERM Framework as reported in its 2023 ICSR Report and defined an ERM Framework as one that "… promotes a strategic approach to risk management that includes governance, oversight, and processes for identifying, assessing and managing risk across an organisation." (COSO 2023).

COSO’s definition of an ERM framework highlights the following four fundamental and important concepts:

- A process, ongoing and flowing through an entity.
- Effected by people across an organisation.
- Applied in a strategic manner.
- Designed to identify potential risks.

A cross-enterprise strategy (which is what an ERM framework is in essence) is being adopted by more and more companies that then link risk management with governance and compliance. This is a very suitable approach for an insurer like FXT as:

> “Many organisations are taking steps to bring together the risk assessment under the umbrella of governance, risk and compliance (GRC)” Butterworth (2024).

In other words, it would benefit FXT as a large international insurer to have a consistent set of risk management procedures and processes, including a joined-up approach to the reporting on and communicating of risk management information. This at face value may seem like a fundamental change for FXT requiring a lengthy consultation and implementation process. However, there are internationally recognised risk management standards which have already been developed and these have been or are being adopted by several its insurer competitors. FXT can therefore fairly readily research and then implement an available and known to be suitable ERM framework.

<u>Risk management and the evolution of ERM frameworks</u>

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

One good definition of risk management is: -

“Risk management is the systematic process of identifying, assessing and mitigating threats or uncertainties that can affect your organization. It involves analysing risk likelihood and impact, developing strategies to minimise harm and monitoring measures’ effectiveness.” Gibson (2023).

As the profile of risk management increases ERM has emerged as a key business tool for senior risk managers.

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)

The management of risk at FXT is dealt with at present on a departmental basis. The key benefit for FXT of implementing an ERM framework in the future will be to provide a central focus for risk management across the whole of the business.

Available Risk Management Standards

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

Three of the key published risk management standards, any one of which could be applied by FXT, 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 FXT a UK-based insurance business but with international operations, ISO 31000 is judged to be the most suitable and appropriate standard.

According to the Risk Management CII study text, ISO 31000 sets the risk management framework in the context of the firm- Butterworth (2024). 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 readily be used by FXT's international operations.

The adoption by FXT of this ISO 31000 standard should in turn importantly address the Board's three main stated concerns of methods of distribution, appropriate economic capital across products and international territories, and product consistency across international markets.

This ISO standard suggests that the strategic context, the organisational context, and the risk management context must **all** be considered together by FXT for risk assessment to be properly analysed.

