Institute of Risk Management

International Diploma in Risk Management

Principles of Risk and Risk Management Specimen Examination Guide

March 2015
Important information for Candidates

Module 1 – Principles of Risk and Risk Management is assessed entirely by multiple choice questions (MCOs). You will be given 90 minutes to answer 75 multiple choice exam questions. 25 of these questions will be written against five case studies.

Each question is followed by three options, labelled A, B and C (with the exception of assertion and reason questions where there are five options – e.g. see question 15). You must select the correct response. There is only one correct or best response to each question. A mark will be awarded for each correct response you identify. You will not receive a mark if you choose an incorrect response, more than one response or fail to choose any response. Marks will not be deducted if you choose an incorrect response.

Specimen examination paper

This specimen examination paper has been produced to assist you in preparing for the examination.

We recommend that you complete the majority of your studies before attempting the specimen paper. If possible you should attempt it under examination conditions and then review your performance to identify any areas of weakness. These areas of weakness can then be the focus of your revision.

This specimen paper is an example of typical examination questions in the actual examination paper. It consists of 20 multiple choice questions.

Please be aware that it is not possible to test every detailed aspect of the syllabus in any one examination paper. You are strongly advised to pay particular attention to the learning aims and outcomes for the module. In addition you are also advised to read as widely as possible. This will ensure that you cover the entire syllabus for the module.
Principles of Risk and Risk Management

1. From the three actions Tom Brown is undertaking, which is categorised as a pure risk?
   
   A. Buying 100 lottery tickets.
   B. Selling his house even though he receives less than he paid for it because he thinks prices will fall further.
   C. Going horse riding without wearing a riding helmet.

2. Hopkin states “most standard definitions of risk refer to risks being attached to corporate objectives”. What is another important factor to consider when linking risk to an organisation?
   
   A. Core processes.
   B. Hazard management.
   C. Risk correlation.

3. Enterprise Risk Management (ERM) is considered to have a significant difference compared with traditional risk management approaches because ERM
   
   A. ensures that an organisation’s objectives will be achieved.
   B. takes an integrated or holistic approach.
   C. addresses strategic, tactical and operational risk management.

4. Which of the following would you expect to see in the context of the risk strategy of an organisation?
   
   1. The risk and audit team report to the board quarterly.
   2. The tolerance level of risk is clearly defined.
   3. Ownership of risk is delegated to business units.
   4. The organisation has a defined risk appetite.
   
   A. 2 and 3.
   B. 1, 2 and 4.
   C. 2 and 4.
5. As part of the ISO 31000 risk management process, ‘monitoring and review’ is best thought of as which of the following?

A. An extra stage.
B. A feedback loop.
C. Part of risk assessment.

6. COSO research (2014) identifies which three elements in addition to ‘Business Planning’ to make up the contextual business model?

1. Execution.
2. Strategy.
3. Monitoring.
4. Control.
5. Adapting.

A. 2, 3 and 4.
B. 1, 3 and 4.
C. 1, 3 and 5.

7. An international bank has identified the risks associated with economic changes in the countries in which it operates. Which of the following correctly describes these risks?

A. Internal – Infrastructure.
B. External – Reputational.
C. External – Marketplace.

8. Which of the following factors are most likely to influence your view on whether the damage to a building due to a natural disaster will be high?

1. The history of natural disasters in the vicinity of the production unit.
2. The standard of construction of your building.
3. Whether you have a disaster recovery plan.
4. The products you produce.

A. 1 and 2.
B. 3 and 4.
C. 2 and 3.
9. The consequence of a failure to identify all significant risks that an organisation faces is likely to be

1. business objectives may not be achieved.
2. operating costs may increase.
3. opportunities may be overlooked.
4. Risks will be better identified in future.

A. 1 and 2.
B. 1, 3 and 4.
C. 1, 2 and 3.

10. Relying on historic analysis when assessing potential risks and possible impacts implies that

A. should adverse events occur, the impact can be accurately modelled.
B. all significant risks can be confidently analysed.
C. management believe that the future will behave much like the past.

11. Using the FIRM scorecard which of the following risks could a risk manager quantify?

1. Loss of income.
2. Financial gain.
3. Reputational damage.

A. 1 and 2.
B. 1 and 3.
C. 2 and 3.

12. Which of the following statements are possible interpretations of the upside of risk?

1. Less disruption to operations resulting in less downside risk.
2. The ability to pursue a business opportunity that a competitor has no appetite for.
3. The overall level of risk embedded in an organisation.
4. Mitigation of the magnitude, impact and consequences of an event.

