

PGDM-IBM, 2019-21

Sub.: Advanced Risk Management

Paper Code: INS-403-B

Trimester-IV, End Term Examinations: September, 2020

Time Allowed: 2½ hrs.

Roll No.: _____

Marks: 50

Instruction: Students are required to write Roll No. on every page of the question paper. Writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

| Sections | No. Of Questions to attempt | Marks | Total Marks |
|----------|--|-------------------------|-------------|
| A | Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Or Maximum 6 questions with internal choices and CILO covered (as an example) | 3*10 6*5 | 30 |
| B | Compulsory Case Study with minimum of 2 questions | 20 | 20 |
| | | | 50 |

Section-A

[Total: 30 Marks]

Q1 (a) Brokers will select insurers to recommend to clients based on the terms and conditions that the insurer offers. Will a broker also guarantee the financial security of their commended insurers? Justify your answer. **(5 Marks)**

(b) You are the newly appointed Risk Manager for DYS plc. DYS plc is a luxury hotel chain with ten hotels in one country. Each hotel has a fine dining restaurant. DYS plc is considering purchasing a hotel in an emerging market country in which they are not operating at present. you have reviewed DYS plc's current risk register and found it to be out dated, there is no indication of which risks are the most significant. Explain, with justification, two significant risk types facing DYS with Risk Score (Rating Frequency and severity on the scale of 1-5). **(5 Marks)**

OR

Q1. As the head of aggregate management at a large international property insurer you are responsible for the strategy for limiting the firm's exposures to levels within your stated risk appetite. You use a geographical software system for monitoring accumulated exposures to earthquakes, storms and flooding and seek diversification in the overall aggregate values insured by underwriting in various geographical regions. Your firm currently underwrites direct property insurance but is now considering offering property reinsurance on an excess of loss basis in selected areas. You have been asked to consider how the overall risks might be managed with the inclusion of the new reinsurance business. Provide a summary of the approach the firm may take in controlling the aggregate exposures by defining the risk title, risk scenario, impact of Scenario and measures. **(10 Marks) (CILO 1)**

Q2. You work for the head of risk management of a UK non-life insurer. As part of the Solvency II implementation, the regulator conducted interviews with the directors to assess their understanding of Solvency II. Its questions focus on the company's Solvency II programme and the approach that is being taken. The company has been using a capital model for several years, but has significantly improved it by introducing new processes to ensure parameters and outputs are properly reviewed. It has also made more effort to use the model for business decisions. The directors have already had several training sessions on the capital model. However, a new director has been appointed and your team will be providing a refresher session. You have been asked to write a one-page checklist for the directors. It should include the requirements of Solvency II based on three pillar approach. It would also be useful to include the main differences between the version of the model used for the SCR and that used for the ORSA. You can include any appropriate examples of uses and improvements. **(10 Marks) (CILO 2)**

OR

Q2. You are the Risk Manager for a FMGC company who specialise in Beauty and cosmetics Product. One of the company's most successful products is a Body lotion and powders product. Following a fault in the production process, a harmful ingredient was accidentally added to the lotion and the powder product. The contaminated powdered product, which could cause injury if used, was distributed world-wide before the fault was discovered.

(a) Discuss the two main risk faced by the company with the Bow Tie Method after discovering that the product is Contaminated? **(5 Marks)**

(b) Discuss the five actions to protect the brand and reputation of the company **(5 Marks)**

Q3. You are an insurance broker. One of your clients is GL plc, a large manufacturer of car components. The Risk Manager for GL plc is concerned with the escalating costs of GL plc's insurance premiums. Prior to renewal, the Risk Manager has asked you to conduct a review of the insurance programme, taking into consideration GL plc's risks. GL plc has the following risk features: • Employment of 1,000 people. • Hazardous processes including welding. • Exporting to the USA. • The importation of raw materials from China. • The transaction of a large amount of business on credit.

(a) Explain, with justification, two key Risk Indicators of two main risks of GL plc with the measurable indicators to develop Key Risk Dash Boards **(5 Marks)**

(b) Explain the 5 main key Risk Indicators for the Insurance Brokers

(5 Marks) (CILO3)

OR

Q 3 .You are the Risk Manager for an energy generation company. Given the potential for a major loss event, the company has historically invested heavily in risk management. You have a large team in your department to support risk management activities. The company has robust risk management procedures in place. However, following poor results and increased competition from its competitors, the company is now looking to cut costs. One of the areas where the Board is considering cost cutting measures is by reducing employee numbers within your risk management department.

(a) Discuss the three line of Defence model which as a Risk Manager you would like to develop for the Company **(5 Marks)**

(b) Discuss briefly the Risk Pay Off Model for Energy Generation Company. **(5 Marks)**

Section B Case Study:

A company in the financial services sector has been fined by the Regulator for various breaches of relevant regulations owing to which they suffered Reputation Loss and Credibility among customers and the public. There is a possibility that some of the Directors and Officers may be penalised and could be sued by the shareholders for losses suffered and wrongs committed. The Board and the Top Management of the company were quite worried about this turn of events as breach of Corporate Governance norms and non-compliance of laws and regulations were not expected to happen in the company.

You have been appointed as the new Chief Risk Officer to review and ensure best practices in Corporate Governance particularly in the areas of compliance, disclosures, and consumer protection, management of fraud and financial crime and ethical conduct in the organisation. It is a well understood fact that in the financial services sector. Regulators are active and regulatory risk is one of the major risks faced by companies in this sector. You are also aware that there have been many scandals and collapses in the financial sector world-wide and you share the concern of the Board that it is important to set benchmarks for governance in the company.

Keeping in mind that disclosures are information that is meant for shareholders, consumers who have bought products from the company and for other stakeholders such as employees, agent, other intermediaries and those in the ecosystem of the company, you are asked to reshape the disclosure policy of the company in tune with regulations and best practices.

Consumer protection is increasingly being focused on by Regulators. Consumer Forums, Courts and other bodies raise their voices against customer service deficiencies and penalise companies. They are shamed when such information is circulated in the media. The CRO is asked to ensure that conduct risk is better managed by a cultural change in the organisation.

Fraud and financial crime are on the rise and these can be happening with the connivance of or wholly by employees and even at senior management levels. Cyber-crimes, frauds and losses are becoming common place and there is a need to ensure that systems are security proofed by raising the ethical standards and putting place necessary controls to ensure that the conduct of everyone in the institution is ethical and upright.

You have been asked to advise the Board and draft suitable policies for upgrading corporate governance practices and risk management. To bring about cultural change in areas that is dependent on management and employee conduct. To create a culture that is customer oriented and strongly against violations of regulations. To discourage opaque practices that give rise to arbitrary decisions at operational levels as these work against customers, reputation and bottom line of the company.

Based on such a background and considering the OECD guidelines on corporate Governance, please answer the following questions:-

1. State the risk appetite and risk tolerance statement for the company. **(5 Marks)**
2. Explain the KRI's for the regulatory risk with the measurable index and weights. **(5 Marks)**
3. Explain the corporate governance framework and how board can shield against corporate governance risk. **(5 Marks)**
4. Discuss type of risk management to be initiated by board to prevent fraud and financial crimes. **(5 Marks)**