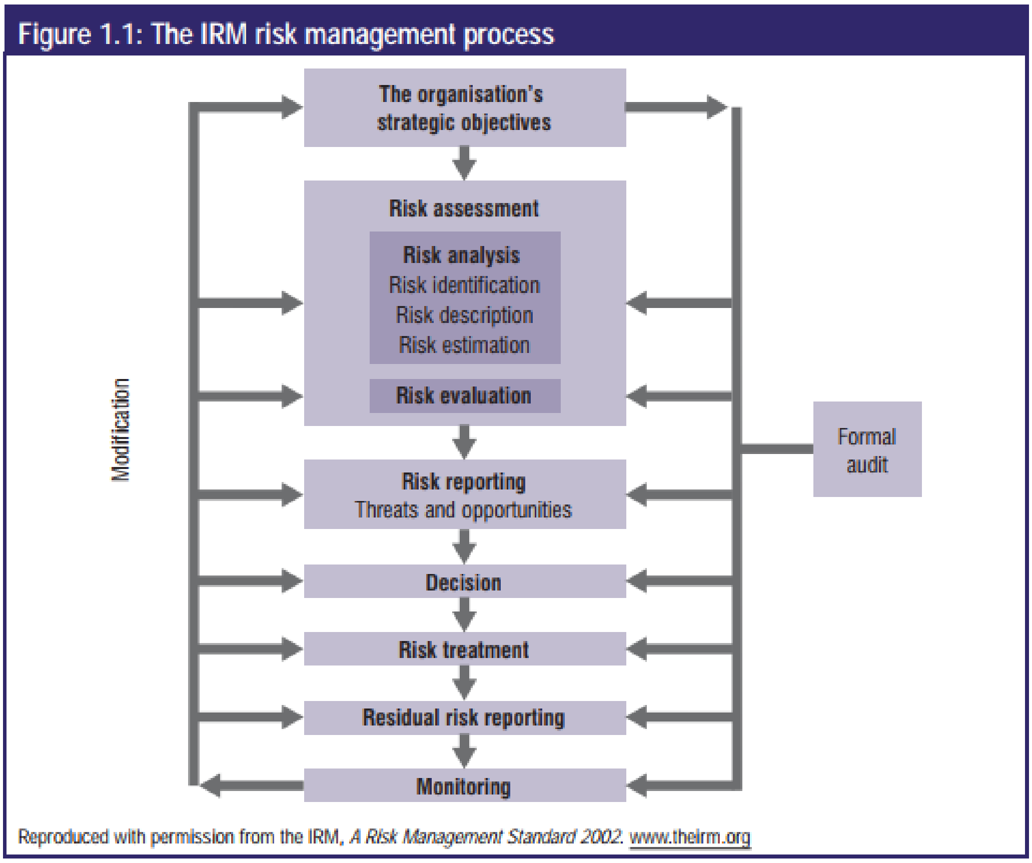
ISO 31000: 2018 includes the essential steps in the implementation and ongoing support of the risk management process. It, ISO 31000, "provides direction on how companies can integrate risk-based decision-making into an organization's governance, planning, management, reporting, policies, values, and culture. It is an open, principles-based system, meaning it enables organizations to apply the principles in the standard to the organizational context." ISO (2018).

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:



Source: Butterworth, (2024).

Before the process begins, it is essential to ensure there is agreement at the FXT board level, with the achievement of a mandate and commitment at that level. The key here is to ensure that FXT'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 in FXT from the top down, that ERM is properly communicated within FXT and that the costs associated with implementing the ERM framework are understood, signed off and fully authorised.

According to the Institute of Risk Management (IRM):

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

This is of fundamental importance as it means that the proposed risk management framework will provide the high-level detail of how the framework can support risk management in FXT rather than simply providing a detailed description of FXT's risk management process.

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

The justification for doing this is that FXT should always strive to manage its risks better, to avoid or at least mitigate the possibility of financial or reputational damage. This is of fundamental importance for an insurer. FXT can improve the framework by the key activity of identifying what its competitors do well. It can also ensure that it as far as possible avoids a repeat of the competitors mistakes.

The description of a suitable ERM framework, and its four components, pre-supposes that everyone involved in its adoption in FXT 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 based on this analysis.

ANALYSIS: FIVE POTENTIAL COSTS

There are several potential significant costs associated with the research, design, and implementation of an ERM. The most obvious is the financial cost and management time invested. However, there are other costs beyond the financial which may be 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)

It is suggested though that five potential significant costs for FXT 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 certainly significant ones and will need to be addressed by FXT before the ERM framework can be implemented. Each of the five potential significant costs is therefore 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 within FXT will be required. Risk management culture is set at the FXT 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 FXT. Strong leadership will be required at all levels.

In addition to the board, the support of FXT senior management at the divisional and departmental levels should also be obtained before implementation. FXT has grown significantly over the last ten years through the acquisition of several different insurers many of which are based in overseas territories. Each separate insurance business has been responsible for its own risk management and group reporting. If the ERM framework is imposed within FXT without wider management support it is unlikely to be successful. Risks need to be owned by all departments, or the FXT ERM framework 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 for FXT 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 will have to be trained, and new roles will need to be created. A new FXT risk management policy will be required. Risk identification, prioritisation and reporting will need new processes and procedures. Uniformity across different FXT departments and territories will take time to bed in. All these set-up challenges can be overcome by FXT in the medium term, but all have associated initial costs and these may be high and setting up may need to take priority over other work adding further costs and inefficiencies.