A. 2 and 4.
B. 1 and 2.
C. 1 only.
13. Which of the following statements about captive insurance companies are correct?

1. A captive cannot act as a reinsurer.
2. A captive can access reinsurance markets.
3. A captive can sometimes offer greater cover than is available in the insurance market.
4. A captive must be located in the same country as its parent company.

A. 1 and 4.
B. 1 and 2.
C. 2 and 3.

14. The determination of whether a specific risk is tolerable will involve consideration of

1. the size of the residual risk.
2. history of losses.
3. risk appetite for that risk.
4. the cost of insurance.

A. 1 and 2.
B. 1, 2 and 3.
C. 2 and 4.
15. The following questions consist of TWO statements. Read each statement and consider if each one is ‘True’ or ‘False’. If Statement 1 is ‘True’, consider if Statement 2 is a correct or an incorrect explanation for why Statement 1 is ‘True’.

Choose from the following FIVE possible combination of answers where the first True/False refers to Statement 1 and the second to Statement 2.

<table>
<thead>
<tr>
<th>Statement 1</th>
<th>Because</th>
<th>Statement 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business continuity planning can be classified as a detective control</td>
<td></td>
<td>It is a technique used to control a low level risk which has materialized</td>
</tr>
</tbody>
</table>

In the context of the above scenario, choose the appropriate answer from the following.

A. True True and the reason is a correct explanation.
B. True True BUT the reason is NOT a correct explanation.
C. True False.
D. False True.
E. False False.
Case Study

Foods Company is a cold storage warehouse, storing and delivering frozen foods for supermarkets. Established in 1999, Foods Company employs 30 people.

- The warehouse has a good sprinkler system with a regular maintenance programme in place
- Goods inwards are stored on pallets and stacked in chiller units or freezer compartments
- Temperatures in the cold storage ranges from -5 degrees Celsius in the chiller units to -30 degrees Celsius in the freezer units

An accident book is kept on site. Normally there are only a few minor injuries recorded but the last month has seen 2 employees go off ill and subsequently diagnosed with asthma. A potential cause is the dry atmosphere when working in extreme cold temperatures increases the likelihood of employees showing signs of asthma.

A bi-weekly meeting takes place on site between the site manager and the health and safety manager to discuss risk management matters. The agenda for today’s meeting is risk assessment with a review of health and safety hazards and the matters discussed are restricted to operational risks.

16. Which one of the following would help reduce the level of risk when working in the warehouse?
   A. Training employees in working in cold conditions.
   B. Increasing the frequency of meetings.
   C. Regular reviews of the accident log.

17. What corrective action could the two managers consider to reduce the likelihood of more employees going off sick with asthmatic conditions?
   A. Reduce the length of time employees are exposed to cold conditions by job rotation.
   B. Increase training and the supervision of staff wearing protective clothing.
   C. Provide employees with a booklet on keeping warm.
18. The health and safety manager confirms the company has insurance to compensate employees who are injured or suffer ill-health at work. Which statement best explains why the company has this insurance?

A. The company has 25 or more employees.
B. Insurance to cover the payment of compensation to injured employees is a compulsory class of insurance.
C. The employees who are away sick may seek compensation from Foods Company.

19. To ensure employees are complying with health and safety standards in the warehouse, which directive controls could be instigated?

1. Protective suits are available for employees to wear to provide extra warmth in the freezer units.
2. Protective suits are provided and employees have to follow the guidelines on when to wear the suits.
3. There is a requirement on employees to check that protective suits are in good condition.
4. Employees are trained to recognise the symptoms of hypothermia.

A. 1 and 2.
B. 1 and 4.
C. 2 and 3.

20. Which of the following is relevant to the agenda for today’s meeting?

A. The company has changed its transportation supplier and delivery using the new company starts next month.
B. The company has a new supplier of ice-cream products and it is anticipated the product will be in great demand by its customers.
C. The company has updated its health and safety risk assessment and new safety rules and procedures are being introduced.
1. C
2. A
3. B
4. C
5. B
6. C
7. C
8. A
9. C
10. C
11. A
12. B
13. C
14. B
15. E
16. A
17. A
18. B
19. C
20. C