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. Common terminology is unlikely to exist between the various insurance businesses operating within FXT let alone businesses that are operating in different territories. There are in addition separate insurance and non-insurance functions within such businesses adding to the complexity. The creation of a common risk management terminology will therefore take a considerable initial investment in both time and money, as common policies and procedures are established within FXT and put in place. Every FXT employee will need to understand the ERM language used; this is particularly important when establishing a common FXT group risk-reporting procedure.

4. Sourcing Appropriate Risk Data

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

This may cause friction within the FXT workforce as staff are given additional responsibilities without understanding why. The ERM framework must be integrated with existing FXT 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 then used on an ongoing basis.

5. Additional Training

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

There will always be a cost to any new activity in FXT. However, a coherent approach to risk management will normally in the long- term provide gains outweighing the costs.

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

ANALYSIS: FIVE POTENTIAL BENEFITS

There are many potential significant benefits to FXT of implementing an appropriate ERM framework. These benefits need to be communicated to staff at all levels. As with the costs, there are several benefits, but five significant ones are: -

1. Assisting FXT with structural and strategic changes.
2. Identifying specific action steps.
3. Helping FXT to shift its focus.
4. Reducing unacceptable performance variability.
5. Aligning and integrating the various divergent views of risk management.

These five potential significant benefits are analysed below.

1. Assisting FXT with structural and strategic changes

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

2. Identifying specific action steps

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 FXT allows FXT to identify specific action steps and then act where it has the greatest impact.

3. Helping FXT to shift its focus

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

4. Reducing unacceptable performance variability

ERM provides an effective method of evaluating the likelihood and impact of major events within FXT 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 FXT's favour, leading to more consistent performance and a reduction in the occurrence of unacceptable financial and non-financial variances. ERM can also assist FXT in its crisis management and business continuity planning at all levels.

5. Aligning and integrating varying views of risk management

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

In the next section, recommendations, based on the analysis, are provided to minimise the costs while maximising the benefits.

RECOMMENDATIONS TO MINIMISE THE COSTS AND MAXIMISE THE BENEFITS FOR FXT

Obtaining management support

Management support can be obtained by clearly communicating the benefits across FXT of implementing the ERM framework. The recommendations made are to gain the 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 of FXT 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 that the culture of risk management is established at the board level.

Maintaining support

As a second step, it is recommended that all FXT departments and divisions are consulted at the ERM framework design stage to get their input and buy-in. A working party or committee should be established to act as a steering group during implementation. Members of the group should include a cross-section of staff from FXT's business rather than just being made up of pure risk management staff. This ensures that the diverse risks from all the operations and functions – both direct insurance and otherwise - 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 the Head of Risk Management level, but distributed to all FXT departments and functions and the content of all FXT group communications would follow a similar format.

FXT could look to professional groups such as the Association of Insurance and Risk Managers) AIRMIC (2025) the Institute of Risk Management, IRM (2025)) the International Federation of Risk and Insurance Management Federations IFRIMA (2025), the Global Association of Risk Professionals GARP (2025) and the Chartered Insurance Institute CII (2025) for guidance on industry-wide standards, for use of a common risk language and the adoption of the recognised industry standard, ISO 31000. Staff involved in risk management should seek to obtain one or more of the increasingly available professional qualifications in this field.

Sensitive integration

Where possible, existing FXT systems as well as current FXT policies 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, establish new procedures and policies and be joined up in terms of FXT's risk language and its operational procedures.

Ongoing management

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

There are challenges and costs associated with the implementation of the ERM framework. These should be understood and addressed by FXT 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 FXT takes every step to ensure it recognises all types of risks, minimises their impact, or even sees some of them as new opportunities. ERM will help FXT to focus its efforts on collective risk management and for all to take ownership. However, ERM does have its costs and limitations, and these must also be understood.

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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